2023 BONDHOLDERS REPORT

UNIVERSITY *of* WASHINGTON | TREASURY OFFICE

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2023 **BONDHOLDERS REPORT**

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UNIVERSITY OF WASHINGTON

2023 BONDHOLDERS REPORT

This report includes financial and operating information on the University of Washington (the "University").

As a preface to reviewing the materials, we suggest starting with the University's Financial Report, which highlights the accomplishments, opportunities and challenges facing the University. The enclosed audited financial statements are as of June 30, 2023, the University's fiscal year end.

Also included is a supplemental report, which includes additional financial and operating information, provided for the benefit of the holders and beneficial owners of the bonds. This section includes some information that is also provided in the University's financial report. This information may contain adjustments resulting from changes in methodology or timing.

If you have comments, questions or need additional information, please feel free to contact us using the information shown below.

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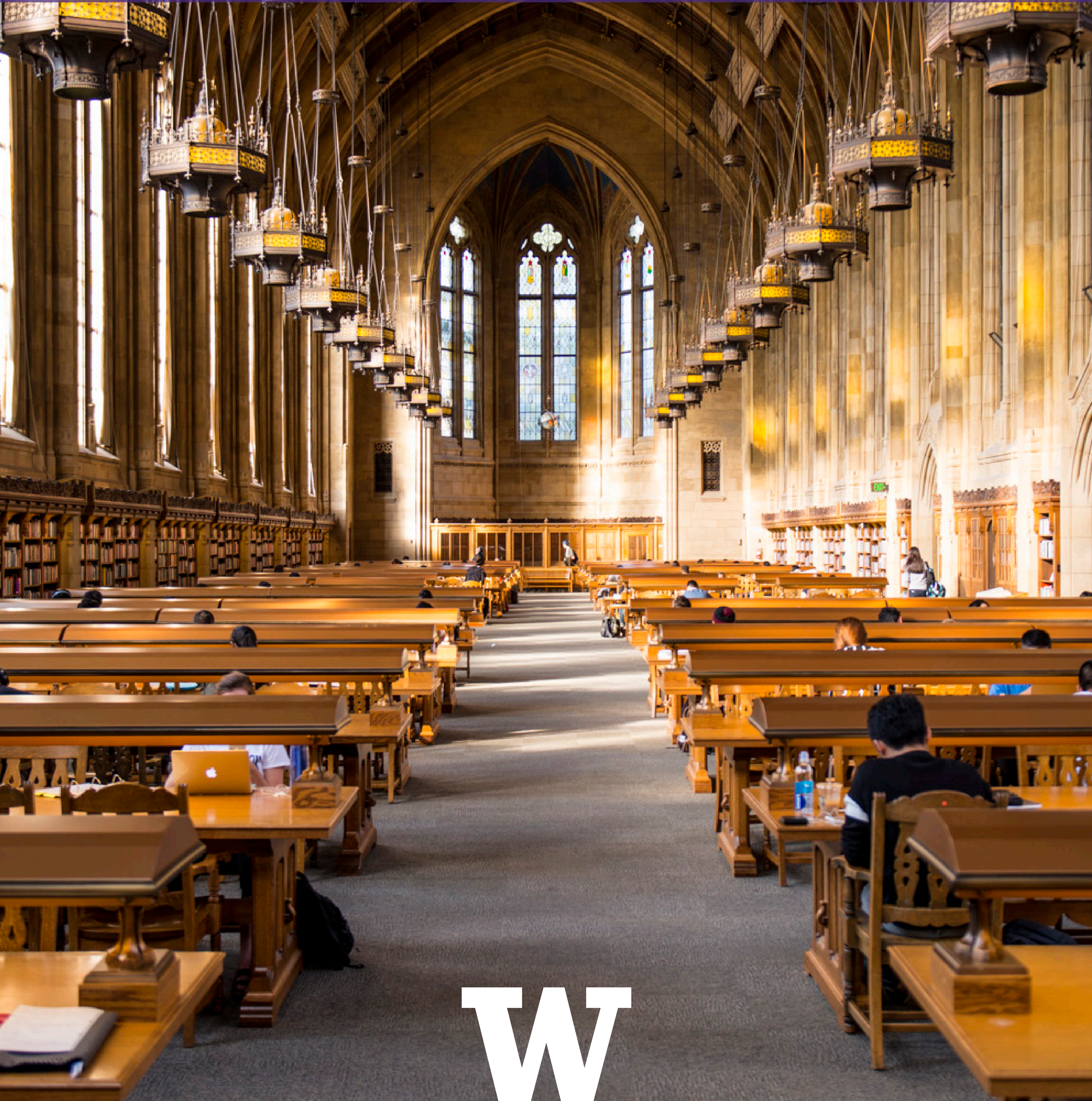
2023 FINANCIAL REPORT

UNIVERSITY *of* WASHINGTON



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University Facts

		FISCAL YEAR 2023 Academic Year 2022-2023		FISCAL YEAR 2018 Academic Year 2017-2018		FISCAL YEAR 2013 Academic Year 2012-2013
STUDENTS						
Autumn Enrollment (headcount)						
Undergraduate		42,616		41,670		36,785
Graduate		15,265		14,059		12,782
Professional		2,200		2,126		1,999
TOTAL		**60,081**		**57,855**		**51,566**
Professional and Continuing Education - Course and Conference Registrations		72,416		79,503		74,922
Number of Degrees Awarded						
Bachelor's		11,532		11,179		9,782
Master's		5,297		4,514		3,906
Doctoral		886		820		763
Professional		595		551		566
TOTAL		**18,310**		**17,064**		**15,017**
FACULTY[1]		5,731		4,380		4,356
FACULTY AND STAFF[2]		35,331		30,932		26,315
RESEARCH FUNDING - ALL SOURCES *(in thousands of dollars)*	$	1,872,371	$	1,350,767	$	1,122,933
SELECTED REVENUES *(in thousands of dollars)*						
Medical Centers and Related Revenues[3]	$	5,990,964	$	2,710,758	$	1,971,451
Gifts, Grants and Contracts		2,095,595		1,627,139		1,412,541
Auxiliary Enterprises and Other Revenues		1,263,027		660,442		814,408
Tuition and Fees[4]		1,158,213		989,912		808,053
State Operating Appropriations		531,999		362,267		218,165
Investment Income		437,589		404,412		341,241
SELECTED EXPENSES *(in thousands of dollars)*						
Medical-Related[3]	$	5,211,127	$	2,335,063	$	1,785,696
Instruction, Academic Support, and Student Services		2,638,945		1,981,058		1,285,489
Institutional Support and Physical Plant		1,153,596		836,674		407,381
Research and Public Service		1,150,654		834,139		803,981
Auxiliary Enterprises		705,916		494,956		203,615
CONSOLIDATED ENDOWMENT FUND[5] *(in thousands of dollars)*	$	4,940,000	$	3,407,000	$	2,347,000
SQUARE FOOTAGE[6] *(in thousands of square feet)*		29,500		25,700		21,773

1. Prior to 2018, this number represents headcount for core faculty (Professorial, Instructional and Research). Starting in 2018, this number represents full time faculty from all campuses including the Medical Centers.
2. Full time equivalents – restated (historically) using centralized data source and enterprise definitions
3. Includes discrete component units (Fred Hutchinson Cancer Center in 2023 only)
4. Net of scholarship allowances of $181.0 million in 2023, $154.9 million in 2018 and $135.4 million in 2013
5. Stated at fair value
6. Gross square footage, all campuses

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Independent Auditors' Report

The Board of Regents
University of Washington:

Opinions

We have audited the financial statements of the business-type activities, the fiduciary activities, and the aggregate discretely presented component units of the University of Washington (the University), which comprise the statements of net position and statements of fiduciary net position as of and for the years ended June 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net position, statements of changes in fiduciary net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University of Washington, as of June 30, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

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

Emphasis of Matter

As discussed in note 1 to the financial statements, the financial statements of the University of Washington, an agency of the state of Washington, are intended to present the financial position, the changes in financial position, and where applicable, cash flows of only the respective portion of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the state of Washington that are 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, 2023 and 2022, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with U.S generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6 through 18, and the schedule of required supplementary information on pages 75 through 82, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The University Facts included under the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The information has not been subject to the auditing procedures applied in the audit of the basic financial statements. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

KPMG LLP

Seattle, Washington
October 31, 2023

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Management's Discussion & Analysis

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington ("University") for the fiscal years ended June 30, 2023 and 2022, with comparative financial information for 2021. This discussion has been prepared by management, and since it includes highly summarized data, should be read in conjunction with the financial statements and accompanying notes to financial statements that follow this section.

Financial Highlights for Fiscal Year 2023

The University recorded a $894 million increase in net position in 2023 compared to an increase of $473 million in 2022. The 2023 operating loss increased $736 million from the prior year, as operating expenses increased 14% and outpaced operating revenues that grew by 4%. The increase in salary and benefit expenses in fiscal year 2023 made more than half of the increase in operating expenses. This was offset by an increase in nonoperating revenues from the prior year, driven by a significant turnaround in investment performance.

Key Financial Results

(in millions)	2023	2022	2021
Total operating revenues	$ 7,101	$ 6,849	$ 5,900
Total operating expenses	7,969	6,981	6,300
Operating loss	(868)	(132)	(400)
State appropriations	532	485	481
Gifts	182	218	215
Investment income (loss)	438	(469)	1,318
Other nonoperating revenues, net	610	371	360
Increase in net position	894	473	1,974
Net position, beginning of year	8,354	7,881	5,907
Net position, end of year	**$ 9,248**	**$ 8,354**	**$ 7,881**

Operating Revenues

Operating revenues increased $252 million, or 4%, in 2023. Revenue from patient services increased $121 million million, or over 5%, primarily due to higher admissions and occupancy. Grant and contract revenue increased $203 million, or 12%, over 2022, while student tuition and fees increased $33 million, or 3%. Sales and services of educational departments decreased $131 million due to School of Medicine programs, due in part to Lab Medicine - Pathology, which saw lower demand for COVID-19 testing activities compared to prior year. The University's auxiliary operations, which includes student housing and food services and intercollegiate athletics among others, showed revenue decreases totaling $32 million over the prior year. These were offset by an increase in other operating revenues of $57 million mainly due to an increase in contract pharmacy revenues.

Operating Expenses

Operating expenses increased $988 million, or 14%, in 2023. Staff salaries and benefits increased $527 million during the year, due to the impact of higher costs associated with salaries and employer-paid healthcare benefits. Fiscal year 2022 saw a decrease in benefits due to reduced expenses associated with pensions of $191 million, which was not experienced at the same levels in fiscal year 2023. Purchased services expense increased $162 million, or 15%, primarily driven by increased activities associated with medical operations and research programs at $128 million along with growth in travel costs of $32 million, which has returned to pre-pandemic level volume and increase in per diem rates resulting from inflation.

Nonoperating Revenues

Revenues from nonoperating and other sources, net of interest on capital-related debt, increased $1,037 million, or 306%, in 2023. Investment results were the primary driver, increasing $907 million, or 193%, in 2023 driven by change in fair value of investments resulting in non-cash unrealized gains. Other nonoperating revenues increased $120 million, driven by an increase of $81 million in financial alignment income from Fred Hutchinson Cancer Center and federal COVID-19 funding received by the University (see below).

COVID-19

The COVID-19 pandemic has had widespread impacts on societal and economic conditions at a local, national and global level, and has had a significant impact on the University's operations. Financial and liquidity support has been received from federal and state sources and has helped the University to address the negative impacts from COVID-19. This support was provided by the following programs:

- Medicare Advance Payment Program (MAPP)
- Coronavirus Aid, Relief and Economic Security Act (CARES Act) Provider Relief Fund
- CARES Act Higher Education Emergency Relief Fund (HEERF)
- CARES Act Federal Insurance Contributions Act (FICA) Deferral
- CARES Act Paycheck Protection Program
- Federal Emergency Management Agency (FEMA) Public Assistance Program
- Emergency funding appropriated to the University by the state of Washington

In total, the University has recorded revenues of $55 million, $162 million, and $175 million in fiscal years 2023, 2022 and 2021, respectively, in relation to this COVID-19 support. These amounts exclude amounts received by Harborview Medical Center, and the University's discrete component units, Valley Medical Center and Fred Hutchinson Cancer Center.

Changes in Accounting Standards

The following changes in GASB accounting standards have been implemented by the University and had a material impact on the financial statements:

Statement No. 96, "SBITAs"- This Statement was effective for fiscal year 2023, and changed the accounting and financial reporting for Subscription-Based Information Technology Arrangements (SBITA). This Statement applies to contracts that convey the right to use another party's information technology software as specified in the contract in an exchange or exchange-like transaction for a term exceeding 12 months. Governments should recognize a right-to-use (ROU) subscription asset and a corresponding subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. As a result of the implementation, the University has applied the standard retroactively to the period ending June 30, 2022. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows for fiscal year 2022 have been restated to conform with the requirements of this Statement and the current year presentation.

Statement No. 87, "Leases" - This Statement was effective for fiscal year 2022, and changed the accounting and financial reporting for leases by establishing a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. This Statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessees are now required to recognize a lease liability and an intangible ROU lease asset, and lessors are required to recognize a lease receivable and a deferred inflow of resources. As a result of the implementation, the University has applied the standard retroactively to the period ending June 30, 2021, which resulted in the addition of over $1 billion to the University's assets ($700 million ROU assets added to "capital assets, net," $334 million added to "lease receivables, net of current portion" and $43 million added to "accounts receivable" for the current portion of lease receivables). GASB 87 also added over $1 billion to the University's 2021 liabilities and deferred inflows ($720 million of lease liabilities added to "long-term liabilities, and $367 million added to "deferred inflows of resources").

Prior Period Adjustment

In fiscal year 2023, an accounting error was discovered which resulted in an understatement of operating revenues and operating expenses of $295 million, respectively, in fiscal year 2022. In addition, accounts receivable and accounts payable were understated by $2 million. There was no impact to net position. The error originated in the treatment of revenues and expenses related to physician compensation paid to faculty and the subsequent reimbursements from other parties. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows for fiscal year 2022 have been restated to reflect the correction.

Changes in Reporting

Formation of Fred Hutchinson Cancer Center

On March 31, 2022, the members of the Seattle Cancer Care Alliance (SCCA): the University, Fred Hutchinson Cancer Research Center (Fred Hutch), and Seattle Children's Healthcare System (SCHS) agreed to merge Fred Hutch and SCCA; for SCCA to become a non-member non-profit Washington corporation, and for SCCA to be renamed Fred Hutchinson Cancer Center (FHCC). As part of the transaction, SCHS's interest of $286 million was purchased by the University and Fred Hutch with funding provided by Fred Hutch. SCHS no longer participates in the Adult Oncology Program but continues to offer pediatric cancer care services and to coordinate through separate affiliation agreements with FHCC and UW Medicine. The University entered into a promissory note to pay FHCC over a ten-year period for its 50% portion of the SCHS membership in SCCA.

In addition to the restructure of the former SCCA corporate entity in fiscal year 2022, the University and FHCC agreed to the Restructuring and Enhanced Collaboration Agreement (Restructuring Agreement), which clinically and financially integrates the adult cancer program between both entities. With this new arrangement, the University no longer holds a membership interest in SCCA. The University agreed to a restructuring of the SCCA joint venture by transitioning to a non-member entity and rebranding. The University's former economic rights as a joint venture member were transformed into contractual rights including, among other provisions, a payment right extending perpetually. The University's investment in FHCC is recorded within its Statements of Net Position and reflects the integrated adult oncology program. The Restructuring Agreement includes a Financial Alignment Plan, under which both parties share in the objectives of the integrated adult oncology program and drive site neutrality for cancer services for the betterment of patient outcomes. FHCC is presented as a discrete component unit due to the significant level of integration with the University;therefore, its financial position and results of operations are reported in a separate column for financial statement presentation purposes (see note 1 to the financial statements).

Using the Financial Statements

The University's financial statements are prepared in accordance with GASB principles, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements be presented for the University as a whole. These financial statements include the following components:

- Independent Auditors' Report presents an unmodified opinion prepared by the University's auditors, KPMG LLP.
- Statements of Net Position present the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of the University at a point in time (June 30, 2023 and 2022). Their purpose is to present a financial snapshot of the University. This statement aids the reader in determining the assets available to continue the University's operations, how much the University owes to employees and vendors, whether the University has any deferred outflows or inflows other than assets or liabilities, and provides a picture of net position and its availability for expenditure by the University.
- Statements of Revenues, Expenses and Changes in Net Position present the total revenues earned and expenses incurred by the University for operating, nonoperating and other related activities, during a period of time (the fiscal years ended June 30, 2023 and 2022). Their purpose is to assess the University's operating and nonoperating activities.
- Statements of Cash Flows present cash receipts and payments of the University during a period of time (the fiscal years ended June 30, 2023 and 2022). Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.
- Statements of Fiduciary Net Position present the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and fiduciary net position of the University's custodial funds at a point in time (June 30, 2023 and 2022).
- Statements of Changes in Fiduciary Net Position present the additions and deductions from the University's custodial funds during a period of time (the fiscal years ended June 30, 2023 and 2022).
- Notes to the Financial Statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

The University has had a strategic alliance with Valley Medical Center, a Washington public hospital district, since 2011. In fiscal year 2022, Fred Hutchinson Cancer Center, a nonprofit organization focused on adult oncology research and care, was formed and clinically integrated with the University. GASB standards require that these entities be presented as discrete component units of the University; therefore, the financial position at June 30, 2023 and 2022, and results of operations for the fiscal years ended June 30, 2023 and 2022, are reported in a separate column for financial statement presentation purposes (see note 1 to the financial statements).

The analysis that follows includes the consolidated balances of the University of Washington and its blended component units, but excludes the financial position and results of operations of Valley Medical Center and FHCC.

Financial Health

STATEMENTS OF NET POSITION

A summarized comparison of the University's assets, liabilities, deferrals and net position as of June 30, 2023, 2022 and 2021 is shown below:

Summarized Statements of Net Position

(in millions)	2023	2022	2021
Current assets	$ 3,092	$ 2,756	$ 2,754
Noncurrent assets:			
Capital assets, net	6,186	5,942	5,810
Investments, net of current portion	6,653	6,746	6,833
Other	1,386	2,131	815
Total assets	17,317	17,575	16,212
Deferred outflows	1,030	788	742
Total assets and deferred outflows	18,347	18,363	16,954
Current liabilities	1,647	1,703	1,686
Noncurrent liabilities:			
Bonds payable	2,289	2,387	2,407
Pensions and OPEB	1,662	2,190	2,256
Other	1,270	1,262	1,138
Total liabilities	6,868	7,542	7,487
Deferred inflows	2,232	2,467	1,586
Total liabilities and deferred inflows	9,100	10,009	9,073
Net position	**$ 9,248**	**$ 8,354**	**$ 7,881**

Current assets include those that may be used to support current operations, and consist primarily of cash and cash equivalents, short-term investments and accounts receivable. Current liabilities generally are due and payable over the course of the following fiscal year, and include accounts payable and other accrued liabilities, unearned revenues, and the current portion of long-term liabilities such as debt. The excess of current assets over current liabilities of $1,445 million in 2023, and $1,053 million in 2022, reflects the continuing ability of the University to meet its short-term obligations.

Current assets increased $336 million, or 12%, in 2023, driven by $222 million increase in short-term investments. The federal funds rate increased substantially in fiscal year 2023 resulting in short-term securities becoming more attractive to hold with a higher yield and not be subject to interest rate risk. Accounts receivable, net of allowances, increased $124 million mainly due to receivables for state appropriation which were received in July and an increase in receivables related to pending sales of investments.

Current assets were mostly unchanged in 2022, as a $124 million increase in short-term investments and a $21 million increase cash and cash equivalents offset by a $150 million decrease in accounts receivable, which resulted primarily from a decrease in amounts due from pending sales of investments.

Current liabilities decreased $56 million, or 3%, in 2023, mainly due to lower accounts payable of $79 million resulting from an increase in payment processing during the final months of fiscal year 2023 in preparation for the implementation of the new Workday system. Current liabilities increased $17 million, or 1%, in 2022. The increase was driven by $51 million increase in current portion of lessee lease liabilities resulting from the implementation of GASB 87, $14 million increase from first time recognition of the current portion of subscription liabilities from the implementation of GASB 96, and an increase in accounts payable at $73 million. This increase was offset by a $48 million decrease in unearned revenue at $44 million.

Noncurrent assets decreased $594 million, or 4%, in 2023. Net pension assets decreased $704 million during the year primarily due to the change in value of plan assets. The significant increase in investment value from the prior year measurement period did not repeat itself in the current year measurement period. Noncurrent assets increased $1,361 million, or 10%, in 2022. Net pension assets increased $1,129 during the year, reflecting unusually strong investment returns during the 2021 measurement period of the retirement plans administered by the Department of Retirement Systems (DRS). $170 million of the increase in noncurrent assets primarily reflects the difference between recording the new investment in FHCC during fiscal year 2022 for $429 million, and removal of the $259 million equity share of the SCCA joint venture which merged with FHCC and was recorded in "other noncurrent assets". The difference between these values primarily reflects the University's $143 million note payable to FHCC for the 50% portion of the Seattle Children's Healthcare System (SCHS) membership in SCCA.

Noncurrent liabilities decreased $618 million, or 11% in 2023 mainly driven by a decrease of $615 million in other post-employment benefits liability. This decrease primarily reflects changes in actuarial assumptions, which reduced the post-employment benefits liability but in turn increased the deferred inflows related to other post-employment benefits.

Noncurrent liabilities increased $38 million, or 1%, in 2022. The University's liability for other post-employment benefits increased $165 million during the year, primarily reflecting an increase in the University's proportionate share of the statewide plan. Long-term liabilities, net of current portion increased $72 million, driven by recording the $143 million payable to FHCC for the University's 50% portion of SCHS membership in SCCA. The long-term portion of the reserve for self-insurance also increased $44 million, and was offset by a decrease in items related to COVID-19 funding. Pension liabilities decreased $231 million, driven by the pension plans administered by the DRS which turned to net pension assets during the year as a result of investment gains on plan assets during the 2021 measurement period.

Deferred outflows of resources and deferred inflows of resources primarily represent pension and OPEB-related deferrals, lease-related deferrals, subscription-related deferrals, and the University's remainder interest in split-interest agreements. The increase in deferred outflows of $242 million, or 31%, in 2023 is mainly seen in the deferred outflows related to pensions driven by a decrease in the investment rate of return in actuarial assumptions for the retirement plans administered by the Department of Retirement Systems (DRS). The increase in deferred outflows of $46 million, or 6%, in 2022 primarily pertains to OPEB, which experienced a $35 million increase due to the University's larger proportionate share of the state's overall plan results.

Deferred inflows decreased by $235 million, or 10%, in 2023, driven by a $729 million decrease to the pension plans administered by the DRS, which report results on a one-year lag. The difference between projected and actual investment earnings on pension plan investments contributed to the decrease in deferred inflows due to lower investment earnings during the fiscal year 2022 measurement period. This decrease was offset by a $599 million increase in the other post-employment benefit plan deferred inflows due to changes in actuarial assumptions. Deferred inflows increased $881 million, or 56%, in 2022, primarily due to an over $1 billion increase attributable to the pension plans administered by the DRS, which report results on a one-year lag. Better than expected returns on DRS plan assets during the fiscal year 2021 measurement period decreased the net pension liability, turning it into a net pension asset for fiscal year 2022. The associated increase to the deferred inflow for these plans is recognized as a reduction of pension expense in the current and future year

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 reserves, life income trusts, annuities and gifts.

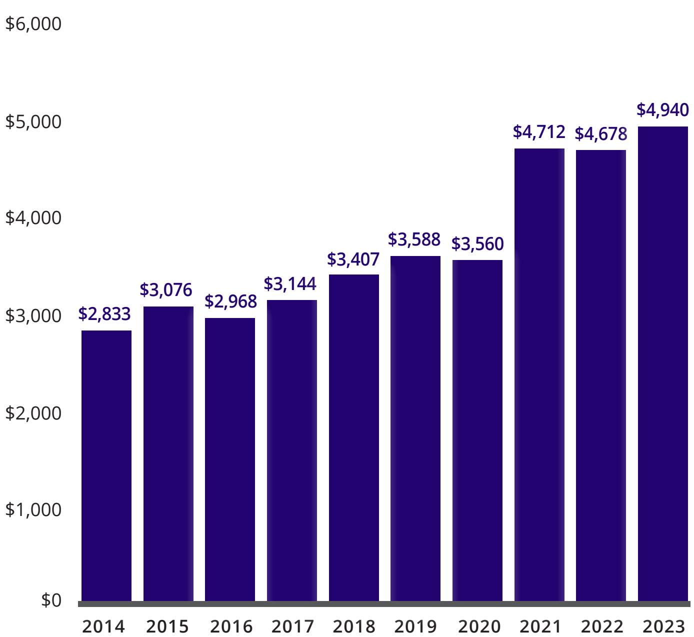
The University of Washington Board of Regents is vested by statute with responsibility for the University's properties and investments, and for establishing investment policy. The University of Washington Investment Management Company (UWINCO), led by the Chief Investment Officer, carries out the day-to-day activities of the investment portfolios. The University of Washington Investment Management Company Board ("UWINCO Board") consists of both Board of Regents' members and external investment professionals who advise UWINCO, the President and the Board of Regents.

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. Similar to 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 decade due to endowment gifts and investment returns. The number of individual endowments in the CEF has grown significantly, from 4,211 at June 30, 2014 to 5,712 at June 30, 2023. The market value of the CEF has similarly increased, from $2.8 billion at June 30, 2014 to $4.9 billion at June 30, 2023.

Consolidated Endowment Fund Market Value

(in millions)



The CEF Investment Policy's spending rate distributes quarterly to programs based on an annual percentage rate of 3.6%, applied to the five-year rolling average of the CEF's market value. Additionally, the CEF Investment Policy allows for an administrative fee of 0.90% supporting campus-wide fundraising and stewardship activities and offsetting the internal cost of managing endowment assets.

For the fiscal year ended June 30, 2023, the CEF returned +6.0% versus +11.3% for the passive benchmark. While overall relative performance lagged, the CEF had positive absolute performance in fiscal year 2023 across most portfolio strategies. The CEF's Developed Markets strategy led absolute returns this year as the US market rallied, driven by a handful of large cap technology stocks. The CEF's Emerging Markets, especially China, underperformed significantly and Private Equity lagged public markets. Capital Preservation strategies outperformed despite government bonds posting a slightly negative return due to rising interest rates strategies.

A portion of the University's operating funds are invested in the CEF. As of June 30, 2023, these funds comprise $1,082 million of the CEF market value.

Capital Improvements

The University continues to expand its campuses, invest in information technology and renovate existing facilities to meet the needs of its students, patients, faculty and staff. Significant capital asset expenditures (greater than $20 million) during fiscal year 2023 included $124 million for the Behavioral Health Teaching Facility, $50 million for UW Finance Transformation, $39 million for the Academic STEM building located on the Bothell campus, and $21 million toward the interdisciplinary Engineering Building.

See note 8 for additional information regarding capital asset activity.

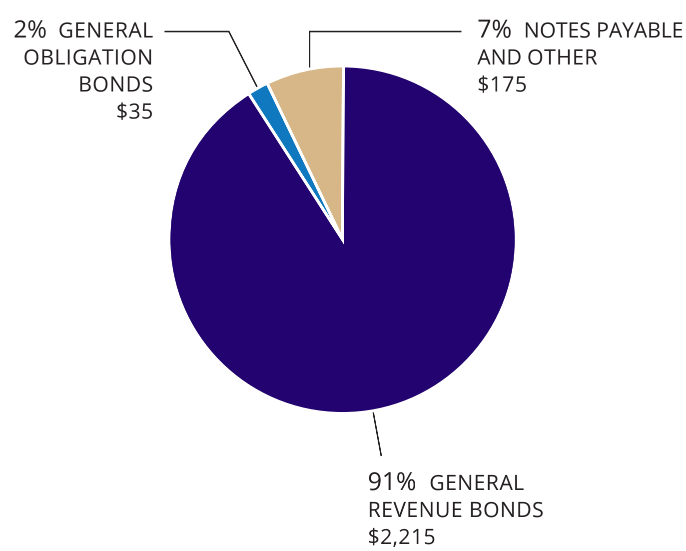
Debt

The Board of Regents approves the University's Debt Management Policy which governs the type and amount of debt the University may incur. The policy is designed to maintain access to capital markets and to minimize the cost of capital.

The University's debt portfolio consists primarily of fixed-rate debt in the form of General Revenue Bonds, Lease Revenue Bonds and state-issued General Obligation Bonds. As of June 30, 2023, the University had $2.4 billion of bonds and notes payable outstanding, an increase of 4.0% from June 30, 2022.

Bonds and Notes Payable

(in millions)



Unaudited – see accompanying notes to financial statements

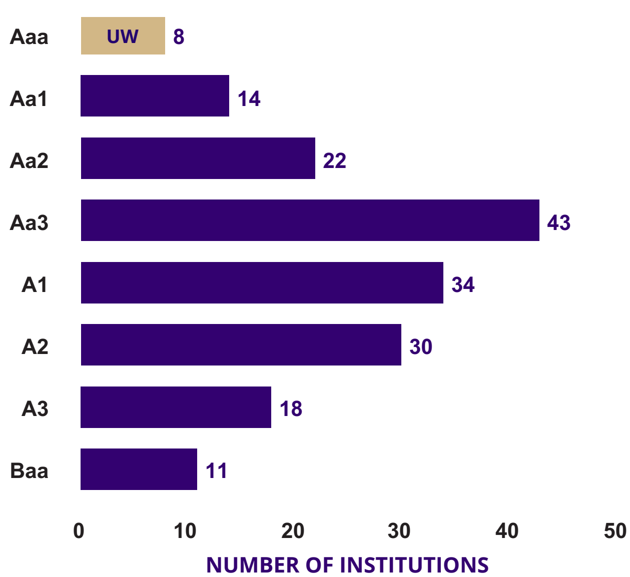
The University did not issue General Revenue Bonds in fiscal year 2023.

The University has a $250 million commercial paper program, which is typically used to fund project expenditures until long-term funding is secured. As of June 30, 2023, there was $44 million in commercial paper outstanding.

In March 2023, the University had two separate $100 million lines of credit to provide general institutional liquidity. $100 million was outstanding on one line of credit at the fiscal year end. Subsequently, on July 27, 2023, the outstanding balance was repaid prior to the expiration date of August 1, 2023. The second $100 million line of credit remains in place and is undrawn.

During fiscal year 2023, Moody's (Aaa, Stable) and Standard & Poor's (AA+, Stable) reaffirmed the University's credit ratings. The University's short-term credit ratings were also affirmed at P-1 (Moody's) and A-1+ (Standard & Poor's).

Moody's Fiscal Year 2022
Public College and University Rating Distribution
(As of the June 2023 Moody's Median Report)



The Board of Regents typically authorizes the long-term debt (excluding commercial paper) issuance on a fiscal year basis, and for fiscal year 2024 has authorized up to $312 million, which includes up to $180 million for the payoff of commercial paper used to fund the Finance Transformation Project on an interim basis. Any increase, other than debt issued to achieve debt service savings and/or to remarket a put or term bond, would require additional approval by the Board.

See note 9 for additional information regarding debt and other long-term liabilities.

Net Position

The difference between total assets and deferred outflows, and total liabilities and deferred inflows, is referred to as net position or "equity". Over time, the change in net position is one indicator of the improvement or decline in the University's overall financial health when considered with nonfinancial factors such as enrollment, research awards, patient levels, and the condition of facilities.

The University reports its "equity" in four categories:

- Net Investment in Capital Assets – 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 Position:
  - Nonexpendable net position, primarily endowments, represents gifts to the University's permanent endowment funds. These are funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditure, but rather for investment purposes only, in order to produce income that is to be expended for the purposes specified.
  - Expendable net position consists of resources that the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed by donors and/or other external parties, and includes the net appreciation of permanent endowments.
- Unrestricted Net Position – This is all other funds available to the University for any purpose associated with its mission. Unrestricted net position is not subject to externally imposed stipulations, but often is internally designated for specific purposes.

The University's net position at June 30, 2023, 2022 and 2021 is summarized as follows:

Categories of Net Position

(in millions)	2023	2022	2021
Net investment in capital assets	$ 2,908	$ 2,707	$ 2,616
Restricted:			
Nonexpendable	2,206	2,054	1,996
Expendable	3,091	2,874	3,086
Unrestricted	1,042	719	183
Total net position	**$ 9,248**	**$ 8,354**	**$ 7,881**

Net investment in capital assets increased $201 million, or 7%, in 2023 and $91 million in 2022. This balance typically increases as debt is repaid, or when the University funds fixed asset purchases without the use of external financing, for example by using internal reserves. This balance decreases as assets are depreciated.

Restricted nonexpendable net position increased $152 million, or 7%, in 2023 primarily from the receipt of $106 million of new endowment gifts. This category of net position increased $58 million, or 3%, in 2022 primarily as a result of receiving $83 million in new endowment gifts during the year, offset by a $36 million decrease in the value of endowments that have a market value less than their cost basis.

Restricted expendable net position increased $217 million, or 8%, in 2023. New operating and capital gifts increased by $239 million, Pell Grants grew by $49 million along with increasing other non-operating revenues of $101 million. These were offset by operating losses of $57 million and an increase of $106 million in unrealized losses (net of realized gains) on restricted investments, including endowments. This category of net position decreased $212 million, or 7%, in 2022. Unrealized losses (net of realized gains) on restricted investments, including endowments, increased $294 million during the year and operating losses were $205 million. These were offset by $248 million in new operating and capital gifts and $49 million of Pell Grants.

Unrestricted net position increased $323 million, or 45%, in 2023. State operating and capital appropriations contributed $733 million as well as $583 million of investment income on unrestricted investments. These amounts were offset by $865 million of operating losses and $111 million of interest on capital asset-related debt. This category of net position increased $536 million, or 293%, in 2022. State operating and capital appropriations contributed $612 million, and amounts received to support the University's response to the COVID-19 pandemic totaled $99 million. These were offset by $122 million of investment losses on unrestricted investments, and $108 million of interest on capital asset-related debt.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses and Changes in Net Position present the University's results of operations and nonoperating items that result in the changes in net position for the year. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. Certain significant revenues budgeted for fundamental operational support of the core missions of the University must be recorded as nonoperating revenue, including state educational appropriations, private gifts, and investment income. As a result, it is anticipated that the Statements of Revenues, Expenses and Changes in Net Position will consistently report an operating loss for GASB financial reporting purposes.

A condensed comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2023, 2022 and 2021 follows:

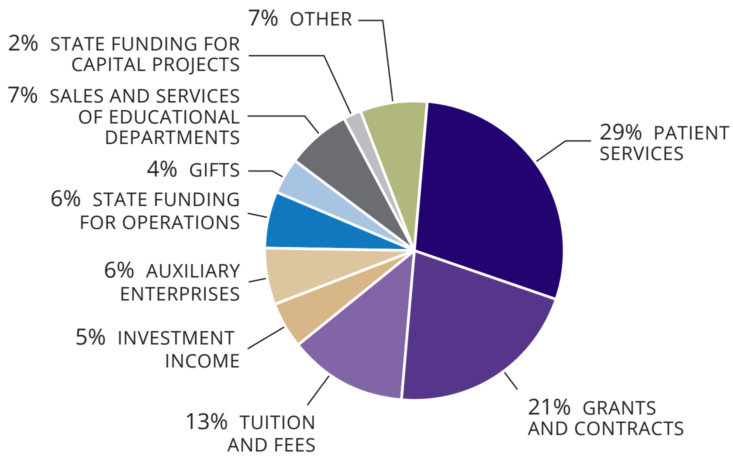
Operating Results

(in millions)	**2023**	**2022**	**2021**
Net patient services	$ 2,564	$ 2,443	$ 2,208
Tuition and fees, net	1,158	1,125	1,033
Grants and contracts	1,865	1,662	1,567
Other operating revenues	1,514	1,619	1,092
Total operating revenues	7,101	6,849	5,900
Salaries and benefits	4,663	4,136	3,748
Other Operating Expenses	3,306	2,845	2,552
Operating loss	**(868)**	**(132)**	**(400)**
State appropriations	532	485	481
Gifts	182	218	215
Investment income (loss)	438	(469)	1,318
Other nonoperating revenues	721	480	471
Interest on capital asset-related debt	(111)	(109)	(111)
Increase in net position	**$ 894**	**$ 473**	**$ 1,974**

The University's operating loss increased to $868 million in 2023, from $132 million in 2022. State appropriations are shown as nonoperating revenue, but are primarily used to fund core University operations. If state appropriations were classified as operating revenue, the University would have reported net operating loss of $336 million in 2023, and an operating income of $353 million in 2022. The University has a diversified revenue base. No single source generated more than 29% of the total fiscal year 2023 revenues of $9.0 billion.

Unaudited – see accompanying notes to financial statements

Sources of Funds



The following table summarizes operating and nonoperating revenues from all sources for the years ended June 30, 2023, 2022 and 2021:

Revenues from All Sources

(in millions)	2023		2022		2021	
Net patient services	$ 2,564	29%	$ 2,443	34%	$ 2,208	26%
Grants and contracts	1,925	21%	1,723	24%	1,628	20%
Tuition and fees, net	1,158	13%	1,125	15%	1,033	12%
Sales and services of educational departments	662	7%	792	7%	463	6%
State funding for operations	532	6%	485	7%	481	6%
Auxiliary enterprises	523	6%	555	7%	309	4%
Investment income (loss)	438	5%	(469)	(6)%	1,318	16%
Gifts	355	4%	344	5%	332	4%
State funding for capital projects	201	2%	128	2%	70	1%
Other	614	7%	437	5%	543	5%
Total revenue - all sources	**$ 8,972**	**100%**	**$ 7,563**	**100%**	**$ 8,385**	**100%**

Patient Services–UW Medicine

The financial statements of the University include the operations of the School of Medicine (SOM), two medical centers, an associated physician practice group, 13 free standing clinics, an emergency air transport service and the University's share of two joint ventures. These entities, together with Harborview Medical Center (not included in the University's financial statements – see note 17) and shared services providing IT, accounting, financial services and human resources comprise UW Medicine. UW Medicine is governed and administered as an enterprise of the University whose mission is to improve the health of the public. UW Medicine advances this mission through work in patient care, medical education of physicians and other healthcare providers, and research.

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

UW Medical Center (UWMC) is an 810-bed hospital located on two campuses that provides comprehensive healthcare services to the Puget Sound community and patients from throughout the Pacific Northwest and beyond. UWMC also serves as the major clinical, teaching and research site for students and faculty in Health Sciences at the University. More than 29,000 patients receive inpatient care at UWMC each year. Specialized inpatient care needs are met by the Cancer Center, the Regional Heart Center, the Neonatal Intensive Care Unit and the Organ Transplantation program, among others.

Valley Medical Center (VMC) is a 341-bed acute care hospital and network of clinics that treats more than 16,000 inpatients per year, and is the oldest and largest public hospital district in the state of Washington. VMC's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position are presented as part of the discrete component units column on the financial statements of the University.

Fred Hutchinson Cancer Center (FHCC) is a nonprofit organization focused on adult oncology research and care that is a clinically integrated part of UWMC. FHCC was formed in 2022 from the merger of Seattle Cancer Care Alliance and Fred Hutchinson Cancer Research Center, together with execution of the Restructuring and Enhanced Collaboration Agreement between the University and FHCC. FHCC's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position are presented as part of the discrete component units column on the financial statements of the University.

UW Medicine Primary Care is a network of clinics with 13 neighborhood locations throughout the greater Puget Sound area, providing primary, urgent and selected specialty care with a staff of 158 healthcare providers.

UW Physicians (UWP) is the physician practice group for more than 2,800 faculty physicians and healthcare providers associated with UW Medicine.

Airlift Northwest provides rapid emergency air transport services to critically ill or injured patients throughout Washington, Alaska, Montana and Idaho.

Joint Ventures - The University is currently a participant in two joint ventures: Seattle Cancer Care Alliance (until March 31, 2022), Children's University Medical Group and Embright, LLC. The University's share of these activities is reflected in the University's financial statements.

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

In combination, these organizations (not including VMC or FHCC) contributed $2.6 billion in net patient services revenue in fiscal year 2023, compared with $2.4 billion in fiscal year 2022, an increase of $121 million, or 5%, primarily due to strong volumes and the outpatient directed payment program which is a new program managed by the Washington State Health Care Authority effective January 1, 2023. UWMC generated 79% of this revenue in 2023 and 75% in 2022. UWMC admissions were 29,001 in 2023 compared with 27,583 in 2022, an increase in admissions of 5%. Surgeries increased 9% for UWMC in fiscal year 2023 compared to fiscal year 2022.

Grant and Contract Revenue

One of the largest sources of revenue (21%) continues to be grants and contracts. Grant and contract revenue is received from federal sponsors, by far the largest component, and also from state, local and nongovernmental sources. Total grant and contract revenue increased $202 million in 2023, compared to an increase of $95 million in 2022.

Federal grant and contract revenue increased $107 million, or 9%, in 2023. The National Institutes of Health (NIH) funding increased from both direct grants and pass through awards. These grants continue to provide funding and support for a variety of biomedical research initiatives. Other increases came from the new US Navy awards to conduct oceanic acoustic systems research and a CDC subcontract for a large COVID vaccine trial. Federal grant and contract revenue increased $81 million, or 7%, in 2022 due primarily to the continued increase in NIH funding from both direct grants and subawards. These grants provided approximately $50 million in funding and support for a variety of biomedical research initiatives. Also, the FEMA (Federal Emergency Management Agency) subcontract from the Washington State Military provided an additional $42 million in funding to assist with the University's response to COVID-19 in fiscal year 2022.

State and local grant and contract revenue increased $22 million, or 15%, in 2023 as the Washington State College and Bridge grants saw an increase of funding along with an increase in capital projects and Washington State Department of Health initiatives. State and local grant and contract revenue decreased $7 million, or 5%, in 2022 as several state grants ended or had a reduction in funding.

Nongovernmental grant and contract revenue increased $73 million, or 24%, in 2023. The Bill and Melinda Gates Foundation continued to support many research initiatives including a large project for HIV prevention. There was also a broad increase in new awards across a variety of private sector entities enabling the continued success of the University's global research portfolio. Nongovernmental grant and contract revenue increased $21 million, or 7%, in 2022. The Bill & Melinda Gates Foundation continued to increase funding with a large project for HIV prevention along with sustained support for the Institute for Health Metrics and Evaluation's (IHME) Global Burden of Disease (GBD) enterprise. The GBD provides a tool to quantify health loss from hundreds of diseases, injuries, and risk factors and aims to improve health systems and eliminate disparities.

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 sponsors, along with direct costs, by an indirect cost recovery. The 2023 and 2022 indirect cost recovery rate for research grants was approximately 31 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.

Operating Support for Instruction

(in millions)	2023		2022		2021	
Operating tuition and fees	$ 784	47%	$ 765	48%	$ 694	46%
Fees for self-sustaining educational programs	374	22%	360	22%	339	22%
Subtotal - tuition and fees, net	1,158	69%	1,125	70%	1,033	68%
State operating appropriations	532	31%	485	30%	481	32%
Total educational support	**$1,690**	**100%**	**$1,610**	**100%**	**$1,514**	**100%**

Noncapital state appropriations are considered nonoperating revenue under GASB principles, and are reflected in the nonoperating section of the Statements of

Revenues, Expenses and Changes in Net Position; however, they are used solely to fund operating activities.

Revenue from tuition and fees, net of scholarship allowances, increased $33 million in 2023, compared to an increase of $92 million in 2022. This increase was partially due to the state allowing a 2.4% operating fee increase in resident undergraduate tuition during the year. Nonresident undergraduate operating fees also increased 2.4%, while tuition-based graduate and professional program rates increased 0-5%. Most fee-based program rates increased 0-5% in 2023. These other fee increases were consistent with those implemented during 2022.

Revenue growth was also partly due to modest increases in student enrollment. Although full-time equivalent (FTE) enrollment in 2023 in undergraduate tuition-and fee-based programs decreased by 1.3% in the resident student category, it increased by 3.9% in the nonresident student category.

Self-sustaining educational programs (fee-supported programs) include the following amounts for each of the fiscal years 2023, 2022 and 2021: Continuum College (the continuing education branch of the University) $142 million, $141 million and $133 million, respectively, summer quarter tuition $68 million, $68 million and $62 million, respectively, and for Business School and School of Medicine programs $77 million, $74 million and $69 million, respectively.

Gifts, Endowments and Investment Revenues

Net investment income (loss) for the years ended June 30, 2023, 2022 and 2021 consisted of the following:

Net Investment Income

(in millions)	2023	2022	2021
Interest and dividends, net	$ 86	$ (4)	$ 73
Seattle Cancer Care Alliance change in equity	—	23	51
Realized gains	113	238	90
Unrealized gains (losses)	238	(726)	1,104
Net investment income (loss)	**$ 437**	**$ (469)**	**$ 1,318**

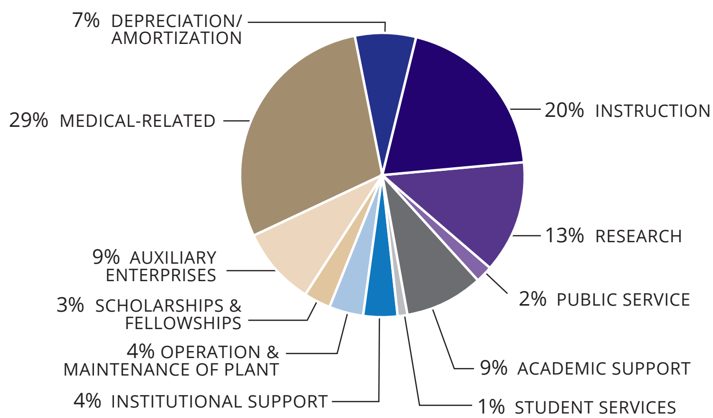
Net investment income increased $907 million, or 193%, in 2023 compared to a decrease of $1,787 million, or 136%, in 2022. The swing to unrealized gains in fiscal year 2023 drove this result, and was in contrast to the rise in unrealized losses which drove results in 2022. Returns on the CEF were +6.0% in 2023, -5.5% in fiscal year 2022, and +35.1% in fiscal year 2021.

Gifts are a key and necessary source of support for a variety of purposes, including current operating activities. Gifts support scholarships and research, capital improvements, and are used to fund permanent endowments for various academic and research purposes. Current use gifts decreased $36 million in 2023, but increased $3 million in 2022. Capital gifts increased $32 million in 2023 and decreased $15 million in 2022. Gifts to permanent endowments increased $14 million in 2023, compared to an increase of $25 million in 2022.

Expenses

Two primary functions of the University, instruction and research, comprised 33% of total operating expenses in 2023. These dollars provided instruction to over 60,000 students and funded over 5,500 research awards. Medical-related expenses, such as those related to patient care, continue to be the largest individual component, accounting for 28% of the University's total operating expenses in 2023.

Uses of Funds



A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2023, 2022 and 2021 is shown in the table at the top of the next column.

Overall, the University's operating expenses increased $988 million, or 14%, in 2023 and increased $681 million, or 11%, in 2022. Approximately 59% of amounts incurred for operating expenses in 2023 and 2022, were related to faculty and staff compensation and benefits.

In 2023, expense associated with faculty and staff salaries increased $266 million, or 8%, which was attributed to a growth in FTE's as well as wage increases and overall increasing costs due to the competitive labor market. UW Medicine reached historic agreements with its four largest labor union partners that included incremental pay increases that are the largest UW Medicine has ever negotiated.

Unaudited – see accompanying notes to financial statements

Operating Expenses by Function

(in millions)	2023		2022		2021	
INSTRUCTION	$1,627	20%	$1,533	22%	$1,403	23%
RESEARCH	1,004	13%	920	13%	820	13%
PUBLIC SERVICE	146	2%	107	2%	87	1%
ACADEMIC SUPPORT	743	9%	641	9%	551	9%
STUDENT SERVICE	58	1%	51	1%	51	1%
INSTITUTIONAL SUPPORT	316	4%	125	2%	259	4%
OPERATION & MAINTENANCE OF PLANT	314	4%	304	4%	326	5%
SCHOLARSHIPS & FELLOWSHIPS	211	3%	213	3%	192	3%
AUXILIARY ENTERPRISES	706	9%	622	9%	516	8%
MEDICAL-RELATED	2,417	28%	2,002	28%	1,645	27%
DEPRECIATION/ AMORTIZATION	523	7%	463	7%	450	6%
Total operating expenses	**$7,969**	**100%**	**$6,981**	**100%**	**$6,300**	**100%**

Benefits expense increased $261 million, or 40% in 2023. Pension expense related to the University's share of the retirement plans administered by the Department of Retirement Systems increased by $232 million during 2023. Fiscal year 2022 experienced a significant decrease driven by unusually strong investment gains on plan assets during the 2021 measurement period. This did not occur in 2023. Also contributing to the increase in total benefits expense during 2023 was a 21% increase in the premium rate paid by the University for employee healthcare, the largest component of overall employee benefit costs.

Purchased services increased $162 million, or 15%, in 2023, primarily driven by increased activities and costs associated with medical operations and research programs , and higher travel costs.

In 2022, expense associated with faculty and staff salaries increased $586 million, or 20% partly reflecting a return to more normal business operations compared with impacts from the COVID-19 pandemic the prior year. An over 3% increase in University FTE's, together with a return to annual merit increases for professional staff which had been paused during the COVID-19 pandemic, and overall increasing costs due to the competitive labor market, contributed to the increase.

Benefits expense decreased $198 million, or 23% in 2022. Pension expense related to the University's share of the retirement plans administered by the Department of Retirement Systems decreased $286 million during 2022, driven by unusually strong investment gains on plan assets during the 2021 measurement period. Also contributing to the decrease in total benefits expense during 2022 was a greater than 4% reduction in the premium rate paid by the University for employee healthcare, the largest component of overall employee benefit costs.

Purchased services increased $201 million, or 22%, in 2022, driven primarily by increased activities associated with medical operations and research programs ($191 million), and higher travel cots due to lifting of COVID-19 mandated travel restrictions ($22 million).

Economic Factors That May Affect the Future

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

STATE OPERATING AND CAPITAL APPROPRIATIONS

The state of Washington, which provided approximately 8% of the University's total revenues in fiscal year 2023, continued to see increasing state tax collections; however growth has slowed. In recent biennia, growth in state tax collections and new revenue have largely been utilized to combat the strains that the COVID-19 pandemic and rising inflation have placed on our health care and education systems. With this focus, the legislature continued to make significant investments in the University's safety net hospitals, as well as science, technology, engineering and math (STEM) enrollments across all three University campuses.

During the 2023 legislative session, the state passed a biennial operating budget, which included significant appropriations in the 2023-25 biennium (effective for fiscal years 2024 and 2025). State revenue forecasts leading up to the start of the 2023 session showed positive collections, but indicated that economic growth was slowing. The state's Economic and Revenue Forecast Council (ERFC) reported a surplus of $681 million ahead of the 2023 legislative session. As the session progressed, revenue projections for the 2023-25 biennium were revised downward by $483 million. Despite this trend, state lawmakers authorized compensation increases for UW non-represented faculty and staff in fiscal years 2024 and 2025. The operating budget included more than 40 new provisos (direct funding allocations with specific conditions such as program expansions or research projects) to the University, in addition to base funding provided across the biennium.

The June 2023 revenue forecast revised state revenue projections slightly upward for the 2023-25 biennium, which increased by $327 million and represented an 2.4% increase over the 2021-23 biennium. The ERFC continued to caution that revenue collections have slowed and noted that their projections assumed that the Federal Reserve would raise interest rates to a range of 5.25-5.5%. The University will continue to monitor state revenue collections as new revenue forecasts are released in September and November of 2023.

The University's fiscal year 2024 general operating appropriation from the state (excluding $80 million appropriated on a one-time basis to support safety net hospitals) currently totals approximately $503 million. This amount is an increase from approximately $470 million in 2023 and $437 million in 2022. Recent increases are largely attributable to compensation increases for non-represented faculty and staff, hospital safety net funding for UWMC, and targeted investments in student enrollment efforts in computer science and engineering.

During the 2015-17 biennium, the state approved a new tuition policy that reduced resident undergraduate tuition rates to 5% below the 2015 rates in 2016, and to 15% below the 2015 rates in 2017. The state provided funds to offset the lost tuition revenue in both years. The same tuition policy allowed for future increases tied to a rolling average of median hourly wage in the state according to the Bureau of Labor Statistics (BLS). Under this current policy, the state has allowed resident undergraduate tuition to increase by 2-3% in each year. While the legislature can always modify its policy, it has so far chosen to maintain it through the 2023-25 biennium. Therefore, the University's current expectation is that resident undergraduate tuition increases will continue to be limited to 2-3% each year in the near future. The University's Board of Regents continues to have broad tuition and fee setting authority for categories other than resident undergraduate tuition.

State funding for capital appropriations continues to be constrained, but the state's 2023-25 biennial capital budget provided funding for renovating the Magnuson Health Sciences T-Wing, Anderson Hall, and the UWMC NW Campus. The legislature also provided funding for design and construction of the wəɬəbʔaltxʷ (Intellectual House), and for UW Tacoma to purchase additional land around the existing campus.

UW MEDICINE

The federal COVID-19 Public Health Emergency declaration under the Public Health Service Act expired on May 11, 2023. UW Medicine continues to experience declining COVID-19 volumes, but the broad economic factors resulting from the pandemic continue to impact UW Medicine's patient volumes, case mix acuity, service mix, and revenue mix. Ongoing economic conditions, such as labor market wage and benefit pressure, supply chain and other inflationary pressures have also increased, and will continue to increase the UW Medicine's expenses and pressure hospital liquidity. Because of these factors and other uncertainties, management cannot estimate the severity of the aforementioned general economic and marketplace conditions, including the COVID-19 pandemic, on the UW Medicine's business.

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

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

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

Center for Behavioral Health and Learning at UWMC

UW Medicine and the Washington State legislature established the Center for Behavioral Health and Learning at UW Medical Center, which will be located on the Northwest campus. This center will serve the dual purposes of treating patients with behavioral health needs and training an integrated behavioral health workforce in the new 191,000-square-foot facility. The State awarded $234 million for the planning, design work, construction, and equipment necessary to build a new, first of its kind building. After delays due to a concrete strike in Seattle in 2022, the project was awarded an additional $10 million from the state to offset the impact of the concrete strike and escalation. The revised project budget is now $244 million. Construction has begun and the building is anticipated to be completed with patients being seen in the facility in calendar year 2024.

UW Finance Transformation

In December 2019, the UW Finance Transformation (UWFT) program received approval from the University's Board of Regents to proceed with a broad redesign of finance-related policies and processes, enabled by the implementation of new enterprise resource planning (ERP) technology. Workday Financials was chosen to support the business objectives for this transformation by providing a seamless, integrated solution for Human Resources/Payroll (previously implemented), Finance and Procurement. This transformation will move the institution toward a single financial system of record, and is a top administrative priority. Total program costs are estimated at $340 million, which includes all operating and capital costs for implementation and six months of stabilization. The University went live with the Finance and Procurement solution July 2023 as planned and is now in the stabilization phase.

Financial Statements & Notes

STATEMENTS OF NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNITS	
	June 30,		**June 30,**	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2023**	**2022**	**2023**	**2022**
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS (NOTE 3)	$ 149,493	$ 162,736	$ 306,266	$ 441,708
INVESTMENTS, CURRENT PORTION (NOTE 7)	1,709,865	1,488,030	27,212	785,095
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $69,454 and $60,970) (NOTE 6)	1,153,426	1,028,572	304,282	306,027
OTHER CURRENT ASSETS	79,314	77,107	45,590	299,546
TOTAL CURRENT ASSETS	3,092,098	2,756,445	683,350	1,832,376
NONCURRENT ASSETS:				
DEPOSIT WITH STATE OF WASHINGTON (NOTE 4)	67,318	71,554	—	—
INVESTMENTS, NET OF CURRENT PORTION (NOTE 7)	6,652,515	6,746,299	1,156,077	149,908
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF $3,303 and $3,402) (NOTE 5)	39,520	42,368	—	—
OTHER NONCURRENT ASSETS (NOTE 1)	45,963	53,180	757,082	312,300
LEASE RECEIVABLES, NET OF CURRENT PORTION (NOTE 6, 11)	374,078	400,703	24,262	27,937
NET PENSION ASSETS (NOTE 12)	430,322	1,133,901	—	—
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF $6,511,538 and $6,099,989) (NOTE 8)	6,186,205	5,941,654	1,589,547	1,537,261
INVESTMENT IN FRED HUTCHINSON CANCER CENTER (NOTE 1)	428,827	428,827	—	—
TOTAL NONCURRENT ASSETS	14,224,748	14,818,486	3,526,968	2,027,406
TOTAL ASSETS	17,316,846	17,574,931	4,210,318	3,859,782
DEFERRED OUTFLOWS OF RESOURCES (NOTE 14)	1,030,436	788,441	11,804	12,926
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 18,347,282**	**$ 18,363,372**	**$ 4,222,122**	**$ 3,872,708**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 978,170	$ 1,056,845	$ 306,159	$ 311,862
UNEARNED REVENUES	216,168	264,822	—	—
OTHER CURRENT LIABILITIES	165,166	69,500	107,098	144,713
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9,10)	287,470	311,623	58,386	42,949
TOTAL CURRENT LIABILITIES	1,646,974	1,702,790	471,643	499,524
NONCURRENT LIABILITIES:				
U.S. GOVERNMENT GRANTS REFUNDABLE	26,317	30,097	—	—
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9, 10)	3,533,507	3,618,271	2,091,853	2,150,430
NET PENSION LIABILITIES (NOTE 12)	415,624	328,935	—	—
OTHER POST-EMPLOYMENT BENEFITS (NOTE 13)	1,246,057	1,861,478	—	—
TOTAL NONCURRENT LIABILITIES	5,221,505	5,838,781	2,091,853	2,150,430
TOTAL LIABILITIES	6,868,479	7,541,571	2,563,496	2,649,954
DEFERRED INFLOWS OF RESOURCES (NOTE 14)	2,231,102	2,467,357	48,992	54,332
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**9,099,581**	**10,008,928**	**2,612,488**	**2,704,286**
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	2,908,340	2,707,261	188,754	102,860
RESTRICTED:				
NONEXPENDABLE	2,205,790	2,053,755	136,368	117,649
EXPENDABLE	3,091,076	2,874,694	502,581	88,283
UNRESTRICTED	1,042,495	718,734	781,931	859,630
TOTAL NET POSITION	9,247,701	8,354,444	1,609,634	1,168,422
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 18,347,282**	**$ 18,363,372**	**$ 4,222,122**	**$ 3,872,708**

See accompanying notes to financial statements

Dollars in thousands

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNITS	
	Year ended June 30,		Year ended June 30,	
REVENUES	**2023**	**2022**	**2023**	**2022**
OPERATING REVENUES:				
NET PATIENT SERVICE REVENUES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $33,417 and $25,348)	$ 2,564,243	$ 2,442,588	$ 1,974,067	$ 1,000,504
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $181,013 and $189,116)	1,158,213	1,125,269	—	—
FEDERAL GRANTS AND CONTRACTS	1,311,910	1,204,462	587,481	660,241
STATE AND LOCAL GRANTS AND CONTRACTS	171,848	149,504	—	—
NONGOVERNMENTAL GRANTS AND CONTRACTS	380,773	307,747	—	—
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	661,826	792,488	—	—
AUXILIARY ENTERPRISES:				
HOUSING AND FOOD SERVICES	159,182	155,893	—	—
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $9,771 and $8,581)	92,170	96,270	—	—
OTHER AUXILIARY ENTERPRISES	271,278	303,008	—	—
OTHER OPERATING REVENUE	329,139	272,021	614,603	192,081
TOTAL OPERATING REVENUES	**7,100,582**	**6,849,250**	**3,176,151**	**1,852,826**
EXPENSES				
OPERATING EXPENSES (NOTE 16):				
SALARIES	3,750,049	3,484,124	985,062	882,003
BENEFITS	912,662	651,813	282,704	108,459
SCHOLARSHIPS AND FELLOWSHIPS	210,930	212,822	—	—
UTILITIES	78,144	71,315	—	—
SUPPLIES AND MATERIALS	900,097	773,433	685,961	310,712
PURCHASED SERVICES	1,268,655	1,107,138	392,009	238,654
DEPRECIATION/AMORTIZATION	523,294	462,835	143,893	99,528
OTHER	325,275	217,693	401,503	304,833
TOTAL OPERATING EXPENSES	**7,969,106**	**6,981,173**	**2,891,132**	**1,944,189**
OPERATING (LOSS) INCOME	**(868,524)**	**(131,923)**	**285,019**	**(91,363)**
NONOPERATING REVENUES (EXPENSES)				
STATE APPROPRIATIONS	531,999	484,915	—	—
GIFTS	182,137	218,012	—	—
INVESTMENT (LOSS) INCOME (NET OF INVESTMENT EXPENSE OF $8,194 and $14,813)	437,589	(469,435)	101,080	(99,120)
INTEREST ON CAPITAL ASSET-RELATED DEBT	(111,099)	(109,300)	(16,325)	(16,683)
PELL GRANT REVENUE	48,926	49,210	—	—
PROPERTY TAX REVENUE	—	—	25,595	24,965
OTHER NONOPERATING REVENUES	285,861	165,494	28,544	10,173
NET NONOPERATING REVENUES	**1,375,413**	**338,896**	**138,894**	**(80,665)**
INCOME (LOSS) BEFORE OTHER REVENUES	**506,889**	**206,973**	**423,913**	**(172,028)**
CAPITAL APPROPRIATIONS	201,379	127,892	—	—
CAPITAL GRANTS, GIFTS AND OTHER	79,223	46,877	(726)	(11,138)
GIFTS TO PERMANENT ENDOWMENTS	105,766	91,610	18,025	—
TOTAL OTHER REVENUES	**386,368**	**266,379**	**17,299**	**(11,138)**
INCREASE (DECREASE) IN NET POSITION	**893,257**	**473,352**	**441,212**	**(183,166)**
NET POSITION				
NET POSITION – BEGINNING OF YEAR (NOTE 1)	8,354,444	7,881,092	1,168,422	1,351,588
NET POSITION – END OF YEAR	**$ 9,247,701**	**$ 8,354,444**	**$ 1,609,634**	**$ 1,168,422**

See accompanying notes to financial statements

Dollars in thousands

STATEMENTS OF CASH FLOWS

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	**2023**	**2022**
PATIENT SERVICES	$ 2,611,009	$ 2,458,879
STUDENT TUITION AND FEES	1,115,910	1,088,157
GRANTS AND CONTRACTS	1,803,817	1,676,769
PAYMENTS TO SUPPLIERS	(933,209)	(745,345)
PAYMENTS FOR UTILITIES	(80,139)	(68,333)
PURCHASED SERVICES	(1,292,180)	(1,083,201)
OTHER OPERATING DISBURSEMENTS	(322,510)	(227,579)
PAYMENTS TO EMPLOYEES	(3,729,963)	(3,473,338)
PAYMENTS FOR BENEFITS	(1,155,440)	(1,186,684)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(210,930)	(212,822)
LOANS ISSUED TO STUDENTS	(7,855)	(6,537)
COLLECTION OF LOANS TO STUDENTS	10,703	9,641
AUXILIARY ENTERPRISE RECEIPTS	531,074	576,249
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	636,787	752,171
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	963,791	947,505
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(958,992)	(933,239)
OTHER RECEIPTS	265,413	304,277
NET CASH USED BY OPERATING ACTIVITIES	**(752,714)**	**(123,430)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	480,192	476,429
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	48,926	49,210
PRIVATE GIFTS	138,488	156,070
PERMANENT ENDOWMENT RECEIPTS	105,766	91,610
DIRECT LENDING RECEIPTS	222,941	219,613
DIRECT LENDING DISBURSEMENTS	(222,941)	(219,613)
FEDERAL STIMULUS FUNDING	3,084	29,771
OTHER	274,416	68,629
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**1,050,872**	**871,719**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	192,507	502,365
STATE CAPITAL APPROPRIATIONS	201,644	119,820
CAPITAL GRANTS AND GIFTS RECEIVED	79,223	45,921
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(613,612)	(436,903)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(314,516)	(541,086)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(97,185)	(117,069)
OTHER	8,009	2,434
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(543,930)**	**(424,518)**

UNIVERSITY OF WASHINGTON		
	Year Ended June 30,	
CASH FLOWS FROM INVESTING ACTIVITIES	**2023**	**2022**
PROCEEDS FROM SALES OF INVESTMENTS	17,324,986	12,758,450
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(17,179,069)	(13,056,871)
INVESTMENT INCOME	86,612	(4,538)
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES	**232,529**	**(302,959)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,243)	20,812
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	162,736	141,924
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 149,493**	**$ 162,736**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (868,524)	$ (131,923)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	523,294	462,835
CHANGES IN ASSETS, LIABILITIES AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:		
RECEIVABLES	(50,064)	10,710
OTHER ASSETS	5,010	(14,533)
OTHER RECEIVABLES	26,625	(23,948)
DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES	(467,345)	833,502
PENSION ASSETS	703,578	(1,129,366)
PENSION LIABILITIES	86,689	(230,885)
OPEB LIABILITY	(615,421)	165,451
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	9,708	52,175
UNEARNED REVENUE	(40,296)	11,417
OTHER LONG-TERM LIABILITIES	(65,038)	(129,543)
U.S. GOVERNMENTAL GRANTS REFUNDABLE	(3,778)	(2,426)
LOANS TO STUDENTS	2,848	3,104
NET CASH USED BY OPERATING ACTIVITIES	**$ (752,714)**	**$ (123,430)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
STOCK GIFTS	$ 31,810	$ 49,135
NET UNREALIZED (LOSSES) GAINS	244,116	(754,813)
EXTERNALLY MANAGED TRUSTS	(6,310)	28,718
INCREASE IN LEASES AND SUBSCRIPTION ASSETS	(147,126)	(125,189)
EQUITY EARNINGS FROM INVESTMENT IN SEATTLE CANCER CARE ALLIANCE	—	22,910
INCREASE IN INVESTMENT IN SEATTLE CANCER CARE ALLIANCE	—	(142,942)
CEDING OF INVESTMENT INTEREST IN SEATTLE CANCER CARE ALLIANCE	—	425,131
INVESTMENT IN FRED HUTCHINSON CANCER CENTER	—	(428,827)
INCREASE IN NOTE PAYABLE TO FRED HUTCHINSON CANCER CENTER	—	142,942
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ 122,490**	**$ (782,935)**

See accompanying notes to financial statements

Dollars in thousands

STATEMENTS OF FIDUCIARY NET POSITION

UNIVERSITY OF WASHINGTON

JUNE 30,

	2023			2022		
	CUSTODIAL FUNDS			CUSTODIAL FUNDS		
	EXTERNAL INVESTMENT POOL	OTHER	TOTAL	EXTERNAL INVESTMENT POOL	OTHER	TOTAL
ASSETS:						
POOLED INVESTMENTS AT FAIR VALUE	$ 69,675	$ —	$ 69,675	$ 68,518	$ —	$ 68,518
OTHER ASSETS	—	1,284	1,284	—	1,515	1,515
TOTAL ASSETS	**$ 69,675**	**$ 1,284**	**$ 70,959**	**$ 68,518**	**$ 1,515**	**$ 70,033**
FIDUCIARY NET POSITION:						
POOL PARTICIPANTS	$ 69,675	$ —	$ 69,675	$ 68,518	$ —	$ 68,518
ORGANIZATIONS AND OTHER GOVERNMENTS	—	1,284	1,284	—	1,515	1,515
TOTAL FIDUCIARY NET POSITION	**$ 69,675**	**$ 1,284**	**$ 70,959**	**$ 68,518**	**$ 1,515**	**$ 70,033**

See accompanying notes to financial statements

Dollars in thousands

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

UNIVERSITY OF WASHINGTON

YEAR ENDED JUNE 30,

	2023			**2022**		
	CUSTODIAL FUNDS			CUSTODIAL FUNDS		
	EXTERNAL INVESTMENT POOL	OTHER	TOTAL	EXTERNAL INVESTMENT POOL	OTHER	TOTAL
ADDITIONS:						
GIFTS	$ 741	$ 21,084	$ 21,825	$ 820	$ 22,481	$ 23,301
COLLATERAL RECEIVED AND RELATED ADDITIONS	—	17,848	17,848	—	13,977	13,977
INVESTMENT (LOSSES) EARNINGS:						
CHANGE IN FAIR VALUE	1,261	—	1,261	(8,083)	—	(8,083)
INTEREST, DIVIDENDS, AND OTHER	1,942	—	1,942	3,579	—	3,579
TOTAL INVESTMENT (LOSSES) EARNINGS	3,203	—	3,203	(4,504)	—	(4,504)
LESS INVESTMENT ACTIVITY COSTS	(52)	—	(52)	(142)	—	(142)
NET INVESTMENT (LOSSES) EARNINGS	3,151	—	3,151	(4,646)	—	(4,646)
TOTAL (LOSSES) ADDITIONS	**3,892**	**38,932**	**42,824**	**(3,826)**	**36,458**	**32,632**
DEDUCTIONS:						
BENEFITS PAID TO PARTICIPANTS OR BENEFICIARIES	—	21,110	21,110	—	22,455	22,455
DISTRIBUTION TO POOL PARTICIPANTS	2,735	—	2,735	2,201	—	2,201
COLLATERAL DISBURSED AND RELATED DEDUCTIONS	—	18,053	18,053	—	15,757	15,757
TOTAL DEDUCTIONS	**2,735**	**39,163**	**41,898**	**2,201**	**38,212**	**40,413**
NET (DECREASE) INCREASE IN FIDUCIARY NET POSITION	**1,157**	**(231)**	**926**	**(6,027)**	**(1,754)**	**(7,781)**
FIDUCIARY NET POSITION:						
FIDUCIARY NET POSITION - BEGINNING OF YEAR	68,518	1,515	70,033	74,545	3,269	77,814
FIDUCIARY NET POSITION - END OF YEAR	**$ 69,675**	**$ 1,284**	**$ 70,959**	**$ 68,518**	**$ 1,515**	**$ 70,033**

See accompanying notes to 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 11-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.

