uniquely Washington

UNIVERSITY OF WASHINGTON
ANNUAL REPORT 2006

Facts

	2005–2006	2000–2001	1995–1996
STUDENTS			
Autumn Enrollment			
Undergraduate	31,086	28,691	26,271
Graduate	10,540	8,835	7,931
Professional	1,802	1,724	1,386
TOTAL	**43,428**	**39,250**	**35,588**
Extension[1]	44,823	26,444	28,705
Number of Degrees Awarded			
Bachelor's	8,291	7,207	6,630
Master's	2,898	2,255	2,137
Doctoral	616	486	495
Professional	512	489	355
TOTAL	**12,317**	**10,437**	**9,617**
INSTRUCTIONAL FACULTY	3,650	3,360	3,174
FACULTY AND STAFF[2]	27,897	23,462	21,300

	2005–2006	2000–2001	1995–1996
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 990,000	$ 708,000	$ 482,000
SELECTED REVENUES *(in thousands of dollars)*			
Gifts, Grants, and Contracts	$ 1,094,023	$ 695,320	$ 509,172
Auxiliary Enterprises[3] and Other Revenues	1,366,751	848,767	547,106
State Appropriations (Operating)	339,117	341,451	267,417
Tuition and Fees[4]	358,130	266,223	185,299
SELECTED EXPENSES *(in thousands of dollars)*			
Instruction, Academic Support, and Student Services	$ 956,517	$ 676,852	$ 455,546
Research and Public Service	632,007	483,720	335,724
Auxiliary Enterprises[3]	780,359	687,003	428,948
Institutional Support and Physical Plant	260,926	201,124	148,323
CONSOLIDATED ENDOWMENT FUNDS[5] *(in thousands of dollars)*	$ 1,700,000	$ 839,000	$ 390,000
SQUARE FOOTAGE[6] *(in thousands of square feet)*	17,239	15,900	14,800

[1] Course registrations
[2] Full-time equivalents
[3] Includes UWMC
[4] Net of scholarship allowances of $53,780,000 in 2005-2006
[5] Stated at fair value
[6] Gross square footage, all campuses

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Washington

Message from the President

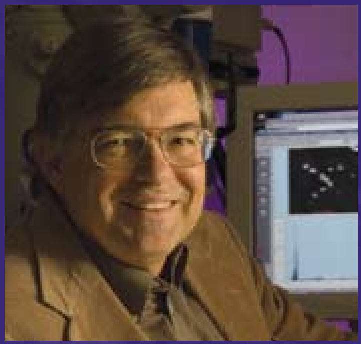
Each year in this space I have an opportunity to re ect on the events of the previous twelve months. While every year differs, the core meaning of the message remains the same: It is all about our people. Our greatest asset, they distinguish us from other universities and make us unique. The stories in this report highlight the work and accomplishments of some of those people, providing a glimpse into the characteristics that have helped the University of Washington excel as a world leader in research, an exemplary educator of students, and a global citizen committed to making the world a better place. I want to share with you some of the exciting stories that I witnessed personally.

During the past year, the work of UW researchers extended — quite literally — from the bottom of the ocean to the cosmos. For the first time, the public was able to view high-definition video taken from the depths of the sea oor. The images were part of efforts led by UW Professor John Delaney, who is seeking to deploy a fiber-optic network off the coasts of Washington and Oregon in order to gather data that are much needed to understand an array of oceanographic, geological, and ecological processes. Going beyond the processes of our own planet is the UW's Don Brownlee. Highlights of his work this past year include the return of a space capsule that had traveled nearly three billion miles and had a close encounter with a comet. The capsule returned with samples of interstellar dust particles that Don has begun studying in search of answers to questions about how our solar system formed. The great stories about the research conducted by John and Don as well as their peers from departments across the University exemplify the standard of excellence and spirit of innovation that sets the UW apart from other universities.

Turning to our students, we witnessed some truly extraordinary performances. Notable among these achievements are what I like to call our "trifecta" of student winners: Eliana Hechter, Sariah Khormaee, and Lesley Everett who won, respectively, the Rhodes Scholarship, the Marshall Scholarship, and the Gates Cambridge Scholarship. In addition to all being outstanding scholars, these students shared some exceptional experiences during their time at the University: Each participated in a research project with top-notch faculty by their sophomore year; each was active in a service-learning or volunteer activity, and each spent time studying abroad at the UW Rome Center. Before they ever arrived at the UW, however, they already had a couple of common bonds. All hailing from the great state of Washington, they also are all products of public schools.

Maintaining our established standard of excellence for future generations of UW students is vital to our mission, and we took some very positive steps in that direction this year. We reorganized several offices on our campus, including the Office of the Vice Provost for Student Life and the Office of Undergraduate Academic Affairs, to help us better meet student needs. These newly reorganized offices are working more closely than ever with the Office of Minority Affairs to provide greater integration and continuity between the student experience inside and outside the classroom for all students. Further, thanks to the efforts of many people across our campus who devoted countless hours to the task, we were able to institute a new holistic admissions review model this year. We immediately saw great results from the new model, as we attracted a pool of applicants that shares the high academic

uniquely Washington



A billion-mile rendezvous with a four-billion-year-old comet

For centuries, astronomers have traced the course of comets passing through our solar system, speculating about their origins and composition. Today, UW Professor of Astronomy Donald Brownlee has hard scientific evidence about the composition of a comet called Wild 2 that he hopes will shed new light on age-old questions about the origins of the solar system.

Brownlee was lead scientist for an extraordinary and years-long mission to intersect Wild 2 with an unmanned spacecraft called Stardust. The mission involved not only cruising near enough for close-up images of the comet, but also gathering samples of stardust and returning them to earth. Brownlee invested more than a decade planning the mission, and estimates that it will take that long for scientists to fully understand everything Stardust brought to Earth.

Back in February 1999, Stardust was launched at exactly the right moment to rendezvous five years later with Wild 2, a comet that formed along the outer edges of the solar system more than four billion years ago and that now orbits the sun on a path between Mars and Jupiter. As Stardust approached within 150 miles of Wild 2 in January of 2004, instruments aboard the spacecraft began taking readings, capturing images of the comet and gathering samples of comet dust. On its journey,

Stardust also captur[illegible] streaming into our so[illegible] regions of the galaxy. The sam[illegible]es [illegible] as they impacted the spacecraft's du[illegible] made up of a low-density glass material. [illegible] said that a sample as small as 10 microns [illegible]edth of a millimeter) could be sliced into hund[illegible] for scientists to study.

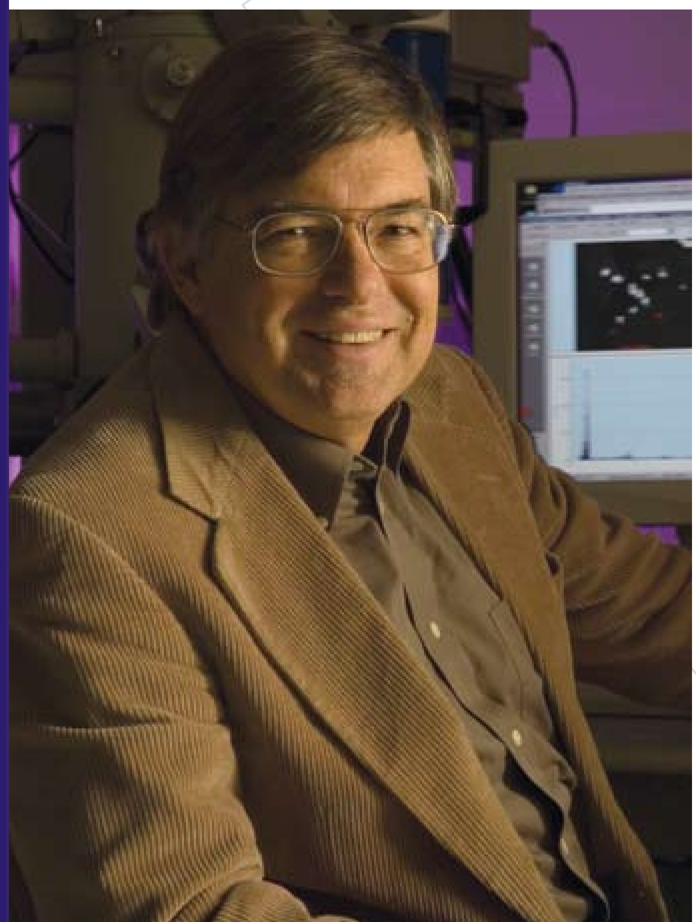
With its payload of space particles, Stardust then set sail for Earth making a soft landing in the Utah desert early in 2006 — a full seven years after launch. With that, scientists had the first solid samples of extraterrestrial material gathered in space since lunar explorations brought back moon rocks decades ago.

Brownlee was in the Utah desert when Stardust's payload parachuted to earth, and he was at NASA's Johnson Space Center in Houston when the return capsule was opened to reveal its payload intact, >

More than *150 scientists around the world* are analyzing particles gathered by Stardust...

an amazing end to a nearly 2.9-billion-mile journey. Brownlee says the mission was a phenomenal success and exceeded all expectations.

More than 150 scientists around the world are analyzing particles gathered by Stardust, and many are being examined in Brownlee's UW laboratory.



Most of those particles are smaller than the width of a human hair, but the information they contain is sufficient to occupy investigators for years. "It's so much that we're almost overwhelmed," Brownlee said.

"A fundamental question is how much of the comet material came from outside the solar system, and how much of it came from the solar nebula, from which the planets were formed," Brownlee said. "We should be able to answer that question eventually."

The UW partnered with other major companies and organizations for the $212 million Stardust project, including NASA's Jet Propulsion Laboratory, Lockheed Martin Space Systems, The Boeing Co., Germany's Max-Plank Institute for Extraterrestrial Physics, NASA Ames Research Center, the University of Chicago, The Open University in England and the Johnson Space Center.

< DONALD BROWNLEE,
UW ASTRONOMY
PROFESSOR

Creating "Tumaini" for people around the world

Ashok Reddy was one of those undergraduate students who wasn't really sure what he wanted to be, but was certain what he wanted to *be about*. He knew he'd use his education to extend a greater measure of social justice to the underserved people of this world.

After graduating from Emory University with a degree in anthropology, Reddy worked for the nonprofit organization Partners in Health on HIV/AIDS prevention programs in Boston. While there he realized that he should become a physician, that he wanted the best training possible, and that the University of Washington was exactly where he needed to be.

For Reddy and others like him, the University's newest department, the Department of Global Health, is the best place to combine a need for academic structure with a desire to reach out to others. The Department was established last year with a $30 million in support from the Bill & Melinda Gates Foundation and additional support from the UW. Dr. King Holmes, director of the UW Center for AIDS and Sexually Transmitted Diseases and a world leader in AIDS and infectious disease research and training, was named the department's first chair in September 2006.

Holmes is quick to point out that the foundation of the new department was built over the years. "Like many aspects of life at the University of Washington, our students are the inspiration," Holmes said. "Long before the Department of Global Health was formed, about 30 percent of our medical students were going overseas, on their own initiative, for global health experiences." To help others do the same, returning students >

< DR. KING HOLMES, CHAIR OF GLOBAL HEALTH DEPARTMENT, AND DR. JUDY WASSERHEIT, VICE CHAIR

ASHOK REDDY, FOURTH YEAR MEDICAL STUDENT >

Overwhelming challenges, and hope in Nima

Nima, a poor neighborhood in Accra, Ghana's largest city, is the site of a new non-governmental organization (NGO) that includes UW Professor of Geography and Epidemiology Jonathan Mayer and recent graduate Julia Lowe. Nima has no central water or sewer systems, and scarce medical care. The goal, according to Mayer, is "not for the team to decide how to address Nima's problems, but rather to help the community take the lead."

Long before the Department of Global Healt formed, about 30 percent of UW medical students we going overseas, *on their own initiative* h experiences.

helped write a proposal to the Bill & Melinda Gates Foundation for what became Puget Sound Partners for Global Health. Today, Puget Sound Partners for Global Health supports about 30 UW health science students overseas each year. "We could triple that number with qualified, motivated health sciences students if we had the funding," Holmes said.

ACCRA

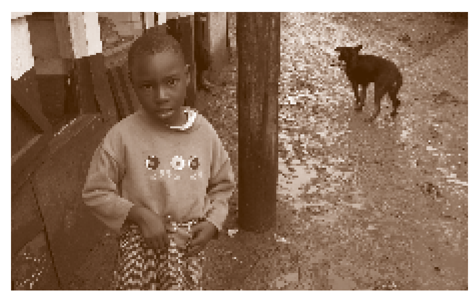
It was through support from Puget Sound Partners for Global Health that Reddy made his first visit to Nairobi, Kenya in 2003, with a group of UW medical students and professors. "It was a wonderful, mind-growing trip for me," he said.

