DISCOVERY IS AT THE HEART OF OUR UNIVERSITY

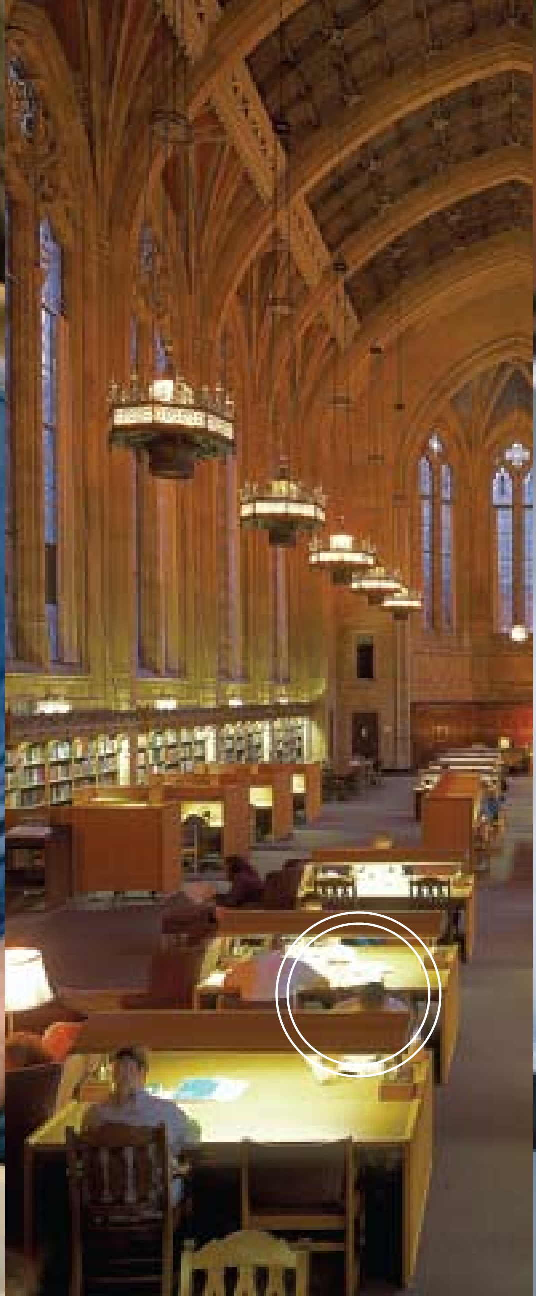
UNIVERSITY OF WASHINGTON | ANNUAL REPORT 2007

Facts

	2006–2007	2001–2002	1996–1997
STUDENTS			
Autumn Enrollment			
Undergraduate	31,135	30,005	26,969
Graduate	10,557	9,379	7,829
Professional	1,802	1,705	1,479
TOTAL	**43,494**	**41,089**	**36,277**
Extension[1]	48,577	31,054	28,952
Number of Degrees Awarded			
Bachelor's	8,296	7,505	6,938
Master's	2,866	2,489	2,126
Doctoral	631	456	526
Professional	496	476	386
TOTAL	**12,289**	**10,926**	**9,976**
INSTRUCTIONAL FACULTY	3,742	3,443	3,210
FACULTY AND STAFF[2]	28,188	23,680	20,403

	2006–2007	2001–2002	1996–1997
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,020,000	$ 809,000	$ 510,000
SELECTED REVENUES *(in thousands of dollars)*			
Gifts, Grants, and Contracts	$ 1,079,926	$ 803,839	$ 521,031
Auxiliary Enterprises[3] and Other Revenues	1,702,724	879,713	603,987
State Appropriations (Operating)	365,782	343,656	276,019
Tuition and Fees[4]	396,895	249,861	202,425
SELECTED EXPENSES *(in thousands of dollars)*			
Instruction, Academic Support, and Student Services	$ 1,033,965	$ 728,501	$ 483,315
Research and Public Service	630,460	471,681	350,922
Auxiliary Enterprises[3]	832,318	651,598	456,298
Institutional Support and Physical Plant	315,702	239,797	164,846
CONSOLIDATED ENDOWMENT FUNDS[5] *(in thousands of dollars)*	$ 2,098,000	$ 998,000	$ 482,000
SQUARE FOOTAGE[6] *(in thousands of square feet)*	19,187	16,300	15,100

[1] Course registrations
[2] Full-time equivalents
[3] Includes UWMC
[4] Net of scholarship allowances of $55,394,000 in 2006-2007 and $35,688 in 2001-2002
[5] Stated at fair value
[6] Gross square footage, all campuses

DISCOVERY IS AT THE HEART OF OUR UNIVERSITY

MESSAGE
FROM THE PRESIDENT

As the state's flagship public university, the University of Washington is committed to discovering new approaches — to education, to research and to our own operations — that will enrich the experience of our students and improve the lives of people in this state and beyond. In the pages ahead, you will read about some of the UW programs using innovative approaches to take on big challenges.

Our commitment to students has never been stronger. This past fiscal year we created the Husky Promise, a tuition guarantee for academically qualified Washington state students from low- or lower middle-income families. UW Bothell and UW Tacoma became four-year institutions. And as always, our students were a tremendous source of pride. We were pleased when Alula Asfaw was named a Truman Scholar last April for his potential to make a difference in the world.

The UW deepened its dedication to improving the health of people around the world with the creation of the Institute for Health Metrics and Evaluation, led by Dr. Christopher Murray, a renowned health economist recruited from Harvard. We are also taking strides to improve the health of the planet and our citizens by bolstering environmental practices on our three campuses.

UW researchers had another standout year, unearthing secrets of the ocean, the forests, the solar system and the human body. Many of our researchers' innovations will make their way into the marketplace, thanks to our TechTransfer office.

These successful efforts require resources, and I am pleased to report that we have benefited from great support.

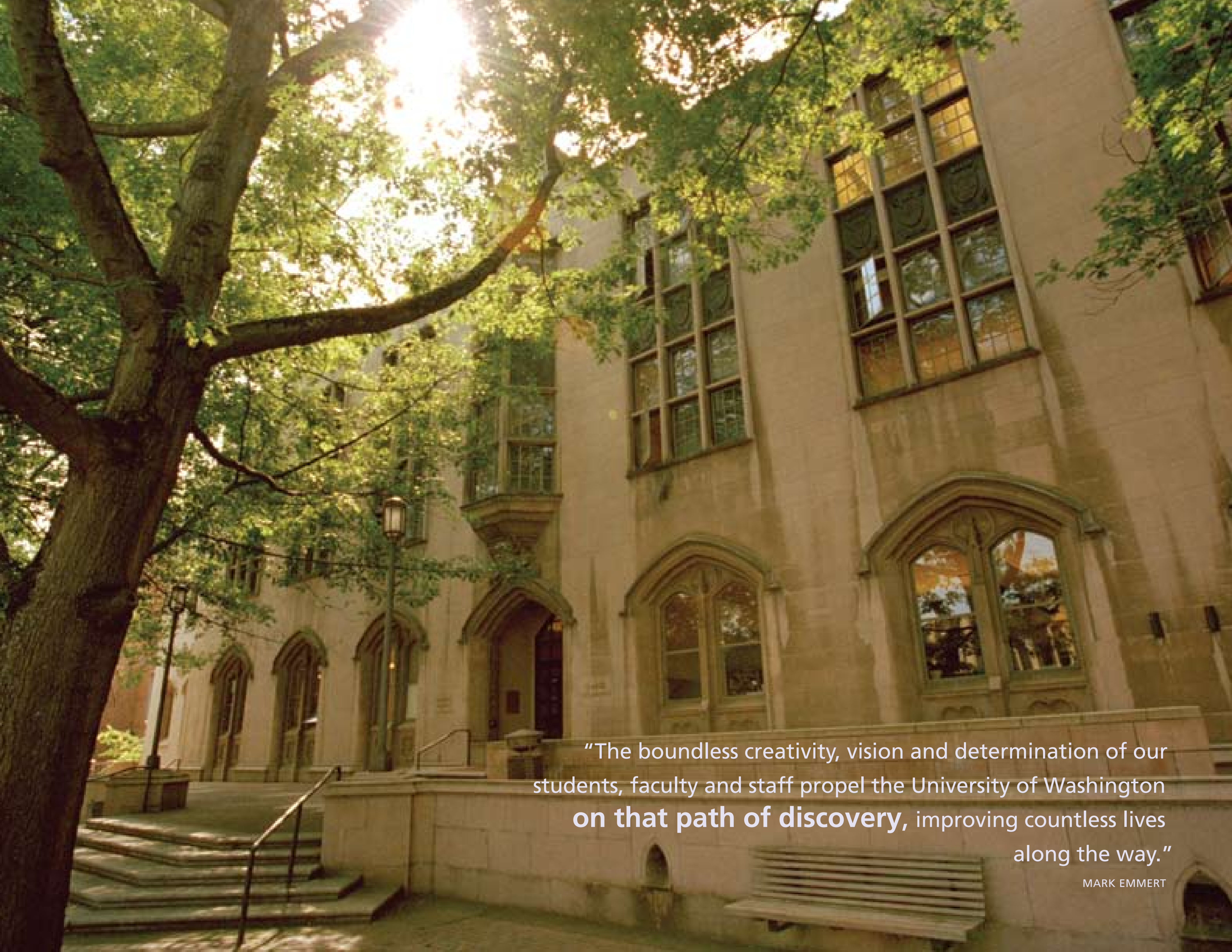
The Washington State Legislature, led by Gov. Gregoire, approved the best biennium budget in 16 years. The funding will allow us to add 1,700 new students, with 500 slots for those enrolling in high-demand areas like science, engineering and mathematics. The support will help narrow the gap in higher-education funding between Washington and the states with which we compete directly in the new economy. The Legislature also allocated resources for the University to investigate a new North Puget Sound campus, making a UW education accessible to even more students.

Our researchers received more than $1 billion in grant and contract funding this past year, a new record for the UW. In an environment of increased competition for federal research dollars, this speaks volumes about the caliber of work conducted here.

The commitment from our private supporters helped the UW surpass its initial $2 billion goal for Campaign UW and encouraged the University to increase its June 30, 2008, campaign goal to $2.5 billion. Our focus on student scholarships during the campaign's homestretch will lead to more student support and even greater access to the excellent educational opportunities at the UW.

From finding new ways to broaden access to higher education, to uncovering answers to some of the most complex questions of our day, discovery is at the heart of all that we do. The boundless creativity, vision and determination of our students, faculty and staff propel the University of Washington on that path of discovery, improving countless lives along the way.

Mark A. Emmert ('75)
President



"The boundless creativity, vision and determination of our students, faculty and staff propel the University of Washington **on that path of discovery,** improving countless lives along the way."

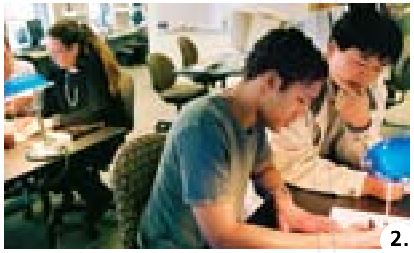
MARK EMMERT



STORIES OF **DISCOVERY**

14

INCREASING **ACCESS** TO EXCELLENCE



UW students can now earn a four-year degree at **1.** UW Bothell and **2.** UW Tacoma **3.** Students outside Kane Hall on the Seattle campus

Students at graduation

The Husky Promise is simple, yet profound. It's a guarantee that Washington state students from most low and lower middle-income families will have every cent of their tuition and fees — just under $6,400 this year — covered by aid that does not have to be repaid.

