

VII. STANDING COMMITTEES

B. Finance, Audit & Facilities Committee

UW Medicine Board Annual Financial Report

For information only.

Attachment

UW Medicine Board Annual Report to the UW Board of Regents
UW Medicine Consolidated financial statements Fiscal Year Ended June 30, 2009
(unaudited)



UW MEDICINE BOARD

ANNUAL FINANCIAL REPORT TO THE UW BOARD OF REGENTS

NOVEMBER 19, 2009



EXECUTIVE SUMMARY

UW Medicine financial performance overall in FY 2009 was positive compared to budget. Total revenue for UW Medicine was \$2.5 billion in FY 2009, representing a 6% increase compared to FY 2008. The clinical programs recorded continued growth and positive financial performance. Research grant funding in UW Medicine increased by 10%. Support from the state of Washington, however, was reduced as a result of the general reduction to the University and the reductions in health care programs. The impact of the reduced funding for health care programs began in FY 2009, but will have more adverse effects in FY 2010 with an estimated reduction of \$20 million per year at Harborview and UW Medical Center. The School of Medicine (SOM) state funds were reduced by 9.5%, and SOM budgets were also impacted by the reduction in endowment payouts.

Key financial highlights for FY 2009 include:

- The balance sheet for UW Medicine's clinical programs remains stable. Cash increased, but remains below the Moody's "A" rated level. Debt ratios, however, remain exceptionally strong due to the relatively low level of debt at the medical centers. Net income from operations for the UW Medicine health system (excluding revenue in the School of Medicine) was \$57.5 million (3.3%), including post-closing adjustments.
- FY 2009 was a very challenging year for health care with the emergence of the global financial crisis and economic downturn which resulted in job losses in the Seattle King County market and a rise in the uninsured population. The UW Medicine health system was able to weather the economic crisis by focusing on rapid process improvements across the system to reduce costs, eliminate redundant services, and improve overall efficiency of services. Effective strategic planning and rapid implementation of approved initiatives increased key patient volumes and revenues. Consolidation of services reduced costs and improved efficiencies of care.

- Planned construction of new buildings based on the year 2000 Voter Approved Bond Project for seismic upgrades and bed expansion at Harborview Medical Center (HMC) was brought to completion, and the new facilities came into operation during FY 2009. The new Maleng Inpatient Building added 50 beds and 8 new operating rooms and the 14 story Ninth and Jefferson Building (NJB) was constructed and brought into operation. This new construction increased depreciation and lease costs and increased staffing and orientation costs during the initial phases of opening the Maleng Building. By the end of the fiscal year, orientation was completed, staffing levels were reduced, and patient volumes increased as a result of the added capacity. Operating expenses were managed to reduce costs. This resulted in an operating margin of \$5.4 million (0.7%) and a total income of \$12.3 million (1.7%), including post-closing adjustments, which was better than budgeted performance. The positive financial performance was achieved in the setting of a record amount of charity care (over \$150 million) in FY 2009. This represented an increase of \$30 million from FY 2008. The emergency department statistics for Harborview, presented in the following section, reflect management’s efforts to dedicate the hospital resources to prioritize services to meet the needs of the most critical advanced life-support patients while working with the community to serve the needs of basic patient transports that can be cared for in any emergency department.
- UW Medical Center (UWMC) outperformed budget to a great extent in FY 2009. Revenue exceeded budget by a wide margin due to strong volumes in key service lines such as oncology and improved documentation and coding which resulted in higher case mix index and improved reimbursement for care. UWMC administration also closely managed operating expenses. The actual operating margin was \$58.4 million (7.8%), exceeding budget by \$31 million, and the total income was \$63.0 million. The level of charity care remained similar to FY 2008 at \$16 million.
- Patient Financial Services (PFS), the shared billing office for both medical centers, recorded significant reductions in days outstanding in accounts receivable, reflecting improvements in revenue cycle management. PFS and the hospital finance departments have completed a series of revenue cycle improvements to prepare for the March 2010 go-live of the new EPIC billing system for HMC, UWMC, and the Seattle Cancer Care Alliance (SCCA).
- University of Washington Physicians (UWP) cash receipts exceeded budget by \$3.7 million (2%) and were up by \$9 million over FY 2008. Cash per unit of output (relative value units or RVU’s) increased. UWP reserves declined, primarily reflecting investment losses. Children’s University Medical Group (CUMG) cash receipts exceeded budget by \$6.4 million (6.5%), and were up by \$5.6 million over FY 2008.
- Seattle Cancer Care Alliance (SCCA) had a very strong year financially, with total net income of \$17 million. This performance exceeded budget by \$6.2 million. The majority of the positive variance from budget is attributable to the inpatient program, where the SCCA maintained 82% occupancy of the 20 beds at UW Medical Center that are under the SCCA’s license. UW Medical Center recognizes SCCA financial results using the equity method, recording one-third of the total net income as “other revenue.”

