

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

UW Medicine Board Annual Financial Report

This report is for information only.

Attachment

UW Medicine Board Annual Financial Report to the UW Board of Regents,
November, 2011



UW MEDICINE BOARD
ANNUAL FINANCIAL REPORT TO THE UW BOARD OF REGENTS

NOVEMBER, 2011



EXECUTIVE SUMMARY

UW Medicine performed well financially in FY 2011. External factors contributed to a challenging environment for UW Medicine as the economy remained weak and further reductions were made to federal programs and the Washington State Budget. In general, patient volumes were less than anticipated at UW Medicine and other health systems throughout the state and nation. Financial performance was enhanced in FY 11 by various programs including the American Recovery and Reinvestment Act (ARRA) and the Washington State Hospital Safety Net Assessment program.

FY 2011 marked the first full year of operations for Northwest Hospital as part of UW Medicine, and the strategic alliance adding Valley Medical Center as the eighth entity was completed with an effective date of July 1, 2011.

Total revenue for UW Medicine was \$3.2 billion in FY 2011, a 10% increase compared to FY 2010. Net income from operations for the UW Medicine health system (which excluded revenue in the School of Medicine, and included the practice plans) was \$131.7 million (5.8%). The consolidated balance sheet for UW Medicine's healthcare programs remained stable. Cash increased by over \$100 million during the year, but remains below the Moody's "A" rated level.

The School of Medicine (SOM) faced additional reductions in State funding, although research revenue remained strong. Overall revenues for the SOM increased 12% in FY 2011 from the prior year primarily due to grant activity. Reserves also increased primarily as a result of net practice plan income and investment income on the practice plan reserves.

With the addition of Valley Medical Center, UW Medicine became the largest healthcare system in Western Washington, strategically expanding our service area in part as preparation for healthcare reform. UW Medicine began an Accountable Care Organization (ACO) assessment with Chartis, LLC to evaluate strategic opportunities and positioning of the health system going forward in anticipation of health reform. UW Medicine is well positioned to meet the requirements of an ACO based on the system expansion and integration that has been implemented over the past two years. Going forward we will build on this success to focus on high quality patient care and cost control as payment reforms are implemented.

Financial Highlights for FY 2011

UW Medical Center (UWMC)

UWMC had positive financial results due to strong tertiary and quaternary patient volumes including neonatal intensive care admissions and solid organ transplants. Reimbursement improved due to the Hospital Safety Net Assessment program as well as revenue cycle improvements attributed to the successful EPIC billing system conversion and improved collections on patient accounts. Net income from operations was \$54.1 million (6.4%).

Harborview Medical Center (HMC)

Harborview experienced lower overall patient volumes including elective services, lower than anticipated acuity and a rise in the uninsured population. Offsetting these variances were positive changes in payer mix and strong expense control. HMC's charity care was consistent with the prior year at \$189 million for FY 2011 compared to \$187 million in FY 2010. HMC sustained a loss from operations of (\$10.0) million.

On July 1, 2010, Airlift Northwest (ALNW) was dissolved as a separate entity, and ownership and operational control transferred to the University of Washington. In accordance with Governmental Accounting Standards Board (GASB) guidance, the transfer of HMC's 70% ownership percentage in ALNW resulted in a \$9.5 million non-operating expense on the financial statements of HMC for FY 2011.

Northwest Hospital (NWH)

Both inpatient and outpatient volumes were below budget at Northwest Hospital during FY 2011. While many initiatives are under way that will improve NWH's performance, the positive impact has not yet been realized. NWH reported a loss from operations of (\$15.5) million.

UW Neighborhood Clinics (UWNC)

UWNC required \$8.6 million of operating funding in FY 2011, \$1 million in excess of expectations. The variance from budget was largely due to mid year approved strategic initiatives to expand the hours of operation and add urgent care services to select clinics. During FY 2011 construction was substantially completed for the new Ravenna clinic which opened in October 2011. There was also lower than expected revenue from a fee increase and an increase in the governmental payer mix.