"It's not acceptable to me for a student to say, 'I can't aspire to go to the UW because I can't pay for it,'" said Ana Mari Cauce, Executive Vice Provost. "We want students to know that if they work hard and do well that they can come here."

The Husky Promise, which went into effect this past fall, specifically targets academically qualified Washington state high school seniors who don't pursue a college education because of cost concerns. More than 5,000 students at the UW's Bothell, Seattle and Tacoma campuses — 20 percent of the undergraduate resident student population — qualify for the Husky Promise. This program helps fulfill the UW's long-standing commitment to access. In 2007, the UW was ranked as one of the 10 most affordable academically excellent schools in the country by *Kiplinger's Personal Finance*. While other universities have instituted similar guarantees, the Husky Promise stands out in two significant ways.

"One is the number of students we reach with this," Cauce said. "This doesn't just apply to a handful of students — a third of the state falls into this category. The other thing about our efforts that is unique is that we aren't doing them in isolation." The UW overhauled its admissions process last year and now uses a model with a broad-based holistic approach. "It's moving away from admissions based solely on SATs and GPAs. We're looking more broadly at a whole host of factors, including overcoming obstacles," such as a difficult family situation, Cauce said. The commitment is to review each applicant as an individual.

"We want students to know that if they work hard and do well that they can come here."

ANA MARI CAUCE

Another very significant effort to increase access was transitioning UW Bothell and UW Tacoma to four-year institutions, providing new regional options for the first classes of nearly 300 freshmen in the fall of 2006 and 350 freshmen this past fall. "We don't have a lot of room in Seattle to grow in dramatic ways," Cauce said. "Our real future growth will be in Bothell and Tacoma — and possibly in a third satellite campus under discussion north of Seattle. It is our way of expanding and reaching out to students. The more options you give folks, the more they are going to participate."

UW Bothell and UW Tacoma attract students who want to attend school close to where they work and live. They offer another benefit that some — like Woodinville native Andy Jerome — find very appealing. "At UW Bothell, my largest [freshman] class had 13 people," Jerome said. "Every professor I've had knows my name." In fact, it was personal attention and mentoring by a professor that inspired Jerome to change his focus from business to biology, landed him a job as a tutor in the Writing Center, and helped him increase his GPA to 3.8 by the end of his freshman year.

"Going to the University of Washington Bothell was the smartest decision I've made in my life so far — because I started learning about myself," Jerome said. "It's also been a lot of fun. I wouldn't trade it for anything."

For more on the Husky Promise, visit www.huskypromise.washington.edu

NEW PROGRAMS ARE MAKING A UW EDUCATION AVAILABLE TO **MORE STUDENTS**

UNCOVERING THE BIG PICTURE ON **WORLD HEALTH**

1. Adi Dabestani, UW Department of Medicine resident, in Ghana **2.** King Holmes, chair of the UW Department of Global Health **3.** The UW's global health efforts touch people around the world

The UW recruited Dr. Christopher Murray to lead the new Institute for Health Metrics and Evaluation.

Every year, a large and increasing percentage of the world's wealth is spent on health care, but there is very little hard data on what the money is actually accomplishing. That lack of objective scientific information is a serious shortcoming that the UW's new Institute for Health Metrics and Evaluation was created to address.

The Institute, funded with a $105 million grant from the Bill & Melinda Gates Foundation — the largest private donation in UW history — and $20 million from the UW, joins the new Department of Global Health in underscoring the UW's commitment to improving the health of people around the world. The new department is run jointly by the UW School of Medicine and the School of Public Health and Community Medicine.

"I see the Institute as a single-stop resource for the public, researchers and decision makers to come for the best quality information."

DR. CHRISTOPHER MURRAY

"Health care is becoming the largest single element of the world economy, yet at the community and national level, we can't even answer very simple questions, like who's getting the best value for their resources and who's making the biggest contribution to people's health through their health care practices" said Dr. Christopher Murray, the Institute's director, and a former World Health Organization senior official who was recruited from Harvard University. "This is a unique, new, global institution. We're filling an empty niche, namely, independent, rigorous, highly relevant work evaluating what works and what doesn't," Murray said.

Murray has been with the UW since July 1, and the Institute's current staff is about a quarter of its 2010 target of 130 researchers and support staff. Still, important work is already under way, much of it a continuation of influential work done by Murray and other top-level researchers before coming to the UW.

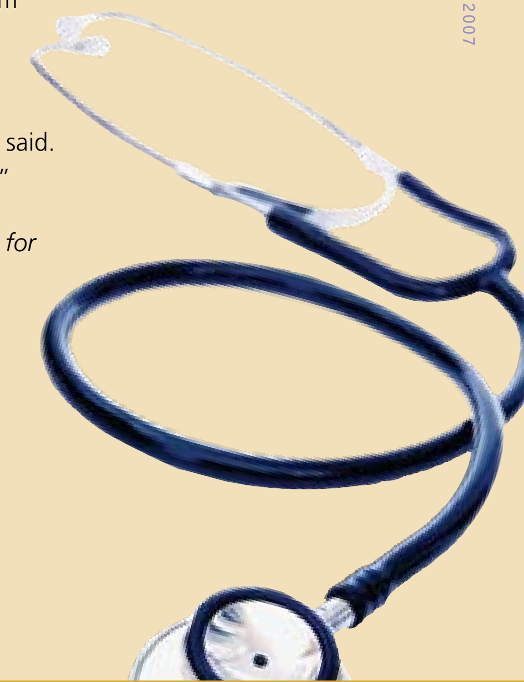
The Institute's first major publication, an in-depth, worldwide study of child mortality, was published in *The Lancet* in September. The article explains the first of several installments of one of the Institute's ongoing major projects: to track all types of mortality since 1970 in 170 countries around the world. Having this information will help policy makers identify emerging trends in global health and apply resources where they will do the most good.

Murray said the Institute's work will require its researchers to seek out and analyze all the available data in the world on any certain topic. In many cases, they will have to invent new measurement methods to analyze it. And rather than merely publishing the results of their work, the Institute will make all the tools, methods and raw data from their studies publicly available — building a vast "global databank" of worldwide health information over time. "I see the Institute as a single-stop resource for the public, researchers and decision makers to come for the best quality information," Murray explained.

Other projects planned or already underway include sponsorship of a multi-center analysis of the "Global Burden of Disease" and an effort to identify 20 things health providers can do that will make the biggest difference in people's health. Murray is also working toward developing a master's track and eventually a Ph.D. program in Metrics and Evaluation at the UW.

Whatever the Institute undertakes, Murray says his intention is to raise the bar by providing public information that is credible, comparable, and comprehensible. "I believe that sort of information can transform the way we think about health care — and ultimately lead to people being healthier," Murray said. "That's the ultimate goal."

For more on the Institute for Health Metrics and Evaluation, visit www.healthmetricsandevaluation.org



SHARING THE **DREAM** OF A COLLEGE EDUCATION

1. Alula Asfaw meets with students about the Dream Project **2.** Alula Asfaw and friends on the UW Seattle campus

Alula Asfaw started the Dream Project to encourage more high school students to attend college.

TRUMAN SCHOLAR ALULA ASFAW DISCOVERED FERTILE GROUND FOR MAKING HIS MENTORING PROJECT A REALITY

When Alula Asfaw was a senior at Seattle's Cleveland High School, attending college was not something he took for granted. Asfaw, whose parents sent him to the United States from war-torn Ethiopia at age six to live with his oldest brother, did not have many role models to look to for support.

"Showing up on this campus in itself wasn't a given for me. It wasn't the path that a lot of the people from my community took," Asfaw said. But then something happened. Asfaw met Lenore Valerio-Buford, the director of UW's Upward Bound program. "She helped me navigate the process — how to make an application, how to write an essay — all of these things that I did not have people at home to tell me how to do."

Today, Asfaw is a highly accomplished UW senior, double majoring in English literature and political science. He has won numerous scholarships and awards, including the Truman Scholarship, which comes with $30,000 for graduate studies or leadership training and is awarded to students based on their potential to make a difference in the world. Asfaw, a fifth-year senior, took a year-long hiatus from the UW to work for John Kerry's 2004 presidential campaign, and hopes to spend a year after graduation in Washington, D.C., working for Barack Obama's campaign, with the help of his Truman Scholarship.

Asfaw will leave his mark on the UW with the Dream Project, a program he created after the realization that many of his high school classmates might have gone to college if they had had the type of support he received. This exploration led him to create the Dream Project. Named for Dr. Martin Luther King, Jr.'s famous speech, the Dream Project is now beginning its second full year.

This year, 85 UW undergraduates in the 300-level, two-credit Dream Project general studies course will explore why so many high-achieving students do not go on to college, then go to six area high schools and act as mentor-advocates for students.

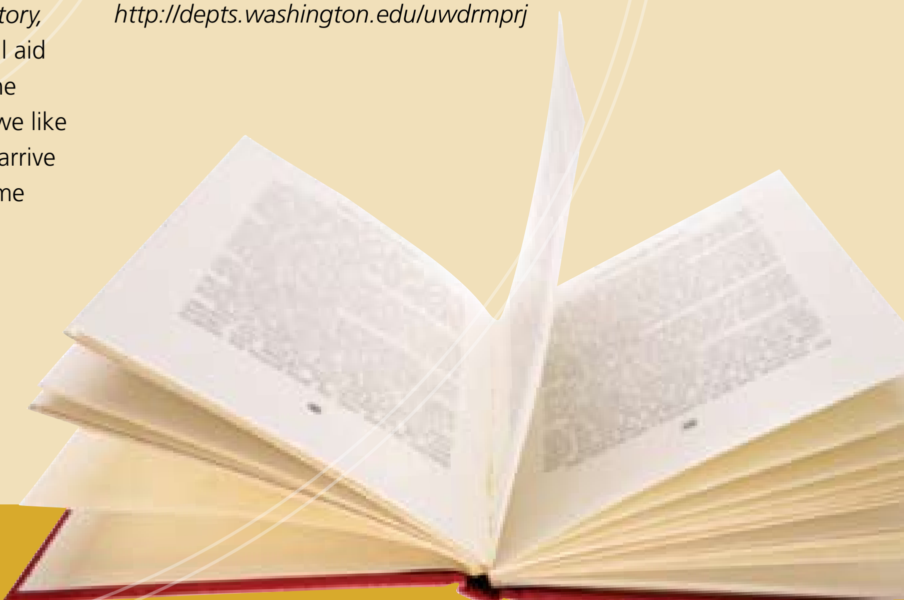
"There's a palpable feeling on this campus — we actually believe we can achieve this."
ALULA ASFAW

They'll help with essay writing and applications, tell them about the Husky Promise *[see related story, page 6]* and provide guidance about financial aid and scholarships. "We help them navigate the process, but in addition, they also get what we like to call a 'community in waiting.' When they arrive here, there's an instant community to welcome them," Asfaw said.

