UW MEDICINE SELECT UNITS – UW DIVISION

Basic Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

UW MEDICINE SELECT UNITS – UW DIVISION

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KPMG LLP
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Independent Auditors' Report

The Board of Regents
University of Washington:

Opinion

We have audited the financial statements of the UW Medicine Select Units – UW Division (the Group) as of and for the year ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Group as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Group and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

Reporting Entity

As discussed in note 1, the financial statements of the Group, which are divisions, departments, and component units of the University of Washington (the University), are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the University that is attributable to the transactions of the Group. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2022 or 2021, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in note 2, in fiscal year 2022, the Group adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 21 and the schedules of required supplementary information on pages 80 through 85 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Group's basic financial statements. The combining statements of net position and combining statements of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Seattle, Washington
October 14, 2022

The following discussion and analysis provides an overview of the financial position and activities of the UW Medicine Select Units – UW Division (the Group) for the years ended June 30, 2022 and 2021. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts. It should be read in conjunction with the basic financial statements and accompanying notes that follow this section.

The Group consists of divisions, departments, and component units of the University of Washington (the University) and includes: University of Washington Medical Center (UW Medical Center), UW Physicians Network dba UW Neighborhood Clinics (Neighborhood Clinics), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift), and shared service departments that support the entire UW Medicine enterprise. UW Medicine is a learning, research, and clinical health system comprised of multiple legal entities that share the UW Medicine mission to improve the health of the public. Also part of UW Medicine, but not included in these financial statements, are Harborview Medical Center (Harborview) as operated and managed by the University under the Hospital Services Agreement between King County and the University, Public Hospital District No. 1 of King County, Washington dba Valley Medical Center (VMC), Fred Hutchinson Cancer Center (FHCC), and the University of Washington School of Medicine (the School).

Using the Financial Statements

The financial report consists of two parts: management's discussion and analysis and the basic financial statements. The Group's basic financial statements consist of three statements: statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows. These financial statements and related notes provide information about the activities of the Group, including resources held by the Group but restricted for specific purposes by contributors, grantors, or enabling legislation.

The statements of net position include all of the Group's assets and liabilities using the accrual basis of accounting as well as an indication about which assets can be used for general purposes and which are designated for a specific purpose. The statements of net position also include information to evaluate the capital structure of the Group, and assess the liquidity and financial flexibility of the organization.

The statements of revenues, expenses, and changes in net position report all revenues, expenses, and other activity affecting net position during the time period indicated. Net position, the difference between assets and liabilities, is one way to measure the financial health of the Group and whether the organization has been able to recover all costs through net patient service revenues and other revenue sources.

The statements of cash flows report the cash provided by the Group's operating activities, as well as other cash sources, such as investment income, cash payments for capital additions and improvements, and payments for debt service, interest payments, and funding to and from affiliates. The statements provide meaningful information on where the Group's cash was generated and what it was used for.

Results of Operations

For the fiscal year ended 2022, the Group experienced high admissions, occupancy, and length of stay. The Group has focused on maintaining appropriate staffing levels, but experienced increased labor costs due to staffing shortages, high volumes, and the need to incur additional contract labor costs. These factors created significant pressure on the Group's operating expenses during the year.

(Dollar amounts in millions)

Further, the actuarial adjustments for pension and other postretirement obligations have caused unpredictable large swings in the Group's operating expenses over the past several years. The chart below shows the income (loss) before capital appropriations and other adjusted for pension and other postretirement obligations as if they were recorded on a cash basis, rather than an accrual basis. No other noncash items were adjusted from income for purposes of this adjusted income calculation. On this basis, for the years ended June 30, 2022, 2021, and 2020 the Group's total income (loss) before capital appropriations and other were $27.4 million, $120.6 million and $(43.1) million, respectively.

		2022	2021	2020
Income (loss) before capital appropriations and other	$	172.9	173.3	(6.9)
Adjustment for net pension and other postemployment benefit actuarial and assumption changes		(145.5)	(52.7)	(36.2)
Adjusted income (loss) before capital appropriations and other	$	27.4	120.6	(43.1)

The Group reported income from operations of $56.5 million and an increase in net position of $229.2 million for the year ended June 30, 2022 compared to income from operations of $49.7 million and an increase in net position of $203.5 million for the year ended June 30, 2021. The increase in net position in fiscal year 2022 is attributed to a $144.5 million noncash reduction in operating expenses as a result of adjustments related to actuarial and assumption changes to pension and other postretirement obligations which offset increased operating expenses, specifically an increase in utilization of contract labor driven by shortages in permanent staff and high admissions.

The Group reported income from operations of $49.7 million and an increase in net position of $203.5 million for the year ended June 30, 2021 compared to a loss from operations of $88.5 million and a decrease in net position of $0.8 million for the year ended June 30, 2020. The increase in net position in fiscal year 2021 is attributed to strong volumes and an increase in contract pharmacy revenues. Additionally, the Group experienced an increase in nonoperating revenues due to equity earnings from Seattle Cancer Care Alliance, state appropriations, and receipt and recognition of provider relief funds. In fiscal year 2021, operating income includes a $52.5 million reduction in operating expenses as a result of adjustments related to actuarial and assumption changes to pension and other postretirement obligations.

The novel coronavirus (COVID-19) was identified in China in December 2019 and the first case in Washington State was discovered in January 2020. COVID-19 has spread globally creating a pandemic, which has significantly impacted the economic conditions at a local, national, and international level. On February 29, 2020, the governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address coronavirus in Washington and the forecasted potential surge of COVID-19 patients. On March 13, 2020, President Trump declared a national state of emergency with respect to the COVID-19 outbreak, ordering all states to establish emergency operations and authorizing the use of federal funds. Both the national state of emergency and Washington state of emergency continued through fiscal year 2022. COVID-19 cases fluctuated throughout the fiscal year and the Group experienced COVID-19 surges. In response to the many COVID-19 surges, the Group cancelled or postponed certain inpatient non-emergent and elective procedures in order to preserve inpatient capacity. In fiscal years 2022 and 2021, the Group received

(Continued)

(Dollar amounts in millions)

governmental funding through the Coronavirus Aid, Relief and Economic Security (CARES) Act and the American Rescue Plan Act (ARPA) of $15.2 million and $34.6 million, respectively, to aid in the recovery of lost revenues and has also received donations and other funds to provide care and vaccinations to the community. Additionally, in fiscal year 2021, UW Medical Center was awarded a one-time state appropriation of $35.0 million to partially cover lost revenues from the COVID-19 pandemic that were not recovered by other funding.

		2022	2021	2020
Operating revenues:				
Net patient service revenues	$	1,883.1	1,777.4	1,633.5
UWP billing revenues, net		391.8	367.0	326.4
Other revenue		286.5	321.7	279.6
Total operating revenues		2,561.4	2,466.1	2,239.5
Operating expenses:				
Salaries, wages, and benefits		1,300.2	1,237.8	1,234.2
Other		1,204.7	1,178.6	1,093.8
Total operating expenses		2,504.9	2,416.4	2,328.0
Income (loss) from operations		56.5	49.7	(88.5)
Nonoperating revenues (expenses):				
Investment income, net		2.7	2.7	2.4
Interest expense		(26.6)	(25.3)	(17.9)
Federal stimulus funding		15.2	34.6	65.6
Other, net		125.1	111.6	31.5
Nonoperating revenues, net		116.4	123.6	81.6
Income (loss) before capital appropriations and other		172.9	173.3	(6.9)
Capital appropriations and other		56.3	30.2	6.1
Increase (decrease) in net position		229.2	203.5	(0.8)
Net position, beginning of year		325.0	121.5	122.3
Net position, end of year	$	554.2	325.0	121.5

(Dollar amounts in millions)

The following chart represents key statistics of the Group for June 30, 2022, 2021, and 2020:

	2022	2021	2020
Licensed beds	810	810	810
Admissions	27,583	27,320	26,998
Patient days	202,070	185,389	178,545
Average length of stay	7.33	6.79	6.61
Case mix index (CMI)	2.21	2.15	2.19
Surgery cases	27,248	28,626	25,557
Emergency room visits	61,146	55,781	56,895
Primary and urgent care clinic visits	350,606	329,662	383,434
Specialty care clinic visits	451,952	418,389	421,879
Births	3,692	3,314	3,071
Solid organ transplants	411	489	400
Relative Value Units (RVU) volume	10,523,138	9,113,765	7,627,420
Airlift flights	4,286	3,422	3,145
Full-time equivalents (FTEs)	8,868	8,512	8,491

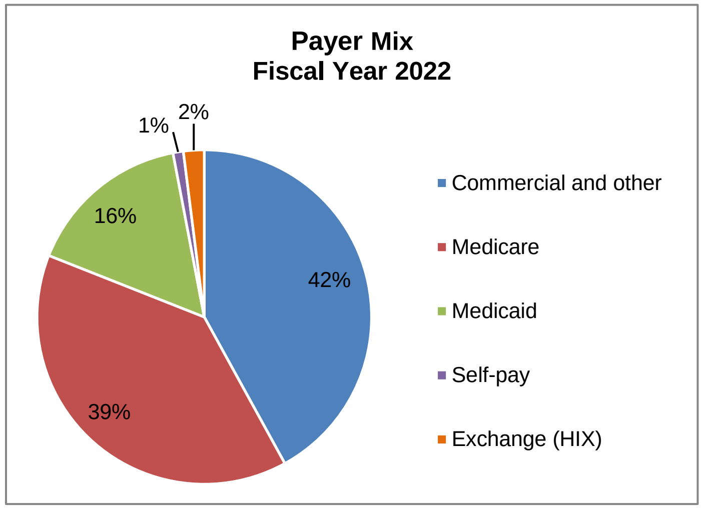
Operating Revenues

Operating revenues consist primarily of net patient service revenues, UWP billing revenues, net, and other revenue. Net patient service revenues are recorded based on standard billing charges less contractual adjustments, financial assistance, and provision for uncollectible accounts. The Group has agreements with federal and state agencies as well as commercial payers that provide for payments at amounts that differ from gross charges. The Group provides care at no charge to patients who qualify under the Group's financial assistance policy. In addition, the Group estimates the amount of patient responsibility accounts receivable that will become uncollectible, which is reported as a reduction of net patient service revenues. The difference between gross charges and the estimated net realizable amounts from payers and patients is recorded as an adjustment to charges. The resulting net patient service revenues are shown in the statements of revenues, expenses, and changes in net position.

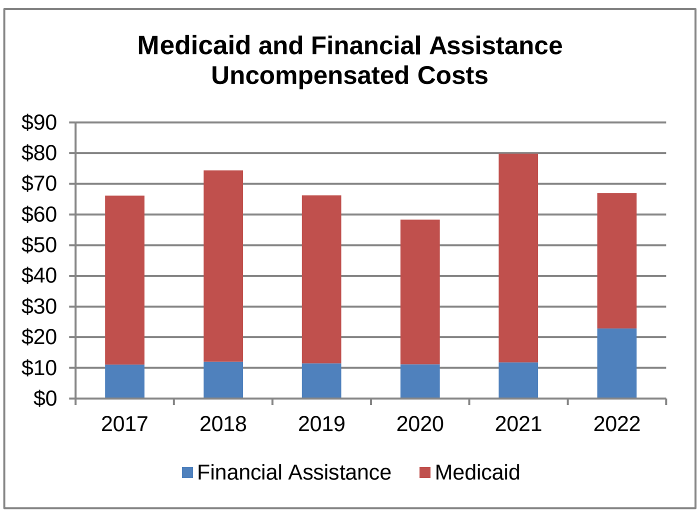
Net patient service revenues include inpatient, outpatient, and flight revenues. Outpatient revenue consists of hospital-based, ambulatory, and retail pharmacy revenues. UWP billing revenues are limited to its operating expenses based on the operating agreement between the University and UWP. Other revenue is comprised of revenues from activities such as contract pharmacy, parking, and cafeteria sales.

(Continued)

The Group's payer mix is a key factor in the overall financial operating performance. The chart to the right illustrates payer mix for fiscal year 2022 gross patient service revenue. For the years ended June 30, 2022 and 2021, commercial revenue represented 42% and 43%, respectively; Medicare revenue represented 39% and 37%, respectively; Medicaid revenue represented 16% and 17%, respectively; exchange revenue represented 2% for both years; and self-pay revenue represented 1% for both years.



Uncompensated care costs, as illustrated in the chart below, represent costs in excess of payments for Medicaid and financial assistance patients. This chart represents UW Medical Center and does not include all uncompensated costs such as providing care to Medicare patients. Over the past several years, the cost of providing financial assistance care to patients has increased.

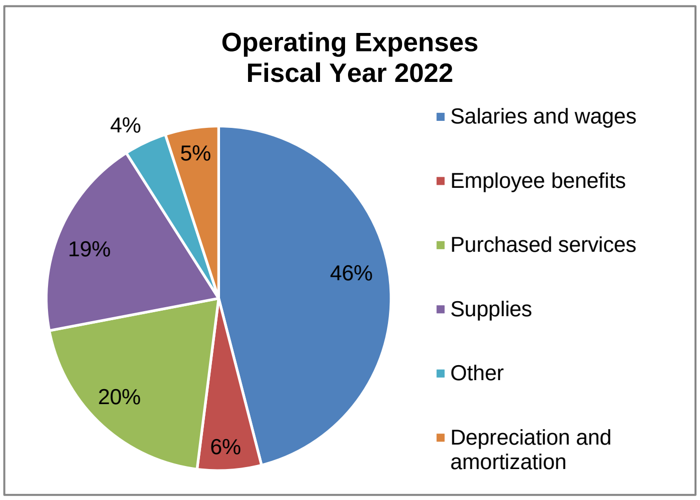


Reimbursement from governmental payers is less than commercial rates. Reimbursement rules are both complex and subject to interpretation and settlements.

For the years ended June 30, 2022, 2021, and 2020 the Group's total operating revenues were $2,561.4 million, $2,466.1 million, and $2,239.5 million, which was comprised of $1,883.1 million, $1,777.4 million, and $1,633.5 million in net patient service revenues, $391.8 million, $367.0 million, and $326.4 million in UWP billing revenues, net, and $286.5 million, $321.7 million, and $279.6 million in other revenues, respectively.

The increase in operating revenues between fiscal years 2021 and 2022 of 3.9% was driven by a 5.9% increase in net patient service revenues due to higher length of stay and case mix acuity. UWP billing revenues, net increased 6.8% between fiscal year 2021 and 2022 due to higher volumes.

The increase in operating revenues between fiscal years 2020 and 2021 of 10.1% was driven by an 8.8% increase in net patient service revenues due to an increase in volumes. UWP billing revenues, net and other revenues increased 13.7% between fiscal years 2020 and 2021 due to higher contract pharmacy revenue and an increase in professional fee revenue due to having a full fiscal year's worth of activity related to new providers at UW Medical Center's Northwest campus. Both net patient services revenues and UWP billing revenues increased as the mandatory cancellation of non-emergent and elective procedures did not occur in fiscal year 2021.



Operating Expenses

Operating expenses were $2,504.9 million for the fiscal year 2022 compared to $2,416.4 million for the fiscal year 2021 and $2,328.0 million for fiscal year 2020. The composition of fiscal year 2022 operating expenses is illustrated in the chart to the left.

Salaries and wages expense increased $152.1 million from $999.5 million in fiscal year 2021 to $1,151.6 million in fiscal year 2022. The increase in salaries and wages expense was primarily attributed to additional staffing needs due to an increase in volumes and increasing labor costs in the market.

Salaries and wages expense increased $17.4 million from $982.1 million in fiscal year 2020 to $999.5 million in fiscal year 2021. The increase in salaries and wages expense was primarily attributed to greater FTEs and higher contract labor utilization. Contract labor increased as a result of demand nationwide associated with COVID-19 and resulting staffing shortage.

Employee benefits expense decreased $89.7 million from $238.3 million in fiscal year 2021 to $148.6 million in fiscal year 2022. Between fiscal year 2021 and fiscal year 2022, the decrease in employee benefits expense is the result of change in noncash actuarial and assumption changes to pension obligations driven by the amortization of Public Employees' Retirement System (PERS) deferred inflows associated with better than expected returns and expected earnings on plan investments.

Employee benefits expense decreased $13.8 million from $252.1 million in fiscal year 2020 to $238.3 million in fiscal year 2021. Between fiscal year 2020 and fiscal year 2021, the University benefit load rate for classified and professional employees decreased because of reduced healthcare expenses and employer pension contributions.

Purchased services expense, consisting of professional fees, consulting fees, and clinical department funding, increased $19.2 million from $494.1 million in fiscal year 2021 to $513.3 million in fiscal year 2022. The increase in purchased services expense is attributed to an increase in the School clinical department funding, representing fees paid to physicians providing services to the Group but not employed by the Group.

Purchased services expense increased $16.9 million from $477.2 million in fiscal year 2020 to $494.1 million in fiscal year 2021. The increase in purchased services expense is attributed to UWP having 12 months of expense for certain employees who transitioned employment to the University on January 1, 2020. In addition, the increase in purchased services expense was driven by an increase in consulting fees at UW Medicine IT Services due to Destination: One, the implementation of a single electronic health record system, which allowed UW Medicine to improve the experience for its patients as well as to achieve clinical quality, safety and workflow efficiencies through standardization. Destination: One was fully implemented in March 2021.

Supplies expense includes medical and surgical, pharmaceutical, and nonmedical supplies. In total, these expenses increased $9.5 million from $474.8 million in fiscal year 2021 to $484.3 million in fiscal year 2022. Supplies expense was driven by higher surgical supplies, blood, and prosthesis as a result of greater volumes and acuity.

Supplies expense increased $45.3 million from $429.5 million in fiscal year 2020 to $474.8 million in fiscal year 2021. Supplies expense was driven by higher medical supplies and pharmaceutical expense associated with an increase in contract pharmacy and other pharmaceutical costs.

Nonoperating Revenues (Expenses)

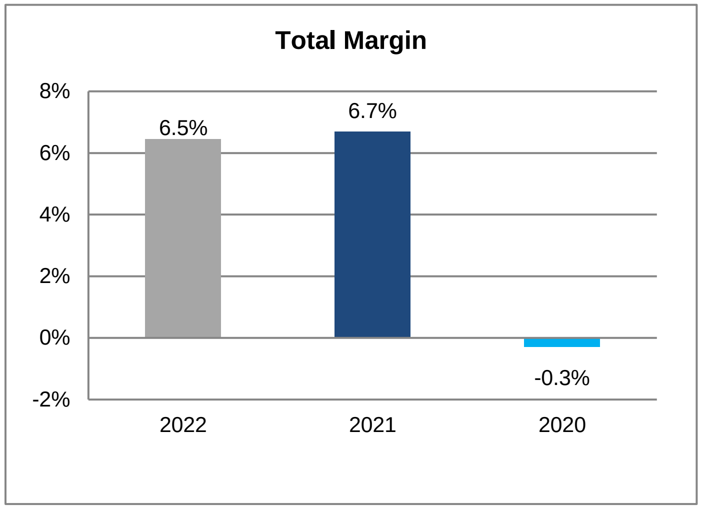
Nonoperating revenues (expenses) consist primarily of investment income, interest expense, intergovernmental transfer expense, equity earnings from the investment in Seattle Cancer Care Alliance (SCCA), funding from and to other UW Medicine entities as well as the state of Washington, state appropriations, hospital safety net funding, and COVID-19 federal stimulus funding. Net nonoperating revenues decreased $7.2 million from $123.6 million in fiscal year 2021 to $116.4 million in fiscal year 2022. Net nonoperating revenues were driven by a decrease in equity earnings from SCCA and receipt of federal stimulus funds offset by an increase in funding from affiliates. In addition, the decrease is attributed to lower state appropriations as in fiscal year 2021, UW Medical Center was awarded a one-time state appropriation of $35.0 million to partially cover lost revenues from the COVID-19 pandemic that were not recovered by other funding.

Net nonoperating revenues increased $42.0 million from $81.6 million in fiscal year 2020 to $123.6 million in fiscal year 2021. Net nonoperating revenues were driven by an increase in state appropriations and equity earnings from SCCA that offset a decrease in federal stimulus funds. In fiscal year 2021, UW Medical Center was awarded a one-time state appropriation of $35.0 million to partially cover lost revenues from the COVID-19 pandemic that were not recovered by other funding. Equity earnings from SCCA were $25.7 million greater than fiscal year 2020, which also contributed to the increase in net nonoperating revenues.

(Dollar amounts in millions)

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue (operating plus nonoperating) that has been realized in the form of net income (income before capital appropriations and other) and is a common measure of total hospital profitability. Total margin for the fiscal years 2022, 2021, and 2020 is illustrated in the chart to the right.



