

VII. STANDING COMMITTEES

A. Academic & Student Affairs

In Joint Session With

B. Finance, Audit and Facilities Committee

UW Medicine Board Financial Report

See attached information.



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

OCTOBER 16, 2008



OVERVIEW AND EXECUTIVE SUMMARY

UW Medicine financial results in FY 2008 remain stable. The clinical programs recorded continued growth and positive financial performance. Research funding in UW Medicine increased despite the flat growth in the NIH budget nationally. 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 2008 include:

- The balance sheet for UW Medicine's clinical programs remains stable. Cash increased, but remains the weak spot on the balance sheet. Debt ratios, however, remain very strong due to the relatively low level of debt at the medical centers.
- Harborview completed construction of the Maleng Inpatient Building, adding 50 beds and 8 operating rooms. This will result in a substantial increase in depreciation in FY 2009.
- The second phase of UW Medicine at Lake Union opened, adding 200,000 square feet of wet lab research space and 100,000 square feet of administrative and dry lab space.
- UW Medical Center and Harborview outperformed budget due to strong volumes, improved reimbursement, high case mix, and control of operating expenses. Actual operating margins were \$27.7 million (4.1%) at UW Medical Center and \$16.3 million (2.6%) at Harborview.
- UW Medicine provided over \$150 million of charity care as measured by foregone charges, with Harborview Medical Center accounting for 80% of this amount. Based

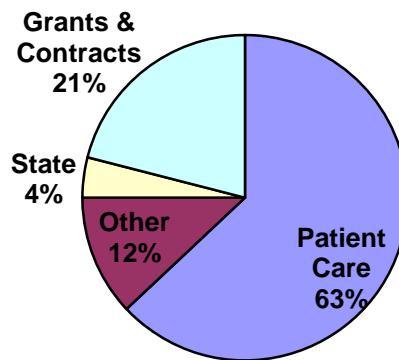
- Both medical centers recorded significant reductions in days outstanding in accounts receivable, reflecting improvements in revenue cycle management.
- UWP cash receipts exceeded budget by \$5.9 million (3%). Cash per unit of output (relative value units or RVU's) increased by 6.2%, resulting in a comparable increase in support to School of Medicine clinical departments.
- The UW Physicians Network and Airlift Northwest both recorded losses in excess of budget expectations. Rapid process improvement measures were implemented to control expenses and reduce ongoing losses including the closure of the Auburn UWPN Clinic and consolidation of patient care within the other six clinic sites and the closure of the ALNW Wenatchee and Ketchikan bases, with coverage provided from the Seattle and Juneau bases.
- The fund balance for the School of Medicine increased by 2.3%, reflecting growth in endowment funds.
- UW Medicine research grew by \$26 million (5.2%) for UW-based research grants in FY 2008 compared to FY 2007. NIH awards to all UW Medicine faculty at all sites have grown substantially over the last few years, and the rate of growth has exceeded that of all of the other top 10 United States research institutions.
- UW Medicine exceeded its capital campaign goal of \$1 billion. Campaign totals in gifts and pledges increased by \$177 million, from \$866 million to \$1,040 million. The total number of donors remained constant at more than 18,000, exceeded on campus only by Intercollegiate Athletics and memberships in the UW Alumni Association.
- Approximately \$450 million of total revenues are transferred between various UW Medicine entities to support the teaching, research and patient care activities of the organization. In FY 2008, this included \$175 million from the UWP and CUMG to support the School of Medicine faculty salaries, clinical department operations, and the Dean's office, \$82 million from the medical centers to SOM clinical departments to provide faculty and program support, \$37 million from the medical centers to the SOM to support resident training, 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 \$2.4 billion in FY 2008. This represents an increase of approximately 11% compared to FY 2007. The following charts summarize the sources of financial support for UW Medicine. Over the last five years (FY 2003-2008), 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 federal budget and a very competitive local health care market.

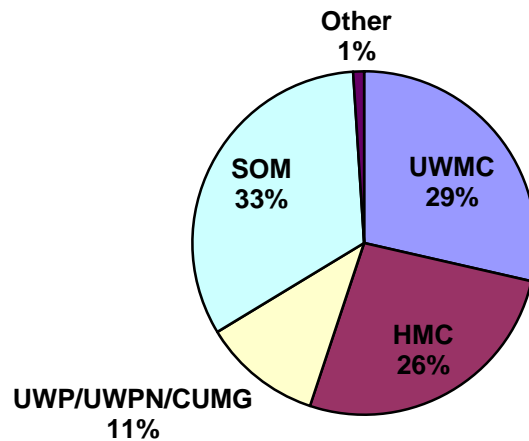
Fiscal Year 2008 – Revenue by source



Total Revenue: \$2.4 billion

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

Fiscal Year 2008 – Revenue by entity



Total Revenue: \$ 2.4 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 net clinical revenue from patient services provided by UW Medicine medical centers, faculty physicians, and Airlift Northwest in FY 2007 and FY 2008. This table does not include research grants and other funds received by the School of Medicine.

