UW Medicine Annual Financial Report

INFORMATION

This item is for information only.

BACKGROUND

UW Medicine’s Annual Financial Report is one of three annual reports that UW Medicine provides to the Board of Regents, per Board of Regents Governance, Standing Orders, Chapter 4, Section E(3)(a).

Attachment
UW Medicine Annual Financial Report, February 14, 2019
EXECUTIVE SUMMARY

Fiscal year (FY) 2018 was a challenging but ultimately successful year for UW Medicine. It was the first year of the Financial Improvement & Transformation Project (Project FIT) which is our #1 strategic priority in FY 2019. Project FIT is a multi-year effort to improve our financial performance while supporting our mission to improve the health of the public. We met our Project FIT goals overall, although some UW Medicine organizations did not meet budget targets demonstrating the importance of continuing to identify and deliver on our FIT initiatives. FY 2018’s overall success was 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 leading as an Accountable Care Organization, delivering world class clinical care, research, education and training, continuing to implement our evolving strategic plan and achieving the UW Medicine Patients Are First pillar goals.

Consistent with the regional and national healthcare environment, UW Medicine continues to experience a shift from fee-for-service payments to value-based reimbursement. This shift creates a strong impetus for transformation. In addition, the Pacific Northwest healthcare market is shifting to more consolidations, affiliations and integration as well as new market entrants and the introduction of disruptive technologies. Self-insured employers continue to seek alternative contractual relationships with health systems to improve the health of employees and their family members, increase 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 (UW Medicine 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. 2018 is our fourth performance year of the Boeing contract. UW Medicine ACN enrollment has increased approximately 100 percent across the UW Medicine ACN. The UW Medicine ACN is 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. 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 both 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.

In July 2017, UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance that will expand access to high quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. One of the first collaborative efforts from this new alliance is to form a clinically integrated network (CIN), through which UW Medicine and MultiCare seek to provide cost effective and clinically integrated healthcare in communities throughout the Puget Sound region while supporting the education of the next generation of clinicians and advancing research. The parties’ joint activities will be guided by four core principles: the provision of high quality, patient centered care; a commitment to teaching and research; ensuring strong financial stewardship to deliver value to the payers of healthcare services; and a focus on improving the health of populations served by the alliance. In FY 2018, the Board of Regents and the MultiCare Board approved plans to establish the CIN and the formation of the new legal CIN entity will occur in FY 2019.

In February 2018, the Board of Regents approved the integration of Northwest Hospital & Medical Center (NWH) and University of Washington Medical Center (UWMC) into one hospital, UWMC, which will provide high quality care on two campuses. Numerous operational teams are currently engaged in extensive work to ensure a successful integration will occur on January 1, 2020. This integration will result in improved access for our patients, better alignment of clinical services, improved financial performance and administrative simplification.

In February 2018, the Board of Regents approved the creation of a public-private partnership with LifePoint Health (previously RCCH HealthCare Partners) to own and operate community hospitals in Washington, Alaska and Idaho. The partnership will take the form of a limited liability company that will own and operate community hospitals or other healthcare entities. LifePoint Health will operate and manage these facilities and UW Medicine will provide clinical and quality expertise.
EXECUTIVE SUMMARY, continued

In July 2018, the Board of Regents approved the plan to proceed with the UW Medicine Clinical Transformation Program (now called Destination: One). This multi-year program will allow UW Medicine to improve patient engagement, physician and practitioner experience and to achieve business and operating efficiencies through development of foundational systems and improved staffing workflows. Patient engagement will be enhanced through development of a single online patient portal for activities between the patient and UW Medicine. UW Medicine will achieve business and operating efficiencies through simplification and standardization across all clinical operations. Total program costs are estimated at $180 million, of which $129 million will be financed through the internal lending program, and the remaining portion will be funded by Harborview Medical Center (HMC), UWMC, NWH and Seattle Cancer Care Alliance.

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 seeing 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 some of the traditional inpatient care to an outpatient service delivery model. UW Medicine has continued to prioritize growth in the ambulatory setting through the development of the UW Neighborhood Clinics (UWNC), along with clinic growth at both 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 2017 awards, including UW Medicine faculty activity at UW partnering organizations. FY 2018 rankings are not available as of this report date. Many of the research programs, including the Institute for Health Metrics and Evaluations, Institute for Protein Design, Institute for Stem Cell and Regenerative Medicine and the recently established Brotman Baty Institute for Precision Medicine are global leaders in their fields.

FY 2018 financial results for total combined UW Medicine revenue was approximately $5.5 billion; $4.0 billion related to the medical centers, clinics and professional billing and $1.5 billion related to the School of Medicine. This represents a 6.0 percent increase compared to FY 2017. Financial results overall were improved over FY 2017, with an overall improvement of $75.7 million to our combined margins. Total combined income for UW Medicine was a net loss of $(0.6) million, yielding a 0.0 percent margin. This compares favorably to a budgeted total combined net loss of $(36.2) million and a (0.7) percent total margin. The primary drivers of financial performance related to reimbursement pressure from both governmental and commercial payers, higher than anticipated labor costs and supply costs and negative shifts in payer mix. NWH experienced less patient volume growth than planned as well as continued payer mix deterioration, which contributed to lower financial performance. Factors influencing results of the individual organizations are discussed in the financial highlights section. The combined balance sheet for UW Medicine remained stable with unrestricted cash and investments of $1.1 billion at June 30, 2018, a decrease of $(39.6) million over the prior year.

