STANDING COMMITTEES

Finance and Asset Management Committee

UW Medicine Board Annual Financial Report

INFORMATION

This item is for information only

BACKGROUND

UW Medicine Board’s Annual Financial Report is one of four annual reports UW Medicine provides to the Board of Regents. UW Medicine last reported to the Finance and Asset Management Committee on financials in November, 2015.

Attachment
UW Medicine Annual Financial Report
EXECUTIVE SUMMARY

FY 2016 was another successful year for UW Medicine. This is due to the efforts and commitment of approximately 30,000 talented staff, faculty, students, trainees and volunteers. Consistent with the goals established for the year, UW Medicine focused on fulfilling its mission of improving the health of the public by leading as an Accountable Care Organization, delivering world class clinical care, research, education and training, continuing to implement its evolving strategic plan and achieving the UW Medicine Patients Are First pillar goals.

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

As part of its strategic plan, UW Medicine formed the UW Medicine Accountable Care Network (ACN) in 2014 to position itself as a leader in the evolving market. In January 2015, the UW Medicine ACN began providing services to certain Boeing employees and their families as part of a preferred partnership arrangement, with initial enrollment surpassing Boeing’s expectations. The second performance year of the Boeing contract saw enrollment increases of approximately 13 percent across the UW Medicine ACN. The UW Medicine ACN was also selected as one of two Accountable Care Programs (ACPs) for state employees in five counties in the Puget Sound area and began providing care and services under that arrangement in January 2016. UW Medicine also entered into an arrangement with a major payer that allows for risk sharing when enrollment reaches a certain threshold. These accountable care arrangements provide an opportunity for UW Medicine to lead the way in transforming care and services. The UW Medicine ACN was the only network selected to participate in all three of these innovative new programs. Demonstrating our ability to provide improvements in value by effectively managing costs and utilization while continuing to improve quality of care, patient safety, satisfaction and access to care remains a top priority. It is anticipated that the market will continue to change and evolve over the next year, creating downward pressure on reimbursement and a continued shift of volumes from the inpatient setting to the outpatient setting.

Consistent with national and regional trends, UW Medicine has experienced slower growth of inpatient admission volumes over the past few years while at the same time showing an increase in patient acuity and strong growth in the inpatient observation and outpatient clinic areas. The focus for future growth in inpatient volumes is targeted to key core service lines. Outpatient volumes are expected to increase because advances in technology and changes in reimbursement are rapidly moving more of the traditional inpatient care to outpatient services. UW Medicine has continued to prioritize growth in the ambulatory setting through further development of the UW Neighborhood Clinics, which expanded from ten to twelve clinics throughout the region during FY 2016, along with clinic growth at both Northwest Hospital & Medical Center (NWH) and Valley Medical Center (VMC).

UW Medicine continues to be an international leader in medical research. UW Medicine faculty were once again in the top two in the country among all medical schools and first among public medical schools in National Institutes of Health (NIH) research funding based on federal FY 2015 awards. The UW School of Medicine was again ranked #2 among all medical schools in the world in a prestigious international study from Shanghai.

The financial results for FY 2016 total combined UW Medicine revenue was approximately $4.6 billion: $3.3 billion related to the medical centers, clinics and professional billing and $1.3 billion related to the School of Medicine. This represents a 5 percent increase compared to FY 2015. Total income for UW Medicine was a loss of $18 million, yielding a zero percent margin. This compares unfavorably to budgeted total income of $11.0 million and a 0.2 percent total margin. The primary drivers of the performance related to higher than anticipated labor costs at University of Washington Medical Center (UWMC) that were incurred to bring three floors of additional bed capacity online in the Montlake Tower.
EXECUTIVE SUMMARY, continued

NWH also experienced less patient volume growth than planned and that contributed to its performance. Factors influencing results of the individual entities are discussed in the financial highlights section.

The combined balance sheet for UW Medicine remained stable with unrestricted cash and investments of $1.2 billion at June 30, 2016, an increase of $44.8 million over the prior year.

FINANCIAL HIGHLIGHTS FOR FY 2016

UNIVERSITY OF WASHINGTON MEDICAL CENTER (UWMC)

University of Washington Medical Center recorded operating revenues of $1.1 billion in FY 2016, an increase of 4.8 percent over the prior year. UWMC reported total net loss of $(27.7) million, or (2.4) percent of operating revenue. The net loss was below budget by $38.8 million. UWMC experienced challenges financially in FY 2016 associated with declining commercial payer mix coupled with opening of significant components of Phase 2 of the Montlake Tower. The opening of the new capacity required significant upfront recruiting and training costs to open new operating rooms, two new ICU units, an additional 31 bed acute care unit, and a new transfusion lab. The nursing shortage in the marketplace contributed to the unanticipated labor costs. Leadership continues to prioritize the financial improvement of UWMC through focused work on staffing efficiencies, revenue cycle improvements and other non-labor expense opportunities.

Additional components of Phase 2 of the Montlake Tower expansion project remain under construction including the preparation, hold and recovery areas, additional operating rooms, and patient waiting areas. The project has been segmented into phases to ensure financial feasibility and continues to be evaluated. The project is scheduled to be completed in April of 2018.

HARBORVIEW MEDICAL CENTER (HMC)

Harborview Medical Center recorded operating revenues of $964.3 million in FY 2016, an increase of 3.7 percent over the prior year. HMC reported total net income of $17.0 million, or 1.8 percent of operating revenue. Net income exceeded budget by $12.4 million. The net gain can primarily be attributed to higher inpatient acuity and increased outpatient volumes in the operating and procedure rooms, specialty clinics and pharmacy. Other factors contributing to the positive financial results include focused management of expenses and successful process improvement initiatives in the areas of revenue cycle and supply chain management.