NAIROBI

"I could see how the work was improving lives, with teams from around the world delivering quality health care to a mostly poor and underserved population." Reddy returned to Kenya in 2005 as a fellow of the Fogarty International Center of the National Institute of Health. One of the directors of the U.S. training program in Kenya for that fellowship was King Holmes.

Holmes said the UW medical students are a major in uence on the direction of the UW's global health initiatives. "Along with UW faculty, the students helped design the exchange student program we now have, so that while UW students are learning in Kenya, students from Kenya are studying at the UW," he said.

Students also raised funds on their own to provide care for their HIV patients through what they called a Tumaini project. Reddy estimated that it takes about $450 to $500 to treat one HIV patient for one year. UW medical school students raised enough money through bake sales and raf es to care for a mother and her daughter in Nairobi. Both had AIDS; both responded well to treatment; and both were doing well this year. "Tumaini," Reddy pointed out, is a Kenyan word for "hope."



< 3
KIBERA, THE LARGEST SLUM IN EAST AFRICA

Local research impacting global issues

Washington State's Willapa Bay and Vietnam's Mekong Delta are half a world apart, but near neighbors in terms of marine environments and environmental challenges. Both are estuaries where freshwater drains from land into seawater, and where plants and animals live or die in the balance.

Willapa and the Mekong are also linked through research at the University of Washington intended to find relatively inexpensive sensors to monitor salinity in estuary waters. The sensor development project leader is Tho Nguyen, a native of Vietnam and a post-doctoral student in electrical engineering at the University of Washington. Nguyen is collaborating with a team that includes UW electrical engineers and biologists who first began working together on a water quality research project involving Hood Canal.

Reliable, low-cost sensors may be useful in controlling the ow of tidewaters in the Mekong Delta. At the same time, two of the biologists who are contributing ideas to the sensor development project — UW associate professor Jennifer Ruesink and postdoctoral student Alan Trimble — say the same kind of sensor could very well advance their research at Willapa Bay.

said the challenges ... are faced by the ...rs go ... beyond taking si... measurements ... own for years how to measure various wate... s," he said. "Taking one measurement, in o... place, at one time, is easy. We know how to take ... u-ously over time, using large, that cost thousands of dollar... we need at Willapa Bay, and ... the Mekong Delta, we ne... small, inexpensive, auton... that can simultaneously ... marine environment. Those ... major challenges."

Meeting these challenges could ... benefits. In Vietnam, controlling tide... Mekong Delta could help increase the r... supply. Sluice gates in the delta are ope... closed manually to enhance rice growin...

>

Willapa Bay is the *last major estuary in the United States* that remains as healthy as it was a century ago.

areas, oyster farming in others. Until now, simple tide charts have been used to time the operations of the sluice gates. Even so, use of the gates, manually opening and closing them according to tide tables, has increased both rice and oyster production.

At Willapa Bay, the monitors being developed at the University may help UW researchers establish a complete and accurate description of conditions and processes in this special natural environment. Willapa Bay is the last major estuary in the United States that remains as healthy today as it was a century ago. "It has no major human settlement along its shores, no factories, no major agricultural nutrient sources," Trimble said. "It is home to a vibrant shellfish aquaculture industry. If we can gather data needed to understand this productive marine environment, all of those who are struggling to restore other bodies of water — from Willapa Bay to Vietnam — will have a new benchmark for their work."

< THO NGUYEN, PH.D.
ELECTRICAL ENGINEERING

ONE OF THE MEKONG
DELTA FLOODGATES >

PORT ANGELES • • SEATTLE
VANCOUVER •

Experiential learning + promising students

"Experiential learning" is a new name for an old idea at the University of Washington — the practice of engaging promising undergraduate students in real-world research.

In 2006, there was clear evidence that it's working. Consider the stories of three outstanding 2006 UW graduates whose careers here demonstrate how the unique culture at the UW encourages and supports individual inquiry.

Eliana Hechter, a 2006 graduate with a degree in mathematics, is the fourth UW student in six years to receive a Rhodes Scholarship, the world's oldest international scholarship. She entered the University through the Early Entrance Program at age 14. The summer after her freshman year she studied creative writing in Rome through an Honors Study Abroad program. That fall she went to the Friday Harbor Laboratories, a UW facility on San Juan Island, to take part in a research apprenticeship course. She discovered her passion for mathematics while studying gene network dynamics and cellular behavior as part of the Friday Harbor apprenticeship.

In her senior year, Eliana took only graduate-level math courses, plus a graduate course in creative writing. She was selected as a teaching assistant for honors accelerated advanced calculus, a course she had taken as a freshman. "One of the remarkable things about the UW is the access to professors … The fact that the door is always open is really special. And the research opportunities here rival any I've ever heard of."

Sariah Khormaee, who majored in neurobiology and biochemistry, recalls that her favorite undergraduate experiences ranged from research projects in pathology and ophthalmology, to organizing discussions about access to medical insurance and prescription drugs for the Alpha Epsilon Delta premedical honor society. >

These students flourished in a culture that includes opportunities for experiential learning, and that is characterized by a *faculty dedicated to understanding the needs* of individual students.

ELIANA HECHTER, 2006
RHODES SCHOLAR >

Volleyball Team wins National Championship

The UW won its first ever NCAA Division I Women's Volleyball Championship on December 17, 2005, defeating the University of Nebraska. The volleyball team becomes only the third Washington program to win an NCAA national title, joining women's crew and men's football. Washington was only the second team in NCAA history to sweep through the NCAA Volleyball Tournament, winning all six of its postseason matches.

OXFORD • CAMBRIDGE

Sariah graduated from the UW with College Honors, and was selected as a National Institutes of Health – Marshall Scholar in Biomedical Research, one of the most prestigious awards available to students in her field. With that scholarship, she is conducting research at England's Cambridge University School of Medicine. Sariah plans to work in Cambridge for two years, then at the National Institutes of Health in Bethesda, Maryland. Her interests and talents were recognized early at the UW where she received a Mary Gates Undergraduate Research Training grant along with half a dozen awards and scholarships.

Lesley Everett, a 2005 Goldwater Scholar and a 2006 Gates Cambridge Scholar, majored in biochemistry with a focus on biodefense, infectious diseases and gene therapy. Her first exposure to biomedical research was as a participant in the Fred Hutchinson Cancer Research Center's "HutchLab" program.

As a sophomore, Lesley worked in a radiation oncology lab and interned at Amgen the following summer. In 2005 she focused on genome sciences in the classroom, and that summer did research work at the National Institutes of Health. She hopes to earn her Ph.D. in proteomics or human physiology. In her spare time at the UW, Lesley volunteered at the 45h Street Youth Clinic and the Seattle Symphony.

All three of these remarkable young scholars are homegrown and attended public schools in Washington: Eliana Hechter in Seattle; Sariah Khormaee in Vancouver; and Lesley Everett in Port Angeles. They ourished in a culture that includes opportunities for experiential learning, and that is characterized by a faculty dedicated to understanding the needs of individual students and to helping them explore whatever paths their intellect and curiosity might select.

> SARIAH KHORMAEE, 2006 MARSHALL SCHOLAR; LESLEY EVERETT, 2006 GATES CAMBRIDGE SCHOLAR

• AUBURN

MAPping the road to success

Having grown up on reservations in California and Alaska, Dana Arviso is acutely aware of the literacy challenges facing Native American students. The culture's rich oral history tradition does not always translate to strong literacy skills in a traditional school environment. This prompted Dana to focus her education on improving the educational experience for Native American children through alternative teaching practices, while honoring the culture's tradition.

After receiving her undergraduate degree, Dana Arviso was asked to design a new curriculum for the young children she was teaching on the Bishop Paiute Indian Reservation in California. "I really needed to struggle more with these ideas," Arviso said. So she applied to the University of Washington's College of Education, based, in part, on its strong curriculum development program. "I'm really interested in validating Native American students' existing literacy practices, specifically around oral story telling and oral tradition and bringing those strengths into filmmaking and into the classroom space," Arviso says. "I think there are definitely literacy and learning skills that can be transferred to classrooms and reform what we think of traditionally as literacy."

Dana spent last year designing a curriculum centered on digital story telling, giving children an opportunity to write a story and then incorporate aspects of their culture, such as music or images of their community. She received her master's in Curriculum and Instruction from the College of Education in June and is now a doctoral student in the College.

Dana's research last year was funded, in part, by a Multicultural Alumni Partnership (MAP) scholarship. The Multicultural Alumni Partnership Endowed Fund, which contributes five percent of its value each year to student scholarships, is one of approximately 2,250 individual endowed funds that are currently pooled in the University's Consolidated Endowment Fund (CEF). Contributors created these endowments to ensure that there will be permanent resources to support their areas of interest. In the last fiscal year, the CEF distributed $70 million to areas designated by donors, including faculty, program and student support. Over the past 10 years, the CEF averaged an 11.2 percent annual return, a performance that ranks it in the top half of the 50 largest college and university endowments as measured >

The CEF's strong performance helps students *pursue their academic goals* and contribute to and engage in the communities in which they live and work.

by Cambridge Associates. The CEF's strong performance helps students like Dana pursue their academic goals and contribute to and engage in the communities in which they live and work.

The MAP scholarship was one of several that Arviso received that helped ease her debt burden and gave her the freedom to concentrate on studying and contributing to the UW community. As a Graduate Staff Assistant, she helped recruit and retain minority students and faculty. "As I go along, I find more and more, especially in education, we need the diversity of experiences and ideas." Dana also helped create a student group, Educators for Social Justice.

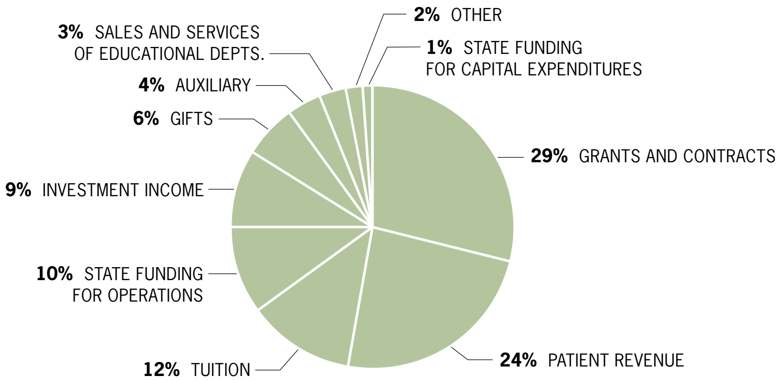
As part of her Ph.D. studies, Dana has expanded her scope to encompass youth media programs. She's currently doing an internship with Native Lens, a program that creates educational arts and technology programs that are culturally relevant to Native American youth. She's spending two days a week at the Muckleshoot Reservation in Auburn, Washington, helping students with their projects and observing them in order to develop more insight into youth media. "I'm trying to learn a lot more about youth media programs focused on Native American students," Dana says. "There's not a lot of literature on this topic. It's really important that someone begins to study this."

< PH.D. CANDIDATE IN
THE COLLEGE OF EDUCATION,
DANA ARVISO

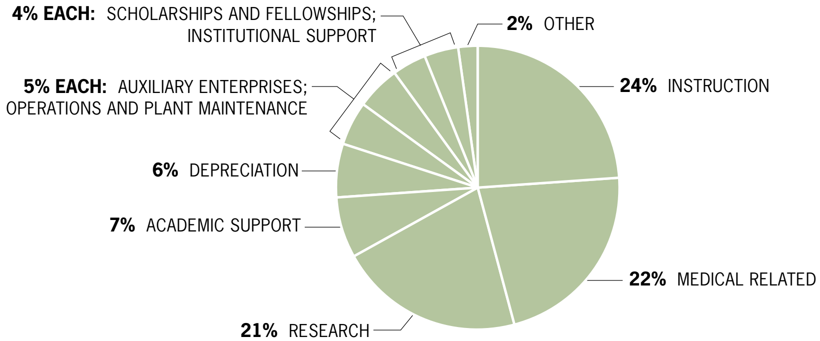
Financial Highlights

Funding and Operations

Sources of Funds



Uses of Funds



- The University has a diversified revenue base. No single source generated more than 29 percent of the total fiscal year 2006 revenues of $3.4 billion.
- State operating appropriations were $339 million, or 10% of total revenues. The University relies heavily on such funding for instructional activities.
- Grants and contracts (29 percent) generated $989 million of current year revenue, a four percent increase over fiscal year 2005. These funds provided the opportunity for graduate and undergraduate students to work with nationally recognized faculty in research, as part of their educational experience.
- Income from gifts totaled $219 million (six percent). This is an increase of $47 million from the prior year.
- Two primary functions of the University, instruction and research, comprised 45 percent of total operating expenses. These dollars provided instruction to more than 43,000 students and funded 5,400 research awards.
- The University provided students with scholarships and fellowships, (including scholarship allowances of $56 million), totaling $117 million. This represented four percent of operating expenditures.