In FY 2018, the UW Medicine Clinical Enterprise (UWMC, NWH, ALNW, UWNC, UWP, and Shared Services) adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), which establishes new actuarial methods and discount rate standards for the measurement and recognition of the cost of postemployment benefits provided to state employees. All funding obligations to the University are on a pay-as-you-go basis. Thus, as the liability increases the funding obligations will increase. As a result of this adoption, UW Medicine Clinical Enterprise recognized its proportionate share of the University’s actuarially determined OPEB liability of $306.0 million and OPEB expense of $25.0 million. The impact of this standard to UW Medicine Clinical Enterprise net loss is an additional expense of $20.0 million which represents the difference between the actuarial expense and expense recognized with cash funding.
**FINANCIAL HIGHLIGHTS FOR FY 2018**

**PROJECT FIT**

FY 2018 was the first year of the Project FIT which continues to be our #1 strategic priority in FY 2019. Project FIT is a multi-year effort to improve our financial performance. Project FIT is intended to improve operating performance so that by FY 2020, UW Medicine will be achieving improved margins and cash levels. Multiple improvement initiatives have been identified and UW Medicine is measuring these initiatives on an on-going basis. For example, during FY 2018, UW Medicine engaged in a revenue cycle improvement initiative at UWMC and HMC which was focused on process improvements in the billing offices. At the end of FY 2018, UW Medicine also partnered with two consulting firms to continue operational improvements at all organizations. One firm has been engaged to help improve medical supply expense, utilization and labor productivity while the other will partner with UW Medicine to improve ambulatory patient access.

**UNIVERSITY OF WASHINGTON MEDICAL CENTER (UWMC)**

University of Washington Medical Center recorded operating revenues of $1.3 billion in FY 2018, an increase of 6.5 percent over the prior year. UWMC reported a total net loss of $(16.6) million, or (1.3) percent of operating revenue, versus a total net loss of $(44.3) million in the prior year. The net loss was below budget by $16.6 million. Included in UWMC’s reported net loss of $(16.6) million is $15.3 million of OPEB expense related to the adoption of GASB 75. When excluding the $15.3 million of OPEB expense, UWMC’s adjusted net loss is $(1.3) million compared to a break-even budget. Although both inpatient and outpatient volumes increased significantly over the prior year, lower than anticipated commercial payer mix, and higher than expected medical supply expense more than offset the impact of favorable volumes. The UWMC Operations Excellence project led to significantly improved nursing labor efficiency and resulted in substantially lower volume-adjusted labor expenses.

Capital investments included completed construction of Phase 2 of the Montlake Tower expansion project, including the preparation, hold and recovery areas, additional operating rooms and patient waiting areas. Construction was also completed for remodeling of two Cardiac Catheterization labs, which opened in June 2018. Construction continued on the Emergency Department extension and remodel, which will recover lost square footage from the Montlake Tower expansion project.

**HARBORVIEW MEDICAL CENTER (HMC)**

Harborview Medical Center recorded operating revenues of $1.0 billion in FY 2018, an increase of 3.0 percent over the prior year. HMC reported a total net loss of $(6.6) million, or (0.6) percent of operating revenue. The net loss was below budget by $16.7 million. Volumes at the medical center remain consistent with prior years, but growth has been hindered by continued levels of high occupancy related to long lengths of stay. Performance was further impacted by reductions in the 340B drug purchasing program, a required ligature plan of correction in inpatient Psychiatry, and increased utilization of skilled nursing beds to create access for new patients. HMC is focused on a Care Coordination Program with the goal of reducing patients’ length of stay.

With the support of the Board of Trustees, HMC has begun the foundational work with King County to define the next phase of facility master planning. The goal of this work includes single patient rooms, modernization to support clinical delivery of care, expansion of Behavioral Health programming and continuation of seismic facility upgrades.

**NORTHWEST HOSPITAL & MEDICAL CENTER (NWH)**

Northwest Hospital & Medical Center recorded operating revenues of $370.8 million in FY 2018, an increase of 3.4 percent over the prior year. NWH reported a total net loss of $(21.0) million, or (5.7) percent of operating revenue. The net loss was below budget by $10.1 million. The primary drivers were lower than anticipated commercial reimbursement and inpatient volumes, higher than anticipated medical supply and employee benefit expense, and a one-time early voluntary retirement program. NWH continues to focus on building key service lines, expanding its ambulatory network and decreasing expenses wherever possible.
NWH continues to have critical campus infrastructure and technology needs which require replacement of aging inpatient and outpatient care facilities and equipment that are no longer efficient to operate, nor competitive in the market. In November 2018, the Board of Regents approved the project budget of $25.0 million for the Childbirth Center which will update the facility and expand capacity. This will be a major area of focus in FY 2019 and beyond.

VALLEY MEDICAL CENTER (VMC)
Valley Medical Center recorded operating revenues of $636.7 million in FY 2018, an increase of 10.5 percent over the prior year. VMC reported total net income of $40.2 million, or 6.3 percent of operating revenue primarily due to a comprehensive cost containment program and recognition of a gain on sale of a joint venture lab of $16.5 million. The revenue increase was primarily the result of continued growth in clinic and ambulatory outpatient hospital services. VMC continued to advance the biggest on-campus ambulatory expansion in its history. VMC continues to focus heavily on management of expenses and remaining a low cost provider, patient access through electronic direct scheduling and online bill pay and patient safety by successfully achieving the highest electronic medical record level for utilization (Healthcare Information and Management Systems Society Stage 7).

UW NEIGHBORHOOD CLINICS (UWNC)
UW Neighborhood Clinics ended the year favorable to budget. UWNC reported operating revenues of $61.5 million, a decrease of (0.6) percent over the prior year. UWNC reduced the operating subsidy from the Medical Centers by almost $3.5 million or 8.0 percent over prior year. UWNC experienced growth in existing clinics in FY 2018 as well as expansion of Orcas Island and Lopez Island Clinics. Total visits increased 10.0 percent over the prior year, including 18.0 percent growth in new patient visits. UWNC’s Project FIT goal is to reach a targeted funding per visit metric (shortfall divided by visits). The FY 2018 funding per visit was favorable to budget.