NORTHWEST HOSPITAL & MEDICAL CENTER (NWH)

Northwest Hospital & Medical Center recorded operating revenues of $372.8 million in FY 2016, an increase of 4.4 percent over the prior year. NWH reported a total net loss of $(4.5) million, or (1.2) percent of operating revenue. Net income was below budget by $4.5 million. NWH continued to focus on building infrastructure and expanding its ambulatory network to position the medical center for growth in FY 2016 and beyond, resulting in higher volumes compared to FY 2015. However, a change in payer mix, lower-than-budgeted inpatient volumes and a continued need to invest in infrastructure resulted in the negative variation from budget for the year.

Key strategic initiatives included the expansion of specialty services in Ballard, Cardiology and Joint Care co-located in the Sports Medicine Clinic and OB/GYN being located in the Ballard UW Neighborhood Clinic. In addition, the medical center continues to recruit key physicians in orthopedics, general surgery, primary care, urology and obstetrics and gynecology. NWH successfully replaced its antiquated hospital billing and registration system with EPIC. NWH is now on the UW Medicine EPIC platform used throughout our medical centers and ambulatory clinics. NWH saw no degradation in billing and collections during this very significant transition. NWH continues to have a critical need for campus infrastructure upgrades to replace aging inpatient care facilities that are no longer efficient to operate nor competitive in the market. This will be a major area of focus in FY 2017 and beyond.
FINANCIAL HIGHLIGHTS FOR FY 2016, continued

VALLEY MEDICAL CENTER (VMC)
Valley Medical Center recorded operating revenues of $550.3 million in FY 2016, an increase of 6.1 percent over the prior year. VMC slightly exceeded budget with a total net income of $11.5 million, or 2.1 percent of operating revenue. The revenue increase was primarily the result of continued growth in clinic and outpatient hospital services as well as a reduction in uninsured patients through Medicaid expansion. VMC continued to expand its primary care network, increasing capacity in the Renton Highlands and Fairwood clinics, as well as the North Benson urgent care clinic, and opened a new, expanded state-of-the-art neuro-sciences clinic with 14 neurologists, all of which further positions VMC for healthcare reform. VMC has on-boarded 90 new physicians/advanced practitioners in the key areas of neurology, stroke, primary care and obstetrics during the past two years. VMC also launched the biggest on-campus ambulatory expansion in its history. VMC continues to focus on management of expenses, patient access through electronic direct scheduling and online bill pay, and patient safety by successfully achieving the highest electronic medical record level for utilization (HIMSS Stage 7).

UW NEIGHBORHOOD CLINICS (UWNC)
UW Neighborhood Clinics reported operating revenue of $14.8 million, a decrease of 7.4 percent over the prior year. UWNC reported a total net loss of $(1.7) million. The net loss exceeded the budget by $0.4 million. The majority of the variance was due to the addition of two new primary care clinics, Smokey Point and Olympia, which due to timing were not included in the budget.

UNIVERSITY OF WASHINGTON PHYSICIANS (UWP)
UW Physicians’ FY 2016 operating revenues were $234.7 million, an increase of 14.7 percent over FY 2015. UWP generated income of $48.2 million before transfers to departments in support of physician funding and departmental operations. Greater-than-anticipated patient volumes drove positive variances. Net billing fees increased $30.0 million over FY 2015. This increase was primarily associated with an 8 percent increase in volumes (as measured in relative value units). Net funds generated from UWP operations are transferred to the clinical departments of the School of Medicine to support operations.

AIRLIFT NORTHWEST (ALNW)
Airlift Northwest recorded operating revenues of $48.9 million in FY 2016, an increase of 1.6 percent over the prior year. ALNW reported total net income of $7.0 million, or 14 percent of operating revenue. Net income exceeded budget by $3.0 million. Flight volumes at ALNW exceeded budget by 3 percent for the year. ALNW’s strong financial performance is primarily the result of an increase in flight volume and billable mileage, payments from the Airlift Supplemental Service Payment Program, the successful Air Care membership program and continued strong expense management while expanding services in local communities to be closer to our patients.

UW SCHOOL OF MEDICINE
Overall revenue for the UW School of Medicine was $1.3 billion in FY 2016, an increase of 4.8 percent over FY 2015. Expenses exceeded revenues for the year by $19.8 million, which was unfavorable to budget by $1.2 million. Revenues increased by $58.8 million in FY 2016, primarily due to increases in self-sustaining revenue programs, practice plan clinical salary support, and research and training funds. Revenue generated from research activities increased by $1.7 million over FY 2015. UW Medicine faculty generated more than $1 billion of research funding and were responsible for teaching approximately 4,900 students and trainees in FY 2016.

PRIVATE SUPPORT AND GIFTS
In FY 2016, 16,437 generous individuals, foundations and corporations gave $199.5 million to UW Medicine making FY 2016 the most successful fundraising year in UW Medicine’s history. More donors were brought into the UW Medicine family than in any year since FY 2009. UW Medicine raised $50.2 million in gifts, exceeding the UW Medicine goal of $47.0 million by 7%. UW Medicine secured $149.3 million in private grants compared to $123.7 million for FY 2015, a 21% increase. As of June 30, 2016, UW Medicine Advancement has secured $1.03 billion for Accelerate: The Campaign for UW Medicine.
KEY STATISTICS & RESULTS

In FY 2016, UW Medicine revenues were approximately $4.6 billion. This represents an increase of 5 percent compared to FY 2015. The following charts summarize the sources of revenue for UW Medicine. Over the last four years, total UW Medicine revenue has increased at an average rate of 5 percent per year. These increases have occurred in the context of a competitive local healthcare market, reductions in state funding and increased competition for peer reviewed research grant funding. UW Medicine’s largest source of revenue is patient care revenue (67.7 percent).\(^1\)

---

\(^1\) Other operating revenue includes revenue for self-sustaining departments, research and training and federal Meaningful Use payments.
KEY STATISTICS & RESULTS, continued

The following tables summarize combined operating revenue, net income (loss) and charity care for all eight UW Medicine entities for FY 2015 and FY 2016.

