



2010



UNIVERSITY of WASHINGTON

Annual Report



Table of Contents

- 1 MESSAGE FROM THE INTERIM PRESIDENT
 - 2 MESSAGE FROM THE SENIOR VICE PRESIDENT
 - 4 FINANCIAL HIGHLIGHTS
 - 8 FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
- INSIDE
BACK COVER BOARD OF REGENTS AND ADMINISTRATIVE OFFICERS

University Facts

	2009–2010	2004–2005	1999–2000
STUDENTS			
Autumn Enrollment			
Undergraduate	34,523	30,790	28,125
Graduate	11,592	10,309	8,606
Professional	1,907	1,808	1,709
TOTAL	48,022	42,907	38,440
Extension course registrations	63,178	41,550	26,277
Number of Degrees Awarded			
Bachelor's	8,458	8,517	6,923
Master's	2,988	2,797	2,151
Doctoral	686	530	486
Professional	495	475	428
TOTAL	12,627	12,319	9,988
INSTRUCTIONAL FACULTY	3,974	3,623	3,271
FACULTY AND STAFF¹	29,804	27,695	22,646
RESEARCH FUNDING – ALL SOURCES (in thousands of dollars)	\$ 1,337,000	\$ 996,000	\$ 652,000
SELECTED REVENUES (in thousands of dollars)			
Gifts, Grants and Contracts	\$ 1,277,129	\$ 1,021,565	\$ 643,545
Auxiliary Enterprises ² and Other Revenues	1,693,040	1,230,813	775,518
State Appropriations (Operating)	347,425	323,417	322,079
Tuition and Fees ³	527,958	331,978	246,895
SELECTED EXPENSES (in thousands of dollars)			
Instruction, Academic Support and Student Services	\$ 1,198,015	\$ 888,499	\$ 596,317
Research and Public Service	733,769	605,433	456,040
Auxiliary Enterprises ²	942,379	755,959	621,354
Institutional Support and Physical Plant	296,559	261,174	168,287
CONSOLIDATED ENDOWMENT FUNDS⁴ (in thousands of dollars)	\$ 1,830,000	\$ 1,366,000	\$ 859,000
SQUARE FOOTAGE⁵ (in thousands of square feet)	18,827	17,504	15,800

¹ Full-time equivalents

² Includes UW Medical Center

³ Net of scholarship allowances of \$82,461,000 in 2009–2010 and \$48,123,000 in 2004–2005

⁴ Stated at fair value

⁵ Gross square footage, all campuses

Message from the Interim President



PHYLLIS WISE, INTERIM PRESIDENT

» I know of no other university where the faculty, staff, and students are more collaborative, more passionate about our shared values, or more committed to making the world a better place than they are at the UW.

WHILE I SERVED AS PROVOST, RATHER THAN president, during the year covered in this report, what stands out to me about 2009-10 at the University of Washington is the same theme that has stood out in previous years and no doubt will stand out in years to come: the remarkable capacity of the UW community to create opportunities for Washington's citizens.

At the UW, we embrace our role as a public university. We are deeply proud to carry out our responsibility to provide the people of our state with the very best learning opportunities, transforming their lives through experiences in the classrooms and outside the classrooms, through community and global experiences, through firsthand research and discovery, and through engagement in the broadest sense. Our commitment to being public will never waver.

With student tuition dollars now exceeding taxpayer support for the UW and with the loss of one third of the University's state support, however, our relationship with the state has changed. It's more critical than ever that we find ways to be flexible, creative, and innovative — more self-sufficient — in managing our resources. We must ensure the University's capacity to continue serving our state for both the short term and the long term.

There's no question in my mind that our UW community, working with our partners, can overcome this and any other challenge that might arise. I know of no other university where the faculty, staff, and students are more collaborative, more passionate about our shared values, or more committed to making the world a better place than they are at the UW. When the economy turns around, I predict that there will be a handful of public research universities that will come out better and stronger because they have thought ahead, planned ahead, and managed ahead. I am completely confident that the University of Washington will be one of them.

A handwritten signature in blue ink that reads "Phyllis M. Wise".

PHYLLIS WISE
INTERIM PRESIDENT

Message from the Senior Vice President



V'ELLA WARREN, SENIOR VICE PRESIDENT

» Our leadership continues to work with state and legislative officials to maintain affordable access to our University.

THE UNIVERSITY OF WASHINGTON IS A STRONG, vibrant and financially healthy organization. Our 48,000 undergraduate, graduate and professional students, along with 29,000 faculty and staff across three campuses and three medical centers remain more committed than ever to our missions to educate our citizens, advance cutting edge discovery and provide world-class patient care and other services to our community. Our finances, while pressured by continued reductions in our instructional funding from the state of Washington, are strong. Notable examples include our recent upgrade to a Aaa bond rating and our continued growth in research buoyed by over \$327 million for projects supported by the American Recovery and Reinvestment Act (ARRA). Although our Consolidated Endowment Fund has not fully recovered from 2008, it stands at \$1.8 billion as of June 30, 2010, recording a 12.5% return.

Instruction

While the University's overall financial position is strong, supported by a well-diversified funding base, we will be, for the third consecutive year, carefully and deliberately taking additional budget cuts to our instructional core. The investment from our state is a critical component to ensuring our students continue to receive the highest quality learning experience. And, it's a good investment. For every \$1 invested by the state, the UW returns \$23. Activities at the UW generate more state and local tax revenue than received in state appropriation — \$1.56 for every \$1.00 invested. Our graduates, many from diverse backgrounds, stay in Washington at a higher rate than other states. However, affording tuition is a struggle for many students and families due to the drop in state investment. Our leadership continues to work with state and legislative officials to maintain affordable access to our University.

Research

The University's research volume increased to \$1.3 billion in fiscal year 2010. Our faculty received more National Institutes of Health ARRA awards than any other university in the country. ARRA funding will support projects focused on prevention of infectious diseases, protection of the environment and training in high demand areas of study, such as mathematics and science. This funding has resulted in more than 2,000 jobs for the state of Washington.

Patient Care

During 2010, Northwest Hospital, a full-service 281-bed medical facility in northwest Seattle, joined UW Medicine. Expansion and consolidation is a common phenomenon across the industry, where stand-alone hospitals are joining larger systems to better manage the pipeline of primary, secondary, tertiary and quaternary care. UW Medicine is no exception to this evolution and is actively taking steps to build clinical programs and achieve administrative savings as a result of this affiliation. One such initiative allows Northwest Hospital's employed physicians to be covered under the UW's self-insurance program, which is expected to result in over \$1.5 million in annual premium savings.

Sustainable Academic Business Plan

With the ongoing fiscal pressures to our academic enterprise, we continue to streamline our support operations to incorporate best practices and innovative approaches in effectively managing our resources. As part of an initiative launched by Interim President Phyllis Wise, Interim Provost Mary Lidstrom and I announced an institution-wide effort designed to target improvements in all aspects of our administration at the UW. The objective of this effort, the Organizational Effectiveness Initiative (OEI), is that administrative units provide efficient, flexible, and sustainable services. Examples of projects supporting the OEI initiative include:

- Establishing a shared administrative service unit in the College of Arts & Sciences Humanities Division;
- Rethinking post-award grants management using LEAN analysis;
- Completing feasibility and needs assessments for administrative system replacements.

Conclusion

The financial accountability for these important initiatives, as well as the University's ongoing work is detailed in our 2010 financial statements. Once again, I am pleased with the unqualified opinion from our independent auditor. The Annual Report also includes Management's Discussion and Analysis which describes the University's financial strength, our policies and procedures, and overall commitment to sustaining excellence now and into the future. I believe that we are as well positioned as possible to address these difficult times and to thrive in the future.



V'ELLA WARREN
SENIOR VICE PRESIDENT



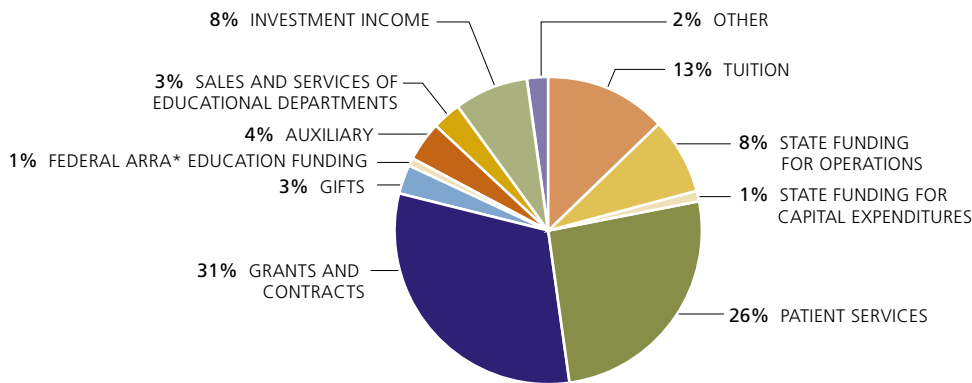
Financial Highlights

- 5 FUNDING AND OPERATIONS
- 6 DEBT FINANCING
- 7 INVESTMENTS

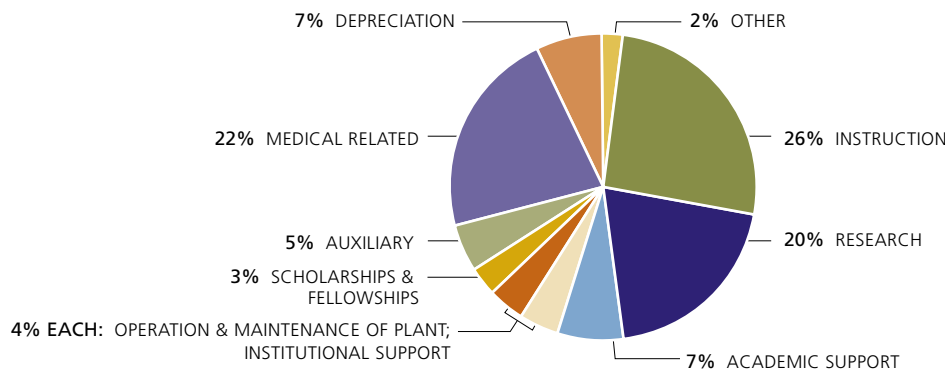
Funding and Operations

- The University has a diversified revenue base. No single source generated more than 31% of the total fiscal year 2010 revenues of \$4.0 billion.
- State operating appropriations were \$303 million, or 8% of total revenues. The University relies heavily on such funding for instructional activities.
- Grants and contracts (31%) generated \$1,256 million of current year revenue, a 12% increase over fiscal year 2009. Federal stimulus funding for research contributed \$86 million to this increase. Grants and contracts 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 \$118 million (3%).
- Two primary functions of the University, instruction and research, comprised 46% of total operating expenses. These dollars provided instruction to more than 48,000 students and funded 5,300 research awards.
- The University provided students with scholarships and fellowships of \$93 million (3%), in addition to \$86 million of scholarship allowances. Scholarship allowances are University resources that are applied to students' accounts to satisfy charges for tuition and fees. These resources have previously been recognized as revenue by the University, for example, as scholarship grants.