Already, this novel program is showing positive results. Seventy-three percent of the 106 high school students the Dream Project worked with in its first year entered college. Thirty-five of them are attending the UW. Six of them received $1,000 Dream Project scholarships.

From the very beginning, Asfaw's experiences creating the Dream Project were remarkably positive. Nearly everyone he asked at the UW — friends, teachers, administrators, and on-campus organizations — gave him meaningful, active support. "It speaks to something about this place that allowed this kid to march into offices of high-level administrators and present an idea — and they found it valid, and they supported it, and they pushed it," Asfaw said. "There's a palpable feeling on this campus — we actually believe we can achieve this. We can make this place really reflect the community that it sits in. That's empowering, and the evidence of that is in the Dream Project."

For more on the Dream Project, visit http://depts.washington.edu/uwdrmprj



LEADING THE WAY TO A **GREENER FUTURE**

1. The Benjamin Hall Interdisciplinary Research Building and **2.** Merrill Hall received LEED certification for their green design **3.** Goats provide a green solution to vegetation control on the Seattle and Bothell campuses

THE UW SETS AN EXAMPLE IN ENVIRONMENTAL STEWARDSHIP

The University of Washington has long promoted environmental stewardship through its research and teaching in areas ranging from the oceans to the trees. It is also committed to setting an example by practicing environmental sustainability, saving natural resources and money while improving the quality of life on campuses and in our surrounding communities.

This past year, UW President Mark Emmert and the chancellors of UW Bothell and UW Tacoma joined the Leadership Circle of the American College & University Presidents Climate Commitment, agreeing to adopt policies to minimize global warming emissions. The UW also is a founding partner of the Seattle Climate Partnership and created the university-wide Environmental Stewardship Advisory Committee to examine its practices throughout the University.

Creative thinking is a hallmark of the UW's efforts to become a greener University. Instead of using power tools or herbicides to clear thick vegetation at the Bothell and Seattle campuses, the University recently rented goats to do the job. The UW's transportation department encourages walking, biking, ridesharing and vanpools; promotes the Flexcar car-sharing program; and has lowered the cost of participation in U-PASS, which offers unlimited rides on King County Metro, Community Transit and Sound Transit buses. While the number of students and employees has increased 22 percent since 1990 at UW Seattle, peak-hour traffic around the campus has declined during that time.

Last June, the Seattle and King County Council's Commuter Challenge named the UW a Diamond Award winner for its efforts.

Responsiveness is also vital to the UW's green efforts. "When we noticed last year that the sandwich counter distributed only disposable plates, we were able to communicate the problem to the right person, and soon reusable plates appeared," said UW sophomore Ariana Rose Taylor-Stanley, director of Students Expressing Environmental Dedication (SEED).

While the number of students and employees has increased 22 percent since 1990 at UW Seattle, peak-hour traffic around the campus has declined during that time.

Housing and Food Services has worked extensively with suppliers to find utensils, lids, cups, and packaging made from materials such as corn and wood that can compost in 60 days, and has instituted recycling, composting, and energy-saving programs in all dorms, cafés and dining halls. Housing and Food Services also worked with SEED and Seattle City Light to put nearly 4,000 compact fluorescent light bulbs in residence halls. "My goal is to create cultural sustainability that permeates everything we do," Housing and Food Services' Capital Planning and Sustainability Manager J.R. Fulton said.

That's a goal shared by Capital Projects, which is working with departments across campus to increase the number of buildings with Leadership in Energy and Environmental Design (LEED) certification, a national green building rating system.

The UW's Benjamin Hall Interdisciplinary Research Building was the first building on the West Coast — and only the 11th in the United States — to achieve LEED-CS Gold certification. This certification means a building is expected to use 30 percent less energy and nearly 40 percent less water. LEED standards have resulted in a savings of nearly $230,000 in electricity costs for the building in its first year of operation, according to Capitol Projects Sustainability Manager Clara Simon. Other LEED-certified projects include UW Tacoma's renovation of two historic buildings and the rebuilding of Merrill Hall. The UW currently has 10 LEED projects underway.

"There's a different kind of thinking that goes into green building," Simon said. "Green building, like sustainability, is really about impacting people's lives."

BRINGING UW DISCOVERIES **TO THE WORLD**

1. The UW's Dr. Teri Brentnall and her team discovered a pancreatic cancer early-detection method, now licensed through TechTransfer **2.** Former UW professor, Chuck Henry, developed a composting toilet technology, which is now being marketed through start-up companies that TechTransfer helped create **3.** Vikram Jandhyala, associate professor of electrical engineering, started the software company Physware with the support of TechTransfer

UW researchers Pierre Mourad, left, and Frank Roberts worked together to invent the Ultreo toothbrush.

Whether it's an idea for window glass that can change from clear to opaque at the touch of a button, research for a hepatitis vaccine, a prototype of a more secure shipping container or an ultrasound-powered toothbrush, the many seminal discoveries made at the University of Washington can make the most difference when they emerge from the labs and offices of researchers into the world.

That's where UW TechTransfer comes in. TechTransfer is the UW's bridge between researchers and the business community, protecting intellectual property and helping turn good ideas into valuable business assets. In the past five years alone, TechTransfer has brought more than 1,000 wide-ranging UW innovations to light at an accelerating pace — and generated more than $100 million in revenues.

In fiscal year 2007, TechTransfer staff helped nearly 500 UW researchers from over 60 departments move toward bringing their inventions to market. And with TechTransfer's help, UW innovations have generated thousands of patents, licenses and other commercialization agreements with businesses large and small, and fostered nearly 200 startup companies, many of which are creating new jobs and opportunities here in Washington.

Much of TechTransfer's success can be attributed to shifting its emphasis from merely protecting innovations through patents to a broad-based effort to help researchers get their ideas into the world by whatever means works best, according to Vice Provost for Intellectual Property and Technology Transfer Jim Severson. "The way we think and the way we work would be very different if we were focused solely on revenue," Severson said. Rather, TechTransfer puts an emphasis on being responsive and allowing for flexibility, since the creative process doesn't always follow a straight path. "With invention there's always a certain amount of serendipity," he said.

TechTransfer has brought more than 1,000 wide-ranging UW innovations to light at an accelerating pace — and generated more than $100 million in revenues.

Take Ultreo, a promising startup company that recently made its debut. In 2003, UW ultrasound researcher Dr. Pierre Mourad was meeting with entrepreneur Jack Gallagher about an unrelated topic when conversation turned to a new type of toothbrush. Four years later, after extensive research, prototyping, licensing, clinical and field testing — all under the watchful eye of TechTransfer — the Ultreo ultrasound toothbrush has sold more than 30,000 test units to dental professionals, generated glowing reviews, and entered the retail market in time for the 2007 holidays. "We found TechTransfer to be very businesslike, very objective, very fair — and very excited about the opportunity of commercializing technologies from the University," Gallagher said. "They've been very supportive and cooperative with our efforts."

TechTransfer has developed a number of new initiatives to help excel the innovation process. Its LaunchPad program helps UW researchers commercialize inventions by teaming them with TechTransfer staff, local business experts and students. Its Technology Gap Innovation Funds program, a partnership between TechTransfer and the Washington Research Foundation, provides $50,000 grants to researchers to develop promising ideas into commercial products or services. TechTransfer has created a new Web portal, OpenDOOR, to make useful innovations that do not have a direct commercial application available for free.

Finally, TechTransfer has created a new external advisory board with 20 members representing innovative Northwest companies, including Microsoft, ZymoGenetics and Vulcan Capital. The board provides a direct link to the Northwest business community, and helps TechTransfer discover even more innovative ways to turn the discoveries of UW researchers into products that will help create the future of Washington state.

For more on TechTransfer, visit http://depts.washington.edu/techtran

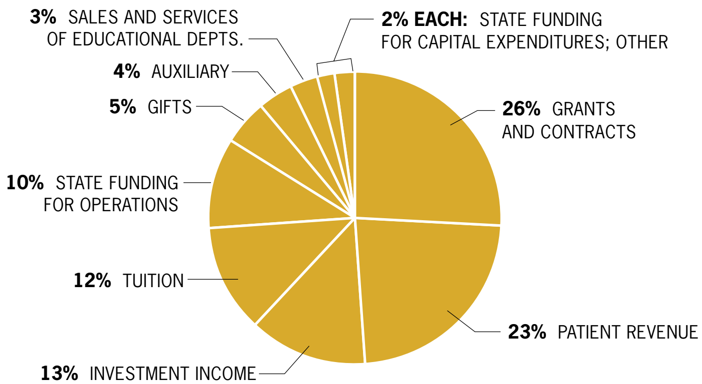
"Smart" sunglasses can be adjusted so the lenses block from 55 percent to 95 percent of incoming rays.

TECHTRANSFER ACTIVELY BRIDGES THE GAP BETWEEN RESEARCH AND BUSINESS

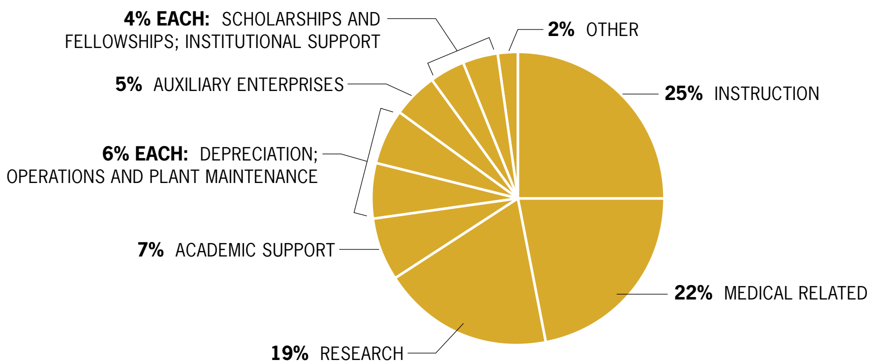
FINANCIAL **HIGHLIGHTS**

Funding and Operations

Sources of Funds



Uses of Funds



- The University has a diversified revenue base. No single source generated more than 26 percent of the total fiscal year 2007 revenues of $3.7 billion.
- State operating appropriations were $366 million, or ten percent of total revenues. The University relies heavily on such funding for instructional activities.
- Grants and contracts (26 percent) generated $994 million of current year revenue, a one percent increase over fiscal year 2006. 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 $181 million (five percent).
- Two primary functions of the University, instruction and research, comprised 44 percent of total operating expenses. These dollars provided instruction to more than 43,000 students and funded 5,200 research awards.
- The University provided students with scholarships and fellowships, (including scholarship allowances of $58 million), totaling $127 million. This represented four percent of operating expenditures.