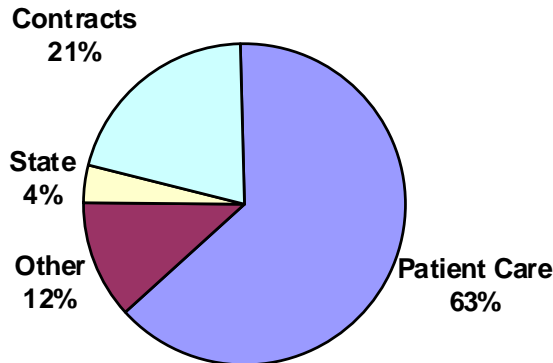
- The UW Physicians Network (UWPN) recorded an operating loss of \$6.3 million in FY 2009, \$1.8 million in excess of the budgeted loss. Part of this loss was due to mid-year unbudgeted expenses related to addition of OB/GYN physicians at the Shoreline Clinic and nursing staff at all clinics. The addition of the OB/GYN physicians was consistent with UW Medicine's strategic goal of expanding the number of routine deliveries. Total UWPN visit numbers were lower than expected, and physician recruitment costs were higher than anticipated due to a rapid recruitment plan to fill 17 FTE's in physician vacancies that occurred in FY 2008. Turnover of primary care physicians has been a recurring issue in UWPN, and we are addressing this issue by increasing the nursing support staff at each clinic and through process changes designed to improve physician satisfaction. All 17 positions were successfully filled by the end of FY 2009. We are now seeing the impact of the recruitments with increased visit numbers. Nurturing and growing our primary care programs is an important component of our overall health system strategy.
- Airlift Northwest (ALNW) had a significant positive turnaround in FY 2009. ALNW recorded a positive bottom line of \$880,000; this was substantially better than the FY 2008 loss of \$1.5 million. The positive performance was accomplished through elimination of outside contract services, implementation of process improvements, closure of a base, and control of operating expenses. These changes have not only improved the financial performance of ALNW, but also improved the morale of the staff and operational safety.
- UW Medicine research grants grew by \$50 million (10%) for UW-based research in FY 2009 compared to FY 2008.
- Total private support for UW Medicine in FY2009 was \$156.2 million, exceeding the previous year's total by \$22 million and comprising nearly half of the University's total private support for the year.
- Approximately \$450 million of total revenues are transferred between various UW Medicine entities to support the teaching, research, and patient care activities. In FY 2009, this included \$204 million from the physician practice plans (UWP and CUMG) to support School of Medicine faculty salaries, clinical department operations, and the Dean's office, \$99 million from the medical centers to SOM clinical departments to provide faculty salary and program support, \$35 million from the medical centers to the SOM to support graduate medical education, and \$23 million from the medical centers, practice plans, and SOM to support the central administrative and service functions of UW Medicine.

The consolidated financial report for UW Medicine is included as an appendix to this report.

KEY STATISTICS & RESULTS

UW Medicine revenues were \$2.5 billion in FY 2009. This represents an increase of approximately 6% compared to FY 2008. The following charts summarize the sources of financial support for UW Medicine. Over the last five years (FY 2004-2009), total UW Medicine revenue has increased at an average rate of 8% per year. These increases have occurred in the setting of a flat NIH budget and a very competitive local health care market.

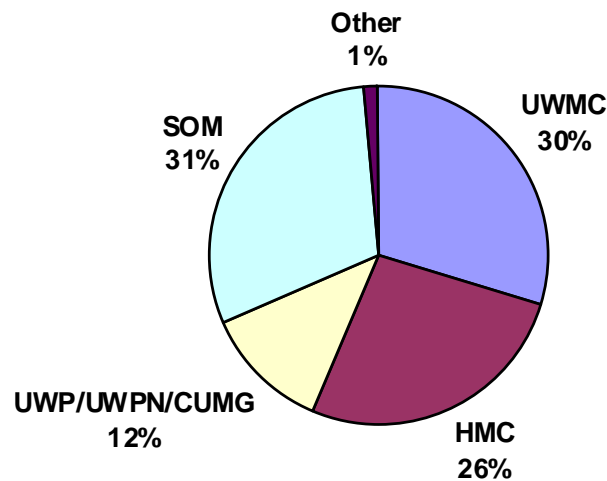
Fiscal Year 2009 – Revenue by source



Total Revenue: \$2.5 billion

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

Fiscal Year 2009 – Revenue by entity



Total Revenue: \$ 2.5 billion

(Other includes Airlift Northwest and the Consolidated Laundry.)

UW Medicine financial support comes predominantly from patient care revenues (63%) and research grants and contracts (21%). The following sections highlight the performance in each of these areas.

PATIENT CARE

The following table summarizes operating revenue received by UW Medicine medical centers, faculty physicians, and Airlift Northwest in FY 2008 and FY 2009. 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 (000's)	
	2009 (unaudited)	2008 (audited)
Harborview Medical Center	\$678.5	\$634.2
UW Medical Center*	\$752.5	\$687.2
UW Physicians	\$191.1	\$182.1
UW Physicians Network	\$ 22.2	\$ 22.7
Children's University Medical Group	\$ 99.7	\$ 94.1
Airlift Northwest	\$ 31.0	\$ 29.4
Total	\$1,775.0	\$1,649.7

*Inpatient revenues for the SCCA 20 bed unit are included in the UWMC total.

Net income from UW Medicine operations for FY 2009, after adjusting for revenues counted in more than one entity (e.g., UWP billings for physicians working in UWPN), was \$57.5 million or 3.3% of operating revenue. UWMC generated \$58.4 million of net operating income, including post-closing adjustments. Harborview generated \$5.4 million of net operating income after including post-closing adjustments, and ALNW generated \$880,000 of net operating income. Operating losses occurred at UW Physicians Network (\$6.3 million). UWPN losses for primary care are consistent with experiences at other academic medical centers. UWPN has successfully built commercial payer mix this past year to 74%. The secondary and tertiary care generated by UWPN results in significant revenue at UWMC and HMC. The Harborview performance during the first seven months of the fiscal year was off budget due primarily to increased costs of training new staff (orientation time) for the opening of the Maleng Inpatient Building. Performance in the second half of the fiscal year allowed Harborview to recover from this period of high expenditures. All of the net income generated by UWP and CUMG is distributed to the School of Medicine departments, Dean's office, and Seattle Children's Hospital (for a portion of CUMG revenue).

The following tables provide benchmark comparisons for the medical centers.