| UW Medicine Clinical Organization | Net Patient Revenue (000's) | |
|-------------------------------------|-----------------------------|--------------------|
| | 2008 (unaudited) | 2007 (audited) |
| Harborview Medical Center | \$ 588,194 | \$ 531,868 |
| UW Medical Center | \$ 638,934 | \$ 578,267 |
| UW Physicians | \$ 160,721 | \$ 156,273 |
| UW Physicians Network | \$ 22,514 | \$ 22,573 |
| Children's University Medical Group | \$ 47,151 | \$ 38,597 |
| SCCA (outpatient clinic only)* | \$ 165,246 | \$ 148,400 |
| Airlift Northwest | \$ 31,946 | \$ 28,213 |
| Total | \$1, 654,706 | \$1,504,191 |

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

Net income from operations for FY 2008 was \$69.8 million, or 4.3% of operating revenue. The net operating income included \$16.3 million at Harborview, \$27.7 million at UW Medical Center, and \$33.5 million at UWP and CUMG prior to distributions to the School of Medicine. The net income was offset by operating losses in Airlift Northwest (\$4.1 million) and UW Physicians Network (\$5.9 million). All of the net

income generated by UWP and CUMG is distributed to the School of Medicine departments and Dean's office.

The following tables provide benchmark comparisons for the medical centers.

| Ratio/Indicator | Moody's "A" | UW Medical Center | Harborview Medical Center |
|--------------------------|--------------------|--------------------------|----------------------------------|
| Operating margin | 2.6% | 4.1% | 2.6% |
| Debt to capitalization | 35.3% | 19.4% | 1.3% |
| Days cash on hand | 180 | 105.9 | 105.1 |
| Days in A/R (net) | 50.1 | 53.7 | 62.3 |

These comparisons reflect four important points:

- Operating margins at Harborview are affected by the high percentage of uninsured and under-insured patients served;
- 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 above benchmark but improved by 10% at both medical centers during FY 2008 as we prepare for the conversion of the hospital billing system.

5-YEAR PERFORMANCE COMPARISON

The patient care activity of UW Medicine remains very strong and stable, with the exception of UWPN where physician turnover has resulted in significant 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.

Harborview Medical Center

| Statistic | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Admissions & short stays | 22,336 | 22,973 | 22,439 | 21,147 | 21,764 |
| Patient Days | 131,355 | 125,189 | 129,831 | 133,345 | 136,662 |
| Outpatient visits | 221,413 | 221,159 | 223,916 | 218,229 | 230,315 |
| Emergency visits | 87,634 | 79,112 | 81,073 | 76,491 | 68,987 |
| Average Length of Stay | 6.9 days | 6.8 days | 6.9 days | 7.2 days | 7.4 days |

UW Medical Center

| Statistic | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|------------------------|----------------|----------------|----------------|----------------|----------------|
| Admissions | 17,919 | 18,086 | 18,120 | 18,866 | 18,993 |
| Patient Days | 118,209 | 118,455 | 114,542 | 115,659 | 115,270 |
| Outpatient visits | 350,062 | 352,927 | 333,099 | 327,297 | 324,812 |
| Emergency Visits * | 35,462 | 35,547 | 32,838 | 27,868 | 29,038 |
| Average Length of Stay | 6.6 days | 6.5 days | 6.3 days | 6.1 days | 6.1 days |

* Emergency visit count methodology changed in FY 2007

UW Physicians Network

| Statistic | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---------------|---------|---------|---------|---------|---------|
| Clinic Visits | 232,458 | 237,732 | 227,929 | 218,561 | 201,645 |
| New Patients | 18,377 | 16,925 | 15,784 | 14,867 | 11,768 |

Seattle Cancer Care Alliance

| Statistic | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---------------|---------|---------|---------|---------|---------|
| Clinic Visits | 38,149 | 38,774 | 44,084 | 43,230 | 48,928 |
| Admissions | 372 | 444 | 455 | 428 | 573 |