Live Chat and Check 21 exemplify the University's

Leading edge technology clears checks and waiting lines faster

Two customer service innovations exemplify the University's continued commitment to financial stewardship and overall service, and are on the leading edge of technology.

Live Chat

An example of the University of Washington's commitment to customer service and technological innovation is Live Chat, which was introduced in January 2006 and is growing in popularity. It enables the University to interact with students and other customers using instant messaging technology and techniques. Today's students find it an easy way to get answers to questions and concerns in real time, from a real person, rather than waiting for email to be returned. Students, parents, University departments and any other customers can access Live Chat though links on several tuition-related Web pages. Already, Student Fiscal Services counselors are reporting shorter lines. Live Chat may also be reducing the volume of phone inquiries as the volume of instant messages rises.

The overwhelmingly positive customer response to Live Chat ensures that it, too, will be added to the University of Washington's legacy of making extraordinary service common.

Check 21

In 2003, Congress enacted the Check Clearing for the 21st Century Act (popularly called "Check 21"). Check 21 permits banks to convert paper checks to electronic images.

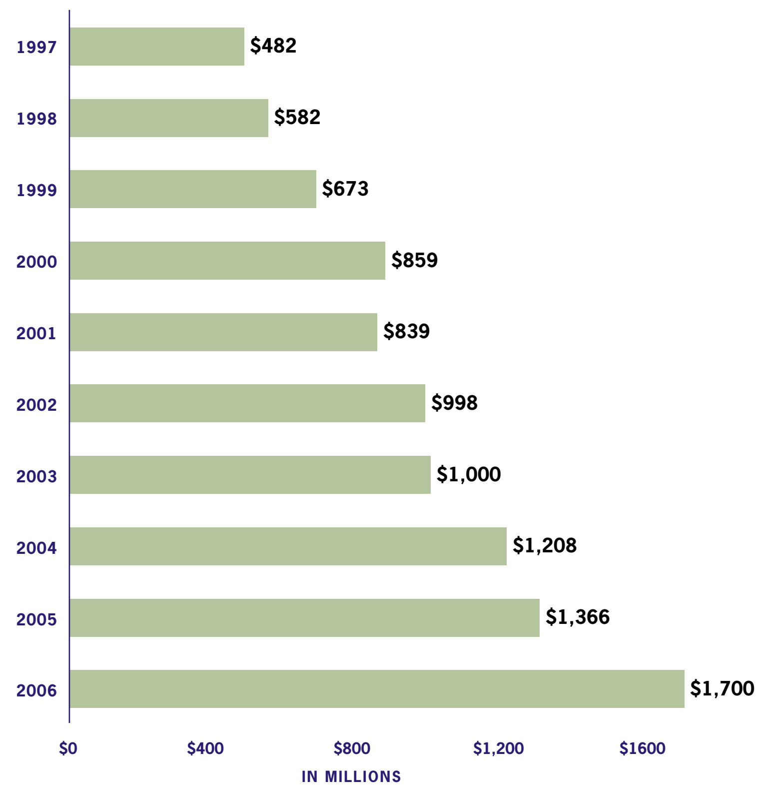
Student Fiscal Services (SFS) has been at the forefront of investigating ways to incorporate Check 21 technology while maintaining high customer service standards. Today's student-customers are technology savvy and appreciate the speed and efficiency of electronic check processing. They were introduced to the POP (point of purchase) process in January 2006. The POP process uses scanners and specialized software to process all checks presented to cashiers in Student Fiscal Services. Once the funds are verified, the student signs a receipt acknowledging that the check has been converted to an electronic debit. The physical check is then returned to the student. POP guarantees two day clearing at the bank.

Recently, SFS began using ARC (Accounts Receivable Conversion) and IRD (Image Replacement Document) to process checks that cannot utilize the POP conversion system. These systems can scan checks that are mailed, dropped off, or received in other campus departments and sent to SFS for deposit. Checks scanned through ARC/IRD are nearly all credited the same day to the UW bank account.

continued *commitment to financial stewardship and overall service.*

Investments

Growth of Consolidated Endowment Fund: 1997-2006



- Investment returns provide an important source of revenue for the University's programs. Among the funds invested by the University are endowments, life income trusts and annuities, outright gifts, reserve balances, and operating cash.
- Endowed gifts provide permanent capital and an ongoing stream of current earnings to the University. Programs supported by the endowment include undergraduate scholarships, graduate fellowships, professorships and chairs, and research activities.
- Most endowments are commingled in the Consolidated Endowment Fund (CEF), a diversified investment fund. As in a mutual fund, each individual endowment maintains a separate identity and owns units in the fund. On June 30, 2006, the fair market value of the CEF was $1.7 billion, representing the investments of 2,248 individual endowments.
- During fiscal year 2002, the Board of Regents approved the investment of a portion of the University's operating funds to establish an endowment. These funds currently comprise $376 million of the CEF market value.
- Endowed program support over the last five years totaled $301 million. During that period, the average annual total return on the CEF was 8.6 percent.
- Non-endowed gifts, reserve balances, and cash are commingled for investment purposes although accounted for separately. The fair market value of these investments at the end of the fiscal year was $733 million. The total return has averaged 4.1 percent annually over the last five years.

The best graduate programs in creative writing allow students to spend time

Creative writing program receives milestone bequest

A planned gift from the S. Wilson and Grace M. Pollock Foundation will position the University of Washington's creative writing program — ranked in the top 10 in the country — to become the country's premier program by helping to attract the best writing students and faculty. The bequest is the largest ever made to the College of Arts and Sciences.

The generosity of Grace Pollock and her late husband, S. Wilson Pollock, dates back nearly three decades. Throughout the years, the Pollocks have created four UW endowments — three in English and the Wendell Alfred Milliman Endowment for Mathematics, named after Grace Pollock's brother. The endowments have supported a number of distinguished students and professors, including *Middle Passage* author Charles Johnson, who holds the S. Wilson and Grace M. Pollock Professorship for Excellence in English.

"The best graduate programs in creative writing allow their students to spend time focusing on developing their individual visions as writers and on honing their craft so that they can carry through on those visions," says professor Maya Sonenberg, director of the creative writing program. "This bequest will allow the program to provide financial support for its students and enrich their experience here through visiting writers, community outreach programs, and the finest faculty available."

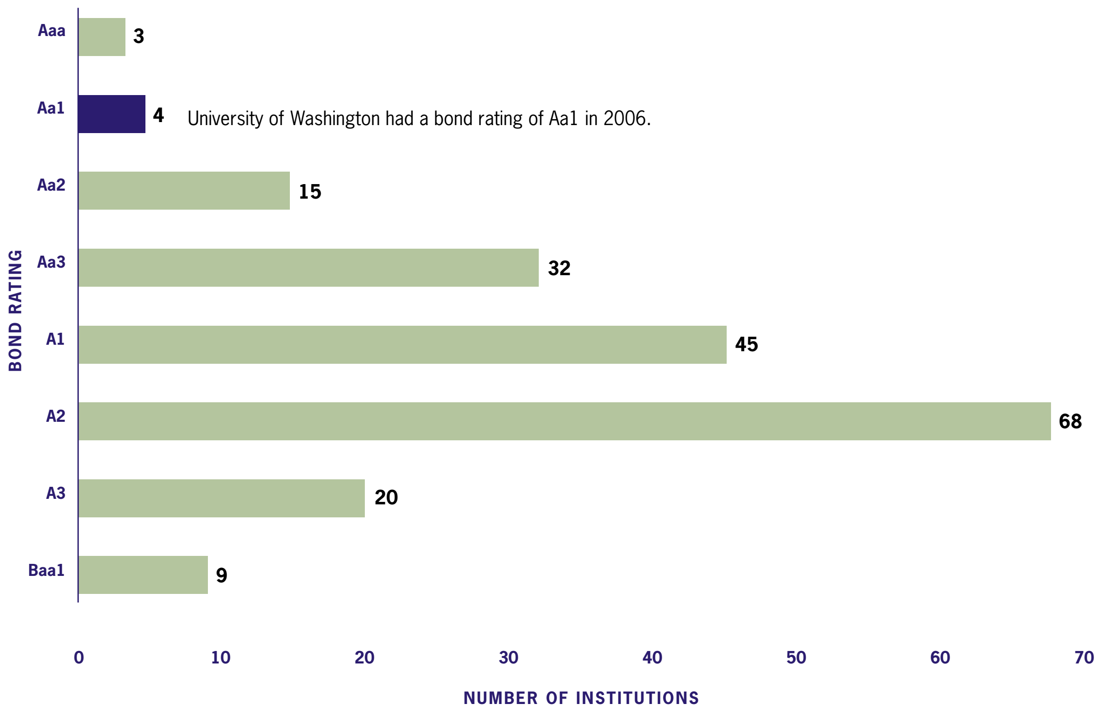
Grace and her four brothers attended the University of Washington, which she calls a "wonderful institution." To honor her generosity and long-standing ties to the UW, the University eventually will rename the creative writing program the Grace Milliman Pollock Program in Creative Writing.

GRACE M. POLLOCK

focusing on developing their individual visions as writers and honing their craft.

Debt Financing

Moody's 2006 Public College and University Ratings



- The University's General Revenue borrowing platform, established in 2003, has been used to fund research buildings on the main campus and at South Lake Union. Both Moody's and Standard and Poor's have recognized the financial strength of the General Revenue platform with their second highest bond rating, Aa1 from Moody's and AA+ from Standard and Poor's. These ratings put the UW in elite company; only three other public universities have a higher rating and just three others have the same rating.
- Strong ratings carry substantial advantages for the UW: continued and better access to capital markets when the University issues debt, lower interest rates on bonds, and the ability to negotiate favorable bond terms.
- The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively. Continued high debt ratings are important indicators of the University's success in this area.

The General Revenue borrowing platform was the first step of a

Commercial paper streamlines funding process

In 2003, the University put in place a new borrowing platform for issuing General Revenue bonds backed by the University's locally generated funds. This was the first step of a strategic initiative to reduce the University's overall cost of debt. In 2006, the University implemented a commercial paper program. This program has streamlined the borrowing process, expanded borrowing options, and will further reduce costs.

Commercial paper notes are publicly traded short-term obligations issued by corporations, banks and municipalities to finance capital and operating needs on an interim basis before securing permanent funding. Borrowing terms are anywhere from 1 day to 270 days. When the notes mature, issuers can pay them off, pay only interest due and reissue the principal amount, or reissue both the principal and accrued interest. Issuing commercial paper is the most exible and cost effective way to borrow for short term needs.

Commercial paper is the tool that the University will use to migrate from financing individual capital projects as they arise to funding multiple projects on a just-in-time basis. Matching borrowing to construction draws will reduce how much the University borrows over time and lower interest expense during construction.

strategic initiative to *reduce the University's overall cost of debt.*

Capital Budget and Campus Construction

The University's capital projects continue the overall strategy to balance the need to restore and renew aging facilities with the need to grow by providing modern facilities for world-class excellence in research and teaching.

Construction was completed in 2006 for the following major projects:

William H. Foege BioEngineering/Genome Sciences Building
Construction was completed to provide 265,000 square feet of modern facilities for research and teaching for the Departments of BioEngineering and Genome Sciences. The departments are world leaders in transforming healthcare and blazing paths into uncharted territories of science and medicine and addressing leading edge questions in biology and medicine.

UW Medical Center Regional Heart Center
Construction was completed for two major renovation projects in the UW Medical Center. The $10 million remodel of 45,000 square feet in the third floor lobby and clinic area created a new home and presence for the Regional Heart Center near the Medical Center entrance. The consolidation of groups and remodel of the lobby and clinic reception contribute to improvements in the patient care process. Another $7 million project of 22,000 square feet on the second floor of the Medical Center expands and improves accommodations for patients and staff in the cardiac procedures area and doubles the emergency medicine space including additional exam rooms to provide better patient care.

Warren G. Magnuson Health Sciences Center J-Wing Renovation
Renovation of 31,000 square feet of space on the 3rd, 4th, and 5th floors of the J-Wing was completed for the School of Medicine's BioChemistry Department. This renovation facilitates greater interactions within and between laboratories, shared use of major equipment in common support rooms, and the flexible allocation of space as research groups grow. The $8.5 million project was funded by a National Institute of Health federal facilities grant and matching University sources.

Tacoma Campus Parking Garage and Housing
New construction through this public/private partnership project provides apartments and parking for students, faculty, staff and the public. The parking garage was funded from state and other sources. The housing is privately owned and funded.

