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UNIVERSITY *of* WASHINGTON

2012 FINANCIAL REPORT

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University Facts

	2011-2012	2006-2007	2001-2002
STUDENTS			
Autumn Enrollment			
Undergraduate	35,732	31,135	30,005
Graduate	12,135	10,557	9,379
Professional	1,978	1,802	1,705
TOTAL	49,845	43,494	41,089
Extension course registrations	70,823	48,577	31,054
Number of Degrees Awarded			
Bachelor's	9,853	8,306	8,053
Master's	3,635	2,877	2,735
Doctoral	712	631	495
Professional	565	500	469
TOTAL	14,765	12,314	11,752
INSTRUCTIONAL FACULTY	4,071	3,742	3,443
FACULTY AND STAFF¹	30,972	28,188	23,680
RESEARCH FUNDING – ALL SOURCES (in thousands of dollars)	\$ 1,471,309	\$ 1,020,000	\$ 809,000
SELECTED REVENUES (in thousands of dollars)			
Gifts, Grants, and Contracts	\$ 1,378,272	\$ 1,079,926	\$ 803,839
Patient Service and Other Medical-Related Revenues ²	1,862,557	900,266	587,623
Auxiliary Enterprises and Other Revenues	447,651	802,458	292,090
State Appropriations (Operating)	218,343	365,782	343,656
Tuition and Fees ³	681,227	396,895	249,861
SELECTED EXPENSES (in thousands of dollars)			
Instruction, Academic Support, and Student Services	\$ 1,254,118	\$ 1,033,965	\$ 728,501
Research and Public Service	806,566	630,460	471,681
Medical-Related ²	1,709,881	689,436	509,906
Auxiliary Enterprises	195,982	142,883	141,692
Institutional Support and Physical Plant	342,495	315,702	239,797
CONSOLIDATED ENDOWMENT FUNDS⁴ (in thousands of dollars)	\$ 2,111,000	\$ 2,098,000	\$ 998,000
SQUARE FOOTAGE⁵ (in thousands of square feet)	22,210	19,187	16,300

¹ Full-time equivalents

² Includes Valley Medical Center and Northwest Hospital (included in 2011-2012 only)

³ Net of scholarship allowances of \$133,243,000 in 2011-2012 and \$55,394,000 in 2006-2007

⁴ Stated at fair value

⁵ Gross square footage, all campuses



KPMG LLP

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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, 2012 and 2011, and its discretely presented component units as of and for the year ended June 30, 2012. 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 opinion.

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, where applicable, 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 and its discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2012 and 2011, the changes in its financial position or, where applicable, 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, 2012 and 2011, 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 units as of June 30, 2012, and the changes in their financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

November 9, 2012

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, 2012 and 2011. 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 2012

The University recorded an increase in net assets of \$14 million in fiscal year 2012; \$520 million less than the fiscal year 2011 increase of \$534 million. This is primarily related to a decrease in investment income of \$361 million in fiscal year 2012, a result of decreased market values during the year. The University adjusts the carrying value of investments to market value each year, with the change recorded as investment income or loss. Revenues from tuition and patient services continued to show growth during 2012, while revenues from research activities decreased slightly due to reductions in Federal ARRA funding.

Key Financial Results for Fiscal Years 2012, 2011 and 2010:

(in millions)	2012	2011	2010
Total operating revenues	\$ 3,522	\$ 3,390	\$ 3,124
Operating expenses	3,911	3,769	3,493
Operating loss	(389)	(379)	(369)
State appropriations	218	297	303
Federal ARRA Education Funding	–	–	44
Investment income	34	395	309
Gifts	152	177	119
Other nonoperating revenue (expense), net	(1)	44	25
Increase in net assets	14	534	431
Net assets, beginning of year	5,728	5,194	4,763
Net assets, end of year	\$ 5,742	\$ 5,728	\$ 5,194

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. 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.

The state of Washington, which provided 5% of the University's total revenues in fiscal year 2012, continues to struggle with budget deficits. The University's 2013 operating appropriation from the state is approximately \$209 million, roughly equal to the 2012 amount which was a 33% decrease from the prior year. Though

state tax revenue collections show modest growth currently, required expenditures are significant in 2013 and beyond, which will likely result in additional funding pressure in the upcoming years in both operating and capital appropriations. To help alleviate the effects of this educational funding shortfall, the University's Board of Regents have broad tuition setting authority, including undergraduate resident tuition.

Funding for research activities was temporarily boosted by Federal ARRA funding for basic research and activities in the health sciences; this contributed to a bump in research expenditures of \$74 million in 2012 and \$163 million in 2011. The University has \$50 million of unspent ARRA awards that will be expended in fiscal year 2013 or later. The federal budget remains under significant pressure; federal funding for research could be impacted.

Rising benefit costs, particularly for health care and pensions, continue to impact the University as well. Pension funding rates for the state pension plans are likely to increase over the next few years. State support for benefit expenses continues to shrink along with the University's state funding subsidy.

In March 2010, health care reform was passed by the U.S. Congress and signed into law by President Obama. While the major changes in coverage will take effect beginning in 2014, there may be significant changes by the state and federal government to implementation plans for health care reform between now and 2014. Thus, the environment in which health care organizations currently operate is dynamic and uncertain.

While the economic downturn continues to put pressure on operating results, 2012 remained relatively stable for the University of Washington Medical Center compared with 2011 due to the complex level of care provided. Operating results of Northwest Hospital & Medical Center (Northwest Hospital) were impacted by lower than expected volume, as well as one-time expenses related to relocation of services. Many initiatives are underway that should improve Northwest Hospital's performance in the future. Valley Medical Center operating results were negatively impacted by expenses associated with implementation of the Electronic Medical Record, and a reduction in tax levy revenues.

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 (Northwest Hospital). GASB

standards require that this affiliation be presented as a discrete component unit; therefore, its financial position at June 30, 2012 and the results of its operations for the year ended June 30, 2012 are included in a separate column for financial statement presentation purposes. (See Note 1 and Note 19 to the Financial Statements.)

On July 1, 2011, the University affiliated with Valley Medical Center, a Washington public hospital district which owns and operates a 303-bed full-service acute care hospital and 22 clinics located throughout southeast King County. The affiliation with Valley Medical Center is also being reflected as a discrete component unit, therefore its financial position and the results of its operations are included together with Northwest Hospital in a separate column for financial statement presentation purposes. (See Note 1 and Note 19 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 its discrete component units (Northwest Hospital and Valley Medical Center), 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, 2012, 2011, and 2010, follows:

(in millions)	2012	2011	2010
Current assets	\$ 1,161	\$ 924	\$ 851
Noncurrent assets:			
Capital assets, net	3,618	3,246	2,958
Other	3,624	3,843	3,191
Total assets	8,403	8,013	7,000
Current liabilities	722	651	548
Noncurrent liabilities	1,939	1,634	1,258
Total liabilities	2,661	2,285	1,806
Net assets	\$ 5,742	\$ 5,728	\$ 5,194

The excess of current assets over current liabilities of \$439 million in 2012 reflects the continuing ability of the University to meet its short-term obligations. Current assets consist primarily of cash, short-term investments and accounts receivable. The June 30, 2012 current asset balance of \$1,161 million was an increase of \$237 million from 2011, due mostly to increases in the value of 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, 2012 decreased by \$227 million from 2011 as a result of market declines during the year in the

value of the University's investments. Realized and unrealized losses in fiscal year 2012 totaled \$35 million, versus \$324 million of realized and unrealized gains in 2011.

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 net assets are often internally designated for specific purposes.

The University's net assets at June 30, 2012, 2011, and 2010 are summarized as follows:

(in millions)	2012	2011	2010
Invested in capital assets, net of related debt	\$ 2,113	\$ 2,060	\$ 1,982
Restricted:			
Nonexpendable	1,116	1,075	959
Expendable	1,162	1,227	1,090
Unrestricted	1,351	1,366	1,163
Total net assets	\$ 5,742	\$ 5,728	\$ 5,194

Net investment in capital assets increased \$53 million, or 3%, in 2012, and increased \$78 million, or 4%, in 2011. 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 \$41 million, or 4%, in 2012, and \$116 million, or 12%, in 2011. For both years the increase was the result of new endowment gifts. The fiscal year 2011 increase also reflected recovery of the value of underwater investments in the Consolidated Endowment Fund.

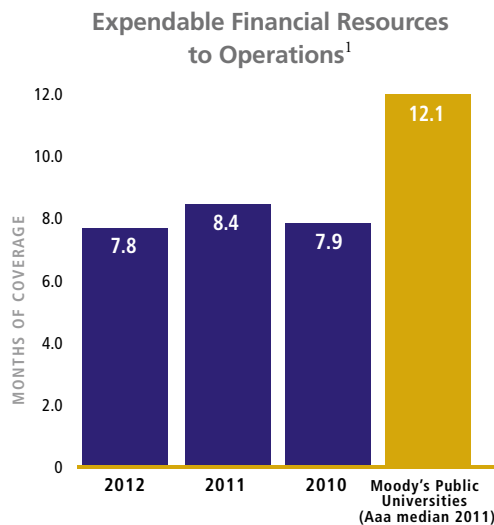
Restricted expendable net assets decreased \$65 million, or 5%, in 2012, and increased \$137 million, or 13%, in 2011. This category is primarily affected by new operating and capital gifts, and

Management's Discussion *and* Analysis (CONTINUED)

earnings or losses in restricted investments, including endowments. The sharp decline in the market value of investments, which had a significant effect on the University's investments in 2009, was partially recovered during 2010 and 2011.

Unrestricted net assets decreased by \$15 million, or 1%, in 2012, compared to an increase of \$203 million, or 17%, in 2011. Funding pressure from the state of Washington for the educational function, reduced ARRA research funding (and the associated indirect cost recoveries), as well as flat returns on investments related to unrestricted funds, impacted the University's net assets. The 2011 increase was largely driven by increases in tuition and patient services revenue, and an increase in the market value of investments related to unrestricted funds.