Harborview Medical Center (HMC), a component unit of King County, Washington, is a related party to the University, but is not reflected as part of the financial reporting entity (see note 17).

Component units are legally separate organizations for which the University is financially accountable. Financial accountability is demonstrated when one of several conditions exist, such as when the University appoints a voting majority of the organization's board, is able to impose its will on the organization, receives specific financial benefit or incurs specific financial burdens from the organization, or the organization is fiscally dependent on the University. Financial disclosures for these entities are reported in the financial statements of the University in one of two ways: the component units' reported amounts may be blended with amounts reported by the University, or they may be disclosed in a separate column. All component units of the University meet the criteria for blending in accordance with Governmental Accounting Standards Board (GASB) code section 2600, "Reporting Entity and Component Unit Presentation and Disclosure", except Valley Medical Center and Fred Hutchinson Cancer Center. Valley Medical Center is reported discretely since it has a separate board of trustees, it does not provide services exclusively to the University, and it is not a nonprofit corporation of which the University is the sole corporate member. Fred Hutchinson Cancer Center is reported discretely due to the same factors listed for Valley Medical Center, and because the University has determined that it would be misleading to exclude due to the level of integration between the organizations.

CHANGE IN REPORTING ENTITY

Formation of Fred Hutchinson Cancer Center

On March 31, 2022, the members of the Seattle Cancer Care Alliance (SCCA): the University, Fred Hutchinson Cancer Research Center (Fred Hutch), and Seattle Children's Healthcare System (SCHS) agreed to merge Fred Hutch and SCCA; for SCCA to become a non-member non-profit Washington corporation, and for SCCA to be renamed Fred Hutchinson Cancer Center (FHCC). As part of the transaction, SCHS's interest of $285.9 million was purchased by the University and Fred Hutch with funding provided by Fred Hutch. SCHS no longer participates in the Adult Oncology Program but continues to offer pediatric cancer care services and to coordinate through separate affiliation agreements with FHCC and UW Medicine. The University entered into a promissory note to pay FHCC over a ten-year period for its 50% portion of the SCHS membership in SCCA. The non-participating investment in FHCC of $428.8 million reflects a non-monetary exchange accounted for based on the fair value of the assets involved. Specifically, the University used the fair value of the existing equity method investment in SCCA, based on the corresponding equity interest after the buyout of SCHS and prior to the exchange, to determine the value at which the investment in FHCC is recorded. The fair value method used inputs that are "unobservable data points" related to valuation, also known as level 3 inputs (see Note 7 for fair value hierarchy). This fair value will not be remeasured, and will be assessed for impairment on an annual basis. No gain or loss was recorded on the transaction. At June 30, 2023, there was no impairment of the investment in FHCC.

In addition to the restructure of the former SCCA corporate entity, the University and FHCC agreed to the Restructuring and Enhanced Collaboration Agreement (Restructuring Agreement), which clinically and financially integrates the adult cancer program between both entities. With this new arrangement, the University no longer holds a membership interest in SCCA. The University agreed to a restructuring of the SCCA joint venture; transitioning to a non-member entity, rebranding, realigning the future economic sharing arrangements, and realigning practice area management responsibilities. The University's investment in FHCC is recorded within its Statements of Net Position and reflects the integrated adult oncology program. The Restructuring Agreement includes a Financial Alignment Plan, under which both parties share in the objectives of the adult oncology program and drive site neutrality for cancer services for the betterment of patient outcomes. The University's former economic rights as a joint venture member were transformed into contractual rights including, among other provisions, a payment right extending perpetually. The University recorded $87.4 million and $6.7 million, respectively, in financial alignment income for fiscal year 2023 and the last quarter of fiscal year 2022, which is included in other nonoperating revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

BLENDED COMPONENT UNITS

The following entities are presented as blended component units of the University.

Medical Entities

The Association of University Physicians dba UW Physicians (UWP)

UWP is a Washington nonprofit corporation formed in 1983 for the exclusive benefit of the University of Washington School of Medicine (SOM). UWP employs SOM faculty and bills and collects for their clinical services as an agent for SOM. UWP had operating revenues of $410.8 million and $424.6 million for the years ended June 30, 2023 and 2022, respectively.

UW Physicians Network dba UW Medicine Primary Care (Primary Care)

Primary Care is a Washington nonprofit corporation formed in 1996 exclusively for charitable, scientific and educational purposes for the benefit of SOM, UWP and its affiliated medical centers, HMC and UWMC. It was organized to coordinate and develop patient care in a community clinical setting and enhances the academic environment of SOM by providing additional sites of primary care practice and training for faculty, residents and students. In 2023, the doing-business-as (dba) name changed from UW Medicine Neighborhood Clinics to UW Medicine Primary Care. Primary Care had operating revenues of $45.8 million and $37.2 million for the years ended June 30, 2023 and 2022, respectively.

Real Estate Entities

The entities listed below are nonprofit corporations that were formed for the purposes of acquiring and constructing certain real properties for the benefit of the University to help fulfill its educational, medical and scientific research missions. The entities issue tax-exempt and taxable bonds to finance these activities.

- Washington Biomedical Research Properties I
- Washington Biomedical Research Properties II
- Washington Biomedical Research Facilities 3
- Washington Biomedical Research Properties 3.2
- Washington Biomedical Research Properties 3.3

As of June 30, 2023 and 2022, these entities had net capital assets of $276.5 million and $295.3 million, respectively, and long-term debt of $285.4 million and $303.6 million, respectively. These amounts are reflected in the University's financial statements.

Portage Bay Insurance

For medical professional liability, general liability, educator's legal liability including employment practices liability, and automobile liability, the University maintains a program of self-insurance reserves and excess insurance coverage through Portage Bay Insurance (PBI), a wholly-owned subsidiary formed to provide the University with alternative risk financing options. PBI is incorporated as a nonprofit corporation in the state of Hawaii, and retains a Certificate of Authority as a pure captive insurance company. As of June 30, 2023 and 2022, PBI had self insurance liabilities of $230.1 million and $241.9 million, respectively.

DISCRETELY PRESENTED COMPONENT UNITS

Valley Medical Center

The University and Public Hospital District No. 1 of King County, a Washington public hospital district dba Valley Medical Center (VMC), participate in a Strategic Alliance Agreement. VMC owns and operates a 341-bed full-service acute care hospital and 45 clinics located throughout southeast King County. The audited financial statements of VMC are available by contacting VMC at 400 S. 43rd Street, Renton, Washington 98055 or online at the following address: valleymed.org/about-us/financial-information.

Fred Hutchinson Cancer Center

Fred Hutchinson Cancer Center (FHCC) is a nonprofit organization focused on adult oncology research and care that is a clinically integrated part of UWMC. FHCC was formed in April 2022 from the merger of SCCA and Fred Hutchinson Cancer

Research Center, together with execution of the Restructuring and Enhanced Collaboration Agreement between the University and FHCC. The audited financial statements of FHCC are available by contacting FHCC at 1100 Fairview Ave N, Seattle, Washington 98109 or online at the following address: https://www.fredhutch.org/en/about/about-the-hutch/accountability-impact/financial-summaries-and-impact-reporting.html.

JOINT VENTURES

The University, together with Seattle Children's Healthcare System and Fred Hutch, were members of the Seattle Cancer Care Alliance (SCCA) until March 31, 2022, when SCCA merged with Fred Hutch to form FHCC. Each member of the SCCA held a one-third interest in the joint venture. The University accounted for its interest in the SCCA under the equity method of accounting. As of March 31, 2022, the University's investment in the SCCA totaled $282.2 million. The University reported investment income of $22.9 million for its share of the joint venture through March 31, 2022. The University's investment in SCCA was terminated on March 31, 2022 as a result of the merger into FHCC and the balance of SCCA is not included in the Statements of Net Position as of June 30, 2022.

The University and Seattle Children's Healthcare System established Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care and charitable, educational and scientific missions. CUMG employs SOM faculty physicians, and bills and collects for their services as an agent for SOM. The University's patient services receivable (see note 6) as of June 30, 2023 and 2022 includes amounts due from CUMG of $18.3 million and $19.9 million, respectively.

In October 2018, the Board of Regents authorized the University, through UW Medicine, to become an equity member in a limited liability company. PNWCIN, LLC dba Embright (Embright) was created in 2018 and is jointly owned by the University, MultiCare Health System and LifePoint Health. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the members to partner together to further the Quadruple Aim of improving the patient care experience, achieving better health outcomes, controlling costs and addressing clinician satisfaction. Together, the members represent 21 hospitals, more than 8,500 providers and over 1,500 clinics. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols, care pathways, standardized processes and care management services for complex patients. As of June 30, 2023 and 2022, the University's ownership interest in Embright totaled $2.2 million and $2.4 million, respectively. The University's ownership interest in Embright is recorded in other noncurrent assets in the University's Statements of Net Position.

METROPOLITAN TRACT

The University of Washington Metropolitan Tract (Metropolitan Tract), located in downtown Seattle, comprises approximately 11 acres of developed property including office space, retail space, residential apartments, 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 on Lake Washington. Since the early 1900s, the University has managed the Metropolitan Tract by leasing to third party tenants, and ground leasing to entities responsible for developing and operating new buildings.

Deed restrictions and subsequent Washington State legislation govern the University's authority over the Metropolitan Tract. The original land deeds require that proceeds from a sale of Metropolitan Tract property be used to purchase land and improve or erect buildings. Any remaining funds are to be invested and the income derived is to be used for maintenance of University property. The state legislature enacted further restrictions over the past 160 years requiring legislative approval for the sale of real property on the Metropolitan Tract, and for leases of land or buildings with terms exceeding eighty years. Proceeds from an authorized sale must be deposited in the University's accounts established by the state treasury and used exclusively for construction, maintenance, or alterations to University buildings or debt service related to these activities.

The Metropolitan Tract's assets, liabilities, deferred inflows and net position are shown together with the University on the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position. The presentation has changed from prior years, when the Metropolitan Tract was shown condensed to one line of each financial statement.

PRIOR PERIOD ADJUSTMENT

In 2023, an accounting error was discovered which resulted in an understatement of operating revenues and operating expenses of $295.1 million, respectively, in fiscal year 2022. In addition, accounts receivable and accounts payable were understated by $2.2 million. There was no impact to net position. The error originated in the treatment of revenues and expenses related to physician compensation paid to faculty and the subsequent reimbursements from other parties. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows for fiscal year 2022 have been restated to reflect the correction.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with GASB, code section Co5, "*Colleges and Universities*", under which the University is considered to be a special-purpose government engaged in business-type activities (BTA). The University presents Management's Discussion and Analysis, Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, Statements of Fiduciary Net Position, Statements of Changes in Fiduciary Net Position, 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, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. Significant intra-entity transactions are eliminated. The University reports capital assets net of accumulated depreciation and amortization (as applicable), and reports depreciation and amortization expense in the Statements of Revenues, Expenses and Changes in Net Position.

On July 1, 2022, the University implemented GASB Statement No. 94, "*Public-Private and Public-Public Partnerships (P3s) and Availability Payment Arrangements (APAs)*". The Statement establishes standards of accounting and financial reporting for arrangements between governments and private entities or other governments. Those arrangements generally result in the government transferring the obligation to provide certain public services to an external entity. APAs are agreements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The University has determined that there is no accounting impact from implementation of GASB No. 94 for the year ended June 30, 2023.

On July 1, 2022, the University implemented GASB Statement No. 96, "*Subscription-Based Information Technology Arrangements (SBITAs)".* The Statement establishes standards of accounting and financial reporting for SBITAs by a government end user who enters into SBITAs contracts to use vendor-provided information technology. It applies to SBITA contracts that convey control of the right to use another party's IT software, alone or in combination with tangible underlying IT assets in an exchange or exchange-like transaction for a period exceeding 12 months. Under this Statement, the government is required to recognize a subscription liability and an intangible right-to-use (ROU) subscription asset. Cash outlays necessary to place the subscription asset in service can be capitalized during the initial project implementation stage. As a result of the implementation, the University has applied the standard retroactively as of July 1, 2021, which resulted in the recognition of a ROU subscription asset of $56.4 million and a corresponding liability of $53.7 million with the beginning net position restated by $2.7 million. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows for fiscal year 2022 have been restated to conform with the requirements of this Statement and the current year presentation.

On July 1, 2022, the University implemented GASB Statement No. 99, "Omnibus 2022," for provisions related to leases, P3s, and SBITAs. The Statement clarifies guidance on leases, P3s, and SBITAs primarily related to the determination of the contract term, and recognition and measurement of the associated liability and asset. The implementation did not have have a material impact on the University's financial statements.

ACCOUNTING STANDARDS IMPACTING THE FUTURE

In April 2022, the GASB issued Statement No. 99, *"Omnibus 2022,"* provisions of which will be effective for the fiscal years ending June 30, 2023 and 2024. Requirements related to leases, P3s, and SBITAs are effective for the fiscal year ending June 30, 2023. Requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for the fiscal year ending June 30, 2024. The University is currently assessing the impact of implementation of this Statement on its financial statements, but does not expect it to have any material impact.

In June 2022, the GASB issued Statement No. 101, *"Compensated Absences,"* which will be effective for the fiscal year ending June 30, 2025. This statement will update the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The statement amends the existing disclosure requirements to allow governments to disclose only the net change in the liability as long as they identify it as a net change.

USE OF ESTIMATES

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

The University estimates the pollution remediation liability (see remediation liabilities, note 9) 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 (see notes 5 and 6) 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 University's share of pension and other post-employment benefit plan assets, liabilities, deferrals and expenses, are based on actuarial valuations prepared by an external actuary. The results of an actuarial valuation are estimates based on historical data, actuarial assumptions, and the demographics of the employee and retiree populations.

The self-insurance reserve (see note 15) is estimated through an externally prepared actuarial calculation using individual case-basis valuations and statistical analyses. Considerable variability is inherent in such estimates.

The University's interests in certain non-readily marketable alternative investments, such as hedge funds and private equity limited partnerships, are stated at fair value based on net asset value estimates used as a practical expedient reported to the University by investment fund managers.

Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value.

OTHER ACCOUNTING POLICIES

Investments. Investments are generally carried at fair value. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations from major securities exchanges. 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. Cash equivalents included in short-term investments are excluded from the beginning and ending cash amounts on the Statements of Cash Flows.

Inventories. Inventories are carried at the lower of cost or market value and are reflected in other current assets on the University's Statements of Net Position. Consumable inventories, consisting of expendable materials and supplies, 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 materials and intangibles are stated at cost or, if acquired by gift, at fair market value at the date of the gift, less accumulated depreciation and amortization. Right of use leased and subscription assets are stated at the present value of payments expected to be made during the lease term, less accumulated amortization. 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 materials, and 3 to 15 years for intangibles.

Interest incurred on capital asset-related debt was $111.1 million and $109.3 million for the years ended June 30, 2023 and 2022, respectively.

Leases. The University determines if an arrangement is a lease at inception of the lease contract. Lessee arrangements are included in capital assets and long-term liabilities in the Statements of Net Position. Lease assets represent the University's right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized on a straight-line basis over the lease term. Lease liabilities represent the University's obligation to make lease payments arising from the lessee arrangement. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term. The lease term may include options to extend or terminate the lease when it is reasonably certain that the University will exercise that option. The University recognizes payments for short-term leases with a lease term of 12 months or less as expense as the payments are made.

Lessor arrangements are included in accounts receivables (current portion), lease receivable, net of current portion and deferred inflows of resources in the Statements of Net Position. Lease receivables represent the University's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term on a straight-line basis. Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflows related to leases are recognized as lease revenue on a straight-line basis over the lease term. The University recognizes payments received for short-term leases with a lease term of 12 months or less as revenue as the payments are received.

Subscription-Based Information Technology Arrangements (SBITA). A SBITA is a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract in an exchange or exchange-like transaction for a term exceeding 12 months. The University recognizes a right-to-use subscription asset and a corresponding subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. SBITA assets are amortized on a straight-line basis over the contract term. SBITA liabilities represent the University's obligation to make contract payments arising from the SBITA. Interest expense is recognized ratably over the contract term. The SBITA term may include options to extend or terminate the contract when it is reasonably certain that the University will exercise that option. The University recognizes payments for short-term SBITAs with a term of 12 months or less as expense as the payments are made.

Unearned Revenues. Unearned revenues occur when funds have been collected in advance of when the associated goods or services have been provided, such as advance ticket sales, summer quarter tuition, and unspent cash advances on certain grants.

Asset Retirement Obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. AROs are measured at the current value of the estimated costs required to dispose of the asset. AROs are included in long-term liabilities on the University's Statements of Net Position (see remediation liabilities, note 9), and represent costs related to two cyclotrons used for research, clinical applications, and education. Disposal of these assets must be accomplished in accordance with Washington Administrative Code Chapter 246, "Department of Health". The University used the decommissioning guidance provided by the U.S. Nuclear Regulatory Commission to estimate the disposal costs. The assets identified have estimated remaining useful lives of 5 and 10 years. The University has issued a statement of intent to the Washington Department of Health to request funding from the state legislature to fund the decommissioning of these assets. The University has no assets restricted for payment of these obligations. The University has not recognized an obligation for costs that would be incurred in the event that the University relinquished its license from the Department of Health and ceased use of radioactive materials in its operations as the likelihood of this occurring is remote.

Cost-Sharing Pension Plans. The net pension asset or liability is measured as the University's proportionate share of the collective total pension liability, less the fiduciary net position, of the cost-sharing pension plans in which the University participates. The total pension liability is determined by discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. The University's proportionate share is determined based on the relationship of University contributions to total contributions to the plan by all participating employers. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over five years. Contributions made to the plan subsequent to the measurement date and prior to the University's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the net pension asset or liability is June 30 of the prior fiscal year.

Single Employer Pension Plan (UW Supplemental Retirement Plan - UWSRP). Legislation signed into law on July 1, 2020, amended the RCW applicable to the UWSRP to define plan provisions including limits on member eligibility, benefit payments, vesting terms and contribution rates. As a result of these amendments, the University is unable to modify the terms of the plan. Administration of the benefit calculations and payments remain the responsibility of the University until the state's Pension Funding Council determines the trust has sufficient assets, at which time the Department of Retirement Systems will assume those duties in accordance with RCW 41.50.280. Other agencies of the state of Washington perform the duties of a board and hold the substantive powers in relation to the UWSRP. The University does not perform the duties of a board or hold any of the substantive powers that would make the plan a fiduciary component unit of the University.

The total pension liability is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. The discount rate used for the total pension liability as of June 30, 2023 and 2022, reflects the expected rate of return on investments, to the extent that plan assets are available to pay retiree benefits. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over five years. The measurement date for the UWSRP net pension liability is the same as the Statements of Net Position date.

Other Post Employment Benefits (OPEB). The total OPEB liability is measured as the University's proportionate share of the state of Washington total OPEB liability, with the proportionate share determined based on the relationship of the University's healthcare-eligible headcount to the total healthcare-eligible headcount for the state. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate required by GASB Statement No. 75 for OPEB plans that do not have assets residing in a qualified trust. OPEB expense is recognized for subsidies earned during the period, interest on the total OPEB liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for healthcare-eligible employees. Contributions made to the plan subsequent to the measurement date and prior to the University's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the total OPEB liability is June 30 of the prior fiscal year.

Split-Interest Agreements. Under such agreements, donors make gifts to the University but the University is not the sole beneficiary and receives either a lead interest (distributions during the term of the agreement) or a remainder interest (distribution of assets remaining at the end of the agreement). Charitable trusts, charitable gift annuities, pooled income funds and beneficial interests in charitable trusts are examples of split-interest gifts. Where the University holds a remainder interest in a trust that is also administered by the University, an asset related to these agreements is recorded at fair market value, a deferred inflow is recorded for the remainder value, and a liability is recorded equal to the present value of expected future distributions to the income beneficiaries. The liability is calculated using discount rates of 8.0% for gifts before FY 2008 and 7.5% for gifts in FY 2008 and after. Additionally, donors have established and funded trusts which are administered by organizations other than the University. Under the terms of these trusts, the University has the irrevocable right to receive all or a portion of the income earned on the trust assets in perpetuity. The University does not control the assets held by the outside trusts but recognizes an interest in the trusts, based on the fair value of the assets contributed to the trusts, mostly as permanently restricted contributions. Fluctuation in the fair value of these assets are recorded annually as revenue and impact restricted nonexpendable net position.

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. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal compensation rate for any balance that exceeds 480 hours, or for any balance upon retirement or death. Annual leave accrued at June 30, 2023 and 2022 was $213.0 million and $200.4 million, respectively, and is included in accounts payable and accrued liabilities in the University's Statements of Net Position. Sick leave accrued at June 30, 2023 and 2022 was $65.1 million and $58.8 million, respectively, and is included in long-term liabilities (see note 9) in the University's Statements of Net Position.

Scholarship Allowances. Tuition and fees are reported net of scholarship allowances which represent the difference between the stated charge for tuition and fees and the amount that is paid by the student or third parties on behalf of the student. Student aid paid directly to students is reported as scholarships and fellowships expense.

Net Patient Service Revenue. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as updated information becomes available and when final settlements are determined. Revenue related to financial assistance provided to patients is excluded from net patient service revenue.

Third-party payer agreements with Medicare and Medicaid provide for payments at amounts different from established rates and are part of contractual adjustments to net patient service revenue. Medicare reimbursements are based on a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

For more information about net patient service revenue, see the audited financial statements of the UW Medicine Select Units - UW Division, which are contained in the latest Bondholders Report at finance.uw.edu/treasury/bondholders/other-investor-material.

Financial Assistance. Financial assistance provides patient care without charge to patients who meet certain criteria under the financial assistance policy. Records are maintained to identify and monitor the level of financial assistance provided. These records include charges foregone for services and supplies furnished under the financial assistance policy to the uninsured and the underinsured. Collection of these amounts is not pursued and, as such, they are not reported as net patient service revenue. The cost of financial assistance provided is calculated based on the aggregate relationship of costs to charges. The estimated cost of financial assistance provided during the years ended June 30, 2023 and 2022 was $25.6 million and $25.3 million, respectively.

State Appropriations. The state of Washington appropriates funds to the University on both an annual and biennial basis. This revenue is reported as nonoperating revenue in the Statements of Revenues, Expenses and Changes in Net Position when underlying expenditures are made.

Operating Activities. The University's policy for reporting operating activities in the Statements of Revenues, Expenses and Changes in Net Position 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, FHCC financial alignment income, and investment income are recorded as nonoperating revenues, as prescribed by GASB Statement No. 35.

Net position. The University's net position is classified as follows:

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

Restricted net position – nonexpendable: Net position subject to externally-imposed requirements that it be maintained permanently by the University, including permanent endowment funds and annuity and life income trusts;

Restricted net position – expendable: Net position that the University is obligated to spend in accordance with restrictions imposed by external parties, generally for scholarships, research and departmental uses;

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

Tax Exemption. The University, 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 and certain federal excise taxes.

Reclassification. Certain amounts in the 2022 financial statement footnotes have been reclassified for comparative purposes to conform to the presentation in the 2023 financial statement.

NOTE 2:

COVID-19 Pandemic

The COVID-19 pandemic had widespread, rapidly evolving, and unpredictable impacts on societal and economic conditions at a local, national, and global level and has had a significant impact on the University's operations. In response to financial pressures brought on by the pandemic, the Federal Government and the state of Washington have provided additional sources of liquidity to institutions of higher education and healthcare providers. During the years ended June 30, 2023 and 2022, revenue recorded by the University related to COVID-19 support was $55.0 million and $162.3 million, respectively. This excludes amounts recorded by HMC and the University's discrete component units.

NOTE 3:

Cash and Cash Equivalents

Cash includes cash on hand, petty cash and bank deposits. Cash equivalents includes treasury securities with original maturities of less than 90 days and money market funds with remaining underlying maturities of one year or less at the time of purchase. Most cash, except for cash held at the University and cash held in foreign banks, is covered by the Federal Deposit Insurance Corporation (FDIC), or if greater than FDIC limits, by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

NOTE 4:

Deposit with State of Washington

State law requires the University to deposit certain funds with the state treasurer, who holds and invests the funds. These deposits include amounts held for the University's permanent land grant funds, and the University building fee collected from students. The fair value of these funds approximates the carrying value.

NOTE 5:

Student Loans Receivable

As of June 30, 2023 and 2022, net student loans of $39.5 million and $42.4 million, respectively, consist of $26.3 million and $30.1 million, respectively, from federal programs, and $13.2 million and $12.3 million, respectively, from University programs. For the years ended June 30, 2023 and 2022, interest income from student loans was $1.3 million and $1.1 million, respectively. These unsecured loans are made primarily to students who reside in the state of Washington.

NOTE 6:

Accounts Receivable

The major components of accounts receivable as of June 30, 2023 and 2022 are as follows:

(Dollars in thousands)	2023	2022
NET PATIENT SERVICES	$ 429,610	$ 425,825
GRANTS AND CONTRACTS	246,238	231,259
SALES AND SERVICES	190,727	165,688
STATE APPROPRIATIONS	80,351	28,808
INVESTMENTS	69,581	46,334
DUE FROM OTHER AGENCIES	59,648	43,734
LEASE RECEIVABLES (CURRENT PORTION)	42,756	44,453
SELF INSURANCE CEDED RESERVES	35,011	63,727
TUITION	18,742	15,509
OTHER	50,216	24,205
SUBTOTAL	1,222,880	1,089,542
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(69,454)	(60,970)
TOTAL	**$ 1,153,426**	**$ 1,028,572**

NOTE 7:

Investments

INVESTMENTS – GENERAL

The University of Washington Board of Regents is vested by statute with responsibility for the University's properties and investments, and for establishing investment policy. The University of Washington Investment Management Company (UWINCO), led by the Chief Investment Officer, carries out the day-to-day activities of the investment portfolios.

The University of Washington Investment Management Company Board ("UWINCO Board") consists of both Board of Regents' members and external investment professionals who advise UWINCO, the President and the Board of Regents.

The University holds significant amounts of investments that are measured at fair value on a recurring basis. The University is required to provide the following information according to the three-tier fair value hierarchy which is based on the observability of the inputs used in the valuation techniques to measure the fair value of certain financial assets and liabilities. The three-tier hierarchy ranks the quality and reliability of the information used to determine fair values and is summarized as follows:

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.
- Level 3 Inputs – Inputs that are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

TABLE 1 – INVESTMENTS *(Dollars in thousands)*

		Fair Value Measurements Inputs		
INVESTMENTS BY FAIR VALUE LEVEL	**2023**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 1,633,297	$ 6,974	$ 1,626,323	$ —
U.S. GOVERNMENT AGENCY	344,292	9,713	334,579	—
MORTGAGE BACKED	209,132	—	209,132	—
ASSET BACKED	604,460	—	604,460	—
CORPORATE AND OTHER	316,793	17,009	299,784	—
TOTAL FIXED INCOME SECURITIES	**3,107,974**	**33,696**	**3,074,278**	**—**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	725,563	398,844	326,719	—
REAL ESTATE	18,519	14,810	—	3,709
OTHER	157,622	151,751	—	5,871
TOTAL EQUITY SECURITIES	**901,704**	**565,405**	**326,719**	**9,580**
EXTERNALLY MANAGED TRUSTS	**131,385**	**—**	**—**	**131,385**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**4,141,063**	**$ 599,101**	**$ 3,400,997**	**$ 140,965**

INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)	
GLOBAL EQUITY INVESTMENTS	2,022,467
ABSOLUTE RETURN STRATEGY FUNDS	875,128
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	902,345
REAL ASSET FUNDS	225,282
OTHER	50,452
TOTAL INVESTMENTS MEASURED USING NAV	**4,075,674**
TOTAL INVESTMENTS MEASURED AT FAIR VALUE AND NAV	8,216,737
CASH EQUIVALENTS AT AMORTIZED COST	145,643
TOTAL INVESTMENTS	**$ 8,362,380**

INVESTMENTS BY FAIR VALUE LEVEL	2022	Fair Value Measurements Inputs: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 1,572,728	$ 19,570	$ 1,553,158	$ —
U.S. GOVERNMENT AGENCY	348,035	10,699	337,336	—
MORTGAGE BACKED	197,531	—	197,531	—
ASSET BACKED	574,591	—	574,591	—
CORPORATE AND OTHER	147,280	18,737	128,543	—
TOTAL FIXED INCOME SECURITIES	**2,840,165**	**49,006**	**2,791,159**	**—**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	740,432	505,770	234,662	—
REAL ESTATE	19,407	16,599	—	2,808
OTHER	6,205	—	—	6,205
TOTAL EQUITY SECURITIES	**766,044**	**522,369**	**234,662**	**9,013**
EXTERNALLY MANAGED TRUSTS	**125,075**	**—**	**—**	**125,075**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**3,731,284**	**$ 571,375**	**$ 3,025,821**	**$ 134,088**

INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)	
GLOBAL EQUITY INVESTMENTS	1,718,652
ABSOLUTE RETURN STRATEGY FUNDS	999,716
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	990,630
REAL ASSET FUNDS	189,364
OTHER	32,583
TOTAL INVESTMENTS MEASURED USING NAV	**3,930,945**
TOTAL INVESTMENTS MEASURED AT FAIR VALUE AND NAV	7,662,229
CASH EQUIVALENTS AT AMORTIZED COST	572,100
TOTAL INVESTMENTS	**$ 8,234,329**

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

The University's interests in certain non-readily marketable alternative investments, such as hedge funds and private equity limited partnerships, are stated at fair value based on NAV estimates used as a practical expedient reported to the University by investment fund managers. The valuation method for investments measured using NAV per share (or its equivalent) is presented in the following table:

TABLE 2 – INVESTMENTS MEASURED USING NAV *(Dollars in thousands)*

2023	Fair Value	Total Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 2,022,467	$ 31,707	MONTHLY TO ANNUALLY	15-180 days
ABSOLUTE RETURN STRATEGY FUNDS	875,128	—	QUARTERLY TO ANNUALLY	30-90 days
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	902,345	561,441	N/A	—
REAL ASSETS FUNDS	225,282	70,335	N/A	—
OTHER	50,452	32,250	QUARTERLY TO ANNUALLY	30-95 days
TOTAL INVESTMENTS MEASURED USING NAV	**$ 4,075,674**			

2022	Fair Value	Total Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,718,652	$ —	MONTHLY TO ANNUALLY	15-180 days
ABSOLUTE RETURN STRATEGY FUNDS	999,716	—	QUARTERLY TO ANNUALLY	30-90 days
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	990,630	691,457	N/A	—
REAL ASSETS FUNDS	189,364	104,447	N/A	—
OTHER	32,583	—	QUARTERLY TO ANNUALLY	30-95 days
TOTAL INVESTMENTS MEASURED USING NAV	**$ 3,930,945**			

1. **Global Equity:** This investment category includes public equity investments in separately managed accounts, long-only comingled funds, unconstrained limited partnerships, and passive index funds. As of June 30, 2023 and 2022, approximately 74% and 78%, respectively, of the value of the investments in this category can be redeemed within 90 days. As of June 30, 2023 and 2022, approximately 89% and 93%, respectively, can be redeemed within one year.
2. **Absolute Return:** This category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and/or hedges against market downturns. As of June 30, 2023 and 2022, approximately 93% and 92%, respectively, of the value of the investments in this category can be redeemed within one year.
3. **Private equity and venture capital:** This category includes buyout, venture, and special situations funds. These investments cannot be redeemed at the request of the University. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that underlying assets of the funds will be liquidated over the next 1 to 10 years.
4. **Real assets:** This category includes real estate, natural resources, and other hard assets. These investments cannot be redeemed at the request of the University. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that underlying assets of the funds will be liquidated over the next 1 to 10 years.
5. **Other:** This category consists of opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. As of June 30, 2023 and 2022, approximately 34% and 39%, respectively, of the value of the investments in this category can be redeemed or anticipate distribution within one year. The remaining balance of these investments contain restrictions on redemption within one year or will be distributed as underlying investments are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 10 years.

INVESTMENT POOLS

The University combines most short-term investment balances into the Invested Funds Pool. At June 30, 2023 and 2022, the Short-term and Intermediate-term Invested Funds Pools totaled $2,770.0 million and $2,500.0 million, respectively. The Invested Funds - Long-term Pool also owns units in the Consolidated Endowment Fund (CEF) valued at $1,082.0 million and $1,016.0 million at June 30, 2023 and 2022, respectively. In addition, the Long-term Pool also owns a passive global equity index valued at $145.0 million and $143.0 million as of June 30, 2023 and 2022, respectively. Per 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 0.75% in fiscal years 2023 and 2022. University Advancement received 3.0% of the average balances in endowment operating and gift accounts in fiscal years 2023 and 2022. 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 the CEF, a pooled fund. 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.

In February 2019, the Board of Regents approved an amendment to the CEF Investment Policy to reduce the total spending rate from 5.0% to 4.5%. A three-year phased reduction was implemented to cushion the impact on University units starting with a 4.9% spending rate in fiscal year 2020, 4.7% spending rate in fiscal 2021 and then reaching 4.5% in fiscal year 2022. Quarterly distributions during fiscal year 2023 to programs are based on an annual percentage rate of 3.60%, applied to the five-year rolling average of the CEF's market value. Additionally, the policy allows for an administrative fee of 0.9% to support campus-wide fundraising and stewardship activities and to offset the internal cost of managing endowment assets.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value at June 30, 2023 and June 30, 2022, the net deficiency from the original gift value was $5.5 million and $6.9 million, respectively.

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 $113.2 million and $238.3 million in fiscal years 2023 and 2022, 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, 2023 and 2022 was $351.0 million and $(487.8) million, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2023 and 2022, the University had outstanding commitments to fund alternative investments of $695.7 million and $795.9 million, respectively. These commitments are expected to be called over a multi-year time frame, generally 2-5 years depending on the type of fund. The University believes it has adequate liquidity and funding sources to meet these obligations.

DERIVATIVE INSTRUMENTS

The University's investment policies allow for investing in various derivative instruments, including futures, swaps and forwards, to manage exposures within or across its portfolio and to improve the portfolio's risk/return profile.

Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value.

As of June 30, 2023 and 2022, the University had outstanding futures contracts with notional amounts totaling $98.2 million and $55.2 million, respectively. As of June 30, 2023, accumulated unrealized gains on these contracts totaled $171 thousand and as of June 30, 2022, accumulated unrealized gains on these contracts totaled $364 thousand. The accumulated unrealized gains are included in Investments on the Statements of Net Position. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price.

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, 2023 or 2022. No derivative instruments have been reclassified from a hedging instrument to an investment instrument.

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

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. 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. Effective duration is a commonly used measure of interest rate risk. The longer the duration, the more sensitive the portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income portfolio was 1.96 years and 1.71 years at June 30, 2023 and 2022, respectively.

CREDIT RISK

Fixed income securities are also 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' Short-term Pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The Invested Funds' Intermediate-term 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 is a calculation of the number of years required to recover the true cost of a bond. The duration measures presented in Table 3 below represent a broad average across all fixed income securities held in the CEF, the Invested Funds Pool (IF or operating funds) and debt service reserve funds. The CEF and IF portfolios are managed to have a duration below their policy benchmarks to protect principal and provide liquidity to the overall portfolio.

Duration and credit risk figures at June 30, 2023 and 2022 exclude $35.6 million and $30.6 million, respectively, of fixed income securities held by blended component units. These amounts make up 1.15% and 1.08%, respectively, of the University's fixed income investments, and are not included in the duration figures detailed in Table 3.

The composition of fixed income securities at June 30, 2023 and 2022, along with credit quality and effective duration measures, is summarized as follows:

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

2023

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (In years)
U.S. TREASURY SECURITIES	$ 1,626,323	$ —	$ —	$ —	$ 1,626,323	1.86
U.S. GOVERNMENT AGENCY	337,789	—	—	—	337,789	4.88
MORTGAGE BACKED	—	53,787	74,929	80,417	209,133	1.41
ASSET BACKED	4,725	493,355	15,239	91,140	604,459	0.86
CORPORATE AND OTHER	—	227,247	—	67,393	294,640	1.80
TOTAL	**$ 1,968,837**	**$ 774,389**	**$ 90,168**	**$ 238,950**	**$ 3,072,344**	**1.96**

2022

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (In years)
U.S. TREASURY SECURITIES	$ 1,553,157	$ —	$ —	$ —	$ 1,553,157	1.43
U.S. GOVERNMENT AGENCY	343,462	—	—	—	343,462	4.87
MORTGAGE BACKED	—	76,365	53,824	67,342	197,531	1.34
ASSET BACKED	6,284	470,850	5,173	92,284	574,591	0.71
CORPORATE AND OTHER	—	56,125	359	84,373	140,857	1.30
TOTAL	**$ 1,902,903**	**$ 603,340**	**$ 59,356**	**$ 243,999**	**$ 2,809,598**	**1.71**

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

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policies permit investments in international equity and other asset classes, which can include foreign currency exposure. The University also enters into foreign currency forward contracts, futures contracts, and options to manage the foreign currency exposure. The University held non-U.S. denominated securities of $1.7 billion and $1.6 billion at June 30, 2023 and 2022, respectively.

TABLE 4 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	**2023**	**2022**
EURO (EUR)	$ 381,161	$ 227,022
CHINESE RENMINBI (CNY)	249,307	381,690
JAPANESE YEN (JPY)	171,251	169,356
INDIAN RUPEE (INR)	147,387	138,301
BRITISH POUND (GBP)	131,615	166,650
CANADIAN DOLLAR (CAD)	56,766	7,258
BRAZIL REAL (BRL)	54,818	69,487
SOUTH KOREAN WON (KRW)	49,467	49,301
AUSTRALIAN DOLLAR (AUD)	46,221	18,609
SWEDISH KRONA (SEK)	44,505	30,841
SWISS FRANK (CHF)	41,299	38,152
HONG KONG DOLLAR (HKD)	38,729	32,507
TAIWANESE DOLLAR (TWD)	34,648	49,894
SOUTH AFRICAN RAND (ZAR)	18,354	19,378
DANISH KRONE (DKK)	16,942	14,279
SINGAPORE DOLLAR (SGD)	16,558	32,415
INDONESIAN RUPIAH (IDR)	16,088	29,844
NORWEGIAN KRONE (NOK)	15,098	20,215
MEXICAN PESO (MXN)	10,184	12,405
REMAINING CURRENCIES	152,486	46,987
TOTAL	**$ 1,692,884**	**$ 1,554,591**

NOTE 8:

Capital Assets

Capital asset activity for the years ended June 30, 2023 and 2022 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2021	Additions/ Transfers	Retirements	Balance as of June 30, 2022	Additions/ Transfers	Retirements	Balance as of June 30, 2023
LAND	$ 153,211	$ 6,646	$ —	$ 159,857	$ 2,563	$ —	$ 162,420
INFRASTRUCTURE	319,129	4,805	—	323,934	810	1,629	323,115
BUILDINGS	7,821,643	63,617	16,871	7,868,389	298,830	15,819	8,151,400
FURNITURE, FIXTURES AND EQUIPMENT	1,495,201	179,857	80,714	1,594,344	158,060	113,714	1,638,690
LIBRARY MATERIALS	418,191	13,419	2,299	429,311	16,153	2,366	443,098
CAPITALIZED COLLECTIONS	7,635	826	—	8,461	166	—	8,627
INTANGIBLE ASSETS	224,525	4,029	49,624	178,930	103,667	256	282,341
RIGHT OF USE LEASE ASSETS (NOTE 11)	749,864	75,728	669	824,923	126,124	14,153	936,894
RIGHT OF USE SUBSCRIPTION ASSETS (NOTE 11)	56,395	7,709	—	64,104	21,002	—	85,106
CONSTRUCTION IN PROGRESS	197,562	209,488	9,585	397,465	120,861	4,750	513,576
INTANGIBLES IN PROCESS	151,933	39,992	—	191,925	(39,449)	—	152,476
TOTAL COST	**11,595,289**	**606,116**	**159,762**	**12,041,643**	**808,787**	**152,687**	**12,697,743**
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION:							
INFRASTRUCTURE	154,779	8,631	—	163,410	8,612	1,629	170,393
BUILDINGS	3,751,055	260,401	8,108	4,003,348	265,394	12,186	4,256,556
FURNITURE, FIXTURES AND EQUIPMENT	1,282,235	94,205	31,759	1,344,681	118,390	92,310	1,370,761
LIBRARY MATERIALS	320,417	13,473	1,794	332,096	13,484	1,864	343,716
INTANGIBLE ASSETS	160,040	8,865	49,624	119,281	33,933	256	152,958
RIGHT OF USE LEASE ASSETS (NOTE 11)	60,299	62,616	386	122,529	64,439	3,500	183,468
RIGHT OF USE SUBSCRIPTION ASSETS (NOTE 11)	—	14,644	—	14,644	19,042	—	33,686
TOTAL ACCUMULATED DEPRECIATION/ AMORTIZATION	**5,728,825**	**462,835**	**91,671**	**6,099,989**	**523,294**	**111,745**	**6,511,538**
CAPITAL ASSETS, NET	**$ 5,866,464**	**$ 143,281**	**$ 68,091**	**$ 5,941,654**	**$ 285,493**	**$ 40,942**	**$ 6,186,205**

NOTE 9:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

Long-term liability activity for the years ended June 30, 2023 and 2022 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2021	Additions	Reductions	Balance as of June 30, 2022	Additions	Reductions	Balance as of June 30, 2023	Current portion as of June 30, 2022	Current portion as of June 30, 2023
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 10)	$ 57,685	$ 8,400	$ 19,740	$ 46,345	$ —	$ 11,475	$ 34,870	$ 11,475	$ 11,840
REVENUE BONDS PAYABLE (NOTE 10)	2,277,930	374,790	365,510	2,287,210	—	72,615	2,214,595	72,615	71,605
UNAMORTIZED PREMIUM ON BONDS	165,473	24,051	35,207	154,317	—	16,952	137,365	16,943	14,574
TOTAL BONDS PAYABLE	**2,501,088**	**407,241**	**420,457**	**2,487,872**	**—**	**101,042**	**2,386,830**	**101,033**	**98,019**
NOTES PAYABLE:									
NOTES PAYABLE & OTHER -CAPITAL ASSET RELATED (NOTE 10)	58,818	1,124	13,869	46,073	5,415	11,101	40,387	11,286	11,437
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 10)	1,770	143,240	47	144,963	592	11,412	134,143	10,529	14,585
TOTAL NOTES PAYABLE	**60,588**	**144,364**	**13,916**	**191,036**	**6,007**	**22,513**	**174,530**	**21,815**	**26,022**
OTHER LONG-TERM LIABILITIES:									
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	64,074	—	11,847	52,227	—	2,536	49,691	11,847	2,536
COVID-19 RELIEF (NOTE 2)	227,388	—	170,735	56,653	—	56,653	—	56,653	—
REMEDIATION LIABILITIES (NOTE 1)	33,785	—	—	33,785	—	1,176	32,609	—	—
HMC ITS FUNDING (NOTE 17)	24,269	—	2,672	21,597	147	—	21,744	9,300	8,600
SICK LEAVE (NOTE 1)	57,944	8,404	7,563	58,785	9,907	3,549	65,143	12,658	5,556
SELF-INSURANCE (NOTE 15)	180,514	112,713	51,228	241,999	82,066	93,961	230,104	33,800	72,595
LEASE LIABILITIES (NOTE 11)	709,045	90,048	67,482	731,611	133,121	62,069	802,663	50,586	53,733
SUBSCRIPTION LIABILITIES (NOTE 11)	53,742	7,898	14,211	47,429	21,071	18,453	50,047	13,849	20,323
OTHER NONCURRENT LIABILITIES	13,515	—	6,615	6,900	820	104	7,616	82	86
TOTAL OTHER LONG-TERM LIABILITIES	**1,364,276**	**219,063**	**332,353**	**1,250,986**	**247,132**	**238,501**	**1,259,617**	**188,775**	**163,429**
TOTAL LONG-TERM LIABILITIES	**$3,925,952**	**$ 770,668**	**$ 766,726**	**$3,929,894**	**$ 253,139**	**$ 362,056**	**$3,820,977**	**$ 311,623**	**$ 287,470**

DISCRETE COMPONENT UNITS

Long-term liability activity for the years ended June 30, 2023 and 2022 is summarized as follows:

	Balance as of July 1, 2021	Additions	Reductions	Balance as of June 30, 2022	Additions	Reductions	Balance as of June 30, 2023	Current portion as of June 30, 2022	Current portion as of June 30, 2023
VALLEY MEDICAL CENTER *(Dollars in thousands)*									
LIMITED TAX GENERAL OBLIGATION BONDS	$ 315,034	$ —	$ 10,983	$ 304,051	$ —	$ 13,473	$ 290,578	$ 11,185	$ 11,665
LEASE LIABILITIES	125,441	7,713	24,227	108,927	4,234	15,280	97,881	13,719	14,008
SUBSCRIPTION LIABILITIES	—	—	—	13,167	3,958	7,635	9,490	—	4,327
NOTES PAYABLE & OTHER	18,678	—	18,678	—	—	—	—	—	—
TOTAL LONG-TERM LIABILITIES	**$ 459,153**	**$ 7,713**	**$ 53,888**	**$ 426,145**	**$ 8,192**	**$ 36,388**	**$ 397,949**	**$ 24,904**	**$ 30,000**

	Balance as of July 1, 2021	Additions	Reductions	Balance as of June 30, 2022	Additions	Reductions	Balance as of June 30, 2023	Current portion as of June 30, 2022	Current portion as of June 30, 2023
FRED HUTCHINSON CANCER CENTER *(Dollars in thousands)*									
LONG TERM DEBT	$ —	$1,939,257	$ 846,298	$ 1,092,959	$ —	$ 6,620	$ 1,086,339	$ 3,959	$ 13,732
COLLABORATIVE ARRANGEMENT LIABILITIES	—	428,824	—	428,824	—	—	428,824	—	—
LEASE LIABILITIES	—	268,783	28,240	240,543	—	13,030	227,513	14,086	14,654
DEFERRED CREDIT ON CASH FLOW HEDGES	—	39,872	21,797	18,075	—	8,461	9,614	—	—
TOTAL LONG-TERM LIABILITIES	**$ —**	**$2,676,736**	**$ 896,335**	**$1,780,401**	**$ —**	**$ 28,111**	**$1,752,290**	**$ 18,045**	**$ 28,386**

NOTE 10:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2023 consist of state of Washington General Obligation Bonds, University General Revenue Bonds, and Notes Payable. These obligations have interest rates ranging from 0.19% to 8.00%. As of June 30, 2023, substantially all of the University's debt was publicly offered debt. Debt service requirements as of June 30, 2023 are as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON GENERAL REVENUE BONDS		NOTES PAYABLE AND OTHER	
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2024	$ 11,840	$ 1,458	$ 71,605	$ 90,083	$ 26,022	$ 6,847
2025	8,910	939	87,020	87,083	20,997	6,135
2026	5,265	525	90,565	83,990	17,243	5,416
2027	5,210	266	94,050	80,618	17,488	4,675
2028	2,105	104	92,675	76,939	18,232	3,903
2029-2033	1,540	31	457,125	332,032	74,548	7,317
2034-2038	—	—	486,130	237,525	—	—
2039-2043	—	—	520,875	118,704	—	—
2044-2048	—	—	301,605	39,164	—	—
2049-2053	—	—	12,945	1,025	—	—
TOTAL PAYMENTS	**$ 34,870**	**$ 3,323**	**$ 2,214,595**	**$ 1,147,163**	**$ 174,530**	**$ 34,293**

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.

ISSUANCE AND REFUNDING ACTIVITY

The University did not issue or refund any General Revenue Bonds in fiscal year 2023.

On April 1, 2022, UW Medical Center entered into a promissory note agreement with Fred Hutchinson Cancer Center (FHCC), for its 50% share of the buyout of Seattle Children's Healthcare System membership in SCCA. The note payable to FHCC is $142.9 million and the interest rate is 4.82%. The note shall be payable in forty equal consecutive quarterly installments of principal and interest and matures in March 2032. Both parties agree that all payments on this note shall be offset by UW Medical Center's portion of the Clinical Distribution Pool due under the Restructuring Agreement. As of June 30, 2023, payments of $11.4 million have been paid towards the principal.

On March 8, 2022, the University issued $75.0 million of tax-exempt General Revenue Bonds, 2022A, at a premium of $16.2 million and an average coupon of 5.00%. The average life is 8.5 years with a final maturity on April 1, 2037. Proceeds will be mainly used to fund UW Medicine Small-Works projects and the Montlake Campus Membrane Repair project. Additionally, the University issued $209.1 million of taxable General Revenue Refunding Bonds, 2022B (Taxable), with an average coupon of 2.88%. The average life is 9.7 years with a final maturity on July 1, 2041. The bonds refunded by the 2022B Series had a par amount of $200.1 million and coupon rates ranging from 4.00% to 5.00%, with an average coupon of 4.94%. The refunding reduced the total debt service payments to be made by the University over the next 20 years by $33.8 million and resulted in a total economic gain of $26.5 million. Additionally, the University issued $90.7 million of tax-exempt General Revenue Refunding Bonds, 2022C (Term Rate Bonds) at a premium of $9.6 million and an average coupon of 4.00% through the 5-year mandatory redemption date of August 1, 2027. The 2022C Term Rate Bonds refunded the 2019A (Term Rate Bonds) with a par amount of $100.0 million at the mandatory redemption date.

COMMERCIAL PAPER PROGRAM

The University has a commercial paper program with a maximum borrowing limit of $250.0 million, payable from University General Revenues. This short-term borrowing program is primarily used to fund capital expenditures. During fiscal year 2023, the University issued $43.5 million of commercial paper. The University refunded $69.5 million of commercial paper with a line of credit from Washington Federal Bank, National Association. During fiscal year 2022, the University issued $44.5 million of commercial paper. As of June 30, 2023 and 2022, the University had $43.5 million and $69.5 million, respectively, in outstanding commercial paper.

SUBSEQUENT DEBT ACTIVITY

On July 25, 2023, the University issued $99.5 million in commercial paper; the proceeds were used to pay off the line of credit with the Washington Federal Bank, National Association, prior to expiration on August 1, 2023.

In October 2023, the University entered into a new Master Financing Agreement (the “2023 Master Financing Agreement”), effective as of the Regent’s approval of the agreement in September 2023 with JP Morgan Chase Bank to provide a non-revolving credit line available to the University for the financing of assets in the short-term (FAST), including personal property, to be drawn from time to time. The 2023 Master Financing Agreement allows for draws in an aggregate amount not to exceed $40 million and will expire in September 2026, with the option of extending for two additional one year terms.

CREDIT LINES

Effective August 13, 2020, the University entered into a Master Financing Agreement (the “2020 Master Financing Agreement”) with JP Morgan Chase Bank to provide a non-revolving credit line available to the University for the financing of short-term assets (FAST), including personal property, to be drawn on from time to time. The 2020 Master Financing Agreement provides financing for the University’s FAST Program. The 2020 Master Financing Agreement allows for draws in an aggregate amount not to exceed $40.0 million. The 2020 Master Financing Agreement expired on June 30, 2023 and was subsequently replaced with the 2023 Master Financing Agreement (see “Subsequent Debt Activity”). The Bank and the University entered into two prior master financing agreements, one dated July 7, 2017 (the “2017 Master Financing Agreement”) and the other dated November 14, 2014 (the “2014 Master Financing Agreement”), which allowed for draws up to an aggregate amount not to exceed $30.0 million and $12.0 million, respectively. Each Master Financing Agreement replaced the prior agreement, however, draws on the prior master financing agreements remain outstanding until paid under the terms of that agreement. Outstanding borrowings as of June 30, 2023 and 2022 totaled $23.7 million and $22.9 million, respectively.

On August 13, 2020, the University entered into a Revolving Loan Agreement with Washington Federal Bank, National Association which provides a revolving loan through August 1, 2023, for up to $100.0 million to be used for providing additional liquidity. Taxable borrowings under the agreement bear interest at 2.21%; tax-exempt borrowings bear interest at 1.75%. Amounts borrowed under the agreement are payable solely from and secured by a pledge of the University’s general revenues. During fiscal year 2023, the University borrowed $99.5 million from the Washington Federal Bank, National Association line of credit.

On August 13, 2020, the University entered into a Revolving Credit Agreement with U.S. Bank National Association which provides a revolving line of credit through August 12, 2022, for up to $100.0 million to be used for providing additional liquidity. On September 30, 2021, the University entered into an Amended and Restated Revolving Credit Agreement, which adjusted the rates from the prior agreement and extended the term through August 1, 2024. On December 1, 2022, the University entered into another an Amended and Restated Revolving Credit Agreement, which replaced LIBOR with SOFR as the applicable reference rate. Borrowings for tax-exempt projects under the agreement bear interest at a fluctuating rate equal to 82% of the daily one-month SOFR rate plus a margin of 0.63%; borrowings for taxable projects bear interest at a fluctuating rate equal to the daily one-month SOFR rate plus a margin of 0.75%. The margins are subject to change depending on the University’s credit rating. Amounts borrowed under the agreement are payable solely from and secured by a pledge of the University's general revenues. The University made no draws and had no outstanding cash borrowings with respect to this agreement as of June 30, 2023.

DEFEASED DEBT

The University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust (refunding escrow) to provide for all future debt service payments on the refunded bonds until called. The trust account assets and the liability for the defeased bonds are not included in the University's financial statements. As of June 30, 2023 and 2022, $112.7 million and $414.3 million of bonds outstanding, respectively, are considered defeased. In addition, $10.3 million of in-substance defeased debt remains outstanding as of June 30, 2023 and is included in Long-Term Liabilities on the Statement of Net Position.

NOTE 11:

Leases and Related Subscription-Based Information Technology Arrangements

LESSEE & SUBSCRIPTION-BASED INFORMATION ARRANGEMENTS

The University leases land, building space and equipment from external parties for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2067 and provide for renewal options ranging from one year to twenty-five years. In accordance with GASB Statement No. 87, the University records right-to-use assets and lease liabilities based on the present value of expected payments over the lease term of the respective leases. The expected payments are discounted using the University's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. Amounts recognized for variable and other payments not included in the measurement of the lease liability are $99.08 million and $85.1 million as of June 30, 2023, and 2022, respectively. The University does not have any leases subject to a residual value guarantee.

A SBITA is a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract in an exchange or exchange-like transaction for a term exceeding 12 months. The University enters subscription-based information arrangements which expire at various dates through 2034. In accordance with GASB Statement No. 96, the University recognizes a right-to-use subscription asset and a corresponding subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. Similar to leases, the expected future subscription payments are discounted using the University's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance.

The University's right-to-use assets and related accumulated amortization for fiscal years ended June 30, 2023 and 2022 are summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2021	Additions	Modifications and Renewals	Deductions	Balance as of June 30, 2022	Additions	Modifications and Renewals	Deductions	Balance as of June 30, 2023
RIGHT OF USE ASSETS									
LAND	$ 414,497	$ —	$ —	$ —	$ 414,497	$ —	$ —	$ 9,665	$ 404,832
BUILDINGS	268,590	63,653	11,381	669	342,955	59,890	18,844	4,488	417,201
EQUIPMENT	66,777	694	—	—	67,471	47,390	—	—	114,861
SUBSCRIPTION ASSETS	56,395	7,709	—	—	64,104	11,974	9,028	—	85,106
TOTAL RIGHT OF USE ASSETS	**806,259**	**72,056**	**11,381**	**669**	**889,027**	**119,254**	**27,872**	**14,153**	**1,022,000**
LESS ACCUMULATED AMORTIZATION									
LAND	9,658	9,658	—	—	19,316	8,983	—	—	28,299
BUILDINGS	34,177	36,551	—	386	70,342	38,050	—	3,500	104,892
EQUIPMENT	16,464	16,407	—	—	32,871	17,406	—	—	50,277
SUBSCRIPTION ASSET	—	14,644	—	—	14,644	19,042	—	—	33,686
TOTAL ACCUMULATED AMORTIZATION	**60,299**	**77,260**	**—**	**386**	**137,173**	**83,481**	**—**	**3,500**	**217,154**
TOTAL RIGHT OF USE ASSETS, NET	**$ 745,960**	**$ (5,204)**	**$ 11,381**	**$ 283**	**$ 751,854**	**$ 35,773**	**$ 27,872**	**$ 10,653**	**$ 804,846**

Total future annual lease payments under lessee agreements as of June 30, 2023 are as follows:

Year *(Dollars in thousands)*	**Principal (a)**	**Interest**	**Total**
2024	$ 40,347	$ 21,963	$ 62,310
2025	51,360	22,113	73,473
2026	36,323	22,149	58,472
2027	33,995	21,122	55,117
2028	30,385	20,494	50,879
2029-2033	53,884	104,032	157,916
2034-2038	51,728	107,709	159,437
2039-2043	51,591	107,492	159,083
2044-2048	51,991	84,757	136,748
2049-2053	85,825	65,641	151,466
2054-2058	129,425	45,730	175,155
2059-2063	172,424	17,216	189,640
Total	**$ 789,278**	**$ 640,418**	**$ 1,429,696**

(a) These amounts exclude accrued interest, which is included in the lease liability shown on the Statements of Net Position.