Financial Analysis

Statements of Net Position

The table below is a presentation of certain condensed financial information derived from the Group's statements of net position as of June 30, 2022, 2021, and 2020:

		2022	2021	2020
Current assets	$	628.2	696.6	554.7
Noncurrent assets:				
Capital assets, net of accumulated depreciation		795.9	762.5	727.4
Right-to-use lease assets, net of accumulated amortization		200.6	220.8	-
Funds held by the University of Washington		204.2	246.3	189.3
Investments		149.3	143.5	111.7
Investment in Seattle Cancer Care Alliance		-	259.3	208.4
Investment in Fred Hutchinson Cancer Center		428.8	-	-
Other assets		106.6	99.0	52.7
Net pension assets		475.8	-	-
Total assets		2,989.4	2,428.0	1,844.2
Deferred outflows of resources		321.8	300.7	150.6
Total assets and deferred outflows of resources	$	3,311.2	2,728.7	1,994.8

(Dollar amounts in millions)

		2022	2021	2020
Current liabilities	$	627.8	724.3	582.1
Noncurrent liabilities:				
Other noncurrent liabilities		914.1	830.3	563.0
Net pension liabilities		65.8	176.8	217.4
Other postemployment benefits		462.4	413.7	309.4
Total liabilities		2,070.1	2,145.1	1,671.9
Deferred inflows of resources		686.9	258.6	201.4
Net position		554.2	325.0	121.5
Total liabilities, deferred inflows of resources, and net position	$	3,311.2	2,728.7	1,994.8

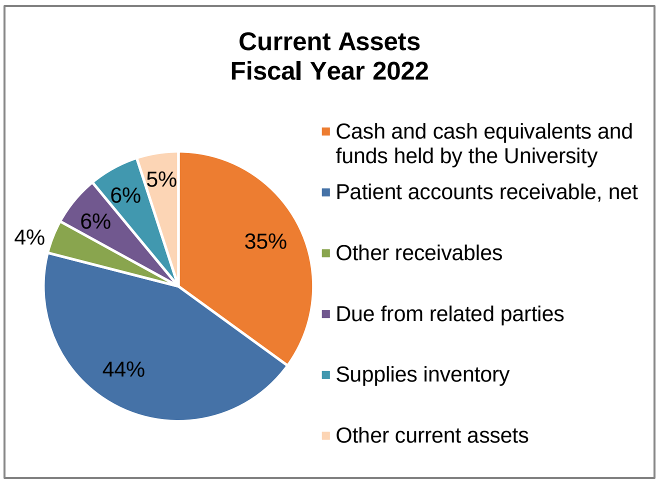
Total assets and deferred outflows of resources were $3,311.2 million at June 30, 2022 compared to $2,728.7 million at June 30, 2021 representing an increase of $582.5 million. This increase in total assets is primarily attributed to favorable investment earnings on plan investments of the PERS Plan 2 and Plan 3, which caused the balance to become a net pension asset in fiscal year 2022 as compared to a net pension liability.

Current liabilities decreased $96.5 million from $724.3 million at June 30, 2021 to $627.8 million at June 30, 2022. This decrease is primarily attributed to full recoupment by the Centers for Medicare and Medicaid Services (CMS) of Medicare advanced payments in fiscal year 2022. Noncurrent liabilities increased $21.5 million from $1,420.8 million at June 30, 2021 to $1,442.3 million at June 30, 2022 driven by an increase in long-term debt, net of current portion, and other postemployment benefits (OPEB) liability, offset by a decrease in net pension liabilities.

Total assets and deferred outflows of resources were $2,728.7 million at June 30, 2021 compared to $1,994.8 million at June 30, 2020 representing an increase of $733.9 million. This increase is primarily attributed to an increase in patient accounts receivable, an increase in Funds Held by the University of Washington, an increase in the Investment in SCCA, an increase in right-to-use lease assets due to the implementation of GASB Statement No. 87, *Leases*, effective July 1, 2020, and an increase in deferred outflows of resources related to other postemployment benefits.

Current liabilities increased $142.2 million from $582.1 million at June 30, 2020 to $724.3 million at June 30, 2021. This increase is primarily attributed to clinical medical fund and departmental payables, due to related parties and current portion of lease liabilities as a result of the adoption of GASB Statement No. 87, *Leases*. Noncurrent liabilities increased $331.0 million from $1,089.8 million at June 30, 2020 to $1,420.8 million at June 30, 2021 driven by an increase in OPEB liability, long-term debt, net of current portion and long-term lease liabilities as a result of the adoption of GASB Statement No. 87, *Leases*, effective July 1, 2020.

In fiscal year 2022, the Group implemented GASB Statement No. 87, *Leases*. This statement changes the previous classification of lease arrangements as either operating or capital leases and establishes a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. The Group recognized lease liabilities and right-to-use lease assets, net of accumulated amortization, for arrangements in which it is the lessee and lease receivables and deferred inflows of resources for arrangements where it is the lessor. As a result of this implementation, the Group applied the standard retroactively to the fiscal year beginning July 1, 2020. At July 1, 2020, the Group recognized lease liabilities and right-to-use lease assets of $217.2 million and $210.6 million, respectively, in the statements of net position. In addition, the Group recognized lease receivables, which are recorded within other current assets and other assets, and deferred inflows of resources of $29.5 million and $29.4 million, respectively, in the statements of net position. Further discussion regarding lease activity during the fiscal years can be found in the notes to the financial statements.

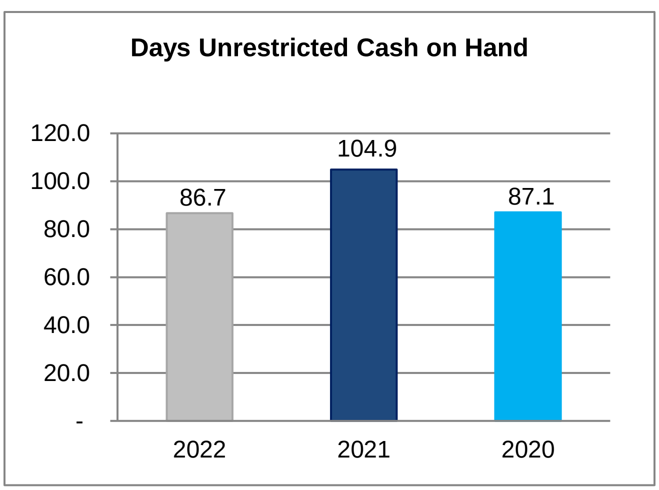


Current Assets

Current assets consist of cash and cash equivalents, and other current assets that are expected to be converted to cash within a year. Current assets also include patient accounts receivable valued at the estimated net realizable amount due from commercial, governmental, and self-pay payers.

Fiscal year 2022 composition of current assets is illustrated in the chart to the left.

Cash and cash equivalents represent both cash and funds held by the University on behalf of the Group that are considered cash equivalents. Cash and cash equivalents decreased $60.1 million from $280.1 million at June 30, 2021 to $220.0 million at June 30, 2022 and increased $42.4 million from $237.7 million at June 30, 2020 to $280.1 million at June 30, 2021.



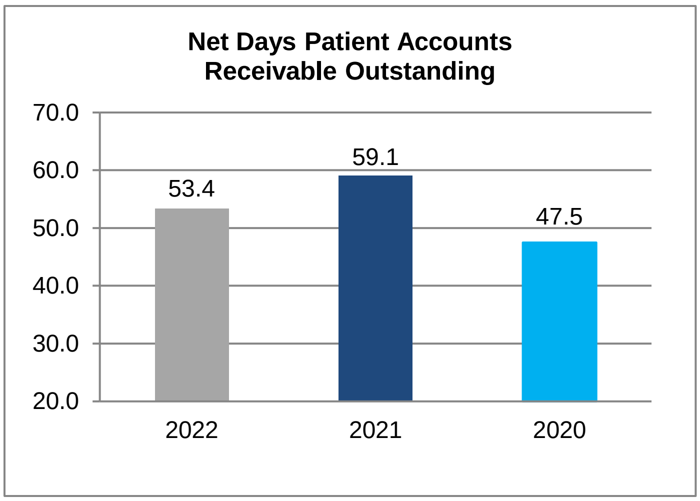
Days unrestricted cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days unrestricted cash on hand (including funds held by the University and investments, which are classified as noncurrent funds) as of June 30 for fiscal years 2022, 2021, and 2020 are illustrated in the chart to the left.

The Group's total days unrestricted cash on hand decreased 18.2 days from 104.9 days at June 30, 2021 to 86.7 days at June 30, 2022. The decrease is a result of increased operating expenses and the recoupment by CMS of $108.8 million of the Medicare advanced payments. At June 30, 2022, Medicare has recouped all of the Group's Medicare advanced payments.

The Group's total days unrestricted cash on hand increased 17.8 days from 87.1 days at June 30, 2020 to 104.9 days at June 30, 2021. The increase was a result of additional state appropriations and other funding received for COVID-19. At June 30, 2021, Medicare had recouped $16.5 million of the Group's Medicare advanced payments. Excluding the payable balance of Medicare advanced payments at June 30, 2021, days cash on hand would have been 87.9 days.

Net patient accounts receivable were $275.7 million as of June 30, 2022 compared to $287.6 million as of June 30, 2021, a decrease of $11.9 million. The decrease is primarily a result of the timing of payer cash collections.

Net patient accounts receivable were $287.6 million as of June 30, 2021 compared to $212.0 million as of June 30, 2020, an increase of $75.6 million. In fiscal year 2021, fewer non-emergent and elective procedures were cancelled due to COVID-19 surges compared to the prior year, resulting in higher volumes, revenue, and accounts receivable. UW Medicine implemented Destination: One in late March 2021, which led to a temporary delay in billing and collections at the end of fiscal year 2021.



Net days patient accounts receivable outstanding illustrates an organization's ability to convert net patient service revenues to cash. Net days patient accounts receivable outstanding as of June 30 for fiscal years 2022, 2021, and 2020 are illustrated in the chart to the left.

The Group's total net days patient accounts receivable outstanding decreased 5.7 days from 59.1 days at June 30, 2021 to 53.4 days at June 30, 2022. The decrease in net days patient accounts receivable between fiscal years 2022 and 2021 is driven by higher net patient accounts receivable at June 30, 2021 attributed to billing and collection delays due to Destination: One.

The Group's total net days patient accounts receivable outstanding increased 11.6 days from 47.5 days at June 30, 2020 to 59.1 days at June 30, 2021. The increase in net days patient accounts receivable between fiscal years 2021 and 2020 was driven by billing and collection delays due to Destination: One and lower patient accounts receivable in fiscal year 2020 attributed to the cancellation of non-emergent and elective procedures.

As of June 30, 2022 and 2021, 46% and 47% of the gross patient accounts receivable balance were due from commercial payers, governmental payers (Medicare and Medicaid) comprised 49% and 48%, self-pay payers comprised 3% for both years, and exchange comprised 2% for both years.

Due from related parties consists of amounts due for services provided to Harborview, VMC, and the School. Due from related parties decreased $2.9 million from $38.9 million at June 30, 2021 to $36.0 million at June 30, 2022. Due from related parties increased $8.8 million from $30.1 million at June 30, 2020 to $38.9 million at

June 30, 2021. The changes in fiscal years 2022 and 2021 relate to the timing of payments between the Group, Harborview, and the School.

Noncurrent Assets

Capital assets, net of accumulated depreciation increased $33.4 million during fiscal year 2022 from $762.5 million at June 30, 2021 to $795.9 million at June 30, 2022 and increased $35.1 million during fiscal year 2021 from $727.4 million at June 30, 2020 to $762.5 million at June 30, 2021. In fiscal year 2022, the increase is primarily driven by construction of the UW Medical Center Behavioral Health Teaching Facility. In fiscal year 2021, the increase was primarily due to additions of capital assets at UW Medicine IT Services due to the Destination: One project and construction of the UW Medical Center Behavioral Health Teaching Facility.

Additional discussion regarding capital asset activity, including capital commitments, during the fiscal years can be found in the notes to the financial statements.

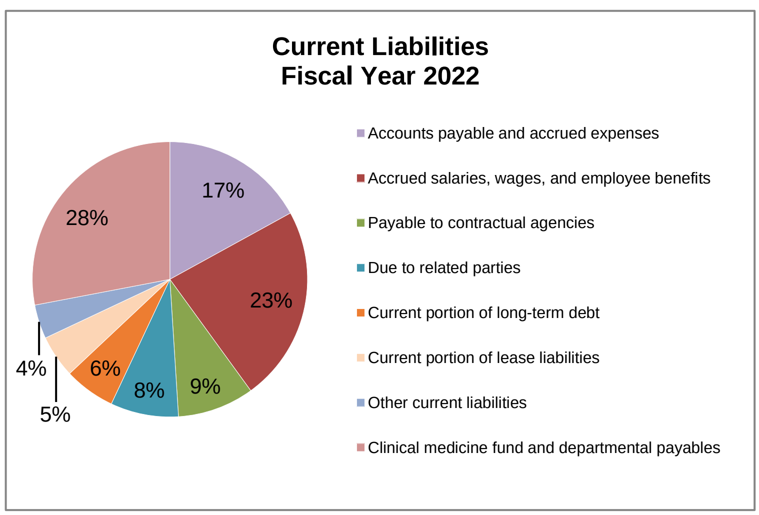
Funds held by the University represent funds invested with the University and are classified as a noncurrent asset by the Group. Through the University's investment program, the Group receives a rate of return. For fiscal years 2022, 2021, and 2020, the University allocated a rate of return of 0.75% on a portion of the Group's invested assets. Noncurrent funds held by the University decreased $42.1 million in fiscal year 2022 from $246.3 million at June 30, 2021 to $204.2 million at June 30, 2022 driven by increased in operating costs, especially the increase in salaries and wages and recoupment by CMS of Medicare advanced payments. Noncurrent funds held by the University increased $57.0 million in fiscal year 2021 from $189.3 million at June 30, 2020 to $246.3 million at June 30, 2021, which was driven by cash received for additional state appropriations, other funding received for COVID-19, and funds transferred from affiliates during the fiscal year.

Investments represents investments held for the benefit of the School. Investments increased $5.8 million from $143.5 million at June 30, 2021 to $149.3 million at June 30, 2022. The increase in investments was a result of transferring cash to investments, which offset negative investment portfolio performance during the year.

Investments increased $31.8 million from $111.7 million at June 30, 2020 to $143.5 million at June 30, 2021. The increase in investments was a result of positive investment portfolio performance during fiscal year 2021.

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within a year or are payable on demand. Total current liabilities were $627.8 million, $724.3 million, and $582.1 million at June 30, 2022, 2021, and 2020, respectively. Fiscal year 2022 composition of current liabilities is illustrated in the chart to the right.



Accounts payable and accrued expenses increased $5.2 million from $100.0 million at June 30, 2021 to $105.2 million at June 30, 2022 and increased $7.6 million from $92.4

million at June 30, 2020 to $100.0 million at June 30, 2021. Changes in accounts payable and accrued expenses are primarily the result of timing of payments to vendors.

Accrued salaries, wages, and employee benefits increased $7.4 million from $137.5 million at June 30, 2021 to $144.9 million at June 30, 2022 and increased $20.3 million from $117.2 million at June 30, 2020 to $137.5 million at June 30, 2021. Changes in accrued salaries, wages, and employee benefits are primarily driven by the number of employees, employee merit, fringe benefit rate fluctuations, and paid leave accruals.

Due to related parties consists of amounts owed for services provided to the Group by the School, the University and other affiliates. Due to related parties decreased $48.2 million from $101.4 at June 30, 2021 to $53.2 million at June 30, 2022 and increased $42.9 million from $58.5 million at June 30, 2020 to $101.4 million at June 30, 2021. The changes in both fiscal years were driven by timing of payments between related parties.

In addition, the Group has a long-term due to related parties balance of $128.7 million at June 30, 2022 compared to $138.7 million at June 30, 2021, a decrease of $10.0 million. The decrease in long-term due to related parties in fiscal year 2022 was primarily driven by payments to the University which reduced the long-term due to related parties balance.

Long-term due to related parties increased $15.0 million from $123.7 million at June 30, 2020 compared to $138.7 million at June 30, 2021. The increase in long-term due to related parties in fiscal year 2021 was driven by $15.0 million provided by the University for small capital projects at UW Medical Center. The Group has to repay this balance by December 31, 2022 or the balance will convert into a University Internal Lending Program (ILP) loan.

Medicare advanced payments consists of advanced payments received from Medicare under CMS Medicare Advanced Payment Program which was designed to provide liquidity during the beginning stages of the COVID-19 pandemic. These funds were recouped by Medicare by offsetting paid claims until the full amount was recouped. Medicare began recouping Medicare advanced payments in April 2021 from the Group and has recouped the entire balance as of June 30, 2022. As of June 30, 2021, the current portion of $95.5 million, was presented within Medicare advanced payments in the accompanying statements of net position. The long-term portion of $13.3 million was recorded in other noncurrent liabilities at June 30, 2021 in the statements of net position.

Clinical medicine fund and departmental payables consist of receipts collected by UWP that are allocated and distributed to the clinical medicine fund and departmental payables for the benefit of the School. The payable increased $25.7 million from $152.4 million at June 30, 2021 to $178.1 million at June 30, 2022. In fiscal year 2022, the increase in the payables were due to cash collections in excess of distributions paid on behalf of the School.

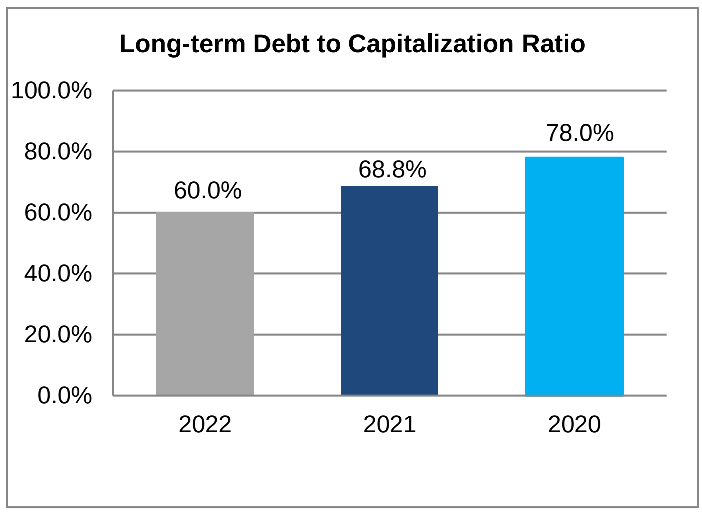
The payable increased $46.8 million from $105.6 million at June 30, 2020 to $152.4 million at June 30, 2021. In fiscal year 2021, the increase in the payables was driven by greater investment income and departmental income due to higher volumes than fiscal year 2020. The increase in volumes were driven by fewer non-emergent and elective procedures that were cancelled due to COVID-19 in fiscal year 2021 compared to fiscal year 2020.

Noncurrent Liabilities

Noncurrent liabilities consist primarily of noncurrent portion of long-term debt, long-term lease liabilities, net pension liabilities, OPEB liability, and other noncurrent liabilities.

Long-term debt, including current portion, increased $139.5 million from $462.3 million at June 30, 2021 to $601.8 million at June 30, 2022. Long-term debt, including current portion increased $58.5 million from $403.8 million at June 30, 2020 to $462.3 million at June 30, 2021. In fiscal year 2022, the increase in long-term debt is a result of UW Medical Center's purchase of one-half of Seattle Children's Healthcare System's membership in SCCA, in the form of a $142.9 million promissory note payable to the Fred Hutchinson Cancer Center. In fiscal year 2021, the increase in long-term debt was driven by the UW Medicine IT Services Destination: One and the Childbirth Center projects.

Long-term debt to capitalization (debt + lease liabilities/unrestricted net assets + net investment in capital assets + debt + lease liabilities) is a ratio used to assess the capital structure of healthcare organizations. The chart to the right shows the long-term debt to capitalization ratio as of June 30 for 2022, 2021, and 2020 based on the amounts reported in the financial statements. The Group's long-term debt to capitalization ratio decreased from 68.8% in fiscal year 2021 to 60.0% in fiscal year 2022 as a result of an increase in net position of $229.2 million. The Group's long-term debt to capitalization ratio decreased from 78.0% in fiscal year 2020 to 68.8% in fiscal year 2021 as a result of an increase in net position of $203.5 million.



Additional discussion regarding long-term debt activity during the fiscal years can be found in the notes to the financial statements.

Net Position

Unrestricted net position increased $200.5 million from $19.2 million at June 30, 2021 to $219.7 million at June 30, 2022. The increase in unrestricted net position was driven by income before capital appropriations and other and capital appropriations for the Behavioral Health Teaching Facility.

Unrestricted net position increased $232.8 million from $(213.6) million at June 30, 2020 to $19.2 million at June 30, 2021. The increase in unrestricted net position was driven by income before capital appropriations and other.