<table>
<thead>
<tr>
<th>Operating Revenue ($ in Millions)</th>
<th>FY 2015 (Audited)</th>
<th>FY 2016 (Audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harborview Medical Center</td>
<td>$930</td>
<td>$964</td>
</tr>
<tr>
<td>Northwest Hospital &amp; Medical Center</td>
<td>$357</td>
<td>$373</td>
</tr>
<tr>
<td>UW Medical Center</td>
<td>$1,084</td>
<td>$1,135</td>
</tr>
<tr>
<td>Valley Medical Center</td>
<td>$518</td>
<td>$550</td>
</tr>
<tr>
<td>Airlift Northwest</td>
<td>$48</td>
<td>$49</td>
</tr>
<tr>
<td>UW Neighborhood Clinics*</td>
<td>$16</td>
<td>$15</td>
</tr>
<tr>
<td>UW Physicians</td>
<td>$205</td>
<td>$235</td>
</tr>
<tr>
<td>UW School of Medicine</td>
<td>$1,236</td>
<td>$1,295</td>
</tr>
<tr>
<td><strong>Combined Total UW Medicine</strong></td>
<td><strong>$4,394</strong></td>
<td><strong>$4,616</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Income (Loss) ($ in Millions)</th>
<th>FY 2015 (Audited)</th>
<th>FY 2016 (Audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harborview Medical Center</td>
<td>$36</td>
<td>$17</td>
</tr>
<tr>
<td>Northwest Hospital &amp; Medical Center</td>
<td>($5)</td>
<td>($5)</td>
</tr>
<tr>
<td>UW Medical Center</td>
<td>$27</td>
<td>($27)</td>
</tr>
<tr>
<td>Valley Medical Center</td>
<td>$16</td>
<td>$12</td>
</tr>
<tr>
<td>Airlift Northwest</td>
<td>$9</td>
<td>$7</td>
</tr>
<tr>
<td>UW Neighborhood Clinics*</td>
<td>($2)</td>
<td>($2)</td>
</tr>
<tr>
<td>UW Physicians*</td>
<td>$37</td>
<td>$0</td>
</tr>
<tr>
<td>Less transfers to the clinical departments of the School of Medicine to support operations*</td>
<td>($37)</td>
<td>$0</td>
</tr>
<tr>
<td>UW School of Medicine</td>
<td>$0</td>
<td>($20)</td>
</tr>
<tr>
<td><strong>Combined Total UW Medicine</strong></td>
<td><strong>$81</strong></td>
<td><strong>($18)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Charity Care ($ in Millions)</th>
<th>FY 2015 (Audited)</th>
<th>FY 2016 (Audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harborview Medical Center</td>
<td>$60</td>
<td>$64</td>
</tr>
<tr>
<td>Northwest Hospital &amp; Medical Center</td>
<td>$7</td>
<td>$9</td>
</tr>
<tr>
<td>UW Medical Center</td>
<td>$18</td>
<td>$23</td>
</tr>
<tr>
<td>Valley Medical Center</td>
<td>$9</td>
<td>$7</td>
</tr>
<tr>
<td>Airlift Northwest</td>
<td>$2</td>
<td>$2</td>
</tr>
<tr>
<td>UW Neighborhood Clinics</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>UW Physicians</td>
<td>$12</td>
<td>$13</td>
</tr>
<tr>
<td>UW School of Medicine</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total UW Medicine</strong></td>
<td><strong>$108</strong></td>
<td><strong>$118</strong></td>
</tr>
</tbody>
</table>

*Amounts reclassified for consistency with FY 2016 Audited format
KEY STATISTICS & RESULTS, continued

Total charity care as measured by foregone charges was $118 million, an increase of $10 million over FY 2015. The cost of charity care for FY 2016 was $45 million, compared to $41 million in FY 2015. Charity care has decreased since January 2014 as a result of the Medicaid expansion to previously uninsured patients and implementation of the Healthcare Exchanges. Many previously uninsured patients served by UW Medicine became Medicaid patients in FY 2014 and FY 2015. It should be noted that Medicaid reimbursement for the four medical centers ranges from 74 percent to 90 percent of cost for inpatients and 36 percent to 58 percent for outpatients.

The following table provides comparisons of key financial indicators for the four medical centers for FY 2016.