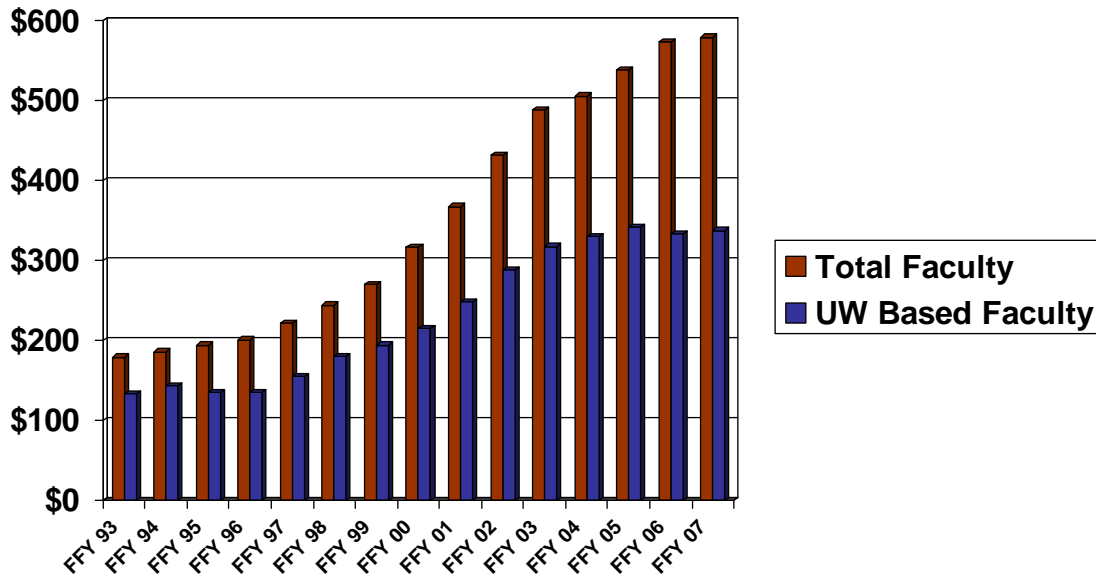
Inpatient admissions are for the SCCA 20 bed unit at UWMC and are included in the UWMC admissions total.

RESEARCH PROGRAMS

UW Medicine research continues to grow. UW School of Medicine awards through the University of Washington totaled \$522 million in FY 08. This was a \$26 million (5.24%) increase over FY 2007.

NIH awards represent almost three-fourths of the total 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 (year ending September 30).

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



Note: Average annual growth rate: 8.6% for Total Faculty; 6.9% for UW-based faculty.

There were, in federal fiscal year 2007, 797 separate NIH awards to 526 UWSOM-based Principal Investigators. There are an estimated 795 regular and research faculty working on NIH research grants made to UW-based School of Medicine 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., FHCRC, Children's). Total NIH awards to UW Medicine faculty in federal fiscal year 2007 were \$579.7 million, an increase of \$6.4 million (1%) over federal fiscal year 2006. 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 2007 awards. The growth in NIH funding to UW School of Medicine faculty over the past six years has significantly exceeded the comparable growth of our peer institutions.

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

| Institution | 2002 NIH Awards | 2007 NIH Awards | % change |
|----------------------------|-----------------|-----------------|--------------|
| Univ. of Washington | \$431.5 | \$ 579.7 | 34.3% |
| Yale | \$253.6 | \$ 320.2 | 26.3% |
| UCLA | \$340.5 | \$ 426.7 | 25.3% |
| Michigan | \$255.7 | \$ 320.2 | 25.2% |
| Harvard | \$957.8 | \$1178.5 | 23.0% |
| Johns Hopkins | \$372.6 | \$ 450.8 | 21.0% |
| UCSF | \$368.7 | \$ 442.7 | 20.1% |
| Univ. of Pennsylvania | \$431.4 | \$ 486.8 | 12.8% |
| Washington Univ. | \$320.4 | \$ 347.0 | 8.3% |
| Baylor | \$382.8 | \$ 413.1 | 7.9% |

UW Medicine's comparative success 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 Portage Bay campus, and the increased emphasis on 21st century science such as genomics, proteomics, regenerative medicine, and global health research.

LOOKING FORWARD – FY 2009

Fiscal year 2009 will see major elections at the national and state levels, a major biennial budget session in the Washington legislature, and more local impacts of the economic downturn. UW Medicine is firmly committed to our mission of improving the health of the public, and we will continue to advance our mission by striving for excellence in our teaching, research, and patient care activities. The following paragraphs highlight several of the key activities that will mark FY 2009.

Strategic planning. UW Medicine has launched a major strategic planning project that will conclude in the Spring of 2009. The planning effort will address all three academic activities that support our mission to improve the health of the public – clinical care, teaching, and research.