Formation of Fred Hutchinson Cancer Center

On March 31, 2022, the members in SCCA: UW Medical Center, Fred Hutchinson Cancer Research Center (Fred Hutch), and Seattle Children’s Healthcare System (SCHS) agreed to merge Fred Hutch and SCCA; for SCCA to become a non-member non-profit Washington corporation and for SCCA to be renamed Fred Hutchinson Cancer Center. As part of the transaction, SCHS’s interest of $285.9 million was purchased by UW Medical Center and Fred Hutch with funding provided by Fred Hutch. SCHS no longer participates in the Adult Oncology Program but continues to offer pediatric cancer care services and to coordinate through separate affiliation agreements with FHCC and UW Medicine. UW Medical Center entered into a promissory note to pay FHCC over a ten-year period for its 50% portion of the SCHS membership in SCCA.

In addition to the restructure of the former SCCA corporate entity, UW Medical Center and FHCC agreed to the Restructuring and Enhanced Collaboration Agreement (Restructuring Agreement), which clinically and financially integrates the adult cancer program between both entities. With this new arrangement, UW Medical Center no longer holds a membership interest in SCCA. UW Medical Center agreed to a restructuring of the SCCA joint venture by transitioning to a non-member entity and rebranding. UW Medical Center’s former economic rights as a joint venture member were transformed into contractual rights, including among other provisions a payment right extending perpetually. UW Medical Center’s investment in FHCC is recorded within its statements of net position and reflects the integrated adult oncology program. The Restructuring Agreement includes a Financial Alignment Plan, under which both parties share in the objectives of the adult oncology program and drive site neutrality for cancer services for the betterment of patient outcomes.

Postemployment Obligations

The University has a financial responsibility for pension benefits associated with the PERS defined-benefit plans, University of Washington Supplemental Retirement Plan (UWSRP) defined-benefit plan, and OPEB, which includes those University employees deployed within the Group. Pension assets and liabilities, OPEB liabilities, and the respective deferred outflows and inflows of resources are determined by actuarial reports. Net pension liabilities had a net decrease of $111.0 million in fiscal year 2022, which was primarily driven by favorable investment earnings on plan investments related to the PERS defined-benefit plans. This change caused the net pension liability for PERS Plan 2 and Plan 3 to become a net pension asset in fiscal year 2022. OPEB liabilities increased $48.7 million reflecting the impact of a lower end of year discount rate used in the associated actuarial valuation. Additional discussion regarding pension assets and liabilities, OPEB liabilities and the respective deferred outflows and inflows of resources can be found in the notes to the financial statements.

(Dollar amounts in millions)

The Group has recognized its proportionate share of the University's actuarially determined net pension liabilities, total OPEB liability, deferred inflows of resources and deferred outflows of resources, and expense. All funding obligations to the University are on a pay-as-you-go basis. As the liability increases, the funding obligations will also increase. The following table represents the assets, liabilities, expense, and funding contributions to the University associated with postemployment obligations as of June 30, 2022, 2021, and 2020:

		2022	2021	2020
Pension liabilities	$	65.8	176.8	217.4
Pension assets		475.8	-	-
Pension (income) expense		(98.5)	20.1	19.4
Pension funding contribution to the University		61.2	68.7	60.6
OPEB liability	$	462.4	413.7	309.4
OPEB expense		24.2	6.6	12.7
OPEB funding contribution to the University		7.6	7.3	5.3

Factors Affecting the Future

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the Group and UW Medicine, including written or oral statements made by its representatives, may contain forward-looking statements. All statements, other than statements of historical facts, which address activities, events or developments that the Group expects or anticipates will or may occur in the future contain forward-looking information. In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The Group does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

Economic Uncertainty Facing the Healthcare Industry

The COVID-19 pandemic continues to evolve and the future impact on the Group's operations and financial position will be driven by many factors, most which are beyond the Group's control and difficult to predict. Broad economic factors resulting from the pandemic, including increased inflation and a competitive labor market continue to impact the Group's patient volumes, case mix acuity, service mix, and revenue mix. The pandemic has also continued to have an adverse effect on the Group's operating expenses to varying degrees. The Group has been required to utilize higher-cost temporary labor and pay premiums due to shortages of essential workers and has also been dealing with supply chain disruptions. In addition, the impact of government and administrative regulation regarding stimulus and relief measures such as the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, the American Rescue Plan Act of 2021 ("ARPA"), and other enacted and potential future legislation is unknown. Because of these factors and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on the Group's business.

The healthcare industry, in general, is experiencing higher demand for labor, volatility and uncertainty in the labor market, which has impacted the Group's ability to attract and retain labor and manage operating cost increases associated with the higher labor costs. It is difficult to predict the full impact of labor shortages on the Group's future expenses and operations.

Reimbursement for patient services from federal, state, and private insurance payors continues to be a concern as healthcare costs continue to rise. There is continued downward pressure on average realized payment rates from commercial payor plans and a reduction in the number or percentage of the Group's patients under such plans. The Group participates in the 340b Drug Pricing Program, which is a federal program that requires drug manufacturers provide outpatient drugs to eligible healthcare organizations and covered entities at significantly reduced prices. In the past couple of years, a number of manufacturers have reduced the benefits to enrolled entities through the elimination of certain drugs in contract pharmacy settings. This had led to legal action at the federal level in an attempt to reinstate previous savings. This federal action appears to be favorable but is not yet resolved and has resulted in uncertainty related to the financial impact of the 340b program in the future. Due to these uncertainties, management cannot predict the impact on the Group's future revenues and operations.

However, the Group believes that its ultimate success in increasing profitability depends in part on its success in executing on its strategies. In general, these strategies are intended to improve financial performance through the reduction of costs and in streamlining how we provide clinical care as well as mitigating the negative reimbursement trends experienced within the market. With a continued focus on patient volumes shifting from inpatient to outpatient settings due to technological advancements, and demand for care that is more convenient, affordable, and accessible as well as industry-wide migration to value-based payment models as governmental and commercial payers shift risk to providers, the Group's focus is on managing costs and care efficiently.

UW Finance Transformation

In December 2019, the UW Finance Transformation (UWFT) program received approval from the Board of Regents to proceed with a broad redesign of finance-related policies and processes, enabled by the implementation of new enterprise resource planning (ERP) technology. The University and UW Medicine have determined that Workday Financials® will provide the best available platform to support the business objectives for this transformation by providing a seamless, integrated solution for Human Resources and Payroll (previously implemented), Procurement, and Finance. UW Medicine and the University expect three primary areas of program benefit: functional benefits in the form of new and improved system capabilities, cost avoidance of maintaining and upgrading existing systems, and efficiencies in new business processes and organization. Total program costs are approximately $340.0 million, which includes all operating and capital costs for implementation and one year of stabilization. UW Medicine will be charged for a portion of the project. The amount and allocation methodology will be finalized upon completion of the project. UWFT is expected to be implemented on July 1, 2023.

(Continued)

Destination: One

In March 2021, UW Medicine fully implemented Destination: One, a multiyear clinical transformation program to improve patient engagement and clinician experience. So far, Destination: One has had many successes with the biggest benefit being UW Medicine having one medical record for both hospital and clinical based care. This has helped with capacity management, which was crucial for managing census across campuses, patient safety, provider efficiency, patient online bill pay, unified patient billing, and paperless statements. In addition, UW Medicine expects financial benefits of this project as UW Medicine has been able to retire a number of systems and streamline workflows.

Behavioral Health Teaching Facility at UW Medical Center

UW Medicine and the Washington State legislature established a Behavioral Health Teaching Facility (BHTF) at UW Medical Center, which will be located on the Northwest campus. BHTF will serve the dual purposes of treating patients with behavioral health needs and training an integrated behavioral health workforce in the new 191,000-square-foot facility. The State awarded $234.0 million for the planning, design work, construction, and equipment necessary to build a new, first of its kind building. Construction has begun and the building is anticipated to be completed with patients being seen in the facility in calendar year 2024.

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Net Position

June 30, 2022 and 2021

(Dollar amounts in thousands)

Assets		2022	2021
Current assets:			
Cash and cash equivalents	$	84,764	68,881
Funds held by the University of Washington		135,183	211,197
Patient accounts receivable, less allowance for uncollectible accounts of $27,839 in 2022 and $23,617 in 2021, respectively		275,744	287,597
Other receivables		26,354	26,475
Due from related parties		36,033	38,939
Supplies inventory		38,900	35,659
Other current assets		31,228	27,833
Total current assets		628,206	696,581
Noncurrent assets:			
Capital assets, net of accumulated depreciation		795,929	762,496
Right-to-use lease assets, net of accumulated amortization		200,630	220,751
Funds held by the University of Washington		204,150	246,352
Investments		149,265	143,510
Donor restricted assets		10,855	10,336
Investment in Seattle Cancer Care Alliance		—	259,279
Investment in Fred Hutchinson Cancer Center		428,827	—
Other assets		95,749	88,714
Net pension assets		475,806	—
Total noncurrent assets		2,361,211	1,731,438
Total assets		2,989,417	2,428,019
Deferred outflows of resources:			
Deferred outflows of resources related to pensions		133,254	125,489
Deferred outflows of resources related to other postemployment benefits		184,666	170,644
Other deferred outflows of resources		3,875	4,555
Total assets and deferred outflows of resources	$	3,311,212	2,728,707

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Net Position

June 30, 2022 and 2021

(Dollar amounts in thousands)

Liabilities and Net Position		**2022**	**2021**
Current liabilities:			
Accounts payable and accrued expenses	$	105,222	100,052
Accrued salaries, wages, and employee benefits		144,853	137,466
Payable to contractual agencies		55,047	58,418
Due to related parties		53,218	101,458
Medicare advanced payments		—	95,525
Current portion of long-term debt		37,125	31,212
Current portion of lease liabilities		30,787	30,750
Other current liabilities		23,443	17,071
Clinical medicine fund and departmental payables		178,119	152,356
Total current liabilities		627,814	724,308
Noncurrent liabilities:			
Long-term debt, net of current portion		564,671	431,082
Long-term lease liabilities		183,335	200,022
Net pension liabilities		65,798	176,802
Other postemployment benefits		462,354	413,696
Due to related parties – long-term		128,731	138,731
Other noncurrent liabilities		37,347	60,533
Total liabilities		2,070,050	2,145,174
Deferred inflows of resources:			
Deferred inflows of resources related to pensions		534,366	100,571
Deferred inflows of resources related to other postemployment benefits		112,145	129,990
Other deferred inflows of resources		40,428	27,992
Total liabilities and deferred inflows of resources		2,756,989	2,403,727
Net position:			
Net investment in capital assets		323,681	295,467
Nonexpendable, restricted		3,407	4,188
Expendable, restricted		7,449	6,148
Unrestricted		219,686	19,177
Total net position		554,223	324,980
Total liabilities, deferred inflows of resources, and net position	$	3,311,212	2,728,707

See accompanying notes to basic financial statements.

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2022 and 2021

(Dollar amounts in thousands)

		2022	2021
Operating revenues:			
Net patient service revenues (net of provision for uncollectible accounts of $25,348 in 2022 and $22,634 in 2021)	$	1,883,133	1,777,389
UWP billing revenues, net		391,803	367,039
Other revenue		286,433	321,682
Total operating revenues		2,561,369	2,466,110
Operating expenses:			
Salaries and wages		1,151,580	999,472
Employee benefits		148,654	238,292
Purchased services		513,349	494,126
Supplies		484,256	474,809
Other		88,987	98,264
Depreciation and amortization		118,075	111,457
Total operating expenses		2,504,901	2,416,420
Income from operations		56,468	49,690
Nonoperating revenues (expenses):			
Investment income		2,676	2,693
Interest expense		(26,636)	(25,277)
Funding to affiliates		(76,922)	(70,242)
Funding from affiliates		122,365	73,084
Federal stimulus funding		15,235	34,575
Equity earnings from Investment in Seattle Cancer Care Alliance		22,910	50,837
Other, net		56,750	57,932
Nonoperating revenues, net		116,378	123,602
Income before capital appropriations and other		172,846	173,292
Capital appropriations and other		56,397	30,146
Increase in net position		229,243	203,438
Net position – beginning of year		324,980	121,542
Net position – end of year	$	554,223	324,980

See accompanying notes to basic financial statements.

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(Dollar amounts in thousands)

		2022	2021
Cash flows from operating activities:			
Cash received for patient care	$	1,795,566	1,701,065
Cash received for UWP billing revenues		399,693	336,699
Cash received for other services		286,644	311,775
Cash paid to employees		(1,437,385)	(1,270,035)
Cash paid to suppliers and others		(1,090,545)	(1,075,071)
Net cash (used in) provided by operating activities		(46,027)	4,433
Cash flows from noncapital financing activities:			
Funding to affiliates		(77,571)	(68,696)
Funding from affiliates		82,230	73,084
Change in due to/from related parties		692	22,615
Cash received for federal stimulus funding		15,235	34,575
Additions to clinical medicine fund and departmental payables		25,763	46,797
Other, net		47,737	57,507
Net cash provided by noncapital financing activities		94,086	165,882
Cash flows from capital and related financing activities:			
Purchases of capital assets		(130,879)	(110,345)
Principal payments on long-term debt		(26,414)	(18,364)
Proceeds from borrowings		27,803	75,969
Interest payments on long-term debt		(18,382)	(18,040)
Cash paid for principal and interest on leases		(37,169)	(35,488)
Other		56,345	40,207
Net cash used in capital and related financing activities		(128,696)	(66,061)
Cash flows from investing activities:			
Proceeds from sale of investments		44,977	55,813
Purchases of investments		(77,733)	(63,611)
Change in funds held by the University and donor restricted assets		41,965	(58,396)
Investment income		9,687	6,855
Other		1,610	(2,490)
Net cash provided by (used in) investing activities		20,506	(61,829)
(Decrease) increase in cash and cash equivalents		(60,131)	42,425
Cash and cash equivalents, beginning of year		280,078	237,653
Cash and cash equivalents, end of year	$	219,947	280,078

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(Dollar amounts in thousands)

		2022	2021
Reconciliation of income from operations to net cash (used in) provided by operating activities:			
Income from operations	$	56,468	49,690
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation and amortization		118,075	111,457
Provision for uncollectible accounts		25,348	22,634
Other		312	312
UWP Investment income		19,981	(27,131)
Net (decrease) increase in operating activities:			
Patient accounts receivable		(13,495)	(98,230)
Other receivables		(3,168)	(1,986)
Due from related parties		3,379	(7,921)
Supplies inventory, other current assets, and other assets		(3,094)	(11,696)
Pension related deferred inflows, deferred outflows, net pension asset and net pension liability		(161,329)	(51,820)
OPEB related deferred inflows, deferred outflows, and OPEB liability		16,791	(668)
Accounts payable and accrued expenses		12,078	828
Accrued salaries, wages, and employee benefits		4,963	14,600
Due to related parties		(13,105)	2,829
Payable to contractual agencies, Medicare advanced payments, and other current liabilities		(93,462)	(20,946)
Physician distribution payable		2,424	5,617
Noncurrent liabilities		(18,193)	16,864
Net cash (used in) provided by operating activities	$	(46,027)	4,433
Supplemental disclosures of noncash capital and related financing activities:			
Change in capital assets included in accounts payable	$	(6,908)	6,866
Decrease in capital assets included in noncurrent liabilities		(4,993)	(3,668)
Supplemental disclosures of noncash investing activities:			
Net unrealized (losses) gains on investments		(40,794)	20,212
Equity earnings from Investment in Seattle Cancer Care Alliance		22,910	50,837
Increase in Investment in Seattle Cancer Care Alliance		(142,942)	—
Ceding of investment interest in Seattle Cancer Care Alliance		425,131	—
Investment in Fred Hutchinson Cancer Care		(428,827)	—
Supplemental disclosure of noncash noncapital financing activities:			
Increase in note payable to Fred Hutchinson Cancer Center		142,942	—

See accompanying notes to basic financial statements.

(1) Organization and Operations

The UW Medicine Select Units – UW Division (the Group) is comprised of UW Medicine clinical entities, which are divisions, departments, and component units of the University of Washington (an agency of the state of Washington) (the University). The Group includes the University of Washington Medical Center (UW Medical Center), UW Physicians Network dba UW Neighborhood Clinics (Neighborhood Clinics), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift), and UW Medicine Shared Services.

UW Medicine is a learning, research, and clinical health system comprised of multiple legal entities that share the UW Medicine mission to improve the health of the public. UW Medicine is governed and administered as an enterprise fund of the University. UW Medicine also strives to facilitate the education of physicians and other health care providers, support research activities in collaboration with the University School of Medicine (the School) and render other services designed to achieve the "Triple Aim," which is to improve the healthcare experience for the individual, improve health of the population, and provide more affordable care.

The University of Washington is governed by a ten-member Board of Regents appointed by the Governor of Washington. The UW Medicine Advisory Board was established by the University of Washington Board of Regents. The UW Medicine Advisory Board consists of experienced professionals with relevant backgrounds appointed by the UW Board of Regents and chaired by a member of the UW Board of Regents. The UW Medicine Advisory Board advises the UW Board of Regents on all aspects relating to UW Medicine and assists the UW Medicine chief executive officer and dean of the School of Medicine in strategic planning and oversight of programs across the organizations that make up UW Medicine, including Harborview Medical Center (Harborview), UW Medical Center, Valley Medical Center (VMC), the Neighborhood Clinics, UWP, the School, Fred Hutchinson Cancer Center (FHCC), and Airlift.

Harborview, a component unit of King County, Washington and a related party to the University, is not reflected within the Group financial reporting entity.

VMC, a Washington public hospital district, is a discretely presented component unit of the University, and is not reflected within the Group financial reporting entity.

Fred Hutchinson Cancer Center (FHCC), a Washington nonprofit corporation, is a discretely presented component unit of the University, and is not reflected within the Group financial reporting entity.

The School is a public medical school that is part of the University but is not reflected as part of the Group financial reporting entity.

UW Medical Center

UW Medical Center is a two-campus hospital and is a division of the University. The Montlake campus is a 529-licensed-bed hospital and is the main campus. The Northwest campus is a 281-licensed-bed, full service medical facility. Authority for specified governance functions of UW Medical Center has been delegated by the University Board of Regents (the Regents) to the UW Medical Center Board as specified in its bylaws, approved by the Regents in July 2018 and amended in May 2020. UW Medical Center operates under the direction of the UW Medical Center chief executive officer, who is accountable to the

UW Medical Center Board and the president of UW Medicine hospitals and clinics for management of the facility.

UWP

UWP, a Washington not-for-profit corporation and component unit of the University, was formed for the exclusive benefit of the School and its programs. UWP employs the School faculty and bills and collects for their clinical services as an agent for the School. All revenues after payment of operating expenses and physician salaries are held for the benefit of the School under the Operating Agreement between UWP and the University as presented in note 2(u).

Airlift

Airlift provides rapid emergency air transport services through one owned and eleven leased aircraft to critically ill or injured patients throughout Washington, Alaska, Montana, and Idaho.

Neighborhood Clinics

The Neighborhood Clinics are a Washington not-for-profit corporation and component unit of the University. The Neighborhood Clinics were established for the benefit of the School, UWP, and its affiliated medical centers, exclusively for clinical, scientific, and educational purposes. The Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting to enhance the academic environment of the School by providing additional sites of primary care practice and training for faculty, residents, and students. Neighborhood Clinics employees became University employees effective January 1, 2021.

UW Medicine Shared Services

UW Medicine Shared Services comprises a number of functions within the University, established for the purpose of providing scalable administrative and information technology (IT) support services for UW Medicine. Examples of these functions include UW Medicine IT Services (ITS), UW Medicine Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, and UW Medicine Contracting.

Embright

In October 2018, the Board of Regents authorized the University, through UW Medicine, to become an equity member in a limited liability company. PNWCIN, LLC dba Embright was created in 2018 and is jointly owned by UW Medicine, MultiCare Health System, and LifePoint Health. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the members to partner together to further the Triple Aim of improving the patient care experience and improving the health of populations while reducing costs. Together, the members represent 14 hospitals, more than 6,500 providers, and over 600 outpatient sites of care. Embright’s broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary, and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols, care pathways, standardized processes, and care management services for complex patients. UW Medicine has an equity ownership interest of 46.5% in Embright at June 30, 2022, which is recorded within other assets in the statements of net position.

(2) Summary of Significant Accounting Principles

(a) Accounting Standards

The accompanying basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB). The Group uses proprietary fund accounting.

(b) Basis of Accounting

The Group’s financial statements have been prepared using the accrual basis of accounting with the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Intraentity transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates in the Group’s financial statements include patient accounts receivable allowances, third-party payer settlements, and pension and postemployment obligations.

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less at the date of purchase, excluding amounts whose use is limited by board designation. As of June 30, 2022 and 2021, approximately $84,563 and $67,932 was held in cash and $201 and $949, respectively, was held in cash equivalents. Cash deposits of up to $250 are fully insured by the Federal Depository Insurance Corporation.