<table>
<thead>
<tr>
<th>Ratio/Indicator</th>
<th>HMC</th>
<th>NWH</th>
<th>VMC</th>
<th>Moody's Baa</th>
<th>UWMC</th>
<th>Moody's A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash Flow Margin²</td>
<td>8.6%</td>
<td>-0.2%</td>
<td>6.7%</td>
<td>8.7%</td>
<td>5.3%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Debt to Capitalization³</td>
<td>0.1%</td>
<td>48.5%</td>
<td>56.9%</td>
<td>41.4%</td>
<td>39.9%</td>
<td>32.8%</td>
</tr>
<tr>
<td>Days Cash on Hand⁴</td>
<td>125.3</td>
<td>60.3</td>
<td>139.0</td>
<td>161.0</td>
<td>90.3</td>
<td>227.5</td>
</tr>
<tr>
<td>Days in A/R (Net)⁵</td>
<td>60.0</td>
<td>42.2</td>
<td>48.4</td>
<td>47.4</td>
<td>50.2</td>
<td>48.6</td>
</tr>
</tbody>
</table>

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

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

FIVE-YEAR PERFORMANCE COMPARISON

The overall patient care activity of UW Medicine hospitals and clinics remains stable with some growth at selected sites. Case mix index (a measurement of inpatient acuity based on Diagnosis Related Groups (DRGs) continues to increase at HMC and UWMC, consistent with the UW Medicine strategic plan to continue to grow high-end tertiary and quaternary services. The following tables summarize the clinical activities for the owned and managed hospitals and clinics of UW Medicine.

Harborview Medical Center

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions</td>
<td>19,094</td>
<td>17,999</td>
<td>17,176</td>
<td>17,362</td>
<td>16,969</td>
</tr>
<tr>
<td>Patient Days</td>
<td>134,930</td>
<td>135,779</td>
<td>132,284</td>
<td>138,214</td>
<td>144,140</td>
</tr>
<tr>
<td>Outpatient Visits</td>
<td>244,964</td>
<td>245,751</td>
<td>247,349</td>
<td>247,615</td>
<td>252,435</td>
</tr>
<tr>
<td>Emergency Visits</td>
<td>62,432</td>
<td>66,285</td>
<td>64,512</td>
<td>62,217</td>
<td>59,776</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>7.1 days</td>
<td>7.5 days</td>
<td>7.7 days</td>
<td>8.0 days</td>
<td>8.5 days</td>
</tr>
<tr>
<td>Case Mix Index (CMI)</td>
<td>1.91</td>
<td>1.99</td>
<td>2.10</td>
<td>2.15</td>
<td>2.23</td>
</tr>
</tbody>
</table>

² Cash generated from medical center core activities expressed as a percentage of net revenue  
³ Debt outstanding expressed as a percentage of capital/net assets  
⁴ Number of days average expenditures that could be paid with current cash and investments on hand  
⁵ Average number of days to collect patient care revenues  

F–5.1/202-17  
2/9/17  
ANNUAL FINANCIAL REPORT 7
# FIVE-YEAR PERFORMANCE COMPARISON, continued

## Northwest Hospital & Medical Center

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions</td>
<td>9,127</td>
<td>9,974</td>
<td>9,211</td>
<td>9,934</td>
<td>10,060</td>
</tr>
<tr>
<td>Patient Days</td>
<td>43,350</td>
<td>44,333</td>
<td>44,189</td>
<td>47,143</td>
<td>48,492</td>
</tr>
<tr>
<td>Outpatient Visits</td>
<td>193,992</td>
<td>195,978</td>
<td>193,387</td>
<td>195,031</td>
<td>197,132</td>
</tr>
<tr>
<td>Emergency Visits</td>
<td>33,832</td>
<td>33,942</td>
<td>34,276</td>
<td>36,159</td>
<td>35,068</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>4.7 days</td>
<td>4.4 days</td>
<td>4.8 days</td>
<td>4.7 days</td>
<td>4.8 days</td>
</tr>
<tr>
<td>Case Mix Index (CMI)</td>
<td>1.37</td>
<td>1.42</td>
<td>1.43</td>
<td>1.46</td>
<td>1.50</td>
</tr>
</tbody>
</table>

## University of Washington Medical Center

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions</td>
<td>17,915</td>
<td>17,728</td>
<td>18,033</td>
<td>18,092</td>
<td>18,362</td>
</tr>
<tr>
<td>Patient Days</td>
<td>120,745</td>
<td>122,867</td>
<td>124,513</td>
<td>126,239</td>
<td>132,529</td>
</tr>
<tr>
<td>Outpatient Visits</td>
<td>300,487</td>
<td>284,870</td>
<td>291,375</td>
<td>302,038</td>
<td>320,037</td>
</tr>
<tr>
<td>Emergency Visits</td>
<td>23,487</td>
<td>22,977</td>
<td>25,338</td>
<td>26,465</td>
<td>26,555</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>6.7 days</td>
<td>6.9 days</td>
<td>6.9 days</td>
<td>7.0 days</td>
<td>7.2 days</td>
</tr>
<tr>
<td>Case Mix Index (CMI)</td>
<td>1.99</td>
<td>1.98</td>
<td>2.02</td>
<td>2.13</td>
<td>2.24</td>
</tr>
</tbody>
</table>

## Valley Medical Center

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Discharges</td>
<td>16,842</td>
<td>17,477</td>
<td>16,693</td>
<td>17,174</td>
<td>17,518</td>
</tr>
<tr>
<td>Patient days</td>
<td>63,001</td>
<td>65,769</td>
<td>61,395</td>
<td>65,792</td>
<td>70,148</td>
</tr>
<tr>
<td>Outpatient Visits</td>
<td>344,947</td>
<td>362,274</td>
<td>403,169</td>
<td>471,780</td>
<td>499,814</td>
</tr>
<tr>
<td>Emergency Visits</td>
<td>75,586</td>
<td>74,202</td>
<td>73,763</td>
<td>81,250</td>
<td>83,067</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>3.7 days</td>
<td>3.8 days</td>
<td>3.7 days</td>
<td>3.8 days</td>
<td>4.0 days</td>
</tr>
<tr>
<td>Case Mix Index (CMI)</td>
<td>1.30</td>
<td>1.33</td>
<td>1.40</td>
<td>1.45</td>
<td>1.48</td>
</tr>
</tbody>
</table>

## UW Neighborhood Clinics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinic Visits</td>
<td>204,094</td>
<td>233,264</td>
<td>253,631</td>
<td>270,392</td>
<td>300,799</td>
</tr>
<tr>
<td>New Patients</td>
<td>13,097</td>
<td>17,440</td>
<td>21,530</td>
<td>24,209</td>
<td>31,632</td>
</tr>
</tbody>
</table>
RESEARCH PROGRAMS

UW Medicine research awards have increased at a cumulative average of 4 percent annually over the last five years. Although federal funding experienced a small decrease of 2% over the last five years, non-federal funding saw a 20 percent compound average growth rate over the same period. The following table summarizes the research awards garnered by UW School of Medicine over the past five years.