GLOBAL SUPPORT PROJECT

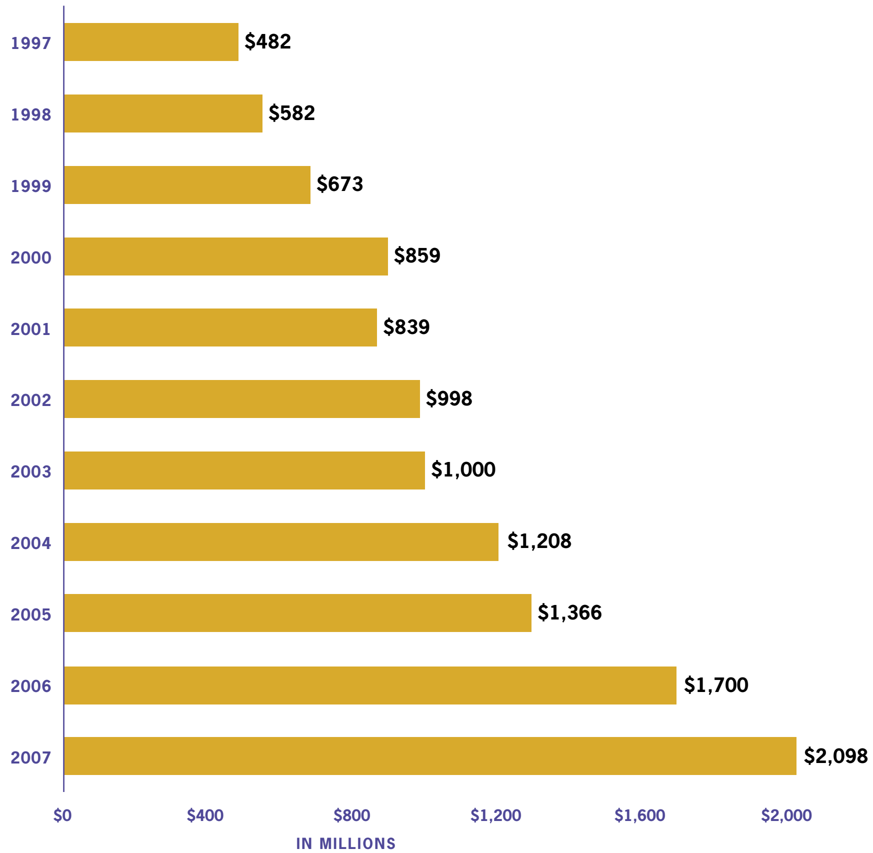
Various groups at the University of Washington have been doing global work for decades. In fact, foreign education programs have been conducted by the University for more than 100 years. Recently, however, the rate of growth of University-based global activities has been dramatic. In 2006, senior leaders in UW Financial Management created the Global Support Project to improve operational support for global activities. The charge to the project is to think broadly and creatively about how to make it easy for the UW community to operate anywhere in the world, while at the same time maintaining compliance and solid internal control mechanisms.

Through campus-wide collaboration, the project already has achieved a number of enhancements to support global activities. In the area of human resources, new job codes and tailored benefit rates have been created for international hiring. Direct deposit of pay checks is now possible for field offices that hire local nationals as University employees. An expanded use of the existing relocation benefit has been authorized to meet the needs of international faculty. Guidance on University insurance coverage while traveling abroad has been developed and communicated. Improvements have been made in the cash advance process that make it easier for researchers and educators to operate in remote sites.

There are many more improvements planned by the project, but to quote one faculty member who does significant international work, "The Global Support Project is the most significant effort to come from the central administration in my 20 years at the University."

Investments

Growth of Consolidated Endowment Fund: 1997-2007



- 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, 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, 2007, the fair market value of the CEF was $2.1 billion, representing the investments of approximately 2,500 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 $414 million of the CEF market value.

- Endowed program support over the last five years totaled $327 million. During that period, the average annual total return on the CEF was 14.2 percent.

CONTRIBUTORS HELP UW MAKE MAJOR STRIDES IN **STUDENT SUPPORT**

Daniel J. Evans, ('48, '49), former Washington state governor and U.S. senator, successfully kicked off an effort to increase endowed student scholarships — and access to the UW — when he braved the cold and rain to walk 13.1 miles in the UW Medical Center Seattle Half Marathon in November 2006. Evans's efforts raised more than $100,000 from numerous contributors to establish the first Students First endowed fund.

"I might have taken the first steps for the Students First initiative, but since November, a spectacular number of contributors have made this program an extraordinary success," said Evans, who is vice chair of the UW Foundation. "Due to their support, more talented young people will be able to attend the UW and fulfill their goals."

The University established the Students First initiative to focus greater attention on student scholarships during the remainder of Campaign UW: Creating Futures. Gifts of any size to an endowed Students First fund will be matched at 50 percent by the University through the end of Campaign UW on June 30, 2008.

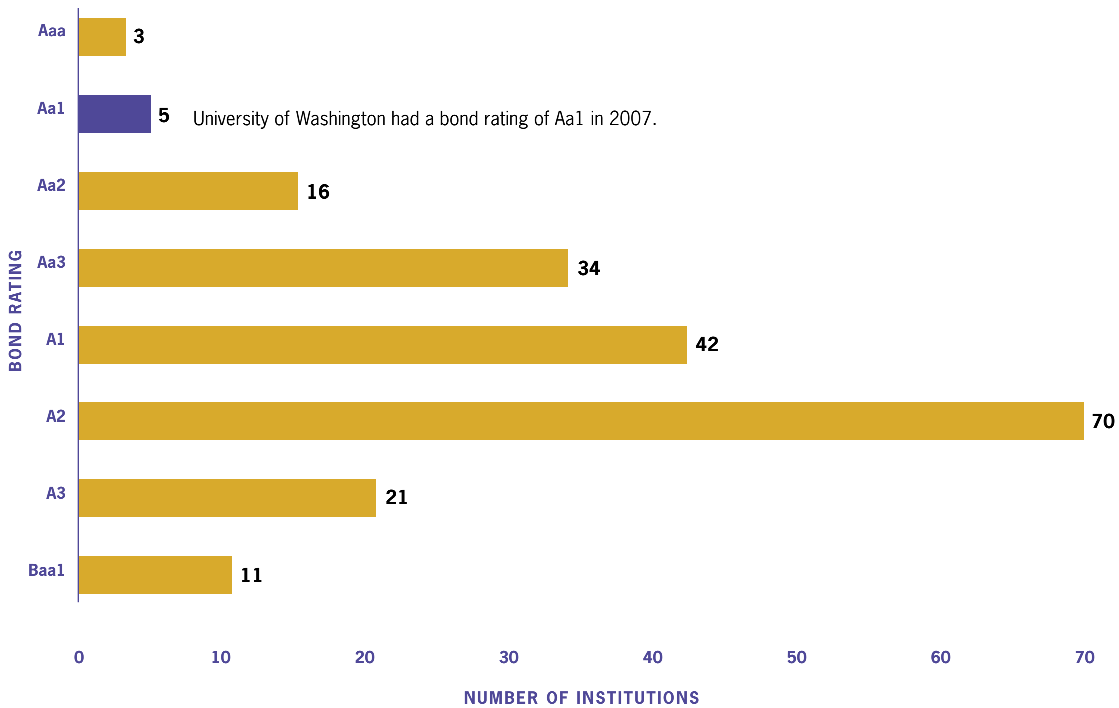
UW alumni and friends contributed nearly $19 million in gifts and pledges to create 68 undergraduate, graduate, and professional student support funds as of June 30, 2007. The University committed an additional $9.4 million in matching funds.

The scholarships created through Students First will help expand access to the UW and fund the UW's Husky Promise, a guarantee of full payment of tuition and fees for students from the state of Washington from lower income families.

For more information on Students First, visit www.uwfoundation.org/studentsfirst

Debt Financing

Moody's 2007 Public College and University Ratings



- The University's general revenue borrowing platform, established in 2003, has been used to fund research buildings on the Seattle 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 four others have the same rating.

- Strong ratings carry substantial advantages for the UW: continued and wider 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.

FINANCING THE PURCHASE OF THE **SAFECO BUILDING**

When Safeco's University District headquarters went on the market in spring of 2006, the University of Washington was the logical buyer. The location and size of the property presented the University with a rare opportunity to consolidate operations spread over the city in private leased space, reducing exposure to rising rental rates. This consolidation also would increase collaboration among schools, colleges, and departments and lower the travel costs of employees doing business in multiple locations.

However, financing the Safeco property presented a challenge. At the time of the acquisition, the University did not have authority to borrow long term to finance academic and administrative buildings. However, borrowing for any purpose was allowable as long as the debt was repaid before the end of the biennium. In the fall of 2006, the University used this short term authority to issue $130 million in short-term commercial paper for the purchase. At the same time, UW officials began working with legislative staff and House and Senate sub-committees to seek authority to permanently finance facilities like the Safeco Tower, now called the UW Tower.

In the spring of 2007, with the support of the State Treasurer's Office, the Legislature granted the University the authority to borrow for any purpose if paid from local funds. The bill was signed into law by the governor in May 2007. This authority authorized the long term financing of the Safeco purchase and similar transactions in the future.

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.

Major projects funded for construction in 2007 include the following:

South Lake Union Phase II
New construction is underway to provide 300,000 square feet of modern facilities for the School of Medicine. This phase will provide office and laboratory space, and below-grade parking serving both the Brotman Building (Phase I) and Phase II. The construction will be completed in the summer of 2008 and is funded from debt to be repaid by research revenue.

UW Tower Data Center Project
With the acquisition of the Safeco properties, the University has engaged in planning for occupancy of the UW Tower and surrounding buildings of approximately 510,000 square feet. The Tower is a 22-story office building directly connected to three low-rise office buildings. One of the first projects will be the development of 38,000 square feet of data center space in selected areas of the low rise C building. The UW Tower Data Center project is an interior renovation and utility upgrade that will provide additional power to computer servers to meet three quarters of the University's projected incremental needs over the next decade. The adjacent UW Emergency Operations Center will also be included in this project. State funding of $20 million was appropriated for the Data Center project. Additional funding of $12 million was approved from debt to be repaid by research revenues. After Safeco has completed moving out of the UW Tower buildings at the end of 2007, additional construction will begin to prepare for consolidation of leases and occupancy by University programs. For further information please see the UW Tower website at: www.washington.edu/admin/pb/UW-Tower/index.htm.

William W. Philip Hall (formerly the Tacoma Assembly Hall project)
This project replaces an existing structure on the Tacoma campus with new construction of 20,250 square feet to provide an assembly space for lectures, events, and other student uses. The project has been designed to achieve a LEED Silver certification. $7.5 million of state funding was appropriated for replacement of the basic building and $4 million of private donor funding is being raised.

Intercollegiate Athletics Graves Annex Addition
This project improves the existing Graves Annex by providing a new building entry, new space, and modifications to existing space in order to aid the recruitment and performance of student athletes and increase awareness of Husky football history. The majority of the $5.6 million of funding is from private donors. Construction was completed this past fall.

"RESTORE THE CORE" PROJECTS:

Warren G. Magnuson Health Sciences Center H-Wing Renovation
Renovation of the original wing of 95,000 square feet will include seismic structural upgrades, electrical, plumbing, heating, ventilation, and air-conditioning improvements to serve program needs, and other required renovations to allow continued use. This will provide modernized laboratory and office space for several School of Medicine departments such as Physiology and Biophysics and Biological Structure. This renovation was funded from a combination of state, National Institutes of Health federal facilities grants, and other University sources.

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Clark Hall Renovation

Constructed in 1896, Clark Hall is one of the oldest buildings on the Seattle campus. Improvements include seismic, life-safety and accessibility upgrades, hazardous materials abatement, replacement of all major infrastructure systems, and modernizing academic space. The project has been designed to achieve a LEED Silver certification. This $18 million renovation of approximately 30,500 square feet was state funded and will be completed early in March of 2009. It will continue to house instructional programs for Navy, Army, and Air Force students pursuing University degrees. This building, along with Savery Hall, is part of the third phase of a series of renovation projects to restore critical facilities at the Seattle campus.