(e) Funds Held by the University of Washington

Operating and capital funds for certain entities within the Group are invested directly with the University. The current portion is determined based on funds expected to be used in the next year. All balances are available on demand and are stated at carrying value. The University offers a stipulated rate of return determined at the end of the reporting period by the University based on pooled investment performance and the University’s reserve fund goals. For fiscal year 2022, the rate returned was 0.75%, representing $2,637 in investment income. For fiscal year 2021, the rate returned was 0.75%, representing $2,667 in investment income.

The Group has unrestricted access to deposit and withdraw these funds at its discretion and without limitation, and as such, amounts classified as current assets are considered cash and cash equivalents for presentation in the statements of cash flows.

(Dollar amounts in thousands)

Pooled investments held on behalf of the Group by the University are recorded at the Group's share of the carrying value of the University's cash and liquidity pools. The cash and liquidity pools were invested as follows at June 30, 2022 and 2021:

	2022	2021
Cash and cash equivalents	4.5 %	4.9 %
U.S. treasury and agencies securities	65.8	68.6
Mortgage-related securities	5.2	6.2
Asset-backed debt securities	18.4	14.5
Other fixed income securities	6.1	5.8
Total	100.0 %	100.0 %

Concentrations of credit risk consist of pooled investments held on behalf of the Group at the University.

(f) Investments

The Group holds investments in the form of equity securities, fixed-income securities, and government obligations. Fair value is determined based on quoted market prices. The Group's investment income, including realized and unrealized gains or losses, is reported as nonoperating revenue or expense with the exception of UWP whose investment income (including realized and unrealized gains and losses on investments) is a component of revenues as presented in note 2(u).

(g) Supplies Inventory

Supplies inventory consist primarily of surgical, medical, and pharmaceutical supplies in organized stores at various locations across the Group. Inventories are recorded at the lower of cost (first-in, first-out) or market.

(h) Capital Assets

Capital assets are stated at cost at acquisition, or if acquired by gift, at fair value at the date of the gift. Additions, replacements, major repairs, and major renovations are capitalized. Maintenance and repairs are expensed. The cost of the capital assets sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded in other nonoperating expense in the statements of revenues, expenses, and changes in net position.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are generally 5 to 25 years for land improvements, 10 to 40 years for buildings, renovations, and furnishings, 5 to 25 years for fixed equipment, and 3 to 20 years for movable equipment.

(i) Investment in Seattle Cancer Care Alliance

Until March 31, 2022, UW Medical Center was a one-third member in Seattle Cancer Care Alliance (SCCA) and accounted for its interest under the equity method of accounting. Equity earnings from SCCA of $22,910 and $50,837 were recorded in fiscal years 2022 and 2021, respectively, and are included in the statements of revenues, expenses, and changes in net position. Since inception of

(Dollar amounts in thousands)

SCCA, there have been no cash distributions to owners. The equity earnings recorded by UW Medical Center is a noncash transaction. The following is a summary of SCCA's statement of operations for the nine months ended March 31, 2022 and the fiscal year ended June 30, 2021:

		Unaudited 2022	2021
Revenues	$	769,268	923,953
Expenses		695,976	840,847
Nonoperating (expense) revenue		(4,562)	68,180
Excess of revenues over expenses		68,730	151,286
Increase in net assets without donor restrictions	$	68,730	151,286

The following is a summary of SCCA's balance sheet as of June 30, 2021:

		2021
Assets	$	1,535,471
Liabilities	$	745,990
Net assets without donor restrictions		777,835
Net assets with donor restrictions		11,646
Total liabilities and net assets	$	1,535,471

(j) Formation of Fred Hutchinson Cancer Center

On March 31, 2022, the members in SCCA: UW Medical Center, Fred Hutchinson Cancer Research Center (Fred Hutch), and Seattle Children's Healthcare System (SCHS) agreed to merge Fred Hutch and SCCA; for SCCA to become a non-member non-profit Washington corporation and for SCCA to be renamed Fred Hutchinson Cancer Center. As part of the transaction, SCHS's interest of $285,884 was purchased by UW Medical Center and Fred Hutch with funding provided by Fred Hutch. SCHS no longer participates in the Adult Oncology Program but continues to offer pediatric cancer care services and to coordinate through separate affiliation agreements with FHCC and UW Medicine. UW Medical Center entered into a promissory note to pay FHCC over a ten-year period for its 50% portion of the SCHS membership in SCCA.

In addition to the restructure of the former SCCA corporate entity, UW Medical Center and FHCC agreed to the Restructuring and Enhanced Collaboration Agreement (Restructuring Agreement), which clinically and financially integrates the adult cancer program between both entities. With this new arrangement, UW Medical Center no longer holds a membership interest in SCCA. UW Medical Center agreed to a restructuring of the SCCA joint venture: transitioning to a non-member entity, rebranding, realigning the future economic sharing arrangements, and realigning practice area management responsibilities. UW Medical Center's investment in FHCC is recorded within its statements of net position and reflects the integrated adult oncology program. The Restructuring Agreement includes a

Financial Alignment Plan, under which both parties share in the objectives of the adult oncology program and drive site neutrality for cancer services for the betterment of patient outcomes. UW Medical Center's former economic rights as a joint venture member were transformed into contractual rights, including among other provisions a payment right extending perpetually. At June 30, 2022, UW Medical Center recorded $6,669 in financial alignment income for the last quarter of fiscal year 2022 which is recorded within other, net in the statements of revenues, expenses, and changes in net position.

(k) Leases

(i) Lessee

The Group enters into noncancellable leases primarily for buildings and equipment. For leases with a maximum possible term of 12 months or less at commencement, the Group recognizes expense based on the terms of the lease contract. For all other leases, the Group recognizes a lease liability, which is recorded within current portion of lease liabilities and long-term lease liabilities in the statements of net position and a right-to-use lease asset, net of accumulated amortization at the present value of payments expected to be made throughout the lease term. The Group uses its incremental borrowing rate based on information available at the commencement date of the lease in determining the present value of lease payments. Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease and are expensed as incurred.

Subsequently, the lease liability is reduced by the principal portion of lease payments made. Interest expense is recognized ratably over the contract term. The right-to-use lease asset is initially measured as the initial amount of the lease liability, plus lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the right-to-use lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset which is recorded within depreciation and amortization in the statements of revenues, expenses, and changes in net position.

Some leases include one or more renewal options which are at the Group's discretion and if it is reasonably certain that the renewal options will be exercised by the Group, the renewal options' payments and term are included in the Group's measurement of the lease liability and right-to-use lease asset.

(ii) Lessor

The Group leases building space on its campus to external vendors for medical office and clinic space. For leases with terms greater than 12 months, the Group recognizes a lease receivable and deferred inflows of resources at the present value of payments expected to be received during the lease term using the Group's incremental borrowing rate. The current portion of the lease receivable is recorded within other current assets and the long-term lease receivable is recorded within other assets in the statements of net position.

Subsequently, the lease receivable is reduced by the lease payments received and the discount on the lease receivable is amortized through recognition of interest income, which is recorded in other, net in the statements of revenues, expenses, and changes in net position. The deferred inflow of resources are recognized over the lease term in subsequent periods as lease revenue, which is recorded in other revenue in the statements of revenues, expenses, and changes in net position.

(l) UW Medicine IT Services

Harborview and SCCA provide advance funding to ITS, which entitles Harborview and SCCA access to the enterprise-wide information technology (IT) software and services. ITS records the funding as unearned revenue. At June 30, 2022 and 2021, $9,300 and $7,600 is recorded in other current liabilities and $12,785 and $17,200 is recorded in other noncurrent liabilities in the statements of net position, respectively, based on expected usage.

Additionally, Harborview entered into a long-term arrangement to pay ITS for its portion of UW Medicine's clinical transformation program, called Destination: One, which is being funded by the University's Internal Lending Program (ILP). Harborview will pay ITS for its share of the project costs, which are allocated to each hospital based on full-time equivalents (FTEs) and total operating revenues. At June 30, 2022 and 2021, ITS has recorded a noncurrent receivable from Harborview within other assets in the statements of net position of $19,152 and $25,317 related to this project. Harborview made its first payment to ITS on August 1, 2021, with the remaining amounts paid over twelve years.

SCCA paid for operating and capital costs of the Destination: One project, which totaled $26,399. SCCA paid for all costs during the project and ITS has unearned revenue representing SCCA's future use of the asset. At June 30, 2022 and 2021, $12,200 and $13,322 of total unearned revenue is recorded within other current liabilities and other noncurrent liabilities, respectively, in the statements of net position for SCCA's portion of the project.

(m) Compensated Absences

Compensated absences represent the liability for employees with accumulated leave balances earned through various leave programs. These amounts are payable when an employee terminates employment. Employees earn leave at varying rates depending upon their years of service and the leave plan in which they participate. Annual and sick leave accrued at June 30, 2022 and 2021 is $77,832 and $75,957, respectively. Compensated absences are reported within the accrued salaries, wages, and employee benefits in the statements of net position.

(n) Benefit Costs

Benefit costs are pooled centrally for all University employees, which, for the Group, includes University employees deployed at UW Medical Center, Airlift, UW Medicine Shared Services, and beginning January 1, 2021, Neighborhood Clinics. Annually, the University reviews total employee benefit costs and prepares standard benefit load rates by employment classification. These benefit costs cover employee healthcare expense, workers' compensation, employment taxes, and retirement plans. Departments, divisions, agencies, component units, and related parties of the University, which have University employees qualifying for employee benefit coverage are charged a cost allocation using the determined benefit load rate and salary dollars by employment classification. All funding of obligations is on a pay-as-you-go basis.

(o) Pension and Postretirement Obligations

The Washington State Public Employees’ Retirement System Pension Plan is a cost sharing pension plan. The net pension (asset)liability is measured as the Group’s proportionate share of the collective total pension (asset)liability, less the fiduciary net position. The total pension (asset)liability is determined by discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan’s fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. The Group’s proportionate share is determined based on the relationship of the Group contributions to total contributions to the plan by the University. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Deferred inflows and outflows of resources are reported within the statements of net position based on changes in assumptions, experience, and investment returns and are recognized over an amortization period. Contributions made to the plan subsequent to the measurement date and prior to the Group’s fiscal year-end are reported as a deferred outflow of resources and recognized in the subsequent fiscal year. The measurement date for the net pension (asset)liability is June 30 of the prior fiscal year.

The University of Washington Supplemental Retirement Plan (UWSRP) is a single employer plan. The total pension liability is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan’s fiscal year-end. The discount rate used for the total pension liability as of June 30, 2022 and 2021, reflects the expected rate of return on investments, to the extent that plan assets are available to pay retiree benefits. The UWSRP liability as of June 30, 2022 and 2021 represent the total pension liability less the plan’s fiduciary net position. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over five years. The measurement date for the UWSRP liability is June 30 of the current fiscal year.

On July 1, 2020, the state of Washington established a qualifying trust for contributions paid by the University for the benefit of the UWSRP in accordance with RCW 41.50.075. As a result, the guidance governing the accounting for the UWSRP has changed from GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68* (GASB 73) to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). This event gave rise to a change in the Group’s estimates of future obligations, deferrals, and pension expense related to the UWSRP. Specifically, $5,349 of contributions paid in prior years and recognized as expense were reported as capital appropriations and other on the statements of revenues, expenses, and changes in net position for the year ended June 30, 2021.

The Other Post Employment Benefits (OPEB) is a program for employees of the state of Washington beyond those provided by their pension plans. The total OPEB liability is measured as the Group’s proportionate share of the University’s total OPEB liability, with proportionate share determined based on the relationship of the Group’s healthcare-eligible headcount to the total healthcare-eligible headcount for the University. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate for OPEB plans, which do not have assets residing in a qualified trust. OPEB expense is recognized for subsidies earned during the period, interest on the total OPEB liability and changes in benefit terms. Differences between expected and actual experience and changes in assumptions are reported as deferred inflows or deferred outflows of resources, and are recognized over the average expected remaining service period for healthcare-eligible employees. Contributions made to the plan subsequent to the measurement date and prior to the Group's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the total OPEB liability is June 30 of the prior fiscal year.

(p) Payable to Contractual Agencies

The Group is reimbursed for Medicare inpatient, outpatient, psychiatric, and rehabilitation services, and for capital and medical education costs during the year either prospectively or at an interim rate. The difference between interim payments and the reimbursement computed based on the Medicare filed cost report results in an estimated receivable from or payable to Medicare at the end of each year. The Medicare program's administrative procedures preclude final determination of amounts receivable from or payable to the Group until after the cost reports have been audited or otherwise reviewed and settled by Medicare.

Public hospitals located in the state of Washington designated by the Washington State legislature are reimbursed at the "full cost" of Medicaid inpatient covered services under the public hospital Certified Public Expenditures (CPE) payment method. See note 3(a) for discussion regarding this program.

The estimated settlement amounts for Medicare cost reports and CPE payments that are not considered final are included in payable to contractual agencies in the statements of net position.

(q) Classification of Revenues and Expenses

The Group's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenues and UWP billing revenues, net, result from exchange transactions associated with providing healthcare services – the Group's primary business. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values.

Operating expenses include all expenses, other than financing costs, incurred by the Group to provide healthcare services to the Group's patients.

Nonoperating revenues and expenses are recorded for nonexchange transactions. This includes investment income, donation income, interest expense, funding to and from affiliates of UW Medicine and the state, other federal and state funding, hospital safety net program, federal stimulus funding, equity earnings generated through investment in SCCA, and state appropriations.

(r) Net Patient Service Revenues

The Group has agreements with third-party payers, which provide for payments to the Group at amounts that differ from its established charges. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

 (Continued)

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. A summary of the payment arrangements with major third-party payers is as follows:

(i) Medicare

Acute inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on Medicare severity diagnosis-related groupings (MS-DRGs), as well as reimbursements related to capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for Medicare outpatient services are provided based upon a prospective payment system known as ambulatory payment classifications (APC). APC payments are prospectively established and may be greater than or less than the actual charges for services. The Medicare program utilizes the prospective payment system known as case mix group (CMG) for rehabilitation services reimbursement. As with MS-DRGs, CMG payments are prospectively established and may be greater than or less than the Group's actual charges for its services. Adult inpatient psychiatry services are also paid prospectively using a federal per diem payment rate adjusted for comorbidity and various other factors.

(ii) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at approximate cost or at prospectively determined rates per discharge. Outpatient services rendered are paid based upon the APC prospective payment system. See note 3(a) for discussion surrounding the Medicaid CPE program.

(iii) Commercial

The Group has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Group under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(iv) Exchange (HIX)

The Washington State Health Exchange entered into agreements with certain commercial insurance plans to provide patients access to healthcare services. The basis for payment to the Group under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(s) Financial Assistance

The Group provides care without charge to patients who meet certain criteria under its financial assistance policy. Records are maintained to identify and monitor the level of financial assistance provided. These records include charges foregone for services and supplies furnished under its financial assistance policy to the uninsured and the underinsured. Because the Group does not pursue collection of amounts determined to qualify as financial assistance, these are not reported as net patient service revenues. The charges associated with financial assistance provided by the Group were $78,881 and $58,283 for the years ended June 30, 2022 and 2021, respectively. The cost of financial assistance provided is calculated based on the Group's aggregate relationship of costs to charges. The

(Continued)

(Dollar amounts in thousands)

estimated cost of financial assistance provided for fiscal years ended June 30, 2022 and 2021 was $25,323 and $20,620, respectively.

(t) UWP Accounting for Billing and Collection Services

As a billing agent, UWP bills and collects patient accounts for the benefit of the School. As described in note 2(u), UWP's billing revenues, by agreement, are limited to operating expenses incurred. Revenue recorded by UWP includes net billings processed on behalf of the School plus investment income and less amounts paid or due to the Clinical Medicine Fund (CMF) and departments.

Accounts receivable from patients, net of allowances for discounts, contractual adjustments, and collection losses are assets of the School. The following represents the estimated net patient accounts receivable for which UWP will pursue collection on behalf of the School as of June 30, 2022 and 2021, and are not reflected in the statements of net position:

		2022	2021
Accounts receivable (net of credit balances of $6,950 and $3,781, respectively)	$	137,708	163,308
Estimated allowances for discounts, contractual adjustments, and collection losses		(87,163)	(101,865)
	$	50,545	61,443

The amounts above exclude receivables related to services performed by certain nonmember healthcare professionals for related entities (Harborview and UW Medical Center) that are billed and collected by UWP as a billing agent. Cash collected on these accounts is remitted monthly to affiliates, net of billing service fees.

(Dollar amounts in thousands)

(u) UWP Billing Activity

As discussed in note 2(t), UWP acts as a billing agent for the School and, as such, collects cash for the benefit of the School. UWP's billing revenues, by agreement, are limited to the operating expenses incurred. A reconciliation of the net billing activity processed for the benefit of the School and investment income to revenue recognized by UWP is as follows:

		2022	2021
Net billings processed on behalf of the School:			
Professional fee revenue, net	$	527,353	509,407
Billing reimbursement		945	832
		528,298	510,239
Investment (loss) income		(19,981)	27,131
Total net billings processed and investment income		508,317	537,370
Less:			
Amounts paid or due to affiliates		(3,448)	(2,713)
Amounts paid or due to Clinical Medicine Fund and departments		(113,066)	(167,618)
UWP billing revenues, net	$	391,803	367,039

Receipts collected by UWP are allocated and distributed in accordance with UWP's Income Distribution Plan. Allocations and distributions are calculated pursuant to the plan and CMF and departmental payables are recorded within Clinical Medicine Fund and Department Payables in the statements of net position.

(v) Net Position

The Group's net position is classified in various components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and right-to-use lease assets, net of accumulated amortization, reduced by outstanding borrowings used to finance the purchase, lease or construction of those assets. Expendable restricted net position consists of resources that the Group is legally or contractually obligated to expend in accordance with time or purpose restrictions placed by donors and/or external parties. Nonexpendable restricted net position, primarily endowments, represent gifts to the Group's permanent endowment funds, in which the donor or other external party has imposed a restriction that the corpus is not available for expenditure. Unrestricted net position is all other funds available to the Group for any purpose associated with its operations.

(w) Federal Income Taxes

UW Medical Center, Airlift, and UW Medicine Shared Services are divisions and/or departments of the University and are not subject to federal income tax under Section 115 of the Internal Revenue Code (IRC), except for unrelated business income tax. There are no significant tax obligations at June 30, 2022 and 2021.

UWP and Neighborhood Clinics are exempt from federal income tax under Section 501(c)(3) of the IRC, except for unrelated business income tax. There are no significant tax obligations at June 30, 2022 and 2021.

(x) Recently Adopted and Upcoming Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*, which was effective for the fiscal year ended June 30, 2022, as amended by the issuance of Statement No. 95. This statement changes the classification of lease arrangements as either operating or capital leases, and establishes a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. This statement applies to contracts that convey the right to use a nonfinancial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessees are required to recognize a lease liability and a right-to-use lease asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. As a result of implementation, the Group applied the standard retroactively to the period beginning July 1, 2020. The statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows for the fiscal year beginning July 1, 2020 have been restated to conform with the requirements of this statement and current year presentation. Upon adoption of the statement, at July 1, 2020, the Group recognized a beginning balance of lease liabilities and right-to-use lease assets of $217,177 and $210,616, respectively, in the statements of net position for lessee transactions. In addition, the Group recognized lease receivables and deferred inflows of resources of approximately $29,482 and $29,431, respectively, in the statements of net position for lessor transactions.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* which was effective for the fiscal year ended, June 30, 2022. This statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will not be included in the capitalized cost of capital assets reported by the Group. This statement has been applied on a prospective basis and interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated. The Group adopted this statement in fiscal year 2022 and determined it did not have a material impact to the financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is effective for the fiscal year ending June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of a SBITA), and requires note disclosures regarding a SBITA. The Group is currently analyzing the impact of this statement.

(Dollar amounts in thousands)

(y) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(3) Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as updated information becomes available and when final settlements are determined. In 2022 and 2021, net patient service revenues increased $4,790 and $6,856, respectively, relating to prior years' net Medicare and Medicaid settlements and revised estimates, including disproportionate share reimbursement and the CPE program.

The following are the components of net patient service revenues for the years ended June 30, 2022 and 2021:

		2022	2021
Gross patient service charges	$	5,136,567	4,609,989
Less adjustments to gross patient service charges:			
Contractual discounts		(3,170,177)	(2,766,716)
Financial assistance		(57,909)	(43,250)
Provision for uncollectible accounts		(25,348)	(22,634)
Total adjustments to gross patient service charges		(3,253,434)	(2,832,600)
Net patient service revenues	$	1,883,133	1,777,389

(Continued)

(Dollar amounts in thousands)

The Group grants credit without collateral to its patients, most of whom are Washington State residents and who are insured under third-party payer agreements. The mix of gross patient charges and gross receivables from significant third-party payers at June 30, 2022 and 2021 was as follows:

	2022	
	Patient service charges	Accounts receivable
Medicare	39 %	35 %
Medicaid	16	14
Commercial and other	42	46
Exchange (HIX)	2	2
Self-pay	1	3
Total	100 %	100 %

	2021	
	Patient service charges	Accounts receivable
Medicare	37 %	33 %
Medicaid	17	15
Commercial and other	43	47
Exchange (HIX)	2	2
Self-pay	1	3
Total	100 %	100 %

(a) Medicaid Certified Public Expenditure Reimbursement

UW Medical Center is reimbursed at the “full cost” of Medicaid inpatient covered services under the public hospital CPE payment method. “Full cost” payments are determined using the respective hospital’s Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital, and the State claims a federal match on the amount of the related certified public expenditures. According to the Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. UW Medical Center recognized $23,768 and $24,445 in claims payments under this program for the years ended June 30, 2022 and 2021, respectively.