UNIVERSITY OF WASHINGTON PHYSICIANS (UWP)
University of Washington Physicians’ FY 2018 operating revenues were $285.4 million, an increase of 11.5 percent over the prior year. UWP generated income of $25.9 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 $29.4 million over FY 2017. This increase was primarily associated with a 6.4 percent increase in volumes (as measured in relative value units). Net funds generated from UWP operations are transferred to the clinical departments of the UW School of Medicine to support operations.

Airlift Northwest recorded operating revenues of $49.7 million in FY 2018, a decrease of (5.9) percent over the prior year. ALNW reported a total net loss of $(4.5) million, or (9.0) percent of operating revenue. The net loss was below budget by $(6.7) million. ALNW’s financial performance is primarily the result of a decrease in flight volume, billable mileage and commercial payer mix over prior year. ALNW continues to develop strategic initiatives to optimize financial performance by focusing on revenue cycle management and expense reduction through aviation expense contracting and reconfiguring staffing models to reduce labor expense.

UW SCHOOL OF MEDICINE (SOM)
Overall revenue for the UW School of Medicine was $1.5 billion in FY 2018, an increase of 7.7 percent over the prior year. Revenues exceeded expenses for the year by $8.1 million, which was favorable to budget by $44.0 million. $30.5M of this variance was attributable to receipt of several large gifts to support research institutes that will be spent down in future years. Revenues increased by $107.2 million in FY 2018, primarily due to increases in grants and contracts, gifts and endowment income, and self-sustaining funds. Revenue generated from research activities increased by $39.0 million over FY 2017. UW Medicine faculty were responsible for teaching approximately 4,700 students and trainees in FY 2018.
FINANCIAL HIGHLIGHTS FOR FY 2018, continued

PRIVATE SUPPORT AND GIFTS
In FY 2018, 16,909 generous individuals, foundations and corporations gave $291.6 million in gifts and private grants to UW Medicine, setting a new fundraising record for the fourth consecutive year for UW Medicine and representing 41% of the total raised by the University. UW Medicine raised $141.0 million in gifts. This reflects an increase of $78.0 million in gifts over FY 2017 (an increase of 124.0 percent) and sets a new record for the most gifts received in a single year. Additionally, UW Medicine secured $150.5 million in private grants. The total campaign commitments, including new gifts, grants and pledges, total nearly $300.0 million for FY 2018. As of June 30, 2018, UW Medicine Advancement has secured $1.9 billion towards its $2.0 billion goal for the UW Campaign.
KEY STATISTICS & RESULTS

In FY 2018, UW Medicine revenues were approximately $5.5 billion. This represents an increase of 6.0 percent compared to FY 2017. The following charts summarize the sources of revenue for UW Medicine. Over the most recent four years, total combined UW Medicine revenue has increased at an average rate of 7.2 percent per year. These increases have occurred in the context of an extremely competitive local healthcare market, reductions in state and federal funding and increased competition for peer reviewed research grant funding. UW Medicine’s largest source of revenue is patient care revenue (62.8 percent).¹

¹ Other operating revenue includes revenue for self-sustaining departments, research and training, and other hospitals revenue.
KEY STATISTICS & RESULTS, continued

The following tables summarize combined operating revenue, net income (loss) and financial assistance for all UW Medicine organizations for FY 2017 and FY 2018.

### Operating Revenue ($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>FY 2017 (Audited)</th>
<th>FY 2018 (Audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harborview Medical Center</td>
<td>$998</td>
<td>$1,028</td>
</tr>
<tr>
<td>Northwest Hospital &amp; Medical Center</td>
<td>$359</td>
<td>$371</td>
</tr>
<tr>
<td>UW Medical Center</td>
<td>$1,183</td>
<td>$1,260</td>
</tr>
<tr>
<td>Valley Medical Center</td>
<td>$576</td>
<td>$637</td>
</tr>
<tr>
<td>Airlift Northwest</td>
<td>$53</td>
<td>$50</td>
</tr>
<tr>
<td>UW Neighborhood Clinics</td>
<td>$62</td>
<td>$61</td>
</tr>
<tr>
<td>UW Physicians</td>
<td>$256</td>
<td>$285</td>
</tr>
<tr>
<td>UW Medicine Shared Services</td>
<td>$265</td>
<td>$262</td>
</tr>
<tr>
<td>UW School of Medicine</td>
<td>$1,393</td>
<td>$1,500</td>
</tr>
<tr>
<td><strong>Combined Total UW Medicine</strong></td>
<td><strong>$5,145</strong></td>
<td><strong>$5,454</strong></td>
</tr>
</tbody>
</table>

### Net Income (Loss) ($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>FY 2017 (Audited)</th>
<th>FY 2018 (Audited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harborview Medical Center</td>
<td>$7</td>
<td>$(7)</td>
</tr>
<tr>
<td>Northwest Hospital &amp; Medical Center</td>
<td>$(26)</td>
<td>$(21)</td>
</tr>
<tr>
<td>UW Medical Center</td>
<td>$(44)</td>
<td>$(17)</td>
</tr>
<tr>
<td>Valley Medical Center</td>
<td>$(22)</td>
<td>$40</td>
</tr>
<tr>
<td>Airlift Northwest</td>
<td>$4</td>
<td>$(4)</td>
</tr>
<tr>
<td>UW Neighborhood Clinics</td>
<td>$(2)</td>
<td>$(3)</td>
</tr>
<tr>
<td>UW Physicians*</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>UW Medicine Shared Services</td>
<td>$0</td>
<td>$3</td>
</tr>
<tr>
<td>UW School of Medicine</td>
<td>$8</td>
<td>$8</td>
</tr>
<tr>
<td><strong>Combined Total UW Medicine</strong></td>
<td><strong>$(75)</strong></td>
<td><strong>$(1)</strong></td>
</tr>
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</table>