Ratio/Indicator	Moody's "A"	UW Medical Center	Harborview Medical Center
Operating margin	2.2%	7.8%	0.7%
Debt to capitalization	38.1%	15.9%	1.2%
Days cash on hand	157.2	115.5	92.0
Days in A/R (net)	49.0	50.8	62.0

These comparisons reflect five important points:

- Operating margins at Harborview are affected by the high percentage of uninsured and under-insured patients served;
- Harborview provided over \$150 million of charity care in FY 2009 as measured by foregone charges – an increase of \$30 million over FY 2008;
- The Harborview debt to capitalization number reflects the capital support provided by King County through voter-approved general obligation bonds;
- Days cash on hand is below benchmark at both medical centers, again reflecting the high percentage of uninsured and under-insured patients; and
- Days in accounts receivable are being reduced as we prepare for the conversion of the hospital billing system scheduled for March 2010.

5-YEAR PERFORMANCE COMPARISON

The patient care activity of the UW Medicine health system remains strong and stable, with the exception of UWPN where physician turnover and strategic closure of one clinic in FY 08 resulted in volume declines. Growth has been limited by very high occupancy levels at both medical centers. The following tables summarize the clinical activity for the owned and managed components of UW Medicine and the SCCA.

Harborview Medical Center

Statistic	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Admissions & short stays	22,973	22,439	21,147	21,764	20,463
Patient Days	125,189	129,831	133,345	136,662	136,687
Outpatient visits	221,159	223,916	218,229	230,315	224,769
Emergency visits	79,112	81,073	76,491	68,987	65,515
Average Length of Stay	6.8 days	6.9 days	7.2 days	7.4 days	7.0 days

UW Medical Center

Statistic	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Admissions	18,086	18,120	18,866	18,993	19,322
Patient Days	118,455	114,542	115,659	115,270	133,468
Outpatient visits	352,927	333,099	327,297	324,812	333,675
Emergency Visits	35,547	32,838	27,868	29,038	27,046
Average Length of Stay	6.5 days	6.3 days	6.1 days	6.1 days	5.9 days

UW Physicians Network

Statistic	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Clinic Visits	237,732	227,929	218,561	201,645	188,148
New Patients	16,925	15,784	14,867	11,768	10,264

Seattle Cancer Care Alliance

Statistic	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Clinic Visits	38,774	44,084	43,230	48,928	54,851
Admissions	444	455	428	573	607

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

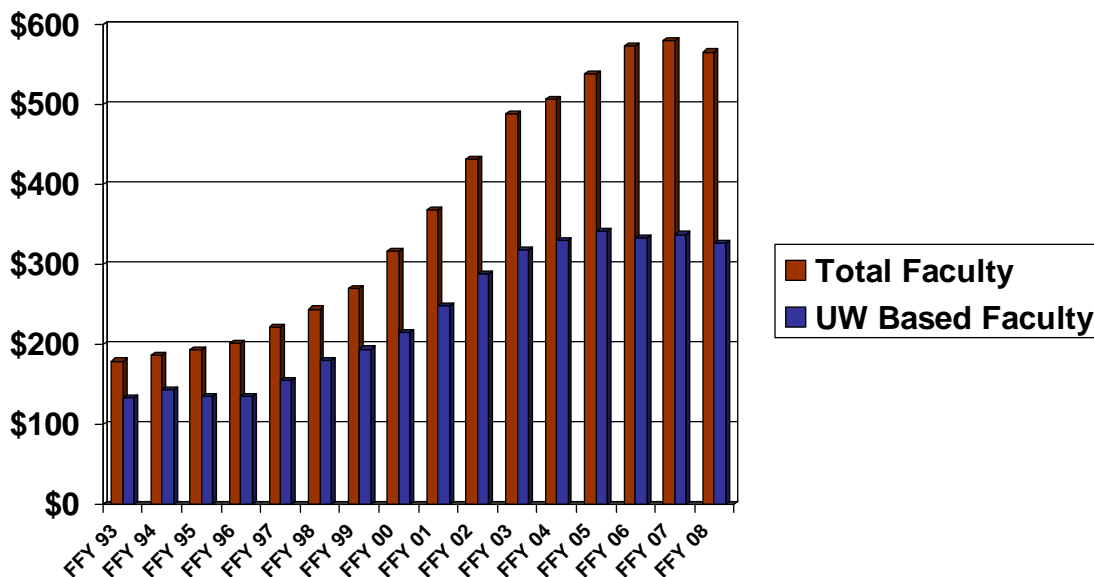
RESEARCH PROGRAMS

UW Medicine research continues to grow. UW School of Medicine grant and contract awards through the University of Washington totaled \$567 million in FY 09. This was a \$50 million (10%) increase over FY 2008. We have seen a shift in the ratio of federal to non-federal grants over the past two years. Non-federal grants represented 35% of the total SOM grants in FY 2009 compared to 28% in FY 2008 and 23% in FY 2007 and FY 2006. The following table summarizes the UW-based SOM research awards over the past four years.

	FY 2006	FY 2007	FY 2008	FY 2009	Average annual change
Federal	\$354.4	\$375.5	\$371.1	\$364.6	1%
Non-federal	\$110.1	\$118.1	\$146.2	\$203.0	23%
Total	\$464.5	\$493.7	\$517.3	\$567.5	7%

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 14 federal fiscal years ending in federal fiscal year 2008. (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: 8% for Total Faculty; 6.2% for UW-based faculty.

There were, in federal fiscal year 2008, 751 separate NIH awards to 510 UW-based SOM Principal Investigators. There are an estimated 734 regular and research faculty working on NIH research grants made to UW-based SOM faculty. In addition to NIH awards managed by the UW, School of Medicine faculty receive NIH awards that are managed by affiliated institutions (e.g., Fred Hutchinson Cancer Research Center and Seattle Children’s Hospital). Total NIH awards to UW Medicine faculty in federal fiscal year 2008 were \$566.1 million, a decrease of \$13.6 million (2%) over federal fiscal year 2007. UW Medicine faculty were second in the country among all medical schools, and first among public medical schools, in NIH research funding based on FY 2008 awards. The growth in NIH funding to UW School of Medicine faculty over the past seven years has exceeded the comparable growth of the majority of our peer institutions.