Major projects in construction in 2006 include the following:

Guggenheim Hall Renovation
Renovation of 56,200 square feet will upgrade all major building systems, address seismic and accessibility deficiencies, correct life-safety conditions, abate asbestos and provide updated facilities for aeronautics and astronautics, applied mathematics and general assignment classrooms, including a 300 seat auditorium. State funding of approximately $25 million was provided for this renovation. >

Architecture Hall is the only major building, built for the

1909

Architecture Hall Renovation

Constructed in 1909 for the Alaska-Yukon Pacific Exposition, Architecture Hall is the only surviving major building that has maintained its original appearance. Improvements include seismic, life safety and accessibility upgrades, hazardous materials abatement and replacement of all major infrastructure systems. This 47,500 square foot renovation of approximately $22 million is state funded and will be completed in the summer of 2007. It will continue to house Construction Management, Architecture, general assignment classrooms, architecture studios, and a 310 seat auditorium. This building, along with Guggenheim Hall, is part of the second phase of a series of renovation projects to restore critical facilities at the Seattle campus.

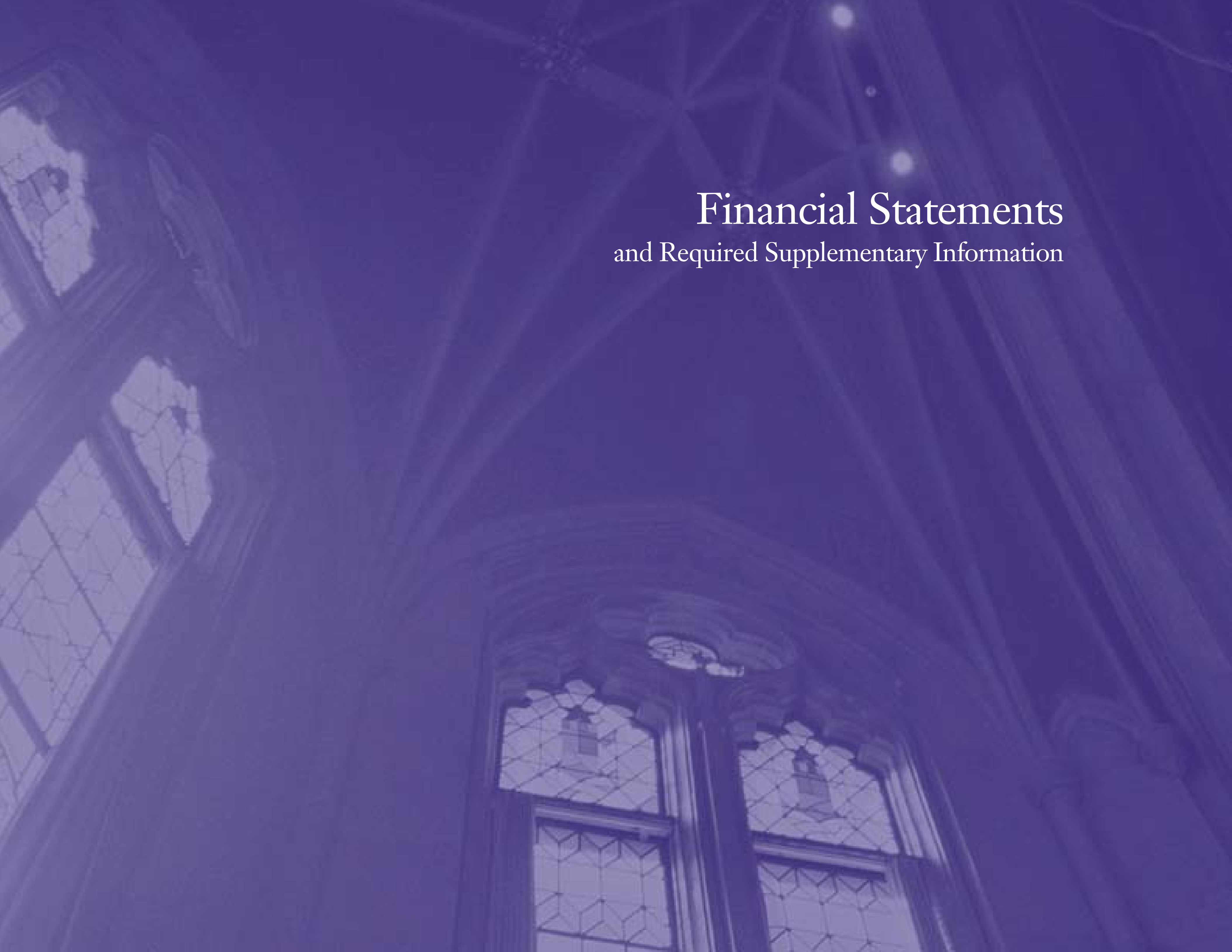
2006

Alaska Yukon Pacific Exposition, that has *maintained its original appearance.*

Financial Statements

and Required Supplementary Information



Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington ("University") for the years ended June 30, 2006 and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

Using the Financial Statements

The University's financial statements include the Balance Sheets, the Statements of Revenues, Expenses, and Changes in Net Assets, the Statements of Cash Flows and the Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements be presented on a consolidated basis in order to focus on the University as a whole.

Financial Health

BALANCE SHEETS

The Balance Sheets present the financial condition of the University at the end of the last two fiscal years and report all assets and liabilities of the University. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2006, 2005, and 2004, follows:

(in millions)	2006	2005	2004
Current assets	$ 937	$ 985	$ 916
Noncurrent assets:			
Capital assets, net	2,374	2,309	2,182
Other	2,886	2,408	2,192
Total assets	**6,197**	**5,702**	**5,290**
Current liabilities	859	822	787
Noncurrent liabilities	960	857	759
Total liabilities	**1,819**	**1,679**	**1,546**
Net assets	**$ 4,378**	**$ 4,023**	**$ 3,744**

Current assets consist primarily of cash, short-term investments, collateral from securities lending and accounts receivable. Total current assets decreased by $48 million, to $937 million at June 30, 2006. The June 30, 2005 balance of $985 million was an increase of $69 million from 2004. The current asset balance fluctuates primarily due to changes in the securities lending collateral and short-term investments. The short-term portion of the University's investment portfolio can fluctuate based upon changes in investment mix and the expected short-term needs for University funds. The excess of current assets over current liabilities of $78 million in 2006 reflects the continuing ability of the University to meet its short-term obligations.

The difference between total assets and total liabilities — net assets, or "equity" — is one indicator of the current financial condition of the University. The change in net assets measures whether the overall financial condition has improved or deteriorated during the year.

The University reports its "equity" in four categories:

- **Invested in Capital Assets** (net of related debt) – This is the University's total investment in property, plant, equipment and infrastructure, net of accumulated depreciation and outstanding debt obligations related to those capital assets;
- **Restricted Net Assets**:
  - Nonexpendable net assets consist of funds on which the donor or external party has imposed the restriction that the corpus is not available for expenditures but rather for investment purposes only;
  - Expendable net assets are resources which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed by donors and/or other external parties;
- **Unrestricted Net Assets** – are all other funds available to the institution for any purpose. Unrestricted assets are often internally designated for specific purposes.

The University's net assets at June 30, 2006, 2005, and 2004 are summarized as follows:

(in millions)	2006	2005	2004
Invested in capital assets, net of related debt	$ 1,658	$ 1,609	$ 1,539
Restricted:			
Nonexpendable	723	628	544
Expendable	1,142	994	938
Unrestricted	855	792	723
Total net assets	**$ 4,378**	**$ 4,023**	**$ 3,744**

Net investment in capital assets increased $49 million in 2006 and $70 million in 2005. This balance increases as debt is paid off or when the University funds fixed asset purchases without financing. This balance decreases as assets are depreciated. The increase each year demonstrates that the University continues to invest in its buildings and plant, and represents a continuing investment in facilities for education and research.

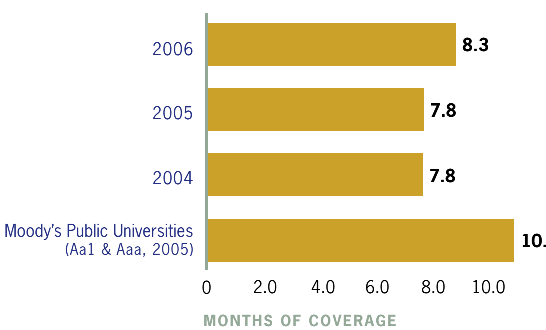
Restricted nonexpendable net assets grew $95 million, or 15% in 2006, and $84 million, or 15%, in 2005 as a result of new endowment gifts.

Restricted expendable net assets grew $148 million, or 15% in 2006, and $56 million, or 6% in 2005, as a result of new operating and capital gifts and earnings on endowments.

Unrestricted Net Assets in 2006 increased by $63 million, or 8% over 2005. The Unrestricted Net Asset growth in 2005 over 2004 was $69 million, or 10%. The increase in both years was driven by continuing tuition increases and a strong investment return, offset by capital expenditures.

The ratio of expendable financial resources to operations (as defined by Moody's) measures the strength of Net Assets. This ratio, illustrated in the chart below, shows that the University had enough expendable resources from various sources to fund operations for a period of months that grew from 7.8 months in 2004 to 8.3 months in 2006.

Expendable Financial Resources to Operations[1]



Endowment and Other Investments

The Consolidated Endowment Fund (CEF) returned 17.7%, ending the year at $1.7 billion, compared to a return of 12.5% in the prior year. In fiscal year 2002, the Board of Regents approved the investment of a portion of the University's operating funds into the CEF. These funds comprise $376 million of the CEF market value. Over the past ten years, the CEF averaged an 11.2% annual return, a performance which ranks it in the top half of the 50 largest college and university endowments as measured by Cambridge Associates.

The Invested Funds (IF), or operating monies of the University, returned .9% for fiscal year 2006 and 3.7% in 2005, ending the 2006 fiscal year with a market value of $733 million.

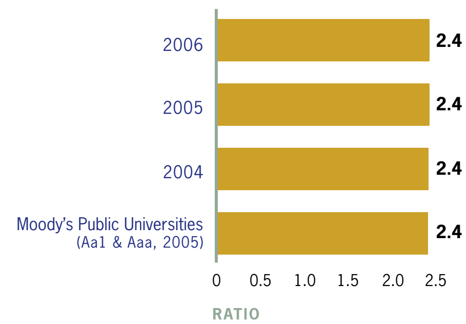
Capital Improvements and Related Debt

In 2006 total long-term debt for financing capital assets increased by $88 million to $841 million, primarily due to financing by a component unit entity of $100 million for a medical research building. In 2005, total long-term debt associated with capital assets increased to $753 million, an increase of $98 million over 2004. The largest bond issues in 2005 were: $60 million in bonds to finance the construction of the new Research and Technology Building, and to finance the completion of the William H. Foege BioEngineering/Genome Sciences Building; a $38 million issuance to finance Phase I of the South Lake Union Blue Flame construction; and a $16 million bond issue to finance the expansion of the West Campus Garage.

In 2006, $175 million was expended for capital construction, including $41 million on the Bioengineering/Genome building, $20 million on the Research and Technology Building and $14 million on the Johnson Hall renovation. Expenditures on capital construction were $184 million in 2005; the largest of these were $70 million for the new Bioengineering Building/Genome building, $32 million for the renovation of Johnson Hall, and $13 million on the new Research & Technology Building.

The constant trend in the expendable financial resources to debt ratio (as defined by Moody's) shows that the University has sufficient expendable resources to pay its long-term debt obligations nearly 2½ times over.

Expendable Financial Resources to Direct Debt[2]



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses, and Changes in Net Assets present the University's results of operations and nonoperating items that result in the changes in Net Assets for the year. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A condensed comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2006, 2005, and 2004 follows:

(in millions)	2006	2005	2004
Total operating revenues	$ 2,420	$ 2,298	$ 2,155
Operating expenses	2,895	2,747	2,573
Operating loss	**(475)**	**(449)**	**(418)**
Nonoperating revenues, net of expense	679	567	529
Other revenues	151	161	93
Increase in net assets	**355**	**279**	**204**
Net assets, beginning of year	4,023	3,744	3,540
Net assets, end of year	**$ 4,378**	**$ 4,023**	**$ 3,744**

[1] The sum of Unrestricted Net Assets and Restricted Expendable Net Assets, divided by Total Operating Expenses (Operating Expenses plus interest expense). The result is multiplied by 12 to arrive at months of coverage.
[2] The sum of Unrestricted Net Assets and Restricted Expendable Net Assets, divided by total capital leases, bonds and notes payable outstanding.

The University has a diversified revenue base. The following table summarizes revenues from all sources for the years ended June 30, 2006, 2005, and 2004:

(in millions)	2006	2005	2004
Tuition	$ 358	$ 332	$ 304
Patient Services	797	747	689
Grants and Contracts	989	954	896
Sales and Services of Educational Departments	96	90	89
Auxiliary Enterprises	123	117	126
State Funding for Operations	339	323	310
Gifts	219	172	122
Investment income	294	219	220
State Funding for Capital Projects	37	56	33
Other	56	59	52
Total revenue – all sources	**$ 3,308**	**$ 3,069**	**$ 2,841**

Grant Revenue

The largest source of revenues continues to be from grants and contracts. This revenue has increased 4% in 2006 and 6% in 2005. Grant and contract revenue is earned only when direct expenditures (such as researchers' compensation or purchases of goods and services) are made; therefore, there is little effect to the University's operating margin as a result of this direct expense reimbursement process.