As of June 30, 2023, the University has two leases that have not yet commenced, primarily for building space, with lease payments due on an undiscounted basis of $150.3 million over the respective lease terms. These leases will commence in fiscal years 2024 and 2026 with lease terms ranging between 10 and 40 years.

Total future annual subscription payments under subscription-based arrangements as of June 30, 2023 are as follows:

Year *(Dollars in thousands)*	**Principal (a)**	**Interest**	**Total**
2024	$ 20,194	$ 829	$ 21,023
2025	16,335	571	16,906
2026	9,046	268	9,314
2027	2,076	91	2,167
2028	1,478	46	1,524
2029-2034	524	13	537
Total	**$ 49,653**	**$ 1,818**	**$ 51,471**

(a) These amounts exclude accrued interest, which is included in the subscription liability shown on the Statements of Net Position.

As of June 30, 2023, the University has two subscription arrangements that have not yet commenced, with payments due on an undiscounted basis of $23.8 million over the respective terms. These arrangements will commence in fiscal year 2024 with terms ranging between 4 and 7 years.

LESSOR ARRANGEMENTS

The University leases building and ground space to external parties with significant activity occurring within the Metropolitan Tract (Note 1). The leases expire at various dates through 2098 and provide for renewal options ranging from one year to twenty-five years. The University records lease receivables and deferred inflows of resources based on the present value of expected receipts over the term of the respective leases. The expected receipts are discounted using the University's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. Amounts recognized for variable and other payments not included in the measurement of the lease receivable are $35.04 million and $24.2 million as of June 30, 2023, and 2022, respectively. The University recognized revenues related to lease agreements totaling $93.2 million and $83.4 million, as of June 30, 2023, and 2022, respectively, reported in other operating revenues in the Statements of Revenue, Expenses and Change in Net Position.

Future minimum lease payments to be received under lessor agreements as of June 30, 2023 are as follows:

Year *(Dollars in Thousands)*	**Principal (a)**	**Interest**	**Total**
2024	$ 38,720	$ 11,713	$ 50,433
2025	34,790	10,888	45,678
2026	32,416	10,257	42,673
2027	28,096	9,589	37,685
2028	18,878	9,023	27,901
2029-2033	44,942	39,267	84,209
2034-2038	20,316	34,298	54,614
2039-2043	11,721	32,010	43,731
2044-2048	13,398	30,545	43,943
2049-2053	15,649	28,822	44,471
2054-2058	18,756	26,455	45,211
2059-2063	20,203	23,819	44,022
2064-2068	18,742	21,573	40,315
2069-2073	19,368	19,274	38,642
2074-2078	17,702	17,434	35,136
2079-2083	20,876	15,492	36,368
2084-2088	9,881	10,381	20,262
2089-2093	17,277	4,561	21,838
2094-2098	18,458	1,358	19,816
Total	**$ 420,189**	**$ 356,759**	**$ 776,948**

(a) These amounts exclude accrued interest, which is included in the lease receivable shown on the Statements of Net Position.

NOTE 12:

Pension Plans

The University offers four contributory pension plans: 1) the Washington State Public Employees' Retirement System (PERS) plan, 2) the Washington State Teachers' Retirement System (TRS) plan, 3) the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) plan, and 4) the University of Washington Retirement Plan (UWRP). PERS, TRS, and LEOFF are cost sharing multiple-employer defined-benefit pension plans administered by the Washington State Department of Retirement Systems (DRS). UWRP is a defined-contribution plan with a supplemental noncontributory defined-benefit plan component (the UWSRP) and is administered by the University.

Legislation signed into law on July 1, 2020, amended the RCW applicable to the UWSRP to define plan provisions including limits on member eligibility, benefit payments, vesting terms and contribution rates. As a result of these amendments, the University is unable to modify the terms of the plan. Administration of the benefit calculations and payments remain the responsibility of the University until the state's Pension Funding Council determines the trust has sufficient assets, at which time the DRS will assume those duties in accordance with RCW 41.50.280. The University does not perform the duties of a board or hold any of the substantive powers that would make the plan a fiduciary component unit of the University. Other agencies of the state of Washington perform the duties of a board and hold the substantive powers in relation to the UWSRP.

As of June 30, 2023 and 2022, the University's share of the total net pension assets associated with the defined-benefit pension plans administered by the DRS was $430.3 million and $1,133.9 million, respectively. The University's share of the total net pension liabilities was $253.9 million and $109.8 million, respectively. As of June 30, 2023 and 2022, the net pension liability associated with the defined benefit pension plan administered by the University was $161.8 million and $219.1 million, respectively. As of June 30, 2023 and 2022, assets held by the University to pay retiree benefits in connection with the pension plan administered by the University were $342.0 million and $345.3 million, respectively. These assets are in addition to those now residing with the Washington State Investment Board. For the years ended June 30, 2023 and 2022, total pension expense (benefit) recorded by the University related to both the DRS and University plans was $(58.1) million and $(288.0) million, respectively.

PLANS ADMINISTERED BY DRS

PLAN DESCRIPTION

Public Employees' Retirement System

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

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

Teachers' Retirement System

TRS retirement benefit provisions are contained in chapters 41.32 and 41.34 of the RCW. TRS is a cost-sharing, multiple-employer retirement system, comprised of three separate pension plans for membership purposes; TRS Plan 1 and TRS Plan 2 are defined-benefit plans and TRS Plan 3 is a defined-benefit plan with a defined-contribution component. TRS eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity.

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

Law Enforcement Officers' and Fire Fighters' Retirement System

LEOFF retirement benefit provisions are contained in chapter 41.26 of the RCW. LEOFF is a cost-sharing, multiple-employer retirement system comprised of two separate pension plans for both membership and accounting purposes. The University participates in LEOFF Plan 2, which is a defined-benefit plan. LEOFF membership includes full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians.

VESTING AND BENEFITS PROVIDED

PERS Plan 1 and TRS Plan 1

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

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits for PERS Plan 1 include an optional Cost-of-Living Adjustment. Other benefits for TRS Plan 1 include temporary and permanent disability payments, and an optional Cost-of-Living Adjustment.

PERS Plan 2/3 and TRS Plan 2/3

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

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

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

LEOFF Plan 2

LEOFF Plan 2 provides retirement, disability and death benefits. Members are vested after completing five years of eligible service. Retirement benefits are determined as 2% of the final average salary (FAS) per year of service, based on the member's 60 highest-paid consecutive service months. Members are eligible for retirement with a full benefit at age 53 with at least five years of service credit. Members who retire prior to age 53 receive reduced benefits. If the member has at least 20 years of service and is age 50 to 52, the reduction is 3% for each year before age 53. Otherwise, the benefits are actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include a Cost-of-Living adjustment (based on the Consumer Price Index) capped at 3% annually.

FIDUCIARY NET POSITION

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

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

DRS publishes an annual report for retirement plans, which is available at https://www.drs.wa.gov/news/

ACTUARIAL ASSUMPTIONS

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The University's 2023 pension liabilities are based on an OSA valuation performed as of June 30, 2021, with the results rolled forward to the measurement date of June 30, 2022. Likewise, the University's 2022 pension liabilities are based on a valuation performed as of June 30, 2020, with the results rolled forward to the measurement date of June 30, 2021.

The following actuarial assumptions have been applied to all prior periods included in the measurement:

2023	
INFLATION	2.75% TOTAL ECONOMIC INFLATION, 3.25% SALARY INFLATION
SALARY INCREASE	EXPECTED TO GROW BY PROMOTIONS AND LONGEVITY IN ADDITION TO SALARY INFLATION ASSUMPTION OF 3.25%
INVESTMENT RATE OF RETURN	7.00%

2022	
INFLATION	2.75% TOTAL ECONOMIC INFLATION, 3.50% SALARY INFLATION
SALARY INCREASE	EXPECTED TO GROW BY PROMOTIONS AND LONGEVITY IN ADDITION TO SALARY INFLATION ASSUMPTION OF 3.50%
INVESTMENT RATE OF RETURN	7.40%

Mortality rates as of June 30, 2021 and 2020, were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2021 valuations were based on the results of the 2013-2018 Demographic Experience Study Report and 2021 Economic Experience Study. The actuarial assumptions used in the June 30, 2020 valuations were based on the results of the 2013-2018 Demographic Experience Study Report and 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the dates of the respective actuarial valuation reports.

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

The long-term expected rate of return of 7.00% and 7.40% as of measurement dates June 30, 2022 and 2021, respectively, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

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

	2023 *(Measurement Date 2022)*		**2022** *(Measurement Date 2021)*	
Asset Class	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
FIXED INCOME	20.00%	1.50%	20.00%	2.20%
TANGIBLE ASSETS	7.00%	4.70%	7.00%	5.10%
REAL ESTATE	18.00%	5.40%	18.00%	5.80%
GLOBAL EQUITY	32.00%	5.90%	32.00%	6.30%
PRIVATE EQUITY	23.00%	8.90%	23.00%	9.30%

The inflation component used to create the above table was 2.20% for the June 30, 2021 and 2020 actuarial valuations, and represents WSIB's most recent long-term estimate of broad economic inflation at the time of these valuations.

DISCOUNT RATE

The discount rate used to measure the total pension liabilities as of June 30, 2023 and 2022 was 7.00% and 7.40%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liability for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.00% and 7.40% future investment rate of return on pension plan investments was assumed as of measurement dates June 30, 2022 and 2021, respectively. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liability for PERS 1 and TRS 1, respectively, as provided for in chapter 41.45 of the RCW).

SENSITIVITY OF THE NET PENSION LIABILITY (ASSET) TO CHANGES IN THE DISCOUNT RATE

The following table presents the University's proportionate share of the net pension liabilities and assets calculated using the discount rate of 7.00% and 7.40% as of measurement dates June 30, 2022 and 2021, respectively, as well as what the net pension liabilities or assets would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

DISCOUNT RATE SENSITIVITY - NET PENSION LIABILITY (ASSET) *(Dollars in thousands)*

	2023 *(Measurement Date 2022)*			2022 *(Measurement Date 2021)*		
Plan	**1% Decrease**	**Current Discount Rate**	**1% Increase**	**1% Decrease**	**Current Discount Rate**	**1% Increase**
PERS 1	$ 329,849	$ 246,895	$ 174,496	$ 183,066	$ 107,461	$ 41,526
PERS 2/3	500,962	(425,399)	(1,186,463)	(317,391)	(1,114,120)	(1,770,227)
TRS 1	9,445	6,956	4,780	4,479	2,337	467
TRS 2/3	12,906	(712)	(11,675)	1,622	(9,301)	(18,211)
LEOFF 2	(194)	(4,212)	(7,500)	(6,608)	(10,480)	(13,649)

EMPLOYER CONTRIBUTION RATES

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The following table presents the contribution rates, stated as a percentage of covered payroll as defined by the statute, and required contributions for each DRS plan in which the University participates for the years ended June 30, 2023 and 2022:

(Dollars in Thousands)	**PERS 1**	**PERS 2/3[(a)]**	**TRS 1**	**TRS 2/3[(a)]**	**LEOFF 2**
2023					
CONTRIBUTION RATE	10.25 %	10.25 %	14.42 %	14.42 %	8.71 %
CONTRIBUTIONS MADE	$ 60,376	$ 99,838	$ 2,312	$ 2,863	$ 256
2022					
CONTRIBUTION RATE	12.97 %	12.97 %	15.74 %	15.74 %	8.77 %
CONTRIBUTIONS MADE	$ 54,344	$ 92,147	$ 1,877	$ 2,315	$ 321

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

UNIVERSITY PROPORTIONATE SHARE

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities and assets recorded by the University as of June 30, 2023 was June 30, 2022. Employer contributions received and processed by the DRS during the fiscal year ended June 30, 2022 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in their June 30, 2022 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities and assets recorded by the University as of June 30, 2022 was June 30, 2021, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2021, used as the basis for determining each employer's proportionate share of the collective pension amounts. The following table presents the University's proportionate share for each DRS plan:

PROPORTIONATE SHARE	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
YEAR ENDED JUNE 30, 2023	8.87 %	11.47 %	0.37 %	0.36 %	0.15 %
YEAR ENDED JUNE 30, 2022	8.80 %	11.18 %	0.35 %	0.34 %	0.18 %

UNIVERSITY AGGREGATED BALANCES

The table below presents the University's aggregated balance of net pension liability and net pension asset as of June 30 2023 and 2022:

(Dollars in Thousands)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2023						
NET PENSION LIABILITY	$ 246,895	$ —	$ 6,956	$ —	$ —	$ 253,851
NET PENSION ASSET	—	425,399	—	712	4,211	430,322
2022						
NET PENSION LIABILITY	$ 107,461	$ —	$ 2,337	$ —	$ —	$ 109,798
NET PENSION ASSET	—	1,114,120	—	9,301	10,480	1,133,901

PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

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

PROPORTIONATE SHARE OF PENSION EXPENSE *(Dollars in Thousands)*	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
YEAR ENDED JUNE 30, 2023	$ 115,449	$ (138,626)	$ 4,239	$ (68)	$ 680	$ (18,326)
YEAR ENDED JUNE 30, 2022	2,082	(250,731)	903	(1,000)	(1,484)	(250,230)

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in Thousands)*						
2023	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
CHANGE IN ASSUMPTIONS	$ —	$ 237,101	$ —	$ 4,013	$ 1,067	$ 242,181
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	105,404	—	3,550	1,001	109,955
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	—	6,876	—	757	1,459	9,092
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [(a)]	60,376	99,838	2,312	2,863	256	165,645
TOTAL	**$ 60,376**	**$ 449,219**	**$ 2,312**	**$ 11,183**	**$ 3,783**	**$ 526,873**
2022						
CHANGE IN ASSUMPTIONS	$ —	$ 1,628	$ —	$ 579	$ 5	$ 2,212
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	54,111	—	2,890	475	57,476
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	—	11,858	—	1,012	873	13,743
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [(b)]	54,344	92,147	1,877	2,315	321	151,004
TOTAL	**$ 54,344**	**$ 159,744**	**$ 1,877**	**$ 6,796**	**$ 1,674**	**$ 224,435**

(a) Recognized as a reduction of the net pension liability as of June 30, 2024
(b) Recognized as a reduction of the net pension liability as of June 30, 2023

DEFERRED INFLOWS OF RESOURCES *(Dollars in Thousands)*						
2023	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 40,918	$ 314,500	$ 1,246	$ 3,768	$ 1,410	$ 361,842
CHANGE IN ASSUMPTIONS	—	62,082	—	436	367	62,885
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	9,630	—	72	39	9,741
TOTAL	**$ 40,918**	**$ 386,212**	**$ 1,246**	**$ 4,276**	**$ 1,816**	**$ 434,468**
2022						
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 119,246	$ 931,143	$ 3,503	$ 10,844	$ 4,997	$ 1,069,733
CHANGE IN ASSUMPTIONS	—	79,121	—	489	498	80,108
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	13,658	—	75	55	13,788
TOTAL	**$ 119,246**	**$ 1,023,922**	**$ 3,503**	**$ 11,408**	**$ 5,550**	**$ 1,163,629**

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

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(a) (Dollars in Thousands)*						
YEAR	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
2024	$ (17,316)	$ (95,735)	$ (528)	$ (599)	$ (268)	$ (114,446)
2025	(15,727)	(85,508)	(480)	(440)	(209)	(102,364)
2026	(19,729)	(103,015)	(604)	(773)	(336)	(124,457)
2027	11,854	146,439	366	2,226	783	161,668
2028	—	51,746	—	943	339	53,028
THEREAFTER	—	49,242	—	2,687	1,402	53,331
TOTAL	**$ (40,918)**	**$ (36,831)**	**$ (1,246)**	**$ 4,044**	**$ 1,711**	**$ (73,240)**

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

PLANS ADMINISTERED BY UNIVERSITY OF WASHINGTON

University of Washington Retirement Plan

PLAN DESCRIPTION

UWRP, a single-employer 403(b) defined-contribution plan, is administered by the University. Faculty, librarians and professional staff are eligible to participate in the UWRP.

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 the plan are available upon separation or retirement at the member's option. RCW 28B.10.400 et. seq. assigns the authority to the University of Washington Board of Regents to establish and amend benefit provisions.

The number of participants in the UWRP as of June 30, 2023 and 2022 was 19,811 and 19,609, respectively.

Funding Policy

Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches 100% of employee contributions. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employer contributions for the years ended June 30, 2023 and 2022 were $155.7 million and $145.2 million, respectively.

University of Washington Supplemental Retirement Plan

PLAN DESCRIPTION

UWSRP, a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. For purposes of measuring the June 30, 2023 and 2022 net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the UWSRP and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported in the state of Washington's Annual Comprehensive Financial Report, which is available at https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report.

The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership requires participation in the UWRP. Participant data is updated biannually in the actuarial valuations. The table below shows the number of participants in the UWSRP as of June 30, 2023 and 2022:

NUMBER OF PARTICIPANTS	June 30, 2023	June 30, 2022
ACTIVE EMPLOYEES	4,117	5,081
INACTIVE EMPLOYEES RECEIVING BENEFITS	1,289	1,076
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	341	160

VESTING AND BENEFITS PROVIDED

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the years ended June 30, 2023 and 2022 were $11.0 million and $10.3 million, respectively.

EMPLOYER CONTRIBUTIONS

State legislation which became effective on July 1, 2020, created an employer contribution rate for the UWSRP. This rate is developed by the OSA in accordance with RCW 41.45, which provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The University’s contribution rate for the fiscal years ended June 30, 2023 and 2022 per RCW 28B.10.423 was 0.38% of UWRP covered salaries. Contributions made in the fiscal year ended June 30, 2023 and 2022 were $8.4 million and $6.6 million, respectively. Prior to fiscal year 2021 employer contributions were not required.

PLAN INVESTMENTS

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

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

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

The money-weighted rates of return are provided by the WSIB and the Office of the State Treasurer. The annual money-weighted rate of return on UWSRP investments, net of pension plan investment expense for the years ended June 30, 2023 and 2022 was 7.16% and 0.12%, respectively. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of external cash flows.

OTHER DESIGNATED ASSETS

The University has also set aside assets to pay UWSRP benefits which are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, these assets are not reflected as a reduction of the Total Pension Liability (TPL).

As of June 30, 2023 and 2022, the University had set aside $342.0 million and $345.3 million, respectively, to pay future UWSRP retiree benefits. These assets are in addition to those amounts now residing with the WSIB, which are reflected as a reduction of the TPL beginning in fiscal year 2021.

UWSRP PENSION LIABILITY

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

The components of the UWSRP liability were as follows:

SCHEDULE OF CHANGES IN NET PENSION LIABILITIES (NPL) *(Dollars in Thousands)*

	TPL (a)	PLAN FIDUCIARY NET POSITION (b)	NPL (a) minus (b)
BALANCE AS OF JULY 1, 2021	**$ 216,672**	**$ 90,341**	**$ 126,331**
SERVICE COST	3,699	—	3,699
INTEREST ON TPL	15,933	—	15,933
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	67,986	—	67,986
CHANGE IN ASSUMPTIONS	22,150	—	22,150
EMPLOYER CONTRIBUTIONS	—	6,548	(6,548)
INVESTMENT INCOME	—	100	(100)
BENEFIT PAYMENTS	(10,313)	—	(10,313)
NET CHANGES	99,455	6,648	92,807
BALANCE AS OF JUNE 30, 2022	**316,127**	**96,989**	**219,138**
SERVICE COST	5,068	—	5,068
INTEREST ON TPL	22,106	—	22,106
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	(31,360)	—	(31,360)
CHANGE IN ASSUMPTIONS	(26,643)	—	(26,643)
EMPLOYER CONTRIBUTIONS	—	8,358	(8,358)
INVESTMENT INCOME	—	7,189	(7,189)
BENEFIT PAYMENTS	(10,989)	—	(10,989)
NET CHANGES	(41,818)	15,547	(57,365)
BALANCE AS OF JUNE 30, 2023	**$ 274,309**	**$ 112,536**	**$ 161,773**

The June 30, 2023 TPL is based on an actuarial valuation performed as of January 1, 2023 with update procedures performed by the OSA to roll forward the TPL to the measurement date of June 30, 2023. Some of the larger experience items that impacted the TPL were salaries generally lower than assumed and SRP benefits for new retirees were lower than estimated. OSA's model estimates the SRP benefit of future retirees by relying on assumptions for the benefit calculation performed by Teachers Insurance and Annuity Association of America (TIAA). Based on information provided by TIAA and OSA's professional judgment, some of the long-term assumptions were updated which decreased the TPL as of June 30, 2023. The valuation was prepared using the entry age actuarial cost method.

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

UWSRP pension expense for the years ended June 30, 2023 and 2022 was $(39.8) million and $(37.8) million, respectively, and is reported in the accompanying statements of revenues, expenses and changes in net position as a reduction benefits expense.

ACTUARIAL ASSUMPTIONS

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on the University. The professional judgments used in determining these assumptions are important, and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the University's financial statements. The following table shows significant assumptions used to measure the NPL as of June 30, 2023 and 2022:

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE UWSRP NET PENSION LIABILITY (NPL) *(Dollars in thousands)*	2023	2022
INFLATION	2.75%	2.75%
SALARY CHANGES	4.00%	4.00%
SOURCE OF MORTALITY ASSUMPTIONS	PUB. H-2010 TABLES, WITH THE MP-2017 MORTALITY IMPROVEMENT SCALE	PUB. H-2010 TABLES, WITH THE MP-2017 MORTALITY IMPROVEMENT SCALE
DATE OF EXPERIENCE STUDY	AUGUST 2021	AUGUST 2021
DISCOUNT RATE	7.00%	7.00%
CHANGE IN DISCOUNT RATE SINCE PRIOR MEASUREMENT DATE	NA	(0.40)%
SOURCE OF DISCOUNT RATE	2021 REPORT ON FINANCIAL CONDITION AND ECONOMIC EXPERIENCE STUDY	2021 REPORT ON FINANCIAL CONDITION AND ECONOMIC EXPERIENCE STUDY
INVESTMENT RATE OF RETURN	7.00%	7.00%
NPL MEASUREMENT AT DISCOUNT RATE	$161,773	$219,138
NPL DISCOUNT RATE INCREASED 1%	$135,272	$188,305
NPL DISCOUNT RATE DECREASED 1%	$192,736	$255,190

There were no changes to the significant assumptions used for the period ending June 30, 2023.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation for both June 30, 2023 and 2022, are summarized in the following table:

	2023		2022	
Asset Class	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
FIXED INCOME	20.00%	1.50%	20.00%	2.20%
TANGIBLE ASSETS	7.00%	4.70%	7.00%	5.10%
REAL ESTATE	18.00%	5.40%	18.00%	5.80%
GLOBAL EQUITY	32.00%	5.90%	32.00%	6.30%
PRIVATE EQUITY	23.00%	8.90%	23.00%	9.30%

As noted above, the discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that the University would pay retiree benefits from assets designated for that purpose, until such time that responsibility for these payments transfers to the DRS and payments are funded by the plan assets invested in the CTF. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*		
2023		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	100,648
CHANGE IN ASSUMPTIONS		95,609
TOTAL	**$**	**196,257**
2022		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	127,881
CHANGE IN ASSUMPTIONS		123,322
TOTAL	**$**	**251,203**

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*		
2023		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	259,025
CHANGE IN ASSUMPTIONS		158,992
NET DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS		2,998
TOTAL	**$**	**421,015**
2022		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	298,872
CHANGE IN ASSUMPTIONS		173,835
NET DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS		5,045
TOTAL	**$**	**477,752**

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the UWSRP will be recognized in pension expense as follows:

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(a) (Dollars in thousands)*		
Year		
2024	$	(59,906)
2025		(46,326)
2026		(37,008)
2027		(71,315)
2028		(8,332)
THEREAFTER		(1,871)
TOTAL	**$**	**(224,758)**

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

NOTE 13:

Other Post Employment Benefits (OPEB)

PLAN DESCRIPTION

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

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

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

- The implicit subsidy, set up under RCW 41.05.022, is not a direct payment from the employer on behalf of the retiree. Retirees who are not yet eligible for Medicare benefits may currently continue to participate in the state's non-Medicare community-rated health insurance risk pool. Claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums. Therefore, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. This results in an implicit subsidy since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.
- The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy applicable to each calendar year, with the final amount approved by the state Legislature. The subsidy was $183 per member per month during fiscal year 2023 and 2022.

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

The table below shows the University's PEBB membership data as of June 30, 2023 and 2022:

NUMBER OF PARTICIPANTS	**2023** *(Measurement Date: 2022)*	**2022** *(Measurement Date: 2021)*
ACTIVE EMPLOYEES	37,659	37,168
INACTIVE EMPLOYEES RECEIVING BENEFITS	10,892	10,310
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	N/A *	1,726

- Data not available from Washington State Health Care Authority (HCA)

ACTUARIAL ASSUMPTIONS

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on the University. The professional judgments used by the Washington State Office of the State Actuary (OSA) in determining the assumptions used to value the state of Washington OPEB liability are important and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the University's financial statements. The following table shows significant assumptions used to measure the total OPEB liability (TOL) as of June 30, 2023 and 2022:

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*

	2023	**2022**
INFLATION	2.35%	2.75%
HEALTHCARE COST TREND	INITIAL RATE RANGES FROM 2% - 11%, REACHING AN ULTIMATE RATE OF 3.80% IN 2080.	INITIAL RATE RANGES FROM 2% - 11% REACHING AN ULTIMATE RATE OF 4.30% IN 2075.
SALARY INCREASE	3.25% PLUS SERVICE-BASED SALARY INCREASES	3.50% PLUS SERVICE-BASED SALARY INCREASES
SOURCE OF MORTALITY ASSUMPTIONS	SOCIETY OF ACTUARIES' PUB.H-2010 MORTALITY RATES, WITH APPLICATION OF THE LONG-TERM MP-2017 GENERATIONAL IMPROVEMENT SCALE AND UPDATED BASED ON RESULTS OF THE 2013-2018 DEMOGRAPHIC EXPERIENCE STUDY REPORT AND THE 2019 REPORT ON FINANCIAL CONDITION AND ECONOMIC EXPERIENCE STUDY.	SOCIETY OF ACTUARIES' PUB.H-2010 MORTALITY RATES, WITH APPLICATION OF THE LONG-TERM MP-2017 GENERATIONAL IMPROVEMENT SCALE AND UPDATED BASED ON RESULTS OF THE 2013-2018 DEMOGRAPHIC EXPERIENCE STUDY REPORT AND THE 2019 REPORT ON FINANCIAL CONDITION AND ECONOMIC EXPERIENCE STUDY.
DATE OF EXPERIENCE STUDY	2013-2018 EXPERIENCE STUDY REPORT	2013-2018 EXPERIENCE STUDY REPORT
DISCOUNT RATE	3.54%	2.16%
SOURCE OF DISCOUNT RATE	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/22 (MEASUREMENT DATE)	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/21 (MEASUREMENT DATE)
POST-RETIREMENT PARTICIPATION PERCENTAGE	60.00%	65.00%
TOL MEASUREMENT AT DISCOUNT RATE	$1,246,057	$1,861,478
TOL DISCOUNT RATE INCREASED 1%	$1,073,843	$1,555,274
TOL DISCOUNT RATE DECREASED 1%	$1,460,075	$2,255,312
TOL MEASUREMENT AT HEALTHCARE COST TREND RATE	$1,246,057	$1,861,478
TOL HEALTHCARE COST TREND RATE INCREASED 1%	$1,490,461	$2,347,529
TOL HEALTHCARE COST TREND RATE DECREASED 1%	$1,055,017	$1,501,796

Material assumption changes during the measurement period ending June 30, 2022 include updating the discount rate, as required by GASB 75, and updating the inflation rate, the forecast of healthcare cost trend rate, the salary increase percentage, and the post-retirement participation percentage. Material assumption changes during the measurement period ending June 30, 2021 include updating the discount rate, as required by GASB 75.

CHANGES IN THE TOTAL OPEB LIABILITY

The TOL for the state of Washington as of June 30, 2023 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2022. The measurement date for the TOL as of June 30, 2022 was the same as the valuation date. The TOL for the state of Washington as of June 30, 2022 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2020, with the results rolled forward to the measurement date of June 30, 2021. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine the University's proportionate share of the statewide TOL is the relationship of University active, healthcare-eligible employee headcount to the corresponding statewide total.

The University's proportionate share percentage was 29.3% and 28.8% as of June 30, 2023 and 2022, respectively.

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

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*		
BALANCE AS OF JULY 1, 2021	**$**	**1,696,027**
SERVICE COST		93,039
INTEREST ON TOL		40,211
CHANGE IN ASSUMPTIONS		17,180
BENEFIT PAYMENTS		(30,635)
CHANGE IN PROPORTIONATE SHARE		45,656
BALANCE AS OF JUNE 30, 2022		**1,861,478**
SERVICE COST		91,921
INTEREST ON TOL		42,650
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE		(42,238)
CHANGE IN ASSUMPTIONS		(713,147)
BENEFIT PAYMENTS		(31,335)
CHANGE IN PROPORTIONATE SHARE		36,728
BALANCE AS OF JUNE 30, 2023	**$**	**1,246,057**

OPEB EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

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

PROPORTIONATE SHARE OF OPEB EXPENSE *(Dollars in Thousands)*		
YEAR ENDED JUNE 30, 2023	$	18,270
YEAR ENDED JUNE 30, 2022		97,356

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in Thousands)*		
2023		
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$	25,976
CHANGE IN ASSUMPTIONS		102,128
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY		31,448
CHANGE IN PROPORTIONATE SHARE		142,225
TOTAL	**$**	**301,777**
2022		
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$	31,841
CHANGE IN ASSUMPTIONS		118,548
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY		30,790
CHANGE IN PROPORTIONATE SHARE		123,536
TOTAL	**$**	**304,715**

DEFERRED INFLOWS OF RESOURCES *(Dollars in Thousands)*		
2023		
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$	43,843
CHANGE IN ASSUMPTIONS		903,349
CHANGE IN PROPORTIONATE SHARE		12,559
TOTAL	**$**	**959,751**
2022		
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$	7,206
CHANGE IN ASSUMPTIONS		337,494
CHANGE IN PROPORTIONATE SHARE		15,748
TOTAL	**$**	**360,448**

Amounts reported as deferred outflows and deferred inflows of resources will be recognized as a component of the University's OPEB expense as follows:

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(a) (Dollars in Thousands)*		
YEAR		
2024	$	(116,362)
2025		(116,362)
2026		(116,362)
2027		(85,997)
2028		(45,717)
THEREAFTER		(208,622)
TOTAL	**$**	**(689,422)**

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

NOTE 14:

Deferred Outflows and Deferred Inflows of Resources

The composition of deferred outflows and deferred inflows of resources as of June 30, 2023 and 2022 are summarized as follows:

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*

2023	Pensions	Leases	OPEB	Split-Interest Agreements	Other	Total
DEFERRED OUTFLOWS OF RESOURCES	$ 723,130	$ —	$ 301,777	$ —	$ 5,529	$ 1,030,436
DEFERRED INFLOWS OF RESOURCES	855,483	397,417	959,751	18,451	—	2,231,102
2022	**Pensions**	**Leases**	**OPEB**	**Split-Interest Agreements**	**Other**	**Total**
DEFERRED OUTFLOWS OF RESOURCES	$ 475,638	$ —	$ 304,715	$ —	$ 8,088	$ 788,441
DEFERRED INFLOWS OF RESOURCES	1,641,381	435,238	360,448	30,290	—	2,467,357

NOTE 15:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2023 and 2022 were $212.6 million and $401.9 million, respectively. These expenditures will be funded from institutional reserves, debt proceeds and state appropriations.

The University receives and expends substantial amounts under federal and state grants, contracts and programs. 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 2 CFR 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards."

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 impact 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, foreign liability and certain other risks. The University also purchases insurance protection for loss of property at self-sustaining units, bond-financed buildings and when otherwise required by contract; otherwise, the risk of property loss is retained, unfunded. For medical professional liability, general liability, educator's legal liability including employment practices liability, and automobile liability the University maintains a program of self-insurance reserves and excess insurance coverage through Portage Bay Insurance (PBI), a wholly-owned subsidiary formed to provide the University with alternative risk financing options. PBI is incorporated as a nonprofit corporation in the state of Hawaii and retains a Certificate of Authority as a pure captive insurance company. The University's self-insurance reserve (see note 9) represents the estimated ultimate cost of settling all self-insured claims resulting from events that have occurred on or before the Statements of Net Position date. The reserve includes the undiscounted amounts that will be required for future payments of claims that have been reported, and claims related to events that have occurred but have not yet been reported.

The self-insurance reserve is estimated using an actuarial calculation. The reserve is included in Long-Term Liabilities in the Statements of Net Position. Changes in the self-insurance reserve for the years ended June 30, 2023 and 2022 are noted below:

(Dollars in thousands)	**2023**	**2022**
RESERVE AT BEGINNING OF FISCAL YEAR	$ 241,999	$ 180,514
INCURRED CLAIMS AND CHANGES IN ESTIMATES	82,066	112,713
CLAIM PAYMENTS	(93,961)	(51,228)
RESERVE AT END OF FISCAL YEAR	**$ 230,104**	**$ 241,999**

REGULATORY ENVIRONMENT

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

NOTE 16:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2023 and 2022 are summarized as follows:

OPERATING EXPENSES *(Dollars in thousands)*	**2023**	**2022**
INSTRUCTION	$ 1,626,923	$ 1,532,649
RESEARCH	1,004,482	920,212
PUBLIC SERVICE	146,172	106,823
ACADEMIC SUPPORT	742,650	640,870
STUDENT SERVICE	58,442	51,235
INSTITUTIONAL SUPPORT	316,397	125,529
OPERATION & MAINTENANCE OF PLANT	313,905	303,732
SCHOLARSHIPS & FELLOWSHIPS	210,930	212,822
AUXILIARY ENTERPRISES	705,916	622,221
MEDICAL-RELATED	2,319,995	2,002,245
DEPRECIATION/AMORTIZATION	523,294	462,835
TOTAL OPERATING EXPENSES	**$ 7,969,106**	**$ 6,981,173**

NOTE 17:

Related Parties

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center located 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. In February 2016, the University and King County entered into a Hospital Services Agreement. The agreement has an initial ten-year term and may be renewed for two successive ten-year terms with the consent of both parties.

Under the Hospital Services Agreement, King County retains title to all real and personal properties acquired for King County with HMC capital or operating funds. These real and personal properties are recorded on HMC's books and facility revenues for the operation of HMC are deposited in a King County account that is separate from general King County accounts.

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. 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 as the University serves in an agency function. As of June 30, 2023, the University's financial statements included accounts receivable and long-term receivables from HMC of $76.0 million and $20.4 million, respectively, HMC investments of $1.9 million and current accrued liabilities and long-term liabilities of $67.9 million and $13.1 million, respectively, related to HMC. As of June 30, 2022, the University's financial statements included accounts receivable and long-term receivables from HMC of $47.7 million and $19.2 million, respectively, HMC investments of $4.4 million and current accrued liabilities and long-term liabilities of $48.5 million and $21.6 million, respectively, related to HMC.

Under an annual agreement, HMC provides strategic funding to UW Medicine Primary Care. Funding from HMC to UW Medicine Primary Care was $16.7 million and $11.4 million during fiscal years 2023 and 2022, respectively, and is included in other operating revenue in the Statements of Revenues, Expenses and Changes in Net Position.

UW Medicine information technology operates as a self-sustaining activity of the University (ITS department). The ITS department records enterprise-wide information technology capital assets that are purchased for use by UW Medicine entities. The HMC ITS funding reflected in long-term liabilities (see note 9) of $21.7 million and $21.6 million at June 30, 2023 and 2022, respectively, represents HMC's funding of the enterprise-wide information technology capital assets that will be included in the recharge rates of the ITS department over the useful life of the assets.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University. 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 2023 and 2022, the UWF transferred $176.0 million and $218.6 million, 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 $5.2 million and $4.1 million from the University in support of its operations in fiscal years 2023 and 2022, respectively. These amounts were expensed by the University.

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NOTE 18:

Blended Component Units

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

(Dollars in thousands) **Statements of Net Position – June 30, 2023**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**	**Portage Bay Insurance**
ASSETS							
TOTAL CURRENT ASSETS	$ 3,092,098	$ (63,680)	$ 3,023,292	$ 132,486	$ 92,033	$ 5,442	$ 35,011
NONCURRENT ASSETS:							
TOTAL OTHER ASSETS	8,038,543	(201,734)	7,964,104	276,173	173,942	13,600	88,631
CAPITAL ASSETS, NET	6,186,205	(16,309)	5,873,954	328,560	52,082	276,478	—
TOTAL ASSETS	17,316,846	(281,723)	16,861,350	737,219	318,057	295,520	123,642
DEFERRED OUTFLOWS OF RESOURCES	1,030,436	—	1,030,436	—	—	—	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 18,347,282**	**$ (281,723)**	**$ 17,891,786**	**$ 737,219**	**$ 318,057**	**$ 295,520**	**$ 123,642**
LIABILITIES							
TOTAL CURRENT LIABILITIES	$ 1,646,974	$ (19,515)	$ 1,577,013	$ 89,476	$ 64,189	$ 25,287	$ —
TOTAL NONCURRENT LIABILITIES	5,221,505	(223,460)	4,706,735	738,230	238,089	270,036	230,105
TOTAL LIABILITIES	6,868,479	(242,975)	6,283,748	827,706	302,278	295,323	230,105
DEFERRED INFLOWS OF RESOURCES	2,231,102	(8,747)	2,239,849	—	—	—	—
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	9,099,581	(251,722)	8,523,597	827,706	302,278	295,323	230,105
NET POSITION							
NET INVESTMENT IN CAPITAL ASSETS	2,908,340	—	2,908,440	(100)	8,855	(8,955)	—
RESTRICTED:							
NONEXPENDABLE	2,205,790	—	2,205,790	—	—	—	—
EXPENDABLE	3,091,076	—	3,091,076	—	—	—	—
UNRESTRICTED	1,042,495	(30,001)	1,162,883	(90,387)	6,924	9,152	(106,463)
TOTAL NET POSITION	9,247,701	(30,001)	9,368,189	(90,487)	15,779	197	(106,463)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 18,347,282**	**$ (281,723)**	**$ 17,891,786**	**$ 737,219**	**$ 318,057**	**$ 295,520**	**$ 123,642**

(Dollars in thousands) **Statements of Net Position – June 30, 2022**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**	**Portage Bay Insurance**
ASSETS							
TOTAL CURRENT ASSETS	$ 2,756,445	$ (35,817)	$ 2,632,561	$ 159,701	$ 92,755	$ 3,219	$ 63,727
NONCURRENT ASSETS:							
TOTAL OTHER ASSETS	8,876,832	(9,289)	8,592,900	293,221	149,424	12,995	130,802
CAPITAL ASSETS, NET	5,941,654	(10,528)	5,617,192	334,990	39,655	295,335	—
TOTAL ASSETS	17,574,931	(55,634)	16,842,653	787,912	281,834	311,549	194,529
DEFERRED OUTFLOWS OF RESOURCES	788,441	—	788,441	—	—	—	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 18,363,372**	**$ (55,634)**	**$ 17,631,094**	**$ 787,912**	**$ 281,834**	**$ 311,549**	**$ 194,529**
LIABILITIES							
TOTAL CURRENT LIABILITIES	$ 1,702,790	$ (15,873)	$ 1,631,011	$ 87,652	$ 62,116	$ 25,306	$ 230
TOTAL NONCURRENT LIABILITIES	5,838,781	(23,382)	5,128,021	734,142	206,709	285,434	241,999
TOTAL LIABILITIES	7,541,571	(39,255)	6,759,032	821,794	268,825	310,740	242,229
DEFERRED INFLOWS OF RESOURCES	2,467,357	(10,528)	2,477,885	—	—	—	—
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	10,008,928	(49,783)	9,236,917	821,794	268,825	310,740	242,229
NET POSITION							
NET INVESTMENT IN CAPITAL ASSETS	2,707,261	—	2,710,145	(2,884)	5,364	(8,248)	—
RESTRICTED:							
NONEXPENDABLE	2,053,755	—	2,053,755	—	—	—	—
EXPENDABLE	2,874,694	—	2,874,694	—	—	—	—
UNRESTRICTED	718,734	(5,851)	755,583	(30,998)	7,645	9,057	(47,700)
TOTAL NET POSITION	8,354,444	(5,851)	8,394,177	(33,882)	13,009	809	(47,700)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 18,363,372**	**$ (55,634)**	**$ 17,631,094**	**$ 787,912**	**$ 281,834**	**$ 311,549**	**$ 194,529**

(Dollars in thousands)

Statements of Revenues, Expenses and Changes in Net Position - Year Ended June 30, 2023	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**	**Portage Bay Insurance**
REVENUES							
OPERATING REVENUES:							
STUDENT TUITION AND FEES	$ 1,158,213	$ —	$ 1,158,213	$ —	$ —	$ —	$ —
PATIENT SERVICES	2,564,243	2,305	2,124,833	437,105	437,105	—	—
GRANT REVENUE	1,864,531	—	1,864,531	—	—	—	—
OTHER OPERATING REVENUE	1,513,595	(317,685)	1,654,204	177,076	65,748	54,866	56,462
TOTAL OPERATING REVENUES	**7,100,582**	**(315,380)**	**6,801,781**	**614,181**	**502,853**	**54,866**	**56,462**
EXPENSES							
OPERATING EXPENSES:							
OTHER OPERATING EXPENSES	7,445,812	(245,387)	7,040,206	650,993	509,979	25,789	115,225
DEPRECIATION / AMORTIZATION	523,294	(1,782)	498,132	26,944	8,089	18,855	—
TOTAL OPERATING EXPENSES	**7,969,106**	**(247,169)**	**7,538,338**	**677,937**	**518,068**	**44,644**	**115,225**
OPERATING (LOSS) INCOME	**(868,524)**	**(68,211)**	**(736,557)**	**(63,756)**	**(15,215)**	**10,222**	**(58,763)**
NONOPERATING REVENUES (EXPENSES)							
STATE APPROPRIATIONS	531,999	—	531,999	—	—	—	—
GIFTS	182,137	—	181,862	275	275	—	—
INVESTMENT (LOSS)	437,589	—	423,358	14,231	14,231	—	—
OTHER NONOPERATING REVENUES (EXPENSES)	223,688	48,033	187,975	(12,320)	(1,486)	(10,834)	—
NET NONOPERATING REVENUES (EXPENSES)	**1,375,413**	**48,033**	**1,325,194**	**2,186**	**13,020**	**(10,834)**	**—**
INCOME (LOSS) BEFORE OTHER REVENUES	**506,889**	**(20,178)**	**588,637**	**(61,570)**	**(2,195)**	**(612)**	**(58,763)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	280,602	(3,972)	279,609	4,965	4,965	—	—
GIFTS TO PERMANENT ENDOWMENTS	105,766	—	105,766	—	—	—	—
TOTAL OTHER REVENUES(EXPENSES)	**386,368**	**(3,972)**	**385,375**	**4,965**	**4,965**	**—**	**—**
INCREASE (DECREASE) IN NET POSITION	**893,257**	**(24,150)**	**974,012**	**(56,605)**	**2,770**	**(612)**	**(58,763)**
NET POSITION							
NET POSITION – BEGINNING OF YEAR	8,354,444	(5,851)	8,394,177	(33,882)	13,009	809	(47,700)
NET POSITION – END OF YEAR	**$ 9,247,701**	**$ (30,001)**	**$ 9,368,189**	**$ (90,487)**	**$ 15,779**	**$ 197**	**$ (106,463)**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position - Year Ended June 30, 2022**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**	**Portage Bay Insurance**
REVENUES							
OPERATING REVENUES:							
STUDENT TUITION AND FEES	$ 1,125,269	$ —	$ 1,125,269	$ —	$ —	$ —	$ —
PATIENT SERVICES	2,442,588	(13,834)	2,016,523	439,899	439,899	—	—
GRANT REVENUE	1,661,713	—	1,661,713	—	—	—	—
OTHER OPERATING REVENUE	1,619,680	(117,690)	1,572,195	165,175	44,658	50,647	69,870
TOTAL OPERATING REVENUES	**6,849,250**	**(131,524)**	**6,375,700**	**605,074**	**484,557**	**50,647**	**69,870**
EXPENSES							
OPERATING EXPENSES:							
OTHER OPERATING EXPENSES	6,518,338	(103,879)	6,031,907	590,310	466,054	21,566	102,690
DEPRECIATION / AMORTIZATION	462,835	(1,602)	436,808	27,629	7,518	20,111	—
TOTAL OPERATING EXPENSES	**6,981,173**	**(105,481)**	**6,468,715**	**617,939**	**473,572**	**41,677**	**102,690**
OPERATING INCOME (LOSS)	**(131,923)**	**(26,043)**	**(93,015)**	**(12,865)**	**10,985**	**8,970**	**(32,820)**
NONOPERATING REVENUES (EXPENSES)							
STATE APPROPRIATIONS	484,915	—	484,915	—	—	—	—
GIFTS	218,012	—	218,017	(5)	(5)	—	—
INVESTMENT INCOME	(469,435)	—	(449,455)	(19,980)	(19,980)	—	—
OTHER NONOPERATING REVENUES (EXPENSES)	105,404	36,695	74,912	(6,203)	5,064	(11,267)	—
NET NONOPERATING REVENUES (EXPENSES)	**338,896**	**36,695**	**328,389**	**(26,188)**	**(14,921)**	**(11,267)**	**—**
INCOME (LOSS) BEFORE OTHER REVENUES	**206,973**	**10,652**	**235,374**	**(39,053)**	**(3,936)**	**(2,297)**	**(32,820)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	174,769	(5,206)	173,468	6,507	6,507	—	—
GIFTS TO PERMANENT ENDOWMENTS	91,610	—	91,610	—	—	—	—
TOTAL OTHER REVENUES (EXPENSES)	**266,379**	**(5,206)**	**265,078**	**6,507**	**6,507**	**—**	**—**
INCREASE (DECREASE) IN NET POSITION	**473,352**	**5,446**	**500,452**	**(32,546)**	**2,571**	**(2,297)**	**(32,820)**
NET POSITION							
NET POSITION – BEGINNING OF YEAR	7,881,092	(11,297)	7,893,725	(1,336)	10,438	3,106	(14,880)
NET POSITION – END OF YEAR	**$ 8,354,444**	**$ (5,851)**	**$ 8,394,177**	**$ (33,882)**	**$ 13,009**	**$ 809**	**$ (47,700)**

(Dollars in thousands) **Statements of Cash Flows - Year Ended June 30, 2023**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**	**Portage Bay Insurance**
NET CASH PROVIDED (USED) BY:							
OPERATING ACTIVITIES	$ (752,714)	$ —	$ (710,889)	$ (41,825)	$ (17,401)	$ 17,323	$ (41,747)
NONCAPITAL FINANCING ACTIVITIES	1,050,872	—	1,023,320	27,552	27,552	—	—
CAPITAL AND RELATED FINANCING ACTIVITIES	(543,930)	—	(519,032)	(24,898)	(8,068)	(16,830)	—
INVESTING ACTIVITIES	232,529	—	201,005	31,524	(10,223)		41,747
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(13,243)**	**—**	**(5,596)**	**(7,647)**	**(8,140)**	**493**	**—**
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	162,736	—	72,736	90,000	74,334	15,666	—
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 149,493**	**$ —**	**$ 67,140**	**$ 82,353**	**$ 66,194**	**$ 16,159**	**$ —**

(Dollars in thousands) **Statements of Cash Flows- Year Ended June 30, 2022**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**	**Portage Bay Insurance**
NET CASH PROVIDED (USED) BY:							
OPERATING ACTIVITIES	$ (123,430)	$ —	$ (168,287)	$ 44,857	$ 12,133	$ 15,683	$ 17,041
NONCAPITAL FINANCING ACTIVITIES	871,719	—	844,684	27,035	27,035	—	—
CAPITAL AND RELATED FINANCING ACTIVITIES	(424,518)	—	(407,035)	(17,483)	(1,368)	(16,115)	—
INVESTING ACTIVITIES	(302,959)	—	(260,191)	(42,768)	(25,727)	—	(17,041)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**20,812**	**—**	**9,171**	**11,641**	**12,073**	**(432)**	**—**
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	141,924	—	63,565	78,359	62,261	16,098	—
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 162,736**	**$ —**	**$ 72,736**	**$ 90,000**	**$ 74,334**	**$ 15,666**	**$ —**

NOTE 19:

Discrete Component Units

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

(Dollars in thousands) **Statements of Net Position**	**June 30, 2023** **Total Discrete Component Units**	**Valley Medical Center**	**Fred Hutchinson Cancer Center**	**June 30, 2022** **Total Discrete Component Units**	**Valley Medical Center**	**Fred Hutchinson Cancer Center**
ASSETS						
TOTAL CURRENT ASSETS	$ 683,350	$ 230,155	$ 453,195	$ 1,832,376	$ 227,094	$ 1,605,282
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	1,937,421	120,056	1,817,365	490,145	142,362	347,783
CAPITAL ASSETS, NET	1,589,547	464,004	1,125,543	1,537,261	498,175	1,039,086
TOTAL ASSETS	4,210,318	814,215	3,396,103	3,859,782	867,631	2,992,151
DEFERRED OUTFLOWS OF RESOURCES	11,804	11,804	—	12,926	12,926	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 4,222,122**	**$ 826,019**	**$ 3,396,103**	**$ 3,872,708**	**$ 880,557**	**$ 2,992,151**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 471,643	$ 173,944	$ 297,699	$ 499,524	$ 214,112	$ 285,412
TOTAL NONCURRENT LIABILITIES	2,091,853	367,949	1,723,904	2,150,430	388,074	1,762,356
TOTAL LIABILITIES	2,563,496	541,893	2,021,603	2,649,954	602,186	2,047,768
DEFERRED INFLOWS OF RESOURCES	48,992	48,992	—	54,332	54,332	—
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	2,612,488	590,885	2,021,603	2,704,286	656,518	2,047,768
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	188,754	77,063	111,691	102,860	97,276	5,584
RESTRICTED:						
NONEXPENDABLE	136,368		136,368	117,649	—	117,649
EXPENDABLE	502,581	1,897	500,684	88,283	1,337	86,946
UNRESTRICTED	781,931	156,174	625,757	859,630	125,426	734,204
TOTAL NET POSITION	1,609,634	235,134	1,374,500	1,168,422	224,039	944,383
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 4,222,122**	**$ 826,019**	**$ 3,396,103**	**$ 3,872,708**	**$ 880,557**	**$ 2,992,151**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position**	**Year ended June 30, 2023** Total Discrete Component Units	Valley Medical Center	Fred Hutchinson Cancer Center	**Year ended June 30, 2022** Total Discrete Component Units	Valley Medical Center	Fred Hutchinson Cancer Center
REVENUES						
OPERATING REVENUES:						
PATIENT SERVICES	$ 1,974,067	$ 802,523	$ 1,171,544	$ 1,000,504	$ 730,575	$ 269,929
OTHER OPERATING REVENUE	1,202,084	86,479	1,115,605	852,322	66,842	785,480
TOTAL OPERATING REVENUES	**3,176,151**	**889,002**	**2,287,149**	**1,852,826**	**797,417**	**1,055,409**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	2,747,239	866,003	1,881,236	1,844,661	822,850	1,021,811
DEPRECIATION / AMORTIZATION	143,893	49,384	94,509	99,528	43,836	55,692
TOTAL OPERATING EXPENSES	**2,891,132**	**915,387**	**1,975,745**	**1,944,189**	**866,686**	**1,077,503**
OPERATING INCOME (LOSS)	**285,019**	**(26,385)**	**311,404**	**(91,363)**	**(69,269)**	**(22,094)**
NONOPERATING REVENUES (EXPENSES)						
PROPERTY TAX REVENUE	25,595	25,595	—	24,965	24,965	—
INVESTMENT INCOME (LOSS)	101,080	(334)	101,414	(99,120)	(8,193)	(90,927)
OTHER NONOPERATING REVENUES (EXPENSES)	12,219	12,219	—	(6,510)	(6,510)	—
NET NONOPERATING REVENUES (EXPENSES)	**138,894**	**37,480**	**101,414**	**(80,665)**	**10,262**	**(90,927)**
INCOME (LOSS) BEFORE OTHER REVENUES	**423,913**	**11,095**	**412,818**	**(172,028)**	**(59,007)**	**(113,021)**
CAPITAL GRANTS, GIFTS AND OTHER	17,299	—	17,299	(11,138)	—	(11,138)
INCREASE (DECREASE) IN NET POSITION	**441,212**	**11,095**	**430,117**	**(183,166)**	**(59,007)**	**(124,159)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	1,168,422	224,039	944,383	1,351,588	283,046	1,068,542
NET POSITION – END OF YEAR	**$ 1,609,634**	**$ 235,134**	**$ 1,374,500**	**$ 1,168,422**	**$ 224,039**	**$ 944,383**

Schedules of Required Supplementary Information

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

PERS 1 - SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(Dollars in thousands)	2023	2022	2021	2020	2019
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	8.87%	8.80%	8.17%	8.05%	8.20%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 246,895	$ 107,461	$ 288,564	$ 309,671	$ 366,403
UNIVERSITY'S COVERED PAYROLL	$ 1,437,993	$ 1,343,149	$ 1,227,868	$ 1,116,298	$ 1,074,943
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	17.17%	8.00%	23.50%	27.74%	34.09%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	76.56%	88.74%	68.64%	67.12%	63.22%

(Dollars in thousands)	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	8.44%	8.46%	8.33%	8.28%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 400,426	$ 454,341	$ 435,853	$ 417,231
UNIVERSITY'S COVERED PAYROLL	$ 1,043,335	$ 987,405	$ 927,002	$ 882,215
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	38.38%	46.01%	47.02%	47.29%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	61.24%	57.03%	59.10%	61.19%

(Amounts determined as of the measurement date)

PERS 1 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2023	2022	2021	2020	2019
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 392	$ 443	$ 710	$ 970	$ 1,231
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 392	$ 442	$ 710	$ 971	$ 1,234
CONTRIBUTION DEFICIENCY (EXCESS)	$ —	$ 1	$ —	$ (1)	$ (3)
UNIVERSITY'S COVERED PAYROLL	$1,573,579	$ 1,437,993	$ 1,343,149	$ 1,227,868	$ 1,116,298
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	0.02 %	0.03%	0.05%	0.08%	0.11%

(Dollars in thousands)	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 1,582	$ 1,788	$ 2,155	$ 2,058
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 1,578	$ 1,769	$ 2,155	$ 2,059
CONTRIBUTION DEFICIENCY (EXCESS)	$ 4	$ 19	$ —	$ (1)
UNIVERSITY'S COVERED PAYROLL	$ 1,074,943	$ 1,043,335	$ 987,405	$ 927,002
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	0.15%	0.17%	0.22%	0.22 %

(Amounts determined as of the fiscal year end)

PERS 2/3 - SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(Dollars in thousands)	2023	2022	2021	2020	2019
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	11.47%	11.18%	10.47%	10.18%	10.24%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION (ASSET) LIABILITY	$ (425,399)	$ (1,114,120)	$ 133,891	$ 98,901	$ 174,913
UNIVERSITY'S COVERED PAYROLL	$ 1,433,725	$ 1,337,667	$1,220,321	$1,106,678	$1,062,415
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION (ASSET) LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	(29.67)%	(83.29)%	10.97%	8.94%	16.46%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	106.73%	120.29%	97.22 %	97.77 %	95.77 %

Unaudited – see accompanying notes to financial statements

PERS 2/3 - SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (continued)

(Dollars in thousands)	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	10.48%	10.36%	10.20%	10.00%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 364,073	$ 521,777	$ 364,303	$ 202,225
UNIVERSITY'S COVERED PAYROLL	$ 1,027,338	$ 967,955	$ 904,661	$ 856,839
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	35.44%	53.91%	40.27%	23.60%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	90.97%	85.82%	89.20%	93.29 %

(Amounts determined as of the measurement date)

PERS 2/3 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2023	2022	2021	2020	2019
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 162,654	$ 148,636	$ 173,198	$ 156,919	$ 141,681
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 162,738	$ 147,638	$ 173,204	$ 157,000	$ 141,618
CONTRIBUTION DEFICIENCY (EXCESS)	$ (84)	$ 998	$ (6)	$ (81)	$ 63
UNIVERSITY'S COVERED PAYROLL	$ 1,569,796	$ 1,433,725	$ 1,337,667	$ 1,220,321	$ 1,106,678
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	10.36%	10.37%	12.95%	12.86%	12.80%

(Dollars in thousands)	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 134,239	$ 114,852	$ 107,424	$ 83,323
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 134,366	$ 114,968	$ 108,413	$ 83,342
CONTRIBUTION DEFICIENCY (EXCESS)	$ (127)	$ (116)	$ (989)	$ (19)
UNIVERSITY'S COVERED PAYROLL	$ 1,062,415	$ 1,027,338	$ 967,955	$ 904,661
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	12.64%	11.18%	11.10%	9.21 %

(Amounts determined as of the fiscal year end)

TRS 1 - SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(Dollars in thousands)	2023	2022	2021	2020	2019
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.37%	0.35%	0.28%	0.25%	0.24%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 6,956	$ 2,337	$ 6,800	$ 6,200	$ 7,061
UNIVERSITY'S COVERED PAYROLL	$ 28,990	$ 25,479	$ 20,153	$ 16,677	$ 13,986
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	23.99%	9.17%	33.74%	37.18%	50.49%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	78.24%	91.42%	70.55%	70.37 %	66.52 %

(Dollars in thousands)	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.20%	0.16%	0.13%	0.10%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 6,076	$ 5,463	$ 4,049	$ 2,881
UNIVERSITY'S COVERED PAYROLL	$ 10,967	$ 7,813	$ 5,790	$ 3,905
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	55.40%	69.92%	69.93%	73.78%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	65.58%	62.07%	65.70%	68.77 %

(Amounts determined as of the measurement date)

Unaudited – see accompanying notes to financial statements

TRS 1 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2023	2022	2021	2020	2019
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 30	$ 42	$ 56	$ 55	$ 52
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 30	$ 42	$ 56	$ 55	$ 52
CONTRIBUTION DEFICIENCY (EXCESS)	$ —	$ —	$ —	$ —	$ —
UNIVERSITY'S COVERED PAYROLL	$ 35,776	$ 28,990	$ 25,479	$ 20,153	$ 16,677
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	0.09%	0.15%	0.22%	0.27%	0.31%

(Dollars in thousands)	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 48	$ 39	$ 38	$ 44
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 48	$ 40	$ 38	$ 42
CONTRIBUTION DEFICIENCY (EXCESS)	$ —	$ (1)	$ —	$ 2
UNIVERSITY'S COVERED PAYROLL	$ 13,986	$ 10,967	$ 7,813	$ 5,790
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	0.34%	0.36%	0.49%	0.76%

(Amounts determined as of the fiscal year end)

TRS 2/3 - SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(Dollars in thousands)	2023	2022	2021	2020	2019
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.36%	0.34%	0.28%	0.25%	0.24%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION (ASSET) LIABILITY	$ (712)	$ (9,301)	$ 4,233	$ 1,487	$ 1,066
UNIVERSITY'S COVERED PAYROLL	$ 28,704	$ 25,124	$ 19,800	$ 16,337	$ 13,664
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION (ASSET) LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	(2.48)%	(37.02)%	21.38%	9.10%	7.80%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	100.86%	113.72%	91.72%	96.36%	96.88%

(Dollars in thousands)	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.19%	0.15%	0.12%	0.08%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 1,796	$ 2,077	$ 969	$ 252
UNIVERSITY'S COVERED PAYROLL	$ 10,669	$ 7,507	$ 5,367	$ 3,391
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	16.83%	27.67%	18.05%	7.43%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	93.14%	88.72%	92.48%	96.81%

(Amounts determined as of the measurement date)

TRS 2/3 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2023	2022	2021	2020	2019
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 5,210	$ 4,202	$ 3,945	$ 3,068	$ 2,511
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 5,212	$ 4,198	$ 3,943	$ 3,029	$ 2,470
CONTRIBUTION DEFICIENCY (EXCESS)	$ (2)	$ 4	$ 2	$ 39	$ 42
UNIVERSITY'S COVERED PAYROLL	$ 35,569	$ 28,704	$ 25,124	$ 19,800	$ 16,337
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	14.65%	14.64%	15.70%	15.49%	15.37%

(Dollars in thousands)	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 2,036	$ 1,401	$ 956	$ 558
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 2,029	$ 1,410	$ 985	$ 555
CONTRIBUTION DEFICIENCY (EXCESS)	$ 7	$ (9)	$ (29)	$ 3
UNIVERSITY'S COVERED PAYROLL	$ 13,664	$ 10,669	$ 7,507	$ 5,367
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	14.90%	13.13%	12.73%	10.40%

(Amounts determined as of the fiscal year end)

Unaudited – see accompanying notes to financial statements

LEOFF 2 - SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET

(Dollars in thousands)	2023	2022	2021	2020	2019
UNIVERSITY'S PROPORTION OF THE NET PENSION ASSET	0.15%	0.18%	0.22%	0.23%	0.23%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET	$ 4,212	$ 10,480	$ 4,535	$ 5,365	$ 4,590
UNIVERSITY'S COVERED PAYROLL	$ 3,760	$ 4,187	$ 5,059	$ 4,882	$ 4,487
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET AS A PERCENTAGE OF ITS COVERED PAYROLL	112.01%	250.30%	89.64%	109.91%	102.30%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION	116.09%	142.00%	115.83%	119.43%	118.50%

(Dollars in thousands)	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION ASSET	0.22%	0.25%	0.20%	0.21%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET	$ 2,995	$ 1,430	$ 2,083	$ 2,844
UNIVERSITY'S COVERED PAYROLL	$ 4,061	$ 4,474	$ 3,534	$ 3,581
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET AS A PERCENTAGE OF ITS COVERED PAYROLL	73.74%	31.97%	58.94%	79.42%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION	113.36%	106.04%	111.67%	116.75%

(Amounts determined as of the measurement date)

LEOFF 2 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2023	2022	2021	2020	2019
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 262	$ 328	$ 367	$ 444	$ 436
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 262	$ 327	$ 367	$ 446	$ 435
CONTRIBUTION DEFICIENCY (EXCESS)	$ —	$ 1	$ —	$ (2)	$ 1
UNIVERSITY'S COVERED PAYROLL	$ 3,004	$ 3,760	$ 4,187	$ 5,059	$ 4,882
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	8.71%	8.72%	8.77%	8.78%	8.93%

(Dollars in thousands)	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 400	$ 348	$ 384	$ 303
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 403	$ 352	$ 384	$ 300
CONTRIBUTION DEFICIENCY (EXCESS)	$ (3)	$ (4)	$ —	$ 3
UNIVERSITY'S COVERED PAYROLL	$ 4,487	$ 4,061	$ 4,474	$ 3,534
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	8.91%	8.57%	8.58%	8.57%

(Amounts determined as of the fiscal year end)

Unaudited – see accompanying notes to financial statements

UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN (UWSRP)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (NPL)

(Dollars in thousands)	2023	2022	2021
TOTAL PENSION LIABILITY - BEGINNING	$ 316,127	$ 216,672	$ 781,829
SERVICE COST	5,068	3,699	22,877
INTEREST ON TPL	22,106	15,933	17,677
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	(31,360)	67,986	(372,651)
CHANGE IN ASSUMPTIONS	(26,643)	22,150	(223,327)
BENEFIT PAYMENTS	(10,989)	(10,313)	(9,733)
NET CHANGE IN TOTAL PENSION LIABILITY	(41,818)	99,455	(565,157)
TOTAL PENSION LIABILITY - ENDING (a)	**274,309**	**316,127**	**216,672**
PLAN FIDUCIARY NET POSITION - BEGINNING	**96,989**	**90,341**	**60,961**
EMPLOYER CONTRIBUTIONS	8,358	6,548	7,105
NET INVESTMENT INCOME	7,189	100	22,275
NET CHANGE IN PLAN FIDUCIARY NET POSITION	15,547	6,648	29,380
PLAN FIDUCIARY NET POSITION - ENDING (b)	**112,536**	**96,989**	**90,341**
UWSRP NET PENSION LIABILITY (a) minus (b)	**$ 161,773**	**$ 219,138**	**$ 126,331**
PLAN FIDUCIARY NET POSITION AS PERCENTAGE OF THE TOTAL PENSION LIABILITY	41.03 %	30.68 %	41.69 %
UWSRP COVERED PAYROLL	$ 2,199,526	$ 1,723,087	$ 1,733,240
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	7.35 %	12.72 %	7.29 %

UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN (UWSRP)
SCHEDULE OF UWSRP CONTRIBUTIONS

(Dollars in thousands)	2023	2022	2021
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 8,358	$ 6,548	$ 6,586
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 8,358	$ 6,548	$ 7,105
CONTRIBUTION DEFICIENCY (EXCESS)	$ —	$ —	$ (519)
UWSRP COVERED PAYROLL	$ 2,199,526	$ 1,723,087	$ 1,733,240
CONTRIBUTIONS AS A PERCENTAGE OF COVERED PAYROLL	0.38 %	0.38 %	0.41 %

UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN (UWSRP)
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY (TPL)

(Dollars in thousands)	2020	2019	2018	2017
TOTAL PENSION LIABILITY - BEGINNING	$ 594,040	$ 412,481	$ 438,753	$ 512,372
SERVICE COST	16,698	11,823	14,788	19,892
INTEREST ON TPL	21,232	16,277	16,127	15,097
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	31,426	102,713	(33,952)	(74,919)
CHANGE IN ASSUMPTIONS	126,749	58,228	(17,105)	(28,553)
BENEFIT PAYMENTS	(8,316)	(7,482)	(6,130)	(5,136)
TOTAL PENSION LIABILITY - ENDING	**$ 781,829**	**$ 594,040**	**$ 412,481**	**$ 438,753**
UWSRP COVERED-EMPLOYEE PAYROLL	$ 744,634	$ 787,384	$ 759,688	$ 801,161
TOTAL PENSION LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	105.00%	75.44%	54.30%	54.76%

Effective July 1, 2020, legislation signed into law created a trust arrangement for assets dedicated to paying UWSRP benefits to plan members. As a result, the University now applies guidance required in GASB code section P20 paragraph 146 in the tables that precede this one. This table was required by guidance in GASB code section P22 paragraph 137 prior to creation of the trust arrangement.