Harborview expansion. Harborview completed the Maleng Building inpatient expansion in June 2008, adding 50 inpatient beds and 8 operating rooms. The expansion will provide some much-needed relief to the very high occupancy levels at Harborview. Over the past two fiscal years, Harborview has averaged 100% occupancy. The “Ninth and Jefferson” building (NJB) will open in FY 2009, providing a substantial increase in outpatient clinics, administrative, teaching, and research space on the Harborview campus. The NJB will house several innovative programs including the UW Medicine Eye Institute and programs for the Department of Global Health.

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

Legislative session. UW Medicine has three major priorities for the 2009-11 state budget.

- \$6 million in increased support for the health professional teaching programs at UWMC and Harborview, increasing annual support for each hospital from \$8 million to \$10 million in the second year of the 2009-11 biennium;
- \$4.5 million in increased support for the operations and maintenance costs of research facilities, increasing annual support from \$2.4 million to \$6.9 million; and
- \$2.0 million in support of the Institute for Health Metrics and Evaluation’s work to identify the interventions having the greatest impact on the health of communities in the US.

General economy. The slow down in the US and Washington state economy raises several key concerns for UW Medicine.

- The increase in the number of uninsured and underinsured patients results in increased pressure on the payer mix of public institutions such as UWMC and Harborview. This challenge, coupled with pressure from public and private insurers to limit, avoid, or defer rate increases, will result in pressure on the operating margins of our medical centers and practice plans.
- Federal budget pressures continue to limit increases in overall NIH funding levels, intensifying competition for new grant awards and limiting increases in budget levels for existing and renewed grants.
- The economic pressures on practicing physicians makes it more difficult to achieve our goals of increasing the number of primary care physicians and the number of physicians practicing in rural and underserved communities throughout the WWAMI region.

UW Medicine

**Consolidated financial statements
Fiscal Year Ended June 30, 2008
(unaudited)**

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

UW Medicine

Financial statement highlights

- The financial statements reflect building projects and IT investments at the medical centers, significant reductions in accounts receivable, and favorable operating performance at the medical centers and practice plans
- There were operating losses in excess of budget at UWPN and AirLift NW, and non-operating losses on investments at UWP and HMC
- The balance sheet reflects a continuation of strong debt ratios, solid operating performance relative to the Moody's benchmarks; cash on hand is the one element of the balance sheet that remains below Moody's benchmark for A-rated hospitals
- School of Medicine reserve balances declined due to unrealized losses on invested funds and departmental draws to meet operating expenses

| <u>Assets:</u> | <u>6/30/2007</u> | <u>6/30/2008</u> |
|---|----------------------------|----------------------------|
| Cash and Investments | \$ 448,397 | \$ 455,195 |
| Other Current Assets | 297,000 | 292,724 |
| Property Plant and Equipment | 665,766 | 721,356 |
| Other Assets | 127,008 | 110,049 |
| Total Unrestricted Fund Assets | <u>\$ 1,538,170</u> | <u>\$ 1,579,325</u> |
| | | |
| <u>Liabilities and Fund Balance:</u> | | |
| Current Liabilities | \$ 380,404 | \$ 378,853 |
| Other Liabilities | 5,287 | 5,374 |
| Long Term Debt (Net of Current Portion) | 113,911 | 101,387 |
| Fund Balance | 1,038,569 | 1,093,711 |
| Total Unrestricted Fund Liabilities & Fund Balances | <u>\$ 1,538,170</u> | <u>\$ 1,579,324</u> |

➤ **Cash & Investments increase \$7 million**

- ALNW decrease \$6 million due to operating losses
- UWMC increase \$31 million from due to reductions in accounts receivable, and slower capital expenditures
- UWP decrease \$14 million due to investment losses and departments' use of reserves

➤ **Current Assets decrease \$4 million**

- HMC decrease \$5 million due to decrease in other receivables

➤ **Plant and Equipment increase \$106 million (net of retirements)**

- HMC increase \$76 million due to building construction and equipment
- UWMC increase \$27 million due to design costs for the expansion, radiation oncology equipment, remodeling, other equipment, and IT costs

- **Other Assets decrease \$17 million**
 - HMC decrease \$22 million due to decrease in restricted funds used for hospital expansion and ALNW investment loss

- **Current Liabilities decrease \$2 million**
 - HMC increase \$10 million due to construction payables and accounts payable
 - UWP decrease \$14 million due to decrease in the market value of investment, and departments' uses of funds

- **Long term debt decrease \$13 million**
 - UWMC decrease \$11 million due to bond principle and capital lease payments