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

Institution	2002 NIH Awards	2008 NIH Awards	% change
UCLA	\$340.5	\$493.9	45.1%
Michigan	\$255.7	\$347.5	35.9%
Yale	\$253.6	\$340.5	34.3%
Univ. of Washington	\$431.5	\$566.1	31.2%
Harvard	\$957.9	\$1,228.7	28.3%
Johns Hopkins	\$372.6	\$471.9	26.7%
UCSF	\$368.7	\$457.3	24.0%
Univ. of Pennsylvania	\$431.4	\$516.2	19.7%
Washington Univ.	\$320.4	\$347.2	8.4%
Baylor	\$382.8	\$229.6	-40.0%

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 2010

Several key external and internal factors will influence UW Medicine’s financial performance in FY 2010. The external factors include the pace of recovery from the economic recession and the provisions of health reform legislation at the federal and state level. The internal factors include our success in implementing rapid and system wide process improvements to mitigate the impact of the state health care program budget reductions, the conversion to the new hospital billing system, and continued attainment of process improvements in our hospitals and clinics. The following paragraphs highlight several of the key activities that will mark FY 2010.

Strategic planning. UW Medicine’s strategic planning effort has moved into the implementation phase. We have identified a number of immediate or “just do it” steps that we are taking to improve performance, implement new programs, and consolidate specific existing programs to reduce costs and increase efficiency, and we are developing business plans around the larger strategic initiatives. The UW Medicine Board has been involved at each step of the strategic planning process and will monitor performance over the coming year.

Northwest Hospital & Medical Center. We anticipate that Northwest Hospital will join UW Medicine in January 2010. At that time, we will begin development of a long-range strategic plan for the Northwest campus as part of our UW Medicine Strategic Planning process. This plan will explore the enhancement of cardiac, oncology, and obstetrical programs on the Northwest campus as well as the increased use of Northwest to meet the secondary care needs of UW Medicine patients. Opportunities for increased efficiency through integration of infrastructure and administrative programs will also be explored.

Harborview expansion. The “Ninth and Jefferson” building (NJB) opened at the end of FY 2009, providing a substantial increase in outpatient clinics, administrative, teaching, and research space. NJB houses several innovative programs including the new UW Medicine Eye Institute, UW Medicine Brain and Neuroscience Institute, and programs for the Department of Global Health.

UWMC expansion. UWMC broke ground on Phase I of the inpatient expansion building in August 2009. The building will house a new and expanded Neonatal Intensive Care Unit and a new oncology inpatient unit. There will also be shelled-in space for radiology and operating rooms.

South Lake Union Phase III. The University must make a decision regarding whether to exercise its option on Phase III by March 2010. 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.

UW Medicine

Consolidated financial statements Fiscal Year Ended June 30, 2009 (unaudited)

Note: The financial statements are based on the June 30, 2009 closing figures. Post-closing adjustments are not included. An audited version of the consolidated statements will be produced as soon as the audits are completed.

UW Medicine

Listing of Entities

Clinical programs

- University of Washington Medical Center
- Harborview Medical Center
- University of Washington Physicians
- Children's University Medical Group
- UW Physicians Network
- Airlift Northwest
- Consolidated Laundry

University of Washington School of Medicine

<u>Assets:</u>	<u>6/30/2008</u>	<u>6/30/2009</u>
Cash and Investments	\$ 481,882	\$ 466,565
Other Current Assets	302,942	305,705
Property Plant and Equipment	716,208	734,674
Other Assets	86,805	114,699
Total Unrestricted Fund Assets	<u>\$ 1,587,837</u>	<u>\$ 1,621,642</u>
<u>Liabilities and Fund Balance:</u>		
Current Liabilities	\$ 385,063	\$ 368,314
Other Liabilities	5,276	5,039
Long Term Debt (Net of Current Portion)	101,386	93,436
Fund Balance	1,096,112	1,154,852
Total Unrestricted Fund Liabilities & Fund Balances	<u>\$ 1,587,837</u>	<u>\$ 1,621,642</u>

➤ **Cash & Investments decrease \$15 million**

- HMC decrease \$37 million due to Maleng Building and equipment funds transfer
- UWMC increase \$28 million due to net income and improved cash collections
- UWP decrease \$11 million due to investment losses

➤ **Current Assets increase \$3 million**

- UWMC increase \$4 million due to increase in accounts receivable

➤ **Plant and Equipment increase \$82 million (net of retirements)**

- HMC increase \$38 million due to capital expenditures, Maleng Building, and IT investments
- UWMC increase \$42 million due to expenditures for the expansion and the Radiation Oncology projects, remodeling projects, and IT investments

➤ **Other Assets increase \$28 million**

- HMC increase \$24 million due to increase in restricted funds
- UWMC increase \$5 million due to increases in other assets

➤ **Current Liabilities decrease \$17 million**

- CUMG decrease \$3 million due to decreases in incentives payable
- HMC decrease \$9 million due to State CPE payment and reserve adjustment, and SOM department support payments
- UWMC increase \$4 million due to construction payable
- UWP decrease \$9 million due to decreases in incentives payable, CMF payable, and departments' reserves

➤ **Long term debt decrease \$8 million**

- UWMC decrease \$7 million due to bond and capital lease payments

➤ **Fund Balance increase \$59 million**

- HMC increase \$2 million due to net income
- UWMC increase \$56 million due to net income