Sources of Funds



Uses of Funds

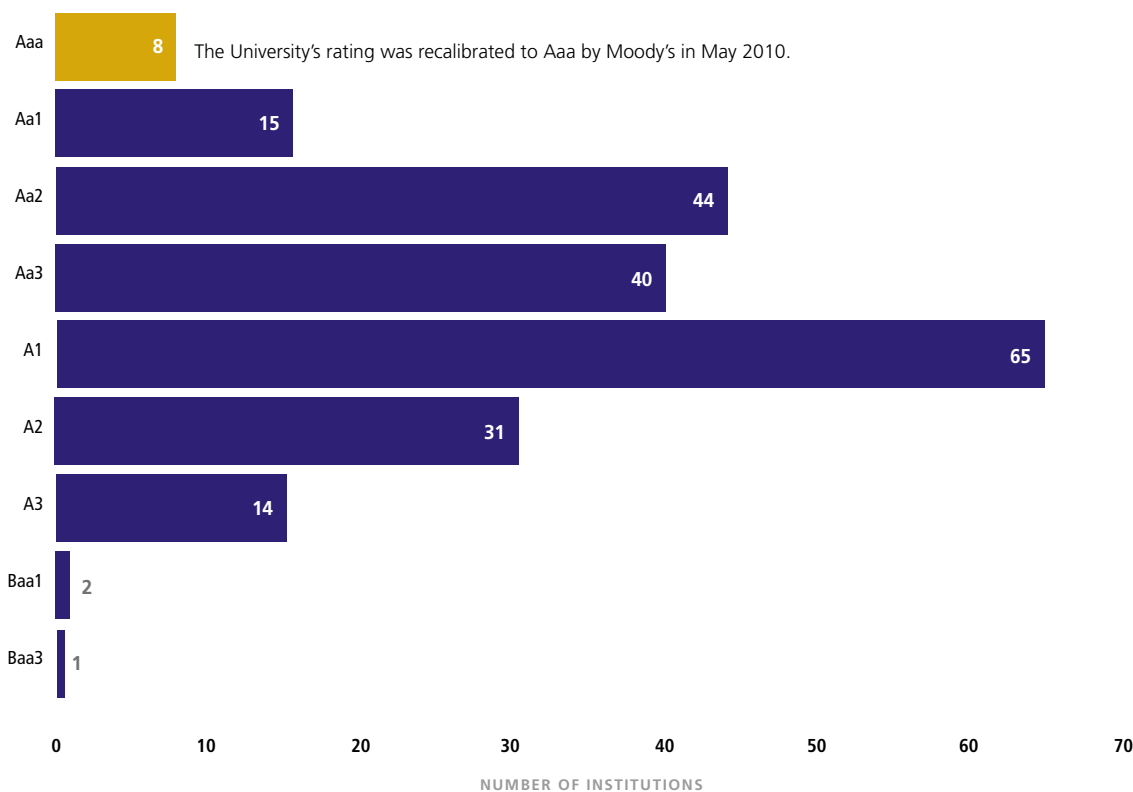


*American Recovery and Reinvestment Act

Debt Financing

- The University's general revenue borrowing platform, established in 2003, has been used to fund buildings that support the educational, research and service missions of the institution. On November 17, 2009 the University issued \$77.7 million in General Revenue Build America Bonds at a net interest cost of 3.63%. These bonds will fund ongoing capital expenditures for PACCAR Hall, a pediatric dentistry clinic, UW Medical Center expansion, student housing and Molecular Engineering building. On October 5th, 2010 the University issued \$165 million in General Revenue Build America Bonds at a net interest cost of 3.22%. These bonds will fund ongoing capital expenditures on approved projects as well as refunding Housing Revenue Bonds and funding the Balmer Hall and Tacoma Phase 3 projects.
- Moody's Investors Service recalibrated the University's bond rating to Aaa from Aa1 in May 2010, affirming its recognition of the financial strength of the University's general revenue platform. This recalibrated rating puts the University in elite company — only seven other public universities share this rating from Moody's.
- Strong ratings carry substantial advantages for the University: 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 its role of financial stewardship seriously and works hard to manage its financial resources effectively. Continued high debt ratings are important indicators of the University's success in this area.

Moody's Fiscal Year 2009 Public College and University Rating Distribution (Issued in August 2010)



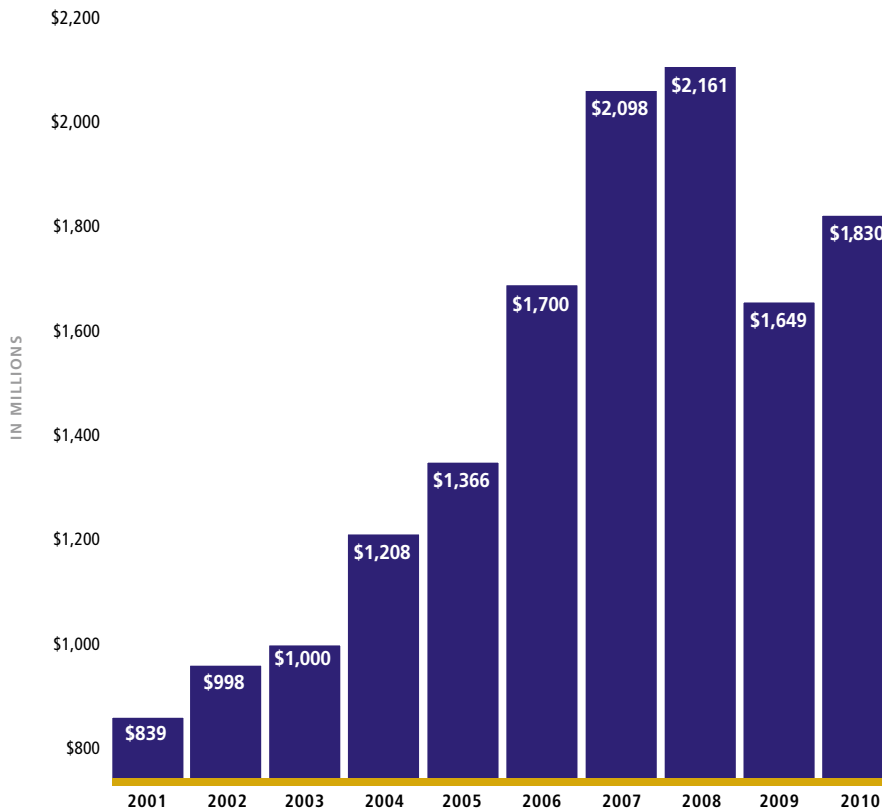
Investments

Investment returns provide an important source of revenue for the University's programs. Among the funds invested by the University are endowments, operating cash, life income trusts and annuities, outright gifts and reserves.

- Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. 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. The CEF experienced considerable growth over the past 10 years. The number of endowments in the CEF increased from 1,540 to 3,334, and the market value increased to \$1.8 billion as of June 30, 2010.
- The impact to program support has been substantial with \$648 million distributed over the past 10 years. Programs supported by the endowment include academic support, scholarships, fellowships, professorships, chairs and research activities.
- For the 10 years ended June 30, 2010, the average annual total return on the CEF was 4.5%, while a comparable blended benchmark (S&P 60% and Barclay Government Bond 40%) returned 1.5%. For the year ended June 30, 2010, the CEF returned 12.5%, up markedly from the CEF's fiscal year

2009 negative return of 23.3%. The University continues to defensively position the portfolio, actively reduce risk and ensure liquidity.

- The CEF interim spending policy, adopted in fiscal year 2009 in response to the financial crisis and the decline in the CEF market value, continued during fiscal year 2010. Valuations improved significantly since the implementation of the interim policy, and while not fully restored, the Board of Regents considered it appropriate to increase program support and return to a long-term spending policy. At their October 21, 2010 meeting, the Board of Regents adopted a new spending policy. Quarterly distributions to programs will be made based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. The new policy is effective with the December 2010 quarterly distributions with the five-year averaging period implemented incrementally. The administrative fee of 1% supporting fundraising and stewardship activities (0.80%) and investment management (0.20%) continues. Similar to program distributions, the fee will be based on the endowment's five-year average market value.
- A portion of the University's operating funds is invested in the CEF. As of June 30, 2010, these funds comprise \$355 million of the CEF market value.





Financial Statements

AND REQUIRED SUPPLEMENTARY INFORMATION

- 9 INDEPENDENT AUDITORS' REPORT
- 10 MANAGEMENT'S DISCUSSION AND ANALYSIS
- 16 BALANCE SHEETS
- 17 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
- 18 STATEMENTS OF CASH FLOWS
- 20 NOTES TO FINANCIAL STATEMENTS



KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the business-type activities of the University of Washington (the University), an agency of the state of Washington, as of and for the years ended June 30, 2010 and 2009, and its discretely presented component unit as of and for the 18-month period ended June 30, 2010. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions 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 opinions.

As discussed in note 1, the financial statements of the University of Washington, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the activities of the state of Washington that is attributable to the transactions of the University of Washington. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2010 and 2009, the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, and the financial position of its discretely presented component unit as of June 30, 2010, and the changes in its financial position and its cash flows for the 18-month period then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 10 through 15 is not a required part of the basic financial statements but is 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

December 15, 2010

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

Management's Discussion and Analysis

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington ("University") for the years ended June 30, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

Financial Highlights for Fiscal Year 2010

The University recorded net income of \$431 million in fiscal year 2010, compared to a net loss in fiscal year 2009 of \$374 million: a bottom line improvement of \$805 million. This is directly related to an increase in investment income of \$778 million, a result of market value increases in the value of investments in fiscal year 2010. The University adjusts the carrying value of investments to market value each year, with the change recorded as investment income or loss.

Other significant, but offsetting, factors in the 2010 financial performance included a \$150 million decline in operating and capital state support, a \$70 million increase in tuition revenues, increased federal funding of research and instruction, and continued strong performance by the University of Washington Medical Center (UWMC).

Key Financial Results for Fiscal Years 2010, 2009 and 2008:

(in millions)	2010	2009	2008
Total operating revenues	\$ 3,124	\$ 2,902	\$ 2,730
Operating expenses	3,493	3,429	3,284
Operating loss	(369)	(527)	(554)
State appropriations	303	385	388
Federal ARRA Education Funding	44	-	-
Investment income (loss)	309	(469)	77
Gifts	119	143	177
Other nonoperating revenue, net	25	94	75
Increase (decrease) in net assets	431	(374)	163
Net assets, beginning of year	4,763	5,137	4,974
Net assets, end of year	\$ 5,194	\$ 4,763	\$ 5,137

Operating revenues minus operating expenses typically result in an operating loss in the University's financial statements. Nonoperating items, including state support, investment income, and gifts have brought each year's results to a modest increase in the net assets, or "equity" of the University, with the exception of 2009. This surplus has been reinvested within the University to add a margin of educational excellence, upgrade the University's facilities, and provide a prudent reserve for contingencies such as the current period of economic instability.

Economic Factors Affecting the Future

A number of contingencies face the University over the next few years. The continuing economic downturn is a primary source of uncertainty. This economic downturn has already impacted the University directly through revenue reductions in state support, investment income, and contributions from donors.

The state of Washington, which provided 8% of the University's total revenues in fiscal year 2010, compared to 10% in fiscal year 2009, and 11% in fiscal year 2008, continues to face declining tax revenues. As a result, the state's funding of higher education will continue to erode in 2011. To help alleviate the effects of this educational shortfall, the legislature has granted the University the flexibility to increase undergraduate resident tuition rates up to 14% per year, but only through fiscal year 2011.

In 2010, the sharp decline in state funding was partially offset by \$44 million of federal education funding under the American Recovery and Reinvestment Act of 2009 (ARRA); these funds were passed through to the University by the state of Washington.

Funding for research activities was temporarily boosted in 2010 by \$86 million of Federal ARRA funding for basic research and activities in the health sciences. In addition, the University has \$241 million of unspent ARRA research awards that will be completed in fiscal year 2011 and later.

Rising benefit costs, particularly for health care and pensions, continue to impact the University.

In March 2010, health care reform was passed by the U.S. Congress and signed into law by President Obama. The financial effects of this legislation may have significant financial impacts to health care providers. Thus, the environment in which health care organizations currently operate is dynamic and uncertain.