Unaudited – see accompanying notes to financial statements

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL)						
(Dollars in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
TOTAL OPEB LIABILITY - BEGINNING	$ 1,861,478	$ 1,696,027	$ 1,541,654	$ 1,354,177	$ 1,565,213	$ 1,685,909
SERVICE COST	91,921	93,039	70,380	62,422	84,665	106,112
INTEREST ON TOL	42,650	40,211	58,874	54,148	58,207	49,703
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	(42,238)	—	(9,022)	—	53,132	—
CHANGE IN ASSUMPTIONS	(713,147)	17,180	38,164	100,838	(370,652)	(242,454)
BENEFIT PAYMENTS	(31,335)	(30,635)	(28,031)	(24,769)	(24,584)	(25,330)
CHANGE IN PROPORTIONATE SHARE	36,728	45,656	83,976	(5,162)	(11,804)	(8,727)
OTHER	—	—	(59,968)	—	—	—
TOTAL OPEB LIABILITY - ENDING	**$ 1,246,057**	**$ 1,861,478**	**$ 1,696,027**	**$ 1,541,654**	**$ 1,354,177**	**$ 1,565,213**
OPEB COVERED-EMPLOYEE PAYROLL	$ 3,231,736	$ 3,092,943	$ 2,895,664	$ 2,724,791	$ 2,493,991	$ 2,529,127
TOTAL OPEB LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	38.56%	60.18%	58.57%	56.58%	54.30%	61.89%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2023

Plans administered by DRS

The Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2019 valuation date, completed in the fall of 2020, plus any supplemental contribution rates from the preceding legislative session, determines the ADC for the period beginning July 1,2021, and ending June 30, 2023.

Additional Considerations on ADC for All Plans:

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

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

Plans administered by the University

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

Covered payroll for the fiscal years ending June 30, 2023, 2022 and 2021 is based on the payroll of participants in the University's 403(b) defined contribution UWRP.

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

Changes that impacted the TPL and NPL include changing the valuation date from June 30, 2022 to January 1, 2023 for the June 30, 2023 measurement. The new data file decreased the TPL. Some of the larger experience items that impacted the TPL were salaries generally lower than assumed and SRP benefits for new retirees were lower than estimated. In addition, OSA's model estimates the SRP benefit of future retirees by relying on assumptions for the benefit calculation performed by Teachers Insurance and Annuity Association of America (TIAA). Based on information provided by TIAA and OSA's professional judgment, some of the long-term assumptions were updated which decreased the TPL. The source for the discount rate changed in 2021 from the bond rate required of plans with no assets, to the investment return for plans with assets, due to the change in the plan on July 1, 2020, which led to a change in the appropriate accounting guidance.

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

OPEB Plan administered by the Healthcare Authority of Washington State
The OPEB Plan has no assets accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4 to pay related benefits.

Material assumption changes in fiscal year 2023 relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 2.16% for the June 30, 2021 measurement date, to 3.54% for the June 30, 2022 measurement date. This change resulted in a decrease in the TOL.

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

This publication was prepared by UW Finance. Published November 2023.

The 2023 UW Financial Report and reports from previous years are available at annualreport.uw.edu

For more information, contact Financial Accounting at accountg@uw.edu

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UNIVERSITY of WASHINGTON

SUPPLEMENTAL BONDHOLDER INFORMATION

OFFICIAL STATEMENT DISCLOSURES

2023 CONTINUING DISCLOSURE	LOCATION IN BONDHOLDERS REPORT
The audited financial statements of the University for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board.	Section 2 (UW Financial Report)
The amount of University revenue and other debt outstanding in that Fiscal Year.	Revenue: Section 2 (UW Financial Report - SRECNP) Debt: Section 3 (Supplemental Bondholder Information), Section 2 (UW Financial Report - Notes 9 - 11)
Student enrollment information for that Fiscal Year, generally of the type provided in the table entitled "Applications, Students and Enrollment" under the heading "ADMISSIONS, STUDENT ENROLLMENT AND FACULTY" and distribution of undergraduate enrollment among University campuses.	Section 3 (Supplemental Bondholder Information)
Course and conference registrations within the Professional and Continuing Education program by Fiscal Year.	Section 2 (UW Financial Report - University Facts)
Information regarding the number of faculty and tenure rate for that Fiscal Year, generally of the type provided in the table entitled "Faculty Data."	Section 3 (Supplemental Bondholder Information)
Information regarding room and board fees, autumn opening occupancy and occupancy for that Fiscal Year, generally of the type provided in the table entitled "Student Housing and Dining Data."	Section 3 (Supplemental Bondholder Information)
General Revenues and General Revenue components for that Fiscal Year, generally of the type provided in the table entitled "General Revenues" under the headings General Revenue (Exclusions from Total Revenue) and General Revenue (By Component).	Section 4 (General Revenues)
General Net Position. Illustrative information, if any, regarding effects of certain GASB Statements on General Net Position may be provided in narrative, tabular or other form.	Section 2 (UW Financial Report - MD&A)
Grant and contract revenues for that Fiscal Year, and amount or percentage of grant and contract revenues from federal sources.	Section 2 (UW Financial Report - SRECNP)
Information regarding the amount or percentage of revenues from Medicare or Medicaid payments in that Fiscal Year.	Section 3 (Supplemental Bondholder Information)
Operating expenses by type of expenditure in that Fiscal Year.	Section 2 (UW Financial Report - MD&A)
Expenditures of State capital and operating appropriations to the University for such Fiscal Year, of the type provided in the table entitled "Expenditures of State Appropriations to the University by Type".	Section 2 (UW Financial Report - SRECNP)
Patient activity statistics for the UW Medicine hospital with revenues included in General Revenues for that Fiscal Year. Other patient activity statistics provided as a whole and by campus.	Section 3 (Supplemental Bondholder Information)
Financial information for the UW Medicine hospital with revenues included in General Revenues for that Fiscal Year (provided for the hospital as a whole and not by campus). Other financial information provided by campus where available.	Section 3 (Supplemental Bondholder Information)
Value of investments, including operating fund investments and the Consolidated Endowment Fund ("CEF"), for that Fiscal Year.	Section 3 (Supplemental Bondholder Information)
A narrative description of any material changes to the University's investment policy or CEF distribution policy during that Fiscal Year.	Section 3 (Supplemental Bondholder Information)
Gift revenue for that Fiscal Year.	Section 2 (UW Financial Report - SRECNP)
University revenue by source for that Fiscal Year, generally of the type provided in the figure titled "Revenues from All Sources, Fiscal Year 2023."	Section 2 (UW Financial Report - MD&A)
Total University expenditures by category for that Fiscal Year.	Section 2 (UW Financial Report - MD&A and SRECNP)

CONTINUES NEXT PAGE

2023 CONTINUING DISCLOSURE	LOCATION IN BONDHOLDERS REPORT
University total net assets and unrestricted net assets, of the type presented under the heading "UNIVERSITY OF WASHINGTON—Other University Financial Information—University Net Assets."	Section 2 (UW Financial Report - SNP)
A description of any material changes to the University's obligations with respect to its pension plans, generally of the type presented under the heading "LABOR, RISK MANAGEMENT AND RETIREMENT INFORMATION — Pension Plans."	Section 2 (UW Financial Report - Note 12)
A description of any material changes to the University's obligations with respect to other post-employment benefits, generally of the type presented under the heading "LABOR, RISK MANAGEMENT AND RETIREMENT INFORMATION—Other Post-Employment Benefits ("OPEB")."	Section 2 (UW Financial Report - Note 13)
Amount of the University's self-insurance reserve, of the type presented under the heading "OTHER UNIVERSITY INFORMATION—Risk Management."	Section 2 (UW Financial Report - Note 9)

APPLICATIONS, STUDENTS & ENROLLMENT

	AUTUMN QUARTER[1]	
	2022 FY23	2023 FY24
UNDERGRADUATE		
Freshmen		
Applied	58,999	70,365[2]
Accepted	30,682	33,557
Percent Accepted to Applied	52%	48%
Enrolled	9,011	8,848
Percent Enrolled to Accepted	29%	26%
Transfers		
Applied	7,217	7,655
Accepted	4,026	4,248
Percent Accepted to Applied	56%	55%
Enrolled	2,499	2,761
Percent Enrolled to Accepted	62%	65%
Total Undergraduate FTE[3]		
Bothell	4,866	4,917
Seattle	31,438	31,691
Tacoma	3,879	3,846
Total All Campuses	40,183	40,454
Totals Undergraduate Headcount		
Bothell	5,213	5,255
Seattle	33,300	33,973
Tacoma	4,103	4,027
Total All Campuses	42,616	43,255
Additional Enrollment Statistics		
Percent of Undergraduates Outside State—Domestic[4]	17%	19%
Percent of Undergraduates Outside State—International[4]	12%	10%
Percent Retention (Freshman to Sophomore)	91%	93%
Mean GPA	3.77	3.78
Median GPA	3.86	3.87
Percent of Class Reporting GPA Data	100%	100%
Mean Combined SAT Scores	1361	1340
Median Combined SAT Scores	1400	1390
Percent of Class Reporting SAT Data[5]	16%	15%
GRADUATE		
Applied	34,437	35,441
Accepted	11,121	11,761
Percent Accepted to Applied	32%	33%
Enrolled	4,874	5,252
Percent Enrolled to Accepted	44%	45%
Graduate FTE	16,215	16,117
Graduate Headcount	15,265	15,216

(1) Unless otherwise noted, all figures include Seattle, Tacoma and Bothell campuses.

(2) Common App was added as an application option.

(3) Full-time equivalent ("FTE") defined as an undergraduate carrying 12 credit hours or a graduate student carrying 10 credit hours. FTE exceeds headcount enrollment when students take more credit hours than the credit hour threshold equating to one FTE.

(4) Based on headcount.

(5) SAT test requirement was removed for the fall 2021 incoming class due to the lack of available testing sites during the COVID-19 pandemic; in June 2020 the University removed the requirement for incoming students beyond fall 2021.

APPLICATIONS, STUDENTS & ENROLLMENT CONTINUED

	AUTUMN QUARTER[1]	
	2022 FY23	2023 FY24
PROFESSIONAL		
Law		
Applied	2,671	2,336
Accepted	809	810
Enrolled	181	181
Law Headcount	511	522
Pharmacy		
Applied	324	388
Accepted	203	194
Enrolled	80	99
Pharmacy Headcount	396	395
Dentistry		
Applied	690	729
Accepted	85	113
Enrolled	63	63
Dental Headcount	266	269
Medicine		
Applied	7,631	7,017
Accepted	344	375
Enrolled	270	273
Medicine Headcount	1,027	1,035
Total Professional FTE	4,023	3,923
Total Professional Headcount	2,200	2,221
Tuition and Fees (full academic year)[2]		
Undergraduate Resident	$12,518	$12,901
Undergraduate Non-Resident	$41,016	$42,255
Graduate Resident	$18,333	$18,891
Graduate Non-Resident	$31,806	$32,769
Business Masters Resident	$38,721	$40,266
Business Masters Non-Resident	$56,403	$58,104
Law Resident	$41,964	$43,842
Law Non-Resident	$53,730	$55,875
Pharmacy Resident	$35,511	$36,243
Pharmacy Non-Resident	$57,759	$57,807
Medical Resident	$40,362	$41,580
Medical Non-Resident	$71,025	$73,164
Dentistry Resident	$48,519	$49,512
Dentistry Non-Resident	$74,091	$74,139
University FTE[3]		
Undergraduate	40,183	40,454
Graduate	16,215	16,117
Professional	4,023	3,923
Total University FTE	60,421	60,494
University Headcount		
Undergraduate	42,616	43,255
Graduate	15,265	15,216
Professional	2,200	2,221
Total University Headcount	60,081	60,692

(1) Unless otherwise noted, all figures include Seattle, Tacoma and Bothell campuses.

(2) Seattle campus rate. Bothell and Tacoma campuses differ in certain required fees charged to students.

(3) Full-time equivalent ("FTE") defined as an undergraduate carrying 12 credit hours or a graduate student carrying 10 credit hours. FTE exceeds headcount enrollment when students take more credit hours than the credit hour threshold equating to one FTE.

FACULTY & OTHER DATA

	AUTUMN QUARTER		
	2021 FY22	2022 FY23	2023 FY24[2]
FACULTY DATA[1]			
Number of faculty	5,602	5,731	N/A
Tenure rate (%)	48%	47%	N/A
Percent holding terminal degree (Ph.D., MD, DDS)	86%	84%	N/A
HOUSING AND DINING[3]			
Room and Board[4]	$13,621	$14,417	$15,149
Autumn Opening Occupancy[5]	9,247	8,654[7]	8,515[7]
Occupancy[6]	108%	110%[7]	112%[7]

(1) Faculty data based on Integrated Postsecondary Education Data System ("IPEDS") definitions, available at https://nces.ed.gov/ipeds/report-your-data/archived-changes (website not incorporated herein).

(2) Final Autumn 2023 faculty data is not yet available.

(3) Figures include residence hall units and exclude single student and family housing apartments. Seattle campus only.

(4) Room and board pricing is for the full academic year. The room portion of annual room and board pricing is the weighted average of all residence hall double rooms in inventory, and the dining portion is for a representative meal plan.

(5) Autumn opening occupancy is used to calculate capacity.

(6) Numbers reflect as-built capacity and 10th day occupancy. Occupancy that exceeds 100 percent is the result of housing three students in a room designed for two.

(7) In 2022, the University began a project to demolish and replace Haggett Hall, a 730-bed dormitory built in 1963. As the table reflects, the reduction in student housing units caused by Haggett Hall's closure caused student housing occupancy rates to increase for Autumn Quarter 2022 and 2023, notwithstanding decreases in the total autumn opening occupancy figures for these quarters. The University anticipates that a new Haggett Hall will open in 2027.

MEDICAL CENTERS[1]

UW MEDICAL CENTER, NORTHWEST, VALLEY, AND UW MEDICINE SELECT UNITS - UW DIVISION FINANCIAL INFORMATION ($000)	Year Ending June 30, 2022[2][3]	2023[2][3]
UW Medical Center		
Total Operating Revenue[4]	$ 1,974,678	$ 2,256,126
Operating Margin[5]	0.7%	(3.5%)
Net Income[6]	$ 85,048	$ 115,339
Northwest[7]		
Total Operating Revenue[4]	N/A	N/A
Operating Margin[5]	N/A	N/A
Net Income[6]	N/A	N/A
Valley		
Total Operating Revenue[4]	$ 797,416	$ 889,001
Operating Margin[5]	(10.8%)	(4.8%)
Net Income[6]	$ (59,007)	$ 11,094
UW Medicine Select Units - UW Division		
Total Operating Revenue[4]	$ 2,561,369	$ 2,903,849
Operating Margin[5]	1.2%	(2.6%)
Net Income[6]	$ 172,846	$ 135,514

UW MEDICAL CENTER, NORTHWEST, VALLEY, AND UW MEDICINE SELECT UNITS - UW DIVISION PATIENT STATISTICS	Year Ending June 30, 2022	2023
UW Medical Center		
Admissions	27,583[8]	29,001[8]
Outpatient Visits	435,946[8]	467,511[8]
Emergency Visits	61,146[8]	69,933[8]
Northwest		
Admissions	N/A[8]	N/A[8]
Outpatient Visits	N/A[8]	N/A[8]
Emergency Visits	N/A[8]	N/A[8]
Valley		
Admissions	15,627	16,298
Outpatient Visits	701,949	743,334
Emergency Visits	80,237	83,330
UW Medicine Select Units - UW Division		
Admissions	27,583	29,001
Outpatient Visits	802,558	856,246
Emergency Visits	61,146	69,933

MEDICARE/MEDICAID PAYMENTS		
Percent of Gross Patient Services Revenue[9]	**55%**	**54%**

(1) As of FY22, the "Clinical Enterprise" has been renamed to "UW Medicine Select Units - UW Division". The composition of units within UW Medicine Select Units - UW Division are the same as those included in the Clinical Enterprise.

(2) Includes net pension and post retirement obligations income/(expense) of $145,470,000 in 2022 and $84,846,000 in 2023 for the entities included in the Select Units Financial Statements. These figures include $118,553,000 in 2022, and $68,281,000 in 2023 attributable to UW Medical Center.

(3) Reflects revenue and expenditure impacts of COVID-19, including recognition of federal and State funding.

(4) Total Operating Revenue includes net patient service revenues (net of provision for uncollectible accounts), UW Physician billing revenues (net), and other operating revenue.

(5) Operating Margin is calculated as the difference between operating revenue and total expenses divided by operating revenue.

(6) Income before capital contributions and other transfers.

(7) As of January 1, 2020, UW Medicine/Northwest (formerly known as Northwest Hospital and referred to as Northwest) was integrated into UW Medical Center. Total Operating Revenue, Operating Margin, and Net Income are provided for UW Medical Center as a whole and is inclusive of activity generated at Northwest. To provide general information related to what is now the Northwest campus of UW Medical Center, Net Patient Revenue is being provided. Net patient revenues attributable to the Northwest campus for FY22 and FY23, respectively, were $380 million and $451 million. Net revenue is post-integration and is included within the UW Medical Center financial results.

(8) Commencing January 1, 2020, patient activity statistics reported under UW Medical Center include UW Medical Center Montlake and Northwest campuses. Patient statistics attributable to the Northwest campus for FY22 and FY23, respectively, were as follows: Admissions, 8,384 and 9,529; Outpatient Visits, 189,950 and 203,585; Emergency Visits, 32,073 and 37,604.

(9) Reflects UW Medicine Select Units - UW Division gross patient services revenue only. For the years ended June 30, 2022 and 2023, Medicare revenue represented 39 percent and 38 percent respectively; Medicaid revenue represented 16 percent for both years.

CONSOLIDATED ENDOWMENT AND INVESTED FUNDS

MARKET VALUES AND RETURNS ($000)

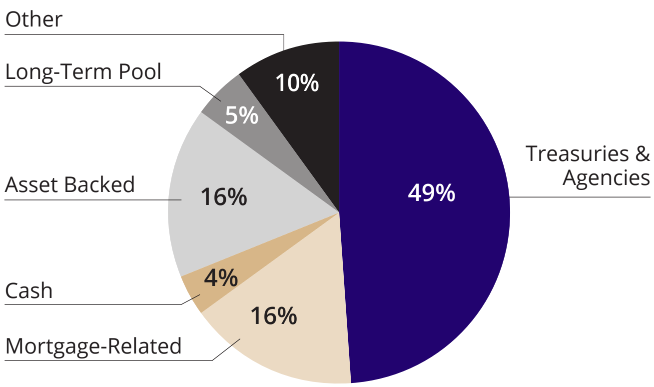
INVESTED FUNDS (IF)	Year Ending June 30,	
	2022	2023
Total Market Value[1]	$2,603	$2,915
Annualized One-Year Return	(2.7%)	2.5%

CONSOLIDATED ENDOWMENT FUND (CEF)[2]	Year Ending June 30,	
	2022	2023
Total Market Value	$4,678	$4,940
Annualized One-Year Return	(5.5%)	6.0%

IF PORTFOLIO BREAKDOWN[1]

$2,915

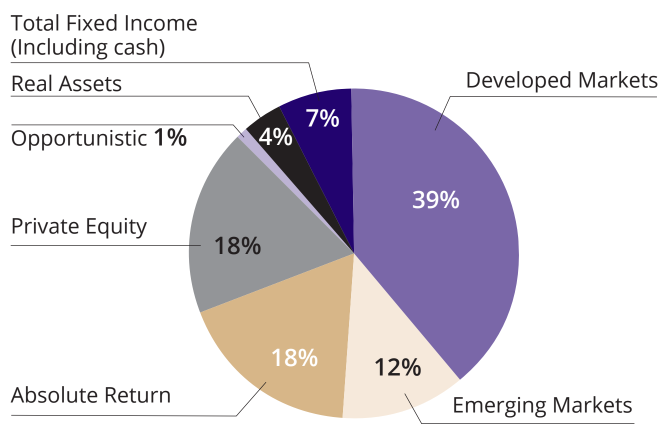
(as of 06/30/2023)



CEF PORTFOLIO BREAKDOWN

$4,940

(as of 06/30/2023)



ENDOWMENT RETURN & SPENDING	Year Ending June 30,	
	2022	2023
Total Annual Return on Endowment	($269,599)	$277,252
Amount of Annual Return Spent	$182,111	$201,571
Effective Actual Annual Spending Rate	3.9%	4.3%

CEF SPENDING POLICY

The spending policy change was in 2019 in a phased approach that was completed in FY2022. Distributions to campus for endowed programs are 3.6 percent of the average market value of the CEF for the previous 20 quarters. There is an additional 0.9 percent administrative fee bringing the total annual spending to 4.5 percent. Total distribution shown.

(1) Represents Invested Funds (excludes CEF units, Capital Assets Pool ("CAP") and balances held at Bank of America) CEF units, Capital Assets Pool [CAP] and balances held in University demand deposit account). Also excludes Supplemental Retirement Plan (SRP).

(2) Includes the Invested Funds Long-term Pool invested in CEF units.

Note: Totals may not sum due to rounding.

UNIVERSITY LIQUIDITY

(UNAUDITED)($000)

	Year Ending June 30,	
	2022	2023
Daily Liquidity[(1) (2)]		
Checking & Deposit Accounts	$ 66,530	$ 70,549
Money Market Funds	117,674	96,470
U.S. Treasuries & Agencies	1,806,869	1,831,969
Total Daily Liquidity	**1,991,073**	**1,998,988**
Other Assets[(3) (4)]	678,736	986,830
Total Daily & Weekly Liquidity	**$ 2,669,809**	**$ 2,985,818**

(1) 2022 includes approximately $57 million in FICA taxes.

(2) Investments that can be liquidated on a same-day basis, if sale executed prior to 10:00 AM Pacific time.

(3) Other Assets includes, but not limited to, other fixed income, plus related derivatives and foreign currencies, that can be liquidated within a week up to approximately 90 days depending on market conditions. This balance ties the remaining balance to the Invested Funds, excluding the longer-term liquidity holdings of the Long-term Pool and Capital Assets Pool.

(4) Other Assets excludes $345 million in Supplemental Retirement Plan funds in 2022 but includes $346 million in Supplemental Retirement Plan funds in 2023.

Note: Totals may not sum due to rounding.

FUTURE DEBT SERVICE

as of June 30, 2023

($000)	FISCAL YEAR 2024	2025	2026	2027	2028	2029 – 2052
TOTAL UNIVERSITY DEBT SERVICE						
State General Obligation Bonds	$ 13,298	$ 9,849	$ 5,790	$ 5,476	$ 2,209	$ 1,571
State Certificates of Participation	$ 291	$ –	$ –	$ –	$ –	$ –
Revenue Bonds						
General Revenue Bonds[1]	$ 133,484	$$146,074	$147,809	$ 148,074	$ 143,169	$ 2,223,927
Lease Revenue Bonds[2]	$ 28,221	$ 28,047	$ 26,763	$ 26,613	$ 26,466	$ 283,409
Subtotal: General Revenue Bonds Debt Service	**$ 175,294**	**$ 183,970**	**$ 180,363**	**$ 180,163**	**$ 171,843**	**$ 2,508,907**
Commercial Paper[3]	$ 224	$ –	$ –	$ –	$ –	$ –
Equipment Leases & Others[4][5][6]	$ 24,700	$ 22,583	$ 22,294	$ 22,164	$ 22,136	$ 77,340
Total Debt Service All Obligations	**$ 200,218**	**$ 206,553**	**$ 202,657**	**$ 202,326**	**$ 193,979**	**$ 2,586,246**

(1) General Revenue Bonds Series 2009A&B, 2010B, 2012C, 2013, 2015ABC&D, 2016A&B, 2018, 2020AB&C, 2021A&B, 2022AB&C.

(2) Series 2010B WBRP 3, 2013 WBRP, 2014A WBRP, and 2015A WBRP 3.2.

(3) Include interest on commercial paper but does not include principal that will be retired with long-term debt in fiscal year 2024.

(4) Includes capital leases other than leases included as Lease Revenue Bonds. As of FY22, Other debt service includes Fred Hutchinson Cancer Care promissory note obligation.

(5) Effective January 1, 2020, Northwest Hospital debt is included in Other. Values include bank loans associated with Northwest Hospital prior to integration.

(6) Other includes interest on line of credit but does not include principal that will be retired with long-term debt in fiscal year 2024.

SUPPLEMENTAL FINANCIAL INFORMATION

UNIVERSITY OF WASHINGTON

Supplementary Information

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report on Supplementary Information

The Board of Regents
University of Washington:

We have audited the financial statements of the business-type activities, the fiduciary activities, and the aggregate discretely presented component units of the University of Washington (the University) as of and for the years ended June 30, 2023 and 2022, and have issued our report thereon dated October 31, 2023, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The reconciliation of total university to general revenue and the reconciliation of total University of Washington unrestricted net position are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Board of Regents and management of the University of Washington and rating agencies and bondholders who have previously received the financial statements of the University of Washington as of and for the years ended June 30, 2023 and 2022, and our unmodified opinions thereon, for use in evaluating those financial statements, and is not intended to be, and should not be used for any other purpose.

KPMG LLP

Seattle, Washington
October 31, 2023

UNIVERSITY OF WASHINGTON

Supplementary Information

Reconciliation of Total University Revenue to General Revenue

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
General revenue:			
Total revenue	$	8,973,458	7,563,825
Less:			
State appropriations		531,999	484,915
Grant and contract direct costs		1,568,373	1,402,203
Gifts		182,137	218,012
Revenues of component units		399,863	412,365
Student activities fees and U-Pass fees		50,667	50,866
Student technology fees, student building fees, and student loan funds		81,528	85,255
Metropolitan Tract		74,904	62,872
Trust and endowment income (loss), net unrealized gains on noninvested funds investments, component unit investment income, and other restricted investment income		338,716	(419,153)
Capital appropriations		201,379	127,892
Capital grants, gifts and other		79,223	46,877
Other nonoperating revenues		198,426	158,825
Gifts to permanent endowments		105,766	91,610
Total general revenue	$	5,160,477	4,841,286
General revenue components:			
Student tuition and fees (less student activities fees, U-Pass fees, technology fees, building fees, and loan funds)	$	1,039,825	1,002,960
Grant and contract indirect costs		345,084	308,720
Invested funds distribution and net invested funds unrealized gains and (losses) (note 2)		98,873	(50,282)
Sales and services of educational departments		661,826	792,488
Patient services		2,124,833	2,007,809
Auxiliary systems		507,916	524,185
Fred Hutchinson Cancer Center		87,431	6,669
Other operating revenues		294,689	248,737
Total general revenue	$	5,160,477	4,841,286

See accompanying notes to supplementary information and the independent auditor's report on supplementary information.

UNIVERSITY OF WASHINGTON

Supplementary Information

Reconciliation of Total University of Washington Unrestricted Net Position
to General Net Position

June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Total University unrestricted net position per financial statements	$	1,042,495	718,734
Less:			
Student and activities fees		32,053	28,009
Net position (deficit) of component units:			
UW Medicine Primary Care (formerly UW Neighborhood Clinics)		6,767	7,546
Northwest Hospital		(131,628)	(131,628)
Real estate entities		9,152	9,057
Total to be excluded, net		(83,656)	(87,016)
General net position, including pensions and other post-employment benefits (OPEB)		1,126,151	805,750
Impact of GASB 68 – Pensions		(268,880)	(84,909)
Impact of GASB 75 – OPEB		1,904,030	1,917,208
General net position, excluding GASB 68 pensions and OPEB *	$	2,761,301	2,638,049

* There are other non-cash adjustments to Unrestricted Net Position not shown here.

See accompanying notes to supplementary information and the independent auditor's report on supplementary information.

(1) Basis of Presentation

The Reconciliation of Total University Revenue to General Revenue presents the general income of the University of Washington (University) that is not restricted in its use by law, regulation, or contract. General Revenues, as defined in the bond agreements, are revenues pledged to bondholders under the University's General Revenue Bond platform. The supplementary information included herein reconciles total University revenue to General Revenue pledged to bondholders. For example, the following items are restricted and, therefore, excluded from General Revenues:

a. Appropriations to the University by the state of Washington (state) from the state's General Fund;

b. Revenues from gifts or grants restricted by the terms of the gift or grant either in writing or otherwise by the donor;

c. Fees imposed upon students as a condition of enrollment at the University, including but not limited to services and activities fees, building fees, and technology fees; and

d. Revenues and receipts attributable to the Metropolitan Tract Revenue, which are appropriated to the University by the state.

Unrestricted fund balances, to the extent that they were accumulated from money that was received as General Revenues, also are included and available to pay obligations secured by General Revenues. Any interest subsidy received from the federal government with respect to General Revenue Bonds is included and available to pay obligations secured by General Revenues.

On March 31, 2022, the members of the Seattle Cancer Care Alliance (SCCA): the University, Fred Hutchinson Cancer Research Center (Fred Hutch), and Seattle Children's Healthcare System (SCHS) agreed to merge Fred Hutch and SCCA; for SCCA to become a non-member non-profit Washington corporation, and for SCCA to be renamed Fred Hutchinson Cancer Center (FHCC). In addition to the restructure of the former SCCA corporate entity, the University and FHCC agreed to the Restructuring and Enhanced Collaboration Agreement (Restructuring Agreement), which clinically and financially integrates the adult cancer program between both entities. The University recorded financial alignment income in other nonoperating revenues in the Statements of Revenues, Expenses, and Changes in Net Position. These income amounts are reflected in the Reconciliation of Total University Revenue to General Revenue for the years ended June 30, 2023 and 2022, as part of the General Revenue components.

Unrestricted Net Position as of June 30, 2023 and 2022, is below historical levels due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, during fiscal year 2015 and the implementation of GASB Statements No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), during fiscal year 2018 (the Statements). These Statements require the University to record its proportionate share of the state of Washington's actuarially determined liabilities for pensions and OPEB. The University's Unrestricted Net Position, excluding the impacts of GASB Statements No. 68 and 75, is reflected on the Reconciliations of Total University of Washington Unrestricted Net Position to General Net Position.

(2) Prior Period Adjustment

In fiscal year 2023, an accounting error was discovered which resulted in an understatement of operating revenues and operating expenses of $295 million, respectively, in fiscal year 2022. There was no impact to net position. The error originated in the treatment of revenues and expenses related to physician compensation paid to faculty and the subsequent reimbursements from other parties. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows for fiscal year 2022 have been adjusted to reflect the correction. These adjustments are similarly reflected in the Reconciliation of Total University Revenue to General Revenue for the year ended June 30, 2022, and the Reconciliation of Total University of Washington Unrestricted Net Position to General Net Position as of June 30, 2022.

(3) Reclassifications

Certain amounts in the 2022 financial statements have been reclassified for comparative purposes to conform to the presentation of the 2023 financial statements.

(4) Invested Funds Distributions and Net Invested Funds Unrealized Gains and Losses

These amounts represent the net interest, dividends, and realized gains or losses earned on the Invested Funds that are distributed to departments for operations, in addition to or offset by any unrealized gains and losses on the portfolio.

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES
(A Department of University of Washington)

Basic Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES
(A Department of University of Washington)

Table of Contents

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

Opinion

We have audited the financial statements of the University of Washington Housing and Food Services (the Department), a department of the University of Washington, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the University of Washington Housing and Food Services' basic financial statements as of and for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Emphasis of Matter

Reporting Entity

As discussed in note 1, the financial statements of the University of Washington Housing and Food Services are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the University of Washington that is attributable to the transactions of the University of Washington Housing and Food Services. They do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2023 or 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not

KPMG

a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 11 and the schedules of required supplementary information on pages 48 through 54 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
October 31, 2023

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES
(A Department of University of Washington)

Management Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

Discussion and Analysis Prepared by Management

The following discussion and analysis provide an overview of the financial position and activities of the University of Washington Housing and Food Services (HFS) as of and for the years ended June 30, 2023, 2022, with summarized comparative information as of and for the year ended June 30, 2021. This discussion has been prepared by HFS management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements of HFS are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the University of Washington that is attributable to the transactions of HFS. They do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2023 or the 2022, the changes in its financial position or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Using the Financial Statements

The financial statements of HFS include the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; the Statements of Cash Flows; and Notes to Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for state and local governments.

Summary Statements of Net Position

The Statements of Net Position present the financial condition of HFS and reports assets, deferred outflows of resources, liabilities, and deferred inflows of resources and net position. A summarized comparison of HFS's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position is as follows as of June 30:

	2023	2022	2021
Assets:			
Current assets	$ 119,917,933	110,803,846	45,034,840
Noncurrent assets	553,873,276	592,746,131	613,629,797
Total assets	673,791,209	703,549,977	658,664,637
Deferred outflows	7,576,353	4,399,515	2,972,262
Total assets and deferred outflows	$ 681,367,562	707,949,492	661,636,899

		2023	2022	2021
Liabilities:				
Current liabilities	$	37,503,498	45,694,618	38,373,808
Noncurrent liabilities		618,127,409	641,665,383	669,913,493
Total liabilities		655,630,907	687,360,001	708,287,301
Deferred inflows		19,815,618	23,205,929	9,503,867
Net position:				
Net investment in capital assets		(56,636,473)	(46,447,083)	(39,522,849)
Unrestricted		62,557,510	43,830,645	(16,631,420)
Total net position		5,921,037	(2,616,438)	(56,154,269)
Total liabilities and net position	$	681,367,562	707,949,492	661,636,899

Current assets consist of cash and cash equivalents, accounts receivable, prepaid expenses, inventory, and receivables from other University departments. Current assets were $82.4 million and $65.1 million more than current liabilities at June 30, 2023 and 2022, respectively. Total current assets increased 8.2%, or $9.1 million in 2023 due to increases in cash due to credit card account activity, decreases in accounts receivable due to decreased adjustments to manual accounts and the conference services, and increases in prepaid expense in 2023. Total current assets increased 146.0%, or $65.8 million in 2022 due to increases in cash resulting from a return to normal business operations across HFS residence hall room rents, conference services, and related food services.

Noncurrent assets consist of land, buildings, building improvements, equipment, construction in process, and University of Washington Supplemental Retirement Plan (UWSRP) pension untrusted investment. Noncurrent assets decreased 6.6%, or $38.9 million, in 2023 mostly due to depreciation expense and decrease in net pension assets. Noncurrent assets decreased 3.4%, or $20.9 million, in 2022 due to depreciation expense, offset by new net pension assets.

Current liabilities consist of accounts payable, accrued interest, other accrued expenses, unearned revenue, deposits, amounts due to other University departments, and the current portion of capital debt. Current liabilities decreased by 17.9%, or $8.2 million, in 2023 primarily due to decreases in unearned revenue, and student related deposits. Current liabilities increased by 19.1%, or $7.3 million, in 2022, due to increases in unearned revenue and accounts payable, attributable to increasing conference and operating activities offset by decreases in accrued interest and the current portion of debt.

Noncurrent liabilities consist of the long-term portion of capital debt, the pension liability, and the other post-employment benefits (OPEB) liability. Total long-term capital debt as of June 30, 2023 decreased by 3.3%, or $20.0 million, compared to a decrease of 3.4% or $21.6 million in 2022. No new debt was issued in fiscal year 2023 or 2022. The pension liability increased 63.1% or $1.3 million in 2023 and decreased 65.9%, or $3.8 million in 2022. The increases in 2023 are primarily due to increases in HFS's proportionate share of the PERS 1 and PERS 2/3 pension plans. The decreases in 2022 are primarily due to decreases in HFS's proportionate share of the PERS 1 and PERS 2/3 pension plans, which were favorably impacted by changes in the discount rate. The OPEB liability on June 30, 2023 decreased by 17.0% or $3.0 million. The OPEB liability on June 30, 2022 decreased by 14.0% or $2.8 million.

The change in net position or “equity” measures whether the overall financial condition has improved or deteriorated during the year. Total net position increased 326%, or $8.5 million in 2023 and increased 95.3%, or $53.5 million in 2022. Improvements in 2023 were due to increases in funding for capital projects and decreased debts outstanding. Improvements in 2022 stem from the return to normal business operations in a post-pandemic environment. The net investment in capital assets decreased 21.9% and 17.5%, or $10.2 million and $6.9 million, in fiscal year 2023 and 2022, respectively, primarily due to increased accumulated depreciation.

Unrestricted net position includes HFS’s share of retirement plan liabilities and assets.

Statements of Revenue, Expenses, and Changes in Net Position

The changes in total net position, as presented on the Statements of Net Position, are detailed in the activity presented in the Statements of Revenue, Expenses, and Changes in Net Position. These statements present HFS’s results of operations. In accordance with GASB reporting principles, revenue and expenses are classified as operating, nonoperating, or other.

In general, operating revenue is earned from providing housing, food service, and related services to students and conference guests. Operating revenue is also generated in the form of educational sponsorship and vending commissions. Operating expenses are incurred to provide services and resources, primarily consisting of salaries and benefits, cost of food, building operation expenses, and administrative overhead.

Nonoperating revenue is not generated by goods and services. Under GASB reporting principles, investment income and expenses are classified as nonoperating activities. Also included as nonoperating items are grant awards, insurance proceeds, and energy rebates. HFS also recognized net losses on termination of the agreement with the University Transportation Services and on capital asset transfers related to arrangements with other University departments, where ownership of constructed assets was transferred upon project completion.

The following is a condensed view of the Statements of Revenue, Expenses, and Changes in Net Position for the fiscal years ended June 30:

		2023	2022	2021
Operating revenue	$	166,027,630	150,639,003	62,279,960
Operating expenses		(133,275,786)	(116,363,540)	(88,319,002)
Net operating income (loss)		32,751,844	34,275,463	(26,039,042)
Net operating (expense) revenue		(24,214,369)	19,262,368	5,535,125
Net loss on capital asset transfers		—	—	(3,005,430)
Other		—	—	312,070
Change in net position		8,537,475	53,537,831	(23,197,277)
Net position, beginning of year		(2,616,438)	(56,154,269)	(32,956,992)
Net position, end of year	$	5,921,037	(2,616,438)	(56,154,269)

Revenue from All Sources

The following table summarizes revenue from all sources for the years ended June 30:

		2023	2022	2021
Operating revenue:				
Residence halls and single-student apartment rent	$	103,723,162	101,333,746	42,405,059
Residence halls and retail food services		43,030,145	36,044,727	11,274,418
Conferences and guest rent		8,438,334	3,435,710	1,277,526
Leases		3,485,696	3,414,423	2,583,782
Family housing rent		2,681,575	2,478,430	2,441,782
Forfeitures and miscellaneous fees		1,321,244	1,030,719	949,276
Educational sponsorship		1,017,750	949,000	626,560
Vending machines		1,050,376	858,586	165,574
Laundry		781,942	761,328	298,640
Parking revenue		58,851	35,529	26,430
Other operating revenue		438,555	296,805	230,913
Total operating revenue		166,027,630	150,639,003	62,279,960

	2023	2022	2021
Nonoperating revenue:			
Grants	822,172	40,000,000	34,600,000
Energy rebates and refunds	—	13,579	—
Insurance proceeds	—	5,000,000	1,852,190
Other nonoperating revenue	—	—	312,070
Total nonoperating revenue	822,172	45,013,579	36,764,260
Total revenue – all sources	$ 166,849,802	195,652,582	99,044,220

HFS's largest revenue source is residence hall and single-student apartment rent and retail food services, which comprised 88.0% of revenue from all sources in 2023, compared to 70.2% in 2022. During 2023, residence hall and single-student rent increased by 2.4%, or $2.4 million, food services increased by 19.4%, or $7.0 million, and conference services increased by 145.6%, or $5.0 million, over the prior year. During 2022, residence hall and single-student rent increased by 139.0%, or $58.9 million, food services increased by 219.7%, or $24.8 million, and conference services increased by 168.9%, or $2.2 million, over the prior year. These increases reflect the return to normal business operations and increased residential capacity on campus as compared to 2022.

Nonoperating revenue decreased by $44.2 million in 2023 and increased by $8.2 million in 2022 compared to 2021, primarily due to Higher Education Economic Relief Fund (HEERF) grants of $40.0 million and $34.6 million received in 2022 and 2021, respectively (see further discussion in note 2). There were no insurance claim proceeds received in 2023. Insurance claim proceeds increased by 170% or $3.1 million over 2021 due to the Oak Hall flood. Insurance claim proceeds for 2021 decreased from prior year due to the completion of Stevens Court exterior renovations (see further discussion in note 1).

Expenses and Expense Transfers

The following table summarizes expenses and expense transfers for the years ended June 30:

	2023	2022	2021
Operating expenses:			
Salaries and related benefits	$ 39,159,354	29,088,998	20,150,010
Depreciation	32,214,376	32,530,293	32,862,503
Cost of food and merchandise	17,698,507	14,995,770	4,875,526
Noncapitalized equipment	9,336,649	9,477,674	9,571,164
Utilities	10,199,806	9,663,020	6,931,392
Indirect expenses	8,404,115	7,203,316	6,750,735
Contract services	7,858,886	6,441,811	3,001,673
Supplies	3,458,509	2,944,850	1,206,881
Repairs and maintenance	3,950,013	3,415,970	2,371,868
Institutional overhead	1,056,737	708,548	42,883
Total operating expenses	133,336,952	116,470,250	87,764,635
Nonoperating expenses:			
Interest expense on capital asset-related debt	24,943,315	25,737,585	27,669,408
Other operating expense	(61,166)	(106,710)	554,367
Net loss on capital agreement	—	—	3,241,140
Net loss on capital asset disposals	93,226	13,626	6,517
Net loss on capital asset transfers	—	—	3,005,430
Total nonoperating expenses	24,975,375	25,644,501	34,476,862
Total expenses and expense transfers	$ 158,312,327	142,114,751	122,241,497

Salaries and benefits expense increased by 34.6% or $10.1 million in 2023 and increased by 44.4% or $8.9 million in 2022, respectively. Increases in 2023 were primarily due to resource requirements needed for the Workday finance transformation effort in July 2023. Increases in 2022 reflect the return to pre-pandemic operations.

Depreciation expense in 2023 and 2022 both decreased by 1.0% or $0.3 million compared to the previous year.

Noncapitalized equipment decreased by 1.5% or $141,025 in 2023. Noncapitalized equipment decreased by 1.0% or $93,490 in 2022, primarily related to Phase 4b of the Housing Master Plan.

Nonoperating expenses in 2023 decreased by 2.6%, or $669,126 in 2023 primarily due to reduced interest expense on capital asset-related debt offset by the loss on the disposal of capital assets. Nonoperating expenses decreased by 25.6%, or $8.8 million in 2022, due to reductions in interest rates on ILP debt and increased operating loss reimbursements from campus café partners. For 2022, partner loss reimbursements

(Continued)

totaled $706,722 as compared to $296,289 in 2021 and contribute the negative expense reported in other operating expenses.

Economic Factors Affecting the Future

Systemwide Considerations

HFS is a self-sustaining auxiliary enterprise of the University of Washington.

With the COVID-19 pandemic officially over, the Seattle campus has resumed normal operations, including in-person instructional activities. The novel coronavirus (COVID-19) pandemic disrupted HFS operations beginning in March 2020. University course instruction was moved to a full remote operation for the 2020-2021 school year. Social distancing restrictions remained in place for much of this fiscal year, which reduced campus populations significantly. Campus dining operations were reduced significantly, including the closure of all but one retail food operation, the Starbucks Mobile Truck.

The University resumed in-person instruction for the 2021-2022 school year, except in the month of January 2022, due to increased COVID-19 case counts. On-campus housing occupancy returned to pre-pandemic levels and significant excess demand resulted in the reopening of Haggett Hall, an addition of approximately 800 beds and 9-month housing averaged 97% occupancy throughout the year. Most UW dining locations resumed pre-pandemic service levels although there were a handful of continued unit closures as operations ramped up throughout the year. Staffing difficulties in both recruitment and retention were significant across HFS units and particularly for UW Dining operations. Campus foot traffic remained below pre-pandemic levels which affected retail dining sales more so than in residential dining units.

Normal university operations, including in-person instruction continued in 2022-2023. HFS did not occupy Haggett Hall for residential student housing and the facility was returned to an offline status. The availability of remote work options for staff continues and has resulted in reduced demand for food services across campus.

A change in property zoning classifications in the University District enacted in 2017 has made student-focused housing projects, particularly high-rise projects, financially feasible for competitors. As a result of this up-zoning, a number of high-rise projects are under construction or are in their initial planning phases. Delays or other impacts from the pandemic are unknown at this time.

HFS is pursuing ‘request for proposals’ (RFPs) and ‘request for qualifications’ (RFQs) for long-term land leases of campus-adjacent housing properties Commodore Duchess, Radford Court, Nordheim Court, Laurel Village, and Blakely Village with national student housing developers. This item will be presented to the Board of Regents in November 2023. Additionally, HFS is pursuing the required demolition of Haggett Hall as well as potential redevelopment. Demolition is likely to begin in summer 2024.

Mass transit improvements are ongoing in the greater Seattle area. The Northgate light rail expansion project was completed in October 2021, which includes the UW Tower station and light rail access to communities north of campus.

Housing Operation

Overall housing revenue increased $8.1 million in 2023, as compared to an increase of $62.6 million in 2022. This increase is indicative of “normal” or pre-pandemic occupancy levels for HFS housing operations and routine housing rate increases. The significant increase in 2022 was related to the first “normal” year of operations after the impacts of the pandemic in 2020-2021. HFS received $40.0 million in pandemic-related support in 2022. Of this amount, $1.6 million was awarded from the Higher Education Economic Relief Fund II (HEERF II) and $38.4 million was awarded from the American Rescue Plan Act (ARP), known as HEERF III. Both awards replace lost revenue due to the pandemic. In 2023, HFS received an additional combined $0.8 million in funding from Higher Education Emergency Relief Fund I (HEERF I), HEERF II, and HEERF III.

Autumn quarter 2023 opened with occupancy at approximately 9,614 students in 9 and 12-month housing areas. This figure is greater than the 2022 count of 9,479 due to the elimination of the spaces held for isolation and quarantine housing for HFS residents. Privately managed off-campus facilities coordinated through UW Real Estate are forecasting opening occupancy between 95% – 100% of building capacity.

Summer housing and conference operations have improved significantly from prior years with fiscal year 2023 year-to-date revenues exceeding $8.4 million as compared to annual revenues of $3.4 million in 2022.

Updates to the Housing Master Plan

HFS developed a Housing Master Plan to develop residence halls and single-student apartments in four phases. The development of these residence halls creates a richer on-campus community, alleviating the current excess demand within student housing and providing additional bed capacity (surge space) to support replacement of existing residence halls. This additional capacity allows HFS to replace existing facilities while continuing to meet current housing demand. This plan was completed in 2021 with the construction of Oak Hall and as of June 30, 2021, costs incurred related to the Housing Master Plan totaled approximately $783.1 million. The Board of Regents approved borrowing under the University’s Internal Lending Program (ILP) of up to $760.8 million for Phases 1-4a of the Housing Master Plan as of June 30, 2018, and a cash-funded investment of $65.5 million for Phase 4b of the Housing Master Plan as of June 30, 2019. In June 2020, the Board of Regents approved an additional $19.0 million in borrowing for the completion of Oak Hall, which offset the cash-funded portion for Phase 4b.

Debt service is being paid to the ILP for all Phases 1, 2, 3, and 4a buildings. ILP loans for all Housing Master Plan phases are now closed, as debt service on Phase 4a began in September 2018. The debt service coverage ratio was 1.56 and 1.45 as of June 30, 2023, and 2022, respectively. In June 2020, the Board of Regents approved a one-year suspension of the ILP covenants (debt service coverage and required reserves) due to financial hardship resulting from COVID-19. In June 2021, the Board of Regents extended this suspension through the 2021-2022 fiscal year. Through the HEERF-related grant proceeds, HFS has returned to good financial standing by the end of 2022, exceeding both the required reserve balance and debt service coverage covenants set forth by UW Treasury and the ILP agreements.

(Continued)

Residence Hall Dining Operation

In 2023, inflationary pressures have increased operating costs significantly throughout the Residential Dining units, particularly in the categories of food and supplies. Staffing issues continue to be a strain on operations however, staff retention and recruitment have improved from 2022. UW Dining plans to operate all food units this coming fiscal year.

With a full year of “normal” operations, including a strong summer conference season, Residential Dining revenues increased $4.2 million in fiscal year 2023 compared to fiscal year 2022.

Retail Dining Operation

Five retail dining venues closed in fiscal year 2023 including Mobile Dining on Red Square, Overpass Espresso, Café 815, Parnassus Cafe, and Mary Gates Espresso. These decisions were made in partnership with campus units and reflect the reduced foot traffic across campus. Despite these closures, retail dining revenues increased $3.3 million over prior year. Occupancy and retail transactions are loosely tied to one another. Retail dining serves the campus community including staff, faculty, and visitors to the university. While the residential student population can eat at these venues, they represent only 20% of the total transactions that occur in these locations. The continued support of remote work has reduced the number of staff on campus any given day and total transactions at these units has not rebound to pre-pandemic levels.

HFS received Starbucks and Coca-Cola educational sponsorship funds totaling $1.0 million in both 2023 and 2022, respectively.

UW Sponsorship has extended the Starbucks coffee agreement for an additional year and signed with Pepsi, effective July 1, 2023, for beverage rights on campus. Work began in summer 2023 to transition equipment and product from Coca-Cola to Pepsi.

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES
(A Department of University of Washington)

Statements of Net Position

June 30, 2023 and 2022

Assets and Deferred Outflow of Resources		2023	2022
Current assets:			
Cash and cash equivalents in the University of Washington Invested Funds Pool	$	108,737,140	101,024,276
Accounts receivable, net		1,061,466	5,080,893
Prepaid expense		1,147,633	542,869
Inventory		739,040	688,253
Due from other University departments		8,232,654	3,467,555
Total current assets		119,917,933	110,803,846
Noncurrent assets:			
Capital assets, less accumulated depreciation (note 3)		547,973,044	581,048,796
Other assets (note 8)		5,900,232	11,697,335
Total noncurrent assets		553,873,276	592,746,131
Deferred outflows of resources (note 7)		7,576,353	4,399,515
Total assets and deferred outflows of resources	$	681,367,562	707,949,492
Liabilities, Deferred Inflow of Resources, and Net Position			
Current liabilities:			
Accounts payable	$	434,756	1,830,106
Accrued interest		2,049,049	2,115,277
Other accrued expenses		2,849,990	2,911,967
Unearned revenue		6,240,217	11,937,040
Deposits		2,435,451	4,865,361
Due to other University departments		1,677,180	1,030,065
Long-term capital debt, current portion (notes 4 and 5)		21,816,855	21,004,802
Total current liabilities		37,503,498	45,694,618
Noncurrent liabilities:			
Long-term capital debt, less current portion (notes 4 and 5)		600,424,465	622,241,320
Pension liability (note 8)		3,231,213	1,980,737
Total other postemployment benefits (OPEB) liability (note 9)		14,471,731	17,443,326
Total noncurrent liabilities		618,127,409	641,665,383
Total liabilities		655,630,907	687,360,001
Deferred inflows of resources (note 7)		19,815,618	23,205,929
Net position:			
Net investment in capital assets		(56,636,473)	(46,447,083)
Unrestricted		62,557,510	43,830,645
Total net position		5,921,037	(2,616,438)
Total liabilities, deferred inflows of resources, and net position	$	681,367,562	707,949,492

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES
(A Department of University of Washington)

Statements of Revenues, Expenses, and Changes in Net Position

June 30, 2023 and 2022

		2023	2022
Operating revenue:			
Residence halls and single-student apartment rent	$	103,723,162	101,333,746
Residence halls and retail food services		43,030,145	36,044,727
Conferences and guest rent		8,438,334	3,435,710
Leases		3,485,696	3,414,423
Family housing rent		2,681,575	2,478,430
Forfeitures and miscellaneous fees		1,321,244	1,030,719
Educational sponsorship		1,017,750	949,000
Vending machines		1,050,376	858,586
Laundry		781,942	761,328
Parking revenue		58,851	35,529
Other		438,555	296,805
Total operating revenue		166,027,630	150,639,003
Operating expenses:			
Salaries and related benefits		39,159,354	29,088,998
Depreciation		32,214,376	32,530,293
Cost of food and merchandise		17,698,507	14,995,770
Noncapitalized equipment		9,336,649	9,477,674
Utilities		10,199,806	9,663,020
Indirect expenses		8,404,115	7,203,316
Contract services		7,858,886	6,441,811
Supplies		3,458,509	2,944,850
Repairs and maintenance		3,950,013	3,415,970
Institutional overhead		1,056,737	708,548
Other		(61,166)	(106,710)
Total operating expenses		133,275,786	116,363,540
Net operating income (loss)		32,751,844	34,275,463
Nonoperating revenue (expenses):			
Grants (note 2)		822,172	40,000,000
Energy rebates		—	13,579
Insurance claim proceeds		—	5,000,000
Interest expense on capital asset-related debt		(24,943,315)	(25,737,585)
Losses on capital asset disposals		(93,226)	(13,626)
Total nonoperating (expense) revenue		(24,214,369)	19,262,368
Change in net position		8,537,475	53,537,831
Net position, beginning of year		(2,616,438)	(56,154,269)
Net position, end of year	$	5,921,037	(2,616,438)

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES
(A Department of University of Washington)

Statements of Cash Flows

June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from student housing fees	$ 97,424,818	98,915,383
Cash received from residence hall food services	41,205,647	37,286,646
Cash received from conference services	9,033,862	7,129,475
Cash received from leases	3,454,490	2,539,102
Cash received from facility rentals	2,244,633	1,912,075
Cash received from vending commissions	1,011,165	884,448
Cash received from educational sponsorship	1,017,750	949,000
Cash received from others	808,510	289,811
Cash (paid) received for interfund and debit card activities	(145,345)	790,063
Cash paid to suppliers	(53,583,388)	(45,982,837)
Cash paid for employee salaries, wages, and benefits	(37,878,478)	(29,340,843)
Cash paid for indirect expenses	(9,599,682)	(7,402,873)
Net cash flows provided by operating activities	54,993,982	67,969,450
Cash flows from noncapital financing activities:		
Grants received	822,172	40,000,000
Net cash flows provided by noncapital financing activities	822,172	40,000,000
Cash flows from capital and related financing activities:		
Purchases of capital assets	(2,089,166)	(2,951,861)
Interest paid on capital debt	(25,009,543)	(26,020,107)
Principal payments on capital debt	(21,004,802)	(23,435,768)
Proceeds from insurance on capital assets	—	5,000,000
Other	221	22,634
Net cash flows used in capital and related financing activities	(48,103,290)	(47,385,102)
Net change in cash and cash equivalents	7,712,864	60,584,348
Cash and cash equivalents, beginning of year	101,024,276	40,439,928
Cash and cash equivalents, end of year	$ 108,737,140	101,024,276
Reconciliation of operating income to net cash flows from operating activities:		
Net operating income	$ 32,751,844	34,275,463
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation	32,214,376	32,530,293
Changes in operating assets and liabilities:		
Accounts receivable	4,019,428	(3,794,335)
Prepaid expense and other	(604,765)	25,417
Inventory	(50,787)	(357,336)
Due to/from other University departments	(1,260,888)	798,079
Accounts payable	(1,395,350)	1,304,492
Unearned revenue	(5,696,823)	7,123,735
Accrued expenses	(61,978)	657,841
Deposits	(2,429,910)	66,150
Retirement plan deferred resources and liabilities	(2,491,165)	(4,660,349)
Net cash flows provided by operating activities	$ 54,993,982	67,969,450
Supplemental disclosures for cash flow information:		
Amortization of deferred premium on refunded bonds	$ —	66,480

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

The University of Washington Housing and Food Services (the Department or HFS) operates self-sustaining food services, residence halls, and apartment complexes both on and off the University of Washington (the University) campus. The operations of HFS as an auxiliary enterprise support the University's mission by providing safe, convenient, and affordable housing, as well as programs that promote personal and academic development. In addition, HFS provides conference facilities and catering services to a variety of organizations. The University provides some administrative services to HFS including maintenance of buildings, roads, and grounds, custodial services, utilities, and support services such as environmental health, and security services. Refer to note 10 – Related-Party Transactions for further discussion.

(b) Basis of Accounting

The financial statements of the Department have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The Department is reporting as a special purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the Department presents a management's discussion and analysis, statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The financial statements of the Department are intended to present the financial position, and cash flows of only that portion of the University of Washington that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2023 or 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The Department reports capital assets net of accumulated depreciation (as applicable) and reports depreciation expense in the Statements of Revenues, Expenses, and Changes in Net position.

(c) Cash and Cash Equivalents in the University Invested Funds Pool Investments

Pooled Investments held on behalf of HFS by the University are recorded at HFS's share of the carrying value of the University Cash and Liquidity Pools, which totaled $108,737,140 and

$101,024,276 as of June 30, 2023, and 2022, respectively. These funds are available on demand without prior notice or penalty. The Cash and Liquidity Pools were invested as follows as of June 30:

	2023	2022
Cash and cash equivalents	15.7 %	4.5 %
U.S. Treasury and agency securities	48.2	65.7
Mortgage-related securities	5.0	5.2
Asset-backed debt securities	19.3	18.5
Other fixed income	11.8	6.1
	100.0 %	100.0 %

Financial instruments that subject HFS to concentrations of credit risk consist of pooled investments held on behalf of HFS at the University.

(d) Accounts Receivable

HFS has established an allowance for doubtful accounts related to receivables, which are estimated to be uncollectible. The allowance is based on historical experience of HFS and current economic circumstances with respect to the collectability of accounts receivable. Student accounts are considered past due if they are unpaid for 30 days after the due date. Other customer accounts are considered past due if they are unpaid for 60 days after the due date. The balance of the allowance account was $1,140,576 and $778,644 as of June 30, 2023, and 2022, respectively.

(e) Inventory

Inventories, consisting primarily of food, are carried at the lower of cost or realizable value and are reflected in other current assets on the Statements of Net Position. Inventories are generally valued using the first-in, first-out method.

(f) Prepaid Expense

Prepaid expense consists primarily of building insurance, which is typically amortized over one year.

(g) Due from Other University Departments

Due from other University departments consists primarily of accrued lease revenue (note 6) of $3,485,696 and cash advances for constructions of $4,760,677 as of June 30, 2023. Due from other University departments consists primarily of accrued lease revenue of $3,414,423 as of June 30, 2022.

(h) Capital Assets

Buildings, building improvements, and equipment are stated at cost. Additions, replacements, major repairs, and renovations are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, and 4 to 13 years for equipment. Expenditures for noncapitalized equipment and repairs that represent normal replacement of such equipment and routine maintenance of the buildings are expensed as incurred, as are furniture, fixtures, or equipment for newly constructed buildings that individually do not meet the criteria described below. Building and improvements are capitalized if they result in additional asset services (e.g., expanded facilities), result in more valuable asset services (e.g., upgraded facilities), or extend normal service life. Expenditures are not capitalized if they are incurred to maintain assets in good operating condition, and/or do not meet the criteria for capitalization stated above. Equipment with a cost of $5,000 and above is generally capitalized if it benefits more than one operating cycle.

Capitalized construction-related interest was $0 during the years ended June 30, 2023, and 2022. Prior to 2022, interest expense was capitalized during project construction or upon issuance of debt to finance the construction of a capital asset.

(i) Unearned Revenue

Unearned revenue consists of prepaid food sales, room rent, and conference revenue.

(j) Deposits

Deposits consist of a required $500 per student housing damage deposit that is refundable when the student vacates (presuming no damage resulted during the student's tenure in the housing unit).

(k) Net Position

Net position consists of the following components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the net outstanding debt balances related to capital assets, net of unamortized debt expenses. The negative balance as of June 30, 2023, and 2022 is due to the inclusion of existing debt on the old Mercer, Lander, Terry, and McCarty Halls, all of which were demolished, while additional debt was incurred for the demolition and redevelopment.

Unrestricted – Consists of assets and liabilities that do not meet the definition of "net investment in capital assets." This is all other funds available to HFS for any purpose associated with its mission. Unrestricted net position is not subject to externally imposed stipulations, but often is internally designated for specific purposes.

(l) Operating and Nonoperating Revenue and Expenses

In general, operating revenue is earned from providing housing, food service, and related services primarily to students and conference guests. The majority of operating revenue consists of room and board services to students. Revenue is recognized as the food service is provided, the appropriate housing period occurs, or the conference takes place. Operating expenses are those expenses incurred to provide services and resources, primarily consisting of salaries and benefits, cost of food, building operation expenses, and administrative overhead.