Facility and administrative expenses necessary to support grants and contracts are reimbursed by an indirect cost recovery. The current federal indirect cost recovery is approximately 30 cents on every direct expenditure dollar on these grants and contracts.

Federal funding for research is becoming much more competitive; however, the University is experiencing growth in training grants, particularly international health related grants.

Primary Non-Grant Funding Sources

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support its non-grant funded educational operating expenses. Tuition revenue, net of scholarship allowances, has continued to grow, increasing from $332 million in 2005 to $358 million in 2006, an increase of 8%. The impact to students as a result of tuition rate increases was partially offset by the increase in scholarships (including scholarship allowances) of $10 million in 2006. The University has flexibility in its ability to set non-undergraduate resident tuition rates, which helps to compensate for shortfalls in state funding.

State appropriations are considered nonoperating revenue under GASB 35 standards and are reflected in the nonoperating section of the income statement; however, they are used solely for operating purposes.

Patient Services

Revenues from patient services increased $50 million, or 7%, from $747 million in 2005 to $797 million in 2006. In 2005, patient revenues increased $58 million, or 8% over the previous year.

Gifts and Endowments and Other Investments

Investment income and gifts continue to provide the University with an added margin of excellence and the flexibility to respond to special opportunities. Income from these two sources continues to be the difference between growth and loss in net assets.

Net investment returns for the years ended June 30, 2006, 2005, and 2004 consisted of the following components:

(in millions)	2006	2005	2004
Interest and dividends	$ 68	$ 59	$ 56
Metropolitan Tract operating income	6	9	9
Net appreciation (depreciation) of fair value of investments	228	158	162
Investment expenses	(8)	(7)	(7)
Net investment income	**$ 294**	**$ 219**	**$ 220**

Net appreciation includes both realized and unrealized gains and losses. Net Investment income remained relatively strong in 2005 and increased by $75 million, or 34% in 2006.

The University continues to receive strong support from its donors. Gift revenue in 2006 was $219 million. This is an increase of $47 million, or 27% from the prior year. Gifts are used to support a variety of purposes, including capital improvements, scholarships, research, and endowments for various academic and research chairs.

Expenses

A comparative summary of the University's expenses by functional classification for the years ended June 30, 2006, 2005, and 2004 is as follows:

(in millions)	2006	2005	2004
Operating expenses:			
Instruction	$ 717	$ 670	$ 595
Research	599	575	553
Public service	33	30	23
Academic support	211	192	186
Student services	28	27	26
Institutional support	109	113	103
Operations and maintenance of plant	152	148	146
Scholarships and fellowships	60	57	54
Auxiliary enterprises	126	132	124
Medical related	655	624	590
Depreciation	205	179	173
Total operating expense	**$ 2,895**	**$ 2,747**	**$ 2,573**

The University's operating expenses increased $148 million in 2006. Instruction increased $47 million, or 7%, reflecting additional instructional faculty, rate increases, and other costs related to increased enrollments. Research expenditures, which represent sponsored research, increased $24 million or 4% from the prior year.

Of the $148 million increase in operating expenses, $127 million related to salaries and benefits. Salaries and benefits increased approximately 7%, versus a $101 million, or 6% increase in the prior year. The increase is due to additional employees, as well as increased salary and benefit levels.

Supplies, materials, and services decreased $15 million or 2%, versus an increase of $63 million or 11% in the prior year.

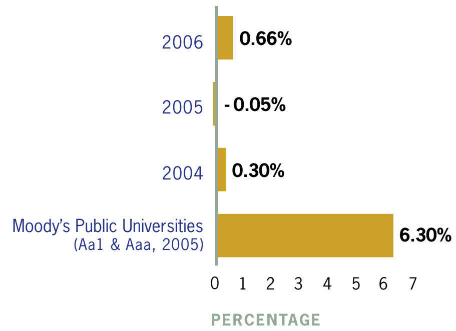
Depreciation expense increased $26 million in 2006, compared to a $6 million increase in 2005. In 2006, $304 million in buildings were placed into service, versus $70 million in 2005.

OPERATING LOSS

The University's operating loss increased to $475 million in 2006 from $449 million in 2005 and $418 million in 2004. As discussed above, GASB standards require that state appropriations, which are used solely for operations, be classified as nonoperating, thus creating the significant loss. If state appropriations were classified as operating, the operating loss would be as follows for 2006, 2005, and 2004, respectively: $136 million, $125 million, and $108 million. Thus, of the $26 million increase in operating loss from 2005 to 2006, all but $11 million was funded by increases in state appropriations. The University continues to rely upon nonoperating revenues other than state appropriations to fund its operations, including operating gift revenues and investment income.

Moody's measures the net result of revenue and expense activity by considering several nonoperating revenues in determining the margin. The 2006 margin of 0.66% was an increase over 2005 and 2004. The operating margin includes an estimated spending rate of the University's investments rather than actual investment income. Therefore, strong investment performance in a given year will not necessarily increase the operating margin.

Operating Margin Percentage[3]



Economic Factors that Will Affect the Future

The University's funding comes primarily from four general sources: grants and contracts, revenues from patient services, state appropriations, and tuition and fees.

While the federal research budget is decreasing, the University is attempting to maintain its current share of the research budget.

State funding levels, while improving, continue to put pressure on the instructional function of the University. However, the ability to increase certain tuition rates, along with continued strong demand for services offsets much of that pressure.

[3] Operating loss, (including interest expense, operating appropriations, an assumed 4.5% spending rate on investments, and non-permanent endowment gifts), divided by operating revenues (less scholarship expenses, and including operating appropriations, an assumed 4.5% spending rate on investments, and non-permanent endowment gifts).

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington, an agency of the State of Washington, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 28 through 31 and the supplemental component pension information on page 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Seattle, Washington
November 22, 2006

Balance Sheets

ASSETS	June 30, 2006	2005
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 26,053	$ 45,759
COLLATERAL FROM SECURITIES LENDING (NOTE 6)	321,498	339,231
SHORT-TERM INVESTMENTS (NOTE 6)	190,128	201,845
ACCOUNTS RECEIVABLE (NET OF $73,825 AND $72,936 ALLOWANCE) (NOTE 5)	369,236	367,794
INVENTORIES	26,717	23,639
OTHER ASSETS	3,805	6,865
TOTAL CURRENT ASSETS	937,437	985,133
NONCURRENT ASSETS		
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	59,303	54,784
LONG-TERM INVESTMENTS (NOTE 6)	2,598,754	2,127,451
METROPOLITAN TRACT (NOTE 7)	116,570	118,331
STUDENT LOANS RECEIVABLE (NET OF $8,060 AND $8,135 ALLOWANCE) (NOTE 4)	62,017	60,755
OTHER ASSETS	49,527	47,198
CAPITAL ASSETS (NET OF $1,915,303 AND $1,752,581 ACCUMULATED DEPRECIATION) (NOTE 8)	2,374,063	2,308,665
TOTAL NONCURRENT ASSETS	5,260,234	4,717,184
TOTAL ASSETS	**6,197,671**	**5,702,317**

LIABILITIES	June 30, 2006	2005
CURRENT LIABILITIES		
ACCOUNTS PAYABLE	97,811	112,841
ACCRUED LIABILITIES	251,181	193,551
PAYABLES: SECURITIES LENDING TRANSACTIONS (NOTE 6)	321,498	339,231
DEFERRED REVENUE	120,964	113,729
FUNDS HELD FOR OTHERS	21,619	19,803
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9, 10, AND 11)	46,089	42,921
TOTAL CURRENT LIABILITIES	859,162	822,076
NONCURRENT LIABILITIES		
DEFERRED REVENUE	4,361	4,373
U.S. GOVERNMENT GRANTS REFUNDABLE (NOTE 4)	49,393	50,173
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9, 10, AND 11)	906,285	803,016
TOTAL NONCURRENT LIABILITIES	960,039	857,562
TOTAL LIABILITIES	**1,819,201**	**1,679,638**

NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	1,658,371	1,608,876
RESTRICTED		
NONEXPENDABLE – SCHOLARSHIPS, RESEARCH AND DEPARTMENT USES	722,643	628,356
EXPENDABLE – SCHOLARSHIPS, RESEARCH AND DEPARTMENT USES	1,142,542	993,334
UNRESTRICTED	854,914	792,113
TOTAL NET ASSETS	4,378,470	4,022,679
TOTAL LIABILITIES AND NET ASSETS	**$ 6,197,671**	**$ 5,702,317**

Dollars in thousands

See accompanying Notes to Financial Statements

Statements of Revenues, Expenses, and Changes in Net Assets

REVENUES	June 30, 2006	2005
OPERATING REVENUES		
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF $53,780 AND $48,123)	$ 358,130	$ 331,978
PATIENT SERVICES (NET OF CHARITY CARE AND UNCOLLECTIBLE ACCOUNTS OF $28,076 AND $21,115)	796,846	746,675
FEDERAL GRANTS AND CONTRACTS	835,901	813,643
STATE AND LOCAL GRANTS AND CONTRACTS	46,976	47,807
NONGOVERNMENTAL GRANTS AND CONTRACTS	106,558	92,737
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	96,254	89,617
AUXILIARY ENTERPRISES:		
HOUSING AND FOOD SERVICES	44,412	41,176
PARKING SERVICES	7,798	7,012
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCES OF $2,341 AND $1,996)	32,767	28,783
OTHER AUXILIARY ENTERPRISES	38,060	39,886
OTHER MEDICAL CENTER REVENUE	37,792	36,949
OTHER OPERATING REVENUE	18,517	21,646
TOTAL OPERATING REVENUES	**2,420,011**	**2,297,909**

EXPENSES		
OPERATING EXPENSES		
SALARIES	1,464,000	1,385,085
BENEFITS	409,515	361,104
SCHOLARSHIPS AND FELLOWSHIPS	60,399	56,647
UTILITIES	46,772	47,777
SUPPLIES AND MATERIALS	261,888	270,300
PURCHASED SERVICES	355,449	362,367
DEPRECIATION	204,988	178,704
OTHER	92,185	84,433
TOTAL OPERATING EXPENSES	**2,895,196**	**2,746,417**
OPERATING LOSS	**(475,185)**	**(448,508)**

NONOPERATING REVENUES (EXPENSES)	June 30, 2006	2005
STATE APPROPRIATIONS	339,117	323,417
GIFTS	104,588	67,378
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $7,946 AND $6,971)	294,305	219,069
INTEREST ON CAPITAL ASSET-RELATED DEBT	(30,688)	(35,060)
OTHER NONOPERATING REVENUES AND EXPENSES	(27,821)	(8,402)
NET NONOPERATING REVENUES	**679,501**	**566,402**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**204,316**	**117,894**
CAPITAL APPROPRIATIONS	36,896	56,149
CAPITAL GRANTS AND GIFTS	23,254	35,658
GIFTS TO PERMANENT ENDOWMENTS	91,325	68,651
TOTAL OTHER REVENUES	**151,475**	**160,458**
INCREASE IN NET ASSETS	**355,791**	**278,352**

NET ASSETS		
NET ASSETS – BEGINNING OF YEAR	4,022,679	3,744,327
NET ASSETS – END OF YEAR	**$ 4,378,470**	**$ 4,022,679**

Dollars in thousands
See accompanying Notes to Financial Statements

Statements of Cash Flows

CASH FLOWS FROM OPERATING ACTIVITIES	June 30, 2006	2005
STUDENT TUITION AND FEES	$ 342,859	$ 319,671
PATIENT SERVICES	788,899	733,090
GRANTS AND CONTRACTS	1,000,878	940,836
PAYMENTS TO SUPPLIERS	(255,401)	(263,556)
PAYMENTS FOR UTILITIES	(45,150)	(46,206)
PURCHASED SERVICES	(349,072)	(356,788)
OTHER OPERATING DISBURSEMENTS	(87,465)	(84,713)
PAYMENTS TO EMPLOYEES	(1,460,754)	(1,381,813)
PAYMENTS FOR BENEFITS	(388,086)	(344,818)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(60,399)	(56,647)
LOANS ISSUED TO STUDENTS	(30,935)	(30,224)
COLLECTION OF LOANS TO STUDENTS	28,893	28,684
SALES AND SERVICES OF THE MEDICAL CENTER	37,792	36,949
AUXILIARY ENTERPRISE RECEIPTS	122,682	116,268
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	94,859	91,514
OTHER RECEIPTS (PAYMENTS)	(7,812)	12,899
NET CASH USED BY OPERATING ACTIVITIES	**(268,212)**	**(284,854)**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	340,795	321,679
GIFTS, EXCLUDING PERMANENT ENDOWMENT AND CAPITAL	104,588	67,378
ADDITIONS TO PERMANENT ENDOWMENTS	91,325	68,651
DIRECT LENDING RECEIPTS	145,385	155,986
DIRECT LENDING DISBURSEMENTS	(144,737)	(142,123)
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	432,001	387,003
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(430,534)	(393,700)
OTHER	(27,267)	(47,041)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**511,556**	**417,833**