While 2010 remained relatively stable for UWMC compared with 2009 due to stable volumes and increasing surgical activity, the economic downturn continues to put pressure on operating results. Operating results of UW Medicine/Northwest (formerly Northwest Hospital & Medical Center) reflect a volume reduction in outpatient and inpatient activities; however, their recent affiliation with the University of Washington provides significant opportunities for joint program development and growth, facilities development and efficiencies. State budget changes to hospital reimbursement rates and medical assistance eligibility, as well as increased charity care and bad debts, have reduced hospital margins.

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.

On January 1, 2010, the University affiliated with Northwest Hospital & Medical Center. GASB standards require that this affiliation be presented discretely; therefore, a separate column displays its financial position at June 30, 2010 and the results of its operations for the 18 months ended June 30, 2010. (See Note 1 to the Financial Statements.)

The analysis presented below includes the consolidated balances of the University of Washington and its blended component units, but excludes the financial position and results of operations of UW Medicine/Northwest, unless otherwise noted.

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, 2010, 2009, and 2008, follows:

(in millions)	2010	2009	2008
Current assets	\$ 851	\$ 907	\$ 1,406
Noncurrent assets:			
Capital assets, net	2,958	2,840	2,714
Other	3,191	2,788	3,323
Total assets	7,000	6,535	7,443
Current liabilities	548	579	1,170
Noncurrent liabilities	1,258	1,193	1,136
Total liabilities	1,806	1,772	2,306
Net assets	\$ 5,194	\$ 4,763	\$ 5,137

The excess of current assets over current liabilities of \$303 million in 2010 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 (2008 only) and accounts receivable. The June 30, 2010 current asset balance of \$851 million was a decrease of \$56 million from 2009, due to changes in cash and short-term investments. The short-term portion of the University's investment portfolio can fluctuate based upon changes in investment mix and the expected short-term needs for University funds.

Long-term investments as of June 30, 2010 increased by \$390 million from 2009, as a result of significant market gains during the year in the value of the University's investments. Realized and unrealized gains in fiscal year 2010 totaled \$224 million, versus realized and unrealized losses of \$544 million in 2009.

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

The University reports its "equity" in four categories:

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

The University's net assets at June 30, 2010, 2009, and 2008 are summarized as follows:

(in millions)	2010	2009	2008
Invested in capital assets, net of related debt	\$ 1,982	\$ 1,944	\$ 1,816
Restricted:			
Nonexpendable	959	884	902
Expendable	1,090	1,005	1,396
Unrestricted	1,163	930	1,023
Total net assets	\$ 5,194	\$ 4,763	\$ 5,137

Net investment in capital assets increased \$38 million, or 2%, in 2010, and increased \$128 million, or 7%, in 2009. 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.

Restricted nonexpendable net assets increased \$75 million, or 8%, in 2010, due to new endowment gifts and a significant increase in the value of investments in the Consolidated Endowment Fund (CEF). The 2009 decrease of \$18 million, or 2%, was a result of declines in the value of investments, partially offset by donor support.

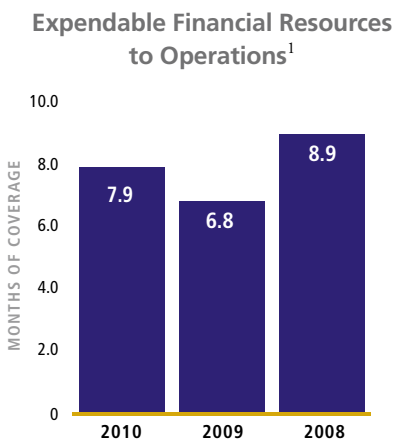
Management's Discussion and Analysis (CONTINUED)

Restricted expendable net assets increased \$85 million, or 8%, in 2010, and decreased \$391 million, or 28%, in 2009. This category is primarily affected by new operating and capital gifts, and earnings or losses in restricted investments, including endowments. The sharp decline in the market value of investments, which began in fiscal year 2008, had a significant effect in 2009; the University partially recovered its investment losses in 2010.

Unrestricted Net Assets increased in 2010 by \$233 million, or 25%, primarily due to an increase in tuition and patient services revenue, together with an increase in the market value of investments related to unrestricted funds. The Unrestricted Net Asset decrease in 2009 of \$93 million, or 9%, was driven by the decline in the market value of investments related to unrestricted funds, offset by increases in tuition revenue and patient services margins.

The ratio of expendable financial resources to operations (as defined by Moody's) measures the strength of net assets. This ratio, illustrated in the chart below, shows that in 2010 the University had enough expendable resources from various sources to fund operations for a period of 7.9 months.

Endowment and Other Investments



The CEF returned 12.5% in fiscal year 2010, ending the year at \$1.8 billion, compared to a negative return of 23.3% in the prior year. Over the past 10 years, the CEF has averaged a 4.5% annual return.

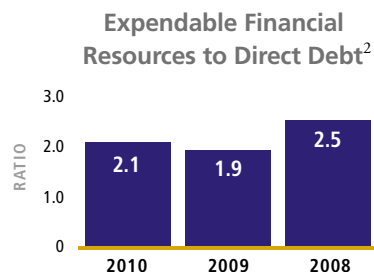
The Invested Funds (IF), invested operating monies of the University, are held in three pools: cash, liquidity, and the CEF. The IF (including the portion invested in the CEF) returned a positive 6.3% in fiscal year 2010, and a negative 5.0% in fiscal year 2009. The market value of the cash and liquidity pools was \$1.1 billion at June 30, 2010.

Capital Improvements and Related Debt

During 2010, capital expenditures included \$54 million on Phase 1 of PACCAR Hall for the business school, \$43 million for the expansion of UWMC, \$16 million for the new Molecular Engineering building and \$13 million for Phase 3 of the UW Tacoma campus.

In 2009, capital expenditures included \$47 million for renovation of Clark and Savery Halls, \$22 million on Phase 1 of PACCAR Hall for the business school, \$17 million for upgrading the Communications Data Center, and \$14 million for the expansion of UWMC.

The 2010 ratio of expendable financial resources to debt (as defined by Moody's) shows that the University has sufficient expendable resources to pay its long-term debt obligations 2.1 times over.



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, 2010, 2009, and 2008 follows:

(in millions)	2010	2009	2008
Total operating revenues	\$ 3,124	\$ 2,902	\$ 2,730
Operating expenses	3,493	3,429	3,284
Operating loss	(369)	(527)	(554)
Nonoperating revenues, net of expenses	707	(62)	523
Other revenues	93	215	194
Increase (decrease) in net assets	431	(374)	163
Net assets, beginning of year	4,763	5,137	4,974
Net assets, end of year	\$ 5,194	\$ 4,763	\$ 5,137

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. Does not include results for UW Medicine/Northwest.
2. The sum of Unrestricted Net Assets and Restricted Expendable Net Assets, divided by total capital lease obligations, bonds and notes payable outstanding. Does not include results for UW Medicine/Northwest.

The University has a diversified revenue base. The following table summarizes revenues from all sources for the years ended June 30, 2010, 2009, and 2008:

(in millions)	2010	2009	2008
Tuition and fees	\$ 528	\$ 458	\$ 420
Patient services	1,029	988	924
Grants and contracts	1,256	1,120	1,063
Sales and services of educational departments	116	111	111
Auxiliary Enterprises	155	150	146
State funding for operations	303	385	388
Federal ARRA education funding	44	-	-
Gifts	119	143	177
Investment income (loss)	309	(469)	77
State funding for capital projects	33	101	71
Other	74	112	112
Total revenue – all sources	\$ 3,966	\$ 3,099	\$ 3,489

Grant Revenue

The largest source of revenues continues to be grants and contracts. This revenue increased \$136 million, or 12%, in 2010, compared to an increase of \$57 million, or 5%, in 2009 over 2008.

The University received 15% more individual research awards in fiscal year 2010 than in 2009. The increase is primarily due to federal ARRA research funding, which generated revenues of \$86 million in fiscal year 2010.

Grant and contract revenue is earned when direct expenditures (such as researchers' compensation or purchases of goods and services) are made; therefore, there is little effect on 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 indirect cost recovery for research grants is approximately 29 cents on every direct expenditure dollar.

Primary Nongrant Funding Sources

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support its nongrant funded educational operating expenses. State support for education has declined since fiscal year 2008, with a sharp cut in fiscal year 2010, although part of the reduction in state support was offset by federal ARRA education funding in 2010, as reflected in the table, above right:

Operating Support for Instruction

(in millions)	2010		2009		2008	
State operating appropriations	\$ 303	35%	\$ 385	46%	\$ 388	48%
Federal ARRA education funding	44	5%	-	-	-	-
Operating tuition and fees	351	40%	296	35%	271	34%
Fees for self-sustaining education programs	177	20%	162	19%	149	18%
Total educational support	\$ 875	100%	\$ 843	100%	\$ 808	100%

Noncapital state appropriations are considered nonoperating revenue under GASB Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities," and are reflected in the nonoperating section of the Statements of Revenues, Expenses and Changes in Net Assets; however, they are used solely for operating purposes.

Tuition and fees, net of scholarship allowances, increased from \$420 million in 2008 to \$458 million in 2009, and to \$528 million in 2010. The increases were primarily due to a 7% increase in average undergraduate resident tuition rates in 2008 and 2009, and a 14% increase in 2010, as permitted by the state legislature. The University also has flexibility in its ability to set non-undergraduate resident tuition rates, which helps to compensate for shortfalls in state funding.

The impact of these tuition increases was partially offset by the increase in scholarships and scholarship allowances of \$21 million in 2010, \$15 million in 2009, and \$16 million in 2008.

Self-sustaining educational programs include \$63 million for UW Educational Outreach (the continuing education branch of the University), \$33 million for summer quarter, and \$28 million for Business School and School of Medicine programs.

Patient Services – UW Medicine

The financial statements of the University include the operations of the School of Medicine, two hospitals, associated physicians and clinics, and the University's share of two joint ventures. These entities, plus a third hospital, Harborview Medical Center (activities not included in the University's financial statements — see Footnote 14) and Airlift Northwest (affiliated as of July 1, 2010), comprise UW Medicine, an umbrella organization serving to coordinate these activities and promote quality health care in the Pacific Northwest and beyond, and to conduct cutting edge medical research with worldwide benefit.

Patient care activities included in the University's financial statements include:

University of Washington Medical Center (UWMC) is a 450-bed hospital that provides comprehensive health care services to the Puget Sound community and patients from throughout the Pacific Northwest. UWMC also serves as the major clinical, teaching and research site for students and faculty in the Health Sciences at the

Management's Discussion and Analysis (CONTINUED)

University. Over 19,000 patients receive inpatient care at UWMC each year. Specialized inpatient care needs are met by the Cancer Center, the Regional Heart Center, Neonatal ICU and Organ Transplantation program. During fiscal year 2010, work was in progress on Phase 1 of a new five-story UWMC tower, which will create significant space for expansion of patient care activities with an emphasis on neonatal and oncology patients.

UW Medicine/Northwest (Northwest) is a full-service medical facility with 281 beds, and treats approximately 11,000 inpatients per year. Northwest joined UW Medicine in January 2010. Northwest's Balance Sheet as of June 30, 2010 and Statement of Revenues, Expenses and Changes in Net Assets for the 18 months ended June 30, 2010 are presented in a discrete column on the financial statements of the University.

UW Physicians Network (UWPN) operates seven neighborhood clinics throughout the greater Seattle area, providing primary and selected speciality care with a staff of nearly 70 health care providers.

University of Washington Physicians (UWP) is the physician practice group for more than 1,500 faculty physicians and health care providers associated with UW Medicine. The revenues, expenses, assets and liabilities of UWP are included in the University's financial statements.