Nonoperating revenue is recognized for receipts of grant awards, insurance claim proceeds, gain on capital asset disposals, and other revenue sources that are not associated with HFS's primary operations. Nonoperating expenses reflect interest expense and losses on asset disposals.

(Continued)

(m) Institutional Overhead

The University allocates certain general and administrative charges to those departments for which services are performed. This institutional overhead charge, which is based on a percentage of division revenue, totaled $1,056,737 and $708,548 for the years ended June 30, 2023, and 2022, respectively.

(n) Indirect Expenses

Administrative expenses, such as overhead salaries and benefits, contract services, and supplies, are reported as indirect expenses. These administrative costs totaled $8,404,115 and $7,203,316 for the years ended June 30, 2023, and 2022, respectively.

(o) Insurance Claim Proceeds

Insurance claim proceeds are recognized when realized or realizable, generally upon cash receipt.

HFS received no insurance payments during fiscal year 2023. During 2022 insurance payments totaling $5,000,000 were received for the Oak Hall flood, which affected one full wing of the building which included a food service unit on the ground floor. Extensive repair work was required, delaying the opening of that portion of the building to residents until January 2022 and postponing the opening of the food service unit until April 2022.

The funds received in 2021 were for the loss incurred at the Stevens Court complex. The Stevens Court loss was caused by faulty installation of the exterior siding, which allowed water to infiltrate the stucco siding over multiple years. The damage was identified during routine renovations. The insurance proceeds offset the cost of replacing the siding at all four affected buildings in the Stevens Court complex. Repairs on four buildings were completed by October 2020.

(p) Income Taxes

As a part of the University, the operations of HFS are exempt from federal income taxes, except to the extent of unrelated business income. HFS did not incur unrelated business income tax during 2023 or 2022, and accordingly, the financial statements do not include a provision for federal income taxes.

(q) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

HFS's share of pension and Other Post-Employment Benefit (OPEB) plan assets, liabilities, deferrals, and expenses are based on actuarial valuations prepared by an external actuary. The results of an actuarial valuation are estimates based on historical data, actuarial assumptions, and the demographics of the employee and retiree populations.

(r) Other Pension and Post-Employment Policies

Cost-Sharing Pension Plans. The net pension asset or liability is measured as HFS's proportionate share of the University's collective total pension liability, less the fiduciary net position, of the cost-sharing pension plans in which HFS participates. The total pension liability is determined by discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. HFS's proportionate share is determined based on the relationship of HFS contributions to total contributions to the plan by all participating employers. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or deferred outflows of resources and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows or deferred outflows of resources and are recognized over five years. Contributions made to the plan subsequent to the measurement date and prior to HFS's fiscal year-end are reported as a deferred outflow of resources and recognized in the subsequent fiscal year. The measurement date for the net pension asset or liability is June 30th of the prior fiscal year.

Single Employer Pension Plan (UW Supplemental Retirement Plan). The total pension liability is measured at HFS's proportionate share of the total liability, which is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. The discount rate used for the total pension liability as of June 30, 2023, and 2022 reflects the expected rate of return on investments, to the extent that plan assets are available to pay retiree benefits. The UWSRP liability as of June 30, 2023, and 2022 represents the HFS's proportionate share of the total pension liability less the plan's fiduciary net position. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows or deferred outflows of resources and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows or deferred outflows of resources and are recognized over five years. The measurement date for the UWSRP liability is the same as the Statements of Net Position date.

Other Post-Employment Benefits (OPEB). The total OPEB liability is measured as HFS's proportionate share of the University's total OPEB liability, with the proportionate share determined based on the relationship of HFS's healthcare-eligible headcount to the total healthcare-eligible headcount for the University. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate required by GASB Statement No. 75 for OPEB plans that do not have assets residing in a qualified trust. OPEB expense is recognized for subsidies earned during the period, interest on the total OPEB liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows or deferred outflows of resources and are recognized over the average expected remaining service period for healthcare-eligible employees. Contributions made to the plan subsequent to the measurement date, and prior to HFS's fiscal year-end, are reported as a deferred outflow of resources and recognized in the subsequent fiscal year. The measurement date for the total OPEB liability is June 30 of the prior fiscal year.

(2) COVID-19 Pandemic

As a department funded by revenue from student fees, HFS was disproportionately impacted by the shift to remote learning during the COVID-19 pandemic. On July 7, 2020, the University completed a funding agreement to accept the Institutional Portion of the Higher Education Emergency Relief Fund I (HEERF I) grant authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law in March 2020. Over the years, the Higher Education Emergency Relief Fund II (HEERF II), authorized by the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA), was signed into law in December 2020, and the Higher Education Emergency Relief Fund III (HEERF III), authorized by the American Rescue Plan (ARP), was signed into law on March 11, 2021. During fiscal years 2023 and 2022, HFS received and recognized a total of approximately $0.8 million and $40.0 million from HEERF I, HEERF II, and HEERF III to offset remaining revenue losses incurred during the pandemic.

(3) Capital Assets

Capital asset activity for the years ended June 30, 2023 and 2022 is summarized as follows:

		Balance at June 30, 2022	Additions/ Transfers	Retirements/ Transfers	Balance at June 30, 2023
Capital assets, not being depreciated:					
Land	$	6,775,215	—	—	6,775,215
Construction in progress		1,290,787	—	(1,037,506)	253,281
Total capital assets not being depreciated		8,066,002	—	(1,037,506)	7,028,496
Capital assets, being depreciated:					
Building and building improvements		859,454,972	—	—	859,454,972
Equipment		5,287,980	269,354	(662,401)	4,894,933
Total capital assets being depreciated		864,742,952	269,354	(662,401)	864,349,905

		Balance at June 30, 2022	Additions/ Transfers	Retirements/ Transfers	Balance at June 30, 2023
Less accumulated depreciation:					
Building and building improvements		287,253,987	31,883,136	—	319,137,123
Equipment		4,506,171	331,240	(569,177)	4,268,234
Total accumulated depreciation		291,760,158	32,214,376	(569,177)	323,405,357
Capital assets, net	$	581,048,796	(31,945,022)	(1,130,730)	547,973,044

Capital asset activity for the year ended June 30, 2022 is summarized as follows:

		Balance at June 30, 2021	Additions/ Transfers	Retirements/ Transfers	Balance at June 30, 2022
Capital assets, not being depreciated:					
Land	$	6,775,215	—	—	6,775,215
Construction in progress		18,818	1,271,969	—	1,290,787
Total capital assets not being depreciated		6,794,033	1,271,969	—	8,066,002
Capital assets, being depreciated:					
Building and building improvements		859,454,972	—	—	859,454,972
Equipment		5,211,219	131,038	(54,277)	5,287,980
Total capital assets being depreciated		864,666,191	131,038	(54,277)	864,742,952
Less accumulated depreciation:					
Building and building improvements		255,105,388	32,148,599	—	287,253,987
Equipment		4,165,129	381,694	(40,651)	4,506,172
Total accumulated depreciation		259,270,517	32,530,293	(40,651)	291,760,159
Capital assets, net	$	612,189,707	(31,127,286)	(13,626)	581,048,795

No major construction activity took place in 2023 and 2022.

(Continued)

(4) Noncurrent Liabilities

Noncurrent liability activity for the years ended June 30, 2023 and 2022 is summarized as follows:

	Balance at June 30, 2022	Additions	Reductions	Balance at June 30, 2023
Noncurrent liabilities:				
ILP payable	$ 627,533,927	—	(19,159,154)	608,374,773
Notes payable	15,712,195	—	(1,845,648)	13,866,547
Pension liability	1,980,737	1,250,476	—	3,231,213
OPEB liability	17,443,326	—	(2,971,595)	14,471,731
Total noncurrent liabilities	662,670,185	1,250,476	(23,976,397)	639,944,264
Current portion	(21,004,802)			(21,816,855)
Noncurrent portion	$ 641,665,383			$ 618,127,409

	Balance at June 30, 2021	Additions	Reductions	Balance at June 30, 2022
Noncurrent liabilities:				
ILP payable	$ 648,725,251	—	(21,191,324)	627,533,927
Notes payable	17,531,393	—	(1,819,198)	15,712,195
Pension liability	5,812,424	—	(3,831,687)	1,980,737
OPEB liability	20,289,552	—	(2,846,226)	17,443,326
Lease payable	460,000	—	(460,000)	—
Total noncurrent liabilities	692,818,620	—	(30,148,435)	662,670,185
Current portion	(22,905,127)			(21,004,802)
Noncurrent portion	$ 669,913,493			641,665,383

(5) Long-Term Capital Debt

Long-term capital debt consists of liabilities to the University Internal Lending Program (ILP) and direct borrowing.

Effective July 1, 2008, the University Board of Regents adopted the amended “Debt Management Policy: Statement of Objectives and Policies” to provide for the implementation of an ILP.

The purpose of the ILP is to lower the University's overall cost of capital and provide internal borrowing units with a stable and predictable borrowing rate. The ILP will make loans to internal borrowers at a uniform internal lending rate. These loans will be funded through the issuance of University general revenue bonds and notes. ILP program policies include a provision for a rate of stabilization reserve and a provision for rate adjustments, if necessary.

On April 22, 2008, the University issued General Revenue & Refunding Bonds (GRB) (2008 Bonds) to refund certain outstanding bonds of the University. A portion of the proceeds from the sale of the 2008 Bonds was used for the purpose of refunding HFS's 1996 Junior Lien Revenue Bonds with a premium. Related to this, HFS has completed repayment of these bonds and is no longer obligated to the ILP as of June 30, 2022. The premium was paid in full as of June 30, 2022.

In December 2008, HFS drew funds from the ILP in a total amount of $6,348,067 to purchase the Cavalier Apartments property for future housing development plans. The final payment is due in fiscal year 2034. The interest rate was 4.00% as of June 30, 2023, and 2022. Related to this, HFS is obligated to the ILP in the amount of $3,616,909 and $3,886,107 as of June 30, 2023, and 2022, respectively.

In October 2010, the University issued GRB 2010A & B. A portion of the proceeds was used to partially refund the 2002 Housing and Dining Revenue & Refunding Bonds with a premium. Related to this, HFS is obligated to the ILP in the amount of $4,872,039 and $5,343,949 as of June 30, 2023, and 2022, respectively. The final payment is due in fiscal year 2032. The interest rate was 4.00% as of June 30, 2023, and 2022. The premium on the 2002 bonds was paid in full as of June 30, 2022.

In March 2012, the University issued GRB 2012A & B. A portion of the proceeds was used to fully refund the 2002 and 2004 Housing and Dining Revenue & Refunding Bonds. The amount refunded was $15,595,000, with no gain or loss. Related to this, HFS is obligated to the ILP in the amount of $3,928,761 and $4,541,368 as of June 30, 2023, and 2022, respectively. The final payments were due in fiscal year 2022 for GRB 2012A and will be due in 2029 for GRB 2012B. The interest rate was 4.25% as of June 30, 2023, and 2022, for the GRB 2012A. The interest rate was 4.06% for GRB 2012B as of June 30, 2023, and 2022.

From May 2009 through January 2016, the Board of Regents approved borrowing for HFS under the ILP of up to $760,775,515 for the four phases of the Housing Master Plan to build residence halls and single student apartments. The total draws to fund the project were $690,142,868. Phase 1a was completed in 2011 and Phases 1b, 2a, 2b, and 3 were completed in each of the succeeding four fiscal years. Repayment of borrowings for each phase of the project began in the autumn after each phase was completed. Debt repayments for Phase 4a of the project began in autumn 2019. Related to this, HFS is obligated to the ILP in the amount of $581,556,998 and $598,073,200 as of June 30, 2023, and 2022, respectively. The final payments are due between the fiscal years 2042 and 2049. The interest rate was 4.00% as of June 30, 2023, and 2022.

In July 2016, due to the transfer of the Nordheim Court Apartments from UW Real Estate (note 6), HFS is obligated to the ILP in the amount of $14,400,066 and $15,689,303 as of June 30, 2023, and 2022, respectively. The final payment is due in fiscal year 2032. The interest rate was 4.00% as of June 30, 2023, and 2022.

In June 2020, HFS was authorized to directly borrow $19,000,000 under the Financing Assets in the Short Term (FAST) loan program to allow for the completion of the Oak Hall construction project, while preserving cash reserves. Proceeds of $12,000,000 and $7,000,000 were received in June 2020 under FAST1 and FAST2 notes payable, respectively. The notes are secured by the general revenue of the University. Repayments began in September 2020, and the final payments are due in fiscal year 2031. Related to FAST1 note, HFS is obligated to the FAST program in the amount of $8,725,479 and $9,898,963 as of June 30, 2023, and 2022, respectively. The interest rate was 1.19% as of June 30, 2023, and 2022. Related to FAST2 note, HFS is obligated to the FAST program in the amount of $5,141,069 and $5,813,232 as of June 30, 2023, and 2022, respectively. The interest rate was 1.88% as of June 30, 2023, and 2022.

The ILP agreements require HFS to maintain certain financial performance ratios. If these requirements were violated, future financing from the ILP could be ceased or minimized. The FAST loan authorization also includes internal covenants that are similar to the ILP requirements. As of June 30, 2021, the loan covenants were temporarily waived by the University of Washington Board of Regents for fiscal year 2022 due to impacts of the coronavirus pandemic.

Debt service requirements at June 30, 2023 were as follows:

	ILP Payable				Notes payable		
	Principal	Interest	Total		Principal	Interest	Total
2024	$ 19,944,352	24,010,438	43,954,790	2024	$ 1,872,503	188,612	2,061,115
2025	20,760,752	23,194,569	43,955,321	2025	1,899,769	161,346	2,061,115
2026	21,609,191	22,345,308	43,954,499	2026	1,927,454	133,661	2,061,115
2027–2031	119,939,562	97,786,883	217,726,445	2027–2031	8,166,821	249,400	8,416,221
2032–2036	131,702,001	72,464,576	204,166,577	2032–2036	—	—	—
2037–2041	156,696,306	43,996,274	200,692,580	2037–2041	—	—	—
2042–2046	110,274,716	14,414,532	124,689,248	2042–2046	—	—	—
2047–2050	27,447,893	1,252,279	28,700,172	2047–2050	—	—	—
	$ 608,374,773	299,464,859	907,839,632		$ 13,866,547	733,019	14,599,566

(6) Leases

Lease Payments

In June 2001, the state of Washington, in conjunction with the Washington Finance Officers Association (a nonprofit corporation), issued Certificates of Participation (CoPs) to certain investors. Proceeds from the CoPs were used for improvements to food services at the Husky Union Building. The University makes certain payments (considered lease payments) as required by the CoPs and HFS has agreed to reimburse the University for these payments.

The total principal obligation under this agreement were $0 as of June 30, 2023, and 2022 and was repaid in one final annual installment of $484,150 (including imputed interest of approximately 5%) during the year ended June 30, 2022.

Lease Revenue

The University and Community Development Properties (CDP), a nonprofit organization, entered into a lease agreement whereby CDP issued bonds to undertake a comprehensive redevelopment of the Commodore Duchess and Radford Court properties for student housing. In July 2011 and 2012, the University assumed responsibility for the Nordheim Court, Commodore Duchess, and Radford Court properties from CDP. In July 2016, the Nordheim Court property agreement was amended such that it became the direct responsibility of HFS in order to offer University programs to residents that could not be administered by a third-party property manager.

The Commodore Duchess and Radford Court properties (the Apartments) are owned by the University and are managed by UW Real Estate in conjunction with an outside property manager. The University refunded the CDP bonds with loan proceeds from the ILP. In accordance with the ILP financing agreement, HFS will be obligated to pay debt service on this loan only in the event that funds from the Apartments are insufficient to cover debt service payments on the loan. The Apartments have been self-sustaining in the current and prior years. The outstanding debt under this agreement was $23,079,973 and $25,403,347 as of June 30, 2023, and 2022, respectively.

The University receives an annual payment from the Apartments, which it designates to HFS. Revenue from these properties was $3,485,696 and $3,414,423 for the years ended June 30, 2023 and 2022, respectively.

(7) Deferred Outflows and Deferred Inflows of Resources

The balance of deferred outflows of resources is related to the following retirement benefit plans as of June 30:

		2023	2022
Deferred outflows of resources:			
Public Employees’ Retirement System pension plans (note 8)	$	4,555,856	1,326,710
University of Washington Supplemental Retirement Plan (note 8)		1,167,451	1,374,956
Other postemployment benefits (OPEB) (note 9)		1,853,046	1,697,849
Total deferred outflows of resources	$	7,576,353	4,399,515

The balance of deferred inflows of resources is related to the following retirement benefit plans as of June 30:

		2023	2022
Deferred inflows of resources:			
Public Employees' Retirement System pension plans (note 8)	$	4,298,785	10,389,120
University of Washington Supplemental Retirement Plan (note 8)		2,306,590	2,580,164
Other postemployment benefits (OPEB) (note 9)		13,210,243	10,236,645
Total deferred inflows of resources	$	19,815,618	23,205,929

(8) Pension Plans

The University offers several contributory pension plans administered by the Washington State Department of Retirement Systems (DRS). HFS has employees in the Public Employees' Retirement System plan, which is a defined-benefit retirement plan. The University of Washington Retirement Plan (UWRP), a defined-contribution plan, is administered by the University. The University of Washington Supplemental Retirement Plan (UWSRP), a noncontributory defined-benefit pension plan, which operates in tandem with the UWRP, is closed to new participants.

(a) Plan Descriptions of the DRS Plans

(i) Public Employees' Retirement System (PERS)

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

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

(b) Vesting and Benefits Provided

(i) PERS Plan 1

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

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

(ii) PERS Plan 2/3

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

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

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

(c) Fiduciary Net Position

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

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

DRS publishes an annual report for retirement plans, which is available at https://www.drs.wa.gov/news/

(d) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). HFS's 2023 proportionate share of the pension liability is based on an OSA valuation performed as of June 30, 2021, with the results rolled forward to the measurement date of June 30, 2022. Likewise, HFS's 2022 proportionate share of the pension liability is based on an OSA valuation performed as of June 30, 2020, with the results rolled forward to the measurement date of June 30, 2021.

The following actuarial assumptions have been applied to all prior periods included in the measurement:

2023:	
Inflation	2.75% Total economic inflation, 3.25% Salary inflation
Salary increase	Expected to grow by promotions and longevity, in addition to salary inflation assumption of 3.25%
Investment rate of return	7.00%
2022:	
Inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.50%
Investment rate of return	7.40%

Mortality rates as of June 30, 2021, and 2020 were developed using the Society of Actuaries' Pub. H-2010 Mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2021, valuations were based on the results of the 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. The actuarial assumptions used in the June 30, 2020, valuations were based on the results of the 2013-2018 Demographic Study Report and the 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the dates of the respective actuarial valuation reports.

(Continued)

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

The long-term expected rate of returns of 7.00% and 7.40%, as of measurement dates June 30, 2022, and 2021, respectively, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or dampen any short-term changes that are not expected over the entire 50-year measurement period.

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

	2023 (measurement date: 2022)		2022 (measurement date: 2021)	
	Target allocation	Long-term expected arithmetic real rate of return	Target allocation	Long-term expected arithmetic real rate of return
Asset class:				
Fixed income	20.00 %	1.50 %	20.00 %	2.20 %
Tangible assets	7.00	4.70	7.00	5.10
Real estate	18.00	5.40	18.00	5.80
Global equity	32.00	5.90	32.00	6.30
Private equity	23.00	8.90	23.00	9.30

The inflation component used to create the above table was 2.20% for the June 30, 2021, and 2020 actuarial valuations and represents WSIB's most recent long-term estimate of broad economic inflation at the time of these valuations.

(e) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2023, and 2022 was 7.00% and 7.40%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which HFS participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.00% and 7.40% future investment rate of return on pension plan investments was assumed as of June 30, 2022, and June 30, 2021, respectively. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1, as provided for in Chapter 41.45 of the RCW).

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

The following tables present HFS's proportionate share of the net pension liabilities and assets calculated using the discount rates of 7.00% and 7.40% as of June 30, 2022, and 2021, respectively, as well as what the net pension liabilities or assets would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

		1% Decrease	Current discount rate	1% Increase
			(Dollars in thousands)	
Plan as of June 30, 2023:				
PERS 1	$	3,296	2,467	1,744
PERS 2/3		5,046	(4,285)	(11,950)

		1% Decrease	Current discount rate	1% Increase
			(Dollars in thousands)	
Plan as of June 30, 2022:				
PERS 1	$	1,670	980	379
PERS 2/3		(2,883)	(10,121)	(16,081)

(g) *Employer Contribution Rates*

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The following table presents the contribution rates, stated as a percentage of covered payroll as defined by the statute, and required contributions for each DRS plan in which HFS participates for the years ended June 30, 2023, and 2022:

Description		PERS	
		PERS 1	Plan 2/3[a]
		(Dollars in thousands)	
Contributions as of June 30, 2023:			
Contribution rate		10.25 %	10.25 %
Contributions made	$	671	1,116
Contributions as of June 30, 2022:			
Contribution rate		12.97 %	12.97 %
Contributions made	$	543	928

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

(h) HFS Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities and assets recorded by HFS as of June 30, 2023 was June 30, 2022. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2022 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in their June 30, 2022 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension plan liabilities and assets recorded by HFS as of June 30, 2022 was June 30, 2021, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2021 used as the basis for determining each employer's proportionate share of the collective pension amounts. HFS's proportionate share for each DRS plan is shown in the table below:

	Proportionate share	
	PERS 1	PERS 2/3
Year ended June 30, 2023	0.09 %	0.12 %
Year ended June 30, 2022	0.08 %	0.10 %

(i) HFS Aggregated Balances

HFS's aggregated balances of net pension liabilities and assets as of June 30, 2023, and 2022 are presented in the table below:

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
Plan as of June 30, 2023:				
Net pension liability	$	2,467	—	2,467
Net pension asset		—	4,285	4,285
Plan as of June 30, 2022:				
Net pension liability	$	980	—	980
Net pension asset		—	10,121	10,121

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

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

		Proportionate share of pension expense		
Description		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
As of June 30, 2023	$	1,351	(1,561)	(210)
As of June 30, 2022		(973)	(2,842)	(3,815)

Description		Deferred outflows of resources PERS 1	PERS 2/3	Total
Plan as of June 30, 2023:				
Change in assumptions	$	—	2,387	2,387
Difference between expected and actual experience		—	1,062	1,062
Changes in HFS' proportionate share		—	(680)	(680)
HFS's contributions subsequent to the measurement date of the collective net pension liability		671	1,116	1,787
Total	$	671	3,885	4,556

Description		Deferred outflows of resources PERS 1	PERS 2/3	Total
Plan as of June 30, 2022:				
Change in assumptions	$	—	15	15
Difference between expected and actual experience		—	492	492
Changes in HFS' proportionate share		—	(651)	(651)
HFS's contributions subsequent to the measurement date of the collective net pension liability[a]		543	928	1,471
Total	$	543	784	1,327

Description		Deferred inflows of resources PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
Plan as of June 30, 2023:				
Difference between projected and actual earnings on plan investments, net	$	409	3,168	3,577
Change in assumptions		—	625	625
Difference between expected and actual experience		—	97	97
Total	$	409	3,890	4,299

Description		Deferred inflows of resources		
		PERS 1	**PERS 2/3**	**Total**
			(Dollars in thousands)	
Plan as of June 30, 2022:				
Difference between projected and actual earnings on plan investments, net	$	1,088	8,458	9,546
Change in assumptions		—	719	719
Difference between expected and actual experience		—	124	124
Total	$	1,088	9,301	10,389

Amounts reported as deferred outflows of resources, as of June 30, 2023, exclusive of contributions made after the measurement date, and deferred inflows of resources will be recognized in pension expense as follows:

Year		Amortization of deferred inflows and deferred outflows of resources[a]		
		PERS 1	**PERS 2/3**	**Total**
			(Dollars in thousands)	
2024	$	(173)	(1,129)	(1,302)
2025		(157)	(1,010)	(1,167)
2026		(197)	(1,192)	(1,389)
2027		118	1,321	1,439
2028		—	414	414
Thereafter		—	475	475
Total	$	(409)	(1,121)	(1,530)

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

(k) University of Washington Retirement Plan

UWRP, a single-employer 403(b) defined-contribution plan, is administered by the University. Faculty, librarians, and professional staff are eligible to participate in the UWRP.

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 the plan are available upon separation or retirement at the member's option. RCW 28B.10.400 et. seq. assigns the authority to the University of Washington Board of

Regents to establish and amend benefit provisions. The number of participants in the UWRP as of June 30, 2023 and 2022 was 122 and 123, respectively.

(i) 403(b) Funding Policy

Employee contribution rates, based on age, are 5.0%, 7.5%, or 10.0% of salary. The University matches 100% of employee contributions. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents, respectively. Employer contributions for the years ended June 30, 2023 and 2022 were $539,406 and $515,762, respectively.

(l) University of Washington Supplemental Retirement Plan

UWSRP, a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. For purposes of measuring the June 30, 2023 and 2022 net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the UWSRP and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported in the state of Washington's Annual Comprehensive Financial Report, which is available at https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report.

The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership requires participation in the UWRP. As of June 30, 2023, the UWRP had 19 active employees and 6 inactive employees, with 2 inactive employees entitled to, but not receiving benefits, compared to June 30, 2022, with 21 active employees, 4 inactive employees receiving benefits, with 1 inactive employee entitled to, but not receiving, benefits.

(i) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal years ended June 30, 2023, and 2022 were $51,909 and $47,088, respectively.

(ii) *Employer Contributions*

State legislation signed into law on July 1, 2020, created an employer contribution rate for the UWSRP. This rate is developed by the OSA in accordance with RCW 41.45, which provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. HFS's contribution rate for the fiscal year ended June 30, 2023, and 2022 per RCW 28B.10.423 was 0.38% of UWRP covered salaries. Contributions made in the fiscal year ended June 30, 2023, and 2022 were $39,481 and $29,897, respectively.

(iii) *Plan Investments*

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

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

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

The money-weighted rates of return are provided by the WSIB and the Office of the State Treasurer. For the years ended June 30, 2023 and 2022, the annual money-weighted rate of return on UWSRP investments, net of pension plan investment expense, was 7.16% and 0.12%, respectively. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of external cash flows.

(iv) *Other Designated Assets*

HFS has set aside assets to pay UWSRP benefits which are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, these assets are not reflected as a reduction of the Total Pension Liability (TPL).

As of June 30, 2023, and 2022, HFS had set aside $1,615,623 and $1,576,465, respectively, to pay future UWSRP retiree benefits. These assets are physically segregated in a separate investment account, and included in other assets, net of current portion on the Statements of Net

Position. These assets are in addition to those amounts now residing with the WSIB, which are reflected as a reduction of the TPL beginning in fiscal year 2021.

(v) UWSRP Pension Liability

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

The allocation method used to determine HFS's proportionate share of the University's Net Pension Liability (NPL) and TPL is based on its unit allocation of what is funded through the benefit load process. This proportionate share percentage for HFS was 0.47% and 0.45% as of June 30, 2023, and 2022, respectively.

HFS' proportionate share of the components of the UWSRP net pension liability were as follows:

		TPL	Plan fiduciary net position	NPL[a]
			(Dollars in thousands)	
Changes in net (pension liability):				
Balance as of July 1, 2022	$	1,407	408	999
Service cost		24	—	24
Interest on TPL		104	—	104
Difference between expected and actual experience		(148)	—	(148)
Change in assumptions		(126)	—	(126)
Employer contributions		—	39	(39)
Investment income		—	34	(34)
Benefit payments		(52)	—	(52)
Other changes		36	—	36
Balance as of June 30, 2023	$	1,245	481	764

(a) NPL is the difference between TPL and Plan Fiduciary Net Position.

		TPL	Plan fiduciary net position	NPL[a]
			(Dollars in thousands)	
Changes in net (pension liability):				
Balance as of June 30, 2021	$	962	377	585
Service cost		17	—	17
Interest on TPL		73	—	73
Difference between expected and actual experience		310	—	310
Change in assumptions		101	—	101
Employer contributions		—	30	(30)
Investment income		—	1	(1)
Benefit payments		(47)	—	(47)
Other changes		(9)	—	(9)
Balance as of June 30, 2022	$	1,407	408	999

(a) NPL is the difference between TPL and Plan Fiduciary Net Position.

The June 30, 2023 TPL is based on an actuarial valuation performed as of January 1, 2023, with updated procedures performed by the OSA to roll forward the TPL to the measurement date of June 30, 2023. Future valuations will continue to use a January 1 valuation and be rolled forward to the June 30 measurement dates. Some of the larger experience items that impacted the TPL were salaries generally lower than assumed and SRP benefits for new retirees were lower than estimated. OSA's model estimates the SRP benefit of future retirees by relying on assumptions for the benefit calculation performed by Teachers Insurance and Annuity Association of America (TIAA). Based on information provided by TIAA and OSA's professional judgment, some of the long-term assumptions were updated which decreased the TPL as of June 30, 2023.

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

HFS's share of UWSRP pension expense for the fiscal years ended June 30, 2023, and 2022 was $(341,667) and $(138,286), respectively.

(vi) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on HFS. The professional judgments used in determining these assumptions are important and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant effect on HFS's financial statements. The following table shows significant assumptions used to measure the NPL as of June 30, 2023 and 2022:

	June 30, 2023 (Dollars in thousands)
Significant assumptions used to measure the UWSRP pension liability:	
Inflation	2.75 %
Salary changes	4.00 %
Source of mortality assumptions	Pub. H-2010 tables, with the MP-2017 mortality improvement scale
Date of experience study	August, 2021
Discount rate	7.00 %
Change in discount rate since prior measurement date	— %
Source of discount rate	2021 Report on Financial Condition and Economic Experience Study
Investment rate of return	7.00 %
NPL measurement at discount rate	$ 764
NPL discount rate increased 1%	$ 639
NPL discount rate decreased 1%	$ 910

	June 30, 2022 (Dollars in thousands)
Significant assumptions used to measure the UWSRP pension liability:	
Inflation	2.75 %
Salary changes	4.00 %
Source of mortality assumptions	Pub. H-2010 tables, with the MP-2017 mortality
Date of experience study	August, 2021
Discount rate	7.00 %
Change in discount rate since prior measurement date	(0.40)%
Source of discount rate	2021 Report on Financial Condition and Economic Experience Study
Investment rate of return	7.00 %
NPL measurement at discount rate	$ 999
NPL discount rate increased 1%	$ 860
NPL discount rate decreased 1%	$ 1,165

There were no changes to the significant assumptions used for the period ending June 30, 2023.

(Continued)

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023, and 2022, are summarized in the following table:

	As of June 30, 2023		As of June 30, 2022	
	Target allocation	Long.term expected arithmetic real rate of return	Target allocation	Long.term expected arithmetic real rate of return
Estimated rates of return for major asset classes:				
Asset class:				
Fixed income	20.00 %	1.50 %	20.00 %	2.20 %
Tangible assets	7.00	4.70	7.00	5.10
Real estate	18.00	5.40	18.00	5.80
Global equity	32.00	5.90	32.00	6.30
Private equity	23.00	8.90	23.00	9.30

The inflation component used to create the above table was 2.20% for the June 30, 2021 and 2020 actuarial valuations, and represents WSIB's most recent long-term estimate of broad economic inflation at the time of these valuations.

(Continued)

(vii) Deferred Outflows and Deferred Inflows of Resources

The tables below summarize the HFS's deferred outflows and deferred inflows of resources related to the UWSRP, together with the related future year impacts to pension expense from amortization of those deferred amounts as of June 30, 2023, and 2022:

		2023	2022
		(Dollars in thousands)	
Deferred outflows of resources:			
Difference between expected and actual experience	$	475	584
Change in assumptions		452	563
Change in proportionate share		240	228
Total	$	1,167	1,375

		2023	2022
		(Dollars in thousands)	
Deferred inflows of resources:			
Difference between expected and actual experience	$	1,224	1,365
Change in assumptions		751	794
Net difference between projected and actual earnings on plan investments		14	23
Change in proportionate share		318	398
Total	$	2,307	2,580

		2023
		(Dollars in thousands)
SRP Amortization of deferred inflows and outflows of resources:		
Year:		
2024	$	(272)
2025		(207)
2026		(163)
2027		(326)
2028		(28)
Thereafter		(144)
Total	$	(1,140)

(9) Other Post-Employment Benefits (OPEB)

(a) Plan Description

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

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

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

The implicit subsidy, set up under RCW 41.05.022, is not a direct payment from the employer on behalf of the retiree. Retirees who are not yet eligible for Medicare benefits may currently continue to participate in the state's non-Medicare community-rated health insurance risk pool. Claims experience for employees, and non-Medicare eligible retirees, are pooled when determining premiums. Therefore, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. This results in an implicit subsidy since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy applicable to each calendar year, with the final amount approved by the state Legislature. The subsidy was $183 per member per month for fiscal year 2023 and 2022.

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

(Continued)

The table below shows HFS's PEBB membership data as of June 30, 2023 and 2022:

	2023 (Measurement date: 2022)	2022 (Measurement date: 2021)
Active employees	437	348
Inactive employees receiving benefits	127	97
Inactive employees entitled to, but not receiving, benefits	N/A*	16

* Data not available from Washington State Health Care Authority (HCA)

(b) *Actuarial Assumptions*

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on HFS. The professional judgments used by the OSA in determining the assumptions used to value the state of Washington OPEB liability are important, and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant effect on HFS's financial statements. The following table shows the significant assumptions used to measure the TOL as of June 30, 2023 and 2022:

	June 30, 2023 (Dollars in thousands)
Significant assumptions used to measure the total OPEB liability (TOL):	
Inflation	2.35 %
Healthcare cost trend	Initial rate ranges from 2%–11% reaching an ultimate rate of 3.80% in 2080.
Salary increase	3.25% plus Service-Based Salary Increases
Source of mortality assumptions	Society of Actuaries' Pub.H-2010 mortality rates, with application of the long-term MP-2017 generational improvement scale, and updated based on results of the 2013–2018 Demographic Experience Study Report and the 2019 Report on Financial Condition and Economic Experience Study.
Date of experience study	2013–2018 Experience Study Report
Discount rate	3.54 %
Source of discount rate	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of 6/30/22 (Measurement Date)
Post-retirement participation percentage	60.00 %
TOL measurement at discount rate	$ 14,472
TOL discount rate increased 1%	$ 12,472
TOL discount rate decreased 1%	$ 16,957
TOL measurement at healthcare cost trend rate	$ 14,472
TOL healthcare cost trend rate increased 1%	$ 17,310
TOL healthcare cost trend rate decreased 1%	$ 12,253

	June 30, 2022 (Dollars in thousands)
Significant assumptions used to measure the total OPEB liability (TOL):	
Inflation	2.75 %
Healthcare cost trend	Initial rate ranges from 2%–11% reaching an ultimate rate of 4.3% in 2075.
Salary increase	3.50% plus Service-Based Salary Increases
Source of mortality assumptions	Society of Actuaries' Pub. H-2010 mortality rates, with application of the long-term MP-2017 generational improvement scale, and updated based on results of the 2013–2018 Demographic Experience Study Report and the 2019 Report on Financial Condition and Economic Experience Study.
Date of experience study	2013–2018 Experience Study Report
Discount rate	2.16 %
Source of discount rate	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of 6/30/21 (Measurement Date)
Post-retirement participation percentage	65.00 %
TOL measurement at discount rate	$ 17,443
TOL discount rate increased 1%	$ 14,574
TOL discount rate decreased 1%	$ 21,134
TOL measurement at healthcare cost trend rate	$ 17,443
TOL healthcare cost trend rate increased 1%	$ 21,998
TOL healthcare cost trend rate decreased 1%	$ 14,073

Material assumption changes during the measurement period ending June 30, 2022, include updating the discount rate as required by GASB 75. Material assumption changes during the measurement period ending June 30, 2021, include updating the discount rate, the forecasts of healthcare cost trend rate, and the mortality assumptions, as required by GASB 75.

(c) Changes in the Total OPEB Liability

The TOL for the State of Washington as of June 30, 2023, was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2022. The measurement date for the TOL as of June 30, 2022, was the same as the valuation date. The TOL for the State of Washington as of June 30, 2022, was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2020, with the results rolled forward to the measurement date of June 30, 2021. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as HFS. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine HFS's proportionate share of the

University's TOL is the relationship of HFS's active, healthcare-eligible employee headcount to the corresponding University total. The HFS's proportionate share percentage was 1.16% in 2023 and 0.94% in 2022.

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

		June 30	
		2023	2022
		(Dollars in thousands)	
Schedule of changes in total OPEB liability (TOL):			
Balance as of July 1	$	17,443	20,290
Service cost		1,068	872
Interest on TOL		495	377
Difference between expected and actual experience		(491)	—
Change in assumptions		(8,283)	161
Benefit payments		(364)	(288)
Change in proportionate share		4,604	(3,969)
Balance as of June 30	$	14,472	17,443

(d) OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

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

		2023	2022
		(Dollars in thousands)	
Deferred outflows of resources:			
Differences between expected and actual experience in the measurement of the total OPEB liability	$	302	298
HFS contributions subsequent to the measurement date of the collective total OPEB liability		364	289
Changes in assumptions		1,187	1,110
Changes in proportionate share		—	—
Total	$	1,853	1,697

		2023	2022
		(Dollars in thousands)	
Deferred inflows of resources:			
Differences between expected and actual experience in the measurement of the total OPEB liability	$	509	68
Changes in assumptions		10,492	3,162
Changes in proportionate share		2,210	7,007
Total	$	13,211	10,237

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

		2023
		(Dollars in thousands)
Amortization of deferred inflows and deferred outflows of resources[a]:		
Year:		
2024	$	(1,302)
2025		(1,302)
2026		(1,302)
2027		(1,302)
2028		(1,302)
Thereafter		(4,848)
Total	$	(11,358)

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

(10) Related Party

The University provides support to the Department by performing the following services:

- Providing use of University buildings and equipment
- Serving as the depository, purchasing, and disbursing agent
- Providing certain administrative and accounting services

In addition, the Department purchases operating and other services from the University and is allocated institutional overhead from the University for services provided and payment for utility costs. There were $1,039,921 and $753,654 of institutional overhead allocated from the University for fiscal years 2023 and 2022.

The Department is covered by the University's self-insurance liability program. The program provides protection from liability claims arising from the negligent acts or omissions of the University of Washington and its employees, students, and agents acting in the course and scope or their University duties. The term "agent" includes volunteers to official University programs. There is no deductible. Annual premiums paid by HFS are for first dollar coverage. Policy is through PBI (Portage Bay), which is a captive insurance company of the University of Washington.

(11) Subsequent Events

The Department has evaluated subsequent events through the issuance date of this report and determined that there have been no events that have occurred that would require adjustments to our disclosures in the financial statements.

UNIVERSITY OF WASHINGTON
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Schedules of Required Supplementary Information (Unaudited)

June 30, 2023 and 2022

Schedule of HFS Proportionate Share of the Net Pension Liability
(As of measurement date, the prior fiscal year-end)

	PERS 1							
	2023	2022	2021	2020	2019	2018	2017	2016
	(Dollars in thousands)							
Housing and Food Services' proportion of the net pension liability	0.09 %	0.08 %	0.10 %	0.11 %	0.11 %	0.11 %	0.11 %	0.11 %
Housing and Food Services' proportionate share of the net pension (asset) liability	$ 2,467	980	3,618	4,121	4,859	5,146	6,063	5,838
Housing and Food Services' covered payroll	$ 14,369	12,251	15,395	14,855	14,256	13,407	13,177	12,416
Housing and Food Services' proportionate share of the net pension (asset) liability as a percentage of covered payroll	17.17 %	8.00 %	23.50 %	27.74 %	34.09 %	38.38 %	46.01 %	47.02 %
Plan fiduciary net position as a percentage of the total pension liability	76.56 %	88.74 %	68.64 %	67.12 %	63.22 %	61.24 %	57.03 %	59.10 %

Schedule of Contributions
(As of current fiscal year-end)

	PERS 1							
	2023	2022	2021	2020	2019	2018	2017	2016
	(Dollars in thousands)							
Contractually required contribution	$ 4	4	6	12	16	21	23	29
Contributions in relation to the contractually required contribution	4	4	6	12	16	21	23	29
Contribution deficiency (excess)	$ —	—	—	—	—	—	—	—
Housing and Food Services' covered payroll	$ 17,477	14,369	12,251	15,395	14,855	14,256	13,407	13,177
Contributions as a percentage of covered payroll	0.02 %	0.03 %	0.05 %	0.08 %	0.11 %	0.15 %	0.17 %	0.22 %

Schedule of HFS Proportionate Share of the Net Pension Liability (NPL)
(As of measurement date, the prior fiscal year-end)

	PERS 2/3							
	2023	2022	2021	2020	2019	2018	2017	2016
	(Dollars in thousands)							
Housing and Food Services' proportion of the net pension liability	0.12 %	0.10 %	0.13 %	0.14 %	0.14 %	0.14 %	0.14 %	0.14 %
Housing and Food Services' proportionate share of the net pension (asset) liability	$ (4,285)	(10,121)	1,667	1,322	2,347	9,765	7,035	4,928
Housing and Food Services' covered payroll	$ 14,440	12,152	15,192	14,789	14,256	13,444	13,051	12,239
Housing and Food Services' proportionate share of the net pension liability as a percentage of covered payroll	(29.67)%	(83.29)%	10.97 %	8.94 %	16.46 %	35.44 %	53.90 %	40.26 %
Plan fiduciary net position as a percentage of the total pension liability	106.73 %	120.29 %	97.22 %	97.77 %	95.77 %	90.97 %	85.82 %	89.20 %

Schedule of Contributions
(As of current fiscal year-end)

	PERS 2/3							
	2023	2022	2021	2020	2019	2018	2017	2016
	(Dollars in thousands)							
Contractually required contribution	$ 1,818	1,497	1,573	1,953	1,893	1,801	1,503	1,448
Contributions in relation to the contractually required contribution	1,819	1,487	1,573	1,954	1,893	1,803	1,505	1,462
Contribution deficiency (excess)	$ (1)	10	—	(1)	—	(2)	(2)	(14)
Housing and Food Services' covered payroll	$ 17,549	14,440	12,152	15,192	14,789	14,256	13,444	13,051
Contributions as a percentage of covered payroll	10.36 %	10.37 %	12.95 %	12.86 %	12.80 %	12.65 %	11.19 %	11.20 %

(Continued)

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Schedules of Required Supplementary Information (Unaudited)

June 30, 2023 and 2022

Schedule of Changes in the Net Pension Liability (NPL)
UW Supplemental Retirement Plan (UWSRP)

		2023	2022
		(Dollars in thousands)	
Total pension liability – beginning	$	1,407	962
Service cost		24	17
Interest		104	73
Differences between expected and actual experience		(148)	310
Changes in assumptions		(126)	101
Change in proportionate share		36	(9)
Benefit payments		(52)	(47)
Total pension liability – ending, (a)		1,245	1,407
Plan fiduciary net position – beginning		408	377
Employer contributions		39	30
Net investment income		34	1
Plan fiduciary net position – ending, (b)		481	408
UWSRP net pension liability, (a) minus (b)	$	764	999
Plan fiduciary net position as percentage of the total pension liability		38.63 %	28.86 %
UWSRP covered-employee payroll	$	10,390	7,798
Net pension liability as percentage of covered employee payroll		7.35 %	12.84 %

(Continued)

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Schedules of Required Supplementary Information (Unaudited)

June 30, 2023 and 2022

Schedule of Changes in the Total Pension Liability (TPL)
UW Supplemental Retirement Plan (UWSRP)

		2023	2022	2021	2019	2019	2018
				(Dollars in thousands)			
Total pension liability – beginning	$	1,407	962	4,002	3,081	2,073	2,161
Service cost		24	17	96	85	61	74
Interest on TPL		104	73	74	109	85	81
Differences between expected and actual experience		(148)	310	(1,557)	161	533	(170)
Changes in assumption		(126)	101	(933)	649	302	(86)
Change in proportionate share		36	(9)	(679)	(40)	66	44
Benefit payments		(52)	(47)	(41)	(43)	(39)	(31)
Total pension liability – ending	$	1,245	1,407	962	4,002	3,081	2,073
UWSRP covered-employee payroll	$	10,390	7,798	7,239	3,812	4,083	3,817
Total pension liability as percentage of covered-employee payroll		11.98 %	18.04 %	13.29 %	104.98 %	75.46 %	54.31 %

Schedule of Contributions
UW Supplemental Retirement Plan (UWSRP)
(As of current fiscal year-end)

		2023	2022
		(Dollars in thousands)	
Contractually required contribution	$	39	30
Contributions in relation to the contractually required contribution		39	30
Contribution deficiency (excess)	$	—	—
UWSRP covered-employee payroll	$	10,390	7,798
Contributions as a percentage of covered-employee payroll		0.38 %	0.38 %

(Continued)

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Schedules of Required Supplementary Information (Unaudited)

June 30, 2023 and 2022

Schedule of Changes in Total OPEB Liability (TOL)

		2023	2022	2021	2019	2019
				(Dollars in thousands)		
Total OPEB liability – beginning	$	17,443	20,290	20,437	18,610	21,574
Service cost		1,068	872	842	827	1,164
Interest on TOL		495	377	704	717	800
Differences between expected and actual experience		(491)	—	(108)	—	730
Changes in assumption		(8,283)	161	457	1,337	(5,094)
Benefit payments		(364)	(288)	(335)	(328)	(338)
Change in proportionate share		4,604	(3,969)	(990)	(726)	(226)
Other		—	—	(717)	—	—
Total OPEB liability- ending	$	14,472	17,443	20,290	20,437	18,610
OPEB covered-employee payroll	$	37,533	28,983	34,641	36,122	34,274
Total OPEB liability as percentage of covered-employee payroll		38.56 %	60.18 %	58.57 %	56.58 %	54.30 %

Plans Administered by DRS

The office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW.

Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2018, valuation date, completed in the fall of 2019, plus any supplemental contribution rates from the preceding legislative session, determines the ADC for the period beginning July 1, 2020, and ending June 30, 2022.

Additional Consideration on ADC for All Plans:

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

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

Plans Administered by the University

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

Covered payroll for the fiscal year ending June 30, 2023, and 2022 is based on the payroll of participants in the University's 403(b) defined contribution UWRP, since the UWSRP required contributions beginning in fiscal year 2021 are based on this payroll. This employee population includes the participants of the UWSRP.

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

Changes that impacted the TPL and NPL included changing the valuation date from June 30, 2022 to January 1, 2023 for the June 30, 2023 measurement. The new data file decreased the TPL. Some of the larger experience items that impacted the TPL were salaries generally lower than assumed and SRP benefits for new retirees were lower than estimated. In addition, OSA's model estimates the SRP benefit of future retirees by relying on assumptions for the benefit calculation performed by Teachers Insurance and Annuity Association of America (TIAA). Based on information provided by TIAA and OSA's professional judgment, some of the long-term assumptions were updated, which decreased the TPL. The source for the discount rate changed in 2021 from the bond rate required of plans with no assets, to the investment return for plans with assets, due to the change in the plan on July 1, 2020, which led to a change in the appropriate accounting guidance.

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

OPEB Plan Administered by the Healthcare Authority of Washington State

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

Material assumption changes in fiscal year 2023 relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 2.16% for the June 30, 2021, measurement date, to 3.54% for the June 30, 2022 measurement date. This change resulted in a decrease in the TOL.

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

KPMG

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Basic Financial Statements and Schedules

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Table of Contents

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

Opinion

We have audited the financial statements of the University of Washington Department of Intercollegiate Athletics (the Department), a department of the University of Washington, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Emphasis of Matter

Reporting Entity

As discussed in note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the University of Washington that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2023 or 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 12 and the schedules of required supplementary information on pages 50 through 57 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The schedules of operating and other revenue by specific function and schedules of operating expenses and other deductions by specific function on pages 58 through 61 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Seattle, Washington
October 31, 2023

Discussion and Analysis Prepared by Management

The following discussion and analysis provide an overview of the financial position and activities of the University of Washington Department of Intercollegiate Athletics (the Department or ICA) as of and for the years ended June 30, 2023 and 2022, with certain comparative information as of and for the year ended June 30, 2021. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements of the Department are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the University of Washington that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2023 or 2022, the changes in its financial position or its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Using the Financial Statements

ICA's financial statements include the statements of net position, statements of revenue, expenses, and changes in net position, statements of cash flows, and 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. The financial health of ICA can be measured by reviewing the summaries and explanations that follow.

Statements of Net Position Summary

The following statements of net position summary shows ICA's total assets, total deferred outflows of resources, total liabilities, total deferred inflows of resources, and net position as of June 30, 2023, 2022, and 2021:

Statements of Net Position Summary

		2023	2022	2021
			(In thousands)	
Current assets	$	37,688	39,434	30,024
Noncurrent assets:				
Capital assets, net		259,024	269,304	281,883
Other		156,021	155,101	160,307
Total assets		452,733	463,839	472,214
Pension deferred outflows of resources		6,401	4,844	4,048
OPEB deferred outflows of resources		1,187	636	1,964
Total assets and deferred outflows of resources	$	460,321	469,319	478,226

Statements of Net Position Summary

		2023	2022	2021
			(In thousands)	
Current liabilities	$	31,845	37,266	29,992
Noncurrent liabilities		263,997	267,683	269,294
Total liabilities		295,842	304,949	299,286
Lease deferred inflows of resources		15,978	16,770	17,563
Pension deferred inflows of resources		7,970	11,263	8,014
OPEB deferred inflows of resources		6,715	2,429	3,188
Net position		133,816	133,908	150,175
Total liabilities, deferred inflows of resources, and net position	$	460,321	469,319	478,226

The following are comments about the changes highlighted by the statements of net position summary:

- Current assets consist of cash and cash equivalents, accounts receivable, and prepaid expenses. Current assets were $5.8 million more than current liabilities at the end of 2023. Current assets were $2.4 million more than current liabilities at the end of 2022. Current assets were $32 thousand more than current liabilities at the end of 2021. In 2023, the positive working capital is due to higher amounts of cash and accounts receivable and lower amounts of accounts payable. The positive working capital in 2022 is due to lower amounts of cash and accounts receivable and lower amounts of unearned income. The unearned income for 2023 will be recorded as revenue in 2024 following home competitions. Increases and decreases in current assets occur due to the timing of payments and receipts from operations.
- Noncurrent assets consist primarily of long-term investments, endowments, and capital assets. Noncurrent assets were $9.4 million less at the end of 2023 than at the end of 2022 and $17.8 million less at the end of 2022 than at the end of 2021. In 2023, investment increases, pension assets decreases, and capital asset depreciation were the main sources for the change in value. A decrease in investments and capital asset depreciation were the main sources for change in value in 2022. As of June 30, 2023 and 2022, there was $17.1 million and $16.9 million of noncurrent assets in long-term investment funds in which these investments can be used to meet ICA's long-term obligations.
- Current liabilities decreased by $5.4 million during 2023 to a total of $31.8 million largely due to the reduction of the severance accrual for the football coaches and other staff who were terminated in December 2021. Current liabilities increased by $7.3 million during 2022 to a total of $37.3 million largely due to the severance accrual for the football coaches and other staff who were terminated in December 2021.
- Noncurrent liabilities decreased by $3.7 million in 2023 due to a reduction in other post-employment benefit liabilities. Noncurrent liabilities increased by $1.6 million in 2022 due to a reduction in the capitalized lease payable and a reduction in pension liabilities.

- The change in net position measures whether the overall financial condition has improved or deteriorated during the year. The total net position decreased by $92 thousand during 2023 mainly due to an increase in expenses not full being offset by the increases in revenues. The total net position decreased by $16.3 million during 2022 mainly due to market losses in the Consolidated Endowment Fund (CEF).

ICA's Net Position

The following table is a summary of the net position for ICA at June 30, 2023, 2022, and 2021:

		2023	2022	2021
			(In thousands)	
Net investment in capital assets	$	14,579	23,873	32,426
Restricted:				
Nonexpendable		81,378	78,201	76,461
Expendable		66,140	58,520	57,609
Unrestricted		(28,281)	(26,686)	(16,321)
Total net position	$	133,816	133,908	150,175

The categories of net position listed in the table above are defined as follows:

- "Net investment in capital assets" is ICA's total investment in property, plant, equipment, and infrastructure, net of accumulated depreciation and any outstanding debt obligations related to those capital assets.
- "Restricted nonexpendable net position" consists of funds for which the donor has made the restriction that the principal is not available for expenditures, but investment earnings can be used for specific purposes.
- "Restricted expendable net position" is resources that ICA is obligated to spend in accordance with the restrictions placed by donors and/or external parties.
- "Unrestricted net position" is all other funds available to ICA for any purpose. Unrestricted assets are often internally designated for specific purposes.

The following are comments about the changes highlighted in the net position summary:

- Net investment in capital assets decreased by $9.3 million and $8.6 million in 2023 and 2022 to a total of $14.6 million and $23.9 million, respectively. This balance increases as debt is paid off or when ICA funds fixed asset purchases without financing. The balance decreases as assets are depreciated or debt increases.
- Restricted nonexpendable net position increased by $3.2 million and $1.7 million in 2023 and 2022, respectively, due to an increase in contributed endowments of $3.2 million and $1.8 million, respectively.
- Restricted expendable net position increased by $7.6 million and $900 thousand in 2023 and 2022 due to an increase in the market value of endowments and the contributions to the Basketball Operations restricted gift budget.

(Continued)

- Unrestricted net position decreased by $1.6 million in 2023 mainly due to operational expenses exceeding operational and non-operating revenues. Unrestricted net position decreased by $10.4 million in 2022 mainly due to investment losses in 2022.
- The fair market value of ICA's endowments was $115.5 million, $110.6 million, and $119.5 million at June 30, 2023, 2022, and 2021, respectively. The increase in 2023 is due to additional endowment contributions of $3.2 million and higher fair market values than in 2022. The decrease in 2022 is due to lower fair market values than in 2021, offset by additional endowment contribution of $1.8 million.
- ICA had $17.1 million, $16.9 million, and $18.5 million of long-term investments, not including endowments, in the University of Washington's CEF at June 30, 2023, 2022, and 2021, respectively. In fiscal year 2023, ICA had a market-related gain of $253 thousand. In fiscal year 2022, ICA had a market-related loss of $1.6 million.
- Short-term investments in the Invested Funds Pool used as operating funds for ICA yielded no returns in 2023, 2022 and 2021.

Capital Improvements and Related Debt

- In 2023 and 2022, there was a net decrease of $9.3 million and $8.6 million in net investment in capital assets, primarily related to the depreciation of capital assets exceeding the acquisition of capital assets during the year. In 2022, there were principal payments made on the Stadium and Ballpark Internal Lending Program (ILP) loans that resulted in the principal balance being reduced by $3.1 million.

Statements of Revenue, Expenses, and Changes in Net Position

The statements of revenue, expenses, and changes in net position present how ICA's operating and nonoperating items resulted in changes in net position. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The following summary shows the revenues, expenses, and changes in net position for the years ended June 30, 2023, 2022, and 2021:

Revenue, Expenses, and Changes in Net Position Summary

		2023	2022	2021
			(In thousands)	
Operating revenue	$	119,417	116,422	47,500
Operating expenses		(160,326)	(154,038)	(101,884)
Operating loss		(40,909)	(37,616)	(54,384)
Nonoperating revenues, net		27,439	6,510	57,044
Other revenues		13,378	14,839	10,035
(Decrease) increase in net position		(92)	(16,267)	12,695
Net position, beginning of year		133,908	150,175	137,480
Net position, end of year	$	133,816	133,908	150,175

Revenues from All Sources

The following table summarizes revenues from all sources for the years ended June 30, 2023, 2022, and 2021:

Revenues from All Sources Summary (In thousands)

		2023	2022	2021
Gate ticket sales	$	50,404	50,660	8,250
NCAA/conference distributions		41,251	39,943	23,372
Sponsorships, trademarks, and licensing		21,203	20,180	15,332
Concessions, souvenirs, parking, and boat moorage		4,051	3,672	219
Other operating revenue		2,508	1,967	327
Contribution (noncapital)		19,146	7,725	24,510
Investment income, net		4,333	4,080	3,896
Gain (loss) on investments		2,239	(12,135)	31,000
University funded tuition waivers		4,710	4,658	4,501
Higher Education Emergency Relief Fund (HEERF II)		—	425	2,000
University support		5,569	10,000	—
Coaches contract settlement		315	500	—
Lease revenue		792	792	792
Lease interest income		568	582	595
Capital gifts		10,210	13,045	6,206
Capital grants, gifts, and other		—	—	769
Endowment gifts		3,167	1,794	3,060
Total revenue – all sources	$	170,466	147,888	124,829

The following are comments about the changes highlighted by the revenue from all sources summary:

- Gate ticket sales are a major source of revenue for ICA. Totals here include revenue received through seat-related contributions, which are no longer considered tax-deductible after the passage of the Tax Cuts and Jobs Act of 2017. Tickets sales decreased by $256 thousand in 2023 due to sales being lower in football due to the opponent schedule in 2022. Tickets sales increased by $42.4 million in 2022 due to the elimination of group gathering restrictions related to COVID-19, which allowed the Department to host fans at events once again.
- NCAA/conference distributions increased by $1.3 million in 2023 due to the football team playing a bowl game in 2023 and an increase in the Pac-12 bowl game revenue share. NCAA/conference distributions increased by $16.6 million in 2022 due to there being no COVID-19 related game cancellations.
- In 2023, sponsorship revenue increased by $1.0 million due to an increase in the Adidas product allotment and cash payment and the return of the multimedia rights agreement being paid at the contracted amount. Sponsorship revenue in 2022 was $4.8 million higher due to the Department's ability to host fans at events.

- Concessions, souvenirs, parking, and boat moorage increased by $379 thousand in 2023 due primarily to an increase in concessions sales. Concessions, souvenirs, parking, and boat moorage increased by $3.5 million in 2022 due to the ability for the Department to have fans attend home competitions again.
- Contributions increased by $11.4 million in 2023 from 2022 mainly due to some large gifts to the Football Enhancement Fund. The Huskies All In campaign ended at the end of calendar year 2021, which reduced contributions by $16.8 million in 2022 from 2021.
- Investment income increased by $252 thousand and $184 thousand in 2023 and 2022, respectively. Investment income is earned on the following two categories:
  - Investment income in the CEF increased by $252 thousand and $184 thousand in 2023 and 2022 mainly due to an increase in the balance held in the CEF during these periods.
  - Short-term investments received zero distributions in 2023, 2022 and 2021.
- In 2023, there was an increase in gain on investments of $14.4 million, due to the increase value of long-term investments and endowment funds. In 2022, there was a decrease in gain on investments of $43.1 million, due to the decrease value of long-term investments and endowment funds.
- In 2023, The Department received no funding from the Higher Education Emergency Relief Fund (HEERF II). In 2022, the Department was awarded $425 thousand in federal funding from the HEERF II fund. These funds were used to cover student aid and support services resulting from COVID-19.
- In 2023 and 2022, the Department received $2.1 million and $10.0 million from the University's Rate Stabilization Account to mitigate the financial impact of lower attendance at athletic events in fiscal year 2023 and 2022 compared to prior to the pandemic. In addition, the University is providing $3.5 million in support for the shortfall in distribution from the conference related to the Pac-12 network reduction in distributions from Comcast and Dish.
- Capital gifts were $10.2 million in 2023, $13.0 million in 2022, and $6.2 million in 2021, respectively. The increase in 2023 and 2022 is mainly related to gifts received for the Basketball Operations Center.
- Endowment gifts increased by $1.4 million in 2023 due to the establishment of new endowments. In 2022, endowment gifts decreased by $1.3 million due to donors prioritizing giving to the Basketball Operations Center.

(Continued)

Expenses and Losses

The following table summarizes expenses and losses for the years ended June 30, 2023, 2022, and 2021:

Expenses and Losses Summary

	2023	2022	2021
		(In thousands)	
Salaries and wages	$ 45,166	56,546	35,127
Payroll taxes and employee benefits	9,109	4,988	7,191
Athletic student aid	16,579	16,087	15,582
Guarantees paid to visiting teams	3,421	3,141	320
Team travel	10,380	7,267	3,349
Day of game	12,276	9,712	2,054
Direct facilities, maintenance, and utilities	5,933	4,952	4,122
Advertising	153	—	—
Uniforms, supplies and Student Athlete Awards	11,896	10,878	6,902
Training table	5,307	4,483	2,932
Department relations	929	786	269
Banquets and special events	380	517	34
Depreciation	15,698	15,722	15,438
Subscription amortization	220	197	—
Noncapitalized equipment and repairs	4,151	1,845	296
Other operating expenses	18,728	16,917	8,268
Total operating expenses	160,326	154,038	101,884
Gain on disposal of capital assets	(32)	(24)	—
Interest expense	10,264	10,141	10,250
Total nonoperating expenses and losses	10,232	10,117	10,250
Total	$ 170,558	164,155	112,134

(Continued)

The following are comments about the changes in expenses highlighted by the expenses and losses summary:

- Salaries and wages decreased by $11.4 million in 2023 from 2022 primarily due to not having any severance expenses in 2023. Salaries and wages increased by $21.4 million in 2022 from 2021 primarily due to the midyear change in football staff, which resulted in $6.6 million in paid severance expenses through June 30, 2022 and $10.4 million in accounts payable for future severance obligations.
- Payroll taxes and employee benefits increased by $4.1 million in 2023 from 2022 due to not having any football severance payroll taxes and employee benefits being classified as salaries and wages and an increase in the benefit loading rate in 2023. Payroll taxes and employee benefits decreased by $2.2 million in 2022 from 2021 due to lower payroll load rates across all categories of employees and lower pension expenses. Also, $2.5 million in benefits associated with severance is classified in salaries and wages instead of payroll taxes and benefits. The percentages charged to ICA on professional and contract staff salaries went from 30.3% in 2021, to 29.4% in 2022, to 31.8% in 2023. The percentages charged on classified staff salaries went from 39.6% in 2021, to 37.3% in 2022, to 39.5% in 2023. The percentages charged on hourly staff and overtime went from 22.2% in 2021, to 20.4% in 2022, to 21.5% in 2023.
- Athletic student aid increased by $491 thousand in 2023 from 2022 due to in-state tuition increasing by 1.4% and out-of-state tuition rates increasing by 2.1%. Athletic student aid increased by $505 thousand in 2022 from 2021 due to in-state tuition increasing by 2.8% and out-of-state tuition rates increasing by 2.0%.
- Guarantees paid to visiting teams fluctuate due to the difference in the nonconference football game schedule. In fiscal year 2023, guarantees increased by $279 thousand due to the nonconference schedule. In fiscal year 2022, guarantees increased by $2.8 million due to playing a full football season, which included nonconference games.
- Team travel increased by $3.1 million in 2023 from 2022 due to an increase in costs related to the football team playing in a bowl game in 2023 versus not playing in bowl game in 2022 and overall cost increases in travel. Team travel increased by $3.9 million in 2022 from 2021 due to teams playing their full regular seasons and no COVID-19 related game cancellations in football. Travel expenses were also impacted by higher flight costs.
- Day of game increased by $2.6 million in 2023 from 2022 due to increase costs for football game day transportation and costs associated with discretionary tickets for the football. Day of game increased by $7.7 million in 2022 from 2021 due to being able to host fans at home competitions again.
- Direct facilities, maintenance, and utilities increased by $981 thousand in 2023 and $830 thousand in 2022 due to changes in utility costs and contract payments to vendors in 2023 and in 2022.
- Uniforms, supplies, and Student Athlete Awards increased by $1.0 million in 2023 and increased $4.0 million in 2022. The increase in 2023 is due to an increase in the purchase of general, athletic, custodial and nutritional supplies. The increase in 2022 is due to Alston student award payments of $1.8 million and an increase in the purchase of general and athletic supplies.
- Training table increased $824 thousand in 2023 due to increased costs for food and catering expenses. In 2022, training table increased $1.6 million due to an increase in food and catering training table meal costs for the teams and food costs for the performance nutrition center.
- Department relations and banquets and special events increased by a total of $7 thousand in 2023 due to an increase in costs for food and entertainment. In 2022, an increase of $1.0 million from 2021, was due to

once again hosting the Hall of Fame ceremony and other banquets/special events, which had been canceled in 2021 due to COVID-19.