University of Washington Physicians (UWP)

FY 2011 revenues were \$231.0 million, an increase of \$12.5 million over FY 2010. The increase is associated with a 3% increase in volumes (as measured in relative value units) as well as accelerated payments from the State Enhanced Trauma Fund of \$5.7 million over FY 2010. UWP reserves increased, primarily due to positive investment income. Children's University Medical Group (CUMG) revenues of \$128.0 million were up by \$5.3 million over FY 2010.

Seattle Cancer Care Alliance (SCCA)

SCCA had a very strong year financially, with a change in net assets of \$28.0 million. The majority of the positive financial performance is attributable to the outpatient services program and the recognition of \$7.4 million of restricted donations for the SCCA's proton facility project. UW Medical Center records SCCA financial results using the equity method, reporting one-third of the total change in net assets as "non-operating revenue."

Airlift Northwest (ALNW)

Flight volumes at ALNW were impacted by inclement weather during FY 2011 with the number of flights at 14% lower than budget. Despite the lower volumes, leadership provided excellent expense management and cost reductions, which resulted in ALNW recording operating income of \$0.8 million in FY 2011. Effective July 1, 2010, ALNW was dissolved as a separate entity, with ownership transferred to the University of Washington. This change in ownership had no impact on the management structure or day to day operations; however HMC was required to report a one time non-operating expense of \$9.5 million to record the transfer of ownership interest.

UW School of Medicine (SOM)

The State of Washington support for the SOM was reduced by \$4.7 million in FY 2011. Fortunately, educational support from Alaska, Montana, Idaho and Wyoming remained stable and grant funded research continued to increase. Overall, revenue for the SOM increased from \$1.1 billion in FY 2010 to \$1.2 billion in FY 2011, an increase of 12%.

Private Support

Total private support for UW Medicine for FY 2011 was \$128.0 million, comprising 38% of the University's private support for the year. Private grants decreased in FY 2011 to \$95.7 million from \$101.9 million in FY 2010, and gifts decreased to \$32.3 million in FY 2011 compared to \$35.3 million in FY 2010. The decrease in private grants reflects, in part, the impact of the economic recession on funding from private foundations.

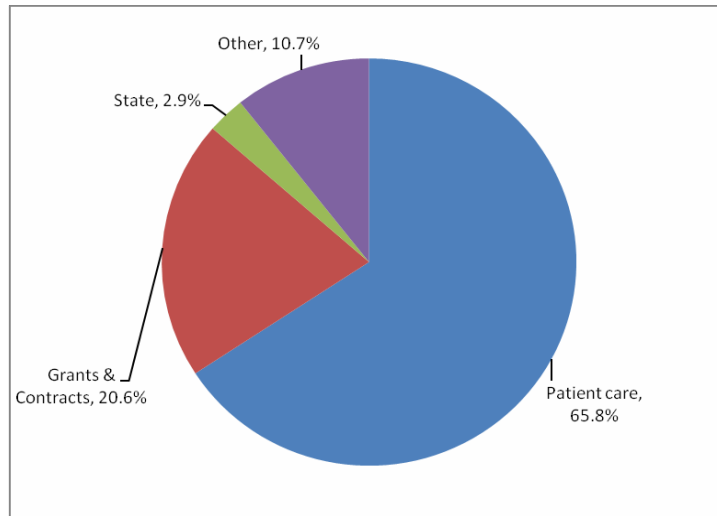
Transfers and Support

Approximately \$615 million of total revenues were transferred between various UW Medicine entities and affiliates to support teaching, research, and patient care activities. In FY 2011, the major components included: \$276 million from the physician practice plans (UWP and CUMG) to support School of Medicine faculty salaries, clinical department operations, and central SOM expenditures; \$170 million from UWMC, HMC, and the Seattle Children's Hospital, to SOM clinical departments to provide faculty salary and program support; \$42 million from UWMC and HMC to the SOM clinical departments to support graduate medical education; \$26 million in purchases of SOM developmental lab services by the medical centers; \$22 million from the medical centers, practice plans, and SOM to support the central administrative and service functions of UW Medicine; \$7 million in UWMC and HMC purchases of services from the Consolidated Laundry; and \$6 million in research facilities support from SOM to HMC. There was \$66 million in purchases of supplies and services between UWMC, Fred Hutchinson, and the Seattle Cancer Care Alliance related to the operation of inpatient and outpatient oncology services at the SCCA and UWMC.