The University is also a participant in two joint ventures: Seattle Cancer Care Alliance and Children's University Medical Group. The University's share in these activities is reflected in the University's financial statements.

In combination, these organizations (not including Northwest) contributed \$1,029 million in patient service revenues in fiscal year 2010, \$988 million in fiscal year 2009, and \$924 million in 2008. UWMC generated 74% of this revenue in 2010, 71% in 2009, and 70% in 2008. UWMC admissions remained stable in 2010 compared to 2009, and increased 2% in 2009 over 2008. Patient length of stay (shorter average length of stay, or higher turnover, is financially favorable) remained relatively constant at 5.9 days in 2010 and 2009, and decreased from 6.1 days in 2008. Other factors contributing to the increase in hospital revenue over the period have been the increased acuity of patients and improved documentation and coding.

Gifts, Endowments and Investment Revenues

Net investment returns for the years ended June 30, 2010, 2009, and 2008 consisted of the following:

(in millions)	2010	2009	2008
Interest and dividends	\$ 78	\$ 66	\$ 70
Metropolitan Tract net income	8	6	7
Investment in Seattle Cancer Care Alliance	7	8	5
Net appreciation (depreciation) of fair value of investments	224	(544)	3
Investment expenses	(8)	(5)	(8)
Net investment income (loss)	\$ 309	\$ (469)	\$ 77

Net appreciation includes both realized and unrealized gains and losses; however, the unrealized gains are not expendable until the underlying securities have been sold. Net investment income increased by \$778 million in 2010 over 2009, and decreased by \$546 million in 2009 from 2008. The change in unrealized gain or loss was the major factor in the variance each year. The sharp decline in the University's investment performance in 2009 and 2008 was related to market declines which began in the latter part of fiscal year 2008.

Donor support declined in 2010 and 2009 after years of dramatic growth — a direct result of the worsening economy during that period. Gifts are a key, necessary source of support for a variety of purposes including capital improvements, scholarships, research and endowments for various academic and research positions.

Expenses

A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2010, 2009, and 2008 follows:

(in millions)	2010	2009	2008
Operating expenses:			
Educational and general instruction	\$ 905	\$ 908	\$ 824
Research	700	640	623
Public service	34	33	31
Academic support	259	265	265
Student services	34	34	34
Institutional support	141	143	156
Operation and maintenance of plant	155	178	169
Scholarships and fellowships	93	71	71
Auxiliary enterprises	166	171	162
Medical-related	777	779	749
Depreciation/amortization	229	207	200
Total operating expenses	\$ 3,493	\$ 3,429	\$ 3,284

Research expenditures, which represent sponsored research, increased \$60 million, or 9%, from the prior year, reflective of the increase in grant and contract revenue.

Operation and maintenance of plant decreased \$23 million, or 13%, compared to 2009. The state of Washington appropriated \$12 million for operations and maintenance and \$4 million for the Guggenheim renovation in the prior fiscal year. These appropriations were not continued in fiscal year 2010.

Scholarships and fellowships increased \$22 million, or 31%, primarily due to an increase in federal funding for Pell Grants.

Depreciation/amortization increased \$22 million, or 11%, during fiscal year 2010 compared to 2009. This increase was due to asset additions of \$106 million for equipment and intangibles, and \$149 million for buildings.

Operating expenses increased \$63.7 million, or 1.9%, in fiscal year 2010. Salaries decreased \$20.7 million, or 1.2%, due to reductions in staffing and restrictions on rate increases; however, the decrease was moderated by increased activities on grants, due to ARRA, and by federal funding for education. Expenses associated with the rental of office space also decreased, due to increasing utilization of the University Tower for housing administrative offices.

Supplies and purchased services expense increased \$44.3 million, or 5.9%, due to ARRA research activities and benefits expense increased \$12.8 million, or 2.5%, due to increases in health care and retirement costs.

In 2009, the University's operating expenses increased \$145 million, or 4%, over 2008, primarily driven by increased salaries and benefits expense. Salary rate increases ranging from 2% to 4% had an impact on salary costs, but were moderated by a one-time decrease in health care rates related to favorable claims experience.

OPERATING LOSS

The University's operating loss decreased to \$369 million in 2010 from \$527 million in 2009. The 2009 operating loss was a decrease from \$554 million in 2008.

State appropriations have declined; however, they are shown as nonoperating, pursuant to GASB standards. If state appropriations were classified as operating, the operating loss

would be as follows for 2010, 2009, and 2008, respectively: \$21 million, \$142 million, and \$166 million. The University continues to rely on nonoperating revenues, in addition to state appropriations, to fund its operations including operating gift revenues and investment income distributions.

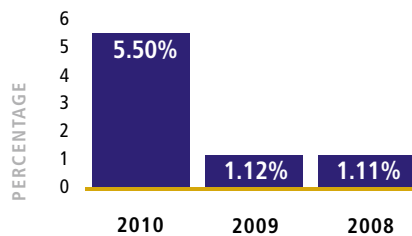
OPERATING MARGIN

Moody's measures the net result of revenue and expense activity by including several nonoperating revenues in the margin.

The 2010 operating margin increased to 5.50% from 1.12% in 2009; increases in tuition, patient services revenue and operating gifts, as well as conservative spending, accounted for much of the higher margin. The 2009 margin was a slight increase over 2008.

Operating margin calculations include an estimated return on the University's investments rather than actual investment income. Therefore, variances in investment performance in a given year will not impact the operating margin.

Operating Margin Percentage³



3. Operating loss, (including interest expense, operating appropriations, nonoperating federal grants, an assumed 5% spending rate on investments and nonpermanent endowment gifts), divided by operating revenues (less scholarship expenses, and including operating appropriations, nonoperating federal grants, an assumed 5% return on investments and nonpermanent endowment gifts). Does not include results for UW Medicine/Northwest.

Balance Sheets

	UNIVERSITY OF WASHINGTON		UW MEDICINE / NORTHWEST ¹
	June 30, 2010	2009	June 30, 2010
ASSETS			
CURRENT ASSETS:			
CASH AND CASH EQUIVALENTS (NOTE 2)	\$ 31,902	\$ 35,754	\$ 15,018
INVESTMENTS (NOTE 6)	314,721	376,787	2,159
ACCOUNTS RECEIVABLE (NET OF \$92,341 AND \$82,873 ALLOWANCE) (NOTE 5)	470,194	461,936	31,031
INVENTORIES	29,934	28,066	4,328
OTHER CURRENT ASSETS	4,536	4,185	5,579
TOTAL CURRENT ASSETS	851,287	906,728	58,115
NONCURRENT ASSETS:			
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	72,170	72,002	-
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	2,847,279	2,456,877	51,427
METROPOLITAN TRACT (NOTE 7)	115,902	117,759	-
STUDENT LOANS RECEIVABLE (NET OF \$9,136 AND \$9,499 ALLOWANCE) (NOTE 4)	70,507	68,467	-
OTHER ASSETS	85,393	72,759	2,887
CAPITAL ASSETS (NET OF \$2,530,064 AND \$2,352,246 ACCUMULATED DEPRECIATION) (NOTE 8)	2,957,777	2,839,901	132,715
TOTAL NONCURRENT ASSETS	6,149,028	5,627,765	187,029
TOTAL ASSETS	\$ 7,000,315	\$ 6,534,493	\$ 245,144
LIABILITIES			
CURRENT LIABILITIES:			
ACCOUNTS PAYABLE	\$ 93,705	\$ 109,938	\$ 12,128
ACCRUED LIABILITIES	221,587	223,440	25,896
COMMERCIAL PAPER (NOTE 11)	30,000	30,000	-
DEFERRED REVENUES	121,486	143,000	-
FUNDS HELD FOR OTHERS	16,752	11,469	-
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-12)	64,857	61,135	6,068
TOTAL CURRENT LIABILITIES	548,387	578,982	44,092
NONCURRENT LIABILITIES:			
DEFERRED REVENUES, NET OF CURRENT PORTION	18,055	21,799	-
U.S. GOVERNMENT GRANTS REFUNDABLE	50,873	51,618	-
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-12)	1,189,331	1,119,324	106,765
TOTAL NONCURRENT LIABILITIES	1,258,259	1,192,741	106,765
TOTAL LIABILITIES	1,806,646	1,771,723	150,857
NET ASSETS			
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	1,981,797	1,943,511	50,089
RESTRICTED:			
NONEXPENDABLE	959,442	883,942	1,715
EXPENDABLE	1,089,464	1,005,154	967
UNRESTRICTED	1,162,966	930,163	41,516
TOTAL NET ASSETS	5,193,669	4,762,770	94,287
TOTAL LIABILITIES AND NET ASSETS	\$ 7,000,315	\$ 6,534,493	\$ 245,144

¹ A component unit of the University of Washington (NOTE 1)

See accompanying notes to basic financial statements.

Dollars in thousands

Statements of Revenues, Expenses and Changes in Net Assets

	UNIVERSITY OF WASHINGTON		UW MEDICINE / NORTHWEST ¹
	Year Ended June 30,		18-Month Period Ended June 30,
	2010	2009	2010
REVENUES			
OPERATING REVENUES:			
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF \$82,461 AND \$82,813)	\$ 527,958	\$ 458,061	\$ -
PATIENT SERVICES (NET OF CHARITY CARE OF \$46,945 AND \$33,058)	1,029,057	988,370	389,838
FEDERAL GRANTS AND CONTRACTS	982,413	865,053	-
STATE AND LOCAL GRANTS AND CONTRACTS	73,540	69,002	-
NONGOVERNMENTAL GRANTS AND CONTRACTS	155,876	150,943	-
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	115,999	111,405	-
AUXILIARY ENTERPRISES:			
HOUSING AND FOOD SERVICES	58,508	54,486	-
PARKING SERVICES	10,764	9,661	-
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCES OF \$3,858 AND \$3,977)	39,445	37,041	-
OTHER AUXILIARY ENTERPRISES	46,592	48,946	-
OTHER MEDICAL-RELATED REVENUE	39,868	47,361	15,016
OTHER OPERATING REVENUE	44,055	62,093	-
TOTAL OPERATING REVENUES	3,124,075	2,902,422	404,854
EXPENSES			
OPERATING EXPENSES (NOTE 13)			
SALARIES	1,710,227	1,730,957	175,816
BENEFITS	513,855	501,091	40,881
SCHOLARSHIPS AND FELLOWSHIPS	93,219	71,394	-
UTILITIES	51,190	55,434	4,204
SUPPLIES AND MATERIALS	324,133	308,736	82,755
PURCHASED SERVICES	468,717	439,852	69,506
DEPRECIATION/AMORTIZATION	228,714	206,978	26,444
OTHER	102,600	114,518	-
TOTAL OPERATING EXPENSES	3,492,655	3,428,960	399,606
OPERATING INCOME (LOSS)	(368,580)	(526,538)	5,248
NONOPERATING REVENUES (EXPENSES)			
STATE APPROPRIATIONS	303,454	384,810	-
FEDERAL ARRA EDUCATION FUNDING (NOTE 1)	43,971	-	-
GIFTS	65,300	38,753	1,199
INVESTMENT INCOME (LOSS) (NET OF INVESTMENT EXPENSE OF \$7,788 AND \$5,759)	308,752	(469,492)	2,792
INTEREST ON CAPITAL ASSET-RELATED DEBT	(42,980)	(44,732)	(5,263)
PELL GRANT REVENUE	37,356	25,332	-
OTHER NONOPERATING REVENUES (EXPENSES)	(8,861)	2,486	499
NET NONOPERATING REVENUES (EXPENSES)	706,992	(62,843)	(773)
INCOME (LOSS) BEFORE OTHER REVENUES	338,412	(589,381)	4,475
CAPITAL APPROPRIATIONS	32,539	101,304	-
CAPITAL GRANTS AND GIFTS	16,005	27,453	580
GIFTS TO PERMANENT ENDOWMENTS	43,943	86,084	-
TOTAL OTHER REVENUES	92,487	214,841	580
INCREASE (DECREASE) IN NET ASSETS	430,899	(374,540)	5,055
NET ASSETS			
NET ASSETS – BEGINNING OF YEAR	4,762,770	5,137,310	89,232
NET ASSETS – END OF YEAR	\$ 5,193,669	\$ 4,762,770	\$ 94,287

¹ A component unit of the University of Washington (NOTE 1)

See accompanying notes to basic financial statements.