### Uncompensated Care ($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harborview Medical Center</td>
<td>$206</td>
<td>$238</td>
</tr>
<tr>
<td>Northwest Hospital &amp; Medical Center</td>
<td>$53</td>
<td>$48</td>
</tr>
<tr>
<td>UW Medical Center</td>
<td>$117</td>
<td>$128</td>
</tr>
<tr>
<td>Valley Medical Center</td>
<td>$41</td>
<td>$47</td>
</tr>
<tr>
<td><strong>Total UW Medicine</strong></td>
<td>$417</td>
<td>$461</td>
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</table>

*Results for UWP are shown after amounts available to the School of Medicine.

UW Medicine provided over $461.2 million in uncompensated care system-wide in FY 2018, which includes the uncompensated cost of providing Medicaid and Medicare, as well as financial assistance.

The cost of financial assistance for FY 2018 was $62.0 million compared to $57.0 million in FY 2017. Financial assistance has decreased since January 2014 as a result of the Medicaid expansion to previously uninsured patients and implementation of Healthcare Exchanges.
KEY STATISTICS & RESULTS, continued

The following table provides comparisons of key financial indicators for the four medical centers for FY 2018.

<table>
<thead>
<tr>
<th>Ratio/Indicator</th>
<th>HMC</th>
<th>NWH</th>
<th>UWMC</th>
<th>VMC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash Flow Margin²</td>
<td>3.8%</td>
<td>(2.4)%</td>
<td>3.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Debt to Capitalization³</td>
<td>0.0%</td>
<td>64.2%</td>
<td>70.2%</td>
<td>54.7%</td>
</tr>
<tr>
<td>Days Cash on Hand⁴</td>
<td>109.4</td>
<td>59.5</td>
<td>45.7</td>
<td>111.9</td>
</tr>
<tr>
<td>Days in A/R (Net)⁵</td>
<td>56.0</td>
<td>39.2</td>
<td>48.1</td>
<td>44.3</td>
</tr>
</tbody>
</table>

UWMC’s long-term debt to capitalization ratio increased from the prior year due to the adoption of the OPEB standard, which resulted in a reduction of unrestricted net position of $254.5 million. Without that reduction, the debt to capitalization ratio would be 44.4%.

HMC’s debt-to-capitalization ratio reflects the debt issued and supported through HMC revenues. Significant construction projects have been funded through tax payer supported debt.

UW Medicine is not rated independently from the University. As a significant part of the UW financial performance, UW Medicine contributes positively toward the UW Moody’s “Aaa” rating.

² Cash generated from medical center core activities expressed as a percentage of operating 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
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 disease 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>Statistic</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions</td>
<td>17,176</td>
<td>17,362</td>
<td>16,969</td>
<td>17,158</td>
<td>16,716</td>
</tr>
<tr>
<td>Patient Days</td>
<td>132,284</td>
<td>138,214</td>
<td>144,140</td>
<td>146,805</td>
<td>147,027</td>
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<tr>
<td>Outpatient Visits</td>
<td>247,349</td>
<td>247,615</td>
<td>252,435</td>
<td>258,666</td>
<td>262,132</td>
</tr>
<tr>
<td>Emergency Visits</td>
<td>64,512</td>
<td>62,217</td>
<td>59,776</td>
<td>58,847</td>
<td>57,516</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>7.7 days</td>
<td>8.0 days</td>
<td>8.5 days</td>
<td>8.6 days</td>
<td>8.8 days</td>
</tr>
<tr>
<td>Case Mix Index (CMI)</td>
<td>2.10</td>
<td>2.15</td>
<td>2.23</td>
<td>2.28</td>
<td>2.36</td>
</tr>
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Northwest Hospital & Medical Center

<table>
<thead>
<tr>
<th>Statistic</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
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<tbody>
<tr>
<td>Admissions</td>
<td>9,211</td>
<td>9,934</td>
<td>10,060</td>
<td>9,945</td>
<td>9,935</td>
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<tr>
<td>Patient Days</td>
<td>44,189</td>
<td>47,143</td>
<td>48,492</td>
<td>49,375</td>
<td>48,653</td>
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<tr>
<td>Outpatient Visits</td>
<td>193,387</td>
<td>195,031</td>
<td>197,132</td>
<td>174,257</td>
<td>169,370</td>
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<tr>
<td>Emergency Visits</td>
<td>34,276</td>
<td>36,149</td>
<td>35,106</td>
<td>34,150</td>
<td>33,651</td>
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<tr>
<td>Average Length of Stay</td>
<td>4.8 days</td>
<td>4.7 days</td>
<td>4.8 days</td>
<td>5.0 days</td>
<td>4.9 days</td>
</tr>
<tr>
<td>Case Mix Index (CMI)</td>
<td>1.43</td>
<td>1.46</td>
<td>1.50</td>
<td>1.53</td>
<td>1.52</td>
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University of Washington Medical Center

<table>
<thead>
<tr>
<th>Statistic</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions</td>
<td>18,033</td>
<td>18,092</td>
<td>18,362</td>
<td>18,964</td>
<td>19,350</td>
</tr>
<tr>
<td>Patient Days</td>
<td>124,513</td>
<td>126,239</td>
<td>132,529</td>
<td>132,403</td>
<td>136,568</td>
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<tr>
<td>Outpatient Visits</td>
<td>291,387</td>
<td>302,038</td>
<td>320,037</td>
<td>341,014</td>
<td>353,718</td>
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<tr>
<td>Emergency Visits</td>
<td>25,338</td>
<td>26,465</td>
<td>26,555</td>
<td>27,730</td>
<td>28,279</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>6.9 days</td>
<td>7.0 days</td>
<td>7.2 days</td>
<td>7.0 days</td>
<td>7.1 days</td>
</tr>
<tr>
<td>Case Mix Index (CMI)</td>
<td>2.02</td>
<td>2.13</td>
<td>2.24</td>
<td>2.25</td>
<td>2.27</td>
</tr>
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Valley Medical Center