In addition, UW Medical Center receives the federal match portion of Disproportionate Share (DSH) payments, which is the lesser of qualifying Medicaid and financial assistance uncompensated care cost or the hospital’s specific limit. UW Medical Center recognized $36,304 and $39,800 in DSH funding under this program for the years ended June 30, 2022 and 2021, respectively.

(Continued)

Since the inception of the program, the Washington State Legislature (the State) has provided, through an annual budget proviso, a “hold harmless” provision for hospitals participating in the CPE program. Through this proviso, hospitals participating in the CPE program will receive no less in combined state and federal payments than they would have received under the previous payment methodology. In addition, the hold harmless provision ensures that participating hospitals receive DSH payments as specified in the legislation.

In the event of a shortfall between CPE program payments and the amount determined under the hold harmless provision, the difference is paid to the hospitals as a grant from state only funds. UW Medical Center did not recognize any amounts for state grants for the years ended June 30, 2022 and 2021. Claims payments, DSH payments, and state grant funds are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

CPE payments are subject to retrospective determination of actual costs once UW Medical Center’s Medicare Cost Report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete, after UW Medical Center receives its Medicare Notice of Program Reimbursements for the corresponding cost reporting year.

Interim state grant payments are retrospectively reconciled to “hold harmless” after actual claims are repriced using the applicable DRG payment methodology. This process takes place approximately 12 months after the end of the fiscal year and results in either a payable to, or receivable from, the State Medicaid Program. UW Medical Center has estimated the expected final settlement amounts based on the difference between CPE payments received and the estimated hold harmless amount.

As of June 30, 2022 and 2021, UW Medical Center has an estimated payable for the CPE program of $47,657 and $39,560, respectively, which is recorded as a payable to contractual agencies in the statements of net position.

(b) Professional Services Supplemental Payment Program and Provider Access Payment

The professional services supplemental payment (PSSP) and provider access payment (PAP) are programs managed by the Washington State Healthcare Authority (HCA) and benefit certain public hospitals.

Under the program, UW Medical Center, UWP, and Children’s University Medical Group (CUMG) receive supplemental Medicaid payments for the physician and other professional services for which they bill. These supplemental payments equal the difference between the standard Medicaid reimbursement and the upper payment limit allowable by federal law. UW Medical Center and Harborview provide the nonfederal share of the supplemental payments that are used to obtain matching federal funds.

UW Medical Center recorded $12,113 and $12,659 for the years ended June 30, 2022 and 2021, respectively, in intergovernmental transfers (IGT) to HCA related to professional claims paid. This is included in funding to affiliates in the statements of revenues, expenses, and changes in net position. There is no requirement that UWP and CUMG PSSP and PAP payments be returned to UW Medical Center as a condition for making the IGTs.

UW Medical Center recognized $2,112 and $2,088 in supplemental payments for the years ended June 30, 2022 and 2021, respectively. The payments are recorded in net patient service revenues in the statements of revenues, expenses, and changes in net position. UWP recognized $57,050 and $58,211 in supplemental payments for the years ended June 30, 2022 and 2021, respectively, for the benefit of the School and are reflected as part of revenues processed and amounts due to the CMF as shown in note 2(u).

PSSP and PAP funds received through the CMF are combined with other revenue used by the School for the central support of faculty costs. As a result, the School requires less funding from UW Medical Center. UW Medical Center clinical department funding is recorded within purchased services expense in the statements of revenues, expenses, and changes in net position and was reduced by $30,928 and $31,471 in fiscal years 2022 and 2021, respectively.

(4) Medicare Advanced Payments and Federal Stimulus Funding

In response to financial pressures brought on by the COVID-19 pandemic, the Group pursued additional sources of liquidity and financial recovery through various federal programs. The Group requested and received approval for six months of advance Medicare payments under CMS Medicare Advanced Payment Program (MAPP). The Group received $125,300 in fiscal year 2020. The advance Medicare funds are recovered by Medicare by offsetting paid claims until the full amount is recouped.

On September 30, 2020, a federal law was signed to extend the deadline for repayment under the Medicare Advanced Payment Program, which would give hospital providers one year from the date of the original advance before Medicare can begin to recover the advances and 29 months from the date of the original advance to fully repay the advanced payments without interest.

Medicare began recouping the Group’s advanced payments in April 2021 and recouped the entire balance. As of June 30, 2022, the Group had no outstanding Medicare advanced payments. As of June 30, 2021, the current portion of $95,525 was recorded within Medicare advanced payments in the accompanying statements of net position. The long-term portion of $13,264 was recorded in other noncurrent liabilities as of June 30, 2021 in the statements of net position.

The federal government passed the Coronavirus Aid, Relief and Economic Security (CARES Act) in March 2020 and the American Rescue Plan Act (ARPA) in March 2021. Both the CARES Act and ARPA were aimed to direct economic assistance for the American workers, families and small businesses and preserve jobs for American industries. The CARES Act and ARPA require the amount of funding to be validated, which requires management to quantify lost revenues and incur expenses associated with the pandemic. During the fiscal years ended June 30, 2022 and 2021, the Group received and recognized CARES Act and ARPA funds totaling $15,235 and $34,575, respectively, which is recorded within federal stimulus funding in the statements of revenues, expenses, and changes in net position.

(5) State Appropriation

An appropriation is made by the State to the University on a biennial basis, specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. UW Medical Center is designated as a division of the major program “hospitals” included within the total appropriation. In fiscal year 2021, UW Medical Center was awarded a one-time state appropriation of $35,000 to partially cover lost revenues from the COVID-19 pandemic that would not be recovered by other funding. UW Medical Center recognized $18,909 and $44,034 for the fiscal years ended June 30, 2022 and 2021, respectively, which is recorded within other nonoperating, net.

(Dollar amounts in thousands)

(6) Capital Assets

The activity in the Group's capital asset and related accumulated depreciation accounts for the years ended June 30, 2022 and 2021 is set forth below:

	June 30, 2021	Additions	Transfers	Retirements	June 30, 2022
Capital assets, not being depreciated:					
Land	$ 10,817	—	—	—	10,817
Art	1,824	780	—	—	2,604
Construction in process	66,499	117,447	(87,687)	—	96,259
Total capital assets, not being depreciated	79,140	118,227	(87,687)	—	109,680
Capital assets, being depreciated:					
Land improvements	13,668	—	—	—	13,668
Buildings, renovations, and furnishings	962,563	220	41,863	(310)	1,004,336
Fixed equipment	166,469	290	(3,276)	(1,161)	162,322
Movable equipment	760,739	416	49,100	(47,386)	762,869
Total capital assets, being depreciated	1,903,439	926	87,687	(48,857)	1,943,195
Total capital assets at historical cost	1,982,579	119,153	—	(48,857)	2,052,875
Less accumulated depreciation for:					
Land improvements	(9,092)	(386)	—	—	(9,478)
Buildings, renovations, and furnishings	(511,663)	(31,194)	—	178	(542,679)
Fixed equipment	(136,748)	(4,457)	1,765	808	(138,632)
Movable equipment	(562,580)	(47,374)	(1,765)	45,562	(566,157)
Total accumulated depreciation	(1,220,083)	(83,411)	—	46,548	(1,256,946)
Total capital assets, net	$ 762,496	35,742	—	(2,309)	795,929

(Dollar amounts in thousands)

	June 30, 2020	Additions	Transfers	Retirements	June 30, 2021
Capital assets, not being depreciated:					
Land	$ 10,817	—	—	—	10,817
Art	1,817	7	—	—	1,824
Construction in process	88,505	113,432	(135,438)	—	66,499
Total capital assets, not being depreciated	101,139	113,439	(135,438)	—	79,140
Capital assets, being depreciated:					
Land improvements	13,688	—	—	(20)	13,668
Buildings, renovations, and furnishings	959,762	15	4,029	(1,243)	962,563
Fixed equipment	167,133	—	934	(1,598)	166,469
Movable equipment	634,645	340	130,475	(4,721)	760,739
Total capital assets, being depreciated	1,775,228	355	135,438	(7,582)	1,903,439
Total capital assets at historical cost	1,876,367	113,794	—	(7,582)	1,982,579
Less accumulated depreciation for:					
Land improvements	(8,717)	(395)	—	20	(9,092)
Buildings, renovations, and furnishings	(481,723)	(31,073)	—	1,133	(511,663)
Fixed equipment	(133,296)	(4,766)	—	1,314	(136,748)
Movable equipment	(525,231)	(41,514)	(24)	4,189	(562,580)
Total accumulated depreciation	(1,148,967)	(77,748)	(24)	6,656	(1,220,083)
Total capital assets, net	$ 727,400	36,046	(24)	(926)	762,496

Intangible assets, net of accumulated amortization of $95,157 and $106,822 as of June 30, 2022 and 2021, respectively, is included in movable equipment in the capital asset rollforwards.

(7) Leases

(a) Lessee

The Group leases various equipment and facilities under noncancellable lease agreements. Existing leases have lease terms through fiscal year 2044.

(Dollar amounts in thousands)

(i) *Right-to-use lease assets*

The Group's right-to-use lease asset and related accumulated amortization accounts for the fiscal years ended June 30, 2022 and 2021 is set forth below:

		June 30, 2021	Additions	Modifications and renewals	Deductions	June 30, 2022
Lease Assets:						
Buildings	$	187,683	4,652	9,338	(672)	201,001
Equipment		6,668	694	—	—	7,362
Aircraft		60,109	—	—	—	60,109
Total lease assets		254,460	5,346	9,338	(672)	268,472
Less accumulated amortization for:						
Buildings		(17,244)	(18,256)	—	531	(34,969)
Equipment		(2,205)	(2,148)	—	—	(4,353)
Aircraft		(14,260)	(14,260)	—	—	(28,520)
Total accumulated amortization		(33,709)	(34,664)	—	531	(67,842)
Total lease assets, net	$	220,751	(29,318)	9,338	(141)	200,630

		July 1, 2020	Additions	Modifications and renewals	Deductions	June 30, 2021
Lease Assets:						
Buildings	$	144,036	10,884	32,763	—	187,683
Equipment		6,471	197	—	—	6,668
Aircraft		60,109	—	—	—	60,109
Total lease assets		210,616	11,081	32,763	—	254,460
Less accumulated amortization for:						
Buildings		—	(17,244)	—	—	(17,244)
Equipment		—	(2,205)	—	—	(2,205)
Aircraft		—	(14,260)	—	—	(14,260)
Total accumulated amortization		—	(33,709)	—	—	(33,709)
Total lease assets, net	$	210,616	(22,628)	32,763	—	220,751

(ii) *Lease Liabilities*

Changes in lease liabilities during the fiscal years ended June 30, 2022 and 2021 are summarized below:

		Beginning balance	Additions	Remeasurements and renewals	Deductions	Ending balance	Due within one year
Fiscal year ended:							
June 30, 2022	$	230,772	5,346	9,338	(31,334)	214,122	30,787
June 30, 2021		217,177	11,083	32,763	(30,251)	230,772	30,750

(Dollar amounts in thousands)

(iii) Lease maturities

The following schedule shows future annual lease payments, for the next five years and in five-year increments thereafter, as of June 30, 2022, for both principal and interest:

		Principal	Interest	Total
2023	$	30,787	5,305	36,092
2024		26,381	4,746	31,127
2025		22,602	4,208	26,810
2026		11,526	3,828	15,354
2027		11,305	3,529	14,834
2028–2032		46,674	13,494	60,168
2033–2037		40,022	7,193	47,215
2038–2042		22,202	1,949	24,151
2043–2047		2,623	33	2,656
Total payments	$	214,122	44,285	258,407

(8) Investments

UWP's investments are held for the benefit of the School. UWP's board is responsible for the management of investments by establishing investment policies that are carried out by external investment managers approved by the board.

There are many factors that can affect the value of investments. Some, such as custodial risk, concentration of credit risk, and foreign currency risk, may affect both equity and fixed income securities. Equity securities respond to factors such as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

The composition of the carrying amounts of investments, by type, at June 30, 2022 and 2021, is as follows:

		2022	2021
Mutual funds – equity	$	131,695	125,197
Domestic corporate bonds		6,409	8,478
U.S. governmental agency securities		4,573	4,390
U.S. Treasury securities		6,588	5,477
Total	$	149,265	143,542

(a) Credit Risk

Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or negative perceptions of the issuer's ability to make these payments will cause prices to decline. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

(Dollar amounts in thousands)

Investments subject to credit risk (as determined through a nationally recognized rating agency – Standard & Poor's) are presented in the table below:

	2022					
Investments	**U.S. Government**	**Investment grade***	**Not investment grade**	**Not rated**	**Total**	**Duration (in years)**
Domestic corporate bonds	$ —	6,409	—	—	6,409	6.05
U.S. governmental agency	4,573	—	—	—	4,573	5.50
U.S. Treasury securities	6,588	—	—	—	6,588	7.30
	$ 11,161	6,409	—	—	17,570	6.28

	2021					
Investments	**U.S. Government**	**Investment grade***	**Not investment grade**	**Not rated**	**Total**	**Duration (in years)**
Domestic corporate bonds	$ —	8,478	—	—	8,478	6.65
U.S. governmental agency	4,390	—	—	—	4,390	4.02
U.S. Treasury securities	5,477	—	—	—	5,477	8.19
	$ 9,867	8,478	—	—	18,345	6.29

* *Investment grade securities are those that are rated BBB and higher by Standard and Poor's.*

(b) Interest Rate Risk

The Group manages interest rate risk through construction of a broadly diversified portfolio that seeks to assume only the interest rate risk necessary to achieve the long-term goals in terms of investment returns. The Group does not make "tactical calls" with respect to the direction of interest rates. Therefore, the duration of the Group's holdings is a by-product of risk/return targets, rather than the inverse.

(Dollar amounts in thousands)

(c) Fair Value Hierarchy

The following table sets forth, by level, within the fair value hierarchy, the Group's investments carried at fair value as of June 30, 2022 and 2021:

		2022			
		Level 1	**Level 2**	**Level 3**	**Total**
Mutual funds	$	131,695	—	—	131,695
Domestic corporate bonds		—	6,409	—	6,409
U.S. governmental agency securities		—	4,573	—	4,573
U.S. Treasury securities		6,588	—	—	6,588
Total investments at fair value	$	138,283	10,982	—	149,265

		2021			
		Level 1	**Level 2**	**Level 3**	**Total**
Mutual funds	$	125,197	—	—	125,197
Domestic corporate bonds		—	8,478	—	8,478
U.S. governmental agency securities		—	4,390	—	4,390
U.S. Treasury securities		5,477	—	—	5,477
Total investments at fair value	$	130,674	12,868	—	143,542

Fixed income and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income classified in Level 2 are valued using observable inputs, including quoted prices for similar securities and interest rates. Level 3 securities are valued using either discounted cash flow or market comparable techniques.

(Dollar amounts in thousands)

(d) Investment Income

Investment income includes both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held longer than the current reporting period and are sold in the current period include the net appreciation of these investments reported in the prior periods. UWP investment income is recorded in UWP billing revenues, net, as presented in note 2(u), however, the composition of UWP's investment income is included in amounts presented below. Investment (loss) income comprises the following at June 30, 2022 and 2021:

		2022	2021
Dividend and interest income	$	9,696	6,831
Net realized gains		13,985	4,032
Net unrealized (losses) gains		(40,986)	18,961
Total investment (loss) income	$	(17,305)	29,824

(Dollar amounts in thousands)

(9) Long-Term Debt

Long-term debt, reported as a part of noncurrent liabilities, consists of the following as of June 30, 2022 and 2021:

		2022	2021
UW Medical Center Internal Lending Program Debt:			
Expansion Project, 4.00% interest rate, through July 2046	$	235,707	244,365
All other debts, 4.04% to 4.96% interest rates, through December 2027		16,791	22,479
UW Medical Center note payable to the University, at 4.00% through December 2032, secured by an interest in UW Medical Center gross receivables and certain property and equipment		49,296	52,997
Other Internal Lending Program Debt, 4.00% interest rate, with various maturity dates		39,052	19,682
Fred Hutchinson Cancer Center Note Payable interest of 4.82% through March 2032		142,942	—
UW Medicine ITS Internal Lending Program Debt:			
D1 Project, 4.00% interest rate, through July 2034		111,771	110,121
UW Medical Center note payable at 4.65%, annual debt service including interest of $1,450 through July 2032; secured by a medical office building – direct borrowing		5,696	6,129
Neighborhood Clinics Paycheck Protection Program loan, at 1% interest deferred for six months, through 2022		—	5,293
Other notes payable		541	1,228
Total long-term debt		601,796	462,294
Less current portion		(37,125)	(31,212)
Total long-term debt, net of current portion	$	564,671	431,082

(a) Long-Term Debt Overview

(i) University Internal Lending Program

The Group periodically applies for and obtains financing through the University's ILP as it identifies borrowing needs. The ILP is an internal financing pool intended to lower the University's overall cost of capital and provide a predictable borrowing rate for borrowers within the University. These loans are funded through the issuance of General Revenue bonds and notes. The University's ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary. Effective July 1, 2021, the ILP interest rate was reduced 25 basis points from 4.25% to 4.00%.

(ii) Fred Hutchinson Cancer Center Note Payable

On April 1, 2022, UW Medical Center entered into a promissory note agreement with Fred Hutchinson Cancer Center, for its 50% share of the buyout of Seattle Children's Healthcare System membership in SCCA. The note payable to FHCC is $142,942 and the interest rate is 4.82%. The note shall be payable in forty equal consecutive quarterly installments of principal and interest. Both parties agree that all payments on this note shall be offset by UWMC's portion of the Clinical Distribution Pool due under the Restructuring Agreement. As of June 30, 2022, no principal or interest payments have been paid.

(Dollar amounts in thousands)

(iii) Neighborhood Clinics

On May 1, 2020, the Neighborhood Clinics were granted a loan from Bank of America, NA, in the amount of $5,293, pursuant to the Paycheck Protection Program (PPP). The PPP was established as part of the CARES Act and provided loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expense of the business. The loan was in the form of a promissory note dated May 1, 2020 and had an interest rate of 1.0% with a deferral of payments of the first six months. The maturity date was two years from the funding date of the loan. The loan is eligible for full forgiveness by the SBA if a forgiveness application is filed within 10 months of the last day of the covered period, which was submitted by the Neighborhood Clinics. The loan payments are deferred until the application deadline, as well as through the application review period. Once the application is reviewed, the loan is either forgiven or payments become due. On September 22, 2021, the Neighborhood Clinic's PPP loan forgiveness application was approved, and the loan was forgiven in full and is recorded as other, net in the statements of revenues, expenses, and changes in net position in fiscal year 2022.

(b) Long-Term Debt Maturities

The following schedule shows debt service requirements, for the next five years and in five-year increments thereafter, as of June 30, 2022, for both principal and interest:

		Principal	Interest	Total
2023	$	37,125	23,222	60,347
2024		41,529	23,202	64,731
2025		39,107	21,348	60,455
2026		40,447	19,621	60,068
2027		40,367	17,840	58,207
2028–2032		228,164	61,285	289,449
2033–2037		108,993	22,127	131,120
2038–2042		37,138	9,552	46,690
2043–2047		28,926	2,424	31,350
Total payments	$	601,796	200,621	802,417

(Dollar amounts in thousands)

(c) Changes in Long-Term Debt

Changes in long-term debt during the fiscal years ended June 30, 2022 and 2021 are summarized below:

	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022	Due within one year
UW Medical Center ILP Debt:					
Expansion Project	$ 244,365	—	(8,658)	235,707	9,030
All other debts	22,479	—	(5,688)	16,791	5,944
Note payable – University	52,997	—	(3,701)	49,296	3,856
Other ILP debt	19,682	20,079	(709)	39,052	1,602
Fred Hutchinson Cancer Center Note Payable	—	142,942	—	142,942	8,508
UW Medicine ITS ILP Debt	110,121	8,188	(6,538)	111,771	7,538
UW Medical Center Note Payable	6,129	—	(433)	5,696	453
Neighborhood Clinics PPP Loan	5,293	—	(5,293)	—	—
Other note payables and capital leases	1,228	—	(687)	541	194
Total long-term debt and noncurrent liabilities	$ 462,294	171,209	(31,707)	601,796	37,125

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Due within one year
UW Medical Center ILP Debt:					
Expansion Project	$ 252,474	—	(8,109)	244,365	8,658
All other debts	27,926	—	(5,447)	22,479	5,688
Note payable – University	56,497	—	(3,500)	52,997	3,700
Other ILP debt	7,294	12,388	—	19,682	600
UW Medicine ITS ILP Debt	45,636	64,485	—	110,121	6,184
UW Medical Center Note Payable	6,542	—	(413)	6,129	433
Neighborhood Clinics PPP Loan	5,293	—	—	5,293	5,293
Other note payables and capital leases	2,123	—	(895)	1,228	656
Total long-term debt and noncurrent liabilities	$ 403,785	76,873	(18,364)	462,294	31,212

(10) Risk Management

The Group is exposed to risk of loss related to professional, automobile, and general liability, property loss and injuries to employees. UW Medical Center and Airlift participate in risk programs managed by the University to mitigate risk of loss related to these exposures. The other members of the Group mitigate risk of loss through a combination of participating in the liability risk program managed by the University and commercial insurance products. All of the entities participate in the professional liability program managed by the University.