	<u>Actual YTD</u>	<u>Budget YTD</u>
<u>Revenue:</u>		
Patient Service Revenue	\$ 1,608,830	\$ 1,577,904
State Appropriation	16,392	16,014
Other Revenue	119,762	115,292
Total Revenues	<u>1,744,984</u>	<u>1,709,210</u>
<u>Expenses:</u>		
Salaries, Wages and Benefits	977,750	989,499
Supplies and Other Expenses	604,169	583,038
Depreciation	75,196	79,177
Interest, Insurance and Taxes	4,728	5,614
Total Expenses	<u>1,661,843</u>	<u>1,657,328</u>
Income before CMF Assessment & Departmental Distributions	83,141	51,882
Practice Plans' Nonoperating Gains (Losses)	(13,011)	-
Income after Nonoperating Gains (Losses) before Distributions	70,130	51,882
CMF Assessments & Departmental Distributions	<u>(26,921)</u>	<u>(32,666)</u>
Net Operating Income	43,209	19,216
Nonoperating Gains (Losses)	<u>15,022</u>	<u>15,862</u>
Revenues and Gains In Excess of Expense and Losses	<u>\$ 58,231</u>	<u>\$ 35,078</u>

- Income from Operations was \$43,209 actual vs. \$19,216 budget

	Actual	Budget
HMC	(2,765)	2,160
UWMC	52,326	22,214
UWPN	(6,340)	(4,588)
All Other	(387)	(1,320)

- HMC – due to unfavorable volume and case mix
- UWMC – due to favorable reimbursement resulting from improved documentation and coding
- UWPN – due to physician turnover resulting in unfavorable visits
- All Others – due to favorable ALNW expense management

- CUMG and UMP income distributed to departments and CMF

	<u>Actual</u>	<u>Budget</u>
CUMG	14,254	13,502
UMP	12,666	19,164

- Practice plan investment losses of \$13 million
- Non-Operating Gain \$15,022 actual vs. \$15,862 budget
 - UWMC \$2.1 million unfavorable variance due to UWPN network requirement

Net Income	\$ 58,231
Add back depreciation	75,196
Increase in current assets	(2,763)
Decrease in current liabilities	(16,748)
Capital Expenditures	(93,662)
Increase in other assets	(27,894)
Decrease in Long Term Debt	(7,950)
Decrease in other liabilities	(237)
Transfers and other changes to fund balance	<u>509</u>
Net Change in Cash and Investments	<u>\$ (15,317)</u>

Medical Centers' Benchmark Comparisons

Ratio/Indicator	Moody's "A"	UW Medical Center	Harborview Medical Center
Net Patient Revenue	\$489	\$700	\$618
Operating Margin	2.2%	7.0%	-0.4%
Excess Margin	4.6%	7.5%	0.2%
Debt Service Coverage	4.6	8.9	30.5
Debt to Cash Flow	3.5	1.0	0.2
Debt to Capitalization	38.1%	15.9%	1.2%
Days Cash on Hand	157.2	115.5	92.0
Cash to Debt	113.9%	227.6%	2230.9%
Days in A/R (Net)	49.0	50.8	62.0

UWP Benchmark* Comparisons

Ratio/Indicator	Comparison Group	UWP
Gross Charges (\$M)	436.9	467.4
Net Collection Rate	92.3%	93.4%
Days in AR	48	38
AR > 180 days	13.4%	4.8%
Denial Rate	9.8%	8.2%
% of Net Collections within 60 days	64.4%	60.0%
Commercial payer %	45.1%	43.8%
Cost to Collections	5.3%	7.5%
Credit balances as % of AR	3.7%	2.8%
Medicaid % of payer mix	12.0%	19.7%
Medicare % of payer mix	24.6%	22.5%
Cash collected per billing FTE (\$M)	1.4	1.3
Average recovery rate of bad debt	12.1%	15.0%
Payment rate to collection agency	21.1%	23.0%

* Benchmark group is 15 similarly sized practice plans.

Definitions:

State funds: State appropriated funds are allocated to the School of Medicine by the University. Revenue is recognized to the extent of expenditures.

Off-campus facilities ICR/RCR funds: Indirect cost recovery of off-campus facilities costs (ICR) and research cost recovery (RCR). These funds are assigned to the School of Medicine by UW Provost Office, then allocated to School of Medicine departments (including the Dean's Office). These funds may be carried forward from year to year. Revenue is recognized to the extent of expenditures.

Endowment income is earnings on endowments available for spending (i.e. not re-invested in the endowment). Gifts are funds received from donors. Endowment income and gifts are used to fund School of Medicine operations, subject to donor restrictions.

Self-sustaining programs provide goods or services to other entities, either within or outside of the UW. The responsible department establishes the rates for goods and services. The rates are adjusted annually to account for over-under recoveries in the previous period. Balances at period end are primarily operating reserves and excess recoveries that will be resolved during the subsequent year rate calculation. Self-sustaining programs include resident training, WWAMI, Lab Medicine, Comparative Medicine and other department programs. Revenue is recognized when received.

Clearing/other: Clearing accounts are mainly used for transfers of funds from the practice plans to the SOM departments (e.g., fund transfers for physician salaries). The funds are credited first to the clearing account, and then an entry is processed to distribute the funds to the departments. Any balance in clearing accounts relates to timing. Agency accounts represent funds received and expended on an activity approved by the University, but the University does not provide the funds (e.g., when a faculty member is editor of a publication and incurs expenditures and reimbursement related to that activity).

Research and Training funds are funds held on account in the UW accounting system (Dean's Office as well as department accounts). The source of funds is practice plan or affiliated entity transfers to the School of Medicine. The transfers are made for expense reimbursement, or to fund School of Medicine operations.

