

VII. STANDING COMMITTEE

B. Finance, Audit and Facilities Committee

UW Medicine Financial Report

See Attached.



UW MEDICINE BOARD

ANNUAL FINANCIAL REPORT TO THE UW BOARD OF REGENTS

JANUARY 17, 2008



OVERVIEW AND EXECUTIVE SUMMARY

UW Medicine financial results in FY 2007 remain stable. The clinical programs recorded continued growth and positive financial performance. Research funding increased despite the flat growth in the NIH budget. State support improved as a result of the FY 2007-09 budget that provided \$6.3 million for the Department of Global Health and the Institute for Health Metrics and Evaluation, \$3.8 million for the WWAMI expansion in Spokane, and capital funds to expand and improve School of Medicine classrooms and teaching space to accommodate the expanded medical student class size.

Key financial highlights for FY 2007 include:

- The balance sheet for UW Medicine's clinical programs remains stable with a strong ratio of current assets to current liabilities and very low debt. Cash remains the weak spot on the balance sheet.
- The clinical programs outperformed budget by a wide margin due to strong volumes, improved reimbursement, improved payer mix, and tight expense control. Operating margins were 4.4% at UW Medical Center and 1.2% at Harborview. One significant exception was Airlift Northwest, which recorded a \$4.2 million operation loss due to lower than anticipated volumes. UW Physicians Network recorded an operating loss of \$4.6 million, consistent with the budgeted loss for the network.
- The fund balance for the School of Medicine increased by 7.7%, reflecting growth in endowment funds.
- UW Medicine research grew at a 7.1% rate for UW based research grants in FY 2007 compared to FY 2006. NIH awards to all UW Medicine faculty at all sites have grown substantially over the last few years.
- For the second consecutive year, UW Medicine exceeded \$100 million in private support, with \$106 million in gifts and private grants. One hundred percent of School

of Medicine department chairs and leadership from both medical centers contributed during the fiscal year. Campaign totals in gifts and pledges increased by \$229 million, from \$636 million to \$865 million. The total number of donors remained constant at more than 18,000, exceeding all other academic units on campus, and exceeded only by Intercollegiate Athletics and memberships in the UW Alumni Association.

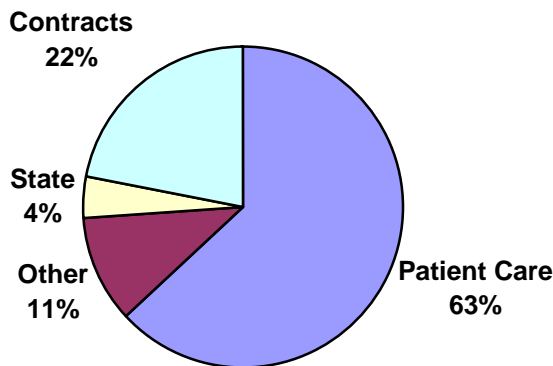
- Approximately 10% of total revenues are transferred between various UW Medicine entities to support the teaching, research and patient care missions of the organization. In FY 2007, this included \$16.5 million from the UWP and CUMG to support the School of Medicine, \$63.5 million from the medical centers to SOM departments to provide faculty and program support, \$30.7 million from the medical centers to the SOM to support resident training, and \$18.2 million from the medical centers, practice plans, and SOM to support the central administrative 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 approximately \$2.16 billion in FY 2007. This represents an increase of approximately 4% compared to FY 2006. The following charts summarize the sources of financial support for UW Medicine.

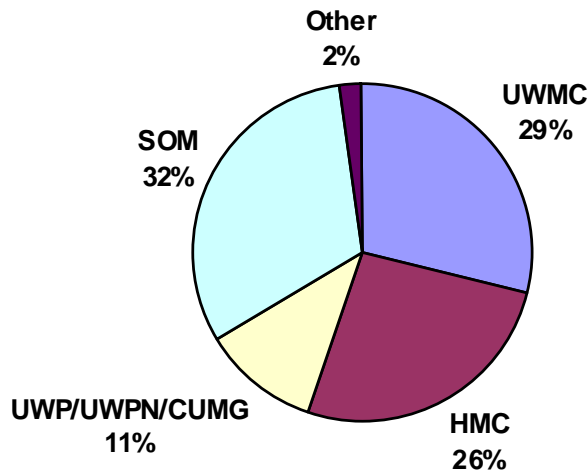
Fiscal Year 2007 – Revenue by source



Total Revenue: \$2.16 billion

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

Fiscal Year 2007– Revenue by entity



Total Revenue: \$2.16 billion

(Other includes Airlift Northwest and the Consolidated Laundry.)

UW Medicine financial support comes predominantly from patient services revenues (63%) and research grants and contracts (22%). The following sections highlight the performance in each of these areas.

PATIENT CARE

The following table summarizes net clinical revenue from patient services provided by UW Medicine medical centers, faculty physicians, and Airlift Northwest in FY 2007. This table does not include research grants and other funds received by the School of Medicine.