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 2012 the University had enough expendable resources from various sources to fund operations for a period of 7.8 months.



Endowment and Other 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 has experienced considerable growth over the past 10 years due to gifts and endowment returns. The number of endowments in the CEF increased from 1,691 to 3,782 and the market value of the CEF rose to \$2.1 billion as of June 30, 2012.

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. Excludes discrete component units.

The impact to program support has been substantial with \$716 million distributed over the past 10 years. Programs supported by the endowment include academic support, scholarships, fellowships, professorships, chairs and research activities.

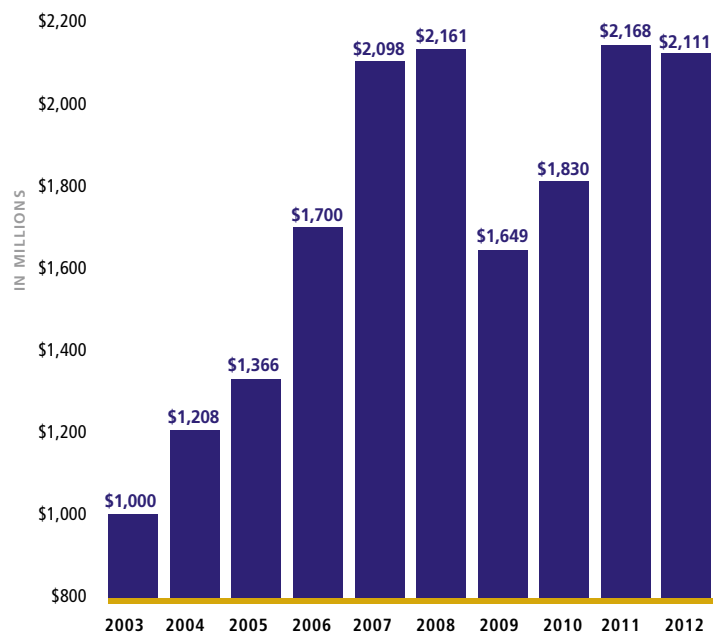
Under the long-term spending policy approved by the Board of Regents, CEF quarterly distributions to programs are made based on an annual percentage rate of 4% applied to the five-year rolling average of the CEF's market valuation. The administrative fee of 1% supporting fundraising and stewardship activities (0.80%) and investment management (0.20%) continues. Similar to program distributions, the fee is based on the endowment's five-year average market value.

Endowment portfolios are commonly managed around a core set of objectives focused on the need to provide support for endowed programs in perpetuity. The Board of Regents, in conjunction with the University of Washington Investment Committee (UWINCO), establishes the strategic asset allocation judged to be most appropriate for the University from a long-term potential return and risk perspective.

For the fiscal year ending June 30, 2012 the CEF earned an investment return of -0.9%, underperforming the policy benchmark but outperforming the blended benchmark (70% MSCI ACWI and 30% BC Government Bond). CEF returns over the past five years averaged +0.2%, weighed down substantially by the 2008-2009 global financial crisis. Performance over the ten-year period remains solid, with the CEF returning an annual average of +7.0%.

A portion of the University's operating funds are invested in the CEF. As of June 30, 2012 these funds comprise \$423 million of the CEF market value.

Consolidated Endowment Fund Market Value
(in millions)



Unaudited – see accompanying notes to basic financial statements

DEBT AND RELATED CAPITAL IMPROVEMENTS

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. For example, the \$267.5 million UW General Revenue and Refunding Bonds, issued in March 2012, partially funded an expansion of the medical center, new student housing, renovation of the Husky Union Building and a renovation of Husky Stadium. Additionally, these bonds refunded \$62 million of revenue bonds and paid off \$100 million in outstanding commercial paper.

In December 2011, Moody's Investors Service changed the University from an Aaa negative rating to an Aaa stable rating.

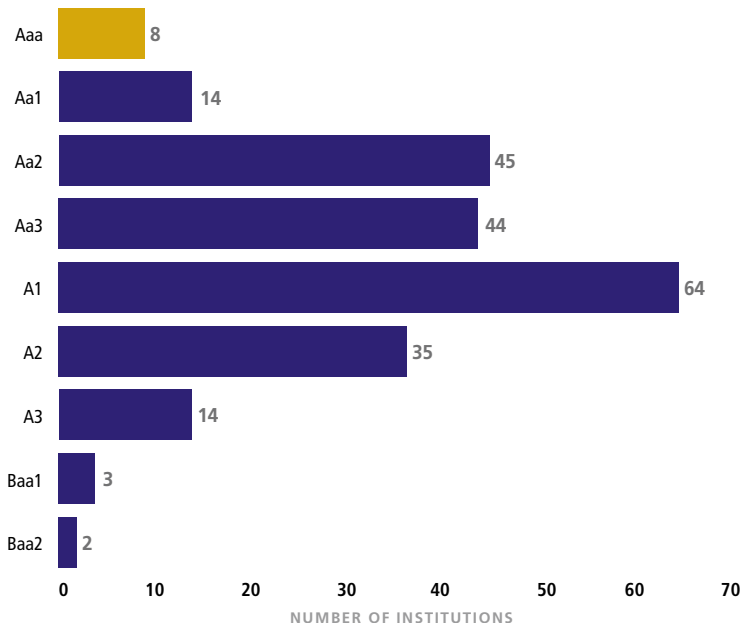
Strong ratings carry substantial advantages for the University: continued and wider access to capital markets when the University issues debt, lower interest rates on bonds and the ability to negotiate favorable bond terms.

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 2011

Public College and University Rating Distribution

(As of the September 2012 Moody's Median Report)

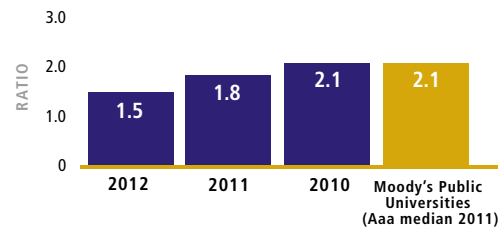


During 2012, capital expenditures included \$112 million for the construction of new student housing, \$78 million for the renovation and expansion of Husky Stadium, \$61 million for the expansion of the University of Washington Medical Center (UWMC), \$57 million for the renovation of the Husky Union Building, \$18 million for the new Molecular Engineering building, and \$18 million for the renovation of Balmer Hall.

During 2011, capital expenditures included \$70 million for the construction of new student housing, \$67 million for the expansion of UWMC, \$31 million for the renovation of the Husky Union Building, \$30 million for the new Molecular Engineering building, \$21 million for Phase 3 of the UW Tacoma campus, and \$16 million for the renovation of Balmer Hall.

The 2012 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 1.5 times over. The decrease from prior years relates primarily to the issuance of \$479 million of additional revenue bonds during fiscal 2012 (includes refunding activity for debt and commercial paper already issued).

Expendable Financial Resources to Direct Debt²



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

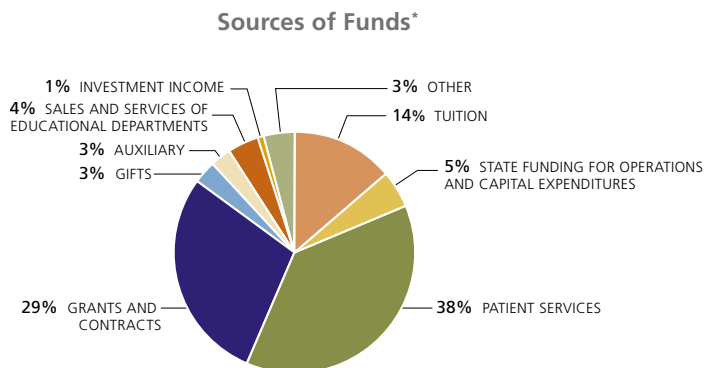
The Statements of Revenues, Expenses, and Changes in Net Assets present the University's results of operations and nonoperating items that result in the changes in net assets for the year. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A condensed comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2012, 2011, and 2010 follows:

(in millions)	2012	2011	2010
Total operating revenues	\$ 3,522	\$ 3,390	\$ 3,124
Operating expenses	3,911	3,769	3,493
Operating loss	(389)	(379)	(369)
Nonoperating revenues, net of expenses	317	766	707
Other revenues	86	147	93
Increase in net assets	14	534	431
Net assets, beginning of year	5,728	5,194	4,763
Net assets, end of year	\$ 5,742	\$ 5,728	\$ 5,194

² The sum of Unrestricted Net Assets and Restricted Expendable Net Assets, divided by total capital lease obligations, bonds and notes payable outstanding. Excludes discrete component units.

Management's Discussion *and* Analysis (CONTINUED)

The University has a diversified revenue base. No single source generated more than 38% of the total fiscal year 2012 revenues of \$4.8 billion.



*Includes discrete component units

The following table summarizes revenues from all sources for the years ended June 30, 2012, 2011, and 2010:

(in millions)	2012	2011	2010
Tuition and fees	\$ 681	\$ 595	\$ 528
Patient services	1,098	1,064	988
Grants and contracts	1,353	1,365	1,256
Sales and services of educational departments	186	165	167
Auxiliary enterprises	161	154	147
State funding for operations	218	297	303
Federal ARRA education funding	–	–	44
Gifts	152	177	119
Investment income	34	395	309
State funding for capital projects	6	37	33
Other	95	111	72
Total revenue – all sources	\$ 3,984	\$ 4,360	\$ 3,966

Grant Revenue

Excluding the discrete component units, the largest source of revenues (34%) continues to be grants and contracts. This revenue decreased \$12 million, or 1%, in 2012, compared to an increase of \$109 million, or 9%, in 2011. Revenues generated by Federal ARRA research funding decreased to \$74 million in fiscal year 2012, compared to \$163 million in 2011, but were mostly offset by increases in other federal programs.

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.