<table>
<thead>
<tr>
<th>Statistic</th>
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<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discharges</td>
<td>16,693</td>
<td>17,174</td>
<td>17,518</td>
<td>18,153</td>
<td>18,409</td>
</tr>
<tr>
<td>Patient days</td>
<td>61,395</td>
<td>65,792</td>
<td>70,148</td>
<td>72,541</td>
<td>73,102</td>
</tr>
<tr>
<td>Outpatient Visits</td>
<td>403,169</td>
<td>471,780</td>
<td>499,814</td>
<td>529,092</td>
<td>624,802</td>
</tr>
<tr>
<td>Emergency Visits</td>
<td>73,763</td>
<td>81,250</td>
<td>83,067</td>
<td>83,907</td>
<td>85,098</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>3.7 days</td>
<td>3.8 days</td>
<td>4.0 days</td>
<td>4.0 days</td>
<td>4.0 days</td>
</tr>
<tr>
<td>Case Mix Index (CMI)</td>
<td>1.40</td>
<td>1.45</td>
<td>1.48</td>
<td>1.49</td>
<td>1.54</td>
</tr>
</tbody>
</table>

UW Neighborhood Clinics

<table>
<thead>
<tr>
<th>Statistic</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinic Visits</td>
<td>253,631</td>
<td>270,392</td>
<td>300,799</td>
<td>338,174</td>
<td>372,413</td>
</tr>
<tr>
<td>New Patients</td>
<td>21,530</td>
<td>24,209</td>
<td>31,632</td>
<td>37,086</td>
<td>43,743</td>
</tr>
</tbody>
</table>
RESEARCH PROGRAMS

UW Medicine research awards have decreased at a cumulative average (CAGR) of 3.0 percent over the last five years in both federal and non-federal funding. However, $84 million of FY 2013 federal awards were not recorded by the UW until FY 2014, due to the March 2013 federal sequestration and a UW systems update. If FY14 awards are adjusted for these timing events, Federal awards 5 Year CAGR would have been 2.0 percent and total awards CAGR would have been 0.4 percent.

FY 2017 awards of $1,010.8 million included a ten-year, $280.0 million award from the Bill and Melinda Gates Foundation to the UW School of Medicine Institute for Health Metrics and Evaluation. The following table summarizes UW-based School of Medicine research awards over the past five UW fiscal years.

<table>
<thead>
<tr>
<th>Organization</th>
<th>2013 NIH Awards</th>
<th>2014 NIH Awards</th>
<th>2015 NIH Awards</th>
<th>2016 NIH Awards</th>
<th>2017 NIH Awards</th>
<th>5-yr CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvard</td>
<td>$1,370.7</td>
<td>$1,412.9</td>
<td>$1,419.6</td>
<td>$1,430.4</td>
<td>$1,523.1</td>
<td>2.7%</td>
</tr>
<tr>
<td>U of Washington</td>
<td>$557.7</td>
<td>$646.8</td>
<td>$606.2</td>
<td>$638.9</td>
<td>$706.7</td>
<td>6.1%</td>
</tr>
<tr>
<td>UCLA</td>
<td>$439.2</td>
<td>$416.2</td>
<td>$472.9</td>
<td>$600.2</td>
<td>$621.6</td>
<td>9.1%</td>
</tr>
<tr>
<td>Johns Hopkins</td>
<td>$511.7</td>
<td>$528.4</td>
<td>$521.6</td>
<td>$564.9</td>
<td>$593.0</td>
<td>3.8%</td>
</tr>
<tr>
<td>U of Pennsylvania</td>
<td>$516.0</td>
<td>$550.5</td>
<td>$514.2</td>
<td>$535.0</td>
<td>$565.7</td>
<td>2.3%</td>
</tr>
<tr>
<td>UCSF</td>
<td>$524.7</td>
<td>$549.0</td>
<td>$531.1</td>
<td>$577.4</td>
<td>$555.3</td>
<td>1.4%</td>
</tr>
<tr>
<td>Columbia</td>
<td>$366.4</td>
<td>$373.2</td>
<td>$399.5</td>
<td>$461.1</td>
<td>$491.9</td>
<td>7.6%</td>
</tr>
<tr>
<td>U of Pittsburgh</td>
<td>$344.9</td>
<td>$369.6</td>
<td>$399.6</td>
<td>$476.7</td>
<td>$484.7</td>
<td>8.9%</td>
</tr>
<tr>
<td>Washington U</td>
<td>$325.3</td>
<td>$356.3</td>
<td>$352.3</td>
<td>$374.0</td>
<td>$470.3</td>
<td>9.7%</td>
</tr>
<tr>
<td>Michigan</td>
<td>$346.3</td>
<td>$350.8</td>
<td>$385.4</td>
<td>$402.2</td>
<td>$435.1</td>
<td>5.9%</td>
</tr>
<tr>
<td>Stanford</td>
<td>$329.6</td>
<td>$354.7</td>
<td>$375.3</td>
<td>$383.3</td>
<td>$408.8</td>
<td>5.5%</td>
</tr>
<tr>
<td>Duke</td>
<td>$314.6</td>
<td>$324.9</td>
<td>$326.3</td>
<td>$369.6</td>
<td>$392.5</td>
<td>5.7%</td>
</tr>
<tr>
<td>Vanderbilt</td>
<td>$322.2</td>
<td>$337.5</td>
<td>$344.3</td>
<td>$353.3</td>
<td>$389.9</td>
<td>4.9%</td>
</tr>
<tr>
<td>Yale</td>
<td>$347.9</td>
<td>$342.9</td>
<td>$344.3</td>
<td>$359.6</td>
<td>$384.8</td>
<td>2.6%</td>
</tr>
<tr>
<td>NYU</td>
<td>$255.9</td>
<td>$340.7</td>
<td>$324.3</td>
<td>$310.8</td>
<td>$381.9</td>
<td>10.5%</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 2019