Savery Hall Renovation

Renovation will preserve the core facility and improve the academic space of this 102,100-square-foot instructional building. This project will replace all major infrastructure systems, improve seismic and accessibility deficiencies, correct life-safety conditions, and abate asbestos. It will provide updated facilities for the Economics, Philosophy, and Sociology departments of the College of Arts and Sciences, a computer resource center supporting all social science students, 24 classrooms, and a 200 seat auditorium. State funding of approximately $61 million was provided for this renovation. The project has been designed to achieve a LEED Silver certification. Construction is scheduled to be completed for autumn quarter of 2009.

Floyd and Delores Jones Playhouse Theatre Renovation

State funding of $7.6 million was provided for the basic renovation of the core facility, which includes seismic, life-safety and accessibility upgrades, hazardous materials abatement, and replacement of all major infrastructure systems. Private donor funding of $2.3 million has been pledged for an enhanced design that includes increasing the height of the roof and improving the function of the stage, sightlines, lighting, seating arrangement, and circulation. The construction will be completed for autumn quarter of 2008. The theatre will continue to be used for the School of Drama teaching program, offering students an opportunity to stage at least two student productions each quarter.

(1.) William W. Philip Hall (2.) Intercollegiate Athletics Graves Annex Addition (3.) Clark Hall Renovation (4.) Savery Hall Renovation (5.) Floyd and Delores Jones Playhouse Theatre Renovation

FINANCIAL STATEMENTS

AND REQUIRED SUPPLEMENTAL INFORMATION

FINANCIAL STATEMENTS:

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, 2007, and 2006. 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, 2007, 2006, and 2005, follows:

(in millions)	2007	2006	2005
Current assets	$ 1,188	$ 937	$ 985
Noncurrent assets:			
Capital assets, net	2,609	2,374	2,309
Other	3,303	2,886	2,408
Total assets	7,100	6,197	5,702
Current liabilities	994	859	822
Noncurrent liabilities	1,132	960	857
Total liabilities	**2,126**	**1,819**	**1,679**
Net assets	**$ 4,974**	**$ 4,378**	**$ 4,023**

The excess of current assets over current liabilities of $194 million in 2007 reflects the continuing ability of the University to meet its short-term obligations. Current assets consist primarily of cash, short-term investments, collateral from securities lending, and accounts receivable. Total current assets increased by $251 million, to $1.2 billion at June 30, 2007. The June 30, 2006, balance of $937 million was a decrease of $48 million from 2005. The current asset balance fluctuates primarily due to changes in the securities lending collateral and the 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 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) – 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** – 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, 2007, 2006, and 2005 are summarized as follows:

(in millions)	2007	2006	2005
Invested in capital assets, net of related debt	$ 1,745	$ 1,658	$ 1,609
Restricted:			
Nonexpendable	812	723	628
Expendable	1,465	1,142	994
Unrestricted	952	855	792
Total net assets	**$ 4,974**	**$ 4,378**	**$ 4,023**

Net investment in capital assets increased $87 million, or 5% in 2007 and $49 million, or 3% in 2006. 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 reflects the University's continuing investment in facilities to support its education, research, and service missions.

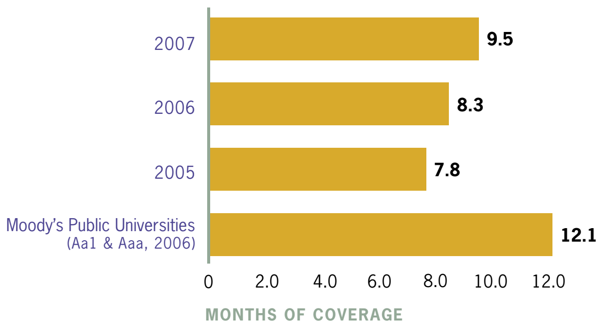
Restricted nonexpendable net assets grew $89 million, or 12% in 2007, and $95 million, or 15%, in 2006 as a result of new endowment gifts.

Restricted expendable net assets grew $323 million, or 28% in 2007, and $148 million, or 15% in 2006, as a result of new operating and capital gifts, and earnings on restricted investments, including endowments.

Unrestricted Net Assets in 2007 increased by $97 million, or 11% over 2006. The Unrestricted Net Asset growth in 2006 was $63 million, or 8%. The increase in both years was driven by increases in tuition revenues, patient service margins 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 following chart, shows that the University had enough expendable resources from various sources to fund operations for a period of months that grew steadily from 7.8 months in 2005 to 9.5 months in 2007.

Expendable Financial Resources to Operations[1]



Endowment and Other Investments

The Consolidated Endowment Fund (CEF) returned 23.3%, ending the year at $2.1 billion, compared to a return of 17.7% 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 $414 million of the CEF market value in 2007 and $376 million in 2006. Over the past ten years, the CEF averaged an 11.4% annual return, a performance which ranks 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 5.4% for fiscal year 2007, up from 0.9% in 2006, ending the 2007 fiscal year with a market value of $796 million, which does not include the operating funds invested in the CEF, as noted above.

Capital Improvements and Related Debt

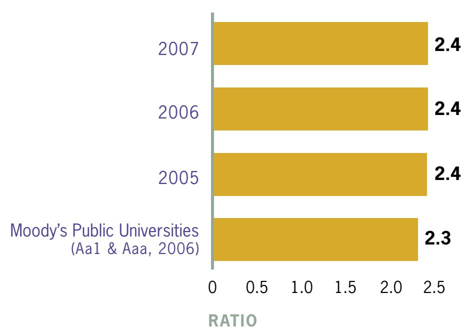
In 2007, capital expenditures included $130 million for the purchase of an administrative building (the UW Tower) which will centralize related offices and reduce the use of rented facilities, and $61 million to continue the construction of a medical research facility started in 2006. Additional expenditures in 2007 were $19 million for renovation of the Architecture Hall and $19 million for the renovation of Guggenheim Hall.

In 2006, capital construction included $41 million for the Bioengineering/Genome building, $20 million for the Research and Technology Building, $14 million for the Johnson Hall renovation and $12 million to begin the construction of a medical research facility.

In 2007, total long-term debt for financing capital assets increased by $176 million to $1 billion. The largest debt issuance was $130 million for the purchase of the administrative building (the UW Tower) noted previously. Bonds with a par value of $59.9 million were issued in 2007 by Washington Biomedical Research Properties II, a component unit, to complete the financing for the construction of the medical research facility previously mentioned. The $88 million increase in capital asset-related long-term debt in 2006 was primarily due to the initial financing for the medical research 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 almost 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, 2007, 2006, and 2005 follows:

(in millions)	2007	2006	2005
Total operating revenues	$ 2,590	$ 2,420	$ 2,298
Operating expenses	3,071	2,895	2,747
Operating loss	**(481)**	**(475)**	**(449)**
Nonoperating revenues, net of expense	907	679	567
Other revenues	170	151	161
Increase in net assets	**596**	**355**	**279**
Net assets, beginning of year	4,378	4,023	3,744
Net assets, end of year	**$ 4,974**	**$ 4,378**	**$ 4,023**

The University has a diversified revenue base. The following table summarizes revenues from all sources for the years ended June 30, 2007, 2006, and 2005:

(in millions)	2007	2006	2005
Tuition and fees	$ 397	$ 358	$ 332
Patient services	857	797	747
Grants and contracts	994	989	954
Sales and services of educational departments	119	96	90
Auxiliary enterprises	137	123	117
State funding for operations	366	339	323
Gifts	181	219	172
Investment income	503	294	219
State funding for capital projects	74	37	56
Other	86	56	59
Total revenue – all sources	**$ 3,714**	**$ 3,308**	**$ 3,069**

[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.

Grant Revenue

The largest source of revenues continues to be from grants and contracts. This revenue was essentially flat in 2007, versus a 4% increase in 2006. 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.

Obtaining federal funding for research is becoming much more competitive; however, the University's global initiative, particularly international health-related grants, is growing significantly.

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 and fees, net of scholarship allowances, has continued to grow, increasing 11% from $358 million in 2006 to $397 million in 2007. The increase was primarily due to an average increase in tuition rates of about 7%.

The impact to students as a result of this rate increase was partially offset by the increase in scholarships (including scholarship allowances) of $10 million in 2007. The University has flexibility in its ability to set non-undergraduate resident tuition rates, which helps to compensate for shortfalls in state funding. Course fees related to the UW Educational Outreach, the continuing education branch of the University, amounted to $43 million and $33 million in 2007 and 2006, respectively.

State appropriations are considered nonoperating revenue under GASB Statement No. 35 standards and are reflected in the nonoperating section of the income statement; however, they are used solely for operating purposes. Included in the 2007 state appropriations amount is a one-time $9.5 million appropriation related to a health insurance premium rebate for union employees.

Patient Services

Revenues from patient services increased $60 million, or 8%, from $797 million in 2006 to $857 million in 2007. In 2006, patient revenues increased $50 million, which was an increase of 7% over the previous year. These increases were primarily due to rate and volume increases for patient services, and favorable renewals with contract insurers.

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.

Net investment returns for the years ended June 30, 2007, 2006, and 2005 consisted of the following components:

(in millions)	2007	2006	2005
Interest and dividends	$ 100	$ 68	$ 59
Metropolitan Tract operating income	12	6	9
Net appreciation of fair value of investments	399	228	158
Investment expenses	(8)	(8)	(7)
Net investment income	**$ 503**	**$ 294**	**$ 219**

Net appreciation includes both realized and unrealized gains and losses. Net investment income increased by $209 million, or 71% in 2007, and $75 million, or 34% in 2006. The increase in unrealized gains was the major factor in the increase in Net Assets for both 2007 and 2006.

The University continues to receive strong support from its donors with total revenue of $181 million from donors in fiscal year 2007. 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, 2007, 2006, and 2005 is as follows:

(in millions)	2007	2006	2005
Operating expenses:			
Instruction	$ 783	$ 717	$ 670
Research	596	599	575
Public service	35	33	30
Academic support	220	211	192
Student services	31	28	27
Institutional support	140	109	113
Plant operation and maintenance	175	152	148
Scholarships and fellowships	69	60	57
Auxiliary enterprises	143	126	132
Medical related	689	655	624
Depreciation	190	205	179
Total operating expense	**$ 3,071**	**$ 2,895**	**$ 2,747**

The University's operating expenses increased $176 million, or 6%, in 2007. Instruction increased $66 million, or 9%, reflecting salary increases, and other instructional cost increases.

Institutional Support expenses increased $31 million over the prior year. The growth resulted from an increase in purchased services and a general increase in salaries, benefits, supplies, and other expenses. Operation and Maintenance of Plant expenses rose $23 million in fiscal year 2007. The primary causes for the increase were higher electricity and fuel costs and rental expenses. Operating expenses of the newly acquired UW Tower and increased purchases of non-capital equipment also contributed to the change.