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	June 30, 2006	2005
PROCEEDS FROM CAPITAL DEBT	202,735	174,889
CAPITAL APPROPRIATIONS	40,894	52,297
CAPITAL GRANTS AND GIFTS RECEIVED	23,254	35,658
PURCHASES OF CAPITAL ASSETS	(278,831)	(310,036)
PRINCIPAL PAID ON CAPITAL DEBT AND LEASES	(114,489)	(76,462)
INTEREST PAID ON CAPITAL DEBT AND LEASES	(36,911)	(38,299)
OTHER	(4,743)	5,107
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(168,091)**	**(156,846)**

CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM SALES OF INVESTMENTS	2,474,885	2,256,225
PURCHASES OF INVESTMENTS	(2,636,172)	(2,284,336)
INVESTMENT INCOME	66,328	61,857
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**(94,959)**	**33,746**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(19,706)**	**9,879**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	45,759	35,880
CASH AND CASH EQUIVALENTS – END OF THE YEAR	**$ 26,053**	**$ 45,759**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (475,185)	$ (448,508)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	204,988	178,704
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	(19,034)	(33,764)
INVENTORIES	(3,079)	(1,625)
OTHER ASSETS	731	(7,931)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	35,824	21,988
DEFERRED REVENUE	7,223	11,308
OTHER LONG-TERM LIABILITIES	(17,638)	(3,486)
U.S. GOVERNMENT GRANTS REFUNDABLE	(780)	(453)
LOANS TO STUDENTS	(1,262)	(1,087)
NET CASH USED BY OPERATING ACTIVITIES	**$ (268,212)**	**$ (284,854)**

Dollars in thousands
See accompanying Notes to Financial Statements

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

The University of Washington (University), an agency of the State of Washington, is governed by a ten-member Board of Regents, appointed by the Governor and confirmed by the state Senate.

The financial statements include the individual schools, colleges, and departments of the University, the University of Washington Medical Center, Portage Bay Insurance (a wholly owned subsidiary of the University), and certain affiliated operations determined to be a part of the University's financial reporting entity. Affiliated organizations are evaluated for inclusion in the reporting entity as component units based on the significance of their relationship with the University.

The University of Washington Alumni Association, University of Washington Physicians, University of Washington Physicians Network, Community Development Properties C-D, Educational Research Properties, Radford Court Properties, Twenty-Fifth Avenue Properties, TSB Properties, and Washington Biomedical Research Properties I and II are included in the reporting entity as blended component units. These legally separate entities are included in the University's financial reporting entity because of the nature of their relationship to the University. Financial information for these affiliated organizations may be obtained from their respective administrative offices.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No, 34. Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments, as amended by GASB Statement No. 35, Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities; No. 37, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus (an amendment of GASB Statements No. 21 and No. 34); and No. 38, Certain Financial Statement Note Disclosures. The University is reporting as a special purpose government engaged in business type activities (BTA). In accordance with BTA reporting, the University presents a management's discussion and analysis, balance sheets, statements of revenues, expenses, and changes in net assets, statements of cash flows, and notes to the financial statements. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated. The University has elected not to apply any FASB pronouncements after November 30, 1989. The University reports capital assets net of accumulated depreciation, and reports depreciation expense in the Statements of Revenues, Expenses, and Changes in Net Assets.

On July 1, 2005, the University adopted GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This statement requires governments to identify impaired capital assets that will no longer be used and to report them at the lower of carrying value or fair value. The University has reviewed its fixed assets as of June 30, 2006 and has found no impairment of assets that would impact the financial statements.

On July 1, 2005, the University adopted GASB Statement No. 47, "Accounting for Termination Benefits." This statement requires liabilities for termination benefit arrangements to be reported on government financial statements. The University does not have any early retirement incentives or any plan of involuntary termination.

OTHER ACCOUNTING POLICIES

Investments. Investments other than real estate and miscellaneous investments are stated at fair value. Real estate and miscellaneous investments are stated at cost or, in the case of gifts, at fair values at the date of donation. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations obtained from national securities exchanges. The alternative investments, which are not readily marketable, are carried at the estimated fair values as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Investments under long-term strategies are considered noncurrent. Short-term investments consist primarily of cash equivalents and fixed income vehicles with maturities of less than one year.

Securities Lending Transactions. Cash collateral received from borrowers through securities lending transactions is recorded as an asset with an offsetting liability.

Inventories. Inventories are carried at the lower of cost or market value. Consumable inventories, consisting of expendable materials and supplies held for consumption, are generally valued using the weighted average method. Merchandise inventories are generally valued using the first-in, first-out method.

Capital Assets. Land, buildings, equipment, and library books are stated at cost or, if acquired by gift, at fair market value at the date of the gift. Additions, replacements, major repairs, and renovations are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, 15 years for library books, and five to seven years for equipment.

Capitalized construction-related interest was $6,181,000 and $905,000 during 2006 and 2005, respectively.

Deferred Revenues. Deferred revenues occur when funds have been collected in advance of an event, such as advance ticket sales, summer quarter tuition, and unspent cash advances on certain grants.

Deferred Giving – Split Interest Agreements. Under these agreements, donors make initial gifts to trusts or directly to the University. The University has beneficial interests but is not the sole beneficiary. The University records an asset related to these agreements at fair market value at year end. The University also records a liability related to the split-interest agreements equal to the present value of expected future distributions; the discount rates applied range from 4.4% to 8.0%.

Compensated Absences. University employees accrue annual leave at rates based on length of service, and for sick leave at the rate of one day per month. Annual leave accrued as of June 30, 2006 and 2005 of $59,610,000 and $51,461,000, respectively, was included in accrued liabilities. Sick leave accrued as of June 30, 2006 and 2005 was $24,841,000 and $21,255,000, respectively.

Tuition and Fees. Tuition and Fees are reported net of scholarship allowances applied to students' accounts, while student aid paid directly to students is reported as scholarship and fellowship expenses.

State Appropriations. The State of Washington appropriates funds to the University on both annual and biennial bases. These revenues are reported as nonoperating revenues in the Statements of Revenues, Expenses, and Changes in Net Assets. The University of Washington Medical Center received $8,235,000 and $8,293,000 in operating state appropriations in 2006 and 2005, respectively. These amounts are included in other Medical Center revenue in the Statements of Revenues, Expenses, and Changes in Net Assets.

Operating Activities. The University's policy for reporting operating activities in the Statements of Revenues, Expenses, and Changes in Net Assets is to include activities that generally result from exchange transactions. Examples of exchange transactions are payments received or made for the delivery of goods or services. Certain other significant revenue streams used for operations, such as state appropriations, gifts and investment income are recorded as nonoperating revenues, as prescribed by GASB 35.

Net Assets. The University's net assets are classified as follows:

Invested in capital assets, net of related debt: The University's investments in capital assets, less accumulated depreciation, net of outstanding debt obligations related to capital assets;

Restricted net assets – nonexpendable: Net assets subject to externally-imposed requirements that they be maintained permanently by the University, including permanent endowment funds;

Restricted net assets – expendable: Net assets which the University is obligated to spend in accordance with restrictions imposed by external parties;

Unrestricted net assets: Net assets not subject to externally imposed restrictions, but which may be designated for specific purposes by management, or the Board of Regents.

Tax Exemption. The University is exempt from tax under Section 115 of the Internal Revenue Code on income related to the University's mission.

Reclassifications. Certain amounts in the 2005 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2006 financial statements.

NOTE 2:

Cash and Cash Equivalents

Cash includes cash on hand, petty cash, and bank deposits. Most cash, except for cash held at the University, is covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). At June 30, 2006 and 2005, bank balances of $1,674,000 and $1,241,000, respectively, were insured by the FDIC and balances of $22,924,000 and $61,741,000, respectively, were collateralized under the PDPC.

NOTE 3:

Deposit with State of Washington

State law requires the University to deposit certain funds with the state treasurer, who holds and invests the funds. The deposits include: amounts held for the University's permanent land grant funds, the University of Washington building fee, and certain general obligation bonds reserve funds. The fair value of these funds approximates the carrying value.

NOTE 4:

Student Loans Receivable

Net student loans of $62,017,000 and $60,755,000 at June 30, 2006 and 2005, respectively, consist of $49,393,000 and $50,173,000 from federal programs and $12,624,000 and $10,582,000 from University programs. Interest income from student loans for the years ended June 30, 2006 and 2005, was $966,000 and $967,000, respectively. Loans are made primarily to students who reside in the state of Washington. The loans are unsecured and are expected to be repaid from earnings of the borrowers.

NOTE 5:

Accounts Receivable

The major components of accounts receivable as of June 30, 2006 and 2005, were:

(Dollars in thousands)

	2006	2005
PATIENT SERVICES	$ 210,308	$ 202,086
GRANTS AND CONTRACTS	134,098	140,835
PENDING INVESTMENT SALES	6,758	18,376
SALES AND SERVICES	8,561	7,166
TUITION	16,528	15,399
STATE APPROPRIATIONS	4,193	9,868
OTHER	62,615	47,000
TOTAL	**443,061**	**440,730**
LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS	(73,825)	(72,936)
ACCOUNTS RECEIVABLE, NET	**$ 369,236**	**$ 367,794**

NOTE 6:

Investments

INVESTMENTS – GENERAL

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy which is carried out by the Chief Investment Officer. The University of Washington Investment Committee (UWINCO), comprised of Board members and investment professionals, advise on matters relating to the management of the University's investment portfolios.

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2006, the Invested Funds Pool totaled $727,211,000 compared to $646,428,000 at June 30, 2005. The fund also owns units in the Consolidated Endowment Fund valued at $376,388,000 on June 30, 2006 and $337,787,000 on June 30, 2005. By University policy, departments with qualifying funds in the Invested Funds Pool receive income based on their average balances. The income paid is based on the type of balance held and determined by the realized return of the portfolio. Long-term deposits received 3.2% and 3.5% for fiscal years 2006 and 2005, respectively. Operating and plant fund balances of self-sustaining units received 2.9% and 3.2% for the years ended June 30, 2006 and 2005, respectively. Royalty accounts received 1.0% in 2005 and 2006, and gift accounts received 3.0% for both fiscal years. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The composition of the carrying amounts of investments by type at June 30, 2006 and 2005 are listed in Table 1.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments subscribe to or dispose of units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. The CEF annual income distribution is 5% of the average fair value of the CEF for the previous three years. RCW 24.44.050 of the Washington State Code allows for the spending of appreciation in the CEF.

TABLE 1 – UNIVERSITY INVESTMENTS AND COLLATERAL FROM SECURITIES LENDING *(Dollars in thousands)*

Investment Type	Carrying Value June 30, 2006	Carrying Value June 30, 2005
CASH EQUIVALENTS	$ 128,840	$ 76,919
CASH EQUIVALENTS – LOANED	13,991	–
DOMESTIC FIXED INCOME	800,297	604,305
DOMESTIC FIXED INCOME – LOANED	236,298	294,567
FOREIGN FIXED INCOME	61,482	48,358
DOMESTIC EQUITY	420,928	518,615
DOMESTIC EQUITY – LOANED	55,301	38,500
FOREIGN EQUITY	487,140	277,122
FOREIGN EQUITY – LOANED	37,046	27,812
NON-MARKETABLE ALTERNATIVES	259,542	170,383
MARKETABLE ALTERNATIVES	245,795	243,350
REAL ESTATE	37,236	29,341
MISCELLANEOUS	4,986	24
TOTAL INVESTMENTS	**2,788,882**	**2,329,296**
COLLATERAL FROM SECURITIES LENDING – CASH	321,498	339,231
TOTAL INVESTMENTS AND COLLATERAL	**$ 3,110,380**	**$ 2,668,527**

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Assets category. Of the total of approximately $969,235,000 and $775,000,000 permanent endowment funds (at fair value) as of June 30, 2006 and 2005, the aggregate amount of the deficiencies for all endowments where the fair value of the assets is less than the original gifts is $89,000 and $2,849,000 at June 30, 2006 and 2005, respectively.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was approximately $53,512,000 at June 30, 2006 compared to $52,030,000 at June 30, 2005. Income received from these trusts was $2,701,000 for the year ended June 30, 2006 and $2,091,000 for the year ended June 30, 2005.