- **Fund Balance increase \$55 million**
 - ALNW decrease \$3 million due to loss
 - HMC increase \$23 million due to net income and fund balance transfer
 - UWMC increase \$36 million due to net income

| | <u>Actual YTD</u> | <u>Budget YTD</u> |
|---|-------------------|-------------------|
| <u>Revenue:</u> | | |
| Patient Service Revenue | \$ 1,502,736 | \$ 1,422,068 |
| State Appropriation | 16,036 | 15,875 |
| Other Revenue | 105,975 | 99,053 |
| Total Revenues | <u>1,624,747</u> | <u>1,536,995</u> |
| <u>Expenses:</u> | | |
| Salaries, Wages and Benefits | 927,750 | 891,580 |
| Supplies and Other Expenses | 556,551 | 525,112 |
| Depreciation | 65,279 | 66,878 |
| Interest, Insurance and Taxes | 5,330 | 8,351 |
| Total Expenses | <u>1,554,910</u> | <u>1,491,921</u> |
| Income before CMF Assessment & Departmental Distributions | 69,837 | 45,075 |
| CMF Assessments & Departmental Distributions | <u>(33,478)</u> | <u>(30,840)</u> |
| Net Operating Income | 36,359 | 14,234 |
| Nonoperating Gains (Losses) | <u>15,332</u> | <u>15,600</u> |
| Revenues and Gains In Excess of Expense and Losses | <u>\$ 51,691</u> | <u>\$ 29,834</u> |

■ **Income from Operations was \$36,359 actual vs. \$14,234 budget**

| | Actual | Budget |
|------------------|----------------|----------------|
| HMC | 16,326 | (286) |
| UWMC | 27,712 | 19,259 |
| UWPN | (5,880) | (4,605) |
| All Other | (4,734) | (1,117) |

- **HMC – favorable net revenue due to occupancy and favorable payer mix**
- **UWMC – favorable net revenue due to favorable case mix and contractual allowances**
- **UWPN – physician vacancies resulted in lower visit volume**
- **All Others – due to ALNW unfavorable financial performance**

■ **CUMG and UMP income distributed to departments and CMF**

| | <u>Actual</u> | <u>Budget</u> |
|-------------|----------------------|----------------------|
| CUMG | 12,803 | 11,580 |
| UWP | 20,675 | 19,260 |

■ **Non-Operating Gain \$15,332 actual vs. \$15,411 budget**

- **HMC \$(3,420) unfavorable variance due to investment income**
- **UWMC \$3,074 favorable variance due to favorable interest and higher cash balances**

| | |
|--|-------------------------------|
| Net Income | \$ 51,691 |
| Add back depreciation | 65,279 |
| Decrease in current assets | 4,276 |
| Decrease in current liabilities | (1,551) |
| Capital Expenditures | (120,870) |
| Decrease in other assets | 16,958 |
| Decrease in Long Term Debt | (12,523) |
| Increase in other liabilities | 87 |
| Transfers and other changes to fund balance | <u>3,451</u> |
| Net Change in Cash and Investments | <u><u>\$ 6,798</u></u> |

Medical Centers' Benchmark Comparisons

| Ratio/Indicator | Moody's "A" | UW Medical Center | Harborview Medical Center |
|------------------------|-------------|-------------------|---------------------------|
| Net Patient Revenue | \$412 | \$639 | \$588 |
| Operating Margin | 2.6% | 4.1% | 2.6% |
| Excess Margin | 5.6% | 5.3% | 3.0% |
| Debt Service Coverage | 4.9 | 4.9 | 38.4 |
| Debt to Cash Flow | 3.2 | 1.4 | 0.2 |
| Debt to Capitalization | 35.3% | 19.4% | 1.3% |
| Days Cash on Hand | 180.0 | 105.9 | 105.1 |
| Cash to Debt | 133.9% | 175.3% | 2168.2% |
| Days in A/R (Net) | 50.1 | 53.7 | 62.3 |

UWP Benchmark* Comparisons

| Ratio/Indicator | Comparison Group | UWP |
|-----------------------------------|------------------|-------|
| Gross Charges (\$M) | 436.9 | 442.3 |
| Net Collection Rate | 92.3% | 92.2% |
| Days in AR | 48 | 41 |
| AR > 180 days | 13.4% | 5.8% |
| Denial Rate | 9.8% | 9.0% |
| Commercial payer % | 45.1% | 47.7% |
| Credit balances as % of AR | 3.7% | 4.0% |
| Medicaid % of payer mix | 12.0% | 16.8% |
| Medicare % of payer mix | 24.6% | 22.2% |
| Payment rate to collection agency | 21.1% | 23.0% |

* Benchmark group is 15 similarly sized practice plans.