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 below:

Operating Support for Instruction

(in millions)	2012		2011		2010	
State operating appropriations	\$ 218	24%	\$ 297	33%	\$ 303	35%
Federal ARRA education funding	–		–		44	5%
Operating tuition and fees	461	51%	410	46%	351	40%
Fees for self-sustaining educational programs	220	25%	185	21%	177	20%
Total educational support	\$ 899	100%	\$ 892	100%	\$ 875	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, were \$681 million in 2012, \$595 million in 2011 and \$528 million in 2010. The increases were primarily due to a 20% increase in average undergraduate resident tuition rates in 2012 and 14% in 2011.

Tuition increases were partially offset by the increase in scholarships and fellowships, and scholarship allowances of \$49 million in 2012, \$18 million in 2011, and \$21 million in 2010.

Self-sustaining educational programs include the following amounts for each of the fiscal years 2012, 2011 and 2010: Educational Outreach (the continuing education branch of the University) \$85 million, \$67 million and \$63 million, respectively, summer quarter tuition \$47 million, \$31 million and \$33 million, respectively, and for Business School and School of Medicine programs \$38 million, \$36 million and \$28 million, respectively.

Patient Services–UW Medicine

The financial statements of the University include the operations of the School of Medicine, three hospitals, associated physicians and clinics, Airlift Northwest, and the University's share of two joint ventures. These entities and Harborview Medical Center (activities not included in the University's financial statements - see Footnote 14) 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:

UW 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 University. Over 18,000 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 2012, work continued on Phase 1 of a new eight-story UWMC tower, which will create space for expansion of patient care activities with an emphasis on neonatal and oncology patients.

Valley Medical Center (VMC) is a 303-bed acute care hospital and network of clinics, treats approximately 17,000 inpatients per year, and is the oldest and largest public district hospital in the state of Washington. VMC joined UW Medicine in July 2011. VMC's Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets are presented in a discrete column together with Northwest Hospital on the financial statements of the University.

Northwest Hospital & Medical Center (Northwest Hospital) is a full-service medical facility with 281 beds, and treats approximately 9,000 inpatients per year. Northwest Hospital joined UW Medicine in January 2010. Northwest Hospital's Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets are presented in a discrete column together with VMC on the financial statements of the University.

UW Neighborhood Clinics is a network of primary care clinics with nine neighborhood locations throughout the greater Seattle area, providing primary and selected specialty care with a staff of nearly 70 health care providers. The revenues, expenses, assets and liabilities of the Neighborhood Clinics are included in the University's financial statements.

UW Physicians (UWP) is the physician practice group for more than 1,800 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.

Airlift Northwest is a preeminent provider of air medical transport services in the Pacific Northwest.

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 Valley Medical Center and Northwest Hospital) contributed \$1,098 million in patient service revenues in fiscal year 2012, \$1,064 million in fiscal year 2011, and \$988 million in 2010. UWMC generated 77% of this revenue in 2012 and 2011, and 79% in 2010. UWMC admissions were 18,000 in 2012, a slight decrease from 2011 and 2010. Average patient length of stay, however, increased to 6.7 days in 2012, up from 6.1 in 2011 and 5.9 in 2010. The

operating margin for UWMC was 7.0% in 2012, an increase from 6.7% in 2011 but less than the 2010 result of 9.0%. 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, 2012, 2011, and 2010 consisted of the following:

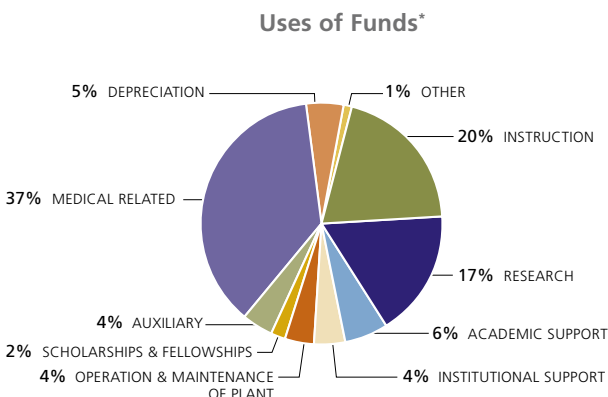
(in millions)	2012	2011	2010
Interest and dividends	\$ 63	\$ 59	\$ 78
Metropolitan Tract net income	7	7	8
Investment in Seattle Cancer Care Alliance	7	12	7
Net appreciation (depreciation) of fair value of investments	(35)	324	224
Investment expenses	(8)	(7)	(8)
Net investment income	\$ 34	\$ 395	\$ 309

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 decreased by \$361 million in 2012, compared to an increase of \$86 million in 2011. The change in realized and unrealized gains and losses was the major factor in the variance each year.

Donor support decreased by \$25 million, or 14%, from \$177 million in 2011 to \$152 million in 2012. 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

Two primary functions of the University, instruction and research, comprised 37% of total operating expenses. These dollars provided instruction to more than 49,000 students and funded 5,000 research awards. Medical-related expenses are the largest individual component, due to the inclusion of Northwest Hospital and Valley Medical Center.



*Includes discrete component units

Management's Discussion *and* Analysis (CONTINUED)

A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2012, 2011, and 2010 follows:

(in millions)	2012	2011	2010
Operating expenses:			
Educational and general instruction	\$ 926	\$ 920	\$ 905
Research	782	791	700
Public service	24	30	34
Academic support	292	279	259
Student services	37	35	34
Institutional support	162	133	141
Operation and maintenance of plant	181	192	155
Scholarships and fellowships	108	101	93
Auxiliary enterprises	196	170	166
Medical-related	961	874	777
Depreciation/amortization	242	244	229
Total operating expenses	\$ 3,911	\$ 3,769	\$ 3,493

Institutional Support increased \$29 million, or 22%, in 2012. Much of this increase resulted from a rise in self-insurance expense during the year, due to a higher number of self-insured medical claims and no longer discounting the actuarial liability.

Auxiliary Enterprises increased \$26 million, or 15%, in 2012 due in part to non-capitalized costs related to the renovation of Husky Stadium, increased operating costs for new student housing added during the year, and one-time remediation charges resulting from construction of student housing.

Medical-related expenses increased \$87 million, or 10%, over 2011 due mostly to increases during the year in salaries and benefits, and increased expense for purchased services and supplies incurred by UWMC and the blended medical component units.

Overall, the University's operating expenses increased by \$142 million, or 4%, over 2011. Purchased Services increased by \$28 million, or 5%, driven by increased service expense related to new and upgraded medical systems, and costs associated with the UWMC contact center. Salaries expense increased by \$62 million, or 4%, during 2012, driven in part by a modest increase in staffing and contractually agreed wage increases. Benefits expense increased \$33 million, or 6% during 2012, resulting from both the increase in FTE's and higher retirement plan contributions for PERS (the defined benefit pension plan administered by the state of Washington).

In 2011, the University's operating expenses increased by \$276 million, or 8%, over 2010, primarily driven by equipment purchased for the National Science Foundation's (NSF) Ocean Observatory Initiative (the University is the administrator, but not the owner, of these assets since they were funded by, and on behalf of, the NSF), increased medical supplies and pharmaceuticals for UWMC, the addition of Airlift Northwest, and increases driven by higher grant and contract revenue. Salaries expense increased by \$68 million, or 4%, during 2011, driven in part by a modest increase in staffing and the addition of Airlift Northwest. Benefits expense increased \$48 million, or 9% during 2011, resulting mostly from a 14% increase in the health care premium per employee paid by the University.

OPERATING LOSS

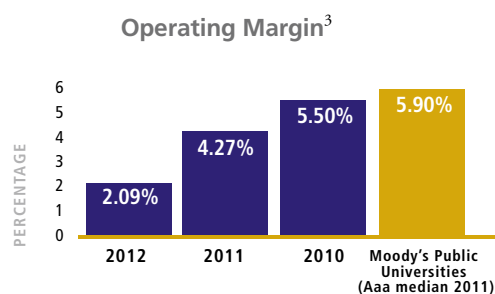
The University's operating loss increased slightly to \$389 million in 2012 from \$379 million in 2011. The 2011 operating loss was an increase from \$369 million in 2010.

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 2012, 2011 and 2010, respectively: \$170 million, \$82 million, and \$21 million. The amount for 2010 includes \$44 million of Federal ARRA education funding, a one-time event. 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 2012 operating margin decreased to 2.09% from 4.27% in 2011. 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.



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, federal grants, an assumed 5% return on investments and nonpermanent endowment gifts). Excludes discrete component units.



Balance Sheets

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNITS ¹
	June 30, 2012	June 30, 2011	June 30, 2012
ASSETS			
CURRENT ASSETS:			
CASH AND CASH EQUIVALENTS (NOTE 2)	\$ 50,158	\$ 42,715	\$ 45,333
INVESTMENTS, CURRENT PORTION (NOTE 6)	577,962	366,995	63,121
ACCOUNTS RECEIVABLE (NET OF \$81,299 AND \$86,177 ALLOWANCE) (NOTE 5)	496,944	480,637	99,890
INVENTORIES	31,676	28,710	9,362
OTHER CURRENT ASSETS	4,366	5,252	12,394
TOTAL CURRENT ASSETS	1,161,106	924,309	230,100
NONCURRENT ASSETS:			
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	50,418	50,616	–
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	3,278,068	3,505,273	130,221
METROPOLITAN TRACT (NOTE 7)	114,211	115,101	–
STUDENT LOANS RECEIVABLE (NET OF \$9,441 AND \$9,207 ALLOWANCE) (NOTE 4)	69,039	69,669	–
OTHER NONCURRENT ASSETS	112,192	101,271	12,345
CAPITAL ASSETS (NET OF \$2,908,441 AND \$2,722,752 ACCUMULATED DEPRECIATION) (NOTE 8)	3,618,409	3,246,486	510,903
TOTAL NONCURRENT ASSETS	7,242,337	7,088,416	653,469
TOTAL ASSETS	\$ 8,403,443	\$ 8,012,725	\$ 883,569
LIABILITIES			
CURRENT LIABILITIES:			
ACCOUNTS PAYABLE	\$ 161,241	\$ 126,184	\$ 32,010
ACCRUED LIABILITIES	281,410	250,545	89,329
COMMERCIAL PAPER (NOTE 11)	25,000	50,000	–
DEFERRED REVENUES, CURRENT PORTION	148,984	134,143	–
FUNDS HELD FOR OTHERS	33,213	18,343	–
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-12)	72,311	71,721	11,855
TOTAL CURRENT LIABILITIES	722,159	650,936	133,194
NONCURRENT LIABILITIES:			
DEFERRED REVENUES, NET OF CURRENT PORTION	5,974	9,410	10,727
U.S. GOVERNMENT GRANTS REFUNDABLE	49,401	54,545	–
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-12)	1,884,301	1,569,469	424,406
TOTAL NONCURRENT LIABILITIES	1,939,676	1,633,424	435,133
TOTAL LIABILITIES	2,661,835	2,284,360	568,327
NET ASSETS			
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	2,113,238	2,059,911	99,131
RESTRICTED:			
NONEXPENDABLE	1,115,854	1,074,824	1,719
EXPENDABLE	1,161,583	1,226,792	8,673
UNRESTRICTED	1,350,933	1,366,838	205,719
TOTAL NET ASSETS	5,741,608	5,728,365	315,242
TOTAL LIABILITIES AND NET ASSETS	\$ 8,403,443	\$ 8,012,725	\$ 883,569

¹ See Note 19

See accompanying notes to basic financial statements.