<table>
<thead>
<tr>
<th></th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>5-Yr CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>$487.5</td>
<td>$414.3</td>
<td>$500.3</td>
<td>$455.7</td>
<td>$455.3</td>
<td>(2%)</td>
</tr>
<tr>
<td>Non-Federal</td>
<td>$117.8</td>
<td>$112.9</td>
<td>$200.2</td>
<td>$179.2</td>
<td>$248.2</td>
<td>20%</td>
</tr>
<tr>
<td>Total (Excl ARRA)</td>
<td>$605.3</td>
<td>$527.2</td>
<td>$700.5</td>
<td>$634.9</td>
<td>$703.5</td>
<td>4%</td>
</tr>
<tr>
<td>ARRA</td>
<td>$2.2</td>
<td>$3.0</td>
<td>$0.2</td>
<td>$0.0</td>
<td>$0.0</td>
<td>-</td>
</tr>
</tbody>
</table>

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

National Institute of Health (NIH) awards represent the largest single source of awards received by UW Medicine faculty. Funding cycles for NIH awards are per the federal fiscal year (October through September), and UW School of Medicine award trends demonstrate a different pattern when viewed in the federal fiscal year increasing at a cumulative average of 6 percent annually over the last five years.

Figure 1. Awards to UW School of Medicine by Federal Fiscal Year ($ in Millions)
RESEARCH PROGRAMS, continued

The following chart tracks the growth of NIH awards to UW Medicine faculty over the past 15 federal fiscal years ending in Federal FY 2016 (the most recent year available); the 15-year compound average growth rate is 2.8 percent. NIH funding is on a federal fiscal year basis and comparative information is not available until several months after the close of the federal fiscal year on September 30. The federal ARRA program temporarily increased awards in federal fiscal years 2009 through 2011, and is included in award information shown below.

In Federal FY 2016, there were 644 separate NIH awards to 430 Principal Investigators at UW School of Medicine. There were an estimated 929 UW School of Medicine regular and research faculty working on those grants. In addition to these NIH awards managed by the University of Washington, 490 NIH awards were received by UW School of Medicine faculty and were managed by affiliated institutions (for example, Fred Hutchinson Cancer Research Center, Seattle Children’s and Seattle Biomedical Research Institute). In total, NIH awards to UW Medicine faculty were $638.9 million in Federal FY 2016, an increase of $33.6 million (6 percent) over Federal FY 2015.
RESEARCH PROGRAMS, continued

UW Medicine faculty were second in the country among all medical schools and first among public medical schools in total NIH research funding based on Federal FY 2015 awards. Information about NIH research funding awards received by other organizations in Federal FY 2016 was not available at the time of this report.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvard</td>
<td>$1,346.3</td>
<td>$1,117.1</td>
<td>$1,370.7</td>
<td>$1,412.9</td>
<td>$1,419.6</td>
<td>1.3%</td>
</tr>
<tr>
<td>U of Washington</td>
<td>$611.4</td>
<td>$635.3</td>
<td>$557.7</td>
<td>$646.8</td>
<td>$605.2</td>
<td>-0.3%</td>
</tr>
<tr>
<td>UCSF</td>
<td>$539.6</td>
<td>$498.4</td>
<td>$524.7</td>
<td>$549.0</td>
<td>$531.1</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Johns Hopkins</td>
<td>$586.6</td>
<td>$534.2</td>
<td>$511.7</td>
<td>$528.4</td>
<td>$521.6</td>
<td>-2.9%</td>
</tr>
<tr>
<td>U of Pennsylvania</td>
<td>$533.6</td>
<td>$538.8</td>
<td>$516.0</td>
<td>$550.5</td>
<td>$514.2</td>
<td>-0.9%</td>
</tr>
<tr>
<td>UCLA</td>
<td>$552.1</td>
<td>$500.4</td>
<td>$439.2</td>
<td>$416.2</td>
<td>$472.9</td>
<td>-3.8%</td>
</tr>
<tr>
<td>U of Pittsburgh</td>
<td>$368.2</td>
<td>$379.5</td>
<td>$344.9</td>
<td>$369.6</td>
<td>$399.6</td>
<td>2.1%</td>
</tr>
<tr>
<td>Columbia</td>
<td>$424.6</td>
<td>$393.1</td>
<td>$366.4</td>
<td>$373.2</td>
<td>$399.5</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Michigan</td>
<td>$382.1</td>
<td>$383.0</td>
<td>$346.3</td>
<td>$350.8</td>
<td>$385.4</td>
<td>0.2%</td>
</tr>
<tr>
<td>Stanford</td>
<td>$329.7</td>
<td>$323.5</td>
<td>$329.6</td>
<td>$354.7</td>
<td>$375.3</td>
<td>3.3%</td>
</tr>
<tr>
<td>Washington U</td>
<td>$372.3</td>
<td>$375.9</td>
<td>$325.3</td>
<td>$356.3</td>
<td>$352.3</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Vanderbilt</td>
<td>$353.9</td>
<td>$332.2</td>
<td>$322.2</td>
<td>$337.5</td>
<td>$344.3</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Yale</td>
<td>$398.1</td>
<td>$359.3</td>
<td>$347.9</td>
<td>$342.9</td>
<td>$344.3</td>
<td>-3.6%</td>
</tr>
<tr>
<td>Duke</td>
<td>$328.8</td>
<td>$319.2</td>
<td>$314.6</td>
<td>$324.9</td>
<td>$326.3</td>
<td>-0.2%</td>
</tr>
<tr>
<td>NYU</td>
<td>$239.1</td>
<td>$257.4</td>
<td>$255.9</td>
<td>$340.7</td>
<td>$324.3</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