As an integral part of preparing the UW Medicine Annual Budget, the boards and senior leaders at each individual UW Medicine organization, 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 2019 regarding global risks shared across all of UW Medicine as well as specific risks identified at the individual organization level.

UW MEDICINE FY 2019 FINANCIAL RISKS
LOOKING FORWARD: FY 2019, continued

REVENUES AND EXPENSES
UW Medicine is approaching FY 2019-2020 as transformative years in which we will work together to continue to improve the financial performance across the enterprise through the hardwiring of Project FIT. Project FIT focuses on substantial transformation of every facet of our business. We are working collaboratively to maximize our clinical delivery system capacity, continuing to streamline our cost structure and focusing on infrastructure investments necessary to achieve future efficiencies. In FY 2019 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 reflect continued pressure from government payers such as Medicare and Medicaid, continued shifts within our commercial payers to lower paying plans and continued reduction of fee-for-service based payments to reimbursement based on value (quality, patient access and patient satisfaction). For the same time period expense inflation factors have been applied to the cost of supplies, labor and equipment, putting additional pressure on margins. Our commitment to our future financial success is strong and we are focused on achieving our Project FIT goals for FY 2019-2020 and beyond, in order to position us to be able to execute on our strategic priorities.

INFORMATION TECHNOLOGY (IT)
Strategic IT investments are a priority at 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. In 2018, the Board of Regents approved the UW Medicine Clinical Transformation project (now called Destination: One), which kicked off in October, 2018. This project includes the implementation of one electronic medical record platform as well as revamping the way we do our work to ensure improved efficiencies and standardization. In addition to an improved patient experience, we anticipate savings in IT costs, revenue cycle improvements and quality/safety improvements. 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. Additionally, UW Medicine is collaborating with UW Administration in the readiness phase of the implementation of a new financial system known as Finance Transformation that will impact the entire University.

ACCOUNTABLE CARE NETWORK (ACN) RISK
As the number of UW Medicine ACN agreements grows the risk to UW Medicine increases. The financial impact of the Boeing contract for FY 2017 was significantly higher than FY 2016. In August 2017, we successfully negotiated a new four year contract with Boeing that better aligns risks and incentives to achievable outcomes. The addition of the contract for state employees as of January 1, 2016 resulted in an insignificant negative impact in 2016. The performance in 2017 was a slight deterioration. 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.
LOOKING FORWARD: FY 2019, continued

UW MEDICINE’S FIVE AREAS OF FOCUS FOR FY 2019 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.
   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 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.

2. Continued achievement of Project FIT.
   a. Improve margins by FY 2020 in order to generate the capital necessary to continue to invest in our future under solid financial footing.
   b. Focused development and execution of the key initiatives identified in Project FIT, including increasing revenues through the growth of clinical services, reducing costs through a number of initiatives related to labor, productivity, supply pricing and utilization and investing in our infrastructure.
   c. As initiatives mature and financial impacts are quantified with more certainty, it will be necessary to adjust and re-evaluate our work in order to achieve the impact that has been identified as our goal.

3. 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. Forming a clinical integrated network with MultiCare to provide cost effective and clinical integrated healthcare in communities throughout the Puget Sound region while supporting the education of the next generation of clinicians and advancing research.
   c. Reducing the cost of healthcare by standardizing care protocols based on evidence-based research.
   d. Improving the experience of care by focusing on quality, safety, service and access.
   e. Leading the UW Medicine Accountable Care Network (including Overlake Hospital, MultiCare, Capital Medical Center, PeaceHealth, Skagit Valley Hospital, Cascade Hospital, Island Hospital, Evergreen Health Network, 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.
   f. Providing cost-effective and clinically integrated healthcare in communities throughout the Puget Sound region while supporting the education of the next generation of clinicians and advancing research, through the newly formed alliance between UW Medicine and MultiCare.
   g. Meeting and exceeding expectations and requirements relative to the Boeing and Health Care Authority contracts.
LOOKING FORWARD: FY 2019, continued

4. 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. UW Medicine leadership will play an important role in improving mental health services for those in need in our community as well as improving healthcare equity.

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 in 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

Kristi Blake, Ex Officio Board Member
- Member of the UW Board of Regents
- President of Kristianne Gates Blake, PS. Kristi served as a partner with Deloitte, Haskins & Sells prior to starting her own firm in 1987. She 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 Bachelor of Arts in business administration from the University of Washington.

Bernadene “Bernie” Dochnahl, Board Member
- Principal of DENBE of Renton, LLC, a commercial management and development company. Previously Bernie had served in executive leadership at Puget Sound Energy and she lead the health reform agency for Governor Mike Lowry in the mid-1990s.
- Community board service includes Harborview Medical Center board of trustees, Valley Medical Center board, chair of the Mutual of Enumclaw Property and Casualty Insurance Board of Trustees, as well as service on the Washington State Health Insurance Pool and the Center for Women & Democracy.
- Bernie graduated magna cum laude from the University of Washington business school in accounting.
- Over 25 years of experience leading and motivating people to focus on customer satisfaction and business success.