UW Medicine Clinical Organization	Net Patient Revenue	
	2006 (audited)	2007 (audited)
Harborview Medical Center	\$ 500,313,000	\$ 531,868,000
UW Medical Center	\$ 552,726,000	\$ 578,267,000
UW Physicians	\$ 154,718,000	\$ 156,273,000
UW Physicians Network	\$ 22,524,000	\$ 22,573,000
Children’s University Medical Group	\$ 39,098,000	\$ 38,597,000
SCCA (outpatient clinic only)*	\$ 137,200,000	\$ 148,400,000
Airlift Northwest	\$ 28,319,000	\$ 28,213,000
Total	\$1,434,898,000	\$1,504,191,000

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

Net income from operations was \$ 28.3 million, or 1.9% of operating revenue. The net operating income included \$6.9 million at Harborview and \$27.6 million at UW Medical

Center. The net income at the medical centers was offset by losses in Airlift Northwest (\$4.2 million) and UW Physicians Network (\$4.6 million).

The following tables provide benchmark comparisons for the medical centers.

Ratio/Indicator	Moody's "A"	UW Medical Center	Harborview Medical Center
Operating margin	3.3%	4.4%	1.2%
Debt service coverage	5.0	5.0	27.0
Days cash on hand	173.1	97.7	60.6
Days in A/R (net)	48.9	60.6	68.8

These comparisons reflect four important points:

- Operating margins at Harborview remain very narrow due primarily to the high percentage of uninsured and under-insured patients served;
- The Harborview debt service coverage 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 uninsured patients; and
- Days in accounts receivable are above benchmark at both medical centers, reflecting the inefficiency of our current hospital billing system.

5-YEAR PERFORMANCE COMPARISON

The patient care activity of UW Medicine remains very strong. The following tables summarize the clinical activity for the owned and managed components of UW Medicine.

Harborview Medical Center

Statistic	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Admissions & short stays	22,252	22,336	22,973	22,439	21,147
Patient Days	125,408	131,355	125,189	129,831	133,345
Outpatient visits	207,833	221,413	221,159	223,916	218,229
Emergency visits	88,081	87,634	79,112	81,073	76,491
Average Length of Stay	7.4 days	6.9 days	6.8 days	6.9 days	7.2 days

UW Medical Center

Statistic	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Admissions & short stays	16,966	17,919	18,086	18,120	18,866
Patient Days	111,688	118,209	118,455	114,542	115,659
Outpatient visits	333,784	350,062	352,927	333,099	327,297
Emergency Visits *	33,892	35,462	35,547	32,838	27,868
Average Length of Stay	6.6 days	6.6 days	6.5 days	6.3 days	6.1 days

* Emergency visit count methodology changed in FY 2007, restated FY 2006 is 27,527

UW Physicians Network

Statistic	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Clinic Visits	225,167	232,458	237,732	227,929	218,561
New Patients	17,970	18,377	16,925	15,784	14,867

Seattle Cancer Care Alliance

Statistic	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Clinic Visits	35,130	38,149	38,774	44,084	43,230
Admissions	365	372	444	455	428

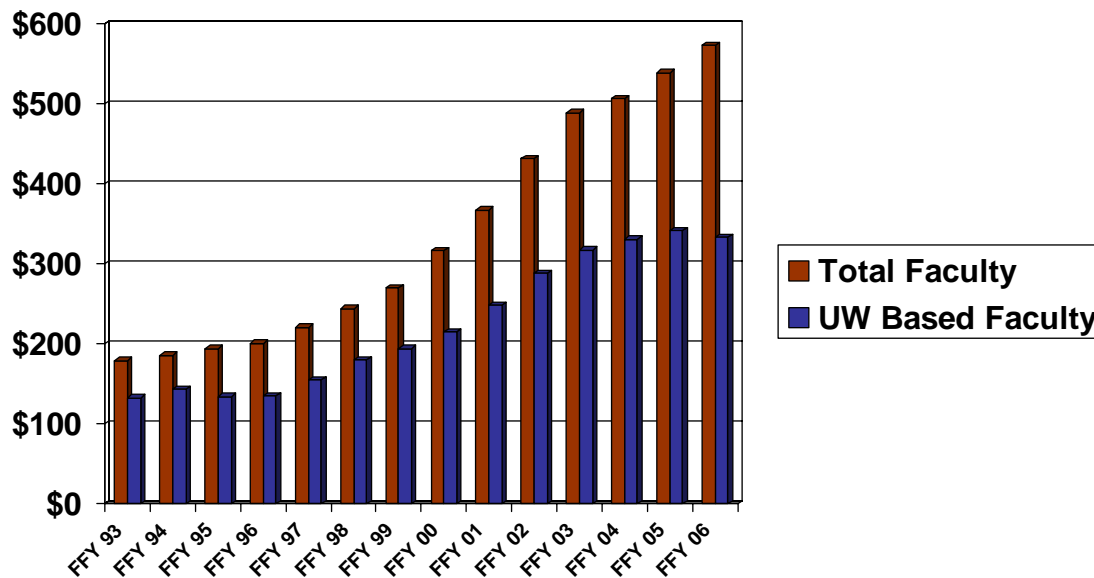
Inpatient admissions are for the SCCA 20 bed unit at UWMC and are included in the UWMC admissions total.