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components of which statutory self-insurance coverage is first dollar. The Group's annual contribution to the professional liability program funding is determined by UW Medicine Finance using information from an annual actuarial study conducted by the University administration. In addition to the University, the participants in the professional liability program include the Group, CUMG, School of Dentistry, the School, and Harborview. In addition to self-insurance fund contributions, the participants share in the expenses of the Clinical Risk Management Office. No claim liability is recorded on the Group's balance sheet for professional liability exposures.

The Group's contribution to the professional liability program was $20,264 and $31,665 in fiscal years 2022 and 2021, respectively, and is recorded in other operating expense in the statements of revenues, expenses, and changes in net position.

(11) Pension Plans

University employees can participate in the following state and University sponsored retirement benefit plans.

(a) University of Washington Retirement Plan

The University of Washington Retirement Plan (UWRP) (the 403(b)) is a defined-contribution plan administered by the University. All faculty and professional staff are eligible to participate in the plan. Contributions to UWRP are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from fund sponsors are available upon separation or retirement at the member's option. Revised Code of Washington (RCW) 28B.10.400 et. seq. assigns the authority to the University's Board of Regents to establish and amend benefit provisions.

Funding is determined by employee age and ranges from 5% to 10% of employee salary. Funding obligations are calculated at the University level and the University allocates expense to department, divisions, agencies, and component units through the benefit load rate.

Based on the University's benefit load apportionment, the Group incurred and paid $12,018 and $11,587 in fiscal years 2022 and 2021, respectively, related to annual UWRP funding, which is recorded in employee benefits expense in the statements of revenues, expenses, and changes in net position.

(b) Public Employees' Retirement System Pension Plans

The University offers several contributory pension plans administered by the Washington State Department of Retirement Systems (DRS). The Group has employees in the Public Employees' Retirement System (PERS) plan, which is a defined-benefit retirement plan.

(i) Plan Descriptions of the DRS Plans

PERS retirement benefit provisions are contained in chapters 41.34 and 41.40 RCW. PERS is a cost-sharing, multiple-employer retirement system comprised of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined-benefit plans, and PERS Plan 3 is a defined-benefit plan with a defined-contribution component. PERS members include higher education employees not participating in other higher education retirement programs.

For accounting purposes, PERS is reported as three separate plans. Plan 1 accounts for the defined-benefits of Plan 1 members, Plan 2/3 accounts for the defined-benefits of Plan 2 and Plan 3 members, and Plan 3 accounts for the defined-contribution portion of Plan 3 members. The defined-benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund, and all assets of Plan 2/3 may legally be used to pay the defined-benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Plan 2/3 is considered a single plan for accounting purposes.

(ii) Vesting and Benefits Provided

PERS Plan 1

PERS Plan 1 provides retirement, disability, and death benefits. The plan is closed to new entrants. All members were vested after the completion of five years of eligible service. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest-paid consecutive service months. The retirement benefit may not exceed 60% of the AFC.

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits include an optional cost-of living adjustment (COLA).

PERS Plan 2/3

PERS Plan 2/3 provides retirement, disability and death benefits. PERS Plan 2 members are vested after completion of five years of eligible service. PERS Plan 3 members are vested in the defined-benefit portion of their plan after 10 years of service or after five years of service if 12 months are earned after age 44. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2, and 1% of AFC times the member's years of service for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered early retirement. Members are eligible for early retirement with a reduced benefit at age 55 with at least 20 years of service credit. The benefit is reduced by a factor that varies according to age, for each year before age 65.

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include a COLA (based on the Consumer Price Index) capped at 3% annually.

(iii) Fiduciary Net Position

The pension plans' fiduciary net positions have been determined on the same basis as they are reported by the pension plans. DRS financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). The retirement plans are accounted for in pension trust funds using the flow of economic resources measurement focus and the accrual basis of accounting. Member contributions are recognized as revenues in the period in which the contributions are earned. Employer contributions are recognized when due, and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of each plan.

(Dollar amounts in thousands)

Chapter 43.33A of the RCW authorizes the Washington State Investment Board (WSIB) to have the investment management responsibility for the pension funds. Investments are reported at fair value, and unrealized gains and losses are included as investment income in the statements of changes in fiduciary net position presented in the DRS Comprehensive Annual Financial Report. Purchases and sales of investments are recorded on a trade-date basis.

DRS publishes an annual report for retirement plans, which is available at: https://www.drs.wa.gov/wp-content/uploads/2021/06/2021ACFR.

(iv) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on the Group. The professional judgments used in determining these assumptions are important and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant effect on the Group's financial statements.

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The Group's 2022 pension liability (asset) is based on an OSA valuation performed as of June 30, 2020, with the results rolled forward to the measurement date of June 30, 2021. The Group's 2021 pension liability is based on an OSA valuation performed as of June 30, 2019, with the results rolled forward to the measurement date of June 30, 2020. The following actuarial assumptions have been applied to all prior periods included in the measurement:

	2022
Inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.50%
Investment rate of return	7.40%

	2021
Inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.50%
Investment rate of return	7.40%

Mortality rates as of June 30, 2020 and 2019 were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under “generational” mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

(Dollar amounts in thousands)

The actuarial assumptions used in the June 30, 2020 and 2019 valuations were based on the results of the 2013–2018 Experience Study Report and 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the dates of the respective actuarial valuation reports.

The long-term expected rate of return on pension plan investments was determined by WSIB using a building block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class. Those expected returns make up one component of WSIB’s Capital Market Assumptions (CMAs). WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.40% as of June 30, 2021 and 2020, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan are summarized in the following table:

	2022 (Measurement date: 2021)		2021 (Measurement date: 2020)	
	Target asset allocation	Long-term expected real rate of return arithmetic	Target asset allocation	Long-term expected real rate of return arithmetic
Asset class:				
Fixed income	20.0 %	2.2 %	20.0 %	2.2 %
Tangible assets	7.0	5.1	7.0	5.1
Real estate	18.0	5.8	18.0	5.8
Global equity	32.0	6.3	32.0	6.3
Private equity	23.0	9.3	23.0	9.3

The inflation components used to create the above table are 2.20% for both years and represents WSIB’s most recent long-term estimate of broad economic inflation.

(v) Discount Rate

The discount rate used to measure the total pension liabilities was 7.40% as of June 30, 2022 and 2021. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which the Group participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Dollar amounts in thousands)

Using the WSIB long-term expected rate of return, a 7.40% future investment rate of return on pension plan investments was assumed as of both June 30, 2021 and 2020. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1, as provided for in Chapter 41.45 of the RCW).

(vi) Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following table presents the Group's net pension liability and asset calculated using the discount rate of 7.40% as of June 30, 2021 and 2020, as well as what the net pension liability and asset would be if it were calculated using a discount rate that is one-percentage-point lower (6.40%) or one-percentage-point greater (8.40%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)

		2022	
	1% Decrease	Current discount rate	1% Increase
Plan:			
PERS 1	$ 77,695	45,608	17,624
PERS 2/3	(135,548)	(475,806)	(756,008)

Discount Rate Sensitivity – Net Pension Liability (Asset)

		2021	
	1% Decrease	Current discount rate	1% Increase
Plan:			
PERS 1	$ 141,494	112,964	88,083
PERS 2/3	327,950	52,706	(173,958)

(vii) Employer Contribution Rates

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The contribution rates, stated as a percentage of covered payroll as defined by the statute, and required contributions for each PERS plan in which the Group participates are shown in the table below.

(Dollar amounts in thousands)

Description		PERS Plan 1	PERS Plan 2/3[i]
Contributions as June 30, 2022:			
Contribution rate		12.97 %	12.97 %
Contributions made	$	23,504	40,052

Description		PERS Plan 1	PERS Plan 2/3[i]
Contributions as June 30, 2021:			
Contribution rate		12.86 %	12.86 %
Contributions made	$	27,424	44,601

i. Plan 2/3 employer rate includes a component to address the Plan 1 unfunded actuarial accrued liability.

(viii) The Group's Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year end. The measurement date for the net pension liabilities and assets recorded by the Group as of June 30, 2022 was June 30, 2021. Employer contributions received and processed by the DRS during the fiscal year ended June 30, 2021 have been used as the basis for determining Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by the Group as of June 30, 2021 was June 30, 2020, with employer contributions received and processed by DRS during the fiscal year ended June 30, 2020, used as the basis for determining Schedules of Employer and Nonemployer Allocations. The Group's proportionate share for each DRS plan for the years ended June 30, 2022 and 2021 is shown in the table below.

	2022	2021
PERS 1	3.73 %	3.20 %
PERS 2/3	4.78	4.12

(Dollar amounts in thousands)

(ix) The Group Aggregated Balances

The Group's aggregated balances of net pension liability (asset) as of June 30, 2022 and 2021 are presented in the table below.

Plan		2022	2021
PERS 1	$	45,608	112,964
PERS 2/3		(475,806)	52,706
	$	(430,198)	165,670

(x) Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

The tables below summarize the Group's pension expense, deferred outflows of resources, and deferred inflows of resources related to the PERS pension plans, together with the related future year impacts to pension expense from amortization of those deferred amounts. Note that deferred outflows of resources related to the Group's contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year and are not amortized to pension expense.

		Proportionate share of pension expense		
Description		PERS Plan 1	PERS Plan 2/3	Total
June 30, 2022	$	10,442	(104,125)	(93,683)
June 30, 2021		16,656	7,188	23,844

Deferred Outflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2022:				
Change in assumptions	$	—	695	695
Difference between expected and actual experience		—	23,109	23,109
Change in the Group's proportionate share		—	18,336	18,336
The Group's contributions subsequent to the measurement date of the collective net pension liability [a]		23,504	40,052	63,556
Total	$	23,504	82,192	105,696

[a] Recognized as a reduction of the net pension liability as of June 30, 2023.

(Dollar amounts in thousands)

Deferred Outflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2021:				
Change in assumptions	$	—	751	751
Difference between expected and actual experience		—	18,868	18,868
Change in the Group's proportionate share		—	9,662	9,662
The Group's contributions subsequent to the measurement date of the collective net pension liability [a]		27,424	44,601	72,025
Total	$	27,424	73,882	101,306

[a] Recognized as a reduction of the net pension liability as of June 30, 2022.

Deferred Inflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2022:				
Difference between projected and actual earnings on plan investments, net	$	50,609	397,662	448,271
Difference between expected and actual experience		—	5,833	5,833
Change in assumptions		—	33,790	33,790
Total	$	50,609	437,285	487,894

Deferred Inflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2021:				
Difference between projected and actual earnings on plan investments, net	$	629	2,677	3,306
Difference between expected and actual experience		—	6,605	6,605
Change in assumptions		—	36,003	36,003
Total	$	629	45,285	45,914

(Dollar amounts in thousands)

Amounts reported as deferred outflows of resources, exclusive of contributions made after the measurement date, and deferred inflows of resources will be recognized in pension expense as follows:

Year		Amortization of deferred inflows and deferred outflows of resources [1] PERS Plan 1	PERS Plan 2/3	Total
2023	$	(13,406)	(105,261)	(118,667)
2024		(12,285)	(98,116)	(110,401)
2025		(11,616)	(94,194)	(105,810)
2026		(13,302)	(101,614)	(114,916)
2027		—	1,997	1,997
Thereafter		—	2,043	2,043
Total	$	(50,609)	(395,145)	(445,754)

(1) Negative amounts shown in the table above represent a reduction of expense.

(c) University of Washington Supplemental Retirement Plan

(i) Plan Description

The University of Washington Supplemental Retirement Plan (UWSRP), a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. For purposes of measuring the June 30, 2022 and 2021 net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the UWSRP and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported in the state of Washington's Annual Comprehensive Financial Report, which is available at https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report.

The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership requires participation in the UWRP. The number of Group participants included in the plan are as follows:

	June 30 2022	June 30 2021
Active employees	469	448
Inactive employees receiving benefits	99	95
Inactive employees entitled to, but not receiving benefits	15	14

(ii) Vesting and Benefits Provided

UWSRP retirement benefit provisions are contained in RCW 28B.10.400, et. seq., which assigns the authority to establish and amend benefit provisions to the University of Washington Board of Regents. Members are eligible for calculation of a possible retirement benefit under this plan when they have reached age 62 and have 10 years of service with the University. Upon retirement, a calculation is performed that compares “goal income” to “assumed income” to determine if benefits have been earned under the plan.

Goal income is the product of a service factor multiplied by average monthly compensation and then by eligible years of participation. Average monthly compensation is defined as the average annual basic salary, not to exceed annual limits established by the IRC, paid to a participant for their highest 24 consecutive months of service.

Assumed income must be calculated by an independent actuary and represents a theoretical amount of monthly income that would have been generated if actual employee and University contributions to the UWRP had been allocated equally between fixed and variable dollar annuities.

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal years ended June 30, 2022 and 2021 were $952 and $858, respectively.

(iii) Employer Contributions

State legislation which became effective on July 1, 2020, created an employer contribution rate for the UWSRP. This rate is developed by the OSA in accordance with RCW 41.45, which provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The Group’s contribution rate for the fiscal years ended June 30, 2022 and 2021 per RCW 28B.10.423 was 0.38% and 0.38%, respectively, of UWRP covered salaries. Contributions made in the fiscal years ending June 30, 2022 and 2021 were $604 and $626, respectively. Prior to fiscal year 2021 employer contributions were not required.

(iv) Plan Investments

The WSIB has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

UWSRP plan assets are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB-adopted investment policies for the various asset classes in which the WSIB invests.

Information about the investment of pension funds by the WSIB, their valuation, classifications, concentrations, and maturities can be found in note 3.B of the state of Washington’s Annual Comprehensive Financial Report.

(Dollar amounts in thousands)

The money-weighted rates of return are provided by the WSIB and the Office of the State Treasurer. For the years ended June 30, 2022 and 2021, the annual money-weighted rate of return on UWSRP investments, net of pension plan investment expense, was 0.12 and 34.90 percent, respectively. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of external cash flows.

(v) Pension Liability

The University has set aside assets to pay UWSRP benefits which are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, these assets are not reflected as a reduction of the total pension liability (TPL). The allocation method used to determine the Group's proportionate share of the University's TPL is based on its unit allocation of what is funded through the benefit load process. The proportionate share percentage for the Group was 9.23% and 8.81% as of June 30, 2022 and 2021, respectively.

The University has set aside $345,256 and $344,786 as of June 30, 2022 and 2021 to pay future UWSRP retiree benefits, of which the Group recorded $31,862 and $30,380, respectively, as other assets on its statements of net position.

Effective July 1, 2020 legislation signed into law created a trust arrangement for assets dedicated to paying UWSRP benefits to plan members. Contributions paid to and accumulated by DRS beginning January 1, 2012 were transferred into the trust when this legislation become effective. As a result, the University is now applying accounting guidance for single employer plans that have trusted assets and reports the pension liability net of plan assets as of June 30, 2021.

The Group's proportionate share of the components of the UWSRP pension liability were as follows:

Schedule of Changes in Net Pension Liability

		June 30, 2022		
		Total pension liability	Plan fiduciary net position	Net pension liability
Beginning balance	$	19,070	7,938	11,132
Service cost		341	—	341
Interest on TPL		1,470	—	1,470
Difference between expected and actual experience		6,274	—	6,274
Change in assumptions		2,044	—	2,044
Employer contributions		—	604	(604)
Investment Income		—	42	(42)
Change in proportion		527	—	527
Benefit payments		(952)	—	(952)
Ending balance	$	28,774	8,584	20,190

(Continued)

(Dollar amounts in thousands)

Schedule of Changes in Net Pension Liability

		June 30, 2021	
	Total pension liability	**Plan fiduciary net position**	**Net pension liability**
Beginning balance	$ 68,600	5,349	63,251
Service cost	2,017	—	2,017
Interest on TPL	1,558	—	1,558
Difference between expected and actual experience	(32,835)	—	(32,835)
Change in assumptions	(19,678)	—	(19,678)
Employer contributions	—	626	(626)
Investment Income	—	1,963	(1,963)
Change in proportion	266	—	266
Benefit payments	(858)	—	(858)
Ending balance	$ 19,070	7,938	11,132

The June 30, 2022 TPL is based on an actuarial valuation performed as of June 30, 2020, with update procedures performed by the OSA to roll forward the TPL to the measurement date of June 30, 2022. The June 30, 2021 TPL is based on an actuarial valuation performed as of June 30, 2020, with update procedures performed by the OSA to roll forward the TPL to the measurement date of June 30, 2021. Both valuations were prepared using the entry age actuarial cost method.

UWSRP pension expense for the fiscal years ended June 30, 2022 and 2021 was $(4,816) and $(3,753), respectively, which is reported within employee benefits expense in the statements of revenues, expenses, and changes in net position.

(Dollar amounts in thousands)

(vi) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on the University. The professional judgments used in determining these assumptions are important and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant effect on the Group's financial statements. The following table shows significant assumptions used to measure the NPL as of June 30, 2022 and 2021.

	June 30	
	2022	**2021**
Inflation	2.75%	2.75 %
Salary changes	4.00	4.00
Source of mortality assumptions	PubT.H-2010 tables, with the MP-2017 mortality improvement scale	PubT.H-2010 tables, with the MP-2017 mortality improvement scale
Date of experience study	August 2021	August 2021
Discount rate	7.00%	7.40 %
Change in the discount since prior measurement date	0.40%	5.19 %
Source of discount rate	2021 Report on Financial Condition and Economic Experience Study	2019 Report on Financial Condition and Economic Experience Study
Long-term expected rate of return on plan investments	7.00 %	7.40 %
NPL measurement at discount rate	$ 20,190	11,132
NPL discount rate increased 1%	17,344	9,365
NPL discount rate decreased 1%	23,517	13,188

Material assumption changes during the measurement periods ending June 30, 2022 and 2021 included updating the discount rate from 7.40% to 7.00% and from 2.21% to 7.40%, respectively. Additionally, actual returns for CREF investments, which are used in determining a member's "assumed income," were significantly higher than expected for the measurement periods ending

(Dollar amounts in thousands)

June 30, 2022 and 2021 (reflected as "Difference between expected and actual experience" in the Schedule of Changes in the UWSRP liability).

The long-term expected rate of return on pension plan investments was determined by the WSIB using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class. Those expected returns make up one component of WSIB's CMAs. WSIB used the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs, and simulated investment returns provided by the WSIB in their selection of the rate.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation for both June 30, 2022 and 2021, are summarized in the following table:

	Target asset allocation	Long-term expected real rate of return arithmetic
Asset class:		
Fixed income	20.0 %	2.2 %
Tangible assets	7.0	5.1
Real estate	18.0	5.8
Global equity	32.0	6.3
Private equity	23.0	9.3

(vii) Deferred Outflows and Inflows of Resources

The tables below summarize the Group's deferred outflows and inflows of resources related to the UWSRP as of June 30, 2022 and 2021, together with the related future year impacts to pension expense from amortization of those deferred amounts:

Deferred outflows of resources	2022	2021
Difference between expected and actual experience	$ 11,801	7,677
Change in assumptions	11,381	11,356
Change in proportion	—	5,150
Total	$ 23,182	24,183

(Dollar amounts in thousands)

Deferred inflows of resources		2022	2021
Difference between expected and actual experience	$	27,581	32,163
Change in assumptions		16,042	18,593
Net difference between projected and actual earnings on plan investments		492	1,233
Change in proportion		—	2,668
Total	$	44,115	54,657

Amortization of deferred outflows and inflows of resources [a]		
Year:		
2023	$	(4,670)
2024		(4,670)
2025		(3,416)
2026		(2,556)
2027		(5,716)
Thereafter		95
Total	$	(20,933)

[a] Negative amounts shown in the table above represent a reduction of expense.