Definitions:

State funds: State appropriated funds 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 any 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.

| | FY07 | FY08 |
|--|-----------------------|-----------------------|
| | <u>6/30/07</u> | <u>6/30/08</u> |
| Revenues | 844,139 | 947,427 |
| Expenditures | 814,484 | 937,849 |
| Revenues in excess of expenditures | 29,655 | 9,578 |
| Beginning fund balance | 378,530 | 408,185 |
| Ending fund balance | 408,185 | 417,763 |
| Unexpended grant and contract revenue | <u>394,108</u> | <u>372,601</u> |

| | FY07 | FY08 | |
|--|-----------------------|-----------------------|--|
| | <u>6/30/07</u> | <u>6/30/08</u> | |
| State funds (Note 1) | 63,970 | 71,639 | |
| Off Campus Facilities ICR/RCR (Note 2) | 27,327 | 30,266 | |
| Endowment Income & Gifts: | | | |
| Restricted | 32,049 | 33,923 | |
| Unrestricted | 6,609 | 10,343 | |
| Self-Sustaining (Note 3) | 95,363 | 113,921 | |
| Clearing & Other | 60,571 | 63,196 | |
| Research & Training (Note 4) | 79,509 | 88,524 | |
| Grants & Contracts (Note 5) | 465,844 | 505,774 | |
| Endowment Principal (at cost) (Note 6) | 12,897 | 29,841 | |
| | | | |
| | | | |
| Total Revenue | <u>844,139</u> | <u>947,427</u> | |
| | | | |
| See notes on next page | | | |
| | | | |

Notes to revenue detail for the years ended 6/30/07 and 6/30/08:

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 carryforward 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 carryforward 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: Self-sustaining revenue increase due mainly to timing of receipts. UW accounting system is cash basis; revenue is recognized when received.

Note 4: Research & Training 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 5: Grants and contract revenue is recognized to the extent of expenditures, and expenditures are higher in year-to-date FY08 over FY07.

Note 6: Additions to endowment principal increased FY08 over FY07 due to increased donor activity.

| | FY07 | FY08 |
|------------------------------------|-----------------------|-----------------------|
| | <u>6/30/07</u> | <u>6/30/08</u> |
| Salary/benefits (Note 1) | 493,411 | 545,005 |
| Supplies and other exp | 223,579 | 276,476 |
| Equipment | 19,914 | 18,319 |
| Grants/stipends | 13,062 | 13,998 |
| Debt redemption (Note 2) | 3,276 | 3,240 |
| Indirect cost (Note 3) | 97,976 | 105,078 |
| Cost transfers (Note 4) | (36,734) | (24,267) |
| | | |
| | | |
| Total Expenditures (Note 5) | <u>814,484</u> | <u>937,849</u> |

Notes:

Note 1: Salary/benefits increase includes ramp-up of Global Health Department activities.

Note 2: Variance from FY07 to FY08 due to timing of debt service payments.

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: FY08 decrease from FY07 due to change in coding of resident program reimbursements (mainly salary).

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.

| | FY07 | % of | FY08 | % of |
|--|-----------------------|---------------------|-----------------------|---------------------|
| | <u>6/30/07</u> | <u>Total</u> | <u>6/30/08</u> | <u>Total</u> |
| State funds (Note 1) | 0 | | 0 | |
| Off Campus Facilities ICR/RCR (Note 2) | 0 | 0% | 0 | 0% |
| Endowment Income & Gifts: | | | | |
| Restricted | 83,741 | | 82,179 | |
| Unrestricted | 14,834 | | 15,969 | |
| Total Endowment Income & Gifts | 98,575 | 24% | 98,148 | 23% |
| Self-Sustaining (Note 3) | 20,509 | | 13,807 | |
| Clearing & Other | (53) | | (653) | |
| Research & Training (Note 4) | 26,527 | 6% | 13,994 | 3% |
| Subtotal | 145,558 | 36% | 125,296 | 30% |
| Grants & Contracts (Note 5) | 0 | | 0 | |
| Endowment Principal (at cost) (Note 6) | 262,627 | 64% | 292,467 | 70% |
| Ending Fund Balance | <u>408,185</u> | 100% | <u>417,763</u> | 100% |
| See notes on next page | | | | |

Notes to ending fund balance as of 6/30/07 and 6/30/08:

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 carryforward of unspent balances from biennium to biennium on a limited basis. Revenues are recognized to the extent of expenditures for each reporting period.