Dollars in thousands

Statements of Cash Flows

CASH FLOWS FROM OPERATING ACTIVITIES

STUDENT TUITION AND FEES	\$ 531,730	\$ 432,411
PATIENT SERVICES	963,710	978,666
GRANTS AND CONTRACTS	1,171,348	1,064,735
PAYMENTS TO SUPPLIERS	(320,184)	(310,333)
PAYMENTS FOR UTILITIES	(51,522)	(55,373)
PURCHASED SERVICES	(464,839)	(441,676)
OTHER OPERATING DISBURSEMENTS	(103,653)	(125,057)
PAYMENTS TO EMPLOYEES	(1,707,863)	(1,727,376)
PAYMENTS FOR BENEFITS	(467,299)	(497,527)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(93,219)	(71,394)
LOANS ISSUED TO STUDENTS	(29,102)	(26,541)
COLLECTION OF LOANS TO STUDENTS	26,317	24,966
OTHER MEDICAL-RELATED RECEIPTS	39,868	47,361
AUXILIARY ENTERPRISE RECEIPTS	167,322	133,013
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	115,472	114,051
OTHER RECEIPTS	84,403	79,588
NET CASH USED BY OPERATING ACTIVITIES	(137,511)	(380,486)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

STATE APPROPRIATIONS	286,098	385,097
FEDERAL ARRA EDUCATION FUNDING	43,971	-
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	37,356	25,332
PRIVATE GIFTS	55,600	29,279
PERMANENT ENDOWMENT RECEIPTS	43,942	86,084
DIRECT LENDING RECEIPTS	227,033	189,153
DIRECT LENDING DISBURSEMENTS	(217,575)	(187,752)
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	600,562	562,573
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(611,240)	(568,805)
OTHER	(8,730)	1,791
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	457,017	522,752

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

PROCEEDS FROM CAPITAL DEBT	121,461	109,162
STATE CAPITAL APPROPRIATIONS	42,559	95,864
CAPITAL GRANTS AND GIFTS RECEIVED	15,302	27,453
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(353,206)	(323,274)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(77,098)	(49,512)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(47,538)	(47,237)
OTHER	1,474	(5,277)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(297,046)	(192,821)

CASH FLOWS FROM INVESTING ACTIVITIES

PROCEEDS FROM SALES OF INVESTMENTS	3,987,515	5,873,091
PURCHASES OF INVESTMENTS	(4,091,814)	(5,878,173)
INVESTMENT INCOME	77,987	74,684
NET CASH PROVIDED BY INVESTING ACTIVITIES	(26,312)	69,602
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,852)	19,047
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	35,754	16,707
CASH AND CASH EQUIVALENTS – END OF THE YEAR	\$ 31,902	\$ 35,754

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	\$ (368,580)	\$ (526,538)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	228,714	206,978
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	3,920	(35,532)
INVENTORIES	(1,868)	1,139
OTHER ASSETS	(12,982)	806
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	12,364	(688)
DEFERRED REVENUE	(25,258)	277
OTHER LONG-TERM LIABILITIES	28,964	(25,353)
U.S. GOVERNMENTAL GRANTS REFUNDABLE	(745)	366
LOANS TO STUDENTS	(2,040)	(1,941)
NET CASH USED BY OPERATING ACTIVITIES	\$ (137,511)	\$ (380,486)

See accompanying notes to basic financial statements.
Dollars in thousands

Notes to Financial Statements (CONTINUED)

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 10-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 (UWMC), 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.

Component units are legally separate organizations for which the University is financially accountable. These entities may be reported in the financial statements of the primary government in one of two ways: the component units' amounts may be blended with the amounts reported by the primary government, or they may be shown in a separate column, depending on the application of the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14." All component units of the University meet the criteria for blending except UW Medicine/Northwest. It is reported discretely since it has a separate board of directors and it does not provide services exclusively to the University.

BLENDED COMPONENT UNITS

The following entities are presented as blended component units because they provide service exclusively or almost exclusively to the University. Financial information for these affiliated organizations is available from their respective administrative offices.

The University of Washington Alumni

Association was established as a tax-exempt entity to connect and celebrate alumni and to support the University's mission. The Alumni Association had operating revenues of \$5,304,000 and \$5,644,000 in 2010 and 2009, respectively.

The Association of University Physicians

dba UW Physicians (UWP) was established as a tax-exempt entity for the exclusive benefit of the University of Washington School of Medicine

(UWSOM). UWP employs UWSOM faculty and bills and collects for their clinical services as an agent for UWSOM. UWP had operating revenues of \$174,998,000 and \$173,572,000 in 2010 and 2009, respectively.

UW Physicians Network (UWPN) was established as a tax-exempt entity for the benefit of UWSOM, UWP and its affiliated medical centers, Harborview Medical Center (HMC) and UWMC, exclusively for charitable, scientific and educational purposes. UWPN was organized to coordinate and develop patient care in a community clinical setting. It enhances the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents and students. UWPN had operating revenues of \$10,928,000 and \$10,187,000 in 2010 and 2009, respectively.

Real estate financing entities – The entities listed below are nonprofit corporations that were formed to acquire, construct or renovate certain real properties for the benefit of the University in fulfilling its educational, medical or scientific research missions. These entities issue tax-exempt and taxable bonds to finance these activities.

Community Development Properties C-D
Educational Research Properties
Radford Court Properties
TSB Properties
Twenty-Fifth Avenue Properties
Washington Biomedical Research Properties I
Washington Biomedical Research Properties II
Washington Biomedical Research Facilities 3

These entities collectively have net capital assets of \$262,577,000 and \$273,836,000 in 2010 and 2009, respectively. They collectively have long-term debt of \$300,325,000 and \$307,358,000 in 2010 and 2009, respectively. These amounts are reflected in the University's financial statements.

DISCRETELY PRESENTED COMPONENT UNIT

UW Medicine and Northwest Hospital & Medical Center, a 281-bed full-service acute care hospital, entered into an affiliation agreement effective January 1, 2010. Northwest Hospital & Medical Center has been reorganized and renamed UW Medicine/Northwest (Northwest). The University is the sole corporate member of Northwest.

The change in the reporting entity was retrospectively applied to the combined University and Northwest financial statements. The 2010 Northwest financial information is presented to show activity starting January 1, 2009, the beginning of its most recent fiscal year. In conjunction with this change in entity, Northwest changed its fiscal year-end from December 31 to June 30, in order to be consistent with the

University. Accordingly, the discretely presented component unit reports activity for the 18 months ended June 30, 2010 in the Statements of Revenues, Expenses and Changes in Net Assets.

The audited financial statements of Northwest are available by contacting UW Medicine/Northwest at 1550 N. 115th Street, Seattle, WA 98133-9733, Mailstop X-112.

JOINT VENTURES

In 1998, the University entered into an agreement with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center to establish the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA has a one-third interest. The University accounts for its interest in SCCA under the equity method and has recorded \$63,390,000 and \$55,998,000 in "Other Assets," together with \$7,392,000 and \$7,755,000 in "Investment Income," for its share of the joint venture in 2010 and 2009, respectively.

In 1986, the University entered into an agreement with Seattle Children's Hospital to establish Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care, charitable, educational, and scientific missions. CUMG employs UWSOM faculty physicians, and bills and collects for their services as an agent for UWSOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (Note 5) includes amounts due from CUMG of \$15,229,000 and \$13,408,000 in 2010 and 2009, respectively.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with 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 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 of accounting, 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 Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989. The University reports capital assets net of accumulated depreciation/amortization (as applicable), and reports depreciation/amortization expense in the Statements of Revenues, Expenses and Changes in Net Assets.

On July 1, 2008, the University adopted GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments." This Statement requires endowments to report their land and other real estate held for investment at fair value. The University increased the carrying value of real estate held for investment in its endowment by \$1,040,000 during 2009.

On July 1, 2009, the University adopted GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This Statement requires that all intangible assets not specifically excluded by its scope be classified as capital assets. The University recognized \$2,707,000 in new intangible assets and \$2,540,000 in intangible projects in process in the fiscal year ended June 30, 2010.

On July 1, 2009, the University adopted GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." This Statement prescribes rules for the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision is that derivative instruments are to be reported at fair value. Changes in the fair value of derivative instruments that are used for investment purposes, or that are reported as investment derivative instruments because of ineffectiveness, are reported as investment income. Changes in the fair value of derivative instruments that are classified as hedging derivative instruments are reported in the Balance Sheets as deferrals. There was no financial statement impact to the University as a result of the implementation. Additional disclosure is included in Note 6.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP involves management estimates that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from those estimates; however, in each case, the University believes that allowances, reserves and estimates of expected liabilities are adequate.

The University estimates the pollution remediation liability by reviewing the current status of known polluted sites and developing estimates of cleanup costs. These estimates are subject to change due to improvements in technology, inflation, changes in the scope of work and the pursuit of reimbursement from other responsible parties.

Allowances for doubtful accounts (Notes 4 and 5) are estimates based on the historical experience of the University and current economic circumstances with respect to the collectability of accounts and loans receivable.

The liability and expense related to the supplemental component of the University of Washington Retirement Plan (UWRP) (Note 16) is based on an actuarial valuation. The results of an actuarial valuation are estimates based on historical data and the demographics of the employee population.

The self-insurance reserve (Note 17) is estimated through an actuarial calculation using individual case-basis valuations and statistical analyses. Considerable variability is inherent in such estimates.

OTHER ACCOUNTING POLICIES

Investments. Investments, other than miscellaneous investments, are stated at fair value.

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 from national securities exchanges. The alternative investments, which are not readily marketable, are carried at the estimated fair values 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.

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, library books and intangibles 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 and

amortization are 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, 5 to 7 years for equipment, 15 years for library books, and 3 to 15 years for intangibles.

Capitalized construction-related interest was \$5,848,000 and \$1,960,000 during 2010 and 2009, respectively.

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

Deferred Giving – Split-Interest Agreements.

Under these agreements, donors make initial gifts to trusts or directly to the University. The University has beneficial interest, but is not necessarily 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 5.1% 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 at June 30, 2010 and 2009 was \$72,797,000 and \$73,163,000, respectively, and is included in Accrued Liabilities. Sick leave accrued as of June 30, 2010 and 2009 was \$29,014,000 and \$29,991,000, respectively, and is included in Long-Term Liabilities.

Scholarship Allowances. Tuition and Fees are reported net of scholarship allowances that are applied to students' accounts from external funds that have already been recognized as revenue by the University. 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.

Federal ARRA Education Funding. As a result of the American Recovery and Reinvestment Act of 2009 (ARRA), the federal government granted funds to the state of Washington to support K-12 and higher education. Accordingly, the state of Washington passed through \$43,971,000 to the University in fiscal year 2010. These revenues are reported

Notes to Financial Statements (CONTINUED)

as nonoperating revenues 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 for tuition, patient services or grants under which services are performed, as well as payments made for the delivery of goods or services. Certain other significant revenue streams used for operations, such as state appropriations, Pell grants, 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/amortization, 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, generally scholarships, research and department uses;

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

Tax Exemption. The University, as an agency of the state of Washington, is not subject to federal income tax pursuant to Section 115 of the Internal Revenue Code, except for tax on unrelated business income.