- Noncapitalized equipment and repairs increased by $2.3 million in 2023 and increased $1.5 million in 2022. The increase in 2023 and 2022 is due to having more noncapitalized facility enhancement projects than in 2022 and 2021.
- Other expenses increased by $1.6 million in 2023 mainly due to higher costs for the Pac-12 assessment and increases in other costs for administrative and recruiting travel. Other expenses increased by $8.7 million in 2022 mainly due to higher consultant expenses, legal fees, dues/subscriptions, the return of administrative and recruiting travel for all staff and coaches, and credit card fees.
- Interest expense included in other operating expenses above increased by $127 thousand in 2023 due to an increase in the interest rate related to the Pac-12 Management fee payable. In 2022, interest expense decreased by $114 thousand due to lower interest payments for the Husky Ballpark and Husky Stadium financed projects. The Internal Lending Program interest rate decreased from 4.25% to 4.00% effective July 1, 2021.

Operating Loss

There was an operating loss of approximately $40.9 million and $37.6 million in 2023 and 2022, respectively. There was not sufficient nonoperating revenues from contributions, investment income, University funded tuition waivers, and other nonoperating revenues to cover the operating loss for 2023 and 2022. There were not sufficient nonoperating revenues mainly due to the less university support in 2023 and a decline in market value of investments in 2022.

Economic Factors Affecting the Future

ICA is influenced by a complex web of economic factors, each with its own set of implications and uncertainties. Some of the factors include: Name, Image, Likeness (NIL) legislation, the potential unionization of athletes, changes in NCAA regulations, and payment of facility debt.

NIL impacts to the department have increased costs to the department for education and compliance of NIL deals. In addition, it is not known the revenue implications that these deals have had on Department sponsorships or contributions.

Unionization of student athletes would raise the department's costs related to salaries and benefits. There may be other unforeseen expenses as well.

The Alston vs. NCAA case has significantly increased expenses for ICA. Subsequent NCAA deregulations may also significantly increase expenses. For example, impacts may include potentially removing scholarship limits and the expansion of coaching staff sizes.

ICA will return to paying principal on the facility debt in FY26. These payments will make it difficult to implement new NCAA rule changes and make improvements to ICA facilities.

In August 2023, the University announced that they were joining the Big Ten Conference effective August 2, 2024. The University will remain a full member of the Pac-12 Conference until then. In joining the Big 10 conference next August, ICA may have additional expenses including travel costs, facility upgrades, and other unforeseen expenses. ICA may also have additional revenues from joining the Big 10 including gate sales and concessions due to hosting athletic competitions with new conference opponents.

The University filed a lawsuit in King County Superior Court against its property insurer, Liberty Mutual, on September 23, 2022 to recover unreimbursed losses under its policies during COVID-19. The University filed this lawsuit to preserve its rights of recovery under these insurance policies. Losses experienced across the Department's properties are included in this lawsuit, as well as properties related to the University of Washington Medical Center. This lawsuit is still in progress.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Net Position

June 30, 2023 and 2022

Assets and Deferred Outflows of Resources		2023	2022
Current assets:			
Cash in the University of Washington Invested Funds Pool (note 2)	$	30,506,199	34,900,147
Accounts receivable		4,521,149	2,611,601
Prepaid expenses		2,068,631	1,420,861
Lease receivable, current portion (note 11)		547,687	455,397
Accrued interest receivable (note 11)		44,528	45,722
Total current assets		37,688,194	39,433,728
Noncurrent assets:			
Investments:			
University of Washington Consolidated Endowment Fund (note 3)		17,123,643	16,870,246
Endowments (note 3)		115,483,313	110,550,791
University of Washington Supplemental Retirement Plan (note 9)		4,290,616	4,213,215
Advances to University for capital projects		74,325	1,053,663
Lease receivable, net of current portion (note 11)		16,435,179	16,982,866
Subscription assets, net (note 11)		143,410	362,953
Capital assets, net (note 4)		259,023,548	269,303,586
Pension assets (note 8)		2,471,000	5,068,000
Total noncurrent assets		415,045,034	424,405,320
Total assets		452,733,228	463,839,048
Pension deferred outflows of resources (note 9)		6,400,560	4,844,369
OPEB deferred outflows of resources (note 10)		1,187,000	636,000
Total assets and deferred outflows of resources	$	460,320,788	469,319,417
Liabilities, Deferred Inflows of Resources, and Net Position			
Current liabilities:			
Accounts payable	$	7,178,588	12,169,677
Accrued salaries and vacation payable		4,609,556	4,719,872
Admission taxes payable		867,952	827,342
Accrued interest payable		48,750	205,171
Unearned income		19,015,969	18,143,723
Subscriptions		123,065	212,401
Subscriptions accrued interest payable		1,353	2,710
Capitalized equipment lease payable, current portion (note 7)		—	985,442
Total current liabilities		31,845,233	37,266,338
Noncurrent liabilities:			
Internal lending program payable (note 6)		244,444,707	244,444,707
Subscriptions accrued interest		—	1,353
Subscriptions (note 11)		—	123,065
Pension liabilities (note 8)		3,533,688	3,268,945
Other post-employment benefit (OPEB) liabilities (note 10)		8,718,000	12,545,000
Pac-12 management fee payable		7,300,000	7,300,000
Total noncurrent liabilities		263,996,395	267,683,070
Total liabilities		295,841,628	304,949,408
Lease deferred inflows of resources (note 11)		15,978,004	16,770,302
Pension deferred inflows of resources (note 9)		7,970,053	11,262,617
OPEB deferred inflows of resources (note 10)		6,715,000	2,429,000
Total liabilities and deferred inflows of resources		326,504,685	335,411,327
Net position:			
Net investment in capital assets		14,578,841	23,873,437
Restricted:			
Nonexpendable (note 3)		81,377,891	78,201,171
Expendable:			
Expendable endowment principal (note 3)		1,317,171	1,297,680
Expendable endowment gains		32,788,251	31,051,940
Other expendable		32,034,456	26,170,218
Unrestricted		(28,280,507)	(26,686,356)
Total net position		133,816,103	133,908,090
Total liabilities, deferred inflows of resources, and net position	$	460,320,788	469,319,417

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

	2023	2022
Operating revenue:		
Gate ticket sales	$ 50,403,942	50,659,760
NCAA/conference distributions	41,251,157	39,943,460
Sponsorships	20,111,817	19,212,863
Concessions, souvenirs, parking, and boat moorage	4,051,158	3,672,058
Trademarks and licensing	1,090,797	967,127
Facility income	1,626,418	1,289,822
Other	881,822	677,364
Total operating revenue	119,417,111	116,422,454
Operating expenses:		
Salaries and wages	45,165,980	56,546,400
Payroll taxes and employee benefits	9,108,785	4,987,891
Athletic student aid	16,578,713	16,087,425
Guarantees paid to visiting teams	3,420,654	3,141,470
Team travel	10,380,431	7,266,775
Day of game expenses	12,276,069	9,712,398
Direct facilities, maintenance, and utilities	5,932,641	4,951,693
Uniforms, supplies, and Student Athlete Awards	11,896,443	10,877,709
Training table	5,306,827	4,483,058
Department relations	928,957	785,776
Banquets and special events	380,278	516,933
Depreciation	15,697,674	15,721,990
Subscription amortization	219,543	197,186
Noncapitalized equipment and repairs	4,150,765	1,845,271
Medical expenses	2,011,185	1,744,204
Fundraising, marketing, and promotions	489,766	226,364
Recruiting	1,139,329	1,259,439
Equipment	3,532	1,285
Other	15,238,358	13,684,885
Total operating expenses	160,325,930	154,038,152
Operating loss	(40,908,819)	(37,615,698)
Nonoperating revenues (expenses):		
Contributions	19,145,959	7,724,540
Investment income on Consolidated Endowment Fund (CEF)	4,332,534	4,080,279
Gain (loss) on investments	2,239,224	(12,135,482)
Gain on disposal of capital assets	31,822	23,500
University funded tuition waivers	4,710,072	4,657,999
Higher Education Emergency Relief Fund (HEERF II)	—	425,000
University support	5,569,000	10,000,000
Coaches contract settlement agreement	315,008	500,004
Lease revenue	792,298	792,339
Lease interest income	567,498	582,267
Interest expense	(10,264,073)	(10,140,867)
Total nonoperating revenues, net	27,439,342	6,509,579
Loss before other revenues	(13,469,477)	(31,106,119)
Other revenues:		
Capital gifts	10,210,083	13,045,229
Gifts to permanent endowments	3,167,407	1,793,678
Total other revenues	13,377,490	14,838,907
Decrease in net position	(91,987)	(16,267,212)
Net position:		
Net position at beginning of year, as restated (note 1(b))	133,908,090	150,175,302
Net position at end of year	$ 133,816,103	133,908,090

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Cash Flows

Years ended June 30, 2023 and 2022

		2023	2022
Cash flows from operating activities:			
Gate ticket sales	$	51,409,712	48,929,927
NCAA/conference distributions		42,215,075	39,847,145
Sponsorships		15,294,466	13,820,880
Concessions and souvenirs		4,053,037	3,617,957
Trademarks and licensing		1,090,797	967,127
Facility income		1,656,367	1,115,668
Other		885,602	682,314
Payments to suppliers		(74,132,493)	(45,217,090)
Payments to employees		(45,273,769)	(55,571,185)
Payments for benefits		(11,187,797)	(7,603,728)
Payments for athletic aid		(16,523,589)	(16,220,562)
Net cash used in operating activities		(30,512,592)	(15,631,547)
Cash flows from noncapital financing activities:			
Contributions, excluding permanent endowments and capital		19,145,959	7,724,540
Contributions to permanent endowments		3,167,407	1,793,678
Interest paid on Pac-12 Multimedia Rights (MMR)		(628,559)	(15,769)
Interest paid on subscriptions		(1,654)	—
Coaches contract settlement agreement		265,008	500,004
Higher Education Emergency Relief Fund (HEERF II)		—	425,000
University funded tuition waivers		4,710,072	4,657,999
University support		2,100,000	10,000,000
Lease revenue		455,396	440,667
Lease interest revenue		568,693	583,422
Net cash provided by noncapital financing activities		29,782,322	26,109,541
Cash flows from capital and related financing activities:			
Capital gifts received		10,210,083	13,045,229
Acquisition and construction of capital assets		(4,406,476)	(3,280,236)
Principal paid on capital debt		(985,442)	(4,026,845)
Interest paid on capital debt		(9,790,281)	(9,935,695)
Net cash used in by capital and related financing activities		(4,972,116)	(4,197,547)
Cash flows from investing activities:			
Purchases of investments		(3,024,096)	(1,793,678)
Investment income		4,332,534	4,080,279
Net cash provided by investing activities		1,308,438	2,286,601
Net (decrease) increase in cash and cash equivalents		(4,393,948)	8,567,048
Cash and cash equivalents at beginning of year		34,900,147	26,333,099
Cash and cash equivalents at end of year	$	30,506,199	34,900,147
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(40,908,819)	(37,615,698)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		15,697,674	15,721,990
Amortization expense		219,543	197,186
Other changes in assets and liabilities:			
Increase (decrease) in accounts receivable		1,609,452	(890,479)
(Increase) decrease in prepaid expenses		(647,770)	61,077
Decrease (Increase) in pension asset		2,597,000	(5,068,000)
(Decrease) increase in accounts payable		(4,991,089)	10,380,200
Increase (decrease) in unearned income		872,246	(1,555,645)
(Decrease) increase in accrued salaries and vacation payable		(110,316)	973,830
Increase in subscription asset		—	(560,139)
(Decrease) increase in subscription liability		(212,401)	335,466
(Decrease) increase in subscription accrued interest		(2,710)	4,063
(Decrease) increase in pension liability		(4,584,012)	2,004,163
(Decrease) increase in OPEB liability		(92,000)	448,000
Increase (decrease) in admissions taxes payable		40,610	(67,561)
Net cash used in operating activities	$	(30,512,592)	(15,631,547)
Supplemental disclosures of noncash activities:			
Donated supplies and team travel costs	$	5,300,000	5,200,000
Donated advertising		152,500	—
Pac-12 management fee and interest		48,750	205,171

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Washington Department of Intercollegiate Athletics (the Department or ICA) is an auxiliary enterprise within the University of Washington (the University). The records of the Department are maintained as part of the general records of the University.

(b) Basis of Presentation

The financial statements of the Department have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The Department is reporting as a special purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the Department presents a management's discussion and analysis, statements of net position activities, statements of revenue, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The financial statements of the Department are intended to present the financial position and cash flows of only that portion of the University of Washington that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2023 and 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The Department reports capital assets net of accumulated depreciation (as applicable) and reports depreciation expense in the statements of revenue, expenses, and changes in net position.

On July 1, 2022, ICA implemented GASB Statement No. 96, "*Subscription-Based Information Technology Arrangements (SBITAs)*". The Statement establishes standards of accounting and financial reporting for SBITAs by a government end user who enters into SBITA contracts to use vendor-provided information technology. It applies to SBITA contracts that convey control of the right to use another party's IT software, alone or in combination with tangible underlying IT assets in an exchange or exchange-like transaction for a period exceeding 12 months. Under this Statement, the government is required to recognize a subscription liability and an intangible right-to-use (ROU) subscription asset. Cash outlays necessary to place the subscription asset in service can be capitalized during the initial project implementation stage. As a result of the implementation, ICA has applied the standard retroactively as of July 1, 2021. The statement of net position, statement of revenue, expenses, and changes in net position, and the statement of cash flows for fiscal year 2022 have been restated to conform with the requirements of this Statement and the current year presentation.

(c) Capital Assets

Expenditures for repairs for routine maintenance are expensed as incurred. Capital expenditures for facilities and equipment funded by the Department are reflected as capital assets on the Department's statements of net position. Buildings, furniture, fixtures, and equipment are stated at cost, or if acquired by gift, at fair market value at the date of the gift. Additions, replacements, major repairs, and renovations are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, and 5 to 7 years for furniture, fixtures, and equipment.

(d) Advances to University for Capital Projects

Advances to the University for capital projects represent the difference between the cash paid and the expenditures incurred by the University for various capital projects that are in process at year-end, which ICA expects to expense or capitalize in the next fiscal year.

(e) Unearned Income

Funds received from the sale of tickets for games to be played subsequent to June 30, 2023 and 2022 are unearned. The Department's receipts are recognized as income in the period in which the games are played. At June 30, 2023 and 2022, unearned income consists of the following:

		2023	2022
Advance sales of football tickets	$	18,384,446	17,296,226
Advance sales for men's and women's basketball		414,080	638,723
Other unearned income		217,443	208,774
	$	19,015,969	18,143,723

(f) Operating Activities

The Department defines operating activities, as reported on the statements of revenue, expenses and changes in net position, as those transactions that are consistent with the Department's mission of providing a leading-edge student-athlete experience in competition and in the classroom. Certain other revenues received not directly related to this mission are recorded as nonoperating revenues.

(g) Contributions

Contributions are recorded as income when all conditions and eligibility criteria have been met.

(h) Sponsorships

Sponsorships revenue for donated supplies is recognized as a voluntary nonexchange transaction and is recorded in income when the related advertising or supplies are received.

The Department recorded $5.5 million and $5.2 million in sponsorship revenue for these transactions in the years ended June 30, 2023 and 2022, respectively.

(i) Income Taxes

As a part of the University, the Department is exempt from federal income taxes, except to the extent of unrelated business taxable income. Unrelated business tax was not significant to the financial statements taken as a whole at June 30, 2023 and 2022.

(j) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

ICA's share of pension and OPEB plan assets, liabilities, deferrals, and expenses are based on actuarial valuations prepared by an external actuary. The results of an actuarial valuation are estimates based on historical data, actuarial assumptions, and the demographics of the employee and retiree populations.

(k) Pension and Other Postretirement Benefits

Cost-Sharing Pension Plans. The net pension asset or liability is measured as the University's proportionate share of the collective total pension liability, less the fiduciary net position, of the cost-sharing pension plans in which the University participates. The total pension liability is determined by discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. The University's proportionate share is determined based on the relationship of University contributions to total contributions to the plan by all participating employers. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over five years. Contributions made to the plan subsequent to the measurement date and prior to the University's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the net pension asset or liability is June 30 of the prior fiscal year. ICA reports its proportionate share of the related pension amounts in the accompany financial statements.

Single Employer Pension Plan (UW Supplemental Retirement or UWSRP). Legislation signed into law on July 1, 2020 amended the Revised Code of Washington (RCW) applicable to the UWRSP to define plan provisions including limits on member eligibility, benefit payments, vesting terms and contribution rates. As a result of these amendments, the University is unable to modify the terms of the plan. Administration of the benefit calculations and payments remain the responsibility of the University until the state's Pension Funding Council determines the trust has sufficient assets, at which time the

Department of Retirement Systems will assume those duties in accordance with RCW 41.50.280. Other agencies of the state of Washington perform the duties of a board and hold substantive powers in relation to the UWSRP. The University does not perform the duties of a board or hold any of the substantive powers that would make the plan a fiduciary component unit of the University.

The total pension liability is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. The discount rate used for the total pension liability as of June 30, 2023 and 2022, reflects the expected rate of return on investments, to the extent that plan assets are available to pay retiree benefits. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over five years. The measurement date for the UW Supplemental Retirement Plan liability is the same as the statements of net position date. The ICA reports its proportionate share of the related pension amounts in the accompanying financial statements.

OPEB. The total OPEB liability is measured as the University's proportionate share of the state of Washington total OPEB liability, with proportionate share determined based on the relationship of the University's healthcare-eligible headcount to the total healthcare-eligible headcount for the state. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate required by GASB Statement No. 75 for OPEB plans that do not have assets residing in a qualified trust. OPEB expense is recognized for subsidies earned during the period, interest on the total OPEB liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for healthcare-eligible employees. Contributions made to the plan subsequent to the measurement date and prior to the University's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the total OPEB liability is June 30 of the prior fiscal year. The ICA reports its proportionate share of the related OPEB amounts in the accompanying financial statements.

(l) Leases

Leases. ICA determines if an arrangement is a lease at inception of the lease contract. Lessee arrangements are included in capital assets and long-term liabilities in the statements of net position. Lease assets represent ICA's right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized on a straight-line basis over the lease term. Lease liabilities represent ICA's obligation to make lease payments arising from the lessee arrangement. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term. The lease term may include options to extend or terminate the lease when it is reasonably certain that ICA will exercise that option. ICA recognizes payments for short-term leases with a lease term of 12 months or less as expense as the payments are made.

Lessor arrangements are included in lease receivables and deferred inflows of resources in the statements of net position. Lease receivables represent ICA's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term on a straight-line basis. Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflows related to leases are recognized as lease revenue on a straight-line basis over the lease term. ICA recognizes payments received for short-term leases with a lease term of 12 months or less as revenue as the payments are received.

(m) Subscription-Based Information Technology Arrangements (SBITA)

A SBITA is a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract in an exchange or exchange-like transaction for a term exceeding 12 months. The University recognizes a right-to-use subscription asset and a corresponding subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. SBITA assets are amortized on a straight-line basis over the contract term. SBITA liabilities represent the University's obligation to make contract payments arising from the SBITA. Interest expense is recognized ratably over the contract term. The SBITA term may include options to extend or terminate the contract when it is reasonably certain that the University will exercise that option. The University recognizes payments for short-term SBITAs with a term of 12 months or less as expense as the payments are made.

(2) Cash in the University of Washington Invested Funds Pool

The Department's cash and investments are managed by the University through the Treasurer of the Board of Regents.

Pooled Investments held on behalf of ICA by the University are recorded at ICA's share of the carrying value of the University of Washington Cash and Liquidity Pools which totaled $30,506,199 and $34,900,147 as of June 30, 2023 and 2022, respectively. These funds are available to the ICA on demand without prior notice or penalty. The Cash and Liquidity Pools were invested as follows at June 30, 2023 and 2022:

	2023	2022
Cash and cash equivalents	15.7 %	4.5 %
Treasuries and agencies	48.2	65.8
Mortgage related securities	5.0	5.2
Asset-backed debt securities	19.3	18.4
Other	11.8	6.1
Total	100.0 %	100.0 %

Financial instruments that subject ICA to concentrations of credit risk consist of pooled investments held on behalf of ICA at the University.

(3) Investments

The Department purchases or sells units in the University’s Consolidated Endowment Fund (CEF) 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 by the University based on the number of units held. The Department records its permanent endowments at fair value. Net appreciation/depreciation in the fair value is recorded as gain or loss on investments in the statements of revenue, expenses, and changes in net assets. For the investment portion of the CEF funds, the principal balance can be withdrawn at the end of each quarter. The Department earned investment income on these investment funds based on the performance of the University’s CEF funds net of investment management and University administrative fees. The total return (loss) on the investments portion of the CEF funds for the years ended June 30, 2023 and 2022 was approximately 6.0% and (5.5%), respectively.

The total spending rate is 4.5% in the years ending June 2023 and 2022, respectively. Quarterly distributions to programs are based on an annual percentage rate of 3.92%, applied to the five-year rolling average of the CEF’s market value. Additionally, the policy allows for administrative fees of 0.98%, of which 0.78% are to support campus-wide fundraising and stewardship activities and 0.20% are to offset the internal cost of managing endowment assets. The reduction to 4.5% is in full effect for fiscal year 2022 and beyond. The Department’s endowments represent 2.34% and 2.73% of the CEF balance as of June 30, 2023 and 2022, respectively.

At June 30, 2023 and 2022, the fund balance of the Endowment and Expendable Endowment funds stated at fair value comprised the following:

		2023	2022
Expendable endowments:			
Graham*	$	533,059	525,171
Spence*		784,112	772,509
Endowments (including expendable gains)		114,166,142	109,253,111
Total	$	115,483,313	110,550,791

* Expenditure of principal is permitted under certain circumstances.

(a) Fair Value of Financial Instruments

(i) Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department has the ability to access at the measurement date. As of June 30, 2023 and 2022, the Department did not carry any Level 1 assets or liabilities.

Level 2 – Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. At June 30, 2023 and 2022, the Department did not carry any Level 2 assets or liabilities.

Level 3 – Inputs are unobservable inputs for the asset or liability. As of June 30, 2023 and 2022, the Department did not carry any Level 3 assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

Valuation techniques utilized in the fair value measurement of assets and liabilities presented on the Department's statements of net position were not changed from previous practice during the reporting period.

(ii) Financial Assets Measured at Fair Value on a Recurring Basis

The following table presents information about the Department's financial assets that are measured at fair value on a recurring basis using net asset value per share as a practical expedient at June 30, 2023 and 2022.

	June 30 2023	June 30 2022
Assets:		
Investments measured at net asset value:		
Pooled investments in the CEF	$ 17,123,643	16,870,246
Endowment and expendable endowment fund investments in the CEF	115,483,313	110,550,791
Total	$ 132,606,956	127,421,037

The Department participates in pooled investments in the CEF and has the ability to redeem its investment at net asset value at June 30, 2023 and 2022.

(4) Capital Assets

Capitalized asset activity for the years ended June 30, 2023 and 2022 is summarized as follows:

	Balance at June 30, 2022	Additions/ (transfers)	Retirements	Balance at June 30, 2023
Buildings	$ 462,331,224	2,628	—	462,333,852
Furniture, fixtures, and equipment	16,590,135	649,820	(488,304)	16,751,651
Construction in progress*	1,183,051	4,790,366	—	5,973,417
Total	480,104,410	5,442,814	(488,304)	485,058,920
Less accumulated depreciation:				
Buildings	196,109,416	15,077,037	—	211,186,453
Furniture, fixtures, and equipment	14,691,408	620,637	(463,126)	14,848,919
Total accumulated depreciation	210,800,824	15,697,674	(463,126)	226,035,372
Capital assets, net	$ 269,303,586	(10,254,860)	(25,178)	259,023,548

* Nondepreciable

		Balance at June 30, 2021	Additions/ (transfers)	Retirements	Balance at June 30, 2022
Buildings	$	456,774,967	5,556,257	—	462,331,224
Furniture, fixtures, and equipment		15,597,506	1,246,576	(253,947)	16,590,135
Construction in progress*		4,704,510	(3,521,459)	—	1,183,051
Total		477,076,983	3,281,374	(253,947)	480,104,410
Less accumulated depreciation:					
Buildings		181,027,235	15,082,181	—	196,109,416
Furniture, fixtures, and equipment		14,166,659	778,696	(253,947)	14,691,408
Total accumulated depreciation		195,193,894	15,860,877	(253,947)	210,800,824
Capital assets, net	$	281,883,089	(12,579,503)	—	269,303,586

* Nondepreciable

(5) Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2023 and 2022 is summarized as follows:

		Balance as of June 30, 2022	Additions	Reductions	Balance as of June 30, 2023	Current portion as of June 30, 2023
Internal lending program payable	$	244,444,707	—	—	244,444,707	—
Capitalized equipment lease payable		985,442	—	(985,442)	—	—
Pac-12 management fee payable		7,300,000	—	—	7,300,000	—
	$	252,730,149	—	(985,442)	251,744,707	—

		Balance as of June 30, 2021	Additions	Reductions	Balance as of June 30, 2022	Current portion as of June 30, 2022
Internal lending program payable	$	247,508,804	—	(3,064,097)	244,444,707	—
Capitalized equipment lease payable		1,948,190	—	(962,748)	985,442	985,442
Pac-12 management fee payable		7,300,000	—	—	7,300,000	—
	$	256,756,994	—	(4,026,845)	252,730,149	985,442

The Pac-12 management fee payable is a payable due to Pac-12 Enterprises for a signing bonus received by ICA on June 26, 2015. Interest due on the payable is paid yearly to the Pac-12 Conference. Any balance not repaid by the ICA as of July 1, 2025, shall be paid to Pac-12 Enterprises on a per year basis according to a ten-year amortization schedule developed by the ICA and Pac-12 Enterprises.

(6) Internal Lending Program

In February 2012, ICA began drawing money from ILP for the costs related to renovating Husky Stadium. The Board of Regents at their November 18, 2010 meeting approved ICA to use the ILP for up to $250 million in project and capitalized interest costs for the renovation of Husky Stadium. On November 11, 2011, the Board of Regents approved to increase ICA's use of the ILP to $261.5 million for the costs of renovating Husky Stadium and adding a Sports Medicine and Sport Performance Center. Any amounts drawn from the ILP greater than $261.5 million will be funded by the Department. In fiscal year 2021, the Board of Regents approved the loan repayment deferral of the department's ILP loan for Husky Stadium and Husky Ballpark for 2021. This payment deferral added $10.0 million to the principal balance of the department's ILP loan. In fiscal year 2022, the Board of Regents approved a restructure of the debt service for fiscal years 2023 through 2025 as interest only, and level debt service thereafter. There is no capitalized interest or loan extension for this restructure. As of June 30, 2023, ICA has a remaining principal balance of $244.4 million payable to the ILP relating to the construction and payment deferral of the Husky Stadium renovation and Husky Ballpark.

The purpose of the ILP is to lower the University's overall cost of capital and provide internal borrowing units with a stable and predictable borrowing rate. The ILP will make loans to internal borrowers at a uniform internal lending rate. These loans will be funded through the issuance of University General Revenue bonds and notes. ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary.

Under the terms of the ILP, rate adjustments will apply to all outstanding debt obligations, including debt issued prior to the ILP implementation. The ILP lending rate will be reviewed annually, and a preliminary indication of a rate adjustment will be announced to ILP participants 12 months in advance of the effective date. The interest rate is 4.00%. Final rate adjustments require approval by the Board of Regents.

Future principal and interest payments due through maturity dates are as follows:

	Principal	Interest
Year(s) ending June 30:		
2024	$ —	9,777,788
2025	—	9,777,788
2026	8,064,663	9,629,936
2027	8,393,275	9,301,325
2028	8,735,276	8,959,324
2029–2033	49,314,504	39,158,497
2034–2038	60,214,429	28,258,570
2039–2043	73,523,550	14,949,450
2044–2046	36,199,010	1,622,800
	$ 244,444,707	131,435,478

ILP activity for the years ended June 30, 2023 and 2022 is summarized as follows:

Balance as of June 30, 2021	$ 247,508,804
Additions	—
Reductions	(3,064,097)
Balance as of June 30, 2022	244,444,707
Additions	—
Reductions	—
Balance as of June 30, 2023	$ 244,444,707

(7) Equipment Lease

The final payment on the equipment lease occurred in June 2023. There are no future lease payments due.

(8) Related-Party Transactions

The University provides support to the Department by performing the following services:

- Providing use of University buildings and equipment
- Serving as the depository, purchasing, and disbursing agent
- Providing certain administrative and accounting services

In addition, the Department purchases operating and other services from the University and is allocated institutional overhead from the University for services provided and payment for utility costs. There were $0 of institutional overhead allocated from the University for fiscal years 2023 and 2022.

The Department is covered by the University's self-insurance program and is responsible for the first $100,000 of costs in general, automobile, and employment practices liability claims. Payments over $100,000 are covered by the University's self-insurance program and excess carriers, except that in claims related to coaches' contracts or the acts of trainers and non-University physicians to the athletes' medical services program, all costs are the exclusive responsibility of the Department.

(9) Pension Plans

(a) Pension Plans

The University offers several contributory pension plans administered by the Washington State Department of Retirement Systems (DRS). ICA has employees in the Public Employees' Retirement System (PERS) plan, which is a cost sharing multiple-employer defined-benefit pension plan. The University of Washington Retirement Plan (UWRP), a defined-contribution plan, is administered by the University. The University of Washington Supplemental Retirement Plan, a noncontributory defined-benefit pension plan, which operates in tandem with the UWRP, is closed to new participants. ICA has employees in the University of Washington Supplemental Retirement Plan.

(b) Plan Administered by DRS

(i) Public Employees' Retirement System

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

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

(c) Vesting and Benefits Provided

(i) PERS Plan 1

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

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

(ii) PERS Plan 2/3

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

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

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

(d) Fiduciary Net Position

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

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

DRS publishes an annual report for retirement plans, which is available at https://www.drs.wa.gov/news

(e) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). ICA's 2023 proportionate share of the pension liability is based on an OSA valuation performed as of June 30, 2021, with the results rolled forward to the measurement date of June 30, 2022. Likewise, ICA's 2022 proportionate share of the pension liability is based on an OSA valuation performed as of June 30, 2020, with the results rolled forward to the measurement date of June 30, 2021. The following actuarial assumptions have been applied to all prior periods included in the measurement:

2023:

Inflation	2.75% total economic inflation, 3.25% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.25%
Investment rate of return	7.00 %

2022:

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

Mortality rates as of June 30, 2021 and 2020 were based on the Society of Actuaries' Pub H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2021 valuations were based on the results of the 2013-2018 Demographic Experience Study Report and 2021 Economic Experience Study. The actuarial assumptions used in the June 30, 2020 valuations were based on the results of the 2013-18 Demographic Experience Study Report and 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the dates of the respective actuarial valuation reports.

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

The long-term expected rate of return of 7.00% and 7.40% as of June 30, 2022 and 2021, respectively, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

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

	June 30, 2023 (measurement date June 30, 2022)		June 30, 2022 (measurement date June 30, 2021)	
	Target allocation	% Long-term expected real rate of return arithmetic	Target allocation	% Long-term expected real rate of return arithmetic
Asset class:				
Fixed income	20.00 %	1.50 %	20.00 %	2.20 %
Tangible assets	7.00	4.70	7.00	5.10
Real estate	18.00	5.40	18.00	5.80
Global equity	32.00	5.90	32.00	6.30
Private equity	23.00	8.90	23.00	9.30

The inflation component used to create the above table was 2.20% for the June 30, 2021 and 2020 actuarial valuations, and represents WSIB's most recent long-term estimate of broad economic inflation at the time of these valuations.

(f) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2023 and 2022 was 7.00% and 7.40%, respectively. Based on those assumptions, the fiduciary net position for each pension plan in which ICA participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.00% and 7.40% future investment rate of return on pension plan investments was assumed as of measurement dates June 30, 2022 and 2021, respectively. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liability for PERS 1, as provided for in Chapter 41.45 of the RCW).

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

The following table presents ICA's proportionate share of the net pension liabilities and assets calculated using the discount rate of 7.00% and 7.40%, as of measurement dates June 30, 2022 and 2021, respectively, as well as what the net pension liabilities or assets would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

Discount Rate Sensitivity – Net Pension Liability (Asset)
(Dollars in thousands)

		2023 (Measurement date 2022)			2022 (Measurement date 2021)		
		1% Decrease	Current Discount rate	1% Increase	1% Decrease	Current Discount rate	1% Increase
Plan:							
PERS 1	$	1,901	1,423	1,006	829	487	188
PERS 2/3		2,910	(2,471)	(6,891)	(1,444)	(5,068)	(8,052)

(h) Employer Contribution Rates

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The following table presents the contribution rates, states as a percentage of covered payroll as defined by the statute, and required contributions for each DRS plan in which ICA participates for the years ended June 30, 2023 and 2022:

Description		PERS Plan 1	PERS Plan 2/3[i]
		(Dollars in thousands)	
Contributions as June 30, 2023:			
Contribution rate		10.25 %	10.25 %
Contributions made	$	432	719
Contributions as June 30, 2022:			
Contribution rate		12.97 %	12.97 %
Contributions made	$	313	535

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

(i) ICA Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities and assets recorded by ICA as of June 30, 2023 was June 30, 2022. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2022 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in their June 30, 2022 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities and assets recorded by ICA as of June 30, 2022 was June 30, 2021, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2021 used as the basis for determining each employer's proportionate share of the collective pension amounts. ICA's proportionate share for each DRS plan is shown in the table below:

	Proportionate share	
	PERS 1	PERS 2/3
Plan:		
Year ended June 30, 2023	0.05 %	0.07 %
Year ended June 30, 2022	0.04	0.05

(j) ICA Aggregated Balances

ICA's aggregated balances of net pension liabilities and net pension asset as of June 30, 2023 and 2022 is presented in the table below:

Plan	PERS 1	PERS 2/3	Total
		(Dollars in thousands)	
2023:			
Net pension liability	$ 1,423	—	1,423
Net pension asset	—	2,471	2,471
2022:			
Net pension liability	$ 487	—	487
Net pension asset	—	5,068	5,068

(k) *Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources*

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

		Proportionate share of pension expense		
Description		**PERS Plan 1**	**PERS Plan 2/3**	**Total**
			(Dollars in thousands)	
As of June 30, 2023	$	946	(860)	86
As of June 30, 2022	$	(230)	(1,166)	(1,396)

		Deferred outflows of resources		
Description		**PERS 1**	**PERS 2/3**	**Total**
			(Dollars in thousands)	
2023:				
Change in assumptions	$	—	1,377	1,377
Difference between expected and actual experience		—	612	612
Change in ICA's proportionate share		—	(268)	(268)
ICA contributions subsequent to the measurement date of the collective net pension liability[a]		432	719	1,151
Total	$	432	2,440	2,872
2022:				
Change in assumptions	$	—	7	7
Difference between expected and actual experience		—	246	246
Change in ICA's proportionate share		—	(109)	(109)
ICA contributions subsequent to the measurement date of the collective net pension liability[a]		313	535	848
Total	$	313	679	992

[a] Amounts will be recognized as a reduction of the net position liability as of June 30, 2024 and June 30, 2023.

Description		Deferred inflows of resources		
		PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
2023:				
Difference between expected and actual earnings on plan investments, net	$	236	1,827	2,063
Change in assumptions		—	361	361
Difference between expected and actual experience		—	56	56
Total	$	236	2,244	2,480
2022:				
Difference between expected and actual earnings on plan investments, net	$	540	4,236	4,776
Change in assumptions		—	360	360
Difference between expected and actual experience		—	62	62
Total	$	540	4,658	5,198

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

Year		Amortization of deferred inflows and deferred outflows of resources[(a)]		
		PERS Plan 1	PERS Plan 2/3	Total
		(Dollars in thousands)		
2024	$	(100)	(610)	(710)
2025		(91)	(552)	(643)
2026		(114)	(652)	(766)
2027		69	783	852
2028		—	251	251
Thereafter		—	257	257
Total	$	(236)	(523)	(759)

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

(l) University of Washington Retirement Plan (403b)

(i) 403(b) Plan Description

UWRP, a single-employer 403(b) defined-contribution plan, is administered by the University. Faculty, librarians, and professional staff are eligible to participate in the UWRP.

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 the plan are available upon separation or retirement at the member's option. RCW 28B.10.400 et. seq. assigns the authority to the University of Washington Board of Regents to establish and amend benefit provisions.

The number of participants in the UWRP as of June 30, 2023 and 2022 was 187 and 212, respectively.

(ii) 403(b) Funding Policy

Employee contribution rates, based on age, are 5.0%, 7.5%, or 10.0% of salary. The University matches 100% of employee contributions. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents.

Employer contributions for the years ended June 30, 2023 and 2022 were $1,297,198 and $1,247,507, respectively.

(m) University of Washington Supplemental Retirement Plan

The University of Washington Supplemental Retirement Plan (UWSRP), a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. For purposes of measuring the June 30, 2023 and 2022 net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the UWSRP and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported in the state of Washington's Annual Comprehensive Financial Report, which is available at https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report.

The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership requires participation in the UWRP. Participant data is uploaded biannually in the actuarial valuations. The Department has staff participating in this plan.

Number of participants:

	June 30	
	2023	**2022**
Active employees	54	59
Inactive employees receiving benefits	17	12
Inactive employees entitled to, but not receiving, benefits	4	2

(i) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal years ended June 30, 2023 and 2022 were $143,000 and $131,000, respectively.

(ii) Employer Contributions

State legislation which became effective on July 1, 2020, created an employer contribution rate for the UWSRP. This rate is developed by the OSA in accordance with RCW 41.45, which provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. ICA’s contribution rate for fiscal year ended June 20, 2023 and 2022 per RCW 28B.10.423 was 0.38% of UWRP covered salaries. Contributions made in fiscal years ended June 30, 2023 and 2022 were $109,000 and $83,000, respectively. Prior to fiscal year 2021, employer contributions were not required.

(iii) Plan Investments

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

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

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

The money-weighted rates of return are provided by the WSIB and the Office of the State Treasurer. The annual money-weighted rate of return on UWSRP investments, net of pension plan investment expense for the years ended June 30, 2023 and 2022 was 7.16% and 0.12%, respectively. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of external cash flows.

(iv) Other Designated Assets

ICA has also set aside assets to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, these assets are not reflected as a reduction of the Total Pension Liability (TPL). As of June 30, 2023 and 2022, ICA has set aside $4,290,616 and $4,213,215, respectively, to pay future UWSRP retiree benefits. These assets are in addition to those amounts now residing with the WSIB, which are reflected as a reduction of the TPL beginning in fiscal year 2021.

(v) UWSRP Pension Liability

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

The allocation method used to determine ICA's proportionate share of the University's Net Pension Liability (NPL) and TPL is based on its unit allocation of what is funded through the benefit load process. This proportionate share percentage for ICA was 1.30% and 1.27% as of June 30, 2023 and 2022, respectively.

(Continued)

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

	As of June 30, 2023		
	Total pension liability (a)	**Plan fiduciary net position (b)**	**Net position liability (a) minus (b)**
		(Dollars in thousands)	
Schedule of changes in net pension liability:			
Beginning balance	$ 3,974	1,192	2,782
Service cost	66	—	66
Interest on TPL	288	—	288
Difference between expected and actual experience	(409)	—	(409)
Change in assumptions	(347)	—	(347)
Employer contributions	—	109	(109)
Investment income	—	94	(94)
Benefit payments	(143)	—	(143)
Other changes	76	—	76
Net changes	(469)	203	(672)
Ending balance	$ 3,505	1,395	2,110

	As of June 30, 2022		
	Total pension liability (a)	**Plan fiduciary net position (b)**	**Net position liability (a) minus (b)**
		(Dollars in thousands)	
Schedule of changes in net pension liability:			
Beginning balance	$ 2,569	1,108	1,461
Service cost	47	—	47
Interest on TPL	202	—	202
Difference between expected and actual experience	863	—	863
Change in assumptions	281	—	281
Employer contributions	—	83	(83)
Investment income	—	1	(1)
Benefit payments	(131)	—	(131)
Other Changes	143	—	143
Net changes	1,405	84	1,321
Ending balance	$ 3,974	1,192	2,782

The June 30, 2023 TPL is based on an actuarial valuation performed as of January 1, 2023 with update procedures performed by the OSA to roll forward the TPL to the measurement date of June 30, 2023. Some of the larger experience items that impacted the TPL were salaries generally lower than assumed and SRP benefits for new retirees were lower than estimated. OSA's model estimates the SRP benefit of future retirees by relying on assumptions for the benefit calculation performed by Teachers Insurance and Annuity Association of America (TIAA). Based on information provided by TIAA and OSA's professional judgment, some of the long-term assumptions were updated which decreased the TPL as of June 30, 2023. The valuation was prepared using the entry age actuarial cost method.

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

ICA's share of UWSRP pension expense for the fiscal years ended June 30, 2023 and 2022 was $(669,700) and $(605,796), respectively.

(vi) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on ICA. The professional judgments used in determining these assumptions are important, and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the ICA's financial statements. The following table shows significant assumptions used to measure the Net Pension Liability (NPL) as of June 30, 2023 and 2022:

	June 30	
	2023	**2022**
	(Dollars in thousands)	
Significant assumptions used to measure the total pension liability:		
Inflation	2.75 %	2.75 %
Salary changes	4.00 %	4.00 %
Source of mortality assumptions	Pub. H-2010 tables, with the MP-2017 mortality improvement scale	Pub. H-2010 tables, with the MP-2017 mortality improvement scale
Date of experience study	August 2021	August 2021
Discount rate	7.00 %	7.00 %
Change in the discount since prior measurement date	— %	(0.40)%
Source of discount rate	2021 Report on Financial Condition and Economic Experience Study	2021 Report on Financial Condition and Economic Experience Study
Long-term expected rate of return	7.00 %	7.00 %
NPL measurement at discount rate	$ 2,110	2,782
NPL discount rate increased 1%	1,764	2,391
NPL discount rate decreased 1%	2,513	3,240

There were no changes to the significant assumptions used for the period ending June 30, 2023.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023 and 2022, are summarized in the following table:

Asset class	Target allocation	2023 Long-term expected arithmetic real rate of return	Target allocation	2022 Long-term expected arithmetic real rate of return
Fixed income	20.00 %	1.50 %	20.00 %	2.20 %
Tangible assets	7.00	4.70	7.00	5.10
Real estate	18.00	5.40	18.00	5.80
Global equity	32.00	5.90	32.00	6.30
Private equity	23.00	8.90	23.00	9.30

The inflation component used to create the above table was 2.20% for the June 30, 2021 and 2020 actuarial valuations, and represents WSIB's most recent long-term estimate of broad economic inflation at the time of these valuations.

As noted above, the discount rate used to measure the total pension liability was 7.00 and 7.40 percent in 2023 and 2022, respectively. The projection of cash flows used to determine the discount rate assumed that ICA would pay retiree benefits from assets designated for that purpose, until such time that responsibility for these payments transfers to the DRS and payments are funded by the plan assets invested in the CTF. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees.

Therefore, the long-term expected rate of return on pension payments investments was applied to all periods of projected benefit payments to determine the total pension liability.

(vii) Deferred Inflows and Outflows of Resources

The tables below summarize ICA's deferred outflows and inflows of resources related to the UWSRP as of June 30, 2023 and 2022, together with the related future year impacts to pension expense from amortization of those deferred amounts:

		2023	**2022**
		(Dollars in thousands)	
Deferred outflows of resources:			
Difference between expected and actual experience	$	1,313	1,623
Change in assumptions		1,247	1,566
Total plan level deferred outflows		2,560	3,189
Change in proportion		966	662
Total	$	3,526	3,851

		2023	**2022**
		(Dollars in thousands)	
Deferred inflows of resources:			
Difference between expected and actual experience	$	3,378	3,794
Change in assumptions		2,073	2,207
Net difference between projected and actual earnings plan investments		39	64
Total plan level deferred inflows		5,490	6,065
Total	$	5,490	6,065

		UWSRP (Dollars in thousands)
Amortization of deferred inflows and deferred outflows of resources (a):		
Year:		
2024	$	(756)
2025		(579)
2026		(458)
2027		(905)
2028		(84)
Thereafter		818
Total	$	(1,964)

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

(10) Other Post-Employment Benefits (OPEB)

(a) Plan Description

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

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

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

The implicit subsidy, set up under RCW 41.05.022, is not a direct payment from the employer on behalf of the retiree. Retirees who are not yet eligible for Medicare benefits may currently continue to participate in the state's non-Medicare community-rated health insurance risk pool. Claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums. Therefore, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. This results in an implicit subsidy since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy applicable to each calendar year, with the final amount approved by the state legislature. The subsidy was $183 per member per month during fiscal year 2023 and 2022.

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

The table below shows the ICA's PEBB membership data as of June 30, 2023 and 2022:

	2023 (measurement date 2022)	**2022 (measurement date 2021)**
Active employees	263	250
Inactive employees receiving benefits	76	69
Inactive employees entitled to, but not receiving, benefits	N/A*	12

* Data not available from Washington State Health Care Authority (HCA)

(b) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on ICA. The professional judgments used by the Washington State OSA in determining the assumptions used to value the state of Washington OPEB liability are important, and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant effect on ICA's financial statements. The following table shows the significant assumptions used to measure the total OPEB liability (TOL) as of June 30, 2023 and 2022:

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

(Dollars in thousands)

	June 30, 2023	June 30, 2022
Inflation	2.35 %	2.75 %
Healthcare cost trend rate	Initial rate ranges from about 2 to 11%, reaching an ultimate rate of approximately 3.80% in 2080.	Initial rate ranges from about 2 to 11%, reaching an ultimate rate of approximately 4.30% in 2075.
Salary increase	3.25%, including Service-Based Salary Increases	3.50%, including Service-Based Salary Increases
Source of mortality assumptions	Society of Actuaries' Pub.H-2010 mortality rates, with application of the long-term MP-2017 generational improvement scale, and updated based on results of the 2013–2018 Demographic Experience Study Report and the 2019 Report on Financial Condition and Economic Experience Study.	Society of Actuaries' Pub.H-2010 mortality rates, with application of the long-term MP-2017 generational improvement scale, and updated based on results of the 2013–2018 Demographic Experience Study Report and the 2019 Report on Financial Condition and Economic Experience Study.
Date of experience study	2013–2018 Experience Study Report	2013–2018 Experience Study Report
Discount rate	3.54 %	2.16 %
Source of discount rate	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2022 (Measurement Date)	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2021 (Measurement Date)
Post-Retirement Participant Percentage	60 %	65 %
TOL measurement at discount rate	$ 8,718	12,545
TOL discount rate increased 1%	7,514	10,482
TOL discount rate decreased 1%	10,216	15,200
TOL measurement at healthcare cost trend rate	8,718	12,545
TOL healthcare cost trend rate increased 1%	10,429	15,821
TOL healthcare cost trend rate decreased 1%	7,382	10,121

Material assumption changes during the measurement period ending June 30, 2022 include updating the discount rate, as required by GASB 75, and updating the inflation rate, the forecast of healthcare cost trend rate, the salary increase percentage, and the post-retirement participation percentage.

Material assumption changes during the measurement period ending June 30, 2021 include updating the discount rate, as required by GASB 75.

(c) Changes in the Total OPEB Liability

The TOL for the state of Washington as of June 30, 2023 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2022. The measurement date for the TOL as of June 30, 2022 was the same as the valuation date. The TOL for the state of Washington as of June 30, 2022 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2020, with the results rolled forward to the measurement date of June 30, 2021. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as ICA. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine ICA's proportionate share of the University's TOL is the relationship of ICA's active, healthcare-eligible employee headcount to the corresponding University total. ICA's proportionate share percentage was 0.699% in 2023 and 0.674% in 2022.

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

Schedule of Changes in Total OPEB Liability

(Dollars in thousands)

		June 30	
		2023	**2022**
Beginning balance	$	12,545	12,666
Service cost		643	627
Interest		298	271
Difference between expected and actual experience		(295)	—
Change in assumptions		(4,989)	116
Benefit payments		(219)	(206)
Changes in proportionate share		735	308
Other		—	(1,237)
Ending balance	$	8,718	12,545

(d) OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

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

		2023	2022
		(Dollars in thousands)	
Proportionate share of OPEB expense	$	128	656
Deferred outflows of resources:			
Differences between expected and actual experience in the measurement of the total OPEB liability	$	182	215
Changes in assumptions		715	799
University contributions subsequent to the measurement date of the collective total OPEB liability		220	207
Changes in proportion		70	(585)
Total	$	1,187	636
Deferred inflows of resources:			
Differences between expected and actual experience in the measurement of the total OPEB liability	$	307	49
Change in assumptions		6,320	2,274
Change in proportion		88	106
Total	$	6,715	2,429

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

Amortization of Deferred Inflows and Deferred Outflows of Resources (a)

(Dollars in thousands)

		OPEB
Year:		
2024	$	(639)
2025		(639)
2026		(639)
2027		(639)
2028		(639)
Thereafter		(2,552)
Total	$	(5,747)

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

(11) Leases and related Subscription-Based Information Technology Arrangements

(a) Lessor Arrangements

ICA leases building and ground space to the University of Washington Sports Medicine department within Husky Stadium. The lease expires on August 2043 and provides for the lease agreement to be reviewed every 10 years and amended as needed. In accordance with GASB Statement No. 87, the Department records lease receivables and deferred inflows of resources based on the present value of expected receipts over the term of the lease. The expected receipts are discounted using the Department's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. The Department recognized revenues related to lease agreements totaling $1.4 million as of June 30, 2023 and 2022.

Future minimum lease payments to be received under lessor agreements as of June 30, 2023 are as follows:

Year		Principal	Interest	Total
2024	$	547,687	553,984	1,101,671
2025		583,525	533,663	1,117,188
2026		603,077	514,111	1,117,188
2027		623,284	493,904	1,117,188
2028–2032		3,441,514	2,144,426	5,585,940
2033–2037		4,439,670	1,503,150	5,942,820
2038–2042		5,360,839	690,596	6,051,435
2043–2044		1,383,270	28,732	1,412,002
Total	$	16,982,866	6,462,566	23,445,432

(b) Subscription-Based Information Arrangements

A SBITA is a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract in an exchange or exchange-like transaction for a term exceeding 12 months. ICA enters subscription-based information arrangements which expire at various dates through 2024. In accordance with GASB Statement No. 96, ICA recognizes a right-to-use subscription asset and a corresponding subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. Similar to leases, the expected future subscription payments are discounted using the ICA's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance.

ICA's right-to-use assets and related accumulated amortization for fiscal years ended June 30, 2023 and 2022 are summarized as follows:

	Balance as of July 1, 2021	Additions	Modifications and renewals	Deductions	Balance as of June 30, 2022	Additions	Modifications and renewals	Deductions	Balance as of June 30, 2023
Right-of-use assets:									
Subscription assets	$ 425,998	134,141	—	—	560,139	—	—	—	560,139
Total right of use assets	425,998	134,141	—	—	560,139	—	—	—	560,139
Less accumulated amortization subscription assets	—	197,186	—	—	197,186	219,543	—	—	416,729
Total accumulated amortization	—	197,186	—	—	197,186	219,543	—	—	416,729
Total right-of-use assets, net	$ 425,998	(63,045)	—	—	362,953	(219,543)	—	—	143,410

Total future annual subscription payments under subscription-based arrangements as of June 30, 2023 are as follows:

Year	Principal	Interest	Total
2024	$ 123,065	1,353	124,418
Total	$ 123,065	1,353	124,418

(12) Commitments and Contingencies

The Department is subject to various claims and lawsuits that are covered by the University's self-insurance fund, subject to a deductible of $100,000 per occurrence.

The Department has entered into employment contracts with certain employees expiring in years 2024 through 2029 that provide for certain salary guarantees and commitments. The annual salary payments will be funded through the Department. At June 30, 2023, the total commitment for all contracts for each the next five years and in the aggregate is as follows:

		Guaranteed amount
Year ending June 30:		
2024	$	28,565,525
2025		17,462,212
2026		10,371,323
2027		7,979,169
2028		7,908,144
Thereafter		4,361,875
	$	76,648,248

(13) Subsequent Events

On August 4, 2023, the University and Department announced that they would be joining the Big Ten Conference effective in August 2024. The University will remain a full member of the Pac-12 Conference until then. Financial terms of the transition have not been finalized.

On August 21, 2023, the department’s Athletic Director resigned from her position as Athletic Director at the University of Washington. Her contract included a $1 million buyout clause, which has been received in October 2023. She will also forgo her retention compensation of $224 thousand that was available on June 30, 2023.

On October 7, 2023, the University and Department announced the hiring of Troy Dannen as the Department’s next Athletic Director.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2023

Unaudited – See accompanying independent auditors' report.

Schedule of Proportionate Share of the Net Pension Liability

(As of measurement date, the prior fiscal year-end)

PERS 1

(Dollar amounts in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Intercollegiate Athletics' proportion of the net pension liability	0.050 %	0.040 %	0.040 %	0.050 %	0.040 %	0.050 %	0.047 %	0.051 %	0.051 %
Intercollegiate Athletics' proportionate share of the net pension liability	$ 1,423	487	1,544	1,789	1,983	2,166	2,501	2,645	254
Intercollegiate Athletics' covered payroll	8,290	6,081	6,570	6,043	5,819	5,643	5,429	5,625	5,385
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered payroll	17.17 %	8.00 %	23.50 %	29.61 %	34.09 %	38.38 %	46.01 %	47.02 %	47.30 %
Plan fiduciary net position as a percentage of the total pension liability	76.56 %	88.74 %	68.64 %	67.12 %	63.22 %	61.24 %	57.03 %	59.10 %	61.19 %

Schedule of Contributions
(As of current fiscal year-end)

PERS 1

(Dollar amounts in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 3	3	3	5	7	9	10	12	12
Contributions in relation to the contractually required contribution	3	3	3	5	7	9	10	12	12
Contribution deficiency (excess)	—	—	—	—	—	—	—	—	—
Intercollegiate Athletics' covered payroll	11,252	8,290	6,081	6,570	6,043	5,819	5,643	5,429	5,625
Contributions as a percentage of covered payroll	0.02 %	0.03 %	0.05 %	0.08 %	0.11 %	0.15 %	0.17 %	0.22 %	0.22 %

(Continued)

Schedule 1

UNIVERSITY OF WASHINGTON
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Schedules of Required Supplementary Information

June 30, 2023

Unaudited – See accompanying independent auditors' report.

Schedule of Proportionate Share of the Net Pension Liability

(As of measurement date, the prior fiscal year-end)

PERS 2/3

(Dollar amounts in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Intercollegiate Athletics' proportion of the net pension liability	0.07 %	0.05 %	0.06 %	0.06 %	0.06 %	0.06 %	0.06 %	0.06 %	0.06 %
Intercollegiate Athletics' proportionate share of the net pension (liability) asset	$ (2,471)	(5,068)	712	572	954	1,999	2,854	2,135	1,215
Intercollegiate Athletics' covered payroll	8,328	6,085	6,494	6,037	5,795	5,640	5,295	5,302	5,147
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered payroll	(29.67)%	(83.29)%	10.97 %	9.48 %	16.46 %	35.44 %	53.90 %	40.27 %	23.61 %
Plan fiduciary net position as a percentage of the total pension liability	106.73 %	102.29 %	97.22 %	97.70 %	95.77 %	90.97 %	85.82 %	89.20 %	93.29 %

Schedule of Contributions
(As of current fiscal year-end)

PERS 2/3

(Dollar amounts in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 1,171	863	788	835	773	732	631	588	488
Contributions in relation to the contractually required contribution	1,171	858	788	835	773	733	631	593	488
Contribution deficiency (excess)	—	5	—	—	—	(1)	—	(5)	—
Intercollegiate Athletics' covered payroll	11,298	8,328	6,085	6,494	6,037	5,795	5,640	5,295	5,302
Contributions as a percentage of covered payroll	10.36 %	10.37 %	12.95 %	12.86 %	12.80 %	12.64 %	11.18 %	11.10 %	9.21 %

(Continued)

Schedule 1

UNIVERSITY OF WASHINGTON
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Schedules of Required Supplementary Information

June 30, 2023

Unaudited – See accompanying independent auditors' report.

Schedule of Changes in Net Pension Liability (NPL)

UW Supplemental Retirement Plan

(Dollars in thousands)

		2023	2022	2021
Total pension liability – beginning	$	3,974	2,569	9,861
Service cost		66	47	265
Interest on total pension liability		288	202	204
Difference between expected and actual experience		(409)	863	(4,309)
Change in assumptions		(347)	281	(2,582)
Change in proportion		—	—	(757)
Benefit payments		(143)	(131)	(113)
Other changes		76	143	—
Net change in total pension liability		(469)	1,405	(7,292)
Total pension liability – ending (a)		3,505	3,974	2,569
Plan fiduciary net position – beginning		1,192	1,108	769
Employer contributions		109	83	82
Net investment income		94	1	257
Net change in plan fiduciary net position		203	84	339
Plan fiduciary net position – ending (b)		1,395	1,192	1,108
UWSRP Net Pension liability (a) minus (b)	$	2,110	2,782	1,461
Plan fiduciary net position as a percentage of the total pension liability		38.70 %	28.87 %	43.15 %
Department's UWSRP covered payroll	$	28,684	21,875	20,041
Net pension liability as a percentage of covered payroll		7.35 %	12.72 %	7.29 %

(Continued)

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UNIVERSITY OF WASHINGTON
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Schedules of Required Supplementary Information

June 30, 2023

Unaudited – See accompanying independent auditors' report.

Schedule of Contributions

(Amounts determined as of the fiscal year-end)

UW Supplemental Retirement Plan

(Dollar amounts in thousands)

		2023	2022	2021
Contractually required contribution	$	109	83	76
Contributions in relation to the contractually required contribution		109	83	82
Contribution excess	$	—	—	(6)
The Department's UWSRP covered payroll	$	26,684	21,875	20,041
Contributions as a percentage of covered payroll		0.38 %	0.38 %	0.41 %

UNIVERSITY OF WASHINGTON
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June 30, 2023

Unaudited – See accompanying independent auditors' report.

Schedule of Changes in Total Pension Liability (TPL)

UW Supplemental Retirement Plan

(Dollars in thousands)

		2020	2019	2018	2017
Total pension liability – beginning	$	7,539	4,952	5,112	5,503
Service cost		211	150	178	232
Interest on total pension liability		268	207	194	176
Difference between expected and actual experience		396	1,303	(408)	(873)
Change in assumptions		1,599	739	(205)	(333)
Change in proportion		(47)	283	155	467
Benefit payments		(105)	(95)	(74)	(60)
Net change in total pension liability		2,322	2,587	(160)	(391)
Total pension liability – ending (a)	$	9,861	7,539	4,952	5,112
The Department's UWSRP covered payroll (1)	$	9,392	9,392	9,392	9,392
Total pension liability as percentage of covered payroll		105.00 %	75.44 %	54.30 %	54.80 %

(1) Covered payroll for the fiscal year ending June 30, 2021 and preceding years is based on the payroll of the participants of the UWSRP.

(Continued)

Schedule 1

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2023

Unaudited – See accompanying independent auditors' report.

Schedule of Changes in Total OPEB Liability

(Dollars in thousands)

		2023	2022	2021	2020	2019	2018
Total OPEB liability – beginning	$	12,545	12,666	12,271	11,070	11,730	12,601
Service cost		643	627	526	497	692	795
Interest on total OPEB liability		298	271	440	430	476	372
Difference between expected and actual experience		(295)	—	(67)	—	434	—
Change in assumptions		(4,989)	116	285	803	(3,030)	(1,817)
Change in proportionate share		735	308	(132)	(332)	969	(31)
Benefit payments		(219)	(206)	(209)	(197)	(201)	(190)
Other		—	(1,237)	(448)	—	—	—
Total OPEB liability – ending	$	8,718	12,545	12,666	12,271	11,070	11,730
OPEB covered payroll	$	22,612	20,845	21,624	21,689	20,388	18,954
Total OPEB liability as percentage of covered payroll		38.56 %	60.18 %	58.57 %	56.58 %	54.29 %	61.88 %

Plans Administered by DRS

The Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2019 valuation date, completed in the fall of 2020, plus any supplemental contribution rates from the preceding legislative sessions, determines the ADC for the period beginning July 1, 2021, and ending June 30, 2023.

Additional Considerations on ADC for All Plans:

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

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

Plans Administered by the University

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

Covered payroll for the fiscal year ending June 30, 2023, 2022 and 2021 is based on the payroll of participants in the University's 403(b) defined contribution UWRP.

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

Changes that impacted the TPL and NPL include changing the valuation date from June 30, 2022 to January 1, 2023 for the June 30, 2023 measurement. The new data file decreased the TPL. Some of the larger experience items that impacted the TPL were salaries generally lower than assumed and SRP benefits for new retirees were lower than estimated. In addition, OSA's model estimates the SRP benefit of future retirees by relying on assumptions for the benefit calculation performed by Teachers Insurance and Annuity Association of America (TIAA). Based on the information provided by TIAA and OSA's professional judgment, some of the long-term assumptions were updated which decreased the TPL. The source for the discount rate changed in 2021 from the bond rate required of plans with no assets, to the investment return for plans with assets, due to the change in the plan on July 1, 2020, which led to a change in the appropriate accounting guidance.

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

(Continued)

OPEB Plan administered by the Healthcare Authority of Washington State

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

Material assumption changes in fiscal year 2023 measurement period relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 2.16% for the June 30, 2021 measurement date to 3.54% for the June 30, 2022 measurement date. This change resulted in a decrease in the TOL.