KEY STATISTICS & RESULTS

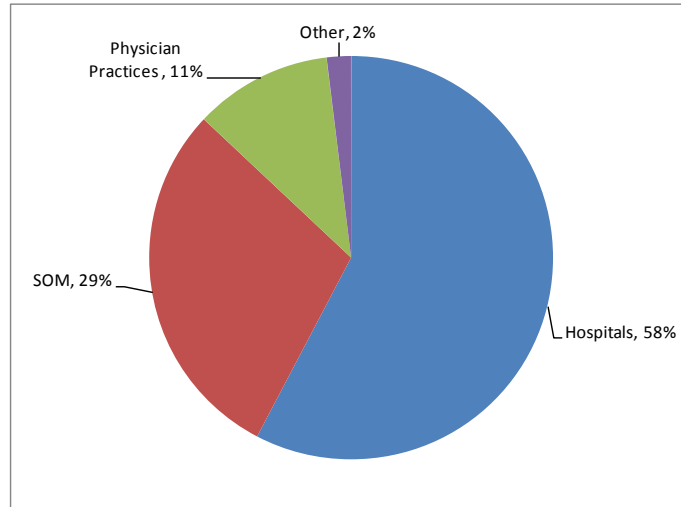
UW Medicine revenues were \$3.2 billion in FY 2011. This represents an increase of approximately 10% compared to FY 2010. The following charts summarize the sources of revenue for UW Medicine. Over the last five years, total UW Medicine revenue has increased at an average rate of 9% per year. These increases have occurred in the setting of a competitive local health care market, significant reductions in state-funded programs and a very competitive process for peer reviewed research grant funding.

Fiscal Year 2011 – Revenue by source



(Other includes support from Wyoming, Alaska, Montana, and Idaho, and revenue from endowments and gifts).

Fiscal Year 2011 – Revenue by entity



(Other includes Airlift Northwest and the Consolidated Laundry.)

UW Medicine financial support comes predominantly from patient care revenues (65.8%) and research grants and contracts (20.6%). The following sections highlight the performance in each of these areas.

PATIENT CARE

The following table summarizes operating revenue received by the UW Medicine healthcare system in FY 2010 and FY 2011. This table does not include research grants and other funds received by the School of Medicine and does not include revenue from the Seattle Cancer Care Alliance outpatient services.

UW Medicine Health System	Operating Revenue (in millions)	
	2010	2011
Harborview Medical Center	\$ 703.3	\$ 730.4
UW Medical Center	811.5	849.7
Northwest Hospital & Medical Center	133.4*	276.7
UW Physicians	218.5	231.0
UW Neighborhood Clinics	24.0	25.2
Children's University Medical Group	122.7	128.0
Airlift Northwest	32.3	34.5
Eliminations and Other	(19.8)	(15.2)
Total	\$ 2,025.9	\$ 2,260.3

*NWH 2010 reflects 6 months of operations

Net operating income from UW Medicine clinical operations for FY 2011, after adjusting for revenues counted in more than one entity (e.g., UWP billings for physicians working in UWNC), was \$131.7 million or 5.8% of operating revenue. UWMC generated \$54.1 million of operating income, Harborview lost \$10.0 million, and Northwest Hospital had an operating loss of \$15.5 million. Airlift NW generated \$0.8 million of operating income. The UW Neighborhood Clinics required \$8.6 million in support from UWMC and Harborview to offset expenses. UWNC losses for primary care are consistent with experiences at other comparable practices in academic medical centers and private settings. The secondary and tertiary care generated by UWNC results in significant revenue at UW Medicine hospitals. The net income (operating and non operating) generated by UWP, \$100.2 million, and CUMG, \$27.4 million, is distributed to the School of Medicine departments, Dean's office, and Seattle Children's Hospital (for a portion of CUMG revenue) to support operations.