NOTE 2:

Cash and Cash Equivalents

Cash includes cash on hand, petty cash and bank deposits. Most cash, except for cash held at the University, is covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). At June 30, 2010 and 2009, bank balances of \$4,770,000 and \$2,917,000, respectively, were insured by the FDIC and balances of \$30,020,000 and \$33,395,000, 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 bond reserve funds. The fair value of these funds approximates the carrying value.

NOTE 4:

Student Loans Receivable

Net student loans of \$70,507,000 and \$68,467,000 at June 30, 2010 and 2009, respectively, consist of \$50,873,000 and \$51,618,000 from federal programs and \$19,634,000 and \$16,849,000 from University programs. Interest income from student loans for the years ended June 30, 2010 and 2009 was \$1,306,000 and \$1,225,000, respectively. These unsecured loans are made primarily to students who reside in the state of Washington.

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, comprising 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, 2010 and 2009 is listed in Table 1.

TABLE 1 – UNIVERSITY INVESTMENTS

Investment Type	Carrying Value	
	2010	2009
CASH EQUIVALENTS	\$ 337,842	\$ 440,742
DOMESTIC FIXED INCOME	1,105,961	968,847
FOREIGN FIXED INCOME	18,909	12,272
DOMESTIC EQUITY	421,489	279,589
FOREIGN EQUITY	479,014	399,056
NONMARKETABLE ALTERNATIVES	407,847	377,946
ABSOLUTE RETURN	376,730	341,032
REAL ASSETS	9,737	8,463
MISCELLANEOUS	4,471	5,717
TOTAL INVESTMENTS	\$3,162,000	\$2,833,664

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2010, the Invested Funds Pool totaled \$1,068,762,000 compared to \$884,680,000 at June 30, 2009. The fund also owns units in the Consolidated Endowment Fund valued at \$354,942,000 on June 30, 2010 and \$322,324,000 on June 30, 2009. 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 2.0% in fiscal years 2010 and 2009. Endowment operating and gift accounts received 3% in both fiscal years 2010 and 2009. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

NOTE 5:

Accounts Receivable

The major components of accounts receivable as of June 30, 2010 and 2009 were:

(Dollars in thousands)	2010	2009
PATIENT SERVICES	\$ 267,083	\$ 241,342
GRANTS AND CONTRACTS	151,380	152,528
SALES AND SERVICES	10,406	9,880
TUITION	12,094	32,957
DUE FROM OTHER AGENCIES	35,135	28,361
ROYALTIES	14,839	20,863
STATE APPROPRIATIONS	19,852	12,516
OTHER	51,746	46,362
	562,535	544,809
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(92,341)	(82,873)
TOTAL	\$ 470,194	\$ 461,936

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments 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. RCW 24.55 of the Washington State Code allows for the spending of appreciation in the CEF.

During fiscal year 2009, in light of the 2008-2009 financial crises and the decline in the CEF market value, the Board of Regents implemented an interim spending policy. Under the interim policy, year-over-year CEF distributions decreased from the fiscal year 2008 level by 25% in fiscal year 2009 and again in fiscal year 2010.

At their October 21, 2010 meeting, the Board of Regents adopted a new spending policy for the CEF replacing the interim spending policy. Under the new policy, quarterly distributions to programs will be made based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. The new policy is effective with the December 2010 quarterly distributions with the five-year averaging period implemented incrementally. The administrative fee of 1% supporting campus-wide fundraising and stewardship activities

(0.80%) and offsetting the internal cost of managing endowment assets (0.20%) continues but will now be based on a five-year average value similar to program distributions.

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 \$1,122,974,000 and \$1,003,451,000 permanent endowment funds (at fair value) as of June 30, 2010 and 2009, the aggregate amount of the deficiencies where the fair value of the assets is less than the original gifts is \$53,318,000 and \$80,694,000 at June 30, 2010 and 2009, 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 \$45,580,000 at June 30, 2010 compared to \$43,365,000 at June 30, 2009. Income received from these trusts, which is included in Investment Income, was \$2,215,000 for the year ended June 30, 2010 and \$2,329,000 for the year ended June 30, 2009.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of \$138,053,000

in 2010 and losses of \$67,054,000 in 2009 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 (depreciation) in the fair value of investments during the years ended June 30, 2010 and 2009 was \$223,803,000 and \$(544,175,000), respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2010 and 2009, the University had outstanding commitments to fund alternative investments of \$215,300,000 and \$254,228,000, respectively.

SECURITIES LENDING

The University's investment policies permit it to lend its securities to broker dealers and other entities. Due to market conditions, the University terminated this program in September 2008. As of June 30, 2010 and 2009 the University had no securities on loan.

DERIVATIVES

Table 2 outlines the University's participation in investment derivative activity in total return swaps during the year ended June 30, 2010:

TABLE 2 – INVESTMENT DERIVATIVES (Dollars in thousands)

	Changes in Fair Value		Fair Value			
	Classification	Amount	Classification	Amount	Notional Amount	Counterparty Credit Rating
EQUITY SWAP	Investment Revenue	\$ (5,110)	Investments	\$ (5,110)	\$ 92,940	A-1

Values are based on quoted market prices. Credit exposure represents exposure to counterparties relating to financial instruments where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2010. An increase in the London Interbank Offered Rate (LIBOR) could affect the University's net payment on the swap. No derivative instruments have been reclassified from a hedging instrument to an investment instrument.

Details on foreign currency derivatives are disclosed under Foreign Currency Risk.

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 a calculation entitled Macaulay duration. Macaulay is an accepted 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 (one plus yield-to-maturity divided by the number of coupon payments per year). As of June 30, 2010 and 2009, modified duration of the University's investments for which duration is measured is as follows:

Notes to Financial Statements (CONTINUED)

TABLE 3 – INVESTMENTS MANAGED BY THE UNIVERSITY (Dollars in thousands; duration in years)

Asset Category	Duration as of June 30, 2010				Duration as of June 30, 2009			
	Consolidated Endowment Fund		Invested Funds		Consolidated Endowment Fund		Invested Funds	
	Asset Value	Duration	Asset Value	Duration	Asset Value	Duration	Asset Value	Duration
DOMESTIC FIXED INCOME								
ASSET-BACKED SECURITIES	\$ 28,716	2.11	\$ 33,336	1.87	\$ 9,442	2.96	\$ 29,263	2.96
CASH EQUIVALENTS	54,932	0.17	252,486	0.02	128,033	0.36	106,190	0.36
CORPORATE BONDS	84,748	2.84	37,797	1.55	31,789	3.95	47,116	3.95
GOVERNMENT & AGENCIES	143,467	1.99	692,698	3.26	117,966	2.43	660,920	2.43
MORTGAGE-RELATED	16,052	2.53	45,230	2.91	22,441	3.44	33,976	3.44
SUBTOTAL	327,915	1.94	1,061,547	2.37	309,671	1.82	877,465	1.82
FOREIGN FIXED INCOME								
CASH EQUIVALENTS	3	-	-	-	300	-	-	-
INTERNATIONAL FIXED	5,620	3.89	7,215	2.21	1,365	6.15	7,215	3.00
SUBTOTAL	5,623	3.89	7,215	2.21	1,665	5.04	7,215	3.00
TOTAL	\$ 333,538	2.14	\$ 1,068,762	2.36	\$ 311,336	1.84	\$ 884,680	2.61

CREDIT RISK

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

The University Investment Policies limit fixed income exposure to investment grade assets. The Investment Policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The Invested Funds' liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 50% of their port-

folios 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.

Investments subject to credit risk are presented in the table below:

TABLE 4 – INVESTMENTS CREDIT RATING (Dollars in thousands)

	Credit rating as of June 30, 2010				Credit rating as of June 30, 2009			
	Consolidated Endowment Fund		Invested Funds		Consolidated Endowment Fund		Invested Funds	
	Asset Value	%	Asset Value	%	Asset Value	%	Asset Value	%
TRSY	\$ 19,346	5.8%	\$ 414,678	38.8%	\$ 17,777	5.7%	\$ 333,049	37.6%
AGY	140,414	42.1%	424,331	39.7%	218,583	70.2%	382,531	43.2%
AAA	81,363	24.4%	179,212	16.8%	39,984	12.8%	36,456	4.1%
AA	38,473	11.5%	20,504	1.9%	6,935	2.2%	4,868	0.6%
A	30,979	9.3%	5,062	0.5%	9,568	3.1%	4,419	0.5%
BBB	8,384	2.5%	2,930	0.3%	-	-	2,897	0.3%
BB	188	0.1%	1,514	0.1%	11,070	3.6%	-	-
B	449	0.1%	1,564	0.1%	1,488	0.5%	-	-
CCC	485	0.1%	7,936	0.7%	2,295	0.7%	-	-
CC	203	0.1%	1,612	0.2%	590	0.2%	2,493	0.3%
NONE	13,254	4.0%	9,419	0.9%	3,046	1.0%	117,967	13.4%
TOTAL	\$ 333,538	100.0%	\$ 1,068,762	100.0%	\$ 311,336	100.0%	\$ 884,680	100.0%

Duration and credit risk figures at June 30, 2010 and 2009 exclude \$60,412 and \$225,845, respectively, of fixed-income securities held outside the CEF and the Invested Funds Pool. These amounts make up 1.91% and 7.97%, respectively, of the University's investments, and are not included in the duration figures detailed in Tables 3 and 4.

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 also enters into foreign currency forward contracts, futures contracts, and options to manage the foreign currency exposure.

At June 30, 2010 and 2009, the University had net outstanding forward commitments to sell foreign currency with a total fair value of \$4,701,000 and \$40,164,000, respectively, which equals 0.15% and 1.42% of the total portfolio.

Table 5 details the market value of foreign denominated securities by currency type in the CEF at June 30, 2010 and 2009.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY*(Dollars in thousands)*

Foreign Currency	June 30, 2010		
	Foreign Fixed Income	Foreign Equity	Alternatives and Other Investments
EURO (EUR)	\$ 1,681	\$ 52,258	\$ 59,432
JAPANESE YEN (JPY)	-	40,845	13,273
INDIAN RUPEE (INR)	-	30,865	22,170
BRITISH POUND (GBP)	4,134	34,199	16,970
CHINESE RENMINBI (CNY)	-	43,613	7,511
BRAZILIAN REAL (BRL)	-	43,553	306
HONG KONG DOLLAR (HKD)	-	31,300	4,804
RUSSIAN RUBLE (RUB)	-	27,717	2,070
CANADIAN DOLLAR (CAD)	1,224	9,023	15,353
SWISS FRANC (CHF)	1,600	18,971	3,431
TAIWANESE DOLLAR (TWD)	3	19,845	2,648
SOUTH KOREAN WON (KRW)	-	18,897	867
SINGAPORE DOLLAR (SGD)	-	10,641	1,946
AUSTRALIAN DOLLAR (AUD)	-	7,159	4,436
25 OTHERS (<1.8% EXPOSURE)	-	77,545	20,999
TOTAL	\$ 8,642	\$ 466,431	\$ 176,216

The above schedule does not include \$6,252 thousand of foreign investments held in the Invested Funds Pool or \$16,598 thousand of U.S. Dollar denominated foreign mutual funds.