(d) Other Postemployment Benefits

(i) Plan Description

OPEB are benefits provided to retired employees (and their spouses) beyond those provided by their pension plans. These programs for employees of the state of Washington are administered by the HCA. Per RCW 41.05.065, the Public Employees’ Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine terms and conditions of employee and retired employee participation and coverage. Benefits provided by this single-employer defined-benefit OPEB plan include medical, prescription drug, life, dental, vision, disability, and long-term care insurance. Medical, prescription drug and vision insurance comprise the bulk of the monetary assistance, or subsidies, provided by PEBB OPEB.

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs. The understanding by the employer and plan members is that there is no contractual obligation to continue the substantive plan as an employee benefit on an ongoing basis. Nevertheless, the actuarial assumptions used in the valuations presented in this note assume that this substantive plan will be carried forward into the future.

(Dollar amounts in thousands)

The HCA has two claim pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. For retirees, participating employers provide two different subsidies: an implicit subsidy and an explicit subsidy.

- The implicit subsidy, set up under RCW 41.05.022, is not a direct payment from the employer on behalf of the retiree. Retirees who are not yet eligible for Medicare benefits may currently continue to participate in the State's non-Medicare community-rated health insurance risk pool. Claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums. Therefore, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. This results in an implicit subsidy since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.
- The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount, which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy applicable to each calendar year, with the final amount approved by the state Legislature. The subsidy was $183 per member per month during fiscal years 2022 and 2021.

The OPEB plan is currently available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire. PEBB member data used in the valuation of the OPEB liability include members enrolled in a PEBB program as well as other active employees who were eligible to enroll but waived coverage.

The table below shows the Group's PEBB membership data as of June 30, 2022 (measurement date 2021) and 2021 (measurement date 2020):

	2022	**2021**
Active employees	9,232	8,901
Inactive employees receiving benefits	2,561	2,449
Inactive employees entitled to, but not receiving, benefits	429	410

(ii) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on the Group. The professional judgments used by the OSA in determining the assumptions used to value the state of Washington OPEB liability are important, and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the Group's financial statements. The following table shows significant assumptions used to measure the total OPEB liability (TOL) as of June 30, 2022 and 2021:

(Dollar amounts in thousands)

Significant Assumptions Used to Measure the Total OPEB Liability (TOL)

		June 30, 2022
Inflation		2.75 %
Healthcare cost trend rate		Initial rate ranges from about 2–11%, reaching an ultimate rate approximately 4.3% in 2075.
Salary increase		3.50% plus service-based salary increases
Source of mortality assumptions		Society of Actuaries' Pub.H-2010 mortality rates with application of the long-term MP-2017 generational improvement scale, and updated based on results of the 2013–2018 Demographic Experience Study Report and the 2019 Report on Financial Condition Economic Experience Study.
Date of experience study		2013–2018 Demographic Experience Study Report
Discount rate		2.16 %
Source of discount rate		Bond Buyer's General Obligation 20-Bond index as of June 30, 2021 (Measurement Date)
Postretirement participation percentage		65.00 %
TOL measurement at discount rate	$	462,354
TOL discount rate increased 1%		386,299
TOL discount rate decreased 1%		560,174
TOL measurement at healthcare cost trend rate		462,354
TOL healthcare cost trend rate increased 1%		583,079
TOL healthcare cost trend rate decreased 1%		373,016

(Dollar amounts in thousands)

Significant Assumptions Used to Measure the Total OPEB Liability (TOL)

		June 30, 2021
Inflation		2.75 %
Healthcare cost trend rate		Initial rate ranges from about 2–11%, reaching an ultimate rate approximately 4.3% in 2075.
Salary increase		3.50% plus service-based salary increases
Source of mortality assumptions		Society of Actuaries' Pub.H-2010 mortality rates with application of the long-term MP-2017 generational improvement scale, and updated based on results of the 2013–2018 Demographic Experience Study Report and the 2019 Report on Financial Condition Economic Experience Study.
Date of experience study		2013–2018 Demographic Experience Study Report
Discount rate		2.21 %
Source of discount rate		Bond Buyer's General Obligation 20-Bond index as of June 30, 2020 (Measurement Date)
Postretirement participation percentage		65.00 %
TOL measurement at discount rate	$	413,696
TOL discount rate increased 1%		345,807
TOL discount rate decreased 1%		500,883
TOL measurement at healthcare cost trend rate		413,696
TOL healthcare cost trend rate increased 1%		516,362
TOL healthcare cost trend rate decreased 1%		337,118

Material assumption changes during the measurement period ending June 30, 2021 include updating the discount rate, as required by GASB Statement No. 75. Material assumption changes during the measurement period ending June 30, 2020 include updating the discount rate, updating the forecasts of healthcare cost trend rate, and the mortality assumptions, as required by GASB Statement No. 75.

(iii) Changes in the Total OPEB Liability

The TOL for the state of Washington as of June 30, 2022 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2020 with the results rolled forward to the measurement date of June 30, 2021. The TOL for the state of Washington as of June 30, 2021 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2020. The measurement date for the TOL as of June 30, 2021 was the same as the valuation date. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. The allocation method used to determine the Group's proportionate share of the University's TOL is the relationship of the Group's active, healthcare-eligible employee headcount to the corresponding University total. This proportionate share percentage for the Group was 24.84% and 24.39% as of June 30, 2022 and 2021, respectively.

(Dollar amounts in thousands)

The OPEB plan is funded on a pay-as-you-go basis. Accordingly, contributions from employers to the HCA occur only when benefits become due (after retirement). No qualified trust fund has been established or dedicated to these benefits and there are no associated assets. As a result, the Group reports a proportionate share of the University's total OPEB liability.

Schedule of Changes in Total OPEB Liability

		June 30	
		2022	**2021**
Beginning balance	$	413,696	309,441
Service cost		23,109	17,167
Interest		9,988	14,361
Difference between expected and actual experience		—	(2,201)
Change in assumptions		4,267	9,309
Benefit payments		(7,609)	(6,837)
Change in proportion		18,903	87,083
Other		—	(14,627)
Ending balance	$	462,354	413,696

(iv) *OPEB Expense, Deferred Outflow of Resources, and Deferred Inflow of Resources*

The tables below summarize the Group's OPEB expense, deferred outflows of resources, and deferred inflows of resources related to the OPEB plan, together with the related future year impacts to OPEB expense from amortization of those deferred amounts. Note that deferred outflows of resources related to the Group's contributions subsequent to the measurement date are recognized as a reduction of the total OPEB liability in the following year, and are not amortized to OPEB expense. The Group's proportionate share of OPEB expense for the year ended June 30, 2022 and 2021 was $24,181 and $6,607, respectively.

(Dollar amounts in thousands)

The following table presents the deferred outflows of resources and deferred inflows of resources as of June 30, 2022 and 2021:

Deferred outflows of resources		**2022**	**2021**
Differences between expected and actual experience in the measurement of the total OPEB liability	$	7,909	9,076
Changes in proportion		139,669	125,844
Change in assumptions		29,444	28,447
Group's contributions subsequent to the measurement date of the collective total OPEB liability		7,644	7,277
Total	$	184,666	170,644

Deferred inflows of resources		**2022**	**2021**
Differences between expected and actual experience in the measurement of the total OPEB liability	$	1,790	1,956
Change in assumptions		83,827	97,567
Changes in proportion		26,528	30,467
Total	$	112,145	129,990

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Amortization of Deferred Outflows and Inflows of Resources [(a)]		
Year:		
2023	$	7,209
2024		7,209
2025		7,209
2026		7,209
2027		7,209
Thereafter		28,832
Total	$	64,877

[(a)] Negative amounts shown in the table above represent a reduction of expense.

(12) Other Retirement Plans

(a) UWP Pension Plan

UWP has a mandatory, noncontributory defined-contribution pension plan, The Association of University Physicians Pension Plan (the Pension Plan). The Pension Plan covers all employees meeting service requirements and who are employed on a regular, permanent basis. UWP contributes an amount equal to 9% of eligible compensation for each participant under age 50 and 10% for each participant age 50 and older. Eligible compensation includes the Association annual salary, plus amounts paid under the Income Distribution Plan.

On termination of service due to death, disability, or retirement, a participant or beneficiary may elect to receive either a lump-sum distribution or an annuity to be paid in monthly installments over a fixed reasonable period of time, not exceeding life expectancy of the participant or designated beneficiary. For termination of service due to other reasons, a participant may elect the value of the vested interest in his or her account as a lump-sum distribution.

If a participant reaches normal retirement age (65), dies, or becomes disabled while employed by UWP, vesting is 100%. Additionally, under certain circumstances, individuals who transfer employment at UWP to employment by the University are also immediately vested. In the event of termination of employment for reasons other than retirement, death, disability, or University transfer, participants are entitled to benefits, which start at 25% vested after two years of service, 50% vested after three years of service, 75% vested after four years of service and 100% vested after five years of service.

Total pension expense was approximately $19,122 and $17,945, net of forfeitures of $462 and $696 in fiscal years 2022 and 2021, respectively, and is recorded in employee benefits expense within the statements of revenues, expenses, and changes in net position. The Association had no liability outstanding for pension contributions at June 30, 2022 and 2021.

(13) Related Parties

The Group has engaged in a number of transactions with related parties. These transactions are recorded by the Group as either revenue or expense transactions because economic benefits are either provided or received by the Group. The Group records cash transfers from related parties that are nonexchange transactions as nonoperating revenue in the statements of revenues, expenses, and changes in net position.

(a) University of Washington

University divisions provide various levels of support to the Group. The following is a summary of services purchased:

(i) The School

The Group purchases a variety of clinical, administrative, and teaching services from the School, which include laboratory services, resident programs, direct faculty salaries, and clinical department funding. The Group also provides laboratory services to the School. At June 30, 2021, the Group has a deposit of $40,135 that is being held on behalf of the School, which is included in due to related parties in the statements of net position. The amounts for these services are shown below (see (g)).

In addition, the Group leases clinical space from the School for which it records a right-to-use lease asset and lease liability. At June 30, 2022 and 2021, the right-to-use lease asset, net of accumulated amortization was $32,528 and $34,550, respectively. At June 30, 2022 and 2021, $1,159 and $1,061 is recorded within current portion of lease liabilities and $33,312 and $34,471 is recorded within long-term lease liabilities, respectively, in the statement of net position.

(ii) UW Medicine Central Costs

UW Medicine Central Costs represents services provided to the Group such as executive leadership, advancement, compliance, telemedicine, community relations staffing, medical staff oversight, marketing, and other administrative services related to UW Medicine. The amounts paid by the Group for these services are shown below (see (g)).

(iii) Other University Divisions

In addition to the divisions and transactions identified above, the Group purchases information technology services, general and professional liability insurance, printing, internal audit, and other administrative and operational services from other divisions of the University.

UW Medical Center has a payable to the University. The payable is subject to repayment in annual installments of $5,000 over future years, with installment payments of $5,000 and $0 made during the years ended June 30, 2022 and 2021, respectively. The University deferred the annual installment payment in fiscal year 2021 due to financial pressures as a result of COVID-19. At June 30, 2022 and 2021, the current portion of the payable to the University of $5,000 and $0, respectively, is included in due to related parties and the remaining $113,731 and $123,731, respectively, is included in due to related parties – long term in the statements of net position. The amounts for these transactions are shown below (see (g)).

The Group leases clinical, warehouse, and office space from other divisions of the University for which it records a right-to-use lease asset and lease liability. At June 30, 2022 and 2021, the right-to-use lease asset, net of accumulated amortization was $23,461 and $27,540, respectively. At June 30, 2022 and 2021, $3,620 and $3,664 is recorded within current portion of lease liabilities and $20,807 and $24,414 is recorded within long-term lease liabilities, respectively, in the statements of net position.

(b) Harborview

The Group provides shared services, in the form of scalable administrative and IT support services, to Harborview. These functions include ITS, Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, UW Medicine Contracting as well as a number of other administrative functions. Additionally, the Group purchases rental space from Harborview. The amounts for these shared services transactions are shown below (see (g)).

(c) Seattle Cancer Care Alliance and formation of Fred Hutchinson Cancer Center

SCCA, renamed FHCC on April 1, 2022 operates a 20-bed inpatient hospital within UW Medical Center in which its adult inpatients receive care. The 20-bed hospital qualifies as a “hospital within a hospital” for Medicare reimbursement purposes. FHCC provides medical oversight and management of the inpatient hospital and the hospital is governed by its own board. Under arrangement, UW Medical

Center provides certain of the inpatient care support services for the FHCC hospital, including necessary personnel, supplies, equipment, and ancillary services. UW Medical Center estimates the direct expense associated with the hospital within a hospital unit using a ratio of cost to charge ratio methodology, which is recorded in net patient service revenues in the statements of revenues, expenses, and changes in net position. In addition, UW Medical Center purchases certain administrative and program support services from the SCCA to assist with its programs. The amounts for these transactions are shown below (see (g)). At June 30, 2022 and 2021, the Group recorded $5,038 and $2,003, respectively, in accounts payable and accrued expenses in the statements of net position for amounts owed to FHCC by the Group.

UW Medical Center also provides various services to the FHCC's outpatient facility, including certain pharmacy, laboratory, and pathology services, as well as purchasing and other administrative services, which are included in other revenue in the statements of revenues, expenses, and changes in net position. The amounts for these transactions are shown below (see (g)). At June 30, 2022 and 2021, the Group recorded $13,911 and $9,346, respectively, in other receivables in the statements of net position for amounts owed to the Group by FHCC.

(d) Fred Hutchinson Cancer Research Center (Fred Hutch)

Until April 1, 2022, UW Medical Center made various payments to Fred Hutch related to research and development support, data collection and analysis, physician assistance services, consulting services, and license rights to use the Fred Hutch name in connection with the inpatient oncology services program. These fees are included in the tables below (see (g)). At June 30, 2021, the Group recorded $3,102 in accounts payable and accrued expenses in the statements of net position for amounts owed to Fred Hutch by the Group. Additionally, the Group provides IT services and support for IT projects to Fred Hutch. The amounts for these transactions are shown below (see (g)).

(e) Children's University Medical Group

UWP provides various administrative services to CUMG, and billing support services when CUMG physicians provide clinical care to patients in UW Medicine facilities. CUMG also reimburses UWP for its share of legal services provided through the centralized legal office for support of the nonprofit entities, including UWP and CUMG. UWP bills CUMG for these services on a monthly basis. These amounts are included in the tables below (see (g)). Likewise, CUMG provides billing support services to UWP for UWP physicians providing clinical care to patients at the Seattle Children's Hospital (SCH).

(f) UW Neighborhood Clinics

Under an annual agreement, UW Medical Center and Harborview provide funding to the Neighborhood Clinics for operations and capital purposes. For the years ended June 30, 2022 and 2021, total funding from the UW Medicine hospitals to the Neighborhood Clinics was $49,408 and $51,664, respectively. Approximately $36,695 and $38,021, respectively, was provided from entities within the Group and was eliminated from these financial statements. The remaining portion related to Harborview is recorded as other revenue in the statements of revenues, expenses, and changes in net position. The amounts for these transactions are shown below (see (g)).

(Dollar amounts in thousands)

(g) Summary of Related-Party Transactions

The Group's related-party revenue and expense amounts are included in net patient service revenues, other revenue, salaries and wages, benefits, purchased services, and other expense in the statements of revenues, expenses, and changes in net position. The following table summarizes the related-party revenue and expense transactions for the years ended June 30, 2022 and 2021:

(Expense) revenue transactions		2022	2021
Services and supplies purchased from the University and its departments and affiliates:			
The School	$	(249,412)	(228,477)
UW Medicine Central Costs		(27,960)	(22,775)
Other university divisions		(100,453)	(114,033)
Services and supplies purchased from Harborview		(8,839)	(6,201)
Services and supplies purchased from SCCA/FHCC		(15,254)	(10,813)
Services and supplies purchased from Fred Hutch		(14,902)	(15,830)
Services and supplies provided to the University and its departments and affiliates:			
The School		8,539	8,111
Other University divisions		834	735
Services and supplies provided to Harborview		150,538	151,673
Services and supplies provided to SCCA/FHCC		98,651	85,591
Services and supplies provided to VMC		4,559	4,577
Services and supplies provided to CUMG		1,280	1,271
Services and supplies provided to SCH		1,291	1,161

As of June 30, 2022 and 2021, the Group had amounts due from or (due to) related parties for certain transactions as follows:

Due from related parties		2022	2021
The University and its departments and affiliates:			
The School	$	19,337	22,835
Other university divisions		1,236	1,003
Harborview		15,460	15,101

(Dollar amounts in thousands)

Due to related parties		2022	2021
The University and its departments and affiliates:			
The School	$	(19,498)	(60,183)
Other university divisions		(153,884)	(171,640)
Harborview		(8,567)	(8,366)

(h) State of Washington

The state of Washington Medicaid Transformation Program (MTP) program is a five-year contract between the State and CMS authorizing up to $1,500,000 in federal matching funds as incentive to promote innovative, sustainable, and systemic changes that improve the overall health of the State. HCA requested intergovernmental transfers from other state and local public entities to finance a portion of the nonfederal share. The Group recorded $64,282 and $57,280 in intergovernmental transfers to the State in fiscal years 2022 and 2021, respectively, which is included in funding to affiliates in the statements of revenues, expenses, and changes in net position.

The state of Washington submitted and received approval for incentive payments under the MTP program of which the Group received $80,353 and $71,600, in fiscal years 2022 and 2021, respectively, which is recorded in funding from affiliates in the statements of revenues, expenses, and changes in net position. Funds received through this program are not restricted in use.

(14) Commitments and Contingencies

(a) Purchase Commitments

The Group has current commitments at June 30, 2022 of approximately $46,654 related to various construction and other projects.

(b) Regulatory Environment

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, governmental healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Through its compliance program, the Group strives to maintain an effective and safe program for reporting and addressing potential regulatory concerns. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

Between April 4 and April 12, 2018, the Washington State Department of Health, on behalf of the CMS, conducted a survey at UW Medical Center. In a letter dated May 15, 2018, CMS informed UW Medical Center that based on the results of the survey, UW Medical Center was not in compliance with certain Medicare Conditions of Participation. The deficiencies identified within the survey relate primarily to UW Medical Center's relationship with the SCCA inpatient hospital located within the same building as UW Medical Center, including related policies, clinical areas, support services, and personnel sharing between the two organizations. UW Medical Center submitted a Plan of Correction (the Plan) in response to the CMS survey findings, and CMS accepted the Plan on January 15, 2020. In September 2021, UW Medical Center was notified by Washington State Department of Health that they are in compliance with the Plan and no additional findings were identified. UW Medical Center continues to be in compliance with the Plan of Correction.

(c) Litigation

Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Group's financial statements.

(d) Collective Bargaining Agreements

The Group has approximately 72% and 76% of its workforce covered by collective bargaining agreements as of June 30, 2022 and 2021, respectively. Nurses and other healthcare and support workers are represented by a number of collective bargaining units. Collective bargaining units have various contract expiration dates. Upon expiration of a collective bargaining agreement, both parties are obligated to continue to bargain in good faith until an agreement is reached or one year after the expiration date stated in the agreement.

UW MEDICINE SELECT UNITS – UW DIVISION

Schedules of Required Supplementary Information (Unaudited)

(Dollar amounts in thousands)

The schedules of required supplementary information below reflect information for UW Medicine Select Units – UW Division.

Schedule of the Group's Proportionate Share of the Net Pension Liability (Asset)
(Amounts determined as of the measurement date)

PERS 1 Pension Plan

	2022	2021	2020	2019	2018	2017	2016
The Group's proportion of the net pension liability	3.73 %	3.20 %	2.93 %	2.93 %	2.96 %	2.89 %	2.81 %
The Group's proportionate share of the net pension liability	$ 45,608	112,964	112,603	130,636	139,899	155,096	147,106
The Group's covered payroll	561,965	480,672	398,000	375,552	364,515	337,067	351,582
The Group's proportionate share of the net pension liability as a percentage of its covered payroll	8.12 %	23.50 %	28.29 %	34.79 %	38.38 %	46.01 %	41.84 %
Plan fiduciary net position as a percentage of the total pension liability	88.74	68.64	67.12	63.22	61.24	57.03	59.10

PERS 2/3 Pension Plan

	2022	2021	2020	2019	2018	2017	2016
The Group's proportion of the net pension liability (asset)	4.78 %	4.12 %	3.73 %	3.69 %	3.72 %	3.61 %	3.52 %
The Group's proportionate share of the net pension liability (asset)	$ (475,806)	52,706	36,207	62,990	128,950	181,639	125,761
The Group's covered payroll	563,141	480,376	398,530	374,817	363,873	336,961	312,289
The Group's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	(84.49)%	10.97 %	9.09 %	16.81 %	35.44 %	53.91 %	40.27 %
Plan fiduciary net position as a percentage of the total pension liability (asset)	120.29	97.22	97.77	95.77	90.97	85.82	89.20

Schedule of the Group's Contributions
(Amounts determined as of the fiscal year-end)

PERS 1 Pension Plan

	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	$ 192	297	380	439	553	625	735
Contributions in relation to the contractually required contribution	191	297	380	440	551	618	735
Contribution deficiency (excess)	1	—	—	(1)	2	7	—
The Group's covered payroll	621,930	561,965	480,672	398,000	375,552	364,515	337,515
Contributions as a percentage of covered payroll	0.03 %	0.05 %	0.08 %	0.11 %	0.15 %	0.17 %	0.22 %

PERS 2/3 Pension Plan

	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	$ 64,605	72,914	61,771	51,022	47,359	40,679	37,396
Contributions in relation to the contractually required contribution	64,171	72,917	61,803	50,999	47,404	40,721	37,740
Contribution deficiency (excess)	434	(3)	(32)	23	(45)	(42)	(344)
The Group's covered payroll	623,173	563,141	480,376	398,530	374,817	363,873	336,961
Contributions as a percentage of covered payroll	10.37 %	12.95 %	12.86 %	12.80 %	12.64 %	11.18 %	11.10 %

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

Schedules of Required Supplementary Information (Unaudited)

(Dollar amounts in thousands)

The schedules of required supplementary information below reflect information for UW Medicine Select Units – UW Division.