UW Medicine’s comparative success in NIH funding is due to a number of factors, including the interdisciplinary breadth of its research programs, the addition of new laboratory space at South Lake Union and the increased emphasis on 21st century science such as genomics, proteomics, regenerative medicine and global health research.
LOOKING FORWARD: FY 2017

As an integral part of preparing the UW Medicine Long Range Financial Plan (LRFP) and Annual Budget, the boards and senior leaders at each individual UW Medicine entity, in conjunction with the UW Medicine Board and executive leaders, identify specific risks and mitigation plans. This planning process enhances our ability to achieve the financial performance required to implement strategic objectives that have been identified. The graphic below displays the consolidated assessment done for FY 2017 regarding global risks shared across all of UW Medicine as well as specific risks identified at the individual entity level.

**UW Medicine FY 2017 Financial Risks**

### Financial Risks

**Revenues and Expenses**

In FY 2017 and beyond it is anticipated that there will be continued downward pressure from all payers on reimbursement as well as pressure to transition care to lower cost settings. Revenue assumptions factored into the budget and LRFP include flat or declining payments from government payers such as Medicare and Medicaid, a shift from commercial payers to lower paying Health Insurance Exchange plans and continued reduction of fee-for-service based payments to reimbursement based on value (quality, patient access and patient satisfaction). It is also anticipated in our planning that the market pressures will continue to push UW Medicine toward more risk-based arrangements. For the same time period expense inflation factors have been applied to the cost of supplies, labor and equipment, putting additional pressure on margins.
LOOKING FORWARD: FY 2017, continued

Information Technology (IT)
Significant strategic IT investments are a priority at all healthcare organizations throughout the country, including UW Medicine. The need to move to a single enterprise electronic health record (EHR) is compelling due to the advantages it would offer around clinical quality, safety and workflow efficiencies, along with decreasing duplicative costs and complexity. The return on investment opportunities from a single enterprise EHR has been modeled with savings being achieved in IT cost offsets, revenue cycle improvements and quality/safety cost avoidance. Continued implementation and optimization of the enterprise-wide electronic medical record as well as other clinical and business systems require an annual investment of $50 to $100 million per year.

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

Competitive Risk
The healthcare landscape across the country and specifically within the Puget Sound region has seen a considerable amount of change as entities have experienced mergers, affiliations and acquisitions. It is anticipated that this change will continue with the entry of new organizations into the local market as well as with the consolidations of existing providers in the area. UW Medicine will need to continue to position itself to respond this competitive environment through a continuous process of strategic and financial planning.

UW Medicine’s five areas of focus for FY 2017 are:

1. Delivery of world class research and training.
   a. The continued development of research space at South Lake Union is a major step in ensuring the continued growth of UW Medicine research programs.
   b. Continued development of information technology platforms to support the needs of researchers is occurring.
   c. Aggressive recruitment continues to attract strong research and teaching professionals to UW Medicine.
   d. Work to assure a supportive environment for interdisciplinary and translational research continues with a focus on retaining leaders of important research areas.
   e. Continue to assess and develop support for the ongoing need for an expanding physician workforce to meet the demands for healthcare professionals across the WWAMI states, including telemedicine options.
   f. Maintain high quality and cost effectiveness of the medical school teaching program.
   g. Continuous curriculum renewal to enhance active learning and increase integration across all years of the medical school across all teaching sites in our five-state program.
   h. Launch of center initiatives that encompass teaching, training and basic and translational research.
   i. Utilize simulation and modeling in our hospitals to train health professionals in the areas of procedural and communication skills.
LOOKING FORWARD: FY 2017, continued

2. Leading as an Accountable Care Organization by focusing on:
   a. Measuring and improving the health of those served, effectively coordinating care across a
      continuum of health care settings and utilizing a “medical home” based model that supports
      patients with chronic conditions on a routine and individualized basis to ensure high-quality,
      efficient and affordable care.
   b. Reducing the cost of healthcare by standardizing care protocols based on evidence-based research.
   c. Improving the experience of care by focusing on quality, safety, service and access.
   d. Leading the UW Medicine ACN (including Overlake Hospital, MultiCare, Capital Medical Center,
      PeaceHealth, Skagit Valley Hospital, Cascade Hospital, Island Hospital, Seattle Cancer Care
      Alliance and Seattle Children’s in addition to all UW Medicine entities) to ensure sufficient size
      and geographic distribution to meet the needs of the populations served.
   e. Meeting and exceeding expectations and requirements relative to the Boeing and Health Care
      Authority contracts.