The following tables provide benchmark comparisons for the medical centers.

Ratio/Indicator	Moody's "A"	UW Medical Center	Harborview Medical Center	Northwest Hospital & Medical Center
Operating margin	2.6%	6.4%	(1.4)%	(5.6)%
Debt to capitalization	38.6%	22.6%	0.9%	53.7%
Days cash on hand	179.7	148.4	100.3	63.6
Days in A/R (net)	44.4	44.9	63.4	42.7

- Harborview provided over \$189 million of charity care in FY 2011 as measured by foregone charges – an increase of \$2 million over FY 2010.
- The Harborview debt to capitalization number reflects the capital support provided by King County through voter-approved general obligation bonds.
- Days in accounts receivable remained relatively flat, which was a positive result given the conversion of the UWMC and HMC hospital billing systems August 1, 2010.

5-YEAR PERFORMANCE COMPARISON

The overall patient care activity of the UW Medicine Health System remains stable. The following tables summarize the clinical activity for the owned and managed components of UW Medicine and the SCCA.

Harborview Medical Center

Statistic	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Admissions	18,538	18,597	19,424	19,578	19,879
Patient Days	133,345	136,662	136,687	135,124	136,619
Outpatient visits	218,229	230,315	224,769	246,420	241,924
Emergency visits	76,491	68,987	65,515	62,174	61,307
Average Length of Stay	7.2 days	7.4 days	7.0 days	6.9 days	6.9 days

UW Medical Center

Statistic	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Admissions	18,866	18,993	19,322	19,260	18,919
Patient Days	115,659	115,270	113,468	114,362	115,447
Outpatient visits	327,297	324,812	333,675	323,393	306,825
Emergency Visits	27,868	29,038	27,046	25,602	24,119
Average Length of Stay	6.1 days	6.1 days	5.9 days	5.9 days	6.1 days

Northwest Hospital & Medical Center

Statistic	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Admissions					10,743
Patient Days					47,194
Outpatient visits					418,442
Emergency Visits					35,146
Average Length of Stay					4.4 days

UW Neighborhood Clinics

Statistic	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Clinic Visits	218,561	201,645	188,148	193,280	189,597
New Patients	14,867	11,768	10,264	11,567	11,894

Seattle Cancer Care Alliance

Statistic	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Clinic Visits	43,230	48,928	54,851	60,046	72,217
Admissions	428	573	607	560	643

Inpatient admissions for the SCCA 20 bed unit at UWMC are included in the UWMC admissions total.