Of the $176 million increase in operating expenses in 2007, $101 million, or 57% of the increase was due to increases in salaries and benefits, compared to a $127 million increase in salaries and benefits in the prior year. Salary rate increases ranging from 1.6% to 3.0% had an impact on salary costs, and increased premiums for health care and retirement resulted in higher benefit expense.

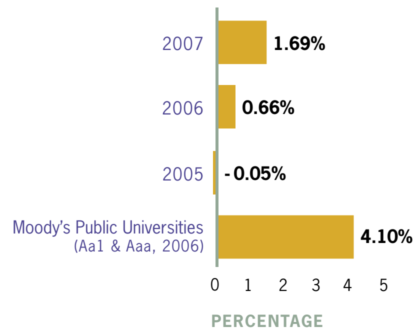
Interest expended for capital-asset related debt increased by $9 million in 2007. This was primarily due to additional interest costs to finance the purchase of the UW Tower, as well as the additional financing mentioned previously for the new medical research building.

Operating Loss

The University's operating loss increased to $481 million in 2007 from $475 million in 2006 and $449 million in 2005. As discussed previously, 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 2007, 2006, and 2005, respectively: $115 million, $136 million, and $126 million. The University continues to rely upon nonoperating revenues in addition to state appropriations to fund its operations, including operating gift revenues and investment income distributions.

Moody's measures the net result of revenue and expense activity by considering several nonoperating revenues in determining the margin. The 2007 margin of 1.69% was a significant increase over 2006 and 2005. Operating margin calculations include an estimated return on 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 net income from patient services increased this year, costs for hospitals continue to increase, and pressure from providers on the revenue is expected to continue.

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 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% return 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).

KPMG

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, 2007 and 2006, as listed in the table of contents on page 27. 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. An audit includes 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, 2007 and 2006, 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 U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Seattle, Washington
December 14, 2007

Balance Sheets

ASSETS	June 30, 2007	2006
CURRENT ASSETS		
CASH (NOTE 2)	$ 34,458	$ 26,053
COLLATERAL FROM SECURITIES LENDING (NOTE 6)	396,657	321,498
SHORT-TERM INVESTMENTS (NOTE 6)	291,631	190,128
ACCOUNTS RECEIVABLE (NET OF $80,471 AND $73,825 ALLOWANCE) (NOTE 5)	429,193	369,236
INVENTORIES	26,860	26,717
OTHER ASSETS	9,134	3,805
TOTAL CURRENT ASSETS	1,187,933	937,437
NONCURRENT ASSETS		
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	55,616	59,303
LONG-TERM INVESTMENTS (NOTE 6)	3,007,948	2,598,754
METROPOLITAN TRACT (NOTE 7)	120,990	116,570
STUDENT LOANS RECEIVABLE (NET OF $8,402 AND $8,060 ALLOWANCE) (NOTE 4)	64,400	62,017
OTHER ASSETS	53,807	49,527
CAPITAL ASSETS (NET OF $2,051,038 AND $1,915,303 ACCUMULATED DEPRECIATION) (NOTE 8)	2,609,095	2,374,063
TOTAL NONCURRENT ASSETS	5,911,856	5,260,234
TOTAL ASSETS	**$ 7,099,789**	**$ 6,197,671**

LIABILITIES	June 30, 2007	2006
CURRENT LIABILITIES		
ACCOUNTS PAYABLE	$ 115,871	$ 97,811
ACCRUED LIABILITIES	262,023	251,181
PAYABLES: SECURITIES LENDING TRANSACTIONS (NOTE 6)	396,657	321,498
DEFERRED REVENUE	113,728	120,964
FUNDS HELD FOR OTHERS	37,302	21,619
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9, 10, AND 11)	68,053	46,089
TOTAL CURRENT LIABILITIES	993,634	859,162
NONCURRENT LIABILITIES		
DEFERRED REVENUE	4,078	4,361
U.S. GOVERNMENT GRANTS REFUNDABLE (NOTE 4)	49,831	49,393
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9, 10, AND 11)	1,078,281	906,285
TOTAL NONCURRENT LIABILITIES	1,132,190	960,039
TOTAL LIABILITIES	2,125,824	1,819,201

NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	1,745,223	1,658,371
RESTRICTED		
NONEXPENDABLE – SCHOLARSHIPS, RESEARCH AND DEPARTMENT USES	811,856	722,643
EXPENDABLE – SCHOLARSHIPS, RESEARCH AND DEPARTMENT USES	1,465,035	1,142,542
UNRESTRICTED	951,851	854,914
TOTAL NET ASSETS	4,973,965	4,378,470
TOTAL LIABILITIES AND NET ASSETS	**$ 7,099,789**	**$ 6,197,671**

Dollars in thousands

See accompanying Notes to Financial Statements

Statements of Revenues, Expenses, and Changes in Net Assets

REVENUES	June 30, 2007	2006
OPERATING REVENUES		
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF $55,394 AND $53,780)	$ 396,895	$ 358,130
PATIENT SERVICES (NET OF CHARITY CARE OF $27,451 AND $28,076)	857,101	796,846
FEDERAL GRANTS AND CONTRACTS	829,405	835,901
STATE AND LOCAL GRANTS AND CONTRACTS	46,548	46,976
NONGOVERNMENTAL GRANTS AND CONTRACTS	118,088	106,558
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	119,006	96,254
AUXILIARY ENTERPRISES:		
HOUSING AND FOOD SERVICES	50,021	44,412
PARKING SERVICES	9,976	7,798
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCES OF $2,833 AND $2,341)	34,128	32,767
OTHER AUXILIARY ENTERPRISES	42,519	38,060
OTHER MEDICAL CENTER REVENUE	43,165	37,792
OTHER OPERATING REVENUE	43,508	18,517
TOTAL OPERATING REVENUES	**2,590,360**	**2,420,011**

EXPENSES	2007	2006
OPERATING EXPENSES		
SALARIES	1,532,664	1,464,000
BENEFITS	442,338	409,515
SCHOLARSHIPS AND FELLOWSHIPS	68,664	60,399
UTILITIES	58,027	46,772
SUPPLIES AND MATERIALS	296,727	261,888
PURCHASED SERVICES	384,983	355,449
DEPRECIATION	189,821	204,988
OTHER	97,707	92,185
TOTAL OPERATING EXPENSES	**3,070,931**	**2,895,196**
OPERATING LOSS	**(480,571)**	**(475,185)**

NONOPERATING REVENUES (EXPENSES)	June 30, 2007	2006
STATE APPROPRIATIONS	365,782	339,117
GIFTS	85,885	104,588
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $8,412 AND $7,946)	503,300	294,305
INTEREST ON CAPITAL ASSET-RELATED DEBT	(40,005)	(30,688)
OTHER NONOPERATING REVENUES AND EXPENSES	(8,039)	(27,821)
NET NONOPERATING REVENUES	**906,923**	**679,501**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	**426,352**	**204,316**
CAPITAL APPROPRIATIONS	74,000	36,896
CAPITAL GRANTS AND GIFTS	25,933	23,254
GIFTS TO PERMANENT ENDOWMENTS	69,210	91,325
TOTAL OTHER REVENUES	**169,143**	**151,475**
INCREASE IN NET ASSETS	**595,495**	**355,791**

NET ASSETS	2007	2006
NET ASSETS – BEGINNING OF YEAR	4,378,470	4,022,679
NET ASSETS – END OF YEAR	**$ 4,973,965**	**$ 4,378,470**

Dollars in thousands

See accompanying Notes to Financial Statements

Statements of Cash Flows

CASH FLOWS FROM OPERATING ACTIVITIES	June 30, 2007	2006
STUDENT TUITION AND FEES	$ 377,105	$ 342,859
PATIENT SERVICES	796,444	788,899
GRANTS AND CONTRACTS	977,996	1,000,878
PAYMENTS TO SUPPLIERS	(293,280)	(255,401)
PAYMENTS FOR UTILITIES	(56,440)	(45,150)
PURCHASED SERVICES	(382,589)	(349,072)
OTHER OPERATING DISBURSEMENTS	(97,676)	(87,465)
PAYMENTS TO EMPLOYEES	(1,527,916)	(1,460,754)
PAYMENTS FOR BENEFITS	(424,267)	(388,086)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(68,664)	(60,399)
LOANS ISSUED TO STUDENTS	(27,990)	(30,935)
COLLECTION OF LOANS TO STUDENTS	26,046	28,893
OTHER MEDICAL CENTER RECEIPTS	43,165	37,792
AUXILIARY ENTERPRISE RECEIPTS	138,493	122,682
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	117,768	94,859
OTHER RECEIPTS (PAYMENTS)	39,276	(7,812)
NET CASH USED BY OPERATING ACTIVITIES	**(362,529)**	**(268,212)**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	2007	2006
STATE APPROPRIATIONS	357,420	340,795
GIFTS, EXCLUDING PERMANENT ENDOWMENT AND CAPITAL	85,885	104,588
ADDITIONS TO PERMANENT ENDOWMENTS	69,210	91,325
DIRECT LENDING RECEIPTS	150,585	145,385
DIRECT LENDING DISBURSEMENTS	(142,431)	(144,737)
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	498,933	432,001
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(473,881)	(430,534)
OTHER	(8,850)	(27,267)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**536,871**	**511,556**

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	June 30, 2007	2006
PROCEEDS FROM CAPITAL DEBT	214,784	202,735
CAPITAL APPROPRIATIONS	71,963	40,894
CAPITAL GRANTS AND GIFTS RECEIVED	25,933	23,254
PURCHASES OF CAPITAL ASSETS	(414,998)	(278,831)
PRINCIPAL PAID ON CAPITAL DEBT AND LEASES	(39,192)	(114,489)
INTEREST PAID ON CAPITAL DEBT AND LEASES	(47,538)	(36,911)
OTHER	5,403	(4,743)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(183,645)**	**(168,091)**

CASH FLOWS FROM INVESTING ACTIVITIES	2007	2006
PROCEEDS FROM SALES OF INVESTMENTS	3,256,662	2,474,885
PURCHASES OF INVESTMENTS	(3,343,042)	(2,636,172)
INVESTMENT INCOME	104,088	66,328
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**17,708**	**(94,959)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**8,405**	**(19,706)**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	26,053	45,759
CASH AND CASH EQUIVALENTS – END OF THE YEAR	**$ 34,458**	**$ 26,053**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	2007	2006
OPERATING LOSS	$ (480,571)	$ (475,185)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	189,821	204,988
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	(55,598)	(19,034)
INVENTORIES	(143)	(3,079)
OTHER ASSETS	(9,610)	731
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	21,939	35,824
DEFERRED REVENUE	(7,521)	7,223
OTHER LONG-TERM LIABILITIES	(18,902)	(17,638)
U.S. GOVERNMENT GRANTS REFUNDABLE	439	(780)
LOANS TO STUDENTS	(2,383)	(1,262)
NET CASH USED BY OPERATING ACTIVITIES	**$ (362,529)**	**$ (268,212)**

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." 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 (as applicable), 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, 2007 and 2006. In 2007, the University recorded an impairment loss of $3,700,000 due to construction stoppage on a University project. The loss is included in Other Nonoperating Revenues and Expenses on the Statement of Revenues, Expenses and Changes in Net Assets. In 2006, the University found no impairment 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.