Dollars in thousands

Statements of Revenues, Expenses and Changes in Net Assets

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNITS ¹
	Year ended June 30, 2012	2011	Year ended June 30, 2012
REVENUES			
OPERATING REVENUES:			
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF \$133,243 AND \$91,403)	\$ 681,227	\$ 594,915	\$ –
PATIENT SERVICES (NET OF CHARITY CARE OF \$77,130 AND \$54,761)	1,097,525	1,063,827	704,423
FEDERAL GRANTS AND CONTRACTS	1,070,901	1,092,973	–
STATE AND LOCAL GRANTS AND CONTRACTS	83,954	70,188	–
NONGOVERNMENTAL GRANTS AND CONTRACTS	146,699	151,600	–
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	185,521	165,475	–
AUXILIARY ENTERPRISES:			
HOUSING AND FOOD SERVICES	67,357	59,663	–
PARKING SERVICES	11,465	10,462	–
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF \$5,757 AND \$4,735)	46,714	43,128	–
OTHER AUXILIARY ENTERPRISES	35,760	40,645	–
OTHER MEDICAL-RELATED REVENUE	28,536	22,928	32,073
OTHER OPERATING REVENUE	66,711	74,477	–
TOTAL OPERATING REVENUES	3,522,370	3,390,281	736,496
EXPENSES			
OPERATING EXPENSES (NOTE 13)			
SALARIES	1,839,181	1,776,699	325,944
BENEFITS	596,525	563,660	92,065
SCHOLARSHIPS AND FELLOWSHIPS	107,729	101,388	–
UTILITIES	51,956	54,406	8,425
SUPPLIES AND MATERIALS	383,355	384,530	133,320
PURCHASED SERVICES	585,079	556,643	117,181
DEPRECIATION / AMORTIZATION	242,929	243,638	54,529
OTHER	104,271	88,554	17,211
TOTAL OPERATING EXPENSES	3,911,025	3,769,518	748,675
OPERATING LOSS	(388,655)	(379,237)	(12,179)
NONOPERATING REVENUES (EXPENSES)			
STATE APPROPRIATIONS	218,343	296,769	–
GIFTS	76,718	86,823	301
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF \$8,207 AND \$6,419)	34,123	394,670	6,767
INTEREST ON CAPITAL ASSET-RELATED DEBT	(41,182)	(42,726)	(22,689)
PELL GRANT REVENUE	47,387	44,044	–
PROPERTY TAX REVENUE	–	–	17,818
OTHER NONOPERATING REVENUES (EXPENSES)	(18,330)	(12,946)	1,382
NET NONOPERATING REVENUES	317,059	766,634	3,579
INCOME (LOSS) BEFORE OTHER REVENUES	(71,596)	387,397	(8,600)
CAPITAL APPROPRIATIONS	6,066	37,255	–
CAPITAL GRANTS, GIFTS, AND OTHER	25,514	35,622	1,263
GIFTS TO PERMANENT ENDOWMENTS	53,259	74,422	–
TOTAL OTHER REVENUES	84,839	147,299	1,263
INCREASE (DECREASE) IN NET ASSETS	13,243	534,696	(7,337)
NET ASSETS			
NET ASSETS – BEGINNING OF YEAR	5,728,365	5,193,669	322,579
NET ASSETS – END OF YEAR	\$ 5,741,608	\$ 5,728,365	\$ 315,242

¹ See Note 19

See accompanying notes to basic financial statements.

Dollars in thousands

Statements of Cash Flows

UNIVERSITY OF WASHINGTON

Year Ended June 30,
2012 2011**CASH FLOWS FROM OPERATING ACTIVITIES**

STUDENT TUITION AND FEES	\$ 665,192	\$ 559,936
PATIENT SERVICES	1,081,711	1,071,683
GRANTS AND CONTRACTS	1,319,705	1,328,507
PAYMENTS TO SUPPLIERS	(369,199)	(369,292)
PAYMENTS FOR UTILITIES	(51,018)	(53,619)
PURCHASED SERVICES	(573,664)	(551,365)
OTHER OPERATING DISBURSEMENTS	(99,776)	(89,572)
PAYMENTS TO EMPLOYEES	(1,835,546)	(1,773,919)
PAYMENTS FOR BENEFITS	(530,790)	(501,858)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(107,729)	(101,388)
LOANS ISSUED TO STUDENTS	(28,965)	(22,510)
COLLECTION OF LOANS TO STUDENTS	24,451	27,020
OTHER MEDICAL-RELATED RECEIPTS	28,536	22,928
AUXILIARY ENTERPRISE RECEIPTS	161,858	144,823
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	185,856	165,685
OTHER RECEIPTS	72,000	39,512
NET CASH USED BY OPERATING ACTIVITIES	(57,378)	(103,429)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

STATE APPROPRIATIONS	195,422	314,371
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	47,387	44,044
PRIVATE GIFTS	65,400	57,999
PERMANENT ENDOWMENT RECEIPTS	53,259	74,422
DIRECT LENDING RECEIPTS	249,363	237,439
DIRECT LENDING DISBURSEMENTS	(265,599)	(237,601)
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	664,145	623,058
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(626,859)	(621,873)
OTHER	(18,762)	(11,395)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	363,756	480,464

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

PROCEEDS FROM CAPITAL DEBT	652,752	525,856
STATE CAPITAL APPROPRIATIONS	6,982	36,864
CAPITAL GRANTS AND GIFTS RECEIVED	24,893	19,982
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(576,745)	(491,762)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(404,692)	(143,506)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(63,449)	(57,379)
OTHER	1,402	21,796
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(358,857)	(88,149)

UNIVERSITY OF WASHINGTON

Year Ended June 30,
2012 2011**CASH FLOWS FROM INVESTING ACTIVITIES**

PROCEEDS FROM SALES OF INVESTMENTS	6,369,847	5,021,145
PURCHASES OF INVESTMENTS	(6,372,671)	(5,358,025)
INVESTMENT INCOME	62,746	58,807
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES	59,922	(278,073)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,443	10,813
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	42,715	31,902
CASH AND CASH EQUIVALENTS-END OF THE YEAR	\$ 50,158	\$ 42,715

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	\$ (388,655)	\$ (379,237)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION / AMORTIZATION EXPENSE	242,929	243,638
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	4,511	(15,591)
INVENTORIES	(2,966)	1,224
OTHER ASSETS	(10,035)	(15,877)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	47,153	29,418
DEFERRED REVENUE	11,405	3,625
OTHER LONG-TERM LIABILITIES	42,794	24,861
U.S. GOVERNMENTAL GRANTS REFUNDABLE	(5,144)	3,672
LOANS TO STUDENTS	630	838
NET CASH USED BY OPERATING ACTIVITIES	\$ (57,378)	\$ (103,429)

See accompanying notes to basic financial statements.
Dollars in thousands

Notes to Financial Statements

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

The University of Washington (University), an agency of the state of Washington, is governed by a 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.

On July 1, 2010, Airlift Northwest, (Airlift NW) a preeminent 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. The affiliation with Airlift NW resulted in a contribution of capital of \$13,227,000 that is reflected in Capital Grants, Gifts, and Other on the Statement of Revenues, Expenses and Changes in Net Assets in the year ending June 30, 2011.

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 Northwest Hospital & Medical Center and Valley Medical Center. They are reported discretely since they have separate boards of directors and they do 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 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 \$157,312,000 and \$145,524,000 in 2012 and 2011, respectively.

UW Medicine Neighborhood Clinics (Neighborhood Clinics) 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. The Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of \$13,116,000 and \$12,283,000 in 2012 and 2011, 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.

- 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 \$285,108,000 and \$268,936,000 in 2012 and 2011, respectively. They collectively have long-term debt of \$371,230,000 and \$456,577,000 in 2012 and 2011, respectively. These amounts are reflected in the University's financial statements. Fiscal year 2011 balances include component units that were dissolved during fiscal year 2012 as described in "Changes in Reporting Entity".

DISCRETELY PRESENTED COMPONENT UNITS

Northwest Hospital

UW Medicine and Northwest Hospital & Medical Center (Northwest Hospital), a 281-bed full-service acute care hospital, entered into an affiliation agreement effective January 1, 2010. The University is the sole corporate member of Northwest Hospital. The audited financial statements of Northwest Hospital are available by contacting Northwest Hospital & Medical Center at 1550 N. 115th Street, Seattle, WA 98133-9733, Mailstop X-112.

Valley Medical Center

UW Medicine and Public Hospital District No. 1 of King County, a Washington public hospital district d/b/a Valley Medical Center, entered into a strategic alliance, effective July 1, 2011. Valley Medical Center owns and operates a 303-bed full-service acute care hospital and 22 clinics located throughout southeast King County.