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

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Operating and Other Revenue by Specific Function

Year ended June 30, 2023

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Administration and other	Total
Gate ticket sales revenue:							
Ticket sales for home events	$ 24,503,255	2,034,994	343,010	374,178	1,083,705	—	28,339,142
Admission taxes	(1,166,823)	(96,809)	(16,353)	(17,893)	(51,626)	—	(1,349,504)
Ticket-processing fees	657,683	116,328	3,447	1,785	11,852	—	791,095
	23,994,115	2,054,513	330,104	358,070	1,043,931	—	27,780,733
Seat-related gifts	21,331,377	1,277,632	14,200	—	—	—	22,623,209
University's share of gate revenue for away games	—	—	—	—	—	—	—
Total gate ticket sales revenue	45,325,492	3,332,145	344,304	358,070	1,043,931	—	50,403,942
NCAA/conference distributions:							
PAC-12 television share	21,795,230	3,820,325	—	—	—	—	25,615,555
PAC-12 Rose/other bowl shares	9,357,353	—	—	—	—	—	9,357,353
Bowl participation	2,233,316	—	—	—	—	—	2,233,316
NCAA Men's Basketball (MBB) tournament	—	1,524,083	—	—	—	—	1,524,083
Football Pac-12 Championship Game	940,000	—	—	—	—	—	940,000
MBB PAC-12 tournament	—	—	—	—	—	—	—
Pac-12 Network share	(443,417)	(78,250)	—	—	—	—	(521,667)
Other	—	—	—	—	—	2,102,517	2,102,517
Total NCAA/conference distributions	33,882,482	5,266,158	—	—	—	2,102,517	41,251,157
Royalties, advertisements, and sponsorships:							
Sponsorships	—	—	—	43,982	60,330	14,555,005	14,659,317
Donated advertising	—	—	—	—	—	152,500	152,500
Trademarks and licensing	—	—	—	—	—	1,090,797	1,090,797
Donated supplies	1,690,000	327,000	273,000	937,140	1,181,860	891,000	5,300,000
Total royalties, advertisements, and sponsorships	1,690,000	327,000	273,000	981,122	1,242,190	16,689,302	21,202,614
Contributions	9,407,434	387,250	111,711	1,153,787	995,236	7,090,541	19,145,959
Capital gifts	—	—	—	—	—	10,210,083	10,210,083
Gifts to permanent endowments	—	—	—	—	—	3,167,407	3,167,407
Gain on investments	—	—	—	—	—	2,018,512	2,018,512
Investment income, net	—	—	—	—	—	4,553,246	4,553,246
University funded tuition waivers	—	—	—	—	—	4,710,072	4,710,072
Concessions, souvenirs, parking, and boat moorage	3,199,898	203,249	100,057	28,716	59,280	459,958	4,051,158
Facility income	—	—	—	—	—	1,626,418	1,626,418
Higher Education Emergency Relief Fund (HEERF II)	—	—	—	—	—	—	—
University Support	—	—	—	—	—	5,569,000	5,569,000
Coaches contract Settlement	—	—	50,000	—	265,008	—	315,008
Lease revenue	—	—	—	—	—	792,298	792,298
Lease interest income	—	—	—	—	—	567,498	567,498
Capital grant, gifts, and other	—	—	—	—	—	—	—
Other	32,720	—	—	284,766	165,521	398,815	881,822
Total revenue	$ 93,538,026	9,515,802	879,072	2,806,461	3,771,166	59,955,667	170,466,194

See accompanying independent auditors' report.

Schedule 2

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Operating and Other Revenue by Specific Function

Year ended June 30, 2022

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Administration and other	Total
Gate ticket sales revenue:							
Ticket sales for home events	$ 26,695,170	1,833,133	250,346	305,485	740,147	—	29,824,281
Admission taxes	(1,271,258)	(87,244)	(11,899)	(14,575)	(35,318)	—	(1,420,294)
Ticket-processing fees	726,776	48,864	2,400	1,370	15,393	—	794,803
	26,150,688	1,794,753	240,847	292,280	720,222	—	29,198,790
Seat-related gifts	17,669,172	2,600,981	42,317	—	—	—	20,312,470
University's share of gate revenue for away games	1,000,000	148,500	—	—	—	—	1,148,500
Total gate ticket sales revenue	44,819,860	4,544,234	283,164	292,280	720,222	—	50,659,760
NCAA/conference distributions:							
PAC-12 television share	20,764,774	3,633,225	—	—	—	—	24,397,999
PAC-12 Rose/other bowl shares	8,174,647	—	—	—	—	—	8,174,647
Bowl participation	—	—	—	—	—	—	—
NCAA MBB tournament	—	1,506,453	—	—	—	—	1,506,453
Football Pac-12 Championship Game	97,250	—	—	—	—	—	97,250
Men's Basketball PAC-12 tournament	—	—	—	—	—	—	—
Pac-12 Network share	3,065,312	540,938	—	—	—	—	3,606,250
Other	—	—	—	—	—	2,160,861	2,160,861
Total NCAA/conference distributions	32,101,983	5,680,616	—	—	—	2,160,861	39,943,460
Royalties, advertisements, and sponsorships:							
Sponsorships	—	—	—	48,051	45,555	13,919,257	14,012,863
Donated advertising	—	—	—	—	—	—	—
Trademarks and licensing	—	—	—	—	—	967,127	967,127
Donated supplies	1,691,000	321,000	268,000	919,200	1,158,800	842,000	5,200,000
Total royalties, advertisements, and sponsorships	1,691,000	321,000	268,000	967,251	1,204,355	15,728,384	20,179,990
Contributions	1,490,662	143,776	161,968	1,359,147	1,184,846	3,384,141	7,724,540
Capital gifts	—	—	—	—	—	13,045,229	13,045,229
Gifts to permanent endowments	—	—	—	—	—	1,793,678	1,793,678
Loss on investments	—	—	—	—	—	(12,135,482)	(12,135,482)
Investment income, net	—	—	—	—	—	4,080,279	4,080,279
University funded tuition waivers	—	—	—	—	—	4,657,999	4,657,999
Concessions, souvenirs, parking, and boat moorage	2,871,707	166,627	23,291	22,413	42,814	545,206	3,672,058
Facility income	—	—	—	—	—	1,289,822	1,289,822
Higher Education Emergency Relief Fund (HEERF II)	—	—	—	—	—	425,000	425,000
University support	—	—	—	—	—	10,000,000	10,000,000
Coaches contract settlement	500,004	—	—	—	—	—	500,004
Lease revenue	—	—	—	—	—	792,339	792,339
Lease interest income	—	—	—	—	—	582,267	582,267
Capital grant, gifts, and other	—	—	—	—	—	—	—
Other	30,208	—	—	203,265	94,392	349,499	677,364
Total revenue	$ 83,505,424	10,856,253	736,423	2,844,356	3,246,629	46,699,222	147,888,307

See accompanying independent auditors' report.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Operating Expenses and Other Deductions by Specific Function

Year ended June 30, 2023

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Postseason activity	Administration	Facilities maintenance and event management	Department relations and visiting recruits	Total
Operating expenses:										
Salaries and wages	$ 12,988,630	4,568,031	1,776,701	3,099,574	4,351,268	313,205	15,783,725	2,267,234	17,612	45,165,980
Payroll taxes and employee benefits	2,661,699	952,890	420,081	874,519	1,203,452	25,608	2,201,004	769,532	—	9,108,785
Athletic student aid	4,348,992	630,948	808,781	3,207,621	6,193,630	—	1,255,487	—	133,254	16,578,713
Guarantees paid to visiting teams	2,550,000	550,000	218,000	68,154	34,500	—	—	—	—	3,420,654
Team travel	1,541,677	1,040,100	717,350	1,590,220	2,299,225	2,919,571	272,288	—	—	10,380,431
Day of game expenses	2,837,037	388,680	285,593	289,040	401,638	43,617	686,682	1,323,321	6,020,461	12,276,069
Direct facilities, maintenance, and utilities	190,517	—	—	52,603	69,976	—	3,691,482	1,928,063	—	5,932,641
Uniforms and supplies	1,181,879	86,864	41,758	508,661	471,785	75,491	3,812,292	396,783	20,930	6,596,443
Donated supplies	1,690,000	327,000	273,000	937,140	1,181,860	—	891,000	—	—	5,300,000
Donated advertising	—	—	—	—	—	—	152,500	—	—	152,500
Medical expenses	13,244	4,854	16,575	20,414	28,191	—	1,925,747	—	2,160	2,011,185
Fundraising, marketing, and promotions	—	—	—	—	1,205	—	336,061	—	—	337,266
Recruiting	—	—	—	—	—	—	—	—	1,139,329	1,139,329
Equipment	—	—	—	—	—	—	—	3,532	—	3,532
Training table	2,472,973	372,473	200,669	249,978	420,753	65,821	378,186	—	1,145,974	5,306,827
Department relations	27,931	3,395	8,344	54,156	42,127	132,537	66,926	1,347	592,194	928,957
Banquets and special events	—	—	—	44,808	(26,456)	—	163,732	—	198,194	380,278
Depreciation	—	—	—	—	—	—	15,697,674	—	—	15,697,674
Subscription amortization	—	—	—	—	—	—	219,543	—	—	219,543
Noncapitalized equipment and repairs	—	—	—	—	—	—	—	4,150,765	—	4,150,765
Other	1,483,379	421,481	483,278	760,290	635,563	21,589	9,304,131	33,841	2,094,806	15,238,358
Total operating expenses	33,987,958	9,346,716	5,250,130	11,757,178	17,308,717	3,597,439	56,838,460	10,874,418	11,364,914	160,325,930
Other deductions:										
Gain on disposal of capital assets	—	—	—	—	—	—	—	(31,822)	—	(31,822)
Interest expense	—	—	—	—	—	—	10,264,073	—	—	10,264,073
Total other deductions	—	—	—	—	—	—	10,264,073	(31,822)	—	10,232,251
Total operating expenses and other deductions	$ 33,987,958	9,346,716	5,250,130	11,757,178	17,308,717	3,597,439	67,102,533	10,842,596	11,364,914	170,558,181

See accompanying independent auditors' report.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Operating Expenses and Other Deductions by Specific Function

Year ended June 30, 2022

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Postseason activity	Administration	Facilities maintenance and event management	Department relations and visiting recruits	Total
Operating expenses:										
Salaries and wages	$ 27,158,447	4,433,377	1,707,017	3,805,690	3,798,596	—	13,470,514	2,172,759	—	56,546,400
Payroll taxes and employee benefits	886,976	854,623	429,853	810,307	1,006,471	—	307,845	691,816	—	4,987,891
Athletic student aid	4,363,805	585,262	865,175	3,021,413	6,072,872	—	1,163,231	—	15,667	16,087,425
Guarantees paid to visiting teams	2,425,000	523,500	91,055	70,415	31,500	—	—	—	—	3,141,470
Team travel	1,677,104	1,042,580	536,648	1,310,862	1,871,478	690,205	137,898	—	—	7,266,775
Day of game expenses	2,666,957	536,006	237,903	240,302	334,251	24,573	646,098	1,133,080	3,893,228	9,712,398
Direct facilities, maintenance, and utilities	176,959	—	—	54,242	64,670	—	3,104,144	1,551,678	—	4,951,693
Uniforms and supplies	1,179,520	105,847	77,262	463,648	422,250	47,227	3,060,417	310,174	11,364	5,677,709
Donated supplies	1,691,000	321,000	268,000	919,200	1,158,800	—	842,000	—	—	5,200,000
Medical expenses	14,566	1,220	3,212	28,217	38,966	—	1,656,454	—	1,569	1,744,204
Fundraising, marketing, and promotions	—	—	—	—	727	—	225,637	—	—	226,364
Recruiting	—	—	—	—	—	—	—	—	1,259,439	1,259,439
Equipment	—	—	—	—	—	—	—	1,285	—	1,285
Training table	2,161,364	353,894	60,315	243,214	321,382	—	414,859	—	928,030	4,483,058
Department relations	49,385	1,428	498	40,087	28,189	—	88,860	1,908	575,421	785,776
Banquets and special events	—	1,360	—	113,250	28,831	—	252,994	—	120,498	516,933
Depreciation	—	—	—	—	—	—	15,721,990	—	—	15,721,990
Subscription amortization	—	—	—	—	—	—	197,186	—	—	197,186
Noncapitalized equipment and repairs	—	—	—	—	—	—	—	1,845,271	—	1,845,271
Other	1,307,464	279,827	281,483	894,154	788,364	4,794	5,813,735	29,318	4,285,746	13,684,885
Total operating expenses	45,758,547	9,039,924	4,558,421	12,015,001	15,967,347	766,799	47,103,862	7,737,289	11,090,962	154,038,152
Other deductions:										
Gain on disposal of capital assets	—	—	—	—	—	—	—	(23,500)	—	(23,500)
Interest expense	—	—	—	—	—	—	10,140,867	—	—	10,140,867
Total other deductions	—	—	—	—	—	—	10,140,867	(23,500)	—	10,117,367
Total operating expenses and other deductions	$ 45,758,547	9,039,924	4,558,421	12,015,001	15,967,347	766,799	57,244,729	7,713,789	11,090,962	164,155,519

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

Basic Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

UW MEDICINE SELECT UNITS – UW DIVISION

Table of Contents

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

Opinion

We have audited the financial statements of the UW Medicine Select Units – UW Division (the Group), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Group as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Emphasis of Matter

Reporting Entity

As discussed in note 1, the financial statements of the Group, which are divisions, departments, and component units of the University of Washington (the University), are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the University that is attributable to the transactions of the Group. They do not purport to and do not present fairly the financial position of the University as of June 30, 2023 or 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Pronouncements

As discussed in note 2, in fiscal year 2023, the Group adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, and Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6 through 23 and the schedules of required supplementary information on pages 84 through 89 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

KPMG LLP

Seattle, Washington
October 13, 2023

The following discussion and analysis provides an overview of the financial position and activities of the UW Medicine Select Units – UW Division (the Group) as of and for the years ended June 30, 2023 and 2022. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts. It should be read in conjunction with the basic financial statements and accompanying notes that follow this section.

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

Using the Financial Statements

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

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

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

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

Results of Operations

For the fiscal year ended 2023, the Group experienced higher admissions and occupancy and continued high length of stay as well as significant pressure on its operating expenses driven by inflationary increases, particularly labor costs. Additionally, there were substantial nonoperating revenues, which impacted the Group's performance, many of which are nonrecurring. Specifically, $43 million of nonrecurring revenue was received from the Federal Emergency Management Agency (FEMA) for reimbursement of expenses due to the national emergency declaration made as a result of the Coronavirus (COVID-19) pandemic. Additionally, in fiscal year 2023, UW Medical Center was awarded a nonrecurring state appropriation of $50 million for continued support of operations and teaching activities at UW Medical Center and recorded $87 million in financial alignment income as a result of the clinical and financially integrated adult oncology program operated by the separately licensed and operated hospitals, FHCC and UW Medical Center.

(Dollar amounts in millions)

Further, the actuarial adjustments for pension and other postretirement obligations have caused unpredictable large swings in the Group's operating expenses over the past several years. The chart below shows the income before capital appropriations and other, adjusted for pension and other postretirement obligations as if they were recorded on a cash basis, rather than an accrual basis. No other noncash items were adjusted from income for purposes of this adjusted income calculation. On this basis, for the years ended June 30, 2023, 2022, and 2021, the Group's total income before capital appropriations and other was $51 million, $27 million and $121 million, respectively.

		2023	2022	2021
Income before capital appropriations and other	$	136	173	174
Adjustment for net pension and other postemployment benefit actuarial and assumption changes		(85)	(146)	(53)
Adjusted income before capital appropriations and other	$	51	27	121

The Group reported a loss from operations of $42 million and an increase in net position of $268 million for the year ended June 30, 2023 compared to income from operations of $57 million and an increase in net position of $229 million for the year ended June 30, 2022. The increase in net position in fiscal year 2023 is attributed to capital appropriations for the Center for Behavioral Health and Learning on UW Medical Center's Northwest Campus and nonoperating revenues, including state appropriations, FHCC financial alignment income and FEMA funding offset by increased operating expenses. Also contributing to the increase in net position was a $85 million noncash reduction in operating expenses as a result of adjustments related to actuarial and assumption changes to pension and other postretirement obligations.

The Group reported income from operations of $57 million and an increase in net position of $229 million for the year ended June 30, 2022 compared to income from operations of $50 million and an increase in net position of $204 million for the year ended June 30, 2021. The increase in net position in fiscal year 2022 was attributed to a $146 million noncash reduction in operating expenses as a result of adjustments related to actuarial and assumption changes to pension and other postretirement obligations which offset increased operating expenses, specifically an increase in utilization of contract labor driven by shortages in permanent staff and high admissions.

In fiscal year 2022, the Group received governmental funding through the Coronavirus Aid, Relief and Economic Security (CARES) Act and the American Rescue Plan Act (ARPA) of $15 million to aid in the recovery of lost revenues and also received donations and other funds to provide care and vaccinations to the community.

(Continued)

UW MEDICINE SELECT UNITS – UW DIVISION

Management's Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollar amounts in millions)

		2023	2022	2021
Operating revenues:				
Net patient service revenues	$	2,085	1,883	1,777
UWP billing revenues, net		419	392	367
Other revenue		400	287	322
Total operating revenues		2,904	2,562	2,466
Operating expenses:				
Salaries, wages, and benefits		1,530	1,300	1,238
Other		1,416	1,205	1,178
Total operating expenses		2,946	2,505	2,416
(Loss) income from operations		(42)	57	50
Nonoperating revenues (expenses):				
Investment income, net		1	3	3
Interest expense		(33)	(27)	(25)
FHCC financial alignment income		87	7	—
FEMA public assistance program		43	15	—
Recurring state appropriations		7	7	7
Non-recurring state appropriations		62	12	37
Other, net		11	99	102
Nonoperating revenues, net		178	116	124
Income before capital appropriations and other		136	173	174
Capital appropriations and other		132	56	30
Increase in net position		268	229	204
Net position, beginning of year		554	325	121
Net position, end of year	$	822	554	325

(Continued)

(Dollar amounts in millions)

The following chart represents key statistics of the Group for June 30, 2023, 2022, and 2021:

	2023	2022	2021
Licensed beds	810	810	810
Admissions	29,001	27,583	27,320
Patient days	210,186	202,070	185,389
Average length of stay	7.25	7.33	6.79
Case mix index (CMI)	2.22	2.21	2.15
Surgery cases	29,770	27,248	28,626
Emergency room visits	69,933	61,146	55,781
Primary and urgent care clinic visits	405,646	350,606	329,662
Specialty care clinic visits	450,600	451,952	418,389
Births	3,809	3,692	3,314
Solid organ transplants	453	411	489
Relative Value Units (RVU) volume	10,967,971	10,523,138	9,113,765
Airlift flights	4,313	4,286	3,422
Full-time equivalents (FTEs)	9,322	8,868	8,512

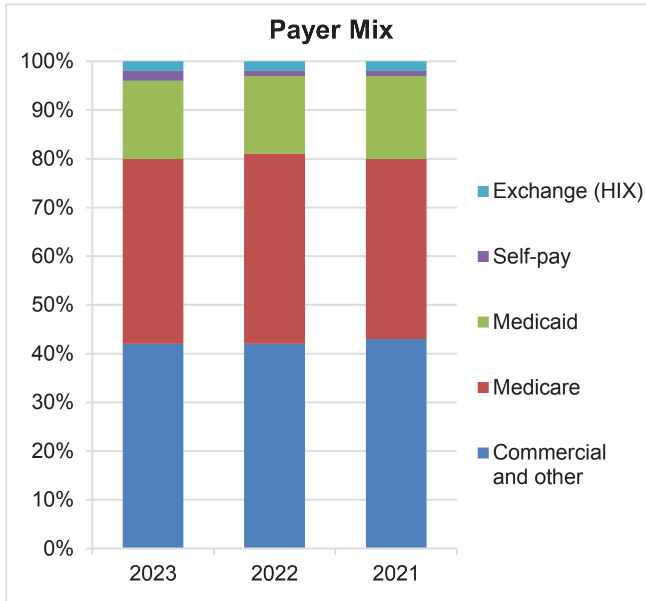
Operating Revenues

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

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

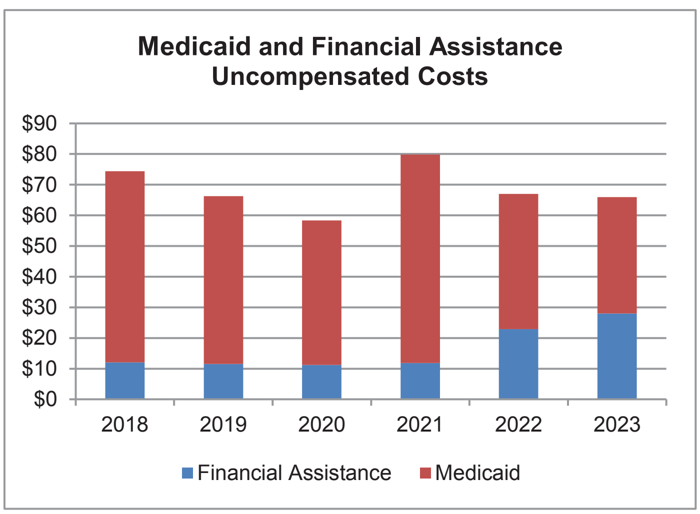
(Continued)

The Group's payer mix is a key factor in the overall financial operating performance. The chart to the right illustrates payer mix for fiscal years 2023, 2022, and 2021 gross patient service revenue. For the years ended June 30, 2023 and 2022, commercial revenue represented 42% for both years; Medicare revenue represented 38% and 39%, respectively; Medicaid revenue represented 16% for both years; exchange revenue represented 2% for both years; and self-pay revenue represented 2% and 1%, respectively.



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

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



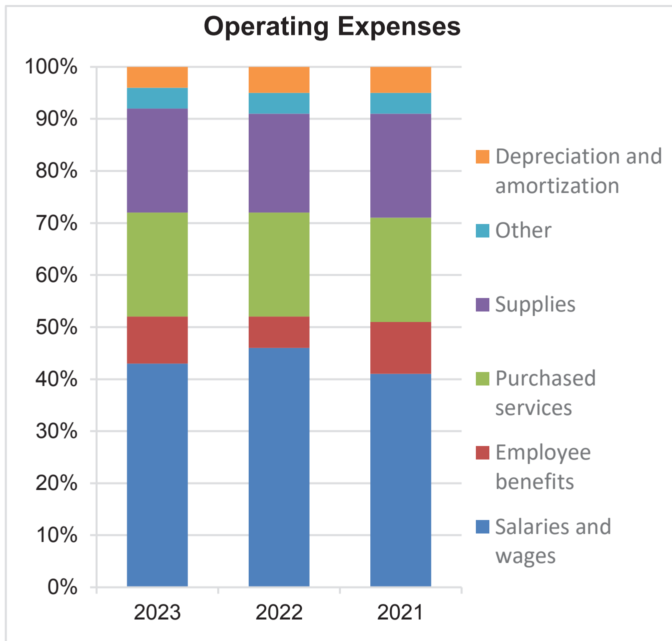
For the years ended June 30, 2023, 2022, and 2021 the Group's total operating revenues were $2,904 million, $2,562 million, and $2,466 million, which was comprised of $2,085 million, $1,883 million, and $1,777 million in net patient service revenues, $419 million, $392 million, and $367 million in UWP billing revenues, net, and $400 million, $287 million, and $322 million in other revenues, respectively.

The increase in operating revenues between fiscal years 2022 and 2023 of 13.3% was driven by a 39.4% increase in other revenue due to higher contract pharmacy revenue. Net patient service revenues increased 10.7% as a result of volumes and other rate increases including the outpatient directed payment program (ODPP), which is a new program managed by the Washington State Health Care Authority effective January 1, 2023. Additionally, there was a 6.9% increase in UWP billing revenues, net due to strong volumes.

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

Operating Expenses

Operating expenses were $2,946 million for the fiscal year 2023 compared to $2,505 million for the fiscal year 2022 and $2,416 million for fiscal year 2021. The composition of fiscal years 2023, 2022, and 2021 operating expenses is illustrated in the chart to the right.



Salaries and wages expense increased $119 million from $1,152 million in fiscal year 2022 to $1,271 million in fiscal year 2023. The increase in salaries and wages expense was primarily attributed to an increase in FTEs driven by high occupancy as well as wage increases. In fiscal year 2023, in an effort to align with rapidly increasing market rates, UW Medicine reached historic agreements with its four largest labor union partners which included incremental pay increases that are the largest UW Medicine has ever negotiated. Further, utilization of contract labor remained high in fiscal year 2023 as a result of shortages in permanent staff and increased volumes.

Salaries and wages expense increased $153 million from $999 million in fiscal year 2021 to $1,152 million in fiscal year 2022. The increase in salaries and wages expense was primarily attributed to additional staffing needs due to an increase in volumes and increasing labor costs in the market.

Employee benefits expense increased $110 million from $149 million in fiscal year 2022 to $259 million in fiscal year 2023. Between fiscal year 2022 and fiscal year 2023, the increase in employee benefits expense is the result of an increase in salaries and wages expense as a result of additional FTEs and an increase in the University benefit load rate. Between fiscal year 2022 and fiscal year 2023, the University benefit load rate for classified and professional employees increased due to higher healthcare expenses and employer pension contributions. Further, in fiscal year 2023, the noncash actuarial and assumption changes to pension and other postretirement obligations was a $81 million decrease as compared to a $141 million decrease in fiscal year 2022.

Employee benefits expense decreased $90 million from $239 million in fiscal year 2021 to $149 million in fiscal year 2022. Between fiscal year 2021 and fiscal year 2022, the decrease in employee benefits expense is the result of noncash actuarial and assumption changes to pension obligations driven by the amortization of Public Employees' Retirement System (PERS) deferred inflows associated with better than expected returns and expected earnings on plan investments.

Purchased services expense, consisting of professional fees, consulting fees, and clinical department funding, increased $81 million from $513 million in fiscal year 2022 to $594 million in fiscal year 2023. The increase in purchased services expense is due to an increase in the School clinical department funding, representing fees paid to physicians providing services to the Group but not employed by the Group, allocation of program costs for UW Finance Transformation (UWFT), which was implemented on July 1, 2023, contract pharmacy administrative fees, and resident expenses.

Purchased services expense increased $19 million from $494 million in fiscal year 2021 to $513 million in fiscal year 2022. The increase in purchased services expense is attributed to an increase in the School clinical department funding, representing fees paid to physicians providing services to the Group but not employed by the Group.

Supplies expense includes medical and surgical, pharmaceutical, and nonmedical supplies. In total, these expenses increased $109 million from $484 million in fiscal year 2022 to $593 million in fiscal year 2023. Supplies expense was driven by an increase in medical supplies associated with an increase in contract pharmacy, prosthesis, surgical supplies, and blood purchases due to increased volumes.

In total, these expenses increased $9 million from $475 million in fiscal year 2021 to $484 million in fiscal year 2022. Supplies expense was driven by higher surgical supplies, blood, and prosthesis as a result of greater volumes and acuity.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, interest expense, intergovernmental transfer expense, FHCC financial alignment income, funding from and to other UW Medicine entities as well as the state of Washington, state appropriations, hospital safety net funding, and COVID-19 federal stimulus and FEMA funding. Net nonoperating revenues increased $62 million from $116 million in fiscal year 2022 to $178 million in fiscal year 2023. Net nonoperating revenues were driven by a $28 million increase in FEMA public assistance funding as a result of obligated projects and a $80 million increase in FHCC financial alignment income. In addition, the increase is a result of higher state appropriations in fiscal year 2023 due to an additional $50 million non-recurring state appropriation that was awarded to UW Medical Center.

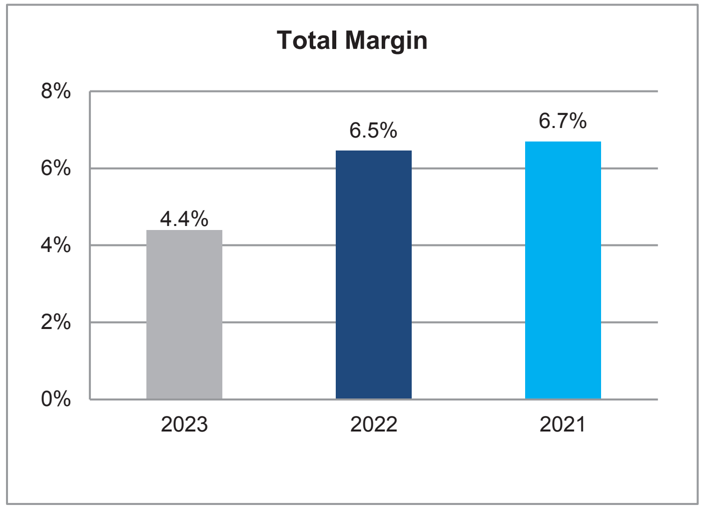
Net nonoperating revenues decreased $8 million from $124 million in fiscal year 2021 to $116 million in fiscal year 2022. Net nonoperating revenues were driven by a decrease in equity earnings from Seattle Cancer Care Alliance (SCCA) and receipt of federal stimulus funds offset by an increase in funding from affiliates. In addition, the decrease is attributed to lower state appropriations as in fiscal year 2021, UW Medical Center was awarded a one time state appropriation of $35 million to partially cover lost revenues from the COVID-19 pandemic that were not recovered by other funding.

(Continued)

(Dollar amounts in millions)

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue (operating plus nonoperating) that has been realized in the form of net income (income before capital appropriations and other) and is a common measure of total hospital profitability. Total margin for the fiscal years 2023, 2022, and 2021 is illustrated in the chart to the right.



Financial Analysis

Statements of Net Position

The table below is a presentation of certain condensed financial information derived from the Group's statements of net position as of June 30, 2023, 2022, and 2021:

	2023	2022	2021
Current assets	$ 650	628	697
Noncurrent assets:			
Capital assets, net of accumulated depreciation and amortization	942	796	762
Right-to-use lease and subscription assets, net of accumulated amortization	254	201	221
Funds held by the University of Washington	245	204	246
Investments	174	149	144
Investment in Seattle Cancer Care Alliance	—	—	259
Investment in Fred Hutchinson Cancer Center	429	429	—
Other assets	106	106	99
Net pension assets	185	476	—
Total assets	2,985	2,989	2,428
Deferred outflows of resources	438	322	301
Total assets and deferred outflows of resources	$ 3,423	3,311	2,729

(Continued)

(Dollar amounts in millions)

		2023	2022	2021
Current liabilities	$	653	628	724
Noncurrent liabilities:				
Other noncurrent liabilities		993	914	830
Net pension liabilities		122	66	177
Other postemployment benefits		310	462	414
Total liabilities		2,078	2,070	2,145
Deferred inflows of resources		523	687	259
Net position		822	554	325
Total liabilities, deferred inflows of resources, and net position	$	3,423	3,311	2,729

Total assets and deferred outflows of resources were $3,423 million at June 30, 2023 compared to $3,311 million at June 30, 2022 representing an increase of $112 million. This increase in total assets is primarily attributed to higher capital assets driven by construction of the Center for Behavioral Health and Learning and deferred outflows of resources related to pensions.

Current liabilities increased $25 million from $628 million at June 30, 2022 to $653 million at June 30, 2023. This increase is primarily attributed to an increase in the clinical medicine fund and departmental payables. Noncurrent liabilities decreased $17 million from $1,442 million at June 30, 2022 to $1,425 million at June 30, 2023 as a result of a $152 million decrease in other postemployment benefits (OPEB) liabilities, which was offset by increases in long-term debt, net of current portion, net pension liabilities and long term lease and subscription IT liabilities.

Total assets and deferred outflows of resources were $3,311 million at June 30, 2022 compared to $2,729 million at June 30, 2021 representing an increase of $582 million. This increase in total assets is primarily attributed to favorable investment earnings on plan investments of the PERS Plan 2 and Plan 3, which caused the balance to become a net pension asset in fiscal year 2022 as compared to a net pension liability.

Current liabilities decreased $96 million from $724 million at June 30, 2021 to $628 million at June 30, 2022. This decrease is primarily attributed to full recoupment by the Centers for Medicare and Medicaid Services (CMS) of Medicare advanced payments in fiscal year 2022. Noncurrent liabilities increased $21 million from $1,421 million at June 30, 2021 to $1,442 million at June 30, 2022 driven by an increase in long-term debt, net of current portion, and OPEB liabilities, offset by a decrease in net pension liabilities.

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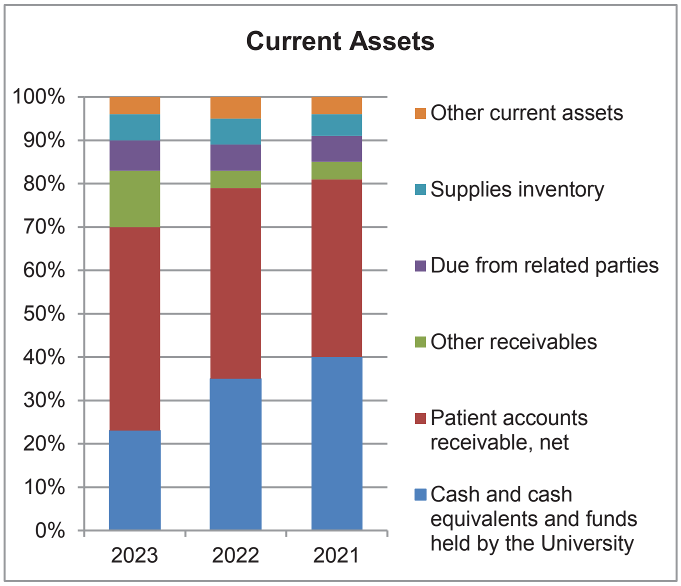


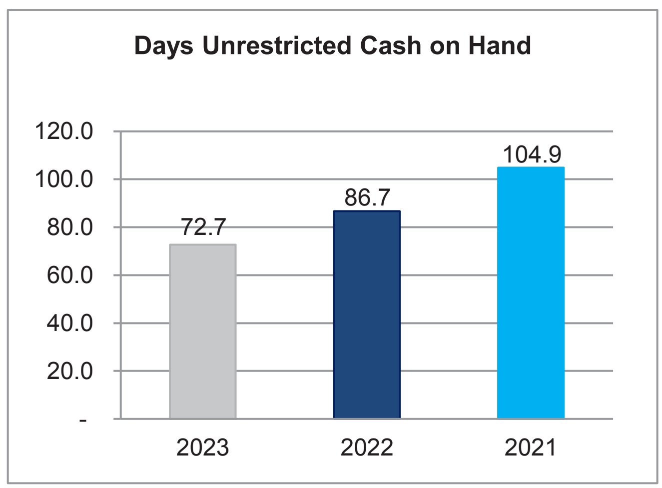
Current Assets

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

Fiscal years 2023, 2022, and 2021 composition of current assets is illustrated in the chart to the left.

Cash and cash equivalents represent both cash and funds held by the University on behalf of the Group that are considered cash equivalents. Cash and cash equivalents decreased $70 million from $220 million at June 30, 2022 to $150 million at June 30, 2023 and decreased $60 million from $280 million at June 30, 2021 to $220 million at June 30, 2022.

Days unrestricted cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days unrestricted cash on hand (including funds held by the University and investments, which are classified as noncurrent funds) as of June 30 for fiscal years 2023, 2022, and 2021 are illustrated in the chart to the right.

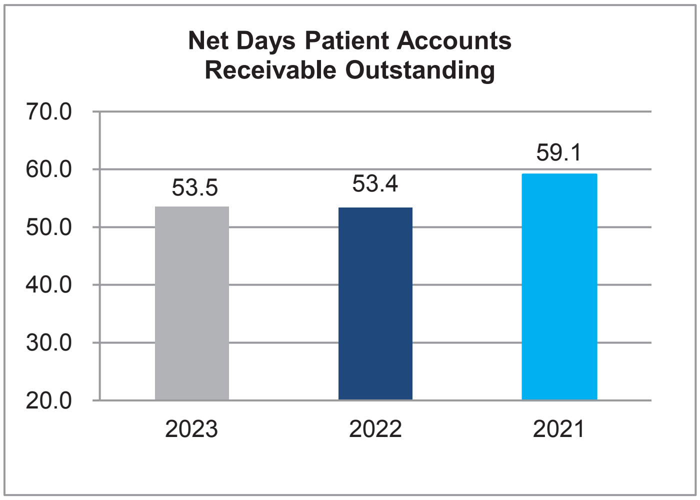


The Group's total days unrestricted cash on hand decreased 14.0 days from 86.7 days at June 30, 2022 to 72.7 days at June 30, 2023. The decrease is a result of greater operating expenses as a result of increased labor and supplies expenses.

The Group's total days unrestricted cash on hand decreased 18.2 days from 104.9 days at June 30, 2021 to 86.7 days at June 30, 2022. The decrease is a result of increased operating expenses and the recoupment by CMS of $109 million of Medicare advanced payments. At June 30, 2022, Medicare had recouped all of the Group's Medicare advanced payments.

Net patient accounts receivable were $306 million as of June 30, 2023 compared to $276 million as of June 30, 2022, an increase of $30 million. The increase is primarily a result of the timing of payer cash collections and an increase in net patient service revenues.

Net patient accounts receivable were $276 million as of June 30, 2022 compared to $288 million as of June 30, 2021, a decrease of $12 million. The decrease is primarily a result of the timing of payer cash collections.



Net days patient accounts receivable outstanding illustrates an organization's ability to convert net patient service revenues to cash. Net days patient accounts receivable outstanding as of June 30 for fiscal years 2023, 2022, and 2021 are illustrated in the chart to the left.

The Group's total net days patient accounts receivable outstanding increased 0.1 days from 53.4 days at June 30, 2022 to 53.5 days at June 30, 2023.

The Group's total net days patient accounts receivable outstanding decreased 5.7 days from 59.1 days at June 30, 2021 to 53.4 days at June 30, 2022. The decrease in net days patient accounts receivable between fiscal years 2022 and 2021 is driven by higher net patient accounts receivable at June 30, 2021 attributed to billing and collection delays due to Destination: One, the implementation of a single electronic health record system, which allowed UW Medicine to improve the experience for its patients as well as to achieve clinical quality, safety and workflow efficiencies through standardization. Destination: One was fully implemented in March 2021.

As of June 30, 2023 and 2022, 46% of the gross patient accounts receivable balance were due from commercial payers for both years, governmental payers (Medicare and Medicaid) comprised 49% for both years, self-pay payers comprised 3% for both years, and exchange comprised 2% for both years.

Other receivables consists of amounts due from external parties for services. Other receivables increased $55 million from $26 million at June 30, 2022 to $81 million at June 30, 2023. The increase in fiscal year 2023 is due to the $42 million estimated receivable for ODPP, which is a new program managed by the Washington State Health Care Authority effective January 1, 2023. Other receivables stayed consistent at $26 million at both June 30, 2022 and 2021.

Due from related parties consists of amounts due for services provided to Harborview, VMC, and the School. Due from related parties increased $12 million from $36 million at June 30, 2022 to $48 million at June 30, 2023. Due from related parties decreased $3 million from $39 million at June 30, 2021 to $36 million at June 30, 2022. Changes in due to related parties primarily relate to the timing of payments between the Group, Harborview, and the School.

Noncurrent Assets

Capital assets, net of accumulated depreciation and amortization increased $146 million during fiscal year 2023 from $796 million at June 30, 2022 to $942 million at June 30, 2023 and increased $34 million during fiscal year 2022 from $762 million at June 30, 2021 to $796 million at June 30, 2022. In fiscal years 2023 and 2022, the increases were primarily driven by construction of the Center for Behavioral Health and Learning on UW Medical Center's Northwest Campus.

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

Right-to-use lease and subscription information technology (IT) assets, net of accumulated amortization increased $53 million in fiscal year 2023 from $201 million at June 30, 2022 to $254 million at June 30, 2023. The increase is primarily driven by a new aircraft lease, which Airlift entered into during fiscal year 2023. Right-to-use lease assets decreased $20 million from $221 million at June 30, 2021 to $201 million at June 30, 2022. The decrease in fiscal year 2022 is attributed to amortization of the right-to-use lease assets offset by moderate additions for new leases.

Additional discussion regarding lease and subscription IT activity during the fiscal years can be found in the notes to the financial statements.

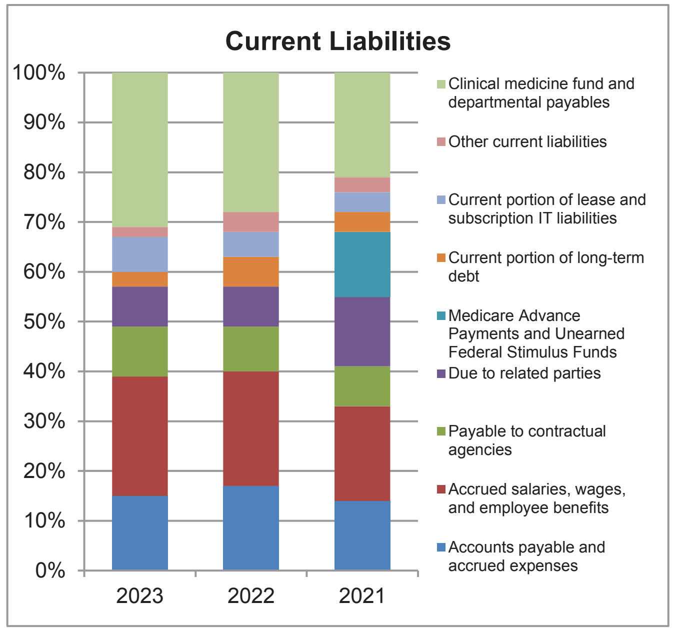
Funds held by the University represent funds invested with the University and are classified as a noncurrent asset by the Group. Through the University's investment program, the Group receives a rate of return. For fiscal years 2023, 2022, and 2021, the University allocated a rate of return of 0.75% on a portion of the Group's invested assets. Noncurrent funds held by the University increased $41 million in fiscal year 2023 from $204 million at June 30, 2022 to $245 million at June 30, 2023 driven by cash received for nonoperating revenues including FEMA public assistance funding and state appropriations. Noncurrent funds held by the University decreased $42 million in fiscal year 2022 from $246 million at June 30, 2021 to $204 million at June 30, 2022 driven by increased in operating costs, especially the increase in salaries and wages and recoupment by CMS of Medicare advanced payments.

Investments represent investments held for the benefit of the School. Investments increased $25 million from $149 million at June 30, 2022 to $174 million at June 30, 2023. The increase in investments was a result of positive investment portfolio performance and transferring cash to investments.

Investments increased $5 million from $144 million at June 30, 2021 to $149 million at June 30, 2022. The increase in investments was a result of transferring cash to investments, which offset negative investment portfolio performance during the year.

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within a year or are payable on demand. Total current liabilities were $653 million, $628 million, and $724 million at June 30, 2023, 2022, and 2021, respectively. Fiscal years 2023, 2022, and 2021 composition of current liabilities is illustrated in the chart to the right.



Accounts payable and accrued expenses decreased $8 million from $105 million at June 30, 2022 to $97 million at June 30, 2023 and increased $5 million from $100 million at June 30, 2021 to $105 million at June 30, 2022. Changes in accounts payable and accrued expenses are primarily the result of timing of payments to vendors.

Accrued salaries, wages, and employee benefits increased $15 million from $145 million at June 30, 2022 to $160 million at June 30, 2023 and increased $7 million from $138 million at June 30, 2021 to $145 million at June 30, 2022. Changes in accrued salaries, wages, and employee benefits are primarily driven by the number of employees, employee merit, fringe benefit rate fluctuations, and paid leave accruals.

Due to related parties consists of amounts owed for services provided to the Group by the School, the University and other affiliates. Due to related parties were $53 million at both June 30, 2022 and 2023. The balance decreased $48 million from $101 million at June 30, 2021 to $53 million at June 30, 2022. Balances in all fiscal years are driven by timing of payments between related parties.

In addition, the Group has a long-term due to related parties balance of $114 million at June 30, 2023 compared to $129 million at June 30, 2022, a decrease of $15 million. In fiscal year 2023, $15 million, which had been provided by the University for small capital projects at UW Medical Center converted into a University Internal Lending Program (ILP) loan, and therefore, is recorded within long-term debt, net of current portion.

In fiscal year 2022, the Group had a long-term due to related parties balance of $129 million at June 30, 2022 compared to $139 million at June 30, 2021, a decrease of $10 million. The decrease in long-term due to related parties in fiscal year 2022 was primarily driven by payments to the University, which reduced the long-term due to related parties balance.

Medicare advanced payments consists of advanced payments received from Medicare under CMS Medicare Advanced Payment Program, which was designed to provide liquidity during the beginning stages of the COVID-19 pandemic. These funds were recouped by Medicare by offsetting paid claims until the full amount was recouped. Medicare began recouping the Group's advanced payments over a 29-month period in April 2021 and has recouped the entire balance. As of June 30, 2023 and 2022, the Group had no outstanding Medicare advanced payments. As of June 30, 2021, the current portion of $96 million, was presented within

Medicare advanced payments in the accompanying statements of net position. The long-term portion of $13 million was recorded in other noncurrent liabilities at June 30, 2021 in the statements of net position.

Clinical medicine fund and departmental payables consist of receipts collected by UWP that are allocated and distributed to the clinical medicine fund and departmental payables for the benefit of the School. The payable increased $24 million from $178 million at June 30, 2022 to $202 million at June 30, 2023. In fiscal year 2023, the increase in the payables were driven by greater investment income and higher volumes.

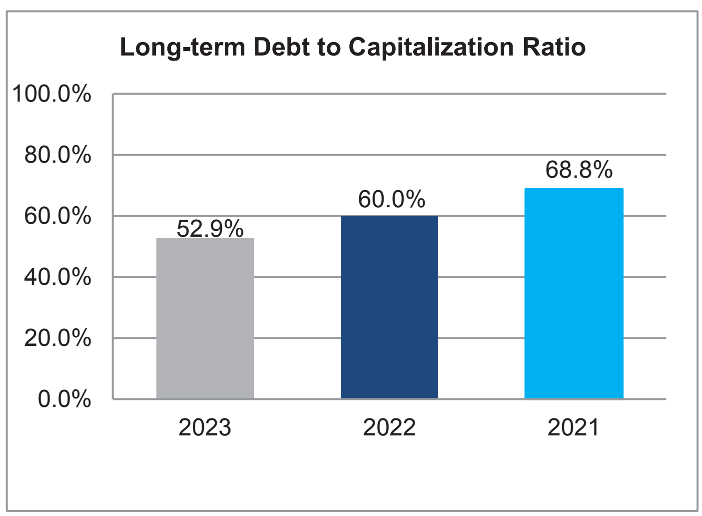
The payable increased $26 million from $152 million at June 30, 2021 to $178 million at June 30, 2022. In fiscal year 2022, the increase in the payables were due to cash collections in excess of distributions paid on behalf of the School.

Noncurrent Liabilities

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

Long-term debt, including current portion, increased $40 million from $602 million at June 30, 2022 to $642 million at June 30, 2023. Long-term debt, including current portion, increased $140 million from $462 million at June 30, 2021 to $602 million at June 30, 2022. In fiscal year 2023, the increase in long-term debt is a result of additional University Internal Lending Program (ILP) debt for capital projects at UW Medical Center. In fiscal year 2022, the increase in long-term debt is a result of UW Medical Center's purchase of one-half of Seattle Children's Healthcare System's membership in SCCA, in the form of a $143 million promissory note payable to the Fred Hutchinson Cancer Center.

Long-term debt to capitalization (debt + lease and subscription IT liabilities/unrestricted net assets + net investment in capital assets + debt + lease and subscription IT liabilities) is a ratio used to assess the capital structure of healthcare organizations. The chart to the right shows the long-term debt to capitalization ratio as of June 30 for 2023, 2022, and 2021 based on the amounts reported in the financial statements. The Group's long-term debt to capitalization ratio decreased from 60.0% in fiscal year 2022 to 52.9% in fiscal year 2023 as a result of an increase in net position of $268 million. The Group's long-term debt to capitalization ratio decreased from 68.8% in fiscal year 2021 to 60.0% in fiscal year 2022 as a result of an increase in net position of $229 million.



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

Long-term lease and subscription IT liabilities, including current portion, increased $55 million from $214 million at June 30, 2022 to $269 million at June 30, 2023. The increase in fiscal year 2023 is primarily driven by a new aircraft lease, which Airlift entered into during fiscal year 2023. Long-term lease and subscription IT liabilities, including current portion decreased $17 million from $231 million at June 30, 2021 to $214 million at June 30, 2022. The decrease is attributed to payments made on lease contracts offset by a slight increase as a result of new lease contracts executed during fiscal year 2022.

Additional discussion regarding lease and subscription IT activity during the fiscal years can be found in the notes to the financial statements.

Net Position

Unrestricted net position increased $173 million from $220 million at June 30, 2022 to $393 million at June 30, 2023. Unrestricted net position increased $201 million from $19 million at June 30, 2021 to $220 million at June 30, 2022. The increase in unrestricted net position in both fiscal years was driven by income before capital appropriations and other and capital appropriations for the Center for Behavioral Health and Learning.

Formation of Fred Hutchinson Cancer Center

On March 31, 2022, the members in SCCA: UW Medical Center, Fred Hutchinson Cancer Research Center (Fred Hutch), and Seattle Children's Healthcare System (SCHS) agreed to merge Fred Hutch and SCCA; for SCCA to become a non-member non-profit Washington corporation and for SCCA to be renamed Fred Hutchinson Cancer Center. As part of the transaction, SCHS's interest of $285.9 million was purchased by UW Medical Center and Fred Hutch with funding provided by Fred Hutch. SCHS no longer participates in the Adult Oncology Program but continues to offer pediatric cancer care services and to coordinate through separate affiliation agreements with FHCC and UW Medicine. UW Medical Center entered into a promissory note to pay FHCC over a 10-year period for its 50% portion of the SCHS membership in SCCA.

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

Postemployment Obligations

The University has a financial responsibility for pension benefits associated with the PERS defined-benefit plans, University of Washington Supplemental Retirement Plan (UWSRP) defined-benefit plan, and OPEB, which includes those University employees deployed within the Group. Pension assets and liabilities, OPEB liabilities, and the respective deferred outflows and inflows of resources are determined by actuarial reports.

(Dollar amounts in millions)

In fiscal year 2023, net pension liabilities had an increase of $56 million and net pension assets had a decrease of $291 million, which was primarily driven by a decrease in the investment rate of return and discount rate used to value the total ending pension assets and liabilities related to the PERS defined-benefit plans. OPEB liabilities decreased $152 million reflecting the impact of a higher end of year discount rate used in the associated actuarial valuation. Net pension liabilities had a net decrease of $111 million in fiscal year 2022, which was primarily driven by favorable investment earnings on plan investments related to the PERS defined-benefit plans. This change caused the net pension liability for PERS Plan 2 and Plan 3 to become a net pension asset in fiscal year 2022. OPEB liabilities increased $49 million reflecting the impact of a lower end of year discount rate used in the associated actuarial valuation.

Additional discussion regarding pension assets and liabilities, OPEB liabilities and the respective deferred outflows and inflows of resources can be found in the notes to the financial statements.

The Group has recognized its proportionate share of the University's actuarially determined net pension liabilities, total OPEB liability, deferred inflows of resources and deferred outflows of resources, and expense. All funding obligations to the University are on a pay-as-you-go basis. As the liability increases, the funding obligations will also increase. The following table represents the assets, liabilities, expense, and funding contributions to the University associated with postemployment obligations as of June 30, 2023, 2022, and 2021:

		2023	2022	2021
Pension liabilities	$	122	66	177
Pension assets		185	476	—
Pension (income) expense		(11)	(99)	20
Pension funding contribution to the University		69	61	69
OPEB liability	$	310	462	414
OPEB expense		5	24	7
OPEB funding contribution to the University		8	8	7

Factors Affecting the Future

Cautionary Note Regarding Forward-Looking Statements

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

Economic Uncertainty Facing the Healthcare Industry

The federal COVID-19 Public Health Emergency declaration under the Public Health Service Act expired on May 11, 2023. The broad economic factors resulting from the COVID-19 pandemic continue to impact the Group's patient volumes, case mix acuity, service mix, and revenue mix. Ongoing economic conditions, such as significant labor market wage and benefit pressure, supply chain and other inflationary pressures have also increased, and will continue to increase the Group's expenses and pressure hospital liquidity. Because of these factors and other uncertainties coming out of the COVID-19 pandemic, management cannot estimate the severity of the aforementioned general economic and marketplace conditions on the Group's business.

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

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

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

(Continued)

UW Finance Transformation

In December 2019, the UW Finance Transformation (UWFT) program received approval from the Board of Regents to proceed with a broad redesign of finance-related policies and processes, enabled by the implementation of new enterprise resource planning (ERP) technology. The University, including UW Medicine, has determined that Workday Financials® will provide the best available platform to support the business objectives for this transformation by providing a seamless, integrated solution for Human Resources and Payroll (previously implemented), Procurement, and Finance. The University, including UW Medicine, expects three primary areas of program benefit: functional benefits in the form of new and improved system capabilities, cost avoidance of maintaining and upgrading existing systems, and efficiencies in new business processes and organization. Total program costs are approximately $340 million, which includes all operating and capital costs for implementation and one year of stabilization. UW Medicine will be charged for a portion of the project. The amount and allocation methodology will be finalized upon completion of the project. UWFT was implemented on July 6, 2023.

UW Medical Center for Behavioral Health and Learning

UW Medicine and the Washington State legislature established the Center for Behavioral Health and Learning at UW Medical Center, which will be located on the Northwest campus. This Center will serve the dual purposes of treating patients with behavioral health needs and training an integrated behavioral health workforce in the new 191,000-square-foot facility. The State awarded $234 million for the planning, design work, construction, and equipment necessary to build a new, first of its kind building. After delays due to a concrete strike in Seattle in 2022, the project was awarded an additional $10 million from the state to offset impact of the concrete strike and escalation. The revised project budget is now $244 million. Construction has begun and the building is anticipated to be completed with patients being seen in the facility in calendar year 2024.

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Net Position

June 30, 2023 and 2022

(Dollar amounts in thousands)

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents	$	69,598	84,764
Funds held by the University of Washington		80,020	135,183
Patient accounts receivable, less allowance for uncollectible accounts of $28,917 in 2023 and $27,839 in 2022		305,671	275,744
Other receivables		81,452	26,354
Due from related parties		47,605	36,033
Supplies inventory		38,622	38,900
Other current assets		26,422	31,228
Total current assets		649,390	628,206
Noncurrent assets:			
Capital assets, net of accumulated depreciation and amortization		942,121	795,929
Right-to-use lease and subscription IT assets, net of accumulated amortization		253,994	200,630
Funds held by the University of Washington		245,368	204,150
Investments		173,783	149,265
Donor restricted assets		11,434	10,855
Investment in Fred Hutchinson Cancer Center		428,827	428,827
Other assets		94,760	95,749
Net pension assets		184,900	475,806
Total noncurrent assets		2,335,187	2,361,211
Total assets		2,984,577	2,989,417
Deferred outflows of resources:			
Deferred outflows of resources related to pensions		254,444	133,254
Deferred outflows of resources related to other postemployment benefits		180,528	184,666
Other deferred outflows of resources		3,479	3,875
Total assets and deferred outflows of resources	$	3,423,028	3,311,212

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Net Position

June 30, 2023 and 2022

(Dollar amounts in thousands)

Liabilities and Net Position		2023	2022
Current liabilities:			
Accounts payable and accrued expenses	$	96,768	105,222
Accrued salaries, wages, and employee benefits		160,076	144,853
Payable to contractual agencies		64,061	55,047
Due to related parties		53,179	53,218
Current portion of long-term debt		18,744	37,125
Current portion of lease and subscription IT liabilities		43,257	30,787
Other current liabilities		14,968	23,443
Clinical medicine fund and departmental payables		201,734	178,119
Total current liabilities		652,787	627,814
Noncurrent liabilities:			
Long-term debt, net of current portion		622,528	564,671
Long-term lease and subscription IT liabilities, net of current portion		226,068	183,335
Net pension liabilities		121,926	65,798
Other postemployment benefits		309,532	462,354
Due to related parties – long-term		114,564	128,731
Other noncurrent liabilities		30,138	37,347
Total liabilities		2,077,543	2,070,050
Deferred inflows of resources:			
Deferred inflows of resources related to pensions		226,933	534,366
Deferred inflows of resources related to other postemployment benefits		257,729	112,145
Other deferred inflows of resources		38,124	40,428
Total liabilities and deferred inflows of resources		2,600,329	2,756,989
Net position:			
Net investment in capital assets		417,204	323,681
Nonexpendable, restricted		3,565	3,407
Expendable, restricted		7,867	7,449
Unrestricted		394,063	219,686
Total net position		822,699	554,223
Total liabilities, deferred inflows of resources, and net position	$	3,423,028	3,311,212

See accompanying notes to basic financial statements.

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

(Dollar amounts in thousands)

		2023	2022
Operating revenues:			
Net patient service revenues (net of provision for uncollectible accounts of $33,255 in 2023 and $25,348 in 2022)	$	2,084,836	1,883,133
UWP billing revenues, net		419,456	391,803
Other revenue		399,557	286,433
Total operating revenues		2,903,849	2,561,369
Operating expenses:			
Salaries and wages		1,271,123	1,151,580
Employee benefits		258,883	148,654
Purchased services		594,150	513,349
Supplies		593,040	484,256
Other		105,224	88,987
Depreciation and amortization		124,398	118,075
Total operating expenses		2,946,818	2,504,901
(Loss) income from operations		(42,969)	56,468
Nonoperating revenues (expenses):			
Investment income		1,418	2,676
Interest expense		(33,232)	(26,636)
Funding to affiliates		(111,418)	(76,922)
Funding from affiliates		114,636	122,365
Recurring state appropriations		7,029	6,909
Non-recurring state appropriations		62,278	12,042
Fred Hutchinson Cancer Center financial alignment income		87,431	6,669
Federal Emergency Management Agency public assistance program		43,390	15,000
Other, net		6,951	54,275
Nonoperating revenues, net		178,483	116,378
Income before capital appropriations and other		135,514	172,846
Capital appropriations and other		132,962	56,397
Increase in net position		268,476	229,243
Net position – beginning of year		554,223	324,980
Net position – end of year	$	822,699	554,223

See accompanying notes to basic financial statements.

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollar amounts in thousands)

		2023	2022
Cash flows from operating activities:			
Cash received for patient care	$	2,021,821	1,795,566
Cash received for UWP billing revenues		405,225	399,693
Cash received for other services		384,580	286,644
Cash paid to employees		(1,598,128)	(1,437,385)
Cash paid to suppliers and others		(1,304,752)	(1,090,545)
Net cash used in operating activities		(91,254)	(46,027)
Cash flows from noncapital financing activities:			
Funding to affiliates		(111,607)	(77,571)
Funding from affiliates		114,636	82,230
Change in due to/from related parties		(4,404)	692
Cash received for Federal Emergency Management Agency public assistance program		38,639	15,000
Additions to clinical medicine fund and departmental payables		23,615	25,763
Principal and interest payments on Fred Hutchinson Cancer Center note payable		(18,101)	—
Cash received for state appropriations		69,307	24,906
Other, net		8,723	23,066
Net cash provided by noncapital financing activities		120,808	94,086
Cash flows from capital and related financing activities:			
Purchases of capital assets		(232,880)	(130,879)
Principal payments on long-term debt		(29,471)	(26,414)
Proceeds from borrowings		64,330	27,803
Interest payments on long-term debt		(18,906)	(18,382)
Cash paid for principal and interest on leases and subscription IT arrangements		(44,390)	(37,169)
Capital Contributions		131,808	55,192
Other		2,670	1,153
Net cash used in capital and related financing activities		(126,839)	(128,696)
Cash flows from investing activities:			
Proceeds from sale of investments		40,901	44,977
Purchases of investments		(56,491)	(77,733)
Change in funds held by the University and donor restricted assets		(42,103)	41,965
Investment income		6,637	9,687
Fred Hutchinson Cancer Center Financial Alignment Income		81,366	6,669
Other		(3,354)	(5,059)
Net cash provided by investing activities		26,956	20,506
Decrease in cash and cash equivalents		(70,329)	(60,131)
Cash and cash equivalents, beginning of year		219,947	280,078
Cash and cash equivalents, end of year	$	149,618	219,947

UW MEDICINE SELECT UNITS – UW DIVISION

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollar amounts in thousands)

		2023	2022
Reconciliation of income from operations to net cash (used in) provided by operating activities:			
(Loss) income from operations	$	(42,969)	56,468
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation and amortization		124,398	118,075
Provision for uncollectible accounts		33,255	25,348
Other		—	312
UWP Investment (income) loss		(14,231)	19,981
Net (decrease) increase in operating activities:			
Patient accounts receivable		(63,182)	(13,495)
Other receivables		(44,662)	(3,168)
Due from related parties		(12,606)	3,379
Supplies inventory, other current assets, and other assets		1,518	(3,094)
Pension related deferred inflows, deferred outflows, net pension asset and net pension liability		(80,245)	(161,329)
OPEB related deferred inflows, deferred outflows, and OPEB liability		(3,100)	16,791
Accounts payable and accrued expenses		(7,701)	12,078
Accrued salaries, wages, and employee benefits		12,181	4,963
Due to related parties		4,961	(13,105)
Payable to contractual agencies, Medicare advanced payments, and other current liabilities		927	(93,462)
Physician distribution payable		3,042	2,424
Noncurrent liabilities		(2,840)	(18,193)
Net cash used in operating activities	$	(91,254)	(46,027)
Supplemental disclosures of noncash capital and related financing activities:			
Change in capital assets included in accounts payable	$	(753)	(6,908)
Decrease in capital assets included in noncurrent liabilities		(4,369)	(4,993)
Additions to right-to-use lease and subscription IT assets		(96,413)	(14,684)
Additions to lease and subscription IT liabilities		93,630	14,684
Supplemental disclosures of noncash investing activities:			
Net unrealized gains (losses) on investments		9,467	(40,794)
Equity earnings from Investment in Seattle Cancer Care Alliance		—	22,910
Increase in Investment in Seattle Cancer Care Alliance		—	(142,942)
Ceding of investment interest in Seattle Cancer Care Alliance		—	425,131
Investment in Fred Hutchinson Cancer Care		—	(428,827)
Supplemental disclosure of noncash noncapital financing activities:			
Increase in note payable to Fred Hutchinson Cancer Center		—	142,942
Interest on note payable to Fred Hutchinson Cancer Center		—	(1,723)

See accompanying notes to basic financial statements.

(1) Organization and Operations

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

UW Medicine is a learning, research, and clinical health system comprised of multiple legal entities that share the UW Medicine mission to improve the health of the public. UW Medicine is governed and administered as an enterprise fund of the University. UW Medicine also strives to facilitate the education of physicians and other healthcare providers, support research activities in collaboration with the University School of Medicine (the School) and render other services designed to achieve the “Quadruple Aim,” which is to improve the patient experience, achieve better health outcomes, control costs and address clinician satisfaction.

The University of Washington is governed by a 11-member Board of Regents appointed by the Governor of Washington. The UW Medicine Advisory Board was established by the University of Washington Board of Regents. The UW Medicine Advisory Board consists of experienced professionals with relevant backgrounds appointed by the UW Board of Regents and chaired by a member of the UW Board of Regents. The UW Medicine Advisory Board advises the UW Board of Regents on all aspects relating to UW Medicine and assists the UW Medicine chief executive officer and dean of the School of Medicine in strategic planning and oversight of programs across the organizations that make up UW Medicine, including Harborview Medical Center (Harborview), UW Medical Center, Valley Medical Center (VMC), UWM PC, UWP, the School, Fred Hutchinson Cancer Center (FHCC), and Airlift.

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

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

FHCC, a Washington nonprofit corporation, is a discretely presented component unit of the University, and is not reflected within the Group financial reporting entity.

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

UW Medical Center

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

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

UWP

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

Airlift

Airlift is a department of the University. Airlift provides rapid emergency air transport services through one owned and thirteen leased aircraft to critically ill or injured patients throughout Washington, Alaska, Montana, and Idaho.

UWM PC

UWM PC is a Washington not-for-profit corporation and component unit of the University. UWM PC was established for the benefit of the School, UWP, and its affiliated medical centers, exclusively for clinical, scientific, and educational purposes. UWM PC was organized to coordinate and develop patient care in a community clinical setting to enhance the academic environment of the School by providing additional sites of primary care practice and training for faculty, residents, and students.