Robert Gerth, Board 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.

Terry Lengfelder, Board Member
- Member of the UW Medicine/Northwest 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.

Peter van Oppen, Board Member & 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 Bachelor of Arts in political science from Whitman College and a Harvard MBA, where he was a Baker Scholar.

Rogelio Riojas, Ex Officio Board Member
- Member of the UW Board of Regents
- President and CEO of Sea Mar Community Health Centers since 1978. Sea Mar is a health and human services non-profit organization committed to providing quality, comprehensive health, human and housing services to diverse communities.
- Bachelor of Science in economics and political science and Masters in health administration from the University of Washington.

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 (GAFFS), 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. Berkeley, School of Natural Resources, and a Master of Health Administration from the University Of Washington School of Public Health & Community Medicine.

Jane Stonecipher, Board Member
- Interim Executive Director of The Arboretum Foundation.
- 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 an MBA from Harvard Business School and an accounting degree from the University of Alabama.
NON-VOTING MEMBERS

UW Medicine

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
Lisa Brandenburg, chief health system officer, UW Medicine, and vice president for medical affairs, University of Washington
Ruth Mahan, J.D., chief business officer, UW Medicine, and vice president for medical affairs, University of Washington
Jacqueline Cabe, chief financial officer, UW Medicine, and vice president for medical affairs, University of Washington
Carlos Pellegrini, M.D., chief medical officer, UW Medicine, and vice president for medical affairs, University of Washington
Maureen Broom, enterprise finance officer, and associate vice president, UW Medicine
Mark Green, J.D., vice dean for Administration and Finance, University of Washington
Mary Fran Joseph, associate dean for Administration and Finance, University of Washington

Practice Plans

Tim Dellit, M.D., president, UW Physicians

Hospitals/Clinics

Cindy Hecker, executive director, Northwest Hospital & Medical Center
Debra Gussin, executive director, UW Neighborhood Clinics
Paul Hayes, executive director, Harborview Medical Center
Jeannine Grinnell, chief financial officer, Valley Medical Center
Geoff Austin, executive director, UW Medical Center
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 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 bylaws, the finance & audit committee shall be accountable to the board and responsible for reviewing and evaluating the financial results, plans and audits of UW Medicine and its component entities1 and for preparing the chair of the board to advise the University of Washington (UW) 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 board financial report to the UW Board of Regents and the president in conformance with Section 1.4.2 of the board bylaws.

The committee shall keep the board 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 board at the next meeting of the board 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 (UW Medicine Board 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 (NWH), Valley Medical Center (VMC), UW Medical Center (UWMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), UW School of Medicine (UW SoM), Airlift Northwest (Airlift) 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 board 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 nonfinancial 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;
- Oversee compliance activities in the following areas:
  - Tax exempt status;
  - Charity care;
  - Collections policy;
  - Compliance matters that involve potential material financial impact; and
- Other duties assigned by the board.

Committee Member Composition

In conformance with Section 4.5.2 of the board bylaws, the chair and voting members of the committee shall be appointed by the chair of the board in consultation with the CEO/EVPMA/Dean. Voting members include:

- At least four board members, including the chair of the committee, the chair of the UWMC committees of the board, and two additional board members appointed by the board chair; and
- Community members who are not members of the board.
Board 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 financial officer, UW Medicine/vice president for medical affairs, University of Washington (CFO/VPMA);
- 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);
- Enterprise finance officer, UW Medicine/associate vice president for medical affairs, University of Washington;
- Vice dean for administration and finance, School of Medicine;
- Associate dean for administration and finance, School of Medicine;
- Chief financial officer, VMC
- Executive directors, HMC, UWMC, UWP, NWH and UWNC;
- Chief executive officer, VMC
- President UWP; and
- 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 the board's and the committee's duties and responsibilities.

Committee Decision-Making Processes

Consistent with Section 4.5.4 of the board 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 board 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 board bylaws, the finance & audit committee shall meet at the call of the chair 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 CFO/VPMA.

Voting members of the committee will be oriented to their roles and responsibilities in a joint meeting with the committee chair and the CFO/VPMA.

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 CFO/VPMA.

The committee shall conduct a review of the committee charter at least annually, and amendments to the charter shall be submitted to the board for review and approval.

Other Committee Items

None.

***************

Approved by the Committee and Recommended to the UW Medicine Board

[Signature]
Committee Chair

1/18/18
Date

Approved by the UW Medicine Board

[Signature]
Chair of the UW Medicine Board

1/18/18
Date

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VOTING MEMBERS

Kristi Blake, Committee Member
- Former member of the UW Board of Regents
- President of Kristianne Gates Blake, PS. Kristi served as a partner with Deloitte, Haskins & Sells prior to starting her own firm in 1987. She 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, YMAC 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 Bachelor of Arts in business administration from the University of Washington.

Brad Brown, Committee Member
- Retired Senior Vice President of Digital Retail for Recreational Equipment Incorporated (REI), having held executive leadership positions with the company since 1998. In his SVP position Brad was responsible for REL.com, REI-outlet.com, mobile web platforms, and a direct sales team in Sumner, WA.
- Career spanning over 40 years of retail leadership in information technology and e-commerce.
- Community board service includes the board of directors for UW Medical Center, Asheville Farmstead School, Bikes Belong Coalition, and Shop.org, the digital division of the National Retail Federation.
- Brad holds a Bachelor of Arts in accounting from Central Washington University and an MBA from Seattle University.