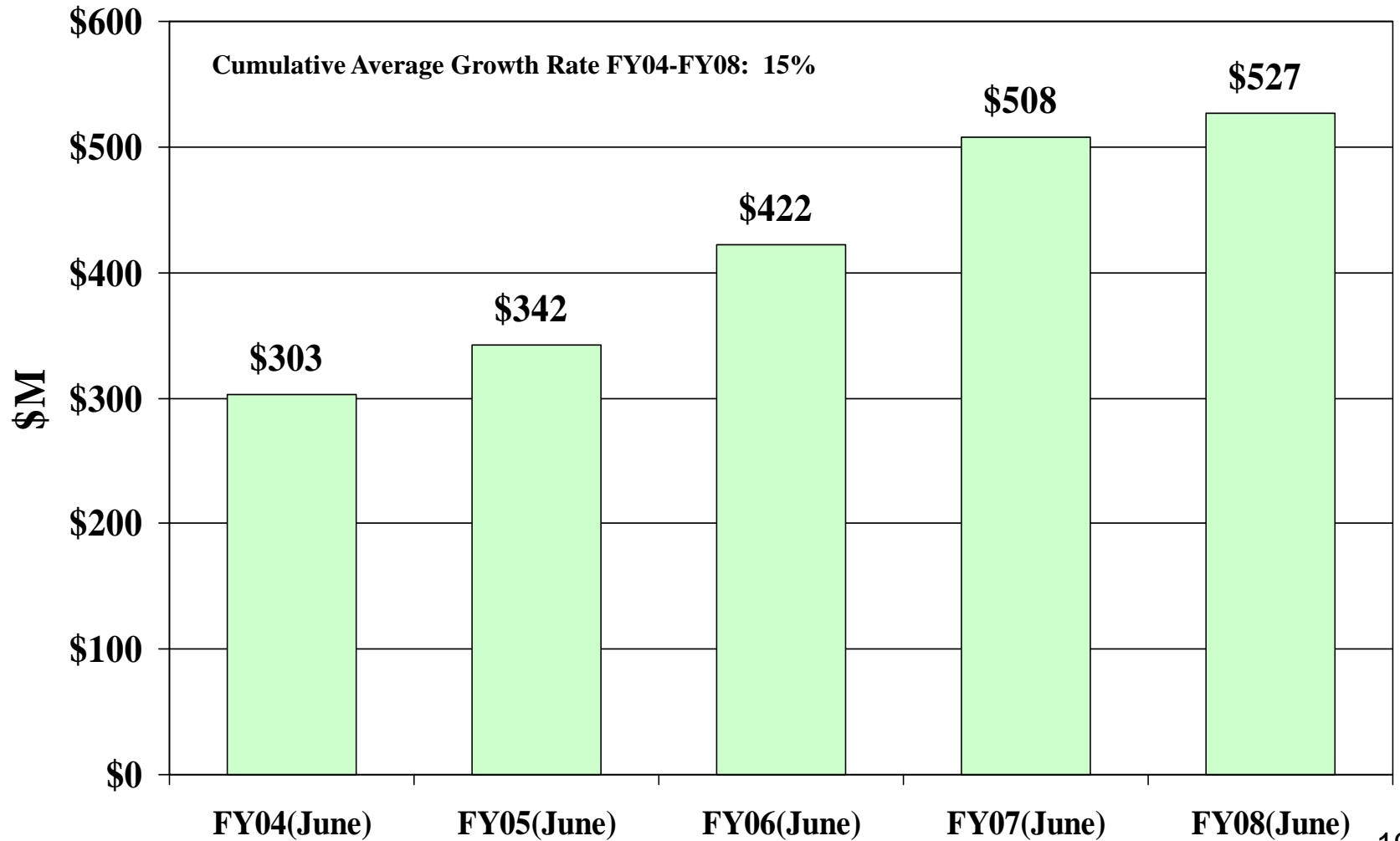
Note 2: ICR/RCR revenues are recognized to the extent of expenditures for each reporting period. University policy allows carryforward of unspent funds to the next year. Unspent funds are rolled forward as 'available to spend' in current year, and revenue will be recognized as expenditures are made.