Grant and contract revenue is recognized to the extent of current period expenditures. Grant revenues are typically expended by the end of the grant period (not necessarily the University's fiscal period). Grant revenues are credited in a method that may not match the actual spending pattern on the grant.

Endowments are the principal balance (at cost) of endowments held in the UW Central Endowment Fund (CEF), including contributions and re-invested earnings.

	FY08 <u>6/30/08</u>	FY09 <u>6/30/09</u>
Revenues	947,427	997,729
Expenditures	937,849	970,285
Revenues in excess of expenditures	9,578	27,444
Beginning fund balance	408,185	417,763
Ending fund balance	417,763	445,207
Unexpended grant and contract revenue	<u>372,601</u>	<u>426,615</u>

	<u>FY08</u> <u>6/30/08</u>	<u>FY09</u> <u>6/30/09</u>
State funds (Note 1)	71,639	75,830
Off Campus Facilities ICR/RCR (Note 2)	30,266	31,341
Endowment Income & Gifts:		
Restricted (Note 3)	33,923	29,095
Unrestricted (Note 3)	10,343	9,780
Self-Sustaining (Note 4)	113,921	121,941
Clearing & Other	63,196	67,763
Research & Training (Note 5)	88,524	108,623
Grants & Contracts (Note 6)	505,774	524,037
Endowment Principal (at cost)	29,841	29,319
Total Revenue	<u><u>947,427</u></u>	<u><u>997,729</u></u>

See notes on next page

Notes to revenue detail for the year ended 6/30/08 and 6/30/09:

Revenue for the year ended 6/30/09 increased \$50M (5%) over the prior year. The largest increases were Research and Training \$20M and Grants & Contracts \$18M. Restricted gifts decreased \$5M.

Note 1: State funds: Includes general operating funds (GOF) and designated operating funds (DOF). FY09 increased \$4M (6%) from FY08 to FY09. This is due to the timing of expenditures. State appropriation revenue is assigned at the beginning of each biennium. Spending may vary from the 1st to the 2nd year of the biennium, but total spending does not exceed the biennial appropriation. Revenues are recognized to the extent of expenditures. In general, state appropriations are spent to zero by end of biennium. University policy allows some carry-forward of unspent balances from biennium to biennium on a limited basis. In FY09, there was a .75% permanent reduction in State funds, and unspent funds will be allowed to carry forward to FY10.

Note 2: Off-campus facilities ICR/RCR: FY09 revenues increased \$1M (4%) over FY08. This is due to SLUII coming on-line in FY09. Facilities-ICR and RCR revenues are recognized to the extent of expenditures for each reporting period. University policy allows carry-forward of unspent funds to the next year. Unspent funds are rolled forward as 'available to spend' in current year, and revenue will be recognized as expenditures are made.

Note 3: Gift and Endowment Interest revenue: FY09 restricted gift revenue decreased \$5M (14%) and FY09 unrestricted gift revenue decreased \$.6M (5%) from FY08. The UW revised the endowment spending policy in FY09 which will reduce endowment earnings by 25% in FY09 from FY08 levels and an additional 25% for FY10 through FY13. This will reduce overall endowment earnings available to UWSOM for FY09 and future years.

Note 4: Self-sustaining revenue increased \$8M (7%) from FY08 to FY09 due mainly to timing of receipts. The Resident Program accounts for the majority of activity in this category. The UW accounting system is cash basis and revenue is recognized when received.

Note 5: Research & Training revenue increased \$20M (23%) from FY08 to FY09 due mainly to timing of support payments and the VPMA expense reimbursement from affiliated entities. R&T revenue includes transfers from UWP and CUMG Clinical Medicine funds and hospital support to fund spending at the UW. UW accounting system is cash basis; revenue is recognized when received.

Note 6: Grants and contract revenue increased \$18M (4%) from FY08 to FY09. Global Health and GCRC are increasing as the programs ramp up. Grant revenue is recognized to the extent of expenditures.

	FY08	FY09
	<u>6/30/08</u>	<u>6/30/09</u>
Salary/benefits (Note 1)	545,005	573,488
Supplies and other exp (Note 2)	276,476	282,831
Equipment	18,319	18,581
Grants/stipends	13,998	15,798
Debt redemption	3,240	3,672
Indirect cost (Note 3)	105,078	105,116
Cost transfers (Note 4)	(24,267)	(29,201)
Total Expenditures (Note 5)	<u><u>937,849</u></u>	<u><u>970,285</u></u>

Notes:

FY09 expenditures increased \$32M (4%) over FY08.

Note 1. FY09 salary/benefits increase of \$28M (5%) included recruitment, retention and equity increases as well as benefit rate increases. Anesthesiology, Global Health and GCRC programs showed growth.

Note2: Supplies and other expense increased \$6M (2%) from year to year.

Note 3: Indirect cost: Grant revenues include a direct and indirect component. The indirect component is a percentage of direct costs (the rate varies among sponsors). Individual grants are charged indirect cost, and the expense is offset by indirect cost revenue.

Note 4: Cost transfers are mainly resident program reimbursements from affiliated entities.

Note 5: Some School of Medicine expenditures are recorded in hospital or practice plan income statements. Examples include hospital-based operations for the Department of Laboratory Medicine and resident salaries.