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the fiscal years ended June 30, 2006 and 2005, the University realized net gains of $122,009,000 and $117,406,000, respectively, from the sale of 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 in more than one fiscal year and are sold in the current year, include the net appreciation of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the years ended June 30, 2006 and 2005, was $227,977,000 and $158,229,000, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2006, the University had outstanding commitments to fund alternative investments of $256,334,000.

SECURITIES LENDING

The University's investment policies permit it to lend its securities to broker dealers and other entities. The University's custodian lends securities for collateral in the form of cash or other securities, with the simultaneous agreement to return the collateral for the same securities in the future. U.S. securities are loaned and secured by collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned and secured by collateral valued at 105% of the fair value of the securities plus any accrued interest. At year end, the University had no credit risk exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University.

The contract with the custodian requires it to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the University for income distributions by the securities' issuers while the securities are on loan.

Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is 125 days. Cash collateral is invested in a short-term investment pool which had an average weighted maturity of 39 days as of June 30, 2006. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loaned by other entities that use the custodian's pool. The University cannot determine the maturities of these loaned securities. The University cannot sell or pledge non-cash collateral unless the borrower defaults. Non-cash collateral at June 30, 2006 and 2005 was $27,252,000 and $35,689,000, respectively.

Securities on loan at June 30, 2006 and 2005, totaled $342,636,000 and $360,879,000, respectively, and are listed by investment type in Table 1. The securities lending program resulted in net revenues of $697,000 for the year ended June 30, 2006 and $651,000 for the year ended June 30, 2005.

INTEREST RATE RISK

The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on Macaulay duration. Macaulay duration is the basic calculation developed for a portfolio of bonds assembled to fund a fixed liability. Macaulay duration is calculated as follows: sum of discounted time-weighted cash flows divided by the bond price. Modified duration is calculated using the following formula: Macaulay duration divided by (1 + yield-to-maturity divided by the number of coupon payments per year).

As of June 30, 2006 and 2005, modified duration of the University's investments for which duration is measured is as follows:

TABLE 2 – INVESTMENTS MANAGED BY THE UNIVERSITY

(Dollars in thousands; modified duration in years)

	Duration as of June 30,2006				Duration as of June 30,2005			
	Consolidated Endowment Funds		Invested Funds		Consolidated Endowment Funds		Invested & Insurance Funds	
Asset Category	Asset Value	Duration	Asset Value	Duration	Asset Value	Duration	Asset Value	Duration
DOMESTIC FIXED INCOME								
ASSET BACKED SECURITIES	$ 8,770	1.82	$ 150,926	1.11	$ 7,029	1.73	$ 130,434	1.29
CASH EQUIVALENTS	8,901	0.05	19,100	0.06	2,689	0.05	12,149	0.05
CORPORATE BONDS	10,311	5.35	12,627	1.95	12,420	4.44	34,090	3.79
GOVERNMENT AND AGENCIES	44,390	5.08	291,358	2.95	42,921	6.15	305,956	3.98
MORTGAGE RELATED	31,106	3.69	213,571	2.44	26,167	2.87	158,517	1.86
SUBTOTAL	103,478	3.98	687,582	2.29	91,226	4.46	641,146	2.83
FOREIGN FIXED INCOME								
INTERNATIONAL FIXED	29,115	5.74	715	3.81	37,367	6.09	4,092	5.30
TOTAL	**$132,593**	**4.36**	**$ 688,297**	**2.29**	**$ 128,593**	**4.93**	**$ 645,238**	**2.84**

At June 30, 2006 and 2005, approximately $245,535,000 and $166,500,000, respectively, of additional domestic fixed income securities (including loaned) and $31,652,000 and $6,899,000, respectively, of additional foreign fixed income securities, which in total make up 10.0% and 7.4%, respectively, of the University's investments, are not included in the duration figures above. These investments, which are managed by the University or by the University's affiliates, are not invested under the same investment strategy or with the same custodian as those detailed in Table 2.

CREDIT RISK

The University Investment Policies limit fixed income exposure to investment grade assets. The Investment Policy for the operating fund's cash and liquidity pools requires each manager to maintain an average AA rating as issued by a nationally recognized rating organization. By policy, these managers hold 50% of their portfolios in government and government agency issues. The Investment Policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investment to investment grade credits.

FOREIGN CURRENCY RISK

The University's Investment Policies permit investments in international equity and other asset classes which can include foreign currency exposure.

The University's investment strategy within the Invested Funds Pool is to hedge exposure to foreign currency. Within this pool, the University enters into foreign currency forward contracts, futures contracts, and options to hedge the foreign currency exposure.

At June 30, 2006 and 2005, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $29,079,000 and $32,654,000, respectively, which equals 1.0% and 1.4% of the total portfolio.

As part of the investment strategy, the University does not hedge foreign currency exposure within the equity portion of the Consolidated Endowment Fund.

Table 3 details the market value of foreign denominated securities by currency type in the Consolidated Endowment Fund at June 30, 2006 and 2005.

TABLE 3 – INVESTMENTS IN FOREIGN CURRENCY

	June 30, 2006	
Foreign Currency *(Dollars in thousands)*	Market Value	Percentage
EURO	$ 204,776	30%
JAPAN – YEN	146,998	22%
BRITISH – POUND	104,274	15%
SWISS – FRANC	26,192	4%
CANADIAN – DOLLAR	23,950	4%
OTHER (LESS THAN 3% EACH)	168,109	25%
TOTAL	**$ 674,299**	**100%**
	June 30, 2005	
EURO	$ 63,907	18%
BRITISH – POUND	43,280	12%
JAPAN – YEN	37,641	10%
SWISS – FRANC	15,832	4%
SOUTH KOREAN – WON	14,232	4%
HONG KONG DOLLAR	12,811	4%
CHINA – RENMINBI	11,412	3%
TAIWAN – NTD	11,221	3%
MEXICO – PESO	10,634	3%
OTHER (LESS THAN 3% EACH)	139,935	39%
TOTAL	**$ 360,905**	**100%**

NOTE 7:

Metropolitan Tract

The Metropolitan Tract, located in downtown Seattle, is comprised of approximately 11 acres of developed property, including office space, retail space, parking, and a luxury hotel. This land was the original site of the University from 1861 until 1895 when the University moved to its present location. Since the early 1900s, the Metropolitan Tract has been leased by the University to entities responsible for developing and operating the property. On July 18, 1953, the Board of Regents of the University and the entity now known as Unico Properties, Inc. entered into a lease agreement for office, retail, and parking facilities, which will expire in 2014. On January 19, 1980, the Board of Regents of the University entered into a lease with the Urban/Four Seasons Hotel Venture for the Olympic Hotel property, which will expire in 2040. The hotel was operated as the Four Seasons Olympic Hotel until July 31, 2003. On August 1, 2003, the remaining lease term was assigned to LHCS Hotel Holding (2002) LLC. The hotel was renamed the Fairmont Olympic Hotel and is now managed by Fairmont Hotels & Resorts.

The balances as of June 30, 2006 and 2005, represent operating assets, net of liabilities, and land, buildings, and improvements stated at appraised value as of November 1, 1954, plus all subsequent capital additions and improvements at cost, less buildings retired or demolished and accumulated depreciation of $94,593,000 and $88,018,000, respectively.

In July 2004, the University obtained a ten-year term, variable rate revolving credit line for the Metropolitan Tract of up to $25,000,000 for capital repairs and improvements. The credit line is secured by future revenues of the Metropolitan Tract. As of June 30, 2006, $25,000,000 was available on the credit line.

NOTE 8:

Capital Assets:

Capital asset activity for the two year period ended June 30, 2006 is summarized as follows:

CAPITAL ASSETS *(Dollars in thousands)*

	Balance at June 30, 2004	Additions/ Transfers	Retirements	Balance at June 30, 2005	Additions/ Transfers	Retirements	Balance at June 30, 2006
LAND	$ 59,129	$ –	$ –	$ 59,129	$ 3,203	$ –	$ 62,332
INFRASTRUCTURE	159,984	2,501	–	162,485	10,677	–	173,162
BUILDINGS	2,463,306	69,632	–	2,532,938	303,598	696	2,835,840
FURNITURE, FIXTURES, AND EQUIPMENT	800,693	89,075	48,690	841,078	81,754	42,881	879,951
LIBRARY MATERIALS	206,581	14,799	1,100	220,280	13,296	1,174	232,402
CAPITALIZED COLLECTIONS	4,409	1,092	–	5,501	12	–	5,513
CONSTRUCTION IN PROGRESS	108,069	131,766	–	239,835	(139,669)	–	100,166
TOTAL	3,802,171	308,865	49,790	4,061,246	272,871	44,751	4,289,366
LESS ACCUMULATED DEPRECIATION							
INFRASTRUCTURE	54,646	2,958	–	57,604	4,294	–	61,898
BUILDINGS	833,407	78,246	–	911,653	91,441	696	1,002,398
FURNITURE, FIXTURES, AND EQUIPMENT	602,994	87,178	45,512	644,660	98,588	40,812	702,436
LIBRARY MATERIALS	129,047	10,322	705	138,664	10,665	758	148,571
TOTAL ACCUMULATED DEPRECIATION	1,620,094	178,704	46,217	1,752,581	204,988	42,266	1,915,303
CAPITAL ASSETS, NET	**$2,182,077**	**$ 130,161**	**$ 3,573**	**$2,308,665**	**$ 67,883**	**$ 2,485**	**$2,374,063**

NOTE 9:

Long-Term Liabilities:

Long-term liability activity for the two year period ended June 30, 2006 is summarized as follows:

LONG-TERM LIABILITIES *(Dollars in thousands)*

	Balance as of June 30, 2004	Additions	Reductions	Balance as of June 30, 2005	Additions	Reductions	Balance as of June 30, 2006	Current Portion 2005	Current Portion 2006
LEASES AND BONDS PAYABLE:									
CAPITAL LEASE OBLIGATIONS	$ 34,346	$ 11,747	$ 8,712	$ 37,381	$ 4,198	$ 9,972	$ 31,607	$ 9,654	$ 8,771
GENERAL OBLIGATION BONDS PAYABLE	309,645	–	12,478	297,167	76,235	92,048	281,354	12,618	12,979
REVENUE BONDS PAYABLE	270,920	162,965	52,335	381,550	117,035	8,090	490,495	8,090	8,830
TOTAL LEASES AND BONDS PAYABLE	614,911	174,712	73,525	716,098	197,468	110,110	803,456	30,362	30,580
OTHER LIABILITIES:									
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED	39,862	177	2,937	37,102	5,267	4,379	37,990	2,945	2,595
NOTES PAYABLE & OTHER – NON-CAPITAL ASSET RELATED	13,117	659	11,811	1,965	555	2	2,518	2	1,377
CHARITABLE AND DEFERRED GIFT ANNUITY LIABILITY	32,675	7,153	4,683	35,145	12,030	5,243	41,932	–	4,963
SICK LEAVE	20,751	2,999	2,495	21,255	4,513	927	24,841	1,036	979
SELF-INSURANCE	31,109	2,730	4,626	29,213	9,379	4,564	34,028	7,576	4,595
NET PENSION OBLIGATION	2,751	3,363	955	5,159	3,363	913	7,609	1,000	1,000
TOTAL OTHER LIABILITIES	140,265	17,081	27,507	129,839	35,107	16,028	148,918	12,559	15,509
TOTAL LONG-TERM LIABILITIES	**$ 755,176**	**$ 191,793**	**$ 101,032**	**$ 845,937**	**$ 232,575**	**$ 126,138**	**$ 952,374**	**$ 42,921**	**$ 46,089**

NOTE 10:

Leases

CAPITAL LEASES

The University has certain lease agreements in effect that are considered capital leases. As of June 30, 2006 and 2005, the University had buildings in the amounts of $9,987,000 and $9,987,000 and equipment in the amounts of $51,105,000, and $47,198,000, respectively, related to capital leases. These assets were recorded net of accumulated depreciation of $6,991,000 and $5,992,000, respectively, for buildings, and $32,740,000 and $22,716,000, respectively, for equipment. The University recorded depreciation expense of $999,000 and $999,000 for buildings, and $10,221,000 and $9,440,000 for equipment in the respective years. Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2006, are as follows:

Year	*(Dollars in thousands)*
2007	$ 9,760
2008	7,606
2009	7,553
2010	4,628
2011	2,749
2012 – 2016	1,951
TOTAL MINIMUM LEASE PAYMENTS	34,247
LESS: AMOUNT REPRESENTING INTEREST COSTS	2,640
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	**$ 31,607**

OPERATING LEASES

The University has certain lease agreements in effect that are considered operating leases, primarily for leased building space. During the years ended June 30, 2006 and 2005, the University recorded expenses of $31,136,000 and $30,016,000, respectively, for these leases. Future lease payments under these leases as of June 30, 2006, are as follows:

Year	*(Dollars in thousands)*
2007	$ 25,024
2008	20,857
2009	17,943
2010	15,663
2011	14,045
2012 – 2016	43,764
2017 – 2021	17,155
2022 – 2026	10,339
2027 – 2031	917
TOTAL MINIMUM LEASE PAYMENTS	**$ 165,707**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2006, consist of State of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 2.00% to 7.38%, except for debt totaling $60,720,000, which has variable rates.