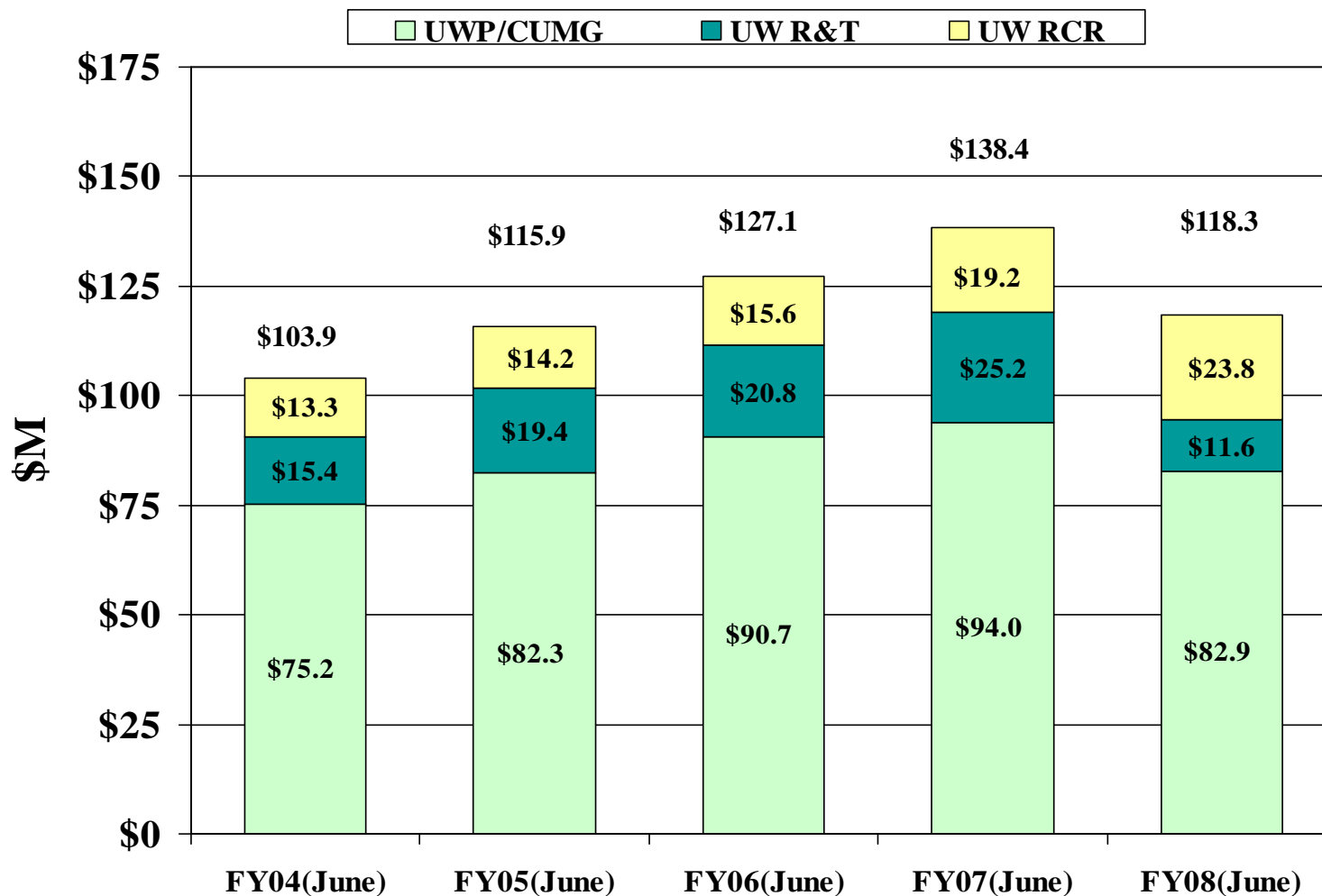
Note 3: Self-sustaining ending fund balance decrease is due to use of equipment reserve funds (Comp Med) and timing of reimbursements. The ending fund balance reflects revenues on a cash basis and does not include receivables from programs such as resident and ITECH.

Note 4: 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 in ending fund balance from FY07 to FY08 was a planned re-allocation of Dean's Office fund balance between the UW and the CMF reserve held at UWP.

Note 5: 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 \$394M at 6/30/07 and \$373M at 6/30/08.

Note 6: Market value of endowments is \$508M at 6/30/07 and \$527M at 6/30/08. The increase includes additions to endowments as well as investment earnings.





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. FY08 ending fund balance is preliminary. It includes the effect of \$4.2M investment loss, and does not include the 6/30/08 incentive pay-out. This report will be updated when final numbers are available.
2. 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. Decrease in FY04 due to settlement costs. FY08 balance includes the effect of planned transfer of Dean's Office funds to UWP. A/R from hospitals not recorded.
3. UW RCR: Prior period fund balances may change due to the biennial nature of the UW accounting system (the changes are not material).