	FY08 <u>6/30/08</u>	<i>% of</i> <u>Total</u>	FY09 <u>6/30/09</u>	<i>% of</i> <u>Total</u>
State funds (Note 1)	0		0	
Off Campus Facilities ICR/RCR (Note 2)	0	0%	0	0%
Endowment Income & Gifts:				
Restricted (Note 3)	82,179		80,453	
Unrestricted	15,969		17,895	
Total Endowment Income & Gifts	98,148	23%	98,348	22%
Self-Sustaining (Note 4)	13,807		13,047	
Clearing & Other	(653)		914	
Research & Training (Note 5)	13,994	3%	11,112	2%
Subtotal	125,296	30%	123,421	28%
Grants & Contracts (Note 6)	0		0	
Endowment Principal (at cost) (Note 3)	292,467	70%	321,786	72%
Ending Fund Balance	<u>417,763</u>	100%	<u>445,207</u>	100%

Notes to ending fund balance as of 6/30/08 and 6/30/09:

Note 1: State appropriation revenue is assigned at the beginning of each biennium. Spending may vary from the 1st to the 2nd year of the biennium, but total spending does not exceed the biennial appropriation. In general, state appropriations are spent to zero by end of biennium. University policy allows some carry-forward of unspent balances from biennium to biennium on a limited basis. Revenues are recognized to the extent of expenditures for each reporting period.

Note 2: ICR/RCR revenues are recognized to the extent of expenditures for each reporting period. University policy allows carry-forward of unspent funds to the next year. Unspent funds are rolled forward as 'available to spend' in current year, and revenue will be recognized as expenditures are made.

Note 3: Restricted and unrestricted funds are comprised of unspent gifts, endowment operating accounts and/or loan funds.

Note 4: Main self-sustaining programs are Laboratory Medicine, Comparative Medicine, MEDEX, WWAMI, and the Resident Program. Change in ending fund balance from period to period due to timing of revenues and expenses on a cash basis, accruals are not included.

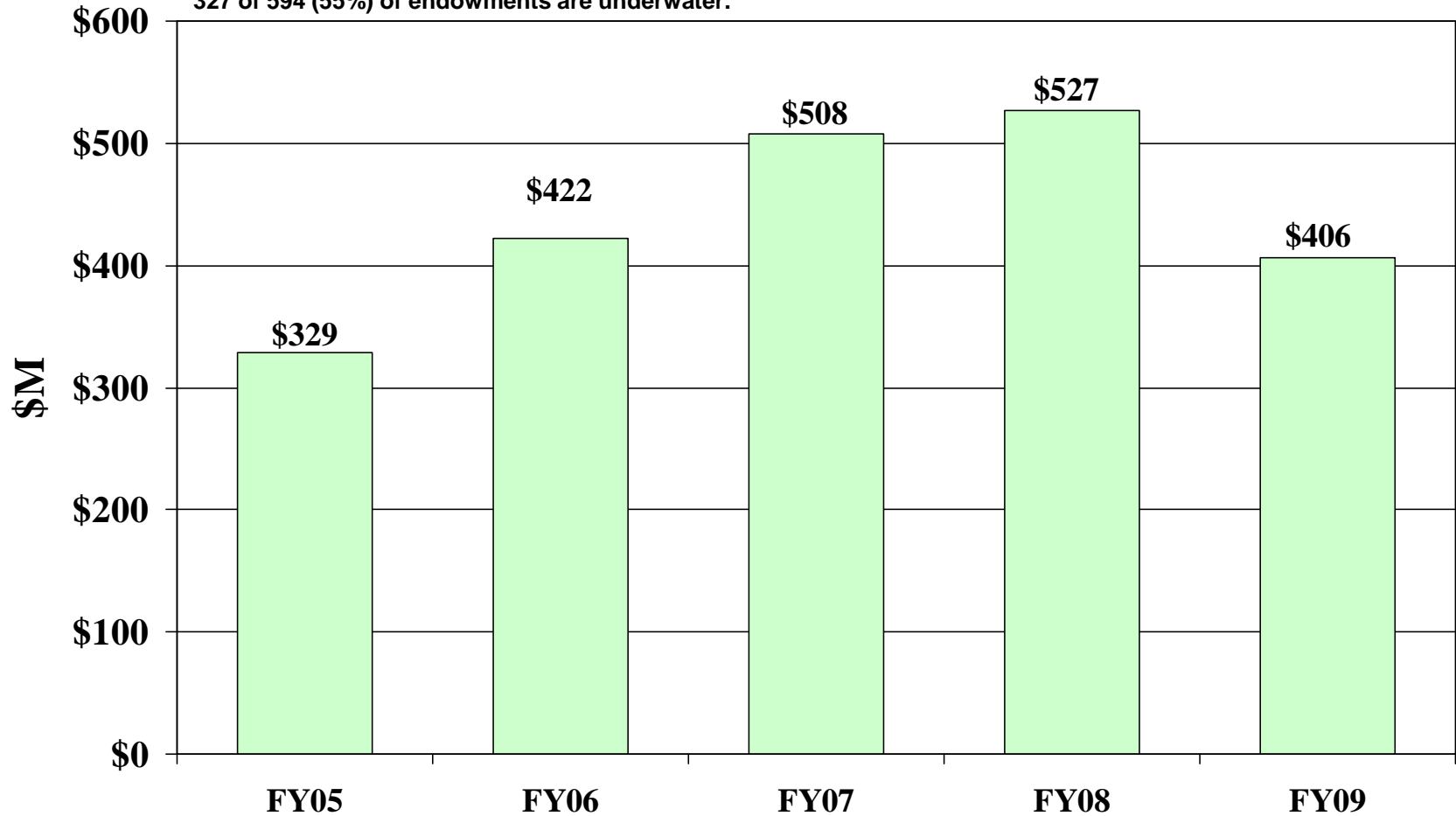
Note 5: Research and Training funds are funds held at the UW for the Dean's Office as well as department accounts. The source of funds is practice plan or affiliated entity transfers to the School of Medicine. The transfers are made for expense reimbursement or to fund School of Medicine operations. The majority of R&T funds are held at the practice plans (recorded as a liability by the practice plans) and are not included in this fund balance. The ending fund balance reflects revenues on a cash basis and does not include receivables due from the hospitals under department funding agreements. The decrease from FY08 to FY09 is a result of planned re-allocation of Dean's Office fund balance between the UW and the CMF reserve held at UWP.