On July 1, 2006, the University adopted GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", which includes provisions for disclosure of pledged revenues. Disclosure of the University's pledged revenues is included in Note 12.

NEW ACCOUNTING PRONOUNCEMENT, EFFECTIVE JULY 1, 2007

The Governmental Accounting Standards Board has issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", effective for the year ending June 30, 2008. This pronouncement will require the recording of the accumulated liability for retiree health care and life insurance costs, which the University subsidizes.

Based on the Washington Office of the State Actuary's report on other post-employment benefits dated August 2, 2007, the University's share of the total statewide liability as of January 1, 2007 was approximately $610 million, with an estimated annual required contribution (ARC) of $61 million. The ARC represents the annual expense that will be recorded in the University financials. Funding decisions related to this liability are determined by the State of Washington. These amounts include liabilities of certain other related entities that are not included in the University's financial statements, which are estimated to be a total liability of $100 million and a $10 million ARC.

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 $2,808,000 and $3,530,000 during 2007 and 2006, respectively. These amounts are net of interest earned of $4,493,000 and $3,424,000, respectively.

Deferred Revenues. Deferred revenues occur when funds have been billed or 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 4.1% 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, 2007 and 2006 of $67,219,000 and $59,610,000, respectively, was included in accrued liabilities. Sick leave accrued as of June 30, 2007 and 2006 was $28,073,000 and $24,841,000, 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 scholarships and fellowships expense.

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 $10,859,000 and $8,235,000 in operating state appropriations in 2007 and 2006, 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 Statement No. 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 and annuity and life income 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.

NOTE 2:

Cash

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, 2007 and 2006, bank balances of $1,345,000 and $1,674,000, respectively, were insured by the FDIC and balances of $29,946,000 and $22,924,000, 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 collected from students, 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 $64,400,000 and $62,017,000 at June 30, 2007 and 2006, respectively, consist of $49,831,000 and $49,393,000 from federal programs and $14,569,000 and $12,624,000 from University programs. Interest income from student loans for the years ended June 30, 2007 and 2006 was $942,000 and $966,000, 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, 2007 and 2006 were:

(Dollars in thousands)	2007	2006
PATIENT SERVICES	$ 234,511	$ 210,308
GRANTS AND CONTRACTS	140,147	128,594
PENDING INVESTMENT SALES	18,515	6,758
SALES AND SERVICES	9,800	8,561
TUITION	18,887	16,528
STATE APPROPRIATIONS	14,593	4,193
OTHER	73,211	68,119
TOTAL	**509,664**	**443,061**
LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS	(80,471)	(73,825)
ACCOUNTS RECEIVABLE, NET	**$ 429,193**	**$ 369,236**

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, advises on matters relating to the management of the University's investment portfolios.

The composition of the carrying amounts of investments by type at June 30, 2007 and 2006 are listed in Table 1.

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

Investment Type	Carrying Value June 30, 2007	Carrying Value June 30, 2006
CASH EQUIVALENTS	$ 234,184	$ 128,840
CASH EQUIVALENTS – LOANED	–	13,991
DOMESTIC FIXED INCOME	633,653	800,297
DOMESTIC FIXED INCOME – LOANED	289,793	236,298
FOREIGN FIXED INCOME	126,720	61,482
DOMESTIC EQUITY	581,928	420,928
DOMESTIC EQUITY – LOANED	74,626	55,301
FOREIGN EQUITY	484,540	487,140
FOREIGN EQUITY – LOANED	28,802	37,046
NON-MARKETABLE ALTERNATIVES	509,590	259,542
MARKETABLE ALTERNATIVES	323,931	245,795
REAL ESTATE	6,039	37,236
MISCELLANEOUS	5,773	4,986
TOTAL INVESTMENTS	**3,299,579**	**2,788,882**
COLLATERAL FROM SECURITIES LENDING – CASH	396,657	321,498
TOTAL INVESTMENTS AND COLLATERAL	**$ 3,696,236**	**$ 3,110,380**

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2007, the Invested Funds Pool totaled $796,069,000 compared to $727,211,000 at June 30, 2006. The fund also owns units in the Consolidated Endowment Fund valued at $414,271,000 on June 30, 2007 and $376,388,000 on June 30, 2006. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 4.25% for fiscal year 2007 and rates ranging between 2.9%-3.2% for fiscal year 2006. Base rate accounts received 1.0% and gift accounts received 3.0% in both fiscal years 2007 and 2006. 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 majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments subscribe to or purchase 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 market 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.

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 $1,209,499,000 and $969,235,000 permanent endowment funds (at fair value) as of June 30, 2007 and 2006, the aggregate amount of the deficiencies for all endowments where the fair value of the assets is less than the original gifts is $0 and $89,000 at June 30, 2007 and 2006, 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 $58,915,000 at June 30, 2007 compared to $53,512,000 at June 30, 2006. Income received from these trusts was $2,194,000 for the year ended June 30, 2007 and 2,701,000 for the year ended June 30, 2006.

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, 2007 and 2006, the University realized net gains of $172,697,000 and $122,009,000, 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, 2007 and 2006 was $399,212,000 and $227,977,000, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2007, the University had outstanding commitments to fund alternative investments of $286,365,000.

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. Participation in the securities lending program does not incur credit risk. Borrower's collateral exceeds the amount owed the University. As a further protection, the University is fully indemnified against borrower default due to bankruptcy or insolvency by its custodian.

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 140 days. Cash collateral is invested in a short-term investment pool which had an average weighted maturity of 37 days as of June 30, 2007. 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, 2007 and 2006 was $5,692,000 and $27,252,000, respectively.

Securities on loan at June 30, 2007 and 2006, totaled $393,221,000 and $342,636,000, respectively, and are listed by investment type in Table 1. The securities lending program resulted in net revenues of $629,000 for the year ended June 30, 2007 and $697,000 for the year ended June 30, 2006.

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, 2007 and 2006, 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 30,2007				Duration as of June 30,2006			
	Consolidated Endowment Funds		Invested Funds		Consolidated Endowment Funds		Invested Funds	
Asset Category	**Asset Value**	**Duration**	**Asset Value**	**Duration**	**Asset Value**	**Duration**	**Asset Value**	**Duration**
DOMESTIC FIXED INCOME								
ASSET BACKED SECURITIES	$ 4,280	1.95	$ 55,968	0.86	$ 8,770	1.82	$ 150,926	1.11
CASH EQUIVALENTS	40,702	–	54,035	0.04	8,901	0.05	19,100	0.06
CORPORATE BONDS	9,534	5.25	8,943	1.64	10,311	5.35	12,627	1.95
GOVERNMENT & AGENCIES	43,362	6.78	192,095	3.32	44,390	5.08	291,358	2.95
MORTGAGE RELATED	29,867	3.70	240,465	2.81	31,106	3.69	213,571	2.44
SUBTOTAL	127,745	3.62	551,506	2.50	103,478	3.98	687,582	2.29
FOREIGN FIXED INCOME								
INTERNATIONAL FIXED	27,256	4.67	705	3.06	29,115	5.74	715	3.81
TOTAL	**$ 155,001**	**3.81**	**$ 552,211**	**2.50**	**$ 132,593**	**4.36**	**$ 688,297**	**2.29**

At June 30, 2007 and 2006, $244,195,000 and $245,535,000, respectively, of additional domestic fixed income securities (including loaned) and $98,759,000 and $31,652,000, respectively, of additional foreign fixed income securities, which in total make up 10.4% and 10.0%, 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 pool requires each manager to maintain an average AA rating as issued by a nationally recognized rating organization. The operating fund's liquidity pool requires each manager to maintain an average quality rating of "A" and to 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, 2007 and 2006, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $9,335,000 and $29,079,000, respectively, which equals 0.3% and 1.0% of the total portfolio.

Table 3 details the market value of foreign denominated securities by currency type in the Consolidated Endowment Fund at June 30, 2007 and 2006.

TABLE 3 – INVESTMENTS IN FOREIGN CURRENCY

Foreign Currency *(Dollars in thousands)*	**June 30, 2007 Market Value**	**Percentage**
EURO	$ 280,762	29%
JAPAN – YEN	135,921	14%
BRITISH – POUND	77,162	8%
CHINA – RENMINBI	73,377	8%
CANADIAN – DOLLAR	47,221	5%
KOREAN – WON	42,311	4%
TAIWAN – NTD	31,165	3%
HONG KONG – DOLLAR	27,818	3%
INDIAN – RUPEE	26,677	3%
OTHER (LESS THAN 3% EACH)	227,170	23%
TOTAL	**$ 969,584**	**100%**
	June 30, 2006	
EURO	$ 204,776	30%
JAPAN – YEN	146,998	22%
BRITISH – POUND	104,274	15%
CANADIAN – DOLLAR	23,950	4%
SWISS – FRANC	26,192	4%
OTHER (LESS THAN 3% EACH)	168,109	25%
TOTAL	**$ 674,299**	**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, 2007 and 2006, 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 $101,667,000 and $94,593,000, respectively, net of the outstanding balance of the line of credit described below.

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, 2007, $2,500,000 was outstanding on the credit line.

NOTE 8:

Capital Assets:

Capital asset activity for the two year period ended June 30, 2007 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2005	Additions/ Transfers	Retirements	Balance at June 30, 2006	Additions/ Transfers	Retirements	Balance at June 30, 2007
LAND*	$ $59,129	$ 3,203	$ –	$ 62,332	$ 43,948	$ –	$ 106,280
INFRASTRUCTURE	162,485	10,677	–	173,162	325	–	173,487
BUILDINGS	2,532,938	303,598	696	2,835,840	163,572	–	2,999,412
FURNITURE, FIXTURES, AND EQUIPMENT	841,078	81,754	42,881	879,951	110,840	58,204	932,587
LIBRARY MATERIALS	220,280	13,296	1,174	232,402	16,141	1,241	247,302
CAPITALIZED COLLECTIONS	5,501	12	–	5,513	–	–	5,513
CONSTRUCTION IN PROGRESS*	239,835	(139,669)	–	100,166	95,386	–	195,552
TOTAL	4,061,246	272,871	44,751	4,289,366	430,212	59,445	4,660,133
LESS ACCUMULATED DEPRECIATION							
INFRASTRUCTURE	57,604	4,294	–	61,898	4,009	–	65,907
BUILDINGS	911,653	91,441	696	1,002,398	94,332	–	1,096,730
FURNITURE, FIXTURES, AND EQUIPMENT	644,660	98,588	40,812	702,436	80,260	53,273	729,423
LIBRARY MATERIALS	138,664	10,665	758	148,571	11,220	813	158,978
TOTAL ACCUMULATED DEPRECIATION	1,752,581	204,988	42,266	1,915,303	189,821	54,086	2,051,038
CAPITAL ASSETS, NET	**$ 2,308,665**	**$ 67,883**	**$ 2,485**	**$ 2,374,063**	**$ 240,391**	**$ 5,359**	**$ 2,609,095**

*Non-depreciable

NOTE 9:

Long-Term Liabilities:

Long-term liability activity for the two year period ended June 30, 2007 is summarized as follows:

(Dollars in thousands)	Balance as of June 30, 2005	Additions	Reductions	Balance as of June 30, 2006	Additions	Reductions	Balance as of June 30, 2007	Current Portion 2006	Current Portion 2007
LEASES AND BONDS PAYABLE:									
CAPITAL LEASE OBLIGATIONS	$ 37,381	$ 4,198	$ 9,972	$ 31,607	$ 13,690	$ 10,103	$ 35,194	$ 8,771	$ 10,696
GENERAL OBLIGATION BONDS PAYABLE	297,167	76,235	92,048	281,354	4,480	17,610	268,224	12,979	13,820
REVENUE BONDS PAYABLE	381,550	117,035	8,090	490,495	59,955	8,830	541,620	8,830	26,660
TOTAL LEASES AND BONDS PAYABLE	716,098	197,468	110,110	803,456	78,125	36,543	845,038	30,580	51,176
OTHER LIABILITIES:									
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED	37,102	5,267	4,379	37,990	136,659	2,649	172,000	2,595	3,588
NOTES PAYABLE & OTHER – NON-CAPITAL ASSET RELATED	1,965	555	2	2,518	566	1,377	1,707	1,377	2
CHARITABLE AND DEFERRED GIFT ANNUITY LIABILITY	35,145	12,030	5,243	41,932	9,024	6,088	44,868	4,963	5,666
SICK LEAVE	21,255	4,513	927	24,841	4,189	957	28,073	979	942
SELF-INSURANCE	29,213	9,379	4,564	34,028	13,148	7,043	40,133	4,595	5,804
NET PENSION OBLIGATION	5,159	3,363	913	7,609	7,743	837	14,515	1,000	875
TOTAL OTHER LIABILITIES	129,839	35,107	16,028	148,918	171,329	18,951	301,296	15,509	16,877
TOTAL LONG-TERM LIABILITIES	**$ 845,937**	**$ 232,575**	**$ 126,138**	**$ 952,374**	**$ 249,454**	**$ 55,494**	**$1,146,334**	**$ 46,089**	**$ 68,053**

"Notes Payable & Other – Capital Asset Related" at June 30, 2007, above, includes $136,421,000 of Commercial Paper which was refinanced in August of 2007 by a General Revenue Bond issue, included in "Long-Term Liabilities, Net of Current Portion" on the Balance Sheet. The General Revenue Bond matures in 2037 with a balloon principal payment of $138,405,000. (See "Subsequent Debt Offerings.")

NOTE 10:

Leases

CAPITAL LEASES

The University has certain lease agreements in effect that are considered capital leases. As of June 30, 2007 and 2006, the University had buildings in the amounts of $9,987,000 and $9,987,000 and equipment in the amounts of $63,467,000, and $51,183,000, 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 $44,308,000 and $32,740,000, respectively, for equipment. The University recorded depreciation expense of $999,000 and $999,000 for buildings, and $12,693,000 and $10,221,000 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, 2007, are as follows:

Year	*(Dollars in thousands)*
2008	$ 11,843
2009	11,778
2010	6,803
2011	4,240
2012	1,740
2013 - 2017	1,350
TOTAL MINIMUM LEASE PAYMENTS	37,754
LESS: AMOUNT REPRESENTING INTEREST COSTS	2,560
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	**$ 35,194**

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, 2007 and 2006, the University recorded expenses of $35,471,000 and $31,136,000, respectively, for these leases. Future lease payments under these leases as of June 30, 2007, are as follows:

Year	*(Dollars in thousands)*
2008	$ 26,519
2009	21,226
2010	17,060
2011	14,747
2012	13,396
2013 - 2017	36,212
2018 - 2022	17,303
2023 - 2027	7,342
2028 - 2051	478
TOTAL MINIMUM LEASE PAYMENTS	**$154,283**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2007, consist of State of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 2.25% to 7.38%, except for debt totaling $60,720,000, which has variable rates, discussed in "Interest Rate Swap Agreement", below.

Debt service requirements at June 30, 2007 were as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*

	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		REVENUE BONDS		NOTES PAYABLE AND OTHER	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 13,820	$ 13,408	$ 26,660	$ 26,434	$ 140,010	$ 3,535
2009	14,418	12,773	16,495	25,154	2,654	1,551
2010	11,719	12,093	17,385	24,388	2,701	1,431
2011	12,528	11,469	18,545	23,567	4,208	1,308
2012	78,085	46,376	105,765	103,471	2,693	1,186
2013 - 2017	71,400	25,388	133,100	78,101	9,755	4,237
2018 - 2022	55,745	9,229	83,980	53,084	10,143	1,847
2023 - 2027	10,509	625	80,555	28,967	1,543	127
2028 - 2032			45,930	9,482		
2033 - 2037			13,205	935		
TOTAL	**$ 268,224**	**$ 131,361**	**$ 541,620**	**$ 373,583**	**$ 173,707**	**$ 15,222**

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 bonds.

REFUNDING ACTIVITY

On May 30, 2007 the State of Washington partially refunded General Obligation Bonds totaling $4,630,000 with new bond issuances totaling $4,480,000. The refunded bonds had average interest rates ranging from 4.98% to 5.00%; the new issuances have average interest rates of 4.99%. The refundings decreased the Uniersity's total debt service payments to be made over the next 16 years by $263,000 and resulted in a total economic gain of $288,000.

SUBSEQUENT DEBT OFFERINGS

On August 14, 2007, the University issued $138,405,000 in General Revenue Bonds, 2007, with a fixed interest rate of 5.00%, that mature on June 1, 2037. The bond proceeds will fund the construction of a data center, retire the commercial paper that funded the acquisition of certain properties, primarily an office building (UW Tower) and surrounding properties.

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 3.27% 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 $2,533,000 and $3,211,000 as of June 30, 2007 and June 30, 2006, respectively. The fair value represents the estimated amount that the University would be paid 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 counterparty risk, which is the risk that the counterparty will not fulfill its obligations. As of June 30, 2007, 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 Aaa 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:

Pledged Revenues

The University has pledged specific revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

(Dollars in thousands)

Source of Revenue Pledged	Total Future Revenues Pledged*	Description of Debt	Purpose of Debt	Term of Commitment	Proportion of Debt Service to Pledged Revenues (current year)
Housing and Dining revenues, net of operating expenses	$86,879	Housing and Dining Bonds, issued in 1996, 2002 and 2004	Contruction and renovation of student housing projects	2032	41.5%
Student Housing gross rent from Component Unit entities, net of permitted operating expenses	168,412	Student Housing Revenue Bonds (Component Unit entities), issued in 1996, 2000, and 2002	Construction and renovation of student housing	2038	83.5%
Student Facilities fees and earnings on invested fees	78,678	Student Facilities Revenue Bonds, issued in 2000 and Student Facilities Refunding Revenue Bonds issued in 2005	Construction of student recreational sports facilities	2030	23.3%
Ticket sales and all other revenues from the Department of Intercollegiate Athletics, net of operating expenses	13,652	University of Washington Department of Intercollegiate Athletics Revenue Bonds, issued in 2000	Construction of an indoor practice facility, outdoor practice field and renovation sports arena.	2014	22.5%
Parking revenues from the University Parking System, net of operating expenses — reported as Auxiliary revenues.	30,785	University of Washington Parking System and Refunding Bonds, issued in 2004	Construction of improvements and additions to the University's parking system	2030	14.3%

* Total future principal and interest payments on the debt

NOTE 13:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2007 and 2006 are summarized as follows:

(Dollars in thousands)

Operating Expenses	2007	2006
EDUCATIONAL AND GENERAL		
INSTRUCTION	$ 783,272	$ 717,113
RESEARCH	595,622	598,742
PUBLIC SERVICE	34,838	33,265
ACADEMIC SUPPORT	219,646	210,838
STUDENT SERVICES	31,048	28,566
INSTITUTIONAL SUPPORT	140,431	108,753
PLANT OPERATION AND MAINTENANCE	175,271	152,173
SCHOLARSHIPS AND FELLOWSHIPS	68,664	60,399
AUXILIARY ENTERPRISES	142,883	125,591
MEDICAL RELATED	689,435	654,768
DEPRECIATION	189,821	204,988
TOTAL OPERATING EXPENSES	**$ 3,070,931**	**$ 2,895,196**

NOTE 14:

Related Party – Harborview Medical Center

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center in Seattle, is a component unit of King County, Washington. It has been managed by the University under a management contract between King County and the University since 1967. The current management contract will be in force through June 30, 2010 but it can be extended until June 30, 2015 if neither party gives notice of intent not to renew it.

Under the contract, the HMC Board of Trustees determines major institutional policies and retains control of programs and fiscal matters, while King County retains ultimate control over capital programs and capital budgets. The University is responsible for the operations of HMC, including the provision of medical, dental, and management services. All of the individuals employed at HMC, including physicians, are employees of the University of Washington. HMC expenses, including payroll, are reimbursed to the University from HMC fund sources.

HMC revenues and expenses are not recognized in the University's financial statements. The University's financial statements do, however, include accounts receivable from HMC of $22,082,000 in 2007 and $15,072,000 in 2006, as well as HMC investments of $2,744,000 and $2,354,000, respectively, and accrued liabilities of $14,748,000 and $12,927,000, respectively.

Notes to Financial Statements

NOTE 15:

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 cost sharing, 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, 2007 and 2006 was 3.5% and 2.25%, 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, 2007 and 2006, for each of PERS Plans 1, 2, and 3 was 5.46% and 2.44%, for the respective years.

The University's contributions to PERS for the years ended June 30, 2007, 2006, and 2005 were $30,996,000, $16,006,000, and $8,651,000, 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, 2007 were each $63,362,000 compared to $58,880,000 each for the year ended June 30, 2006. 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 with a valuation date of July 1, 2007. The previous evaluation was performed in 2004. The Unfunded Actuarial accrued Liability (UAL) calculated as of June 30, 2007 and 2004 was $64,215,000 and $32,454,000, respectively, and is amortized over a period ending January 1, 2024. The Annual Required Contribution (ARC) of $7,743,000 consists of amortization of the UAL, including interest expense ($4,374,000) and normal cost (or current cost) ($3,369,000). The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 5% and projected salary increases of 4%. Approximately $771,000,000 and $640,000,000 of the UW's payroll was covered under this plan during 2007 and 2004, respectively. The following table reflects the activity in the Net Pension Obligation for the years ended June 30, 2007, 2006, and 2005:

(Dollars in thousands)	2007	2006	2005
BALANCE AT BEGINNING OF FISCAL YEAR	$ 7,609	$ 5,159	$ 2,751
ANNUAL REQUIRED CONTRIBUTION	7,743	3,363	3,363
PAYMENTS TO BENEFICIARIES	(837)	(913)	(955)
BALANCE AT END OF FISCAL YEAR	**$14,515**	**$ 7,609**	**$ 5,159**

NOTE 16:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2007, were $158,051,000. 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.

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 reserve is discounted at 5.5%.

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, 2007, 2006, and 2005 are noted below.

(Dollars in thousands)	2007	2006	2005
RESERVE AT BEGINNING OF FISCAL YEAR	$ 34,028	$ 29,213	$ 31,109
INCURRED CLAIMS AND CHANGES IN ESTIMATES	13,148	9,379	2,730
CLAIM PAYMENTS	(7,043)	(4,564)	(4,626)
RESERVE AT END OF FISCAL YEAR	**$ 40,133**	**$34,028**	**$29,213**

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