RESEARCH PROGRAMS

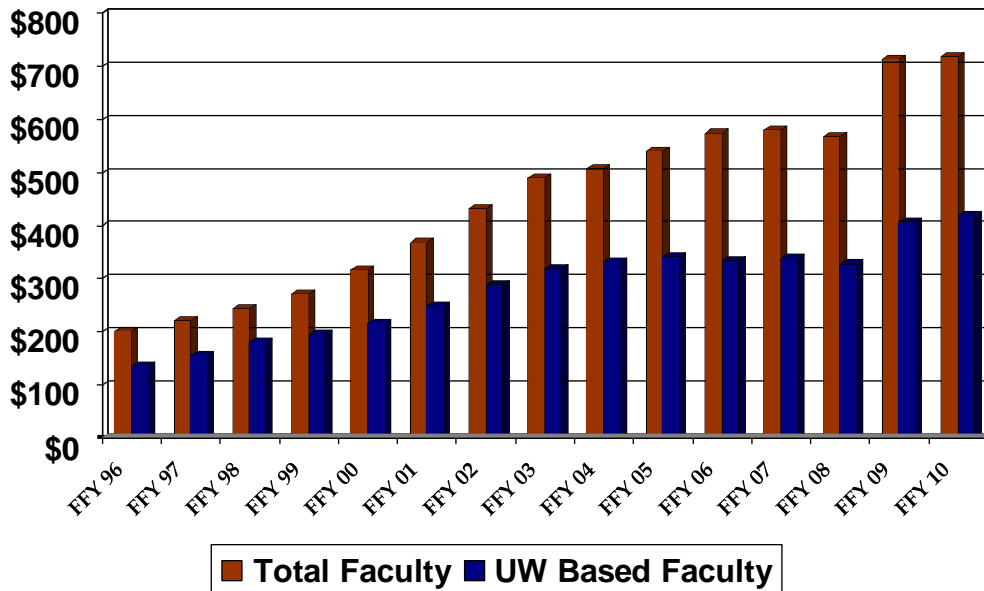
UW Medicine research continues to grow. UW School of Medicine grant and contract awards through the University of Washington totaled \$673 million in FY11. This was an \$18 million (3%) increase over FY10. ARRA awards were \$94M in FY11 and \$90M in FY10 (14% of total awards in both years). The following table summarizes the UW-based SOM research awards over the past four years.

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 (prelim)	Average annual change
Federal	\$376.0	\$371.5	\$361.8	\$470.6	\$475.1	6%
Non-federal	\$118.1	\$145.8	\$204.4	\$185.2	\$198.2	14%
Total	\$494.1	\$517.3	\$566.2	\$655.8	\$673.3	8%

NIH awards represent the largest single source of awards received by UW Medicine faculty. The following chart tracks the growth of NIH awards to UW Medicine faculty over the past 15 federal fiscal years ending in federal fiscal year 2010. NIH funding is on a federal fiscal year basis and comparative information is not available until several months after the close of the fiscal year on September 30.

NIH Grant Awards to UW Medicine
(\$ in millions)



Note: Average annual growth rate: 9% for total faculty; 8% for UW-based faculty.

In federal fiscal year 2010, there were 884 separate NIH awards to 550 UW-based SOM Principal Investigators. There were an estimated 903 UW-based SOM regular and research faculty working on those grants. In addition to these NIH awards managed by the University of

Washington, 449 NIH awards were received by School of Medicine faculty and were managed by affiliated institutions (e.g., Fred Hutchinson Cancer Research Center, Seattle Children’s Hospital, and Seattle Biomedical Research Institute). In total, NIH awards to UW Medicine faculty were \$717.8 million in federal fiscal year 2010, an increase of \$4.6 million (1%) over federal fiscal year 2009. A significant component of the NIH growth is attributable to grants funded through the American Recovery and Reinvestment Act (ARRA).

UW Medicine faculty were second in the country among all medical schools, and first among public medical schools, in NIH research funding based on federal fiscal year 2010 awards.

-----\$ in millions -----

Institution	2006 NIH Awards	2010 NIH Awards	% change
Harvard	\$1,172.5	\$1,729.2	47.5%
U of Washington	\$573.2	\$717.8	25.2%
U of Pennsylvania	\$485.7	\$662.0	36.3%
UCLA	\$425.2	\$569.4	33.9%
UCSF	\$433.8	\$535.9	23.5%
Johns Hopkins	\$471.6	\$480.0	1.8%
Columbia	\$320.8	\$473.1	47.5%
Michigan	\$325.5	\$447.1	37.4%
Washington Univ.	\$360.1	\$431.6	19.9%
Duke	\$349.9	\$412.6	17.9%
U of Pittsburgh	\$341.8	\$410.9	20.2%
Yale	\$305.1	\$408.8	34.0%
Vanderbilt	\$256.5	\$406.9	58.6%
UCSD	\$260.3	\$346.4	33.1%
Stanford	\$252.2	\$344.9	36.8%

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

LOOKING FORWARD – FY 2012

Several key external and internal factors will continue to influence UW Medicine’s financial performance in FY 2012. The external factors include the general state of the economy, the impact of state budget reductions on health care funding for governmental programs, and federal health reform legislation. The internal factors include our continued success in implementing rapid and system wide process improvements to mitigate the impact of the state health care program budget reductions, and executing on our strategic priorities. The following paragraphs highlight several of the key activities that will mark FY 2012.