The audited financial statements of Valley Medical Center are available by contacting Valley Medical Center at 400 S. 43rd Street, Renton, WA 98055 or online at the following address: <http://www.valleymed.org/about-us/financial-information/>

JOINT VENTURES

The University, together with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center established 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

\$81,638,000 and \$75,130,000 in “Other Assets,” together with \$6,509,000 and \$11,740,000 in “Investment Income,” for its share of the joint venture in 2012 and 2011, respectively.

The University and Seattle Children’s Hospital established 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 \$15,767,000 and \$19,704,000 in 2012 and 2011, respectively.

CHANGES IN REPORTING ENTITY

In fiscal year 2012, the University refunded three series of lease-backed “63-20” bonds as part of the Series 2011A University of Washington General Revenue Bonds issue. The refunded bonds were Series 1996 Community Development Properties – Commodore Duchess, Series 1999A Educational Research Properties, and Series 2000 Radford Court Properties. As a result of this refunding, the three entities that issued the lease-backed 63-20 bonds have been dissolved and therefore are no longer component units of the University.

Due to additional refundings during fiscal year 2012, capital assets and the associated debt which had been held by the University of Washington Alumni Association are now being carried by the University. The remaining assets and liabilities are not material to the University, therefore this entity is no longer reflected as a blended component unit of the University. As a result of this change, \$10,693,000 of Alumni Association net assets were removed from the University’s Balance Sheet and reflected as “Other Nonoperating Revenues (Expenses)” on the Statement of Revenues, Expenses and Changes in Net Assets for the fiscal year ended June 30, 2012.

EVENTS SUBSEQUENT TO YEAR END

On August 5, 2012 the University completed the refunding of the lease-backed “63-20” bonds, Series 2002 Twenty-Fifth Avenue Properties. As a result of this refunding the entity has been dissolved and will not be a component unit of the University in fiscal year 2013.

With regard to the strategic alliance with Valley Medical Center, on October 26, 2012, the commissioners of Public Hospital District No. 1 filed a lawsuit in King County Superior Court against the University. The lawsuit alleges the District lacked the authority to assent to the strategic alliance agreement and seeks to prevent the Board of Trustees formed by the strategic alliance agreement from exercising “legislative responsibilities of the District’s elected commissioners.” While the University is a defendant in the lawsuit, University management believes that the lawsuit will not have a significant adverse impact upon the financial position of the University.

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 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, 2011, the University adopted GASB Statement No. 61, “The Financial Reporting Entity: Omnibus”, an amendment of GASB Statements No. 14 and No. 34. This Statement modifies existing requirements for the assessment of potential component units and their inclusion in the financial reporting entity, and requirements regarding financial statement presentation and disclosure. There was no impact to the University’s definition of the reporting entity as a result of the implementation of this standard.

The University reports its BTA activities in a single column for financial statement presentation purposes, which includes the data for its blended component units. This Statement includes a requirement to present condensed combining information in the notes to the financial statements regarding these component units in such cases. This information can be found in Note 18. Combining information for the University’s discretely presented component units can be found in Note 19.

In June 2012, the GASB approved Statement No. 68, “Accounting and Financial Reporting for Pensions”, which will take effect in the fiscal year ending June 30, 2015. It requires governments providing defined benefit pensions to their employees to recognize their long-term obligation for pension benefits as a liability for the first time, along with the associated assets which have been set aside to fund the plan. Since the University participates in several cost sharing pension plans which are administered by the state of Washington, this statement will require the University to recognize its proportionate share of the state-wide net liability for each of these plans. The statement also eliminates the method of amortizing the liability balances over several years, and instead requires full recognition of the net liability upon implementation. The University is currently analyzing the impact of this statement.

Notes to Financial Statements (CONTINUED)

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 which management has identified as available to meet the day-to-day obligations of the University.

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 \$28,117,000 and \$17,187,000 during 2012 and 2011, 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 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 5.0 % 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, 2012 and 2011 was \$86,290,000 and \$78,528,000, respectively, and is included in Accrued Liabilities. Sick leave accrued as of June 30, 2012 and 2011 was \$34,630,000 and \$31,491,000, 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.

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.

Reclassifications. Certain amounts in the 2011 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2012 financial statements.

NOTE 2:

Cash and Cash Equivalents

Cash includes cash on hand, petty cash and bank deposits. Most cash, except for cash held at the University, is covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As of June 30, 2011, Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides for unlimited insurance of deposits in all noninterest-bearing accounts in FDIC insured depository institutions. This deposit insurance provision expires December 31, 2012.

As of January 1, 2013 balances in excess of FDIC limits will be covered by the collateral of the PDPC.

At June 30, 2012 and 2011, bank balances of \$54,656,000 and \$54,439,000, respectively, were insured by the FDIC and balances of \$0 and \$9,046,000, 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 \$69,039,000 and \$69,669,000 at June 30, 2012 and 2011, respectively, consist of \$54,670,000 and \$54,545,000 from federal programs and \$14,369,000 and \$15,124,000 from University programs. Interest income from student loans for the years ended June 30, 2012 and 2011 was \$1,781,000 and \$1,425,000, respectively. These unsecured loans are made primarily to students who reside in the state of Washington.

NOTE 5:

Accounts Receivable

The major components of accounts receivable as of June 30, 2012 and 2011 were:

<i>(Dollars in thousands)</i>	2012	2011
PATIENT SERVICES	\$ 272,166	\$ 262,101
GRANTS AND CONTRACTS	165,391	179,105
SALES AND SERVICES	22,051	22,387
TUITION	13,951	15,879
DUE FROM OTHER AGENCIES	29,521	35,702
ROYALTIES	12,591	14,242
INVESTMENTS	19,368	14,375
FIELD ADVANCES	7,132	8,973
STATE APPROPRIATIONS	24,647	2,642
OTHER	11,425	11,408
	578,243	566,814
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(81,299)	(86,177)
TOTAL	\$ 496,944	\$ 480,637

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 policies, which are 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, 2012 and 2011 are listed in Table 1.

TABLE 1 – UNIVERSITY INVESTMENTS

<i>(Dollars in thousands)</i>	Carrying Value	
Investment Type	2012	2011
CASH EQUIVALENTS	\$ 243,017	\$ 544,489
FIXED INCOME	1,726,157	1,339,621
EQUITY	974,827	1,028,585
NONMARKETABLE ALTERNATIVES*	405,866	618,705
ABSOLUTE RETURN*	332,359	329,723
REAL ASSETS*	166,461	7,525
MISCELLANEOUS	7,343	3,620
TOTAL INVESTMENTS	\$ 3,856,030	\$ 3,872,268

* Investment type includes private and other illiquid investments held in the Consolidated Endowment Fund

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2012, the Invested Funds Pool totaled \$1,386,561,000 compared to \$1,254,850,000 at June 30, 2011. The fund also owns units in the Consolidated Endowment Fund valued at \$422,861,000 on June 30, 2012 and \$447,353,000 on June 30, 2011. 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 2012 and 2011. Endowment operating and gift accounts received 3% in both fiscal years 2012 and 2011. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the

Notes to Financial Statements (CONTINUED)

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 and the Uniform Prudent Management of Institutional Funds Act allow for total return expenditure under comprehensive prudent standards.

Under the CEF spending policy approved by the Board of Regents, quarterly distributions to programs are based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1% supporting campus-wide fundraising and stewardship activities (0.80%) and offsetting the internal cost of managing endowment assets (0.20%). This policy was effective with the December 2010 quarterly distributions with the five-year averaging period implemented incrementally.

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 \$1,313,262,000 and \$1,312,987,000 permanent endowment funds (at fair value) as of June 30, 2012 and 2011, the aggregate amount of the deficiencies where the fair value of the assets is less than the original gifts is \$41,598,000 and \$21,892,000 at June 30, 2012 and 2011, 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 \$49,099,000 at June 30, 2012 compared to \$51,806,000 at June 30, 2011. Income received from these trusts, which is included in Investment Income, was \$2,328,000 for the year ended June 30, 2012 and \$2,029,000 for the year ended June 30, 2011.

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 \$7,902,000 and \$128,089,000 in 2012 and 2011, respectively, from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year include the net appreciation of these investments reported in the prior year(s). The net appreciation (depreciation) in the fair value of investments during the years ended June 30, 2012 and 2011 was \$(35,132,000) and \$324,123,000, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2012 and 2011, the University had outstanding commitments to fund

alternative investments of \$236,531,000 and \$241,967,000, respectively.

The University plans to continue to fund current and future commitments from distributions of current alternative investments, as well as from other existing liquid investments, if required. The majority of commitments will likely be funded within a five year period.

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, 2012 and 2011 the University had no securities on loan.

DERIVATIVES

The University's investment policies allow investing in various derivative instruments, including futures, swaps and forwards, to manage its exposure to market fluctuations in various asset classes. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price. Total return swaps involve commitments to pay interest in exchange for a market linked return, both based on notional amounts. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012 and 2011, categorized by type, the changes in fair value and the counterparty credit ratings of such derivatives for the years then ended are as follows:

TABLE 2 – INVESTMENT DERIVATIVES (Dollars in thousands)

CATEGORY	Notional Amount		Fair Value as of June 30			Changes in Fair Value			Counterparty Credit Rating	
	2012	2011	ASSET CLASSIFICATION	2012	2011	INCOME CLASSIFICATION	2012	2011	2012	2011
FUTURES CONTRACTS	\$86,732	\$ -	INVESTMENTS	\$90,732	\$ -	NET APPRECIATION	\$ 8,336	\$ -	NA	NA

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, 2012 or June 30, 2011. 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. The weighted average effective duration of the University's fixed income portfolio was 2.84 years at June 30, 2012 and 2.35 years, as of June 30, 2011, as demonstrated in Table 3.

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 25% of their portfolios in government and government agency issues. The Investment Policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investment to investment grade credits.