RESEARCH PROGRAMS

UW Medicine research continues to grow. UW School of Medicine awards through the University of Washington totaled \$496 million in FY 07. This was a \$33 million (7.1%) increase over FY 2006.

NIH awards represent almost three-fourths of the total awards received by UW Medicine faculty. The following chart tracks the growth of NIH awards (managed by the UW) to UW Medicine faculty over the past 14 federal fiscal years (year ending September 30).

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



Note: Average annual growth rate: 9.4% for Total Faculty; 7.3% for UW-based faculty.

There were, in federal fiscal year 2006, 1,078 separate NIH awards to 710 Principal Investigators. There are an estimated 1,141 regular and research faculty working on NIH

research grants. In addition to NIH awards managed by the UW, School of Medicine faculty receive NIH awards that are managed by affiliated institutions (e.g., FHCRC, Children's). Total NIH awards to UW Medicine faculty in federal fiscal year 2006 were \$573.2 million, an increase of \$34.5 million (6%) over federal fiscal year 2005. UW Medicine faculty were second in the country among all medical schools, and first among public institutions, in NIH research funding based on FY 2006 awards. The growth in NIH funding to UW School of Medicine faculty over the past five years has exceeded the comparable growth of our peer institutions.

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

Institution	2002 NIH Awards	2006 NIH Awards	% change
Univ. of Washington	\$431.5	\$ 573.2	32.8%
Michigan	\$255.7	\$ 325.5	27.3%
Johns Hopkins	\$372.6	\$ 471.6	26.6%
UCLA	\$340.5	\$ 425.5	24.9%
Harvard	\$957.8	\$1,172.5	22.4%
Yale	\$253.6	\$ 305.1	20.3%
UCSF	\$368.7	\$ 433.8	17.7%
Univ. of Pennsylvania	\$431.4	\$ 485.7	12.6%
Washington Univ.	\$320.4	\$ 360.1	12.4%
Baylor	\$382.8	\$ 419.5	9.6%

LOOKING FORWARD – FY 2008

There have been some significant changes in federal and state health care payment programs in the past year. Medicare inpatient and outpatient hospital payment changes will have a positive impact of about \$3 million each for HMC and UWMC in FY 2008. There will also be an average 1% increase in physician payments, but there is considerable variation around the average, with primary care specialties faring better than procedural specialties. The Washington State Medicaid Program has implemented a new hospital payment system in FY 2008. UW Medicine was concerned with some of the provisions of the new system included in early proposals, but these provisions were eliminated in the final system. Maintaining stability in funding from the Medicare and Medicaid programs and growing the commercially insured segment of our patient population remain areas of focus for UW Medicine's clinical programs.

The FY 2008 budgets for Harborview, UW Medical Center, and UW Physicians are based on increases in the range of 3% to 5% for patient volumes (admissions, outpatient visits, and surgeries), a decrease in the average length of stay per admission to accommodate the growth, and an increase of 4% to 6% in net revenue. Inpatient bed occupancy rates at both medical centers remain very strong. Harborview averaged 99% occupancy in FY 2007, while UW Medical Center averaged 81%. Successful implementation of the strategic IT systems (ORCA, ADT/Hospital Billing, Lawson Human Resources) are key to achieving UW Medicine's financial goals.

Harborview Medical Center will open the Inpatient Expansion Building in the summer of 2008. The building will add eight operating rooms and fifty beds (net) to meet the growing regional demand for service. The new facility will add to the operating costs of the medical center. Harborview has initiated a major effort to transform the care model to ensure that the new and existing facilities are operated in the most efficient manner consistent with excellent patient care.

The NIH budget remains flat, however as noted above, overall awards to the University for UW Medicine faculty increased in FY 2007, and NIH awards to all UW Medicine faculty continue to show strong growth. UW Medicine has taken several important steps to broaden and strengthen the research base, including the creation of the Department of Global Health, the Institute for Health Metrics and Evaluation, and the Institute for Stem Cell and Regenerative Medicine. These programs enhance our ability to attract public and private support for UW Medicine's research activities.

The combination of planned growth and the cost of supporting the teaching, research, and safety net missions of UW Medicine place significant demands on the organization's ability to form and deploy capital. In FY 2008, UW Medicine will undertake a comprehensive strategic planning exercise to define the growth requirements and priorities, the program and financial requirements to achieve the desired growth, and inform our future resource allocation decisions.