Strategic planning

UW Medicine’s strategic planning work continues, with a focus on building key clinical programs, improving core systems, access, quality, safety, service and advancing organizational performance improvement including cost reduction activities. With the addition of Valley

Medical Center, we are in a very good position to expand our market position and continue to consolidate services to be able to provide the best care at the most cost effective location, resulting in high quality care provided in an efficient manner.

Northwest Hospital & Medical Center

Integration efforts will continue to accelerate in FY 12, including the relocation of the UW Medicine Midwife, Orthopedic Joint Surgery, and Multiple Sclerosis programs to the NWH campus. UW Medicine's Regional Heart Center strategic plan supports the expansion of cardiac catheterization and electrophysiology services at NWH. This expansion will be completed by FY 13.

The SCCA broke ground on the proton beam facility in March 2011. When it opens in early 2013 on the campus of Northwest Hospital & Medical Center, the 60,000-square-foot facility will be the only proton beam site in WWAMI and one of only a handful of centers in the nation to offer proton therapy.

Valley Medical Center

Valley Medical Center became the eighth entity of UW Medicine effective July 1, 2011. Consistent with the terms of the strategic alliance, the Operational Integration Oversight Committee (OIOC) has been established and began meeting in August 2011. This committee will oversee the development of the UW Medicine strategic plan at VMC and prioritize integration opportunities for UW Medicine/VMC.

South Lake Union Phase III

The development of new research space at South Lake Union is a key step in ensuring the continued growth of UW Medicine's research programs. Slated for completion in spring 2013, the first building (Phase 3.1) is a 183,000-square-foot laboratory building that will be home to more than 400 researchers. Research themes identified for the first Phase III building include vision sciences, immunology, kidney research, rheumatology and infectious diseases.

Federal Health Reform

While the major changes in coverage will take effect beginning in 2014, there may be significant changes by the state and federal government to implementation plans for health reform between now and 2014. We continue to monitor closely the status of health reform and the impact to UW Medicine and provide key input and direction through our state and federal representatives. UW Medicine leadership is actively involved on key health care reform committees on a state and federal level. Included in these efforts is our work analyzing the appropriate involvement in Accountable Care Organization pilot programs. Since nearly all reform scenarios result in lower reimbursement for healthcare services, it is important to continue focus on reducing our cost structure, enhancing our IT platform to support clinical care, administration and decision-making, and strengthening our financial systems and contracting and payer relations functions