Bernadene "Bernie" Dochnahl, Board Member & Committee Chair
- Principal of DENBE of Renton, LLC, a commercial management and development company. Previously Bernie had served in executive leadership at Puget Sound Energy and she lead the health reform agency for Governor Mike Lowry in the mid-1990s.
- Community board service includes Harborview Medical Center board of trustees, Valley Medical Center board, chair of the Mutual of Enumclaw Property and Casualty Insurance Board of Trustees, as well as service on the Washington State Health Insurance Pool and the Center for Women & Democracy.
- Bernie graduated magna cum laude from the University of Washington business school in accounting.
- Over 25 years of experience leading and motivating people to focus on customer satisfaction and business success.

Terry Lengfelder, Committee Member
- Member of the UW Medicine/Northwest 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.

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. Berkeley, School of Natural Resources, and a Master of Health Administration from the University Of Washington School of Public Health & Community Medicine.

Jane Stonecipher, Committee Member
- Interim Executive Director of The Arboretum Foundation.
- 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 an MBA from Harvard Business School and an accounting degree from the University of Alabama.
UW MEDICINE FINANCE AND AUDIT COMMITTEE: FY 2019 ROSTER, AS OF NOVEMBER 9, 2018, continued

NON-VOTING MEMBERS

UW Medicine

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
Lisa Brandenburg, chief health system officer, UW Medicine, and vice president for medical affairs, University of Washington
Ruth Mahan, J.D., chief business officer, UW Medicine, and vice president for medical affairs, University of Washington
Jacqueline Cabe, chief financial officer, UW Medicine, and vice president for medical affairs, University of Washington
Carlos Pellegrini, M.D., chief medical officer, UW Medicine, and vice president for medical affairs, University of Washington
Maureen Broom, enterprise finance officer, and associate vice president, UW Medicine
Mary Fran Joseph, associate dean for Administration and Finance, University of Washington

Practice Plans

Tim Dellit, M.D., president, UW Physicians

Hospitals/Clinics

Cindy Hecker, executive director, Northwest Hospital & Medical Center and UW Medical Center
Paul Hayes, executive director, Harborview Medical Center
Jeannine Grinnell, chief financial officer, Valley Medical Center
Geoff Austin, chief operating officer, Northwest Hospital & Medical Center and UW Medical Center
UW Medicine Finance & Audit Committee Charter

Committee Name

UW Medicine Finance & Audit Committee

Committee Establishment and Authority

This committee is established by 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). The work of this committee will be reported to the University of Washington Board of Regents.

Committee General Duties

The finance & audit committee shall be accountable to the CEO/EVPMA/Dean and responsible for reviewing and evaluating the financial results, plans and audits of UW Medicine and its component entities and for advising the CEO/EVPMA/Dean regarding the implementation and effectiveness of UW Medicine's finance and audit programs. As to organizations that are partially owned by UW Medicine or operated as part of UW Medicine, the committee shall be responsible to advise as to whether UW Medicine, within the powers it has under governing documents of the organization or definitive agreements with UW Medicine, assures that the organization has effective financial programs. The committee shall also participate in the development of the annual UW Medicine financial report to the UW Board of Regents and the president in conformance with the standing orders of the University of Washington Board of Regents Chapter 4, section 1.E.3) a) iii).

The committee shall keep the CEO/EVPMA/Dean informed of its activities and findings concerning the implementation and effectiveness of UW Medicine finance and audit programs.

Committee Specific Duties and Responsibilities

Duties of the committee shall include but are not limited to advising on the following:

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

In addition, the committee shall carry out the following functions, to advise the UW Medicine CEO/EVPMA/Dean:

1 UW Medicine includes Harborview Medical Center (HMC), Northwest Hospital & Medical Center (NWH), Valley Medical Center (VMC), UW Medical Center (UWMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), UW School of Medicine (UW SoM) and Afflilite Northwest (Affl), and UW Medicine's partial ownership of Children's University Medical Group (CUMG), Children's Cancer Care Alliance (SCCA), and BCGH-UW Medicine Healthcare Holdings, LLC.
• 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- to 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;
• At the request of the CEO/EVPMA/Dean, review financial implications of proposed strategic alliances to assess risk and opportunity;
• Oversee compliance activities in the following areas:
  o Tax exempt status;
  o Charity care;
  o Collections policies;
  o Compliance matters that involve potential material financial impact; and
• Other duties assigned by the CEO/EVPMA/Dean.

Committee Member Composition

The chair and voting members of the committee shall be appointed by the CEO/EVPMA/Dean.

Committee 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 financial officer, UW Medicine/vice president for medical affairs, University of Washington (CFO/VPMA);
• 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);
• Enterprise finance officer, UW Medicine/associate vice president for medical affairs, University of Washington;
• Associate dean for administration and finance, School of Medicine;
• Chief financial officer, VMG;
• Executive directors, HMC, UWMC, UWP and NWH;
• Chief executive officer, VMG;
• President UWP; and
• Other nonvoting 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 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;
• A commitment to act in the best interests of UW Medicine; and
• Finance, accounting, business and/or investment management experience commensurate with the board's and the committee's duties and responsibilities.

Committee Decision-Making Processes

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 CEO/EVPMA/Dean, and committee work and recommendations will be reported to the University Board of Regents on an annual basis or more frequently if appropriate.

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

The finance & audit committee shall meet at the call of the chair 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 CFO/VPMA.

Voting members of the committee will be oriented to their roles and responsibilities in a joint meeting with the committee chair and the CFO/VPMA.
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 CFO/VPMA.

The committee shall conduct a review of the committee charter at least annually, and amendments to the charter shall be submitted to the CEO/EVPMA/Dean for review and approval.

Other Committee Items

None.

Approved by the Committee and Recommended to the CEO/EVPMA/Dean of UW SoM

[Signature]
Committee Chair

1/24/19
Date

Approved by the CEO/EVPMA/Dean of UW SoM

[Signature]
CEO/EVPMA/Dean of UW SoM

1/24/19
Date