Duration and credit risk figures at June 30, 2012 and 2011 exclude \$ 248,448,000 and \$313,165,000, respectively, of fixed-income securities held outside the CEF and the Invested Funds Pool. These amounts make up 6.44% and 8.09%, respectively, of the University's investments, and are not included in the duration figures detailed in Table 3.

The composition of the fixed income securities at June 30, 2012 and 2011, along with credit quality and effective duration measures is summarized below:

TABLE 3 – FIXED INCOME: CREDIT QUALITY AND EFFECTIVE DURATION (Dollars in thousands)

2012						
Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	\$ 825,433	\$ –	\$ –	\$ –	\$ 825,433	3.20
U.S. GOVERNMENT AGENCY	534,137	–	–	–	534,137	2.61
MORTGAGE BACKED	–	64,500	16,739	5,920	87,159	3.59
ASSET BACKED	–	122,815	3,757	–	126,572	2.02
CORPORATE AND OTHER	–	142,890	151	4,384	147,425	1.62
TOTAL	\$ 1,359,570	\$ 330,205	\$ 20,647	\$ 10,304	\$ 1,720,726	2.84

2011						
Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	\$ 667,854	\$ –	\$ –	\$ –	\$ 667,854	3.02
U.S. GOVERNMENT AGENCY	554,226	–	–	–	554,226	1.85
MORTGAGE BACKED	–	61,708	12,719	6,907	81,334	4.38
ASSET BACKED	–	103,094	7,343	184	110,621	1.43
CORPORATE AND OTHER	–	152,439	1	4,469	156,909	1.19
TOTAL	\$ 1,222,080	\$ 317,241	\$ 20,063	\$ 11,560	\$ 1,570,944	2.35

* Investment Grade securities are those that are rated BBB and higher by Standard and Poor's or Baa and higher by Moody's

FOREIGN CURRENCY RISK

The University's Investment Policies permit investments in international equity and other asset classes which can include foreign currency exposure. At June 30, 2012 and 2011, the University had net outstanding forward commitments to sell foreign currency with a total fair value of \$11,845,000 and \$7,085,000, respectively, which equals 0.31% and 0.18% of the total portfolio.

TABLE 4 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	June 30, 2012	June 30, 2011
EURO (EUR)	\$ 70,764	\$ 147,081
BRITISH POUND (GBP)	67,889	83,230
CHINESE RENMINBI (RMB)	52,213	63,942
INDIAN RUPEE (INR)	49,802	53,200
JAPANESE YEN (JPY)	48,273	50,794
RUSSIAN RUBLE (RUB)	38,328	37,715
BRAZILIAN REAL (BRL)	36,451	44,414
CANADIAN DOLLAR (CAD)	28,153	26,560
HONG KONG DOLLAR (HKD)	24,181	30,600
SWISS FRANC (CHF)	22,876	21,321
SOUTH KOREAN WON (KRW)	22,465	15,217
AUSTRALIAN DOLLAR (AUD)	14,271	18,599
THAI BAHT (THB)	13,564	8,204
TAIWANESE DOLLAR (TWD)	13,159	21,147
INDONESIAN RUPIAH (IDR)	12,829	15,080
REMAINING CURRENCIES	122,296	168,001
TOTAL	\$ 637,514	\$ 805,105

Notes to Financial Statements (CONTINUED)

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, 2012 and 2011 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 \$135,236,000 and \$126,575,000, 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, 2012 and 2011, \$8,500,000 was outstanding on the credit line.

NOTE 8 :

Capital Assets

Capital asset activity for the two-year period ended June 30, 2012 is summarized as follows:

<i>(Dollars in thousands)</i>	Balance at June 30, 2010	Additions/ Transfers	Retirements	Balance at June 30, 2011	Additions/ Transfers	Retirements	Balance at June 30, 2012
LAND	\$ 114,644	\$ 7,133	\$ -	\$ 121,777	\$ 1,893	\$ 6,056	\$ 117,614
INFRASTRUCTURE	177,859	6,161	-	184,020	7	-	184,027
BUILDINGS	3,555,183	208,891	1,470	3,762,604	242,763	38,679	3,966,688
FURNITURE, FIXTURES, AND EQUIPMENT	1,045,461	115,118	57,856	1,102,723	87,448	37,069	1,153,102
LIBRARY MATERIALS	288,440	10,539	1,548	297,431	8,937	1,600	304,768
CAPITALIZED COLLECTIONS	5,699	-	-	5,699	52	-	5,751
INTANGIBLE ASSETS	20,035	21,248	-	41,283	26,164	3	67,444
INTANGIBLES IN PROCESS	2,540	2,616	260	4,896	3,003	1,371	6,528
CONSTRUCTION IN PROGRESS	277,980	170,825	-	448,805	272,123	-	720,928
TOTAL	5,487,841	542,531	61,134	5,969,238	642,390	84,778	6,526,850
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION							
INFRASTRUCTURE	77,828	4,260	-	82,088	4,199	-	86,287
BUILDINGS	1,416,092	120,578	617	1,536,053	130,682	32,401	1,634,334
FURNITURE, FIXTURES, AND EQUIPMENT	827,275	101,023	49,281	879,017	70,396	24,238	925,175
LIBRARY MATERIALS	192,615	12,470	1,052	204,033	12,482	598	215,917
INTANGIBLE ASSETS	16,254	5,307	-	21,561	25,170	3	46,728
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	2,530,064	243,638	50,950	2,722,752	242,929	57,240	2,908,441
CAPITAL ASSETS, NET	\$ 2,957,777	\$ 298,893	\$ 10,184	\$ 3,246,486	\$ 399,461	\$ 27,538	\$ 3,618,409

NOTE 9 :

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

Long-term liability activity for the two-year period ended June 30, 2012 is summarized as follows:

<i>(Dollars in thousands)</i>	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Current Portion 2011	Current Portion 2012
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	\$ 225,902	\$ 48,705	\$ 65,368	\$ 209,239	\$ 15,935	\$ 30,560	\$ 194,614	\$ 13,435	\$ 14,240
REVENUE BONDS PAYABLE (NOTE 11)	773,315	329,955	29,900	1,073,370	478,945	171,650	1,380,665	20,565	19,975
UNAMORTIZED PREMIUM ON BONDS	14,258	9,336	2,290	21,304	66,032	6,631	80,705	3,206	7,480
TOTAL BONDS PAYABLE	1,013,475	387,996	97,558	1,303,913	560,912	208,841	1,655,984	37,206	41,695
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED (NOTE 11)	34,260	79,782	4,610	109,432	11,939	91,571	29,800	5,124	3,967
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	1,606	304	513	1,397	20	450	967	1,294	103
CAPITAL LEASE OBLIGATIONS (NOTE 10)	11,258	3,078	6,338	7,998	4,901	4,279	8,620	3,311	3,404
TOTAL NOTES PAYABLE AND CAPITAL LEASES	47,124	83,164	11,461	118,827	16,860	96,300	39,387	9,729	7,474
OTHER LONG-TERM LIABILITIES:									
CHARITABLE AND DEFERRED GIFT ANNUITY LIABILITY	30,276	1,467	–	31,743	–	1,516	30,227	4,176	3,866
POLLUTION REMEDIATION LIABILITY (NOTE 1)	6,000	–	–	6,000	–	–	6,000	–	–
SICK LEAVE (NOTE 1)	29,014	6,649	4,172	31,491	7,641	4,502	34,630	3,940	4,336
SELF-INSURANCE (NOTE 17)	57,624	6,361	13,893	50,092	24,839	12,012	62,919	14,596	12,953
NET PENSION OBLIGATION (NOTE 16)	70,675	30,381	1,932	99,124	30,381	2,040	127,465	2,074	1,987
TOTAL OTHER LIABILITIES	193,589	44,858	19,997	218,450	62,861	20,070	261,241	24,786	23,142
TOTAL LONG-TERM LIABILITIES	\$ 1,254,188	\$ 516,018	\$ 129,016	\$ 1,641,190	\$ 640,633	\$ 325,211	\$ 1,956,612	\$ 71,721	\$ 72,311

DISCRETE COMPONENT UNITS

Long-term liability activity for the year ended June 30, 2012 is summarized as follows:

<i>(Dollars in thousands)</i>	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Current Portion 2012
VALLEY MEDICAL CENTER					
LIMITED TAX GENERAL OBLIGATION BONDS	\$ 262,021	\$ 35,636	\$ 42,195	\$ 255,462	\$ 5,995
REVENUE BONDS	22,460	–	1,072	21,388	1,445
BUILD AMERICA BONDS	61,155	–	–	61,155	–
NOTES PAYABLE & OTHER	3,593	–	1,728	1,865	765
TOTAL LONG-TERM LIABILITIES	\$ 349,229	\$ 35,636	\$ 44,995	\$ 339,870	\$ 8,205
NORTHWEST HOSPITAL					
REVENUE BONDS	\$ 79,900	\$ –	\$ 1,900	\$ 78,000	\$ 2,000
NOTES PAYABLE & CAPITAL LEASES	18,156	4,861	4,626	18,391	1,650
TOTAL LONG-TERM LIABILITIES	\$ 98,056	\$ 4,861	\$ 6,526	\$ 96,391	\$ 3,650

Notes to Financial Statements (CONTINUED)

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2012, are as follows below:

CAPITAL LEASES

Year (Dollars in thousands)	Future Payments
2013	\$ 3,404
2014	2,219
2015	1,896
2016	627
2017	534
THEREAFTER	667
TOTAL MINIMUM LEASE PAYMENTS	9,347
LESS: AMOUNT REPRESENTING INTEREST COSTS	727
PRESENT VALUE OF MINIMUM PAYMENTS	\$ 8,620

Buildings and equipment under capital lease were as follows:

(Dollars in thousands)	Balance at June 30, 2010	Additions	Retirements	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012
EQUIPMENT	\$ 34,186	\$ 3,078	\$ 9,081	\$ 28,183	\$ 4,901	\$ 4,022	\$ 29,062
REAL ESTATE	9,987	–	–	9,987	–	–	9,987
TOTAL	44,173	3,078	9,081	38,170	4,901	4,022	39,049
LESS ACCUMULATED DEPRECIATION							
EQUIPMENT	29,477	1,808	9,081	22,204	2,814	4,022	20,996
REAL ESTATE	9,987	–	–	9,987	–	–	9,987
TOTAL ACCUMULATED DEPRECIATION	39,464	1,808	9,081	32,191	2,814	4,022	30,983
LEASED CAPITAL ASSETS, NET	\$ 4,709	\$ 1,270	\$ –	\$ 5,979	\$ 2,087	\$ –	\$ 8,066

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, 2012 and 2011, the University recorded rent expenses of \$29,299,000 and \$28,184,000, respectively, for these leases. Future lease payments under these leases as of June 30, 2012, are as follows:

Year	(Dollars in Thousands)
2013	\$ 35,317
2014	32,744
2015	28,868
2016	24,253
2017	19,946
2018-2022	50,180
2023-2027	19,639
2028-2032	15,572
THEREAFTER	36,675
TOTAL MINIMUM LEASE PAYMENTS	\$ 263,194

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2012 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, 2012 were as follows:

Year	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON REVENUE BONDS		NOTES PAYABLE AND OTHER	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 14,240	\$ 8,985	\$ 19,975	\$ 72,413	\$ 4,070	\$ 1,145
2014	14,895	8,326	37,850	73,367	3,360	1,014
2015	15,460	7,573	32,045	71,660	2,619	933
2016	18,290	6,712	34,250	69,842	2,707	836
2017	17,735	5,794	35,550	68,179	2,811	735
2018 – 2022	62,995	17,927	184,940	314,625	12,766	1,930
2023 – 2027	47,155	4,260	192,235	261,959	1,653	151
2028 – 2032	3,844	12	194,480	203,132	343	4
2033 – 2037	–	–	346,395	148,893	438	–
2038 – Thereafter	–	–	302,945	40,085	–	–
TOTAL PAYMENTS	\$ 194,614	\$ 59,589	\$1,380,665	\$1,324,155	\$ 30,767	\$ 6,748

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 a special student fee to retire the related revenue bonds.

REFUNDING ACTIVITY

On August 10, 2010, the state of Washington refunded General Obligation Bonds totaling \$28,710,000 (UW portion) with new bond issuances totaling \$25,925,000 (plus premium of \$4,231,000). The refunded bonds had coupon rates ranging from 3.50% to 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 \$3,508,000 and resulted in a total economic gain of \$3,195,000.

On August 10, 2010, the state of Washington refunded General Obligation Bonds totaling \$4,265,000 (UW portion) with new bond issuances totaling \$3,915,000 (plus premium of \$663,000). 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 11.5 years by \$500,000 and resulted in a total economic gain of \$426,000.

On September 28, 2010, the state of Washington refunded General Obligation Bonds totaling \$19,795,000 (UW portion) with new bond issuances totaling \$18,865,000 (plus 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.

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 interest rate of these bonds is 4.91%.

On December 14, 2010, Washington Biomedical Research Facilities 3 (a blended component unit of the University), issued \$13,205,000 in taxable bonds and \$154,745,000 in Build America Bonds with a true interest cost of 3.974% and an average life of 16 years. The bond proceeds will be used to fund construction of a research facility that the University will occupy through a long-term lease arrangement.

On July 28, 2011, the University issued \$211,370,000 in General Revenue & Refunding Bonds, 2011A. Part of the proceeds were used to refund 63-20 financings issued through third parties. The amount refunded was \$89,320,000; the new par was \$74,515,000 (plus premium of \$8,148,000 and debt service reserve contributions of \$8,582,000). The refunded bonds had coupon rates ranging from 5.00 to 6.60%; the new bonds have an average interest rate of 4.623%. The refunding decreased the total debt service payments to be made over the next 20.68 years by \$16,967,000 and resulted in a total economic gain of \$13,703,000. In addition, proceeds were used to pay off \$75,000,000 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 2011A General Revenue bonds (new money only) is 15.0 years with final maturity on April 1, 2035.

The average interest rate of these bonds is 4.839%.

On November 9, 2011, the state of Washington refunded General Obligation Bonds totaling \$7,420,000 (UW portion) with new bond issuances totaling \$7,190,000 and premium of \$1,030,000. The refunded bonds had a coupon rate of 5.00%; the new bonds have an average interest rate of 4.90%. The refunding decreased the total debt service payments to be made over the next 14 years by \$649,000 and resulted in a total economic gain of \$470,000.

On February 21, 2012, the state of Washington refunded General Obligation Bonds totaling \$9,600,000 (UW portion) with new bond issuances totaling \$8,745,000 (plus premium of \$1,631,000). The refunded bonds had a coupon rate of 5.00%; the new bonds have an average interest rate of 4.50%. The refunding decreased the total debt service payments to be made over the next 14 years by \$2,722,000 and resulted in a total economic gain of \$1,733,000.

On March 7, 2012, the University issued \$267,570,000 in General Revenue & Refunding Bonds, 2012 A&B, at a premium of \$42,054,000. A portion of the proceeds were used to refund existing debt. The amount refunded was \$62,035,000; the new par value was \$50,335,000 (plus premium of \$9,295,000). The refunded bonds had coupon rates ranging from 3.50% to 5.50% with an average interest rate of 4.99%; the new bonds have an average interest rate of 4.79%. The refunding decreased the total debt service payments to be made over the next 11.7 years by \$8,221,000 and resulted in a total economic gain of \$7,972,000. The remainder of the proceeds will be used to fund a variety of projects. The average life of the 2012 A&B General Revenue bonds is 20.0 years with final maturity on July 1, 2041. The average interest rate of these bonds is 4.99%.

Combined COP Refunding:

On August 24, 2011, the state of Washington refunded Certificates of Participation (COP) totaling \$11,370,000 with new COP issuances totaling \$10,310,000 (plus premium of

Notes to Financial Statements (CONTINUED)

\$1,352,000). The refunding decreased the total debt service payments to be made over the next 11 years by \$1,625,000 and resulted in a total economic gain of \$1,412,000.

SUBSEQUENT DEBT OFFERING

The University is planning to issue General Revenue Bonds Series 2012C, which are expected to price in November, 2012 and close in December, 2012. The University expects to realize proceeds of \$330,000,000. The proceeds will be used to partially finance renovations to Husky Stadium, construct student residence halls and apartments, construct a science building at the Bothell campus, and pay off \$50,000,000 in commercial paper.

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 manage cash flows for capital projects that are funded with long term debt. The use of commercial paper will typically increase prior to issuance of long term debt and be paid down with the proceeds from long term debt. As of June 30, 2012 and 2011, there was \$25,000,000 and \$50,000,000, respectively, in outstanding commercial paper.

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.

During fiscal year 2012, the University issued an additional \$75,000,000 and retired \$100,000,000 of commercial paper debt.

On September 5, 2012, the University issued \$50,000,000 in short-term commercial paper. The commercial paper will be paid off with proceeds from the issuance of General Revenue Bonds, 2012C.

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)
Student Facilities Fees and earnings on invested fees	\$ 61,584	Student Facilities Refunding Revenue Bonds issued in 2005	Construction of student recreational sports facilities	2030	19.2%

* 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, 2012 and 2011 are summarized as follows:

<i>(Dollars in thousands)</i> Operating Expenses	2012	2011
EDUCATIONAL AND GENERAL INSTRUCTION	\$ 925,724	\$ 920,169
RESEARCH	782,458	791,507
PUBLIC SERVICE	24,108	29,574
ACADEMIC SUPPORT	291,647	278,693
STUDENT SERVICES	36,747	34,908
INSTITUTIONAL SUPPORT	161,579	133,547
OPERATION & MAINTENANCE OF PLANT	180,916	192,433
SCHOLARSHIPS & FELLOWSHIPS	107,729	101,388
AUXILIARY ENTERPRISES	195,982	169,876
MEDICAL-RELATED	961,206	873,785
DEPRECIATION/AMORTIZATION	242,929	243,638
TOTAL OPERATING EXPENSES	\$ 3,911,025	\$ 3,769,518

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 effect 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 \$25,365,000 in 2012 and

\$20,733,000 in 2011, as well as HMC investments of \$2,659,000 and \$2,685,000, respectively, and accrued liabilities of \$17,951,880 and \$17,823,000, 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 2012 and 2011, the UWF transferred \$50,516,000 and \$48,491,000, 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.

The University of Washington Alumni Association is a tax-exempt entity that was established to connect and celebrate alumni and to support the University's mission. The Alumni Association received \$2,456,000 from the University in support of their operations in fiscal year 2012. In 2011 the association received \$2,092,000 from

the University, which was eliminated in consolidation because the association was a blended component unit of the University in fiscal year 2011.

During fiscal year 2012, the University of Washington Medical Center (UWMC) provided \$4,100,000 to Northwest Hospital (NWH, a discrete component unit of the University) to mitigate the negative impact of several state program reductions including the hospital safety net funding. These amounts are presented in the Statements of Revenues, Expenses and Changes in Net Assets for the University as a reduction of Patient Services revenue and for NWH as an increase in Patient Services Revenue. In support of strategic program expansion, \$6,400,000 of operational funding was provided by UWMC to NWH during 2012 which is reflected by the University in Other Nonoperating Revenues (Expenses), and by NWH in Other Operating Revenue (\$2,000,000) and in Other Nonoperating Revenues (\$4,400,000). \$1,171,000 of capital funding was also provided by UWMC to NWH, and is reflected by the University in Other Nonoperating Revenues (Expenses) and by NWH in Capital Grants, Gifts and Other.

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 years 2012 and 2011, this amount was \$150 and \$183 per retiree eligible for parts A and B of Medicare, respectively. 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, 2011 was \$3.5 billion. The annual cost was \$321 million for 2011. 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 and its unconsolidated affiliates, based on the January 1, 2011 actuarial report, was estimated at approximately \$605 million for 2011. Actuarial studies are currently being performed biennially, therefore the January 1, 2011 report is the latest that is available. These amounts are not included in the University's financial statements.