Foreign Currency	June 30, 2009		
	Foreign Fixed Income	Foreign Equity	Alternatives and Other Investments
EURO (EUR)	\$ 397	\$ 40,985	\$ 42,239
JAPANESE YEN (JPY)	-	48,803	14,984
CHINESE RENMINBI (CNY)	-	37,546	3,851
BRITISH POUND (GBP)	113	29,405	8,726
BRAZILIAN REAL (BRL)	-	25,017	9,100
INDIAN RUPEE (INR)	-	18,215	13,160
HONG KONG DOLLAR (HKD)	-	25,110	2,079
CANADIAN DOLLAR (CAD)	780	7,263	12,868
RUSSIAN RUBLE (RUB)	-	16,925	126
SINGAPORE DOLLAR (SGD)	-	14,551	1,133
SOUTH KOREAN WON (KRW)	-	15,164	(391)
TAIWANESE DOLLAR (TWD)	-	12,985	573
SWISS FRANC (CHF)	201	12,070	479
30 OTHERS (<2.0% EXPOSURE)	175	81,279	7,296
TOTAL	\$ 1,666	\$ 385,318	\$ 116,223

The above schedule does not include \$7,117 thousand of foreign investments held in the Invested Funds Pool or \$17,227 thousand of U.S. Dollar denominated foreign mutual funds.

NOTE 7:**Metropolitan Tract**

The Metropolitan Tract, located in downtown Seattle, comprises 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 1900's, 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, 2010 and 2009 represent operating assets, net of liabilities, and land, buildings and improvements stated at appraised value as of November 1, 1954. The balances also include subsequent capital additions and improvements at cost, less retirements and accumulated depreciation of \$125,861,000 and \$117,606,000, respectively, and are net of the outstanding balance of the line of credit described below.

In July 2004, the University obtained a 10-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, 2010 and 2009, \$8,500,000 was outstanding on the credit line.

NOTE 8:**Capital Assets**

Capital asset activity for the two-year period ended June 30, 2010 is summarized as follows:

<i>(Dollars in thousands)</i>	Balance at June 30, 2008	Additions/Transfers	Retirements	Balance at June 30, 2009	Additions/Transfers	Retirements	Balance at June 30, 2010
LAND	\$ 106,280	\$ 6,405	\$ -	\$ 112,685	\$ 1,959	\$ -	\$ 114,644
INFRASTRUCTURE	173,487	2,650	-	176,137	1,722	-	177,859
BUILDINGS	3,248,164	157,686	-	3,405,850	149,333	-	3,555,183
FURNITURE, FIXTURES AND EQUIPMENT	982,365	93,712	66,329	1,009,748	86,196	50,483	1,045,461
LIBRARY MATERIALS	260,827	16,685	1,401	276,111	13,808	1,479	288,440
CAPITALIZED COLLECTIONS	5,517	-	-	5,517	182	-	5,699
INTANGIBLE ASSETS	-	-	-	-	20,035	-	20,035
INTANGIBLES IN PROCESS	-	-	-	-	2,540	-	2,540
CONSTRUCTION IN PROGRESS	145,448	60,651	-	206,099	71,881	-	277,980
TOTAL	4,922,088	337,789	67,730	5,192,147	347,656	51,962	5,487,841
LESS ACCUMULATED DEPRECIATION/AMORTIZATION							
INFRASTRUCTURE	69,794	3,980	-	73,774	4,054	-	77,828
BUILDINGS	1,194,050	106,914	-	1,300,964	115,128	-	1,416,092
FURNITURE, FIXTURES AND EQUIPMENT	773,962	83,840	61,439	796,363	80,813	49,901	827,275
LIBRARY MATERIALS	169,853	12,244	952	181,145	12,465	995	192,615
INTANGIBLE ASSETS	-	-	-	-	16,254	-	16,254
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	2,207,659	206,978	62,391	2,352,246	228,714	50,896	2,530,064
CAPITAL ASSETS, NET	\$ 2,714,429	\$ 130,811	\$ 5,339	\$ 2,839,901	\$ 118,942	\$ 1,066	\$ 2,957,777

Notes to Financial Statements (CONTINUED)

NOTE 9:

Long-Term Liabilities

Long-term liability activity for the two-year period ended June 30, 2010 is summarized as follows:

<i>(Dollars in thousands)</i>	Balance at June 30, 2008			Balance at June 30, 2009			Balance at June 30, 2010		
	Balance at June 30, 2008	Additions	Reductions	Balance at June 30, 2009	Additions	Reductions	Balance at June 30, 2010	Current Portion 2009	Current Portion 2010
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	\$ 254,404	\$ -	\$ 14,418	\$ 239,986	\$ 31,040	\$ 45,124	\$ 225,902	\$ 11,719	\$ 12,433
REVENUE BONDS PAYABLE (NOTE 11)	652,800	75,835	16,195	712,440	77,710	16,835	773,315	17,335	19,000
UNAMORTIZED PREMIUM ON BONDS	15,433	-	1,647	13,786	2,271	1,799	14,258	1,608	1,808
TOTAL BONDS PAYABLE	922,637	75,835	32,260	966,212	111,021	63,758	1,013,475	30,662	33,241
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED (NOTE 11)	34,861	2,625	3,090	34,396	3,049	3,185	34,260	3,229	4,499
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	2,173	420	1,117	1,476	213	83	1,606	742	1,353
CAPITAL LEASE OBLIGATIONS (NOTE 10)	24,482	702	11,162	14,022	5,391	8,155	11,258	6,952	6,019
TOTAL NOTES PAYABLE AND CAPITAL LEASES	61,516	3,747	15,369	49,894	8,653	11,423	47,124	10,923	11,871
OTHER LONG-TERM LIABILITIES:									
CHARITABLE AND DEFERRED GIFT ANNUITY LIABILITY	38,080	1,023	9,783	29,320	956	-	30,276	8,965	4,891
POLLUTION REMEDIATION LIABILITY (NOTE 1)	6,000	580	-	6,580	-	580	6,000	580	-
SICK LEAVE (NOTE 1)	25,965	4,026	-	29,991	-	977	29,014	1,054	488
SELF-INSURANCE (NOTE 17)	47,515	14,606	10,471	51,650	21,272	15,298	57,624	8,188	12,885
NET PENSION OBLIGATION (NOTE 16)	21,477	26,080	745	46,812	26,080	2,217	70,675	763	1,481
TOTAL OTHER LIABILITIES	139,037	46,315	20,999	164,353	48,308	19,072	193,589	19,550	19,745
TOTAL LONG-TERM LIABILITIES	\$ 1,123,190	\$ 125,897	\$ 68,628	\$ 1,180,459	\$ 167,982	\$ 94,253	\$ 1,254,188	\$ 61,135	\$ 64,857

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2010, are as follows:

CAPITAL LEASES

Year	Future Payments
2011	\$ 6,372
2012	3,273
2013	1,781
2014	400
TOTAL MINIMUM LEASE PAYMENTS	11,826
LESS: AMOUNT REPRESENTING INTEREST COSTS	568
PRESENT VALUE OF MINIMUM PAYMENTS	\$ 11,258

Buildings and equipment under capital lease were as follows:

<i>(Dollars in thousands)</i>	Balance at June 30, 2008			Balance at June 30, 2009			Balance at June 30, 2010		
	Balance at June 30, 2008	Additions	Retirements	Balance at June 30, 2009	Additions	Retirements	Balance at June 30, 2010		
EQUIPMENT	\$ 63,467	\$ 702	\$ 12,177	\$ 51,992	\$ 5,391	\$ 23,197	\$ 34,186		
REAL ESTATE	9,987	-	-	9,987	-	-	9,987		
TOTAL	73,454	702	12,177	61,979	5,391	23,197	44,173		
LESS ACCUMULATED DEPRECIATION									
EQUIPMENT	57,171	6,128	12,177	51,122	1,552	23,197	29,477		
REAL ESTATE	7,990	999	-	8,989	998	-	9,987		
TOTAL ACCUMULATED DEPRECIATION	65,161	7,127	12,177	60,111	2,550	23,197	39,464		
LEASED CAPITAL ASSETS, NET	\$ 8,293	\$ (6,425)	\$ -	\$ 1,868	\$ 2,841	\$ -	\$ 4,709		

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, 2010 and 2009, the University recorded rent expenses of \$27,169,000 and \$29,024,000, respectively, for these leases. Future lease payments under these leases as of June 30, 2010 are as follows:

Year	(Dollars in Thousands)
2011	\$ 22,629
2012	20,287
2013	18,466
2014	16,761
2015	14,124
2016 – 2020	44,801
2021 – 2025	26,672
2026 – 2030	27,547
2031 – 2052	42,924
TOTAL MINIMUM LEASE PAYMENTS	\$ 234,211

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2010 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 3.00% to 7.38%. Debt service requirements at June 30, 2010 were as follows:

BONDS AND NOTES PAYABLE (Dollars in thousands)						
Year	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON REVENUE BONDS		NOTES PAYABLE AND OTHER	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 12,433	\$ 11,346	\$ 19,000	\$ 36,443	\$ 5,852	\$ 1,395
2012	13,435	10,670	19,440	35,555	5,084	1,227
2013	14,415	9,928	20,720	34,667	3,420	1,060
2014	15,105	9,223	21,880	33,641	2,031	931
2015	15,725	8,455	23,340	32,561	2,057	851
2016 – 2020	77,370	28,993	117,335	147,499	11,393	2,865
2021 – 2025	60,610	12,111	103,050	122,220	5,660	582
2026 – 2030	16,809	1,344	85,225	97,830	369	14
2031 – 2035	-	-	51,350	75,804	-	-
2036 – 2040	-	-	311,975	31,922	-	-
TOTAL PAYMENTS	\$ 225,902	\$ 92,070	\$ 773,315	\$ 648,142	\$ 35,866	\$ 8,925

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 Parking System and a special student fee to retire the related revenue bonds.

REFUNDING ACTIVITY

On July 8, 2009, the state of Washington refunded General Obligation Bonds totaling \$29,780,000 (UW portion) with new bond issuances with a par value of \$27,430,000 and premium of \$2,637,000. The refunded bonds had coupon rates ranging from 3.50% to 5.00%; the new bonds have an average interest rate of 4.871%. The refunding decreased the total debt service payments to be made over the next 14.5 years by \$3,318,000 and resulted in a total economic gain of \$2,582,000.

On October 28, 2009, the state of Washington refunded General Obligation Bonds totaling \$3,715,000 (UW portion) with new bond issuances with a par value of \$3,610,000 and premium of \$394,000. The refunded bonds had a coupon rate of 5.25%; the new bonds have an average interest rate of 5.00%. The refunding decreased the total debt service payments to be made over the next 16 years by \$319,000 and resulted in a total economic gain of \$252,000.

On June 15, 2010, the state of Washington refunded Certificates of Participation (COP) totaling \$4,455,000 with new COP issuances with a par value of \$4,485,000 and premium of \$39,000. The refunding decreased the total debt service payments to be made over the next 11 years by \$671,000 and resulted in a total economic gain of \$609,000.

SUBSEQUENT DEBT OFFERING

On August 10, 2010, the state of Washington partially refunded series 2002A & Series 2002B General Obligation Bonds totaling \$32,975,000 (UW portion) with new bond issuances with a par value of \$29,840,000 and premium of \$4,894,000. The refunded bonds had a coupon rate of 5.00%; the new bonds have an average interest rate of 5.00%. The refunding decreased the total debt service payments to be made over the next 14.5 years by \$4,008,000 and resulted in a total economic gain of \$3,621,000.

On September 28, 2010, the state of Washington refunded General Obligation Bonds totaling \$19,795,000 (UW portion) with new bond issuances with a par value of \$18,865,000 and premium of \$2,869,000. The refunded bonds had coupon rates ranging from 4.00% to 5.00%; the new bonds have an average interest rate of 4.802%. The refunding decreased the total debt service payments to be made over the next 16.3 years by \$2,539,000 and resulted in a total economic gain of \$1,891,000.