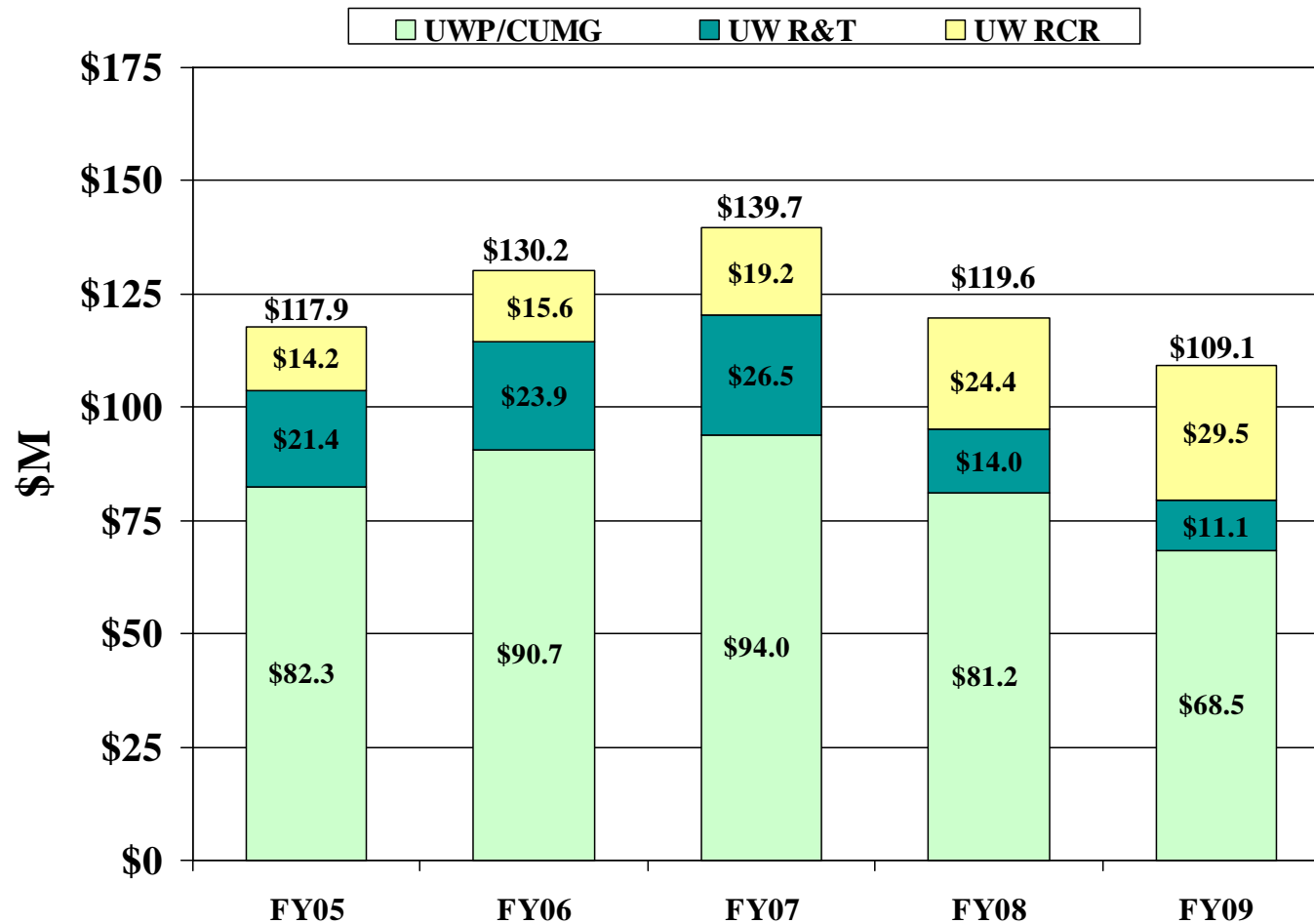
Note 6: Grant revenue is recognized to the extent of expenditures for each reporting period. As a result the ending fund balance is \$0. Unexpended grant and contract revenue is \$373M at 6/30/08 and \$427M at 6/30/09. The Global Health Department accounted for \$32M of the \$56M increase in unexpended grant and contract revenue from FY08 to FY09

Cumulative Average Growth Rate FY05-FY09 is 5.4%

Market value: \$156M of \$406M (38.5%) are under water.

327 of 594 (55%) of endowments are underwater.





See notes on following page

Notes to R&T/RCR Reserve Balances slide:

1. UWP and CUMG reserve balances: Includes Dean's Office reserve balances, Department reserve balances and Lab Medicine payable. Excludes Hall Health payable.
2. Investment earnings/(loss) on UWP reserves were \$11.8M in FY07, (\$4.2M) in FY08 and (\$11.7M) in FY09.
3. UW R&T fund balance is mainly unspent transfers from practice plan reserves and hospital support. Includes Dean's Office and SOM Departments, excludes Hall Health R&T. Transfers from the practice plan reserves to the UW R&T accounts are made on a regular basis to fund research, training and operational activities. Balances can be carried forward from year to year, and spending can fluctuate depending on other available fund sources during the year. The decrease from FY07 to FY08 is a result of investment losses, increase in hospital A/R balances, and increase in new recruits, retention and incentives, and investment in research programs. The decrease from FY08 to FY09 is mainly investment earnings/(loss) on UWP reserves. UW accounting system is cash basis, A/R from hospitals is not recorded until received.
4. UW RCR: Prior period fund balances may change due to the biennial nature of the UW accounting system (the changes are not material). The full fiscal year allocation is posted in Q1 each year, when it is available to spend. The RCR balance declines each quarter as spending occurs. The FY09 allocation is \$37M.