Notes to Financial Statements (CONTINUED)

The University paid \$297 million and \$293 million for healthcare in 2012 and 2011, respectively, which included its pay-as-you-go portion of the OPEB liability, calculated

by the actuary at \$7.4 million in 2011. The actuary has not calculated the University's pay-as-you-go portion of the liability for 2012.

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.drs.wa.gov/administration/>

Funding Policy: The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members were required to contribute 6% of their annual covered salary in fiscal years 2012 and 2011. 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, 2012 and 2011 was 4.6% and 3.9%, 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 blended contribution rate for the University at June 30, 2012 and 2011, for each of PERS Plans 1, 2, and 3 was 7.18% and 5.31% for the respective years.

The University's contributions to PERS for the years ended June 30, 2012, 2011, and 2010 were \$59,708,000, \$42,967,000, \$41,680,000, respectively, as determined by rates established in accordance with RCW 41.45.

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, 2012 and 2011 were \$86,912,000 and \$83,358,000, 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.

During the fiscal year ending June 30, 2011 the University amended the supplemental retirement plan, limiting participation to those individuals who were active participants on February 28, 2011.

401(a) Plan Funding: The University received an actuarial valuation of the supplemental payment component of the UWRP with a valuation date of July 1, 2011. The previous evaluations were performed in 2009 and 2007. The University has set aside \$109,588,000 and \$75,132,000 as of June 30, 2012 and 2011, respectively, for this liability.

UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN

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>	2011	2009	2007
UAL	\$ 235,048	\$ 218,036	\$ 64,215
NORMAL COST	10,774	8,860	3,369
AMORTIZATION OF UAL, INCLUDING INTEREST	19,607	17,220	4,374
ARC	\$ 30,381	\$ 26,080	\$ 7,743

<i>(Dollars in thousands)</i>	2011	2009	2007
Actuarial assumptions			
PAYROLL COVERED BY PLAN	\$ 1,129,000	\$ 976,000	\$ 771,000
RATE OF RETURN ASSUMPTION	4.25%	5%	5%
SALARY INCREASES FOR YEARS 1 AND 2	2%	2%	4%
SALARY INCREASE FOR THIRD YEAR	4%	4%	4%
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, 2012, 2011, and 2010:

<i>(Dollars in thousands)</i>	2012	2011	2010
BALANCE AT BEGINNING OF FISCAL YEAR	\$ 99,124	\$ 70,675	\$ 46,812
ANNUAL REQUIRED CONTRIBUTION	30,381	30,381	26,080
PAYMENTS TO BENEFICIARIES	(2,040)	(1,932)	(2,217)
BALANCE AT END OF FISCAL YEAR	\$ 127,465	\$ 99,124	\$ 70,675

NOTE 17:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2012 and 2011, were \$568,337,000 and \$537,924,000, 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 was discounted at 4% in the year ended June 30, 2011. Beginning in fiscal year 2012 the University no longer discounts the reserve.

The self-insurance reserve is estimated through an actuarial calculation and included in Long-Term Liabilities. Changes in the self-insurance reserve for the years ended June 30, 2012, 2011, and 2010 are noted below:

<i>(Dollars in thousands)</i>	2012	2011	2010
RESERVE AT BEGINNING OF FISCAL YEAR	\$ 50,092	\$ 57,624	\$ 51,650
INCURRED CLAIMS AND CHANGES IN ESTIMATES	24,839	6,361	21,272
CLAIM PAYMENTS	(12,012)	(13,893)	(15,298)
RESERVE AT END OF FISCAL YEAR	\$ 62,919	\$ 50,092	\$ 57,624

Notes to Financial Statements

NOTE 18:

Blended Component Units

Condensed combining statements for the University and its blended component units are shown below:

(Dollars in millions)

Balance Sheets – June 30, 2012	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
ASSETS						
CURRENT ASSETS:						
TOTAL CURRENT ASSETS	\$ 1,161	\$ (3)	\$ 1,084	\$ 80	\$ 61	\$ 19
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	3,624	–	3,433	191	94	97
CAPITAL ASSETS, NET	3,618	–	3,322	296	12	284
TOTAL ASSETS	8,403	(3)	7,839	567	167	400
LIABILITIES						
TOTAL CURRENT LIABILITIES	722	(11)	656	77	39	38
TOTAL NONCURRENT LIABILITIES	1,939	–	1,575	364	–	364
TOTAL LIABILITIES	2,661	(11)	2,231	441	39	402
NET ASSETS						
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	\$ 2,113	–	2,186	(73)	13	(86)
RESTRICTED:						
NONEXPENDABLE	1,116	–	1,116	–	–	–
EXPENDABLE	1,162	–	1,162	–	–	–
UNRESTRICTED	1,351	8	1,144	199	115	84
TOTAL NET ASSETS	5,742	8	5,608	126	128	(2)
TOTAL LIABILITIES AND NET ASSETS	\$ 8,403	\$ (3)	\$ 7,839	\$ 567	\$ 167	\$ 400

(Dollars in millions)

Statements of Revenues, Expenses and Changes in Net Assets – Year ended June 30, 2012	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	\$ 681	\$ –	\$ 681	\$ –	\$ –	\$ –
PATIENT SERVICES	1,097	(6)	933	170	170	–
GRANT REVENUE	1,302	–	1,302	–	–	–
OTHER OPERATING REVENUE	442	(23)	439	26	–	26
TOTAL OPERATING REVENUE	3,522	(29)	3,355	196	170	26
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	3,668	(51)	3,510	209	200	9
DEPRECIATION / AMORTIZATION	243	–	232	11	1	10
TOTAL OPERATING EXPENSES	3,911	(51)	3,742	220	201	19
OPERATING INCOME (LOSS)	(389)	22	(387)	(24)	(31)	7
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	218	–	218	–	–	–
GIFTS	77	–	77	–	–	–
INVESTMENT INCOME	34	–	32	2	2	–
OTHER NONOPERATING REVENUES (EXPENSES)	(11)	(16)	(8)	13	22	(9)
NET NONOPERATING REVENUES (EXPENSES)	318	(16)	319	15	24	(9)
INCOME (LOSS) BEFORE OTHER REVENUE, EXPENSE	(71)	6	(68)	(9)	(7)	(2)
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	32	–	32	–	–	–
GIFTS TO PERMANENT ENDOWMENTS	53	–	53	–	–	–
TOTAL OTHER REVENUE	85	–	85	–	–	–
INCREASE (DECREASE) IN NET ASSETS	14	6	17	(9)	(7)	(2)
NET ASSETS						
NET ASSETS - BEGINNING OF YEAR	5,728	2	5,591	135	135	–
NET ASSETS - END OF YEAR	\$ 5,742	\$ 8	\$ 5,608	\$ 126	\$ 128	\$ (2)

(Dollars in millions)

Statements of Cash Flows – Year ended June 30, 2012	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	\$ (57)	\$ –	\$ (51)	\$ (6)	\$ (14)	\$ 8
NONCAPITAL FINANCING ACTIVITIES	363	–	372	(9)	(9)	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(359)	–	(290)	(69)	(2)	(67)
INVESTING ACTIVITIES	60	–	(28)	88	21	67
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7	–	3	4	(4)	8
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	43	–	26	17	13	4
CASH AND CASH EQUIVALENTS – END OF THE YEAR	\$ 50	\$ –	\$ 29	21	\$ 9	\$ 12

Notes to Financial Statements

NOTE 19:

Discrete Component Units

Condensed combining statements for the University's discrete component units are shown below:

<i>(Dollars in millions)</i>	June 30, 2012		
	Total Discrete Component Units	Northwest Hospital	Valley Medical Center
Balance Sheets			
ASSETS			
CURRENT ASSETS:			
TOTAL CURRENT ASSETS	\$ 230	\$ 68	\$ 162
NONCURRENT ASSETS:			
TOTAL OTHER ASSETS	142	47	95
CAPITAL ASSETS, NET	511	124	387
TOTAL ASSETS	883	239	644
LIABILITIES			
TOTAL CURRENT LIABILITIES	133	52	81
TOTAL NONCURRENT LIABILITIES	435	100	335
TOTAL LIABILITIES	568	152	416
NET ASSETS			
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	99	36	63
RESTRICTED:			
NONEXPENDABLE	2	2	–
EXPENDABLE	9	1	8
UNRESTRICTED	205	48	157
TOTAL NET ASSETS	315	87	228
TOTAL LIABILITIES AND NET ASSETS	\$ 883	\$ 239	\$ 644

<i>(Dollars in millions)</i>	Year Ended June 30, 2012		
	Total Discrete Component Units	Northwest Hospital	Valley Medical Center
Statements of Revenues, Expenses and Changes in Net Assets			
REVENUES			
OPERATING REVENUES:			
PATIENT SERVICES	\$ 704	\$ 285	\$ 419
OTHER OPERATING REVENUE	32	15	17
TOTAL OPERATING REVENUE	736	300	436
EXPENSES			
OPERATING EXPENSES:			
OTHER OPERATING EXPENSES	693	283	410
DEPRECIATION / AMORTIZATION	55	22	33
TOTAL OPERATING EXPENSES	748	305	443
OPERATING LOSS	(12)	(5)	(7)
NONOPERATING REVENUES (EXPENSES)			
PROPERTY TAX REVENUE	18	–	18
INVESTMENT INCOME	7	2	5
OTHER NONOPERATING EXPENSES	(21)	–	(21)
NET NONOPERATING REVENUES	4	2	2
LOSS BEFORE CAPITAL CONTRIBUTIONS	(8)	(3)	(5)
CAPITAL CONTRIBUTIONS FROM PRIMARY GOVERNMENT	1	1	–
DECREASE IN NET ASSETS	(7)	(2)	(5)
NET ASSETS			
NET ASSETS - BEGINNING OF YEAR	322	89	233
NET ASSETS - END OF YEAR	\$ 315	\$ 87	\$ 228

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