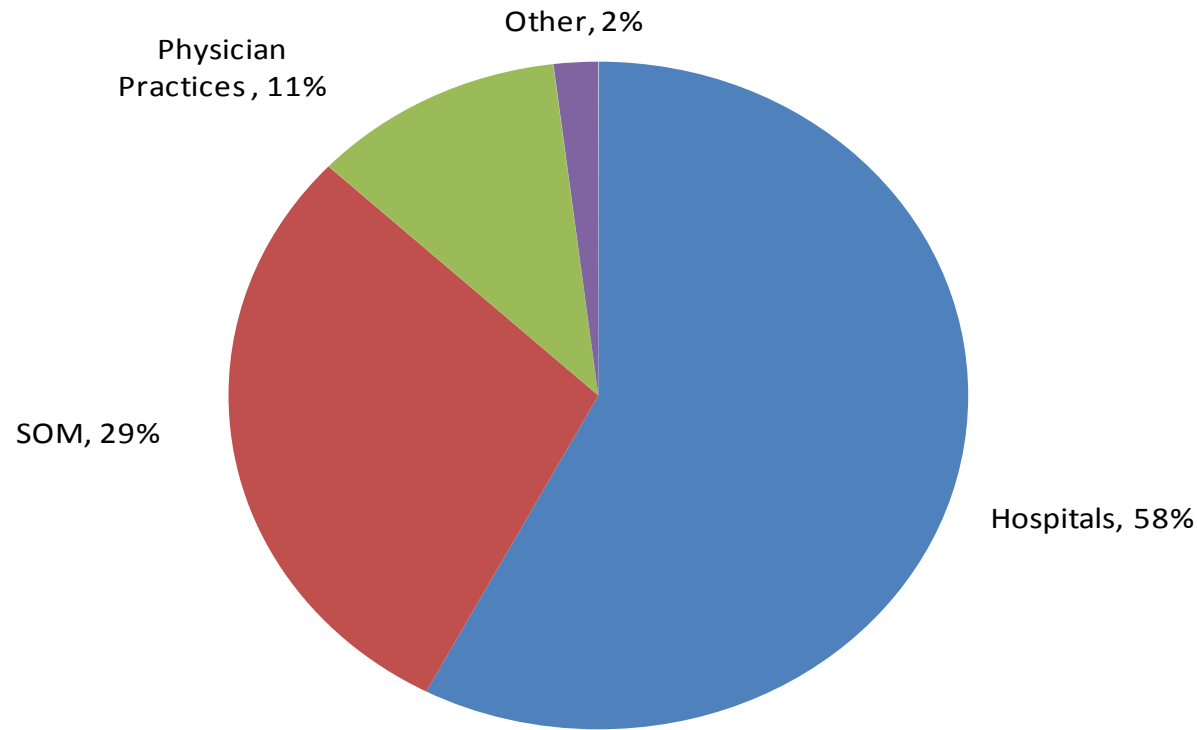
Over the past year UW Medicine has continued to advance and execute on the strategic plan to position our organization for the future. These active and focused efforts will continue through 2012 to assure our ability to deliver on our mission of improving health. UW Medicine's success is attributed to the excellence of its faculty, staff, students and trainees who are committed to its mission and to the support provided to us by the entity boards and committees of the boards, the UW Medicine Board and the UW Board of Regents.

UW Medicine
Annual Financial Report
to the University of Washington
Board of Regents

November 17, 2011

UW Medicine Annual Financial Report

FY 2011 Revenue by Entity



\$3.2 billion in total revenue

Average growth rate of 9% over last 5 years

UW Medicine

UW Medicine Annual Financial Report

Positive financial performance for the system

	Actual FY 2010	Budget FY 2011	Actual FY 2011	Increase	% Change
Hospital and Clinical Operating Revenue (millions)	\$2,026	\$2,270	\$2,260	\$234	12%

- Despite lower than budgeted volumes patient service revenues were close to budget and increased compared to prior year
- Major factors: Full year impact of Northwest, high severity, and improvements in billing and collections due to Epic implementation

UW Medicine Annual Financial Report

School of Medicine revenue increased over prior year

	<u>Actual</u> <u>FY 2010</u>	<u>Budget</u> <u>FY 2011</u>	<u>Actual</u> <u>FY 2011</u>	<u>Increase</u>	<u>%</u> <u>Change</u>
School of Medicine Revenue (millions)	\$1,070	\$1,132	\$1,195	\$125	12%

- Research grants remained strong, with large increases in Departments of Medicine, Global Health and Genome Sciences
- Revenue includes American Recovery and Reinvestment Act (ARRA) funds of \$42M for 2010 and \$82M for 2011

UW Medicine Annual Financial Report

- Operating expenses were managed to budget
- Balance sheet strengthened
 - Cash and investments increased \$100M
 - Days in accounts receivable stable and in line with benchmarks
- School of Medicine endowment balance of \$521M

UW Medicine Annual Financial Report

Fiscal Year 2012 Risk Areas

- Volumes
- Payer Mix/Reimbursement
- Federal and State Budgets
- Healthcare Reform

Execute to meet budgeted financial targets at the system level