3. Advancing our mission of improving the health of the public and our commitment to being socially
   responsible to serve patients from all walks of life.
   a. UW Medicine’s commitment to serving all populations will continue.
   b. Leadership has worked proactively with other hospitals and healthcare professionals in the
      community to share in this responsibility.
   c. Continuing to contract with all the Medicaid Managed Care plans will assure that we are able to
      continue to serve patients who are newly eligible Medicaid beneficiaries and receive payment for
      the currently uninsured who will be eligible for the new insurance exchange products.
   d. UW Medicine leadership will play an important role in improving mental health services and
      healthcare equity for those in need in our community.

4. Integrating and implementing the UW Medicine Strategic Plan.
   a. Focused on achieving the “Triple Aim” of better healthcare for individual patients, better health of
      the population served and more affordable care.
   b. Significant accomplishments will continue to occur in the five priority areas of building clinical
      programs, building networks and affiliations, delivering excellent service, delivering high-quality,
      safe and effective patient care and enhancing the integration of research, teaching and patient care.

5. Achievement of the UW Medicine Patients Are First pillar goals.
   a. Focus on serving the patient and family
   b. Provide the highest quality care
   c. Become the employer of choice
   d. Practice fiscal responsibility

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

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

Jim Anderson, Board Member
- Member of UW Medicine/Northwest Board
- Former chair of the Strategic Planning Committee for the Board of Directors for Northwest Healthcare Insurance Services and Washington Casualty Company
- Former chair of the Budget Committee of the Board of Overseers of Whitman College
- Former board of director for the Pacific First Financial Corporation, MultiCare Health System, Tacoma/Pierce County Economic Development Council and the Corporate Council for the Arts and Reality Based Learning.

Terry Lengfelder, Board Member
- Member of the UW Medicine/Northwest Hospital & Medical Center Board
- Retired consultant in business management, finance and accounting. Prior to his years of consultancy, he spent almost four decades at Arthur Anderson & Co. in a wide variety of management positions, the most recent of which was Managing Partner of Global Service Quality.
- Chairman of the Technical Advisory Committee of two large drug companies.
- Bachelor of Science in Business Administration from Washington University in St. Louis, MO.

Kristianne Gates Blake, Ex Officio, Board Member
- Kristi Blake is President of Kristianne Gates Blake, PS. She served as a partner with Deloitte, Haskins & Sells prior to starting her own firm in 1987. Kristi serves as a trustee of the Russell Funds and as a director of Avista Corporation.
- Community board service included YMCA Retirement Fund, Saint George's School, YMCA of the Inland Empire, Spokane Area Chamber of Commerce, United Way of Spokane County, Junior League of Spokane and the Higher Education Coordinating Board.
- Kristi was born and raised in Seattle, graduating with a BA in Business Administration from the University of Washington.
- Member of the UW Board of Regents

Peter van Oppen, Board Member and Committee Chair
- Partner at Trilogy Partnership, a venture capital and private investment firm in Bellevue, WA. He served as Chairman and CEO of Advanced Digital Information Corporation (ADIC) and its predecessor companies from 1989 to 2006.
- Worked in medical electronics and as a consultant at Price Waterhouse LLP and Bain & Company in New York, Boston and London.
- He was an initial investor in companies that became Voicestream (VSTR) and Western Wireless (WWCA) and served as a director of related entities at various times between 1992 and the sale of Western Wireless in 2005. In addition to ADIC and Western Wireless, he has served on numerous public and private company boards including Isilon Systems (ISLN) through its sale to EMC as well as many private entities. He is currently a director of Level 3 Communications, Inc. (LVLT).
- Former Chair of the Whitman College Board of Trustees and former director of the Seattle Branch of the Federal Reserve Bank of San Francisco.
- He is a member of the American Institute of Certified Public Accountants on inactive status and holds a B.A. in political science from Whitman College and a Harvard MBA, where he was a Baker Scholar.

Alan Frazier, Board Member
- Alan Frazier is the founder and managing partner of Frazier Healthcare Ventures, which has raised seven venture capital funds representing $1.8 billion and invested in more than 100 emerging life science companies since 1991.
- Serves on the boards of Alexia Pharmaceuticals, Ascension Orthopedics, Cadence Pharmaceuticals, Calixa Therapeutics, Nuon Pharmaceuticals, Forthia Pharmaceuticals and Trilogy Health.
- Earned a bachelor's degree from the University of Washington and serves on the boards of the Washington Biotechnology and Biomedical Association and the Western Washington University Foundation. In addition, he is a member of the UW Medicine industry advisory committee and the advisory council for the J. David Gladstone Institute, associated with the University of California San Francisco.

Larry Finn, Community Member
- Past chair of the UW Medicine Board, retired in 1989 as chief financial officer of US West Communications.
- Trustee for the SAFECO Mutual Funds and chairs its Audit Committee, and is chair of the board of directors for Cascade Natural Gas Corp.
- Past chairman of the board of Blue Cross of Washington & Alaska and of Premera, and served on the board of Key Bank of Washington.
- Former chair of the Washington Research Council. Earned a bachelor's degree in mathematics from Central Washington University and did additional work in special programs at Stanford University and the University of Pennsylvania Wharton School in engineering studies and marketing.

Bob Gerth, Community Member
- Bob is retired from his long time profession as a partner with the international accounting and consulting firm of Deloitte.
- Previously Bob was a partner in the Seattle office of Deloitte and led the International Group, was office managing partner and then Office Chairman at the time of his retirement in the year 2000.
- Bob remains active in business and civic activities.
- The primary focus of his interests is affordable housing, education and support for cancer research.