Debt service requirements at June 30, 2006 were as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*

Year	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		REVENUE BONDS		NOTES PAYABLE AND OTHER	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 12,979	$ 14,167	$ 8,830	$ 23,831	$ 3,972	$ 1,746
2008	13,770	13,509	12,060	23,392	3,743	1,638
2009	14,428	12,783	14,165	22,842	3,211	1,526
2010	11,729	12,102	14,935	22,192	2,864	1,409
2011	12,538	11,478	15,975	21,493	2,589	1,287
2012-2016	78,220	46,397	90,780	95,253	10,640	4,714
2017-2021	71,425	25,394	116,890	74,032	10,193	2,358
2022-2026	55,755	9,228	77,170	52,569	3,296	285
2027-2031	10,510	624	80,555	28,967	–	–
2032-2036	–	–	45,930	9,482	–	–
2037-2041	–	–	13,205	936	–	–
TOTAL	**$ 281,354**	**$ 145,682**	**$ 490,495**	**$ 374,989**	**$ 40,508**	**$ 14,963**

State law requires that the University reimburse the state for debt service payments relating to its portion of the State of Washington General Obligation and Refunding Bonds from Medical Center patient revenues, tuition, timber sales, and other revenues. The University has pledged the net revenues from the Housing and Dining System, the Intercollegiate Athletics Department, the Parking System, and a special student fee to retire the related revenue and facilities bonds.

REFUNDING ACTIVITY

On July 26, 2005, $15,000,000 of Education Bonds, Series 1994A-UW with an average interest rate of 4.671%, were refunded through a State of Washington General Obligation Bond issue of $13,955,000, Series R2006A(1994A-UW) with an average interest rate of 4.965%. The refunding of the bonds decreased the University's total debt service payments to be made over the next 14 years by $1,527,000. The refunding resulted in an economic gain (difference between the present values of debt service payments on the old and new debt) of $955,000.

On July 26, 2005, $13,330,000 of Education Bonds, Series 1994A-HE-UW, with an average interest rate of 4.670%, were refunded through a State of Washington General Obligation Bond issue of $12,400,000, Series R2006A(1994A-HE-UW) with an average interest rate of 4.963%. The refunding of the bonds decreased the University's total debt service payments to be made over the next 14 years by $1,360,000. The refunding resulted in an economic gain of $850,000.

On July 26, 2005, $50,550,000 of Medical Center Bonds, Series 2000A-UW, with an average interest rate of 5.579%, were refunded through a State of Washington General Obligation Bond issue of $49,880,000, Series R2006A(2001A) with an average interest rate of 4.994%. The refunding of the bonds decreased the University's total debt service payments to be made over the next 19 years by $5,662,000. The refunding resulted in an economic gain of $3,932,000.

On June 7, 2005, $41,630,000 of Student Fee Construction Revenue Bonds, Series 2000 with an average interest rate of 5.769% were refunded through the issuance of $43,610,000 Student Facilities Fee Refunding Revenue Bonds, Series 2005 with an average interest rate of 4.815%. The partial refunding of the bonds decreased the University's total debt service payments to be made over the next 25 years by $3,560,000. The refunding resulted in an economic gain of $2,112,000. The remaining $5,060,000 of the original bonds was not refunded and is payable over the next five years.

On September 29, 2004, $3,960,000 of Parking System Revenue Bonds, Series 1995 with an average interest rate of 6.1341% were refunded through the issuance of $4,570,000 Parking System Revenue and Refunding Bonds, Series 2004 with an average interest rate of 3.429%. The decrease in the total debt service payments over the next 11 years and the resulting economic effect were not significant.

SUBSEQUENT DEBT OFFERINGS

In November 2006, Washington Biomedical Research Properties II (a blended component of the University), in conjunction with Washington Economic Development Finance Authority, issued $59,955,000 in lease revenue bonds at a True Interest Cost of 4.179% that mature based on a schedule through June 1, 2023. The bond proceeds will fund the construction of a research facility that the University will occupy through a long term lease arrangement.

In September 2006, the University issued $130,521,000 in commercial paper to fund a major real estate acquisition that included the Safeco Tower and surrounding properties. The commercial paper has the following maturities: $65,421,000 on April 2, 2007; $16,100,000 on April 3, 2007; $25,000,000 on April 4, 2007, and $24,000,000 on April 5, 2007. The taxable interest rate for the commercial paper is 5.4%. The University intends to refinance the commercial paper via a bond issue in fiscal year 2007.

INTEREST RATE SWAP AGREEMENT

In October 2004, the University issued General Revenue Bonds in the amount of $60,720,000 to fund construction of two research buildings. In connection with this issuance of the Series 2004A and the Series 2004B variable-rate bonds, the University entered into an interest rate swap agreement with a notional amount of $60,720,000. The intention of the swap was to effectively change the variable rate debt to a synthetic fixed rate of 3.268% as of the closing date of the bonds.

Beginning in December of 2007, the notional amount of the swap and the principal amount of the associated debt declines over time and terminates on June 30, 2037 (the final maturity date of the underlying bonds). The University is currently making fixed rate interest payments to Goldman Sachs and Bank of New York, the two swap counterparties, and receives a variable rate payment computed at 67% of the London Interbank Offered Rate (LIBOR). The variable rate bonds re-price weekly based on market conditions.

The estimated fair value of the interest rate swap was an asset of $3,211,000 at June 30, 2006, and a liability of $1,737,000 at June 30, 2005. The fair value represents the estimated amount that the University would pay to terminate the swap agreement at the Balance Sheet date, taking into account current interest rates and the creditworthiness of the underlying counterparties. In accordance with governmental accounting standards, this amount is not included in the accompanying financial statements.

The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations. As of June 30, 2006, Goldman Sachs credit ratings were AAA by S&P and Aaa by Moody's. Bank of New York was rated AA- by S&P and Aa2 by Moody's. Additionally, the swap exposes the University to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formula of 67% of one-month LIBOR varies from historical norms. If this occurs, swap payments received by the University would not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change.

The University or the counterparties may terminate the swap if the other party fails to perform under the terms of the contract.

NOTE 12:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2006 and 2005 are summarized as follows:

(Dollars in thousands)

Operating Expenses	2006	2005
EDUCATION AND GENERAL:		
INSTRUCTION	$ 717,113	$ 670,068
RESEARCH	598,742	575,410
PUBLIC SERVICE	33,265	30,023
ACADEMIC SUPPORT	210,838	191,827
STUDENT SERVICES	28,566	26,604
INSTITUTIONAL SUPPORT	108,753	113,042
PLANT OPERATION AND MAINTENANCE	152,173	148,133
SCHOLARSHIPS AND FELLOWSHIPS	60,399	56,647
AUXILIARY ENTERPRISES	125,591	131,885
MEDICAL RELATED	654,768	624,074
DEPRECIATION	204,988	178,704
TOTAL OPERATING EXPENSES	**$ 2,895,196**	**$ 2,746,417**

NOTE 13:

Pension Plans

The University offers two contributory plans: the Washington State Public Employees Retirement System (PERS) plan, a defined benefit retirement plan; and the University of Washington Retirement Plan (UWRP), a defined contribution plan with supplemental payments, when required.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description: The University of Washington contributes to PERS, a costsharing, multiple-employer, defined benefit pension plan administered by the State of Washington Department of Retirement Systems. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases beginning at age 66 to eligible non-academic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living allowance to eligible non-academic plan members hired on or after October 1, 1977. In addition, PERS Plan 3 has a defined contribution component, which is fully funded by employee contributions. The authority to establish and amend benefit provisions resides with the legislature. The Washington State Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Department of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380, or visiting www.drs.wa.gov/administration.

Funding Policy: The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method, and may vary over time. The contribution rate for Plan 2 employees at June 30, 2006 and 2005 was 2.25% and 1.18%, respectively. PERS 3 members can choose contributions ranging from 5% to 15% of salary, based on the age of the member. The defined contribution benefit for PERS 3 will depend on the member's contributions, the investment earnings on those contributions, and if an annuity is taken, the age at which the member receives payment. The contribution rate for the University at June 30, 2006 and 2005, for each of PERS Plans 1, 2, and 3 was 2.44% and 1.38%, for the respective years.

The University's contributions to PERS for the years ended June 30, 2006, 2005, and 2004 were $16,005,926, $8,651,000, and $8,120,000, respectively, which were equal to the annual required contributions for each year.

UNIVERSITY OF WASHINGTON RETIREMENT PLAN

Plan Description: Faculty, librarians, professional staff, and certain other salaried employees are eligible to participate in the University of Washington Retirement Plan, a defined contribution plan administered by the University. Contributions to the Plan are invested 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. RCW 28B.10.400 et. seq. assigns the authority to the University of Washington Board of Regents to establish and amend benefit provisions.

The Plan has a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The University makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals.

Funding Policy: Employee contribution rates, based on age, are 5%, 7.5%, or 10% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employee and employer contributions for the year ended June 30, 2006 were each $58,880,000 compared to $55,080,000 for the year ended June 30, 2005. The supplemental component of the UWRP is financed on a pay-as-you-go basis.

Supplemental Component (unaudited): The University received an actuarial evaluation of the supplemental component of the UWRP during fiscal year 2004. The previous evaluation was performed in 1999. The Unfunded Actuarial accrued Liability (UAL) calculated as of June 30, 2004 and 1999 was $32,454,000 and $13,786,000, respectively, and is amortized over a 19.5 year period. The Annual Required Contribution (ARC) of $3,363,000 consists of amortization of the UAL, including interest expense, ($1,993,000) and normal cost (or current cost) ($1,370,000). The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 7% and projected salary increases ranging from 2% to 4%. Approximately $640,000,000 and $302,000,000 of the UW's payroll was covered under this plan during 2004 and 1999, respectively. The following table reflects the activity in the Net Pension Obligation for the years ended June 30, 2006, 2005, and 2004:

(Dollars in thousands)

	2006	2005	2004
RESERVE AT BEGINNING OF FISCAL YEAR	$ 5,159	$ 2,751	$ –
ANNUAL REQUIRED CONTRIBUTION	3,363	3,363	3,775
PAYMENTS TO BENEFICIARIES	(913)	(955)	(1,024)
BALANCE AT END OF FISCAL YEAR	**$ 7,609**	**$ 5,159**	**$ 2,751**

NOTE 14:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2006, were $144,268,000. These expenditures will be funded from local funds and state appropriations.

The University receives and expends substantial amounts under federal and state grants and contracts. This funding is used for research, student aid, Medical Center operations, and other programs, and is subject to audit by governmental granting agencies. Certain grant and contract costs billed to the federal government are subject to audit under OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The University is also involved in various other claims and legal actions arising in the ordinary course of business. University management believes that any liabilities arising from these matters will not have a material effect on the University's financial statements.

In fiscal year 2006, the University of Washington settled a class-action lawsuit over faculty salaries. The case claimed that the University's decision not to grant a general salary increase to its faculty in May of 2002 had violated a salary policy adopted two years earlier. In October of 2006, eligible faculty members received a two percent salary increase and a share of a negotiated one time payment for back pay, related benefits, and interest. The $17.45 million settlement payment, which also included interest and attorneys' fees, has been recorded in the 2006 financial statements. The amount individual eligible faculty members receive will be based on their total earnings since 2002. The one time expense has reduced the University's unrestricted net assets.

The University is exposed to risk of loss related to tort liability, injuries to employees, and loss of property. The University purchases insurance protection for workers' compensation as well as marine, aviation, and certain other risks. The University also purchases insurance protection for loss of property at self-sustaining units, bond-financed buildings, and where otherwise required by contract; otherwise, the risk of property loss is retained, unfunded. For professional, general, employment, and automobile liability, the University maintains a program of self-insurance reserves and excess insurance coverage. The self insurance reserve represents the estimated ultimate cost of settling claims resulting from events that have occurred on or before the balance sheet date. The reserve includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported.

The self insurance reserve is estimated through an actuarial calculation using individual case-basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the self-insurance reserve is adequate. Changes in the self-insurance reserve for the years ended June 30, 2006, 2005, and 2004 are noted below.

(Dollars in thousands)

	2006	2005	2004
RESERVE AT BEGINNING OF FISCAL YEAR	$ 29,213	$ 31,109	$ 35,072
INCURRED CLAIMS AND CHANGES IN ESTIMATES	9,379	2,730	6,563
CLAIM PAYMENTS	(4,564)	(4,626)	(10,526)
RESERVE AT END OF FISCAL YEAR	**$ 34,028**	**$ 29,213**	**$ 31,109**

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