Schedule of Changes of Total OPEB Liability

		2022	2021	2020	2019	2018
Beginning balance	$	413,696	309,441	280,069	306,185	336,283
Service cost		23,109	17,167	12,529	17,510	20,758
Interest		9,988	14,361	10,869	12,038	9,723
Difference between expected and actual experience		—	(2,201)	—	10,989	—
Change in assumptions		4,267	9,309	20,240	(76,658)	(47,429)
Benefit payments		(7,609)	(6,837)	(4,972)	(5,084)	(4,955)
Change in proportionate share		18,903	87,083	(9,294)	15,089	(8,195)
Other		—	(14,627)	—	—	—
Ending balance	$	462,354	413,696	309,441	280,069	306,185
OPEB covered-employee payroll	$	768,225	706,311	546,921	515,803	494,744
Total OPEB liability as percentage of covered-employee payroll		60.18 %	58.57 %	56.58 %	54.30 %	61.89 %

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

Schedules of Required Supplementary Information (Unaudited)

(Dollar amounts in thousands)

The schedules of required supplementary information below reflect information for UW Medicine Select Units – UW Division.

UWSRP Schedule of Changes of Net Pension Liability (NPL)

		2022	2021
Total pension liability (TPL) – Beginning	$	19,070	68,600
Service cost		341	2,017
Interest on TPL		1,470	1,558
Change in proportion		527	266
Difference between expected and actual experience		6,274	(32,835)
Change in assumptions		2,044	(19,678)
Benefit payments		(952)	(858)
Net change in total pension liability		9,704	(49,530)
Total pension liability – Ending (a)		28,774	19,070
Plan fiduciary net position – Beginning		7,938	5,349
Employer contributions		604	626
Net investment income		42	1,963
Benefit payments		—	—
Administrative expense		—	—
Other changes		—	—
Net change in plan fiduciary net position		646	2,589
Plan fiduciary net position – Ending (b)		8,584	7,938
UWSRP net pension liability (a) minus (b)	$	20,190	11,132
Plan fiduciary net position as percentage of the total pension liability		29.83 %	41.63 %
The Group's UWSRP covered payroll [1]		159,013	152,720
Net pension liability as a percentage of covered payroll		12.70 %	7.29 %

Schedule of the Group's Contributions

(Amounts determined as of the fiscal year-end)

		2022	2021
Contractually required contribution	$	604	580
Contributions in relation to the contractually required contribution		604	626
Contribution deficiency (excess)	$	—	(46)
The Group's UWSRP covered payroll [1]		159,013	152,720
Contributions as a percentage of covered-employee payroll		0.38 %	0.41 %

[1] Covered payroll for the fiscal year ending June 30, 2022 and 2021 is based on the payroll of participants in the University's 403(b) defined contribution UWRP.

Covered payroll for the fiscal year ending June 30, 2020 and preceding years is based on the payroll of the participants of the UWSRP.

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

Schedules of Required Supplementary Information (Unaudited)

(Dollar amounts in thousands)

The schedules of required supplementary information below reflect information for UW Medicine Select Units – UW Division.

UWSRP Schedule of Changes in Total Pension Liability (TPL)

		2020	2019	2018	2017
Total pension liability – Beginning	$	49,742	33,974	36,915	41,470
Service cost		1,466	990	1,218	1,674
Interest on TPL		1,865	1,363	1,328	1,270
Difference between expected and actual experience		2,757	8,601	(2,796)	(6,303)
Change in assumptions		11,121	4,875	(1,409)	(2,402)
Change in proportion		2,379	566	(777)	1,638
Benefit payments		(730)	(627)	(505)	(432)
Total pension liability – Ending	$	68,600	49,742	33,974	36,915
The Group's UWSRP covered payroll (1)	$	65,336	65,941	62,571	67,407
Total pension liability as percentage of covered-employee payroll		105.00 %	75.43 %	54.30 %	54.76 %

(1) Covered payroll for the fiscal year ending June 30, 2020 and preceding years is based on the payroll of the participants of the UWSRP.

See accompanying independent auditors' report.

Plans administered by DRS

OSA calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2017, valuation date, completed in the fall of 2018, determines the ADC for the period beginning July 1, 2019 and ending June 30, 2021.

Additional Considerations on ADC for All Plans:

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates could be different pending the actions of the governing bodies.

For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC, except the CRC reflect the adopted contribution rates for the time period shown, which might differ from the contribution rates produced for the ADC.

Plans administered by the University

Washington State's House Bill 1661, effective July 1, 2020, created a trust arrangement for the UWSRP and resulted in the transfer of all funds previously contributed by the University into the account dedicated to paying benefits to plan's beneficiaries. This arrangement meets the criteria in GASB code P20, paragraph 101 and resulted in a significant change in the accounting for the plan.

Covered payroll for the fiscal years ending June 30, 2022 and 2021 is based on the payroll of participants in the University's 403(b) defined contribution UWRP.

Covered payroll for the fiscal year ending June 30, 2020 and preceding years is based on the payroll of the participants of the UWSRP.

Material assumption changes during the fiscal year 2022 measurement period includes updating the discount rate from 7.40% to 7.00% ("Change in assumption" which increased the TPL). In addition, CREF investment experience during fiscal year 2022 was significantly lower than expected ("Difference between expected and actual experience" which also increased the TPL).

Material assumption changes during the fiscal year 2021 measurement period includes updating the discount rate from 2.21% to 7.40% ("Change in assumption" which decreased the TPL). In addition, CREF investment experience during fiscal year 2021 was significantly higher than expected ("Difference between expected and actual experience" which also decreased the TPL).

OPEB Plan administered by Healthcare Authority of Washington State

The OPEB Plan has no assets accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4 to pay related benefits.

(Continued)

Material assumption changes in fiscal year 2022 relate to a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 2.21% for the June 30, 2020 measurement date, to 2.16% for the June 30, 2021 measurement date. This change resulted in an increase in the TOL.

Material assumption changes in fiscal year 2021 relate to a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.50% for the June 30, 2019 measurement date, to 2.21% for the June 30, 2020 measurement date. This change resulted in an increase in the TOL.

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Statement of Net Position

June 30, 2022

(Dollar amounts in thousands)

		UW Medical Center	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Current assets:								
Cash and cash equivalents	$	—	66,102	8,232	10,430	—	—	84,764
Funds held by the University of Washington		34,885	—	—	17,863	82,435	—	135,183
Patient accounts receivable, net		260,271	—	3,201	12,272	—	—	275,744
Other receivables		19,851	1,048	890	1,242	3,633	(310)	26,354
Due from related parties		28,440	5,602	2,221	—	41,070	(41,300)	36,033
Supplies inventory		38,468	—	432	—	—	—	38,900
Other current assets		27,678	4,595	432	595	8,869	(10,941)	31,228
Total current assets		409,593	77,347	15,408	42,402	136,007	(52,551)	628,206
Noncurrent assets:								
Capital assets, net of accumulated depreciation		657,012	883	8,959	2,965	126,110	—	795,929
Right-to-use lease assets, net of accumulated amortization		132,964	3,167	26,647	37,159	11,221	(10,528)	200,630
Funds held by the University of Washington		204,150	—	—	—	—	—	204,150
Investments		—	149,265	—	—	—	—	149,265
Donor restricted assets		10,855	—	—	—	—	—	10,855
Investment in Seattle Cancer Care Alliance		—	—	—	—	—	—	—
Investment in Fred Hutchinson Cancer Center		428,827	—	—	—	—	—	428,827
Other assets		78,331	—	158	446	68,133	(51,319)	95,749
Net pension assets		396,768	—	—	9,425	69,613	—	475,806
Total noncurrent assets		1,908,907	153,315	35,764	49,995	275,077	(61,847)	2,361,211
Total assets		2,318,500	230,662	51,172	92,397	411,084	(114,398)	2,989,417
Deferred outflows of resources:								
Deferred outflows of resources related to pensions		99,270	—	—	2,299	31,685	—	133,254
Deferred outflows of resources related to other postemployment benefits		127,272	—	—	2,171	55,223	—	184,666
Other deferred outflows of resources		3,875	—	—	—	—	—	3,875
Total assets and deferred outflows of resources	$	2,548,917	230,662	51,172	96,867	497,992	(114,398)	3,311,212

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Statement of Net Position

June 30, 2022

(Dollar amounts in thousands)

	UW Medical Center	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Current liabilities:							
Accounts payable and accrued expenses	$ 73,524	5,851	543	2,949	22,647	(292)	105,222
Accrued salaries, wages, and employee benefits	82,382	23,701	3,389	1,975	33,406	—	144,853
Payable to contractual agencies	55,047	—	—	—	—	—	55,047
Due to related parties	49,868	18,711	3,245	4,653	18,041	(41,300)	53,218
Medicare advance payments	—	—	—	—	—	—	—
Current portion of long-term debt	29,506	—	81	—	7,538	—	37,125
Current portion of lease liabilities	9,307	1,550	4,864	14,144	2,563	(1,641)	30,787
Other current liabilities	12,747	131	50	819	19,015	(9,319)	23,443
Clinical medicine fund and departmental payables	—	178,119	—	—	—	—	178,119
Total current liabilities	312,381	228,063	12,172	24,540	103,210	(52,552)	627,814
Noncurrent liabilities:							
Long-term debt, net of current portion	460,100	—	338	—	104,233	—	564,671
Long-term lease liabilities	131,585	2,599	24,860	23,487	10,093	(9,289)	183,335
Net pension liabilities	47,223	—	—	1,182	17,393	—	65,798
Other postemployment benefits	348,649	—	—	6,379	107,326	—	462,354
Due to related parties – long-term	158,464	—	—	—	—	(29,733)	128,731
Other noncurrent liabilities	2,309	—	793	—	46,541	(12,296)	37,347
Total liabilities	1,460,711	230,662	38,163	55,588	388,796	(103,870)	2,070,050
Deferred inflows of resources:							
Deferred inflows of resources related to pensions	427,657	—	—	10,342	96,367	—	534,366
Deferred inflows of resources related to other postemployment benefits	74,493	—	—	2,108	35,544	—	112,145
Other deferred inflows of resources	50,956	—	—	—	—	(10,528)	40,428
Net position:							
Net investment in capital assets	302,420	—	5,462	2,493	12,904	402	323,681
Nonexpendable, restricted	3,407	—	—	—	—	—	3,407
Expendable, restricted	7,449	—	—	—	—	—	7,449
Unrestricted	221,824	—	7,547	26,336	(35,619)	(402)	219,686
Total net position	535,100	—	13,009	28,829	(22,715)	—	554,223
Total liabilities, deferred inflows of resources, and net position	$ 2,548,917	230,662	51,172	96,867	497,992	(114,398)	3,311,212

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Statement of Net Position

June 30, 2021

(Dollar amounts in thousands)

	UW Medical Center	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Current assets:							
Cash and cash equivalents	$ 2,295	51,495	10,767	4,324	—	—	68,881
Funds held by the University of Washington	128,151	—	—	19,863	63,183	—	211,197
Patient accounts receivable, net	275,382	—	2,195	10,020	—	—	287,597
Other receivables	21,801	485	2,121	1,157	929	(18)	26,475
Due from related parties	32,588	8,570	2,248	—	37,590	(42,057)	38,939
Supplies inventory	35,074	—	585	—	—	—	35,659
Other current assets	13,536	12,437	55	124	10,616	(8,935)	27,833
Total current assets	508,827	72,987	17,971	35,488	112,318	(51,010)	696,581
Noncurrent assets:							
Capital assets, net of accumulated depreciation	607,327	1,242	9,979	2,884	141,064	—	762,496
Right-to-use lease assets, net of accumulated amortization	140,572	4,403	20,445	51,197	14,038	(9,904)	220,751
Funds held by the University of Washington	246,352	—	—	—	—	—	246,352
Investments	—	143,510	—	—	—	—	143,510
Donor restricted assets	10,336	—	—	—	—	—	10,336
Investment in Seattle Cancer Care Alliance	259,279	—	—	—	—	—	259,279
Other assets	70,844	—	159	381	82,079	(64,749)	88,714
Total noncurrent assets	1,334,710	149,155	30,583	54,462	237,181	(74,653)	1,731,438
Total assets	1,843,537	222,142	48,554	89,950	349,499	(125,663)	2,428,019
Deferred outflows of resources:							
Deferred outflows of resources related to pensions	96,554	—	—	2,345	26,590	—	125,489
Deferred outflows of resources related to other postemployment benefits	132,161	—	—	2,387	36,096	—	170,644
Other deferred outflows of resources	4,555	—	—	—	—	—	4,555
Total assets and deferred outflows of resources	$ 2,076,807	222,142	48,554	94,682	412,185	(125,663)	2,728,707

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Statement of Net Position

June 30, 2021

(Dollar amounts in thousands)

		UW Medical Center	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Current liabilities:								
Accounts payable and accrued expenses	$	56,808	4,742	480	2,223	35,799	—	100,052
Accrued salaries, wages, and employee benefits		82,187	21,030	2,633	1,872	29,744	—	137,466
Payable to contractual agencies		58,418	—	—	—	—	—	58,418
Due to related parties		51,012	22,661	5,782	3,706	60,118	(41,821)	101,458
Medicare advance payments		83,187	12,091	—	247	—	—	95,525
Current portion of long-term debt		19,659	—	5,369	—	6,184	—	31,212
Current portion of lease liabilities		9,359	1,488	4,210	14,716	2,312	(1,335)	30,750
Other current liabilities		3,599	3,167	39	842	17,042	(7,618)	17,071
Clinical medicine fund and departmental payables		—	152,356	—	—	—	—	152,356
Total current liabilities		364,229	217,535	18,513	23,606	151,199	(50,774)	724,308
Noncurrent liabilities:								
Long-term debt, net of current portion		326,726	—	419	—	103,937	—	431,082
Long-term lease liabilities		136,087	4,148	19,184	36,741	12,644	(8,782)	200,022
Net pension liabilities		142,697	—	—	4,217	29,888	—	176,802
Other postemployment benefits		325,589	—	—	5,973	82,134	—	413,696
Due to related parties – long-term		178,273	—	—	—	—	(39,542)	138,731
Other noncurrent liabilities		16,676	459	—	—	60,059	(16,661)	60,533
Total liabilities		1,490,277	222,142	38,116	70,537	439,861	(115,759)	2,145,174
Deferred inflows of resources:								
Deferred inflows of resources related to pensions		63,890	—	—	1,818	34,863	—	100,571
Deferred inflows of resources related to other postemployment benefits		89,974	—	—	2,502	37,514	—	129,990
Other deferred inflows of resources		37,896	—	—	—	—	(9,904)	27,992
Net position:								
Net investment in capital assets		256,068	—	6,536	2,625	30,025	213	295,467
Nonexpendable, restricted		4,188	—	—	—	—	—	4,188
Expendable, restricted		6,148	—	—	—	—	—	6,148
Unrestricted		128,366	—	3,902	17,200	(130,078)	(213)	19,177
Total net position		394,770	—	10,438	19,825	(100,053)	—	324,980
Total liabilities, deferred inflows of resources, and net position	$	2,076,807	222,142	48,554	94,682	412,185	(125,663)	2,728,707

See accompanying independent auditors’ report.

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2022

(Dollar amounts in thousands)

	UW Medical Center	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Operating revenue:							
Net patient service revenues	$ 1,819,829	—	—	63,304	—	—	1,883,133
UWP billing revenues, net	—	395,887	—	—	—	(4,084)	391,803
Other revenue	154,849	—	68,689	1,330	375,576	(314,011)	286,433
Total operating revenues	1,974,678	395,887	68,689	64,634	375,576	(318,095)	2,561,369
Operating expenses:							
Salaries and wages	700,730	238,030	24,716	16,476	171,628	—	1,151,580
Employee benefits	77,902	30,984	8,138	1,825	29,805	—	148,654
Purchased services	586,357	71,717	25,487	18,935	93,670	(282,817)	513,349
Supplies	470,095	82	8,206	4,423	6,919	(5,469)	484,256
Other	37,506	54,591	4,103	2,606	18,388	(28,207)	88,987
Depreciation and amortization	68,048	1,578	5,939	15,710	28,402	(1,602)	118,075
Total operating expenses	1,940,638	396,982	76,589	59,975	348,812	(318,095)	2,504,901
Income (loss) from operations	34,040	(1,095)	(7,900)	4,659	26,764	—	56,468
Nonoperating revenues (expenses):							
Investment income	2,637	—	—	39	—	—	2,676
Interest expense	(20,487)	(89)	(612)	(802)	(4,865)	219	(26,636)
Funding to affiliates	(18,804)	—	—	—	(65,032)	6,914	(76,922)
Funding from affiliates	1,000	—	—	—	123,074	(1,709)	122,365
Federal stimulus funding	9,088	1,184	—	4,963	—	—	15,235
Equity earnings from Investment in Seattle Cancer Care Alliance	22,910	—	—	—	—	—	22,910
Other, net	54,664	—	4,576	145	(2,604)	(31)	56,750
Nonoperating revenues (expenses), net	51,008	1,095	3,964	4,345	50,573	5,393	116,378
Income (loss) before capital contributions and other transfers	85,048	—	(3,936)	9,004	77,337	5,393	172,846
Capital contributions and other transfers	55,282	—	6,507	—	1	(5,393)	56,397
Increase in net position	140,330	—	2,571	9,004	77,338	—	229,243
Net position – beginning of the year	394,770	—	10,438	19,825	(100,053)	—	324,980
Net position – end of year	$ 535,100	—	13,009	28,829	(22,715)	—	554,223

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2021

(Dollar amounts in thousands)

	UW Medical Center	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Operating revenue:							
Net patient service revenues	$ 1,725,111	—	—	52,278	—	—	1,777,389
UWP billing revenues, net	—	371,424	—	—	—	(4,385)	367,039
Other revenue	181,472	—	69,708	1,354	378,267	(309,119)	321,682
Total operating revenues	1,906,583	371,424	69,708	53,632	378,267	(313,504)	2,466,110
Operating expenses:							
Salaries and wages	593,124	220,802	22,127	14,632	148,787	—	999,472
Employee benefits	160,804	28,709	7,561	3,594	37,624	—	238,292
Purchased services	542,057	64,032	26,240	15,126	127,968	(281,297)	494,126
Supplies	463,035	84	5,419	2,288	7,534	(3,551)	474,809
Other	41,203	59,021	3,692	1,829	19,622	(27,103)	98,264
Depreciation and amortization	66,328	1,605	5,939	15,903	23,194	(1,512)	111,457
Total operating expenses	1,866,551	374,253	70,978	53,372	364,729	(313,463)	2,416,420
Income (loss) from operations	40,032	(2,829)	(1,270)	260	13,538	(41)	49,690
Nonoperating revenues (expenses):							
Investment income	2,667	—	—	26	—	—	2,693
Interest expense	(19,853)	(115)	(565)	(1,022)	(3,955)	233	(25,277)
Funding to affiliates	(15,169)	—	—	—	(57,227)	2,154	(70,242)
Funding from affiliates	—	—	—	—	74,038	(954)	73,084
Federal stimulus funding	32,006	2,569	—	—	—	—	34,575
Equity earnings from Investment in Seattle Cancer Care Alliance	50,837	—	—	—	—	—	50,837
Other, net	57,315	375	368	1,694	(1,628)	(192)	57,932
Nonoperating revenues (expenses), net	107,803	2,829	(197)	698	11,228	1,241	123,602
Income (loss) before capital contributions and other transfers	147,835	—	(1,467)	958	24,766	1,200	173,292
Capital contributions and other transfers	27,088	—	1,500	75	2,683	(1,200)	30,146
Increase in net position	174,923	—	33	1,033	27,449	—	203,438
Net position – beginning of the year	219,847	—	10,405	18,792	(127,502)	—	121,542
Net position – end of year	$ 394,770	—	10,438	19,825	(100,053)	—	324,980

See accompanying independent auditors' report.