Notes to Financial Statements (CONTINUED)

On October 5, 2010, the University issued \$165,005,000 in General Revenue & Refunding Bonds, 2010 A&B. Part of the proceeds were used to partially refund the 2002 Housing and Dining Revenue & Refunding bonds. The amount refunded was \$10,890,000; the new par value was \$10,400,000 with a premium of \$605,000. The refunded bonds had coupon rates ranging from 4.75% to 5.375%; the new bonds have an average interest rate of 3.943%. The refunding decreased the total debt service payments to be made over the next 21 years by \$991,000 and resulted in a total economic gain of 640,000. In addition, proceeds were used to pay off \$35,000,000 in commercial paper. The remainder of the proceeds will be used to fund a variety of projects including Tacoma Phase 3,

Balmer Hall Renovation, UWMC Expansion, and Housing & Dining Phase 1 Master Plan. The average life of the 2010 A&B bonds (new money only) is 23.8 years with final maturity on October 1, 2040. The average coupon of these bonds is 4.91%.

In December, 2010, Washington Biomedical Research Facilities 3 has committed to issue approximately \$165 million in lease revenue bonds. The bond proceeds will fund construction of a research facility that the University will occupy through a long-term lease arrangement.

COMMERCIAL PAPER PROGRAM

In July 2006, the Board of Regents authorized a commercial paper program with a maximum borrowing limit of \$250,000,000, payable from

University General Revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2010 and 2009, there was \$30,000,000 and \$30,000,000, respectively, in outstanding commercial paper.

On September 3, 2009, the University issued \$2,000,000 in short-term commercial paper. The commercial paper was paid off with proceeds from the General Revenue Bond, 2009B, issued on December 22, 2009.

Between July 1, 2010 and September 30, 2010, the University issued \$35,000,000 in short-term commercial paper. The commercial paper was paid off with proceeds from the issuance of General Revenue & Refunding Bonds, 2010 A&B.

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:

<i>(Dollars in thousands)</i> 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	\$43,680	Housing and Dining Bonds, issued in 2002 and 2004	Construction and renovation of student housing	2032	15.8%
Student Housing gross rent from Component Unit Entities, net of permitted operating expenses	\$149,653	Student Housing Revenue Bonds (Component Unit Entities), issued in 1996, 2000, and 2002	Construction and renovation of student housing	2033	78.4%
Student Facilities Fees and earnings on invested fees	\$68,419	Student Facilities Refunding Revenue Bonds, issued in 2005	Construction of student facilities	2030	20.0%
Parking Revenues from the University Parking System, net of operating expenses – reported as Auxiliary Revenues	\$26,770	University of Washington Parking System and Refunding Bonds, issued in 2004	Construction of improvements and additions to the University's parking system	2030	14.0%

* 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, 2010 and 2009 are summarized as follows:

<i>(Dollars in thousands)</i> Operating Expenses	2010	2009
EDUCATIONAL AND GENERAL INSTRUCTION	\$ 904,812	\$ 908,394
RESEARCH	699,955	640,261
PUBLIC SERVICE	33,814	33,061
ACADEMIC SUPPORT	259,388	264,507
STUDENT SERVICES	33,815	34,160
INSTITUTIONAL SUPPORT	141,371	142,889
OPERATION & MAINTENANCE OF PLANT	155,188	178,131
SCHOLARSHIPS & FELLOWSHIPS	93,219	71,394
AUXILIARY ENTERPRISES	165,612	170,602
MEDICAL-RELATED	776,767	778,583
DEPRECIATION/AMORTIZATION	228,714	206,978
TOTAL OPERATING EXPENSES	\$ 3,492,655	\$ 3,428,960

NOTE 14:

Related Parties

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, 2015.

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 \$24,501,000 in 2010 and \$21,715,000 in 2009, as well as HMC investments of \$2,411,000 and \$2,125,000, respectively, and accrued liabilities of \$17,288,000 and \$16,012,000, respectively.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University of Washington. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2010 and 2009, the UWF transferred \$43,831,000 and \$46,393,000, respectively, to the University in gifts and grants received on its behalf; these are included in the financial statements of the University. The remaining amounts retained by the UWF are not significant to the University's financial statements.

AIRLIFT NORTHWEST— SUBSEQUENT EVENT

On July 1, 2010, Airlift Northwest, a pre-eminent provider of air medical services in the Pacific Northwest, dissolved its separate 501(c)(3) status and became a self-sustaining unit of the University of Washington.

NOTE 15:

Other Post Employment Benefits (OPEB)

Health care and life insurance programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

The health care premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the OPEB obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). For calendar year 2009, this amount was \$183 per retiree eligible for parts A and B of Medicare. This is also passed through to state agencies via active employee rates charged to the agency.

There is no formal state or University plan that underlies the subsidy of retiree health and life insurance.

Actuarial Study

Actuarial studies performed by the Washington Office of the State Actuary calculated that the total OPEB obligation of the state of Washington at January 1, 2009 and 2008 was \$3.8 billion and \$4.0 billion, respectively. The annual cost was \$349 million and \$332 million for 2010 and 2009, respectively. The actuary calculated the OPEB obligation based on individual state employee data, including age, retirement eligibility and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

The actuary's allocation of the cumulative statewide liability related to the University, including its unconsolidated affiliates, was estimated at approximately \$636 million and \$590 million for 2010 and 2009, respectively. These amounts are not included in the University's financial statements.

The University paid \$250 million and \$186 million for healthcare expenses in 2010 and 2009, respectively, which included its pay-as-you-go portion of the OPEB liability, calculated by the actuary at \$6.5 million and \$6.9 million in 2010 and 2009, respectively.

The State Actuary's report is available at: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm

NOTE 16:

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 to beneficiaries, 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 nonacademic 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 nonacademic 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, WA 98504-8380, or visiting <http://www.dr.s.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 were required to contribute 6% of their annual covered salary in both fiscal years 2010 and 2009. 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, 2010 and 2009 was 3.9% and 5.45% respectively. Plan 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, 2010 and 2009, for each of PERS Plans 1, 2, and 3 was 5.31% and 8.31%, for the respective years.

The University's contributions to PERS for the years ended June 30, 2010, 2009, and 2008 were \$41,680,000, \$64,169,000, and \$45,351,000, respectively, which were equal to the annual required contributions for each year.

Notes to Financial Statements (CONTINUED)

UNIVERSITY OF WASHINGTON RETIREMENT PLAN (403(B)) & UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN (401(A))

Faculty, librarians and professional staff are eligible to participate in the University of Washington Retirement Plan, a 403(b) defined-contribution plan and the UW Supplemental Retirement Plan, a 401(a) defined-benefit retirement plan which operates in tandem with the 403(b) plan. Both plans are administered by the University.

403(b) Plan Description: Contributions to the plan are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from fund sponsors are available upon separation or retirement at the member's option. RCW 28B.10.400 et. seq. assigns the authority to the University of Washington Board of Regents to establish and amend benefit provisions.

403(b) 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 years ended June 30, 2010 and 2009 were \$80,018,000 and \$76,878,000, respectively.

401(a) Plan Description: This plan provides for a supplemental payment component, which guarantees a minimum retirement benefit based upon a one-time calculation at each eligible participant's retirement date. The University makes direct payments to qualifying retirees when the retirement benefits provided by the 403(b) plan do not meet the benefit goals.

401(a) Plan Funding: The supplemental component of the UWRP is financed on a pay-as-you-go basis. The University received an actuarial valuation of the supplemental payment component of the UWRP with a valuation date of July 1, 2009. The previous evaluations were performed in 2007 and 2004.

The Unfunded Actuarial Accrued Liability (UAL) and Annual Required Contribution (ARC) as of July 1 of the respective year were:

<i>(Dollars in thousands)</i>	2009	2007	2004
UAL	\$ 218,036	\$ 64,215	\$ 32,454
NORMAL COST	8,860	3,369	1,370
AMORTIZATION OF UAL, INCLUDING INTEREST	17,220	4,374	1,993
ARC	\$ 26,080	\$ 7,743	\$ 3,363

<i>(Dollars in thousands)</i>	2009	2007	2004
Actuarial assumptions			
PAYROLL COVERED BY PLAN	\$ 976,000	\$ 771,000	\$ 640,000
RATE OF RETURN ASSUMPTION	5%	5%	4%
SALARY INCREASES FOR YEARS 1 AND 2	2%	4%	2%
SALARY INCREASE FOR THIRD YEAR	4%	4%	2%
SALARY INCREASES THEREAFTER	4%	4%	4%

The UAL and ARC were established using the entry age normal cost method.

The following table reflects the activity in the Net Pension Obligation for the years ended June 30, 2010, 2009, and 2008:

<i>(Dollars in thousands)</i>	2010	2009	2008
BALANCE AT BEGINNING OF FISCAL YEAR	\$ 46,812	\$ 21,477	\$ 14,515
ANNUAL REQUIRED CONTRIBUTION	26,080	26,080	7,743
PAYMENTS TO BENEFICIARIES	(2,217)	(745)	(781)
BALANCE AT END OF FISCAL YEAR	\$ 70,675	\$ 46,812	\$ 21,477

NOTE 17:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2010 and 2009, were \$263,779,000 and \$158,014,000, respectively. These expenditures will be funded from local funds and state appropriations.

The University receives and expends substantial amounts under federal and state grants, contracts and programs such as Medicare. 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 4% and 4.25% in the years ended June 30, 2010 and 2009, respectively.

The self-insurance reserve is estimated through an actuarial calculation. Changes in the self-insurance reserve for the years ended June 30, 2010, 2009 and 2008 are noted below:

<i>(Dollars in thousands)</i>	2010	2009	2008
RESERVE AT BEGINNING OF FISCAL YEAR	\$ 51,650	\$ 47,515	\$ 40,133
INCURRED CLAIMS AND CHANGES IN ESTIMATES	21,272	14,606	13,286
CLAIM PAYMENTS	(15,298)	(10,471)	(5,904)
RESERVE AT END OF FISCAL YEAR	\$ 57,624	\$ 51,650	\$ 47,515



BOARD OF REGENTS *

Herb Simon, *Chair*
Kristianne Blake, *Vice Chair*
Stanley H. Barer
Jeffrey H. Brotman
Craig W. Cole
William H. Gates
Ben Golden
Joanne R. Harrell
Sally Jewell
Orin Smith

ADMINISTRATIVE OFFICERS *

Mark A. Emmert
President
Phyllis M. Wise
Provost and Executive Vice President
Eric Godfrey
Vice President and Vice Provost for Student Life
Randy Hodgins
Vice President for External Affairs
Mindy Kornberg
Vice President for Human Resources
Connie Kravas
Vice President for University Advancement

Sheila Edwards Lange
Vice President for Minority Affairs and Vice Provost for Diversity
Paul G. Ramsey
CEO, UW Medicine, Executive Vice President for Medical Affairs and Dean of the School of Medicine
Doug Wadden
Executive Vice Provost
V'ella Warren
Senior Vice President

* As of June 30, 2010

This publication was prepared jointly by Financial Management and UW Office of External Affairs. Published December 2010.


The 2010 UW Annual Report and reports from previous years are available at annualreport.uw.edu. For more information, contact Financial Accounting at 206.221.7845 or accountg@uw.edu

PHOTOGRAPHY: Mary Levin, Doug Plummer, Dennis Wise

DESIGN, PRODUCTION, AND PRINT COORDINATION: UW Creative Communications, UW Marketing

VISIT OUR WEBSITE: www.uw.edu

© 2010 University of Washington

 Printed on recycled paper containing 30% post-consumer fiber



UNIVERSITY *of*
WASHINGTON