Donna Russell, Board Member
- Principal of Donna Russell Consulting, LLC, a global health consulting firm that specializes in strategic and technical support to facilitate research, development, and implementation of new interventions to improve health globally.
- Co-founded the Global Alliance to Prevent Prematurity and Stillbirth (GAPPS), where she served as Director of Research Development.
- Served as a senior policy advisor to the Washington State Board of Health and as a health services consultant to the Washington State Department of Health.
- Member of the PRE-EMPT Technical Advisory Group; the Preeclampsia Registry and Biobank, Scientific Advisory Board, Executive Committee; and the Group B Strep International Advisory Board.
- Holds a Bachelor of Science, Nutrition and Food Science from the University of California, Berkeley, School of Natural Resources, and a Master of Health Administration from the University of Washington School of Public Health & Community Medicine.

ANNUAL FINANCIAL REPORT 15

F–5.1/202-17
2/9/17
Jane Stonecipher, Community Member
- Vice President of business development and finance for the Woodland Park Zoo.
- Held senior finance and marketing positions with Western Wireless Corporation and the personal computer division of Hewlett Packard. Specializing in strategic planning and financial analysis, she has also helped a number of emerging companies on business plan development.
- In 2007, Jane moved to the nonprofit sector and became CFO of Epiphany School, leading the financing efforts for a campus expansion.
- Trustee of Pacific Northwest Ballet and the St. Mark's Foundation and currently works with WA Women's Foundation, Lakeside School and Girl Scouts of Western WA.
- Holds a MBA from Harvard Business School and an accounting degree from the University of Alabama.

UW MEDICINE BOARD FINANCE AND AUDIT COMMITTEE: FY 2016 ROSTER, continued

<table>
<thead>
<tr>
<th>Non-Voting Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>UW Medicine</td>
</tr>
<tr>
<td>Paul G. Ramsey, M.D., CEO, UW Medicine, executive vice president for medical affairs, and dean of the UW School of Medicine, University of Washington</td>
</tr>
<tr>
<td>Ruth Mahan, chief business officer, UW Medicine, and vice president for medical affairs, University of Washington</td>
</tr>
<tr>
<td>Lori Mitchell, chief financial officer, UW Medicine, and vice president for medical affairs, University of Washington (Through December 31, 2015)</td>
</tr>
<tr>
<td>Jacqueline Cabe, chief financial officer, UW Medicine, and vice president for medical affairs, University of Washington (Effective March 1, 2016)</td>
</tr>
<tr>
<td>Cindy Hecker, interim chief health system officer, UW Medicine, and vice president for medical affairs, University of Washington (Effective February 9, 2016)</td>
</tr>
<tr>
<td>Johnese Spisso, chief health system officer, UW Medicine, and vice president for medical affairs, University of Washington (Through February 8, 2016)</td>
</tr>
<tr>
<td>Liz Shirley, enterprise finance officer for accounting and financial reporting, UW Medicine</td>
</tr>
<tr>
<td>Maureen Broom, enterprise finance officer for financial planning and analysis, UW Medicine</td>
</tr>
<tr>
<td>Mark Green, vice dean for Administration and Finance, University of Washington</td>
</tr>
<tr>
<td>Mary Fran Joseph, associate dean for Administration and Finance, University of Washington</td>
</tr>
</tbody>
</table>

Practice Plans
- Mika Sinanan, M.D., Ph.D., president, UW Physicians

Hospitals/Clinics
- Cindy Hecker, executive director, Northwest Hospital and Medical Center (through February 8, 2016) |
| Adam Parcher, interim executive director, Northwest Hospital and Medical Center (Effective February 9, 2016) |
| Debra Gussin, executive director, UW Neighborhood Clinics |
| Paul Hayes, executive director, Harborview Medical Center |
| Larry Smith, chief financial officer, Valley Medical Center (through December 31, 2015) |
| Jeannine Grinnell, chief financial officer, Valley Medical Center (Effective January 1, 2016) |
| Steve Zieniewicz, executive director, UW Medical Center (Through August 21, 2015) |
| Geoff Austin, interim executive director, UW Medical Center (Effective August 22, 2015) |
UW Medicine Board Finance & Audit Committee Charter

Committee Name

UW Medicine Board Finance & Audit Committee

Committee Establishment and Authority

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

Committee General Duties

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

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

Committee Specific Duties and Responsibilities

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

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

1 Component entities include Harborview Medical Center (HMC), Northwest Hospital & Medical Center (NWMC), Valley Medical Center (VMC), UW Medical Center (UWMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), UW School of Medicine (UWSOM), Alaska Northwest (ANW) and UW Medicine's investments and risk related to Children's University Medical Group (CUMG) and the Seattle Cancer Care Alliance (SCCA).
In addition, the Committee shall carry out the following functions, to better advise the UWNB and UW Medicine CEO/EVPMA/Dean:

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

Committee Member Composition

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

- At least four UWMB members, including the Chairperson of the Committee, the Chair of the UWMC Committees of the UW Medicine Board, and two additional UWMB members appointed by the UWMB Chair; and
- Up to three community members who are not members of the UWMB.
UWMB members and community members shall be appointed to the Committee for a term of one year, which may be renewed annually. Any vacancies that occur shall be filled in the same manner as the original appointments to the Committee.

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

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

Committee Member Requisite Skills and General Qualifications

Committee members shall have the following skills and qualifications:

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

Committee Decision-Making Processes

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

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

Committee Member Obligations

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

Annual Committee Goals, Objectives and Performance Measures

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

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

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

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

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

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

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

The Committee shall be staffed by the UW Medicine Controller.

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

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

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

Other Committee Items

None.

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

[Signature]
Committee Chair

1/9/12
Date

+++ Approved by the UW Medicine Board +++

[Signature]
Chair of the UW Medicine Board

1/9/2012
Date