UW Medicine Shared Services

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

Embright

In October 2018, the Board of Regents authorized the University, through UW Medicine, to become an equity member in a limited liability company. PNW CIN, LLC dba Embright was created in 2018 and is jointly owned by UW Medicine, MultiCare Health System, and LifePoint Health. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the members to partner together to further the Quadruple Aim of improving the patient care experience, achieving better health outcomes, controlling costs and addressing clinician satisfaction. Together, the members represent 21 hospitals, more than 8,500 providers, and over 1,500 clinics. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary, and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols, care pathways, standardized processes, and care management services for complex patients. UW Medicine has an equity ownership interest of 48.1% in Embright at June 30, 2023, which is recorded within other assets in the statements of net position.

(2) Summary of Significant Accounting Principles

(a) Accounting Standards

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

(b) Basis of Accounting

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

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less at the date of purchase, excluding amounts whose use is limited by board designation. As of June 30, 2023 and 2022, approximately $69,058 and $84,563 was held in cash and $540 and $201, respectively, was held in cash equivalents. Cash deposits of up to $250 are fully insured by the Federal Depository Insurance Corporation.

(e) Funds Held by the University of Washington

Operating and capital funds for certain entities within the Group are invested directly with the University. The current portion is determined based on funds expected to be used in the next year. All balances are available on demand and are stated at carrying value. The University offers a stipulated rate of return determined at the end of the reporting period by the University based on pooled investment performance and the University's reserve fund goals. For fiscal year 2023, the rate returned was 0.75%, representing $1,398 in investment income. For fiscal year 2022, the rate returned was 0.75%, representing $2,637 in investment income.

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

(Dollar amounts in thousands)

Pooled investments held on behalf of the Group by the University are recorded at the Group's share of the carrying value of the University's cash and liquidity pools. The cash and liquidity pools were invested as follows at June 30, 2023 and 2022:

	2023	2022
Cash and cash equivalents	15.7 %	4.5 %
U.S. treasury and agencies securities	48.2	65.8
Mortgage-related securities	5.0	5.2
Asset-backed debt securities	19.3	18.4
Other fixed income securities	11.8	6.1
Total	100.0 %	100.0 %

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

(f) Investments

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

(g) Supplies Inventory

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

(h) Capital Assets

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

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

(i) Formation of Fred Hutchinson Cancer Center

On March 31, 2022, the members in SCCA: UW Medical Center, Fred Hutchinson Cancer Research Center (Fred Hutch), and Seattle Children's Healthcare System (SCHS) agreed to merge Fred Hutch and SCCA, for SCCA to become a non-member non-profit Washington corporation, and for SCCA to be renamed Fred Hutchinson Cancer Center. As part of the transaction, SCHS's interest of $285,884 was purchased by UW Medical Center and Fred Hutch with funding provided by Fred Hutch. SCHS no longer participates in the Adult Oncology Program but continues to offer pediatric cancer care services coordinated through separate affiliation agreements with FHCC and UW Medicine. UW Medical Center entered into a promissory note to pay FHCC over a 10-year period for its 50% portion of SCHS membership in SCCA. See note 9(a)(ii) for discussion surrounding the FHCC promissory note.

The non-participating investment in FHCC of $428,827 reflects a non-monetary exchange accounted for based on the fair value of the assets involved. Specifically, the Group used the fair value of the existing equity method investment in FHCC, based on the corresponding equity interest after the buyout of SCHS and prior to the exchange, to determine the value at which the investment in FHCC is recorded. The fair value method used inputs that are "unobservable data points" related to valuation, also known as level 3 inputs. This fair value will not be remeasured, and will be assessed for impairment on an annual basis. No gain or loss was recorded on the transaction. At June 30, 2023, there was no impairment of the investment in FHCC.

In addition to the restructure of the former SCCA corporate entity, UW Medical Center and FHCC agreed to the Restructuring and Enhanced Collaboration Agreement (Restructuring Agreement), which clinically and financially integrated the adult cancer program between both entities. With this new arrangement, UW Medical Center no longer holds a membership interest in SCCA. UW Medical Center agreed to the restructuring of the SCCA joint venture by: transitioning to a non-member entity, rebranding and realigning the future economic sharing arrangements, and realigning practice area management responsibilities. UW Medical Center's investment in FHCC is recorded within its statements of net position and reflects the integrated adult oncology program. The Restructuring Agreement includes a Financial Alignment Plan (FAP), under which both parties share in the objectives of the adult oncology program and drive site neutrality for cancer services for the betterment of patient outcomes. UW Medical Center's former economic rights as a joint venture member were transformed into contractual rights, including among other provisions a payment right extending perpetually. At June 30, 2023 and 2022, UW Medical Center accrued $87,431 and $6,669, respectively, in financial alignment income which is recorded within Fred Hutchinson Cancer Center financial alignment income in the statements of revenues, expenses, and changes in net position. UW Medicine and FHCC will determine the final settlement of the annual FAP calculations 180 days after fiscal year end.

(Dollar amounts in thousands)

(j) Equity Earnings from Investment in Seattle Cancer Care Alliance

Until March 31, 2022, UW Medical Center was a one-third member in SCCA and accounted for its interest under the equity method of accounting. Equity earnings from SCCA of $22,910 was recorded in fiscal year 2022 and is included within other, net in the statements of revenues, expenses, and changes in net position. Since inception of SCCA, there have been no cash distributions to owners. The equity earnings recorded by UW Medical Center was a noncash transaction. The following is a summary of SCCA's statement of operations for the nine months ended March 31, 2022:

		Unaudited 2022
Revenues	$	769,268
Expenses		695,976
Nonoperating expense		(4,562)
Excess of revenues over expenses		68,730
Increase in net assets without donor restrictions	$	68,730

(k) Leases and Subscription Information Technology (IT) Arrangements

(i) Leases (Lessee) and Subscription-Based IT Arrangements

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

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

(Continued)

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

(ii) Leases (Lessor)

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

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

(l) UW Medicine IT Services

Harborview and FHCC provide advance funding to ITS, which entitles Harborview and FHCC access to the enterprise-wide IT software and services. ITS records the funding as unearned revenue. At June 30, 2023 and 2022, $8,600 and $9,300 is recorded in other current liabilities and $13,575 and $12,785 is recorded in other noncurrent liabilities in the statements of net position, respectively, based on expected usage.

Additionally, Harborview entered into a long-term arrangement to pay ITS for its portion of UW Medicine's clinical transformation program, called Destination: One, which is being funded by the University's Internal Lending Program (ILP). Harborview will pay ITS for its share of the project costs, which are allocated to each hospital based on full-time equivalents (FTEs) and total operating revenues. At June 30, 2023 and 2022, ITS has recorded a noncurrent receivable from Harborview within other assets in the statements of net position of $20,423 and $19,152 related to this project. Harborview made its first payment to ITS on August 1, 2021, with the remaining amounts paid over twelve years.

FHCC paid for operating and capital costs of the Destination: One project, which totaled $26,388. FHCC paid for all costs during the project and ITS has unearned revenue representing FHCC's future use of the asset. At June 30, 2023 and 2022, $10,793 and $12,200 of total unearned revenue is recorded within other current liabilities and other noncurrent liabilities, respectively, in the statements of net position for FHCC's portion of the project.

(m) Compensated Absences

Compensated absences represent the liability for employees with accumulated leave balances earned through various leave programs. These amounts are payable when an employee terminates employment. Employees earn leave at varying rates depending upon their years of service and the leave plan in which they participate. Annual and sick leave accrued at June 30, 2023 and 2022 is \$83,910 and \$77,832, respectively. Compensated absences are reported within the accrued salaries, wages, and employee benefits in the statements of net position.

(n) Benefit Costs

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

(o) Pension and Postretirement Obligations

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

The University of Washington Supplemental Retirement Plan (UWSRP) is a single employer plan. The total pension liability is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. The discount rate used for the total pension liability as of June 30, 2023 and 2022, reflects the expected rate of return on investments, to the extent that plan assets are available to pay retiree benefits. The UWSRP liability as of June 30, 2023 and 2022 represent the total pension liability less the plan's fiduciary net position. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over five years. The measurement date for the UWSRP liability is June 30 of the current fiscal year.

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

(p) Payable to Contractual Agencies

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

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

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

(q) Classification of Revenues and Expenses

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

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

Nonoperating revenues and expenses are recorded for nonexchange transactions. This includes investment income, donation income, interest expense, funding to and from affiliates of UW Medicine and the state, other federal and state funding, hospital safety net program, Federal Emergency Management Agency Public Assistance Program funding, equity earnings generated through the investment in SCCA, FHCC financial alignment income, and state appropriations.

(r) Net Patient Service Revenues

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

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

(i) Medicare

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

(ii) Medicaid

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

(iii) Commercial

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

(Dollar amounts in thousands)

(iv) Exchange (HIX)

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

(s) Financial Assistance

The Group provides care without charge to patients who meet certain criteria under its financial assistance policy. Records are maintained to identify and monitor the level of financial assistance provided. These records include charges foregone for services and supplies furnished under its financial assistance policy to the uninsured and the underinsured. Because the Group does not pursue collection of amounts determined to qualify as financial assistance, these are not reported as net patient service revenues. The charges associated with financial assistance provided by the Group were $81,011 and $78,881 for the years ended June 30, 2023 and 2022, respectively. The cost of financial assistance provided is calculated based on the Group's aggregate relationship of costs to charges. The estimated cost of financial assistance provided for fiscal years ended June 30, 2023 and 2022 was $25,640 and $25,323, respectively.

(t) UWP Accounting for Billing and Collection Services

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

Accounts receivable from patients, net of allowances for discounts, contractual adjustments, and collection losses are assets of the School. The following represents the estimated net patient accounts receivable for which UWP will pursue collection on behalf of the School as of June 30, 2023 and 2022, and are not reflected in the statements of net position:

		2023	2022
Accounts receivable (net of credit balances of $7,571 and $6,950, respectively)	$	151,271	137,708
Estimated allowances for discounts, contractual adjustments, and collection losses		(97,711)	(87,163)
	$	53,560	50,545

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

(Dollar amounts in thousands)

(u) UWP Billing Activity

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

		2023	2022
Net billings processed on behalf of the School:			
Professional fee revenue, net	$	566,396	527,353
Billing reimbursement		1,104	945
		567,500	528,298
Investment income (loss)		14,231	(19,981)
Total net billings processed and investment income		581,731	508,317
Less:			
Amounts paid or due to affiliates		(4,414)	(3,448)
Amounts paid or due to Clinical Medicine Fund and departments		(157,861)	(113,066)
UWP billing revenues, net	$	419,456	391,803

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

(v) Net Position

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

(w) Federal Income Taxes

UW Medical Center, Airlift, and UW Medicine Shared Services are divisions and/or departments of the University and are not subject to federal income tax under Section 115 of the Internal Revenue Code (IRC), except for unrelated business income tax. There are no significant tax obligations at June 30, 2023 and 2022.

UWP and UWM PC are exempt from federal income tax under Section 501(c)(3) of the IRC, except for unrelated business income tax. There are no significant tax obligations at June 30, 2023 and 2022.

(x) Recently Adopted and Upcoming Accounting Pronouncements

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is effective for the fiscal year ending June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of a SBITA), and requires note disclosures regarding a SBITA. As a result of implementation, the Group adopted this statement in fiscal year 2023. The Group did not apply the standard retroactively to the period beginning July 1, 2021 as the impact was immaterial. Upon adoption of the statement, at July 1, 2022, the Group recognized a beginning balance of subscription assets and subscription liabilities and of $13,326 and $11,546, respectively, in the statements of net position.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*," which is effective for the fiscal year ending June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). APAs are agreements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange like transaction. The Group adopted this statement in fiscal year 2023 and determined it did not have a material impact to the financial statements.

In April 2022, the GASB issued Statement No. 99, "*Omnibus 2022*." Provisions of which will be effective for the fiscal years ending June 30, 2023 and 2024. Requirements related to leases, PPPs and SBITAs are effective for the fiscal year ending June 30, 2023. Requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for the fiscal year ending June 30, 2024. The Group adopted this statement in fiscal year 2023 and determined it did not have a material impact to the financial statements.

In June 2022, the GASB issued Statement No. 100, "*Accounting Changes and Error Corrections – an amendment of GASB statement No. 62*," which will be effective for the fiscal year ending June 30, 2024. This statement is intended to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. It defines changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity. This statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances in the current period and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The Group is currently analyzing the impact of this statement but does not expect it to have a material impact on its financial statements.

In June 2022, the GASB issued Statement No. 101, "*Compensated Absences*," which is effective for the fiscal year ending June 30, 2025. This statement will update the recognition and measurement guidance for compensated absences. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The statement amends the existing disclosure requirements to allow governments to disclose only the net change in the liability as long as they identify it as a net change. The Group is currently analyzing the impact of this statement.

(y) Reclassifications

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

(3) Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as updated information becomes available and when final settlements are determined. In 2023 and 2022, net patient service revenues increased $5,169 and $4,790, respectively, relating to prior years' net Medicare and Medicaid settlements and revised estimates, including disproportionate share reimbursement and the CPE program.

(Dollar amounts in thousands)

The Group grants credit without collateral to its patients, most of whom are Washington State residents and who are insured under third-party payer agreements. The mix of gross patient charges and gross receivables from significant third-party payers at June 30, 2023 and 2022 was as follows:

	2023	
	Patient service charges	Accounts receivable
Medicare	38 %	33 %
Medicaid	16	16
Commercial and other	42	46
Exchange (HIX)	2	2
Self-pay	2	3
Total	100 %	100 %

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

(a) Medicaid Certified Public Expenditure Reimbursement

UW Medical Center is reimbursed at the “full cost” of Medicaid inpatient covered services under the public hospital CPE payment method. “Full cost” payments are determined using the respective hospital’s Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital, and the State claims a federal match on the amount of the related certified public expenditures. According to the Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. UW Medical Center recognized $22,959 and $23,768 in claims payments under this program for the years ended June 30, 2023 and 2022, respectively.

In addition, UW Medical Center receives the federal match portion of Disproportionate Share (DSH) payments, which is the lesser of qualifying Medicaid and financial assistance uncompensated care cost or the hospital's specific limit. Funding received through the outpatient directed payment program, described in footnote 3(c), reduced DSH payments under this section in fiscal year 2023. UW Medical Center recognized $115 and $36,304 in DSH funding under this program for the years ended June 30, 2023 and 2022, respectively.

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

In the event of a shortfall between CPE program payments and the amount determined under the hold harmless provision, the difference is paid to the hospitals as a grant from state only funds. UW Medical Center did not recognize any amounts for state grants for the years ended June 30, 2023 and 2022. Claims payments, DSH payments, and state grant funds are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

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

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

As of June 30, 2023 and 2022, UW Medical Center has an estimated payable for the CPE program of $48,653 and $47,657, respectively, which is recorded as a payable to contractual agencies in the statements of net position.

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

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

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

UW Medical Center recorded $16,011 and $12,113 for the years ended June 30, 2023 and 2022, respectively, in intergovernmental transfers (IGT) to HCA related to professional claims paid. This is included in funding to affiliates in the statements of revenues, expenses, and changes in net position. There is no requirement that UWP and CUMG PSSP and PAP payments be returned to UW Medical Center as a condition for making the IGTs.

UW Medical Center recognized $3,803 and $2,112 in supplemental payments for the years ended June 30, 2023 and 2022, respectively. The payments are recorded in net patient service revenues in the statements of revenues, expenses, and changes in net position. UWP recognized $61,573 and $57,050 in supplemental payments for the years ended June 30, 2023 and 2022, respectively, for the benefit of the School and are reflected as part of revenues processed and amounts due to the CMF as shown in note 2(u).

PSSP and PAP funds received through the CMF are combined with other revenue used by the School for the central support of faculty costs. As a result, the School requires less funding from UW Medical Center. UW Medical Center clinical department funding is recorded within purchased services expense in the statements of revenues, expenses, and changes in net position and was reduced by $39,351 and $30,928 in fiscal years 2023 and 2022, respectively.

(c) Outpatient Directed Payment Program (ODPP)

The outpatient directed payment program was effective January 1, 2023 and is managed by the HCA benefiting certain public hospitals.

Under the program, UW Medical Center receives supplemental Medicaid payments for outpatient services for which they bill. These supplemental payments equal the difference between the standard Medicaid Managed Care Organization outpatient reimbursement rate and the upper payment limit allowable by federal law. UW Medical Center provides the nonfederal share of the supplemental payments that are used to obtain the matching federal funds.

UW Medical Center recorded $13,403 in IGT to HCA for the year ended June 30, 2023 related to outpatient claims with dates of service in those fiscal years, which is included in net patient service revenue in the statements of revenues, expenses, and changes in net position.

UW Medical Center recognized $59,761 in supplemental payments for the year ended June 30, 2023. These payments are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

As of June 30, 2023, UW Medical Center has an estimated payable of $9,489 for the ODPP program, which is included in payable to contractual agencies in the statements of net position. As of June 30, 2023, UW Medical Center has an estimated receivable for the ODPP program of $42,291, which is recorded in other receivables in the statements of net position.

(4) Medicare Advanced Payments and Federal Stimulus Funding

In response to financial pressures brought on by the COVID-19 pandemic, the Group pursued additional sources of liquidity and financial recovery through various federal programs. In fiscal year 2020, the Group received $125,300 for six months of advance Medicare payments under CMS Medicare Advanced Payment Program (MAPP), which were repaid to Medicare by offsetting paid claims.

Medicare began recouping the Group's advanced payments over a 29 month period in April 2021 and has recouped the entire balance. As of June 30, 2023 and 2022, the Group had no outstanding Medicare advanced payments.

The federal government passed the Coronavirus Aid, Relief and Economic Security (CARES Act) in March 2020 and the American Rescue Plan Act (ARPA) in March 2021. Both the CARES Act and ARPA were aimed to direct economic assistance for the American workers, families and small businesses and preserve jobs for American industries. The CARES Act and ARPA require the amount of funding to be validated, which required management to quantify lost revenues and incurred expenses associated with the pandemic. During the fiscal year ended June 30, 2022, the Group received and recognized CARES Act and ARPA funds totaling $15,235, which is recorded within other nonoperating, net in the statements of revenues, expenses, and changes in net position. No CARES Act or ARPA funds were received or recognized in fiscal year 2023.

(5) State Appropriation

A recurring appropriation is made by the State to the University on a biennial basis, specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. UW Medical Center is designated as a division of the major program "hospitals" included within the total appropriation. For the fiscal years ended 2023 and 2022, the Group recognized $7,029 and $6,909, respectively, which is recorded within recurring state appropriations in the statements of revenues, expenses, and changes in net position.

In fiscal year 2023, UW Medical Center was awarded a $50,000 nonrecurring appropriation used to fund salaries, benefits, supplies, and other operating expenses that assist UW Medical Center in fulfilling its safety net and training functions. In fiscal years 2023 and 2022, UW Medical Center was awarded nonrecurring state appropriations of $62,000 and $12,000, respectively, which is recorded within nonrecurring state appropriations in the statements of revenues, expenses, and changes in net position.

(Continued)

(Dollar amounts in thousands)

(6) Capital Assets

The activity in the Group's capital asset and related accumulated depreciation and amortization accounts for the years ended June 30, 2023 and 2022 is set forth below:

	June 30, 2022	Additions	Transfers	Retirements	June 30, 2023
Capital assets, not being depreciated or amortized:					
Land	$ 10,817	—	—	—	10,817
Art	2,604	149	—	—	2,753
Construction in process	96,259	225,136	(74,217)	—	247,178
Total capital assets, not being depreciated or amortized	109,680	225,285	(74,217)	—	260,748
Capital assets, being depreciated or amortized:					
Land improvements	13,668	—	—	(1,629)	12,039
Buildings, renovations, and furnishings	1,004,336	1,126	19,413	(5,808)	1,019,067
Fixed equipment	162,322	498	5,507	(7,213)	161,114
Intangible assets	201,586	20	2,826	(256)	204,176
Movable equipment	561,283	1,370	46,471	(14,445)	594,679
Total capital assets, being depreciated or amortized	1,943,195	3,014	74,217	(29,351)	1,991,075
Total capital assets at historical cost	2,052,875	228,299	—	(29,351)	2,251,823
Less accumulated depreciation and amortization for:					
Land improvements	(9,478)	(361)	—	1,629	(8,210)
Buildings, renovations, and furnishings	(542,679)	(30,153)	(152)	4,910	(568,074)
Fixed equipment	(138,632)	(4,792)	202	7,529	(135,693)
Intangible assets	(106,429)	(13,718)	—	256	(119,891)
Movable equipment	(459,728)	(32,325)	(50)	14,269	(477,834)
Total accumulated depreciation and amortization	(1,256,946)	(81,349)	—	28,593	(1,309,702)
Total capital assets, net	$ 795,929	146,950	—	(758)	942,121

(Dollar amounts in thousands)

	June 30, 2021	Additions	Transfers	Retirements	June 30, 2022
Capital assets, not being depreciated or amortized:					
Land	$ 10,817	—	—	—	10,817
Art	1,824	780	—	—	2,604
Construction in process	66,499	117,447	(87,687)	—	96,259
Total capital assets, not being depreciated or amortized	79,140	118,227	(87,687)	—	109,680
Capital assets, being depreciated or amortized:					
Land improvements	13,668	—	—	—	13,668
Buildings, renovations, and furnishings	962,563	220	41,863	(310)	1,004,336
Fixed equipment	166,469	290	(3,276)	(1,161)	162,322
Intangible assets	235,931	18	3,290	(37,653)	201,586
Movable equipment	524,808	398	45,810	(9,733)	561,283
Total capital assets, being depreciated or amortized	1,903,439	926	87,687	(48,857)	1,943,195
Total capital assets at historical cost	1,982,579	119,153	—	(48,857)	2,052,875
Less accumulated depreciation and amortization for:					
Land improvements	(9,092)	(386)	—	—	(9,478)
Buildings, renovations, and furnishings	(511,663)	(31,194)	—	178	(542,679)
Fixed equipment	(136,748)	(4,457)	1,765	808	(138,632)
Intangible assets	(129,110)	(14,973)	—	37,654	(106,429)
Movable equipment	(433,470)	(32,401)	(1,765)	7,908	(459,728)
Total accumulated depreciation and amortization	(1,220,083)	(83,411)	—	46,548	(1,256,946)
Total capital assets, net	$ 762,496	35,742	—	(2,309)	795,929

(7) Leases and Subscription IT Arrangements

(a) Lessee

The Group leases various equipment and facilities under noncancellable lease agreements. The Group also has noncancellable subscription arrangements for the right-to-use various information technology, software or hardware. Existing leases and subscription IT arrangements have terms through fiscal year 2044.

(Dollar amounts in thousands)

(i) Right-to-use lease and subscription IT assets

The Group's right-to-use lease and subscription assets, and related accumulated amortization accounts for the fiscal years ended June 30, 2023 and 2022 are set forth below:

	June 30, 2022	Implementation of GASB Statement No. 96	Additions	Modifications and renewals	Deductions	June 30, 2023
Lease and Subscription IT Assets:						
Buildings	$ 201,001	—	13,511	14,536	(817)	228,231
Equipment	7,362	—	1,432	—	—	8,794
Aircraft	60,109	—	42,630	—	—	102,739
Subscription IT	—	17,056	4,969	6,009	—	28,034
Total lease and subscription IT assets	268,472	17,056	62,542	20,545	(817)	367,798
Less accumulated amortization for:						
Buildings	(34,969)	—	(18,410)	—	817	(52,562)
Equipment	(4,353)	—	(2,586)	—	—	(6,939)
Aircraft	(28,520)	—	(14,819)	—	—	(43,339)
Subscription IT	—	(3,730)	(7,234)	—	—	(10,964)
Total accumulated amortization	(67,842)	(3,730)	(43,049)	—	817	(113,804)
Total lease and subscription IT assets, net	$ 200,630	13,326	19,493	20,545	—	253,994

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

(Continued)

(Dollar amounts in thousands)

(ii) Lease and Subscription IT Liabilities

Changes in lease and subscription IT liabilities during the fiscal years ended June 30, 2023 and 2022 are summarized below:

	2023						
	Beginning balance	Implementation of GASB Statement No. 96	Additions	Remeasurements and renewals	Deductions	Ending balance	Due within one year
Lease Liabilities	$ 214,122	—	56,567	14,540	(33,159)	252,070	35,895
Subscription IT Liabilities	—	11,546	4,968	6,009	(5,268)	17,255	7,362
Total	$ 214,122	11,546	61,535	20,549	(38,427)	269,325	43,257

	2022					
	Beginning balance	Additions	Remeasurements and renewals	Deductions	Ending balance	Due within one year
Lease Liabilities	$ 230,772	5,346	9,338	(31,334)	214,122	30,787

(iii) Lease and Subscription IT maturities

The following schedule shows future annual lease and subscription IT payments, for the next five years and in five-year increments thereafter, as of June 30, 2023, for both principal and interest:

	Principal	Interest	Total
2024	$ 43,257	6,798	50,055
2025	37,806	5,902	43,708
2026	24,247	5,190	29,437
2027	22,634	4,604	27,238
2028	22,064	4,042	26,106
2029–2033	49,342	15,058	64,400
2034–2038	49,753	7,452	57,205
2039–2043	20,019	1,491	21,510
2044–2048	203	—	203
Total payments	$ 269,325	50,537	319,862

(8) Investments

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

(Dollar amounts in thousands)

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

The composition of the carrying amounts of investments, by type, at June 30, 2023 and 2022, is as follows:

		2023	2022
Mutual funds – equity	$	151,752	131,695
Domestic corporate bonds		8,554	6,409
U.S. governmental agency securities		6,503	4,573
U.S. Treasury securities		6,974	6,588
Total	$	173,783	149,265

(a) Credit Risk

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

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

		2023					
Investments		**U.S. Government**	**Investment grade***	**Not investment grade**	**Not rated**	**Total**	**Duration (in years)**
Domestic corporate bonds	$	—	8,554	—	—	8,554	5.87
U.S. governmental agency		6,503	—	—	—	6,503	6.08
U.S. Treasury securities		6,974	—	—	—	6,974	7.08
	$	13,477	8,554	—	—	22,031	6.34

(Dollar amounts in thousands)

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

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

(b) Interest Rate Risk

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

(c) Fair Value Hierarchy

The following table sets forth, by level, within the fair value hierarchy, the Group's investments carried at fair value as of June 30, 2023 and 2022:

		2023			
		Level 1	Level 2	Level 3	Total
Mutual funds	$	151,752	—	—	151,752
Domestic corporate bonds		—	8,554	—	8,554
U.S. governmental agency securities		—	6,503	—	6,503
U.S. Treasury securities		6,974	—	—	6,974
Total investments at fair value	$	158,726	15,057	—	173,783

(Dollar amounts in thousands)

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

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

(d) Investment Income

Investment income includes both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held longer than the current reporting period and are sold in the current period include the net appreciation of these investments reported in the prior periods. UWP investment income is recorded in UWP billing revenues, net, as presented in note 2(u), however, the composition of UWP's investment income is included in amounts presented below. Investment income (loss) comprises the following at June 30, 2023 and 2022:

	2023	**2022**
Dividend and interest income	$ 6,721	9,696
Net realized (losses) gains	(903)	13,985
Net unrealized gains (losses)	9,831	(40,986)
Total investment income (loss)	$ 15,649	(17,305)

(Dollar amounts in thousands)

(9) Long-Term Debt

Long-term debt, reported as a part of noncurrent liabilities, consists of the following as of June 30, 2023 and 2022:

		2023	2022
Internal Lending Program Debt:			
UW Medical Center Expansion Project, 4.00% interest rate, through July 2046	$	226,677	235,707
UW Medical Center note payable to the University, at 4.00% through December 2032, secured by an interest in UW Medical Center gross receivables and certain property and equipment		45,441	49,296
UW Medical Center Internal Lending Program Debt, 4.00% interest rate, with various maturity dates		112,710	39,052
UW Medical Center other debts, 4.04% to 4.96% interest rates, through December 2027		10,847	16,791
ITS Internal Lending Program Debt D1 Project, 4.00% interest rate, through July 2034		108,486	111,771
Fred Hutchinson Cancer Center Note Payable interest of 4.82% through March 2032 – direct borrowing		131,530	142,942
UW Medical Center note payable at 4.65%, annual debt service including interest of $1,195 through July 2032; secured by a medical office building – direct borrowing		5,243	5,696
Other notes payable		338	541
Total long-term debt		641,272	601,796
Less current portion		(18,744)	(37,125)
Total long-term debt, net of current portion	$	622,528	564,671

(a) Long-Term Debt Overview

(i) University Internal Lending Program (ILP)

The Group periodically applies for and obtains financing through the University’s ILP as it identifies borrowing needs. The ILP is an internal financing pool intended to lower the University’s overall cost of capital and provide a predictable borrowing rate for borrowers within the University. These loans are funded through the issuance of General Revenue bonds and notes. The University’s ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary. On June 8, 2023, the Board of Regents approved an amendment to the Group’s debt service agreements in which principal payments on certain ILP debt will be deferred until July 1, 2024.

(Dollar amounts in thousands)

(ii) Fred Hutchinson Cancer Center Note Payable

On April 1, 2022, UW Medical Center entered into a promissory note agreement with Fred Hutchinson Cancer Center, for its 50% share of the buyout of Seattle Children's Healthcare System membership in SCCA. The note payable to FHCC is $142,942 and the interest rate is 4.82%. The note shall be payable in forty equal consecutive quarterly installments of principal and interest. Both parties agree that all payments on this note shall be offset by UW Medical Center's portion of the Clinical Distribution Pool due under the Restructuring Agreement to the extent that these funds are available.

(b) Long-Term Debt Maturities

The following schedule shows debt service requirements, for the next five years and in five-year increments thereafter, as of June 30, 2023, for both principal and interest:

		Principal	Interest	Total
2024	$	18,744	26,650	45,394
2025		46,034	25,165	71,199
2026		47,656	23,156	70,812
2027		47,870	21,079	68,949
2028		49,887	19,009	68,896
2029–2033		258,830	61,283	320,113
2034–2038		111,638	21,606	133,244
2039–2043		37,870	8,301	46,171
2044–2048		22,743	1,430	24,173
Total payments	$	641,272	207,679	848,951

(Dollar amounts in thousands)

(c) Changes in Long-Term Debt

Changes in long-term debt during the fiscal years ended June 30, 2023 and 2022 are summarized below:

	June 30, 2022	Increases	Decreases	June 30, 2023	Due within one year
ILP Debt:					
UW Medical Center Expansion Project	$ 235,707	—	(9,030)	226,677	—
UW Medical Center Note payable – University	49,296	—	(3,855)	45,441	—
UW Medical Center ILP debt	39,052	76,119	(2,461)	112,710	—
Other UW Medical Center debts	16,791	—	(5,944)	10,847	6,208
UW Medicine ITS ILP Debt	111,771	4,240	(7,525)	108,486	—
Fred Hutchinson Cancer Center Note Payable	142,942	—	(11,412)	131,530	11,973
UW Medical Center Note Payable	5,696	—	(453)	5,243	475
Other note payables and capital leases	541	—	(203)	338	88
Total current and long-term debt	$ 601,796	80,359	(40,883)	641,272	18,744

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

(10) Risk Management

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

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components of which statutory self-insurance coverage is first dollar. The Group's annual contribution to the professional liability program funding is determined by UW Medicine Finance using information from an annual actuarial study conducted by the University administration. In addition to the University, the participants in the professional liability program include the Group, CUMG, the School of

Dentistry, the School, and Harborview. In addition to self-insurance fund contributions, the participants share in the expenses of the Clinical Risk Management Office. No claim liability is recorded on the Group's balance sheet for professional liability exposures.

The Group's contribution to the professional liability program was $30,843 and $20,264 in fiscal years 2023 and 2022, respectively, and is recorded in other operating expense in the statements of revenues, expenses, and changes in net position.

(11) Pension Plans

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

(a) University of Washington Retirement Plan

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

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

Based on the University's benefit load apportionment, the Group incurred and paid $14,073 and $12,018 in fiscal years 2023 and 2022, respectively, related to annual UWRP funding, which is recorded in employee benefits expense in the statements of revenues, expenses, and changes in net position.

(b) Public Employees' Retirement System Pension Plans

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

(i) Plan Descriptions of the DRS Plans

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

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

(ii) *Vesting and Benefits Provided*

PERS Plan 1

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

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

PERS Plan 2/3

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

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

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

(iii) *Fiduciary Net Position*

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

(Dollar amounts in thousands)

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

DRS publishes an annual report for retirement plans, which is available at: https://www.drs.wa.gov/wp-content/uploads/2021/06/2022-ACFR.pdf.

(iv) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The Group's 2023 pension liability (asset) is based on valuation performed as of June 30, 2021, with the results rolled forward to the measurement date of June 30, 2022. Likewise, the Group's 2022 pension liability is based on an OSA valuation performed as of June 30, 2020, with the results rolled forward to the measurement date of June 30, 2021. The following actuarial assumptions have been applied to all prior periods included in the measurement:

	2023
Inflation	2.75% total economic inflation, 3.25% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.25%
Investment rate of return	7.00%

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

(Dollar amounts in thousands)

Mortality rates as of June 30, 2021 and 2020 were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2021 valuations were based on the results of the 2013-2018 Demographic Experience Study Report and 2021 Economic Experience Study. The actuarial assumptions used in the June 30, 2020 valuations were based on the results of the 2013-2018 Demographic Experience Study Report and 2019 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the dates of the respective actuarial valuation reports.

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

The long-term expected rate of return of 7.00% and 7.40% as of June 30, 2022 and 2021, respectively, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

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

	2023 (Measurement date: 2022)		2022 (Measurement date: 2021)	
	Target asset allocation	Long-term expected real rate of return arithmetic	Target asset allocation	Long-term expected real rate of return arithmetic
Asset class:				
Fixed income	20.0 %	1.5 %	20.0 %	2.2 %
Tangible assets	7.0	4.7	7.0	5.1
Real estate	18.0	5.4	18.0	5.8
Global equity	32.0	5.9	32.0	6.3
Private equity	23.0	8.9	23.0	9.3

(Dollar amounts in thousands)

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

(v) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2023 and 2022 was 7.00% and 7.40%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which the Group participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.00% and 7.40% future investment rate of return on pension plan investments was assumed as measurement dates June 30, 2022 and 2021, respectively. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1, as provided for in Chapter 41.45 of the RCW).

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

The following table presents the Group's proportionate share of the net pension liability and asset calculated using the discount rate of 7.00% and 7.40% as of measurement dates June 30, 2022 and 2021, respectively, as well as what the net pension liability and asset would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)

	2023		
	1% Decrease	**Current discount rate**	**1% Increase**
Plan:			
PERS 1	$ 121,950	106,782	75,469
PERS 2/3	217,745	(184,900)	(515,699)

(Dollar amounts in thousands)

Discount Rate Sensitivity – Net Pension Liability (Asset)

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

(vii) Employer Contribution Rates

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The following table presents the contribution rates, stated as a percentage of covered payroll as defined by the statute, and required contributions for each PERS plan in which the Group participates for the years ended June 30, 2023 and 2022.

Description		PERS Plan 1	PERS Plan 2/3[i]
Contributions as June 30, 2023:			
Contribution rate		10.25 %	10.25 %
Contributions made	$	26,283	43,654

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

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

(viii) The Group's Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year end. The measurement date for the net pension liabilities and assets recorded by the Group as of June 30, 2023 was June 30, 2022. Employer contributions received and processed by the DRS during the fiscal year ended June 30, 2022 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in their June 30, 2022 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities and assets recorded by the Group as of June 30, 2022 was June 30, 2021, with employer contributions received and processed by DRS during the fiscal year ended June 30, 2021, used as the basis for determining each employer's proportionate share of the collective pension amounts. The following table presents the Group's proportionate share for each DRS plan.

(Dollar amounts in thousands)

	2023	2022
PERS 1	3.84 %	3.73 %
PERS 2/3	4.99	4.78

(ix) The Group's Aggregated Balances

The table below presents the Group's aggregated balance of net pension liability and net pension asset as of June 30, 2023 and 2022.

Plan		2023	2022
PERS 1	$	106,782	45,608
PERS 2/3		(184,900)	(475,806)
	$	(78,118)	(430,198)

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

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

		Proportionate share of pension expense (income)		
Description		PERS Plan 1	PERS Plan 2/3	Total
June 30, 2023	$	51,766	(57,656)	(5,890)
June 30, 2022		10,442	(104,125)	(93,683)

(Dollar amounts in thousands)

Deferred Outflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2023:				
Change in assumptions	$	—	103,057	103,057
Difference between expected and actual experience		—	45,814	45,814
Change in the Group's proportionate share		—	12,466	12,466
The Group's contributions subsequent to the measurement date of the collective net pension liability [(a)]		26,283	43,654	69,937
Total	$	26,283	204,991	231,274

[(a)] Recognized as a reduction of the net pension liability as of June 30, 2024.

Deferred Outflows of Resources

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

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

(Dollar amounts in thousands)

Deferred Inflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2023:				
Difference between projected and actual earnings on plan investments, net	$	17,697	136,698	154,395
Difference between expected and actual experience		—	4,186	4,186
Change in assumptions		—	26,984	26,984
Total	$	17,697	167,868	185,565

Deferred Inflows of Resources

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

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

		Amortization of deferred inflows and deferred outflows of resources (1)		
Year		PERS Plan 1	PERS Plan 2/3	Total
2024	$	5,127	(39,014)	(33,887)
2025		(8,533)	(34,899)	(43,432)
2026		(6,802)	(42,656)	(49,458)
2027		(7,489)	65,490	58,001
2028		—	23,301	23,301
Thereafter		—	21,247	21,247
Total	$	(17,697)	(6,531)	(24,228)

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

(Dollar amounts in thousands)

(c) University of Washington Supplemental Retirement Plan

(i) Plan Description

The University of Washington Supplemental Retirement Plan (UWSRP), a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. For purposes of measuring the June 30, 2023 and 2022 net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the UWSRP and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported in the state of Washington's Annual Comprehensive Financial Report, which is available at https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report.

The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership requires participation in the UWRP. Participant data is updated biannually in the actuarial valuations. The table below shows the number of the Group's participants in the UWSRP as of June 30, 2023 and 2022:

	June 30	
	2023	**2022**
Active employees	385	469
Inactive employees receiving benefits	121	99
Inactive employees entitled to, but not receiving benefits	32	15

(ii) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal years ended June 30, 2023 and 2022 were $1,029 and $952, respectively.

(iii) Employer Contributions

State legislation which became effective on July 1, 2020, created an employer contribution rate for the UWSRP. This rate is developed by the OSA in accordance with RCW 41.45, which provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The Group's contribution rate for the fiscal years ended June 30, 2023 and 2022 per RCW 28B.10.423 was 0.38% of UWRP covered salaries. Contributions made in the fiscal years ending June 30, 2023 and 2022 were $782 and $604, respectively. Prior to fiscal year 2021 employer contributions were not required.

(iv) Plan Investments

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

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

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

The money-weighted rates of return are provided by the WSIB and the Office of the State Treasurer. The annual money-weighted rate of return on UWSRP investments, net of pension plan investment expense for the years ended June 30, 2023 and 2022 was 7.16% and 0.12%, respectively. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of external cash flows.

(v) Pension Liability

The University has also set aside assets to pay UWSRP benefits which are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, these assets are not reflected as a reduction of the total pension liability (TPL). The allocation method used to determine the Group's proportionate share of the University's TPL is based on its unit allocation of what is funded through the benefit load process. The proportionate share percentage for the Group was 9.36% and 9.23% as of June 30, 2023 and 2022, respectively.

(Dollar amounts in thousands)

As of June 30, 2023 and 2022, the University had set aside $342,029 and $345,256, respectively, to pay future UWSRP retiree benefits, of which the Group recorded $32,019 and $31,862, respectively, as other assets on its statements of net position. These assets are physically segregated in a separate investment account. The separate investment account was closed subsequent to June, 30, 2022 and the assets are invested in the University's Invested Funds Pool. These assets are in addition to those amounts now residing with the WSIB, which are reflected as a reduction of the TPL beginning in fiscal year 2021.

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

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

Schedule of Changes in Net Pension Liability

		June 30, 2023		
		Total pension liability	**Plan fiduciary net position**	**Net pension liability**
Beginning balance	$	28,774	8,584	20,190
Service cost		474	—	474
Interest on TPL		2,069	—	2,069
Difference between expected and actual experience		(2,936)	—	(2,936)
Change in assumptions		(2,494)	—	(2,494)
Employer contributions		—	782	(782)
Investment Income		—	673	(673)
Change in proportion		325	—	325
Benefit payments		(1,029)	—	(1,029)
Ending balance	$	25,183	10,039	15,144

(Dollar amounts in thousands)

Schedule of Changes in Net Pension Liability

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

The June 30, 2023 TPL is based on an actuarial valuation performed as of January 1, 2023 with update procedures performed by the OSA to roll forward the TPL to the measurement date of June 30, 2023. Some of the larger experience items that impacted the TPL salaries were generally lower than assumed and SRP benefits for new retirees were lower than estimated. OSA's model estimates the SRP benefit of future retirees by relying on assumptions for the benefit calculation performed by Teachers Insurance and Annuity Association of America (TIAA). Based on information provided by TIAA and OSA's professional judgment, some of the long-term assumptions were updated which decreased the TPL as of June 30, 2023. The valuation was prepared using the entry age actuarial cost method.

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

UWSRP pension expense for the fiscal years ended June 30, 2023 and 2022 was ($5,320) and $(4,816), respectively, which is reported within employee benefits expense as a reduction to expenses in the statements of revenues, expenses, and changes in net position.

(Continued)

(Dollar amounts in thousands)

(vi) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on the University. The professional judgments used in determining these assumptions are important and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the Group's financial statements. The following table shows significant assumptions used to measure the NPL as of June 30, 2023 and 2022.

	June 30	
	2023	**2022**
Inflation	2.75%	2.75%
Salary changes	4.00	4.00
Source of mortality assumptions	PubT.H-2010 tables, with the MP-2017 mortality improvement scale	PubT.H-2010 tables, with the MP-2017 mortality improvement scale
Date of experience study	August 2021	August 2021
Discount rate	7.00%	7.00%
Change in the discount since prior measurement date	0.00%	0.40%
Source of discount rate	2021 Report on Financial Condition and Economic Experience Study	2021 Report on Financial Condition and Economic Experience Study
Long-term expected rate of return on plan investments	7.00%	7.00 %
NPL measurement at discount rate	$ 15,144	20,190
NPL discount rate increased 1%	12,664	17,344
NPL discount rate decreased 1%	18,043	23,517

There were no changes to the significant assumptions used for the period ending June 30, 2023.

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

(Dollar amounts in thousands)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation for June 30, 2023 and 2022, are summarized in the following table:

	June 30, 2023		June 30, 2022	
	Target asset allocation	**Long-term expected real rate of return arithmetic**	**Target asset allocation**	**Long-term expected real rate of return arithmetic**
Asset class:				
Fixed income	20.0 %	1.5 %	20.0 %	2.2 %
Tangible assets	7.0	4.7	7.0	5.1
Real estate	18.0	5.4	18.0	5.8
Global equity	32.0	5.9	32.0	6.3
Private equity	23.0	8.9	23.0	9.3

As noted above, the discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that that the Group would pay retiree benefits from assets designated for that purpose, until such time that responsibility for these payments transfers to the DRS and payments are funded by the plan assets invested in the CTF. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(vii) Deferred Outflows and Inflows of Resources

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

Deferred outflows of resources		**2023**	**2022**
Difference between expected and actual experience	$	9,422	11,801
Change in assumptions		8,951	11,381
Change in proportion		4,797	5,416
Total	$	23,170	28,598

(Dollar amounts in thousands)

Deferred inflows of resources		2023	2022
Difference between expected and actual experience	$	24,249	27,581
Change in assumptions		14,884	16,042
Net difference between projected and actual earnings on plan investments		281	492
Change in proportion		1,954	2,357
Total	$	41,368	46,472

Amortization of deferred outflows and inflows of resources [a]		
Year:		
2024	$	(4,798)
2025		(3,732)
2026		(2,740)
2027		(6,239)
2028		(547)
Thereafter		(142)
Total	$	(18,198)

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

(d) Other Postemployment Benefits (OPEB)

(i) Plan Description

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

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

(Dollar amounts in thousands)

Nevertheless, the actuarial assumptions used in the valuations presented in this note assume that this substantive plan will continue into the future.

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

- The implicit subsidy, set up under RCW 41.05.022, is not a direct payment from the employer on behalf of the retiree. Retirees who are not yet eligible for Medicare benefits may currently continue to participate in the state's non-Medicare community-rated health insurance risk pool. Claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums. Therefore, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. This results in an implicit subsidy since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.
- The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy applicable to each calendar year, with the final amount approved by the state Legislature. The subsidy was $183 per member per month during fiscal years 2023 and 2022.

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

The table below shows the Group's PEBB membership data as of June 30, 2023 and 2022:

	2023	2022
Active employees	9,355	9,232
Inactive employees receiving benefits	2,706	2,561
Inactive employees entitled to, but not receiving, benefits	N/A*	429

* Data not available

(Dollar amounts in thousands)

(ii) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on the Group. The professional judgments used by the OSA in determining the assumptions used to value the state of Washington OPEB liability are important and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the Group's financial statements. The following table shows significant assumptions used to measure the total OPEB liability (TOL) as of June 30, 2023 and 2022:

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

		June 30, 2023
Inflation		2.35 %
Healthcare cost trend rate		Initial rate ranges from about 2–11%, reaching an ultimate rate approximately 3.8% in 2080.
Salary increase		3.25% plus service-based salary increases
Source of mortality assumptions		Society of Actuaries' Pub.H-2010 mortality rates with application of the long-term MP-2017 generational improvement scale, and updated based on results of the 2013–2018 Demographic Experience Study Report and the 2019 Report on Financial Condition Economic Experience Study.
Date of experience study		2013–2018 Demographic Experience Study Report
Discount rate		3.54 %
Source of discount rate		Bond Buyer's General Obligation 20-Bond index as of June 30, 2022 (Measurement Date)
Postretirement participation percentage		60.00 %
TOL measurement at discount rate	$	309,532
TOL discount rate increased 1%		266,752
TOL discount rate decreased 1%		362,695
TOL measurement at healthcare cost trend rate		309,532
TOL healthcare cost trend rate increased 1%		370,244
TOL healthcare cost trend rate decreased 1%		262,076

(Dollar amounts in thousands)

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

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

Material assumption changes during the measurement period ending June 30, 2022 include updating the discount rate, as required by GASB 75, and updating the inflation rate, the forecast of healthcare cost trend rate, the salary increase percentage, and the post-retirement participation percentage. Material assumption changes during the measurement period ending June 30, 2021 include updating the discount rate, as required by GASB 75.

(Dollar amounts in thousands)

(iii) Changes in the Total OPEB Liability

The TOL for the state of Washington as of June 30, 2023 was determined by an actuarial valuation, conducted by the OSA using data as of June 30, 2022. The measurement date for the TOL as of June 30, 2022 was the same as the valuation date. The TOL for the state of Washington as of June 30, 2022 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2020 with the results rolled forward to the measurement date of June 30, 2021. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine the Group's proportionate share of the University's TOL is the relationship of the Group's active, healthcare-eligible employee headcount to the corresponding University total.

The Group's proportionate share percentage was 24.84% and 24.84% as of June 30, 2023 and 2022, respectively.

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

Schedule of Changes in total OPEB liability

	June 30	
	2023	**2022**
Beginning balance	$ 462,354	413,696
Service cost	22,835	23,109
Interest	10,595	9,988
Difference between expected and actual experience	(10,491)	—
Change in assumptions	(177,152)	4,267
Benefit payments	(7,785)	(7,609)
Change in proportion	9,176	18,903
Ending balance	$ 309,532	462,354

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

The tables below summarize the Group's OPEB expense, deferred outflows of resources, and deferred inflows of resources related to the OPEB plan, together with the related future year impacts to OPEB expense from amortization of those deferred amounts. Note that deferred outflows of resources related to the Group's contributions subsequent to the measurement date are recognized as a reduction of the total OPEB liability in the following year, and are not amortized to OPEB expense. The Group's proportionate share of OPEB expense for the year ended June 30, 2023 and 2022 was $4,537 and $24,181, respectively.

(Dollar amounts in thousands)

The following table presents the deferred outflows of resources and deferred inflows of resources as of June 30, 2023 and 2022:

Deferred outflows of resources		2023	2022
Differences between expected and actual experience in the measurement of the total OPEB liability	$	6,452	7,909
Changes in proportion		140,894	139,669
Change in assumptions		25,370	29,444
Group's contributions subsequent to the measurement date of the collective total OPEB liability [(a)]		7,812	7,644
Total	$	180,528	184,666

(a) Recognized as a reduction of the total OPEB liability as of June 30, 2024.

Deferred inflows of resources		2023	2022
Differences between expected and actual experience in the measurement of the total OPEB liability	$	10,891	1,790
Change in assumptions		224,400	83,827
Changes in proportion		22,438	26,528
Total	$	257,729	112,145

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

Amortization of Deferred Outflows and Inflows of Resources [(a)]		
Year:		
2024	$	(9,446)
2025		(9,446)
2026		(9,446)
2027		(9,446)
2028		(9,446)
Thereafter		(37,783)
Total	$	(85,013)

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

(12) Other Retirement Plans

(a) UWP Pension Plan

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

On termination of service due to death, disability, or retirement, a participant or beneficiary may elect to receive either a lump-sum distribution or an annuity to be paid in monthly installments. For termination of service due to other reasons, participants may elect to receive their vested balance as a lump-sum distribution.

Participants become 100% vested upon severance of employment from UWP due to death or disability or upon attaining age 65 while still employed by UWP. Upon severance of employment due to other reasons, participants are entitled to benefits, which start at 25% vested after two years of service, 50% vested after three years, 75% vested after four years and 100% vested after five years.

Total pension expense was approximately $21,231 and $19,122, net of forfeitures of $1,090 and $462 in fiscal years 2023 and 2022, respectively, and is recorded in employee benefits expense within the statements of revenues, expenses, and changes in net position. The Association had no liability outstanding for pension contributions at June 30, 2023 and 2022.

(13) Related Parties

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

(a) University of Washington

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

(i) The School

The Group purchases a variety of clinical, administrative, and teaching services from the School, which include laboratory services, resident programs, direct faculty salaries, and clinical department funding. The Group also provides laboratory services to the School. The amounts for these services are shown below (see (g)).

In addition, the Group leases clinical space from the School for which it records a right-to-use lease asset and lease liability. At June 30, 2023 and 2022, the right-to-use lease asset, net of accumulated amortization was $30,505 and $32,528, respectively. At June 30, 2023 and 2022, $1,259 and $1,159 is recorded within current portion of lease and subscription IT liabilities and $32,052 and $33,312 is recorded within long-term lease and subscription IT liabilities, net of current portion, respectively, in the statements of net position.

(ii) UW Medicine Central Costs

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

(iii) Other University Divisions

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

UW Medical Center has a payable to the University. The payable is subject to repayment in annual installments of $5,000 over future years, with installment payments of $4,167 and $5,000 made during the years ended June 30, 2023 and 2022, respectively. The University deferred the annual installment payment beginning May 2023 through fiscal year 2024 due to financial pressures at UW Medical Center. At June 30, 2023 and 2022, the current portion of the payable to the University of $0 and $5,000, respectively, is included in due to related parties and the remaining balance of $114,564 and $113,731, respectively, is included in due to related parties – long term in the statements of net position. The amounts for these transactions are shown below (see (g)).

The Group leases clinical, warehouse, and office space from other divisions of the University for which it records a right-to-use lease asset and lease liability. At June 30, 2023 and 2022, the right-to-use lease asset, net of accumulated amortization was $20,001 and $23,461, respectively. At June 30, 2023 and 2022, $4,039 and $3,620 is recorded within current portion of lease and subscription IT liabilities and $17,261 and $20,807 is recorded within long-term lease and subscription IT liabilities, net of current portion, respectively, in the statements of net position.

(b) Harborview

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

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

SCCA, renamed FHCC on April 1, 2022, operates a 20-bed inpatient hospital within UW Medical Center in which its adult inpatients receive care. The 20-bed hospital qualifies as a “hospital within a hospital” for Medicare reimbursement purposes. FHCC provides medical oversight and management of the inpatient hospital and the hospital is governed by its own board. Under a contract between the University and FHCC, UW Medical Center provides certain of the inpatient care support services for the FHCC hospital, including necessary personnel, supplies, equipment, and ancillary services. UW Medical Center estimates the direct expense associated with the hospital within a hospital unit using a cost to charge ratio methodology. Reimbursement of these support services is recorded in net patient service revenues in the statements of revenues, expenses, and changes in net position. In addition, UW Medical Center purchases certain administrative and program support services from FHCC to assist with its programs. The amounts for these transactions are shown below (see (g)). At June 30, 2023 and 2022, the Group recorded $5,978 and $5,038, respectively, in accounts payable and accrued expenses in the statements of net position for amounts owed to FHCC by the Group.

UW Medical Center also provides various services to the FHCC’s outpatient facility, including certain pharmacy, laboratory, and pathology services, as well as purchasing and other administrative services, which are included in other revenue in the statements of revenues, expenses, and changes in net position. The amounts for these transactions are shown below (see (g)). At June 30, 2023 and 2022, the Group recorded $13,059 and $13,911, respectively, in other receivables in the statements of net position for amounts owed to the Group by FHCC.

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

Until April 1, 2022, UW Medical Center made various payments to Fred Hutch related to research and development support, data collection and analysis, physician assistance services, consulting services, and license rights to use the Fred Hutch name in connection with the inpatient oncology services program. These fees are included in the tables below (see (g)).

(e) Children’s University Medical Group

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

(f) UWM PC

Under an annual agreement, UW Medical Center and Harborview provide funding to UWM PC for operations and capital purposes. For the years ended June 30, 2023 and 2022, total funding from the UW Medicine hospitals to UWM PC was $67,915 and $49,408, respectively. Approximately $50,177 and $36,695, respectively, was provided from entities within the Group and was eliminated from these financial statements. The remaining portion related to Harborview is recorded as other revenue in the statements of revenues, expenses, and changes in net position. The amounts for these transactions are shown below (see (g)).

(Dollar amounts in thousands)

(g) Summary of Related-Party Transactions

The Group's related-party revenue and expense amounts are included in net patient service revenues, other revenue, salaries and wages, benefits, purchased services, and other expense in the statements of revenues, expenses, and changes in net position. The following table summarizes the related-party revenue and expense transactions for the years ended June 30, 2023 and 2022:

(Expense) revenue transactions		2023	2022
Services and supplies purchased from the University and its departments and affiliates:			
The School	$	(283,678)	(249,412)
UW Medicine Central Costs		(25,773)	(27,960)
Other university divisions		(121,690)	(100,453)
Services and supplies purchased from Harborview		(7,927)	(8,839)
Services and supplies purchased from SCCA/FHCC		(18,965)	(15,254)
Services and supplies purchased from Fred Hutch		(7,281)	(14,902)
Services and supplies provided to the University and its departments and affiliates:			
The School		10,931	8,539
Other University divisions		898	834
Services and supplies provided to Harborview		168,361	150,538
Services and supplies provided to SCCA/FHCC		115,875	98,651
Services and supplies provided to VMC		5,173	4,559
Services and supplies provided to CUMG		1,783	1,280
Services and supplies provided to SCH		1,466	1,291

As of June 30, 2023 and 2022, the Group had amounts due from or (due to) related parties for certain transactions as follows:

Due from related parties		2023	2022
The University and its departments and affiliates:			
The School	$	28,892	19,337
Other university divisions		423	1,236
Harborview		18,290	15,460

(Dollar amounts in thousands)

Due to related parties		2023	2022
The University and its departments and affiliates:			
The School	$	(27,027)	(19,498)
Other university divisions		(134,884)	(153,884)
Harborview		(5,832)	(8,567)

(h) State of Washington

The state of Washington Medicaid Transformation Program (MTP) program is a five-year contract between the State and CMS authorizing up to $1,500,000 in federal matching funds as incentive to promote innovative, sustainable, and systemic changes that improve the overall health of the State. On June 30, 2023, CMS approved MTP to continue for an additional five years beginning July 1, 2023. HCA requested intergovernmental transfers from other state and local public entities to finance a portion of the nonfederal share. The Group recorded $89,698 and $64,282 in intergovernmental transfers to the State in fiscal years 2023 and 2022, respectively, which is included in funding to affiliates in the statements of revenues, expenses, and changes in net position.

The state of Washington submitted and received approval for incentive payments under the MTP program of which the Group received $112,122 and $80,353, in fiscal years 2023 and 2022, respectively, which is recorded in funding from affiliates in the statements of revenues, expenses, and changes in net position. Funds received through this program are not restricted in use.

(14) Commitments and Contingencies

(a) Purchase Commitments

The Group has current commitments at June 30, 2023 of approximately $28,924 related to various construction and other projects.

(b) Regulatory Environment

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

(c) Litigation

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

(d) Collective Bargaining Agreements

The Group has approximately 71% and 72% of its workforce covered by collective bargaining agreements as of June 30, 2023 and 2022, respectively. Nurses and other healthcare and support workers are represented by a number of collective bargaining units. Collective bargaining units have various contract expiration dates. Upon expiration of a collective bargaining agreement, both parties are obligated to continue to bargain in good faith until an agreement is reached or one year after the expiration date stated in the agreement.

(Dollar amounts in thousands)

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

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

PERS 1 Pension Plan

	2023	2022	2021	2020	2019	2018	2017	2016
The Group's proportion of the net pension liability	3.84 %	3.73 %	3.20 %	2.93 %	2.93 %	2.96 %	2.89 %	2.81 %
The Group's proportionate share of the net pension liability	$ 106,782	45,608	112,964	112,603	130,636	139,899	155,096	147,106
The Group's covered payroll	621,930	561,965	480,672	398,000	375,552	364,515	337,067	351,582
The Group's proportionate share of the net pension liability as a percentage of its covered payroll	17.17 %	8.12 %	23.50 %	28.29 %	34.79 %	38.38 %	46.01 %	41.84 %
Plan fiduciary net position as a percentage of the total pension liability	76.56	88.74	68.64	67.12	63.22	61.24	57.03	59.10

PERS 2/3 Pension Plan

	2023	2022	2021	2020	2019	2018	2017	2016
The Group's proportion of the net pension (asset) liability	4.99 %	4.78 %	4.12 %	3.73 %	3.69 %	3.72 %	3.61 %	3.52 %
The Group's proportionate share of the net pension (asset) liability	$ (184,900)	(475,806)	52,706	36,207	62,990	128,950	181,639	125,761
The Group's covered payroll	623,173	563,141	480,376	398,530	374,817	363,873	336,961	312,289
The Group's proportionate share of the net pension (asset) liability as a percentage of its covered payroll	(29.73)%	(84.49)%	10.97 %	9.09 %	16.81 %	35.44 %	53.91 %	40.27 %
Plan fiduciary net position as a percentage of the total pension (asset) liability	106.73	120.29	97.22	97.77	95.77	90.97	85.82	89.20

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

PERS 1 Pension Plan

	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	$ 171	192	297	380	439	553	625	735
Contributions in relation to the contractually required contribution	171	191	297	380	440	551	618	735
Contribution deficiency (excess)	—	1	—	—	(1)	2	7	—
The Group's covered payroll	685,031	621,930	561,965	480,672	398,000	375,552	364,515	337,515
Contributions as a percentage of covered payroll	0.02 %	0.03 %	0.05 %	0.08 %	0.11 %	0.15 %	0.17 %	0.22 %

PERS 2/3 Pension Plan

	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	$ 71,120	64,605	72,914	61,771	51,022	47,359	40,679	37,396
Contributions in relation to the contractually required contribution	71,157	64,171	72,917	61,803	50,999	47,404	40,721	37,740
Contribution (excess) deficiency	(37)	434	(3)	(32)	23	(45)	(42)	(344)
The Group's covered payroll	686,392	623,173	563,141	480,376	398,530	374,817	363,873	336,961
Contributions as a percentage of covered payroll	10.36 %	10.37 %	12.95 %	12.86 %	12.80 %	12.64 %	11.18 %	11.10 %

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

Schedules of Required Supplementary Information (Unaudited)

(Dollar amounts in thousands)

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

Schedule of Changes of Total OPEB Liability

		2023	2022	2021	2020	2019	2018
Beginning balance	$	462,354	413,696	309,441	280,069	306,185	336,283
Service cost		22,835	23,109	17,167	12,529	17,510	20,758
Interest		10,595	9,988	14,361	10,869	12,038	9,723
Difference between expected and actual experience		(10,491)	—	(2,201)	—	10,989	—
Change in assumptions		(177,152)	4,267	9,309	20,240	(76,658)	(47,429)
Benefit payments		(7,785)	(7,609)	(6,837)	(4,972)	(5,084)	(4,955)
Change in proportionate share		9,176	18,903	87,083	(9,294)	15,089	(8,195)
Other		—	—	(14,627)	—	—	—
Ending balance	$	309,532	462,354	413,696	309,441	280,069	306,185
OPEB covered-employee payroll	$	802,791	768,225	706,311	546,921	515,803	494,744
Total OPEB liability as percentage of covered-employee payroll		38.56 %	60.18 %	58.57 %	56.58 %	54.30 %	61.89 %

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

Schedules of Required Supplementary Information (Unaudited)

(Dollar amounts in thousands)

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

UWSRP Schedule of Changes of Net Pension Liability (NPL)

		2023	2022	2021
Total pension liability (TPL) – Beginning	$	28,774	19,070	68,600
Service cost		474	341	2,017
Interest on TPL		2,069	1,470	1,558
Change in proportion		325	527	266
Difference between expected and actual experience		(2,936)	6,274	(32,835)
Change in assumptions		(2,494)	2,044	(19,678)
Benefit payments		(1,029)	(952)	(858)
Net change in total pension liability		(3,591)	9,704	(49,530)
Total pension liability – Ending (a)		25,183	28,774	19,070
Plan fiduciary net position – Beginning		8,584	7,938	5,349
Employer contributions		782	604	626
Net investment income		673	42	1,963
Net change in plan fiduciary net position		1,455	646	2,589
Plan fiduciary net position – Ending (b)		10,039	8,584	7,938
UWSRP net pension liability (a) minus (b)	$	15,144	20,190	11,132
Plan fiduciary net position as percentage of the total pension liability		39.86 %	29.83 %	41.63 %
The Group's UWSRP covered payroll [(1)]		205,911	159,013	152,720
Net pension liability as a percentage of covered payroll		7.35 %	12.70 %	7.29 %

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

		2023	2022	2021
Contractually required contribution	$	782	604	580
Contributions in relation to the contractually required contribution		782	604	626
Contribution deficiency (excess)	$	—	—	(46)
The Group's UWSRP covered payroll [(1)]		205,911	159,013	152,720
Contributions as a percentage of covered-employee payroll		0.38 %	0.38 %	0.41 %

[(1)] Covered payroll for the fiscal year ending June 30, 2023, 2022 and 2021 is based on the payroll of participants in the University's 403(b) defined contribution UWRP.

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

Schedules of Required Supplementary Information (Unaudited)

(Dollar amounts in thousands)

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

UWSRP Schedule of Changes in Total Pension Liability (TPL)

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

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

See accompanying independent auditors’ report.

Plans administered by DRS

OSA calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2019, valuation date, completed in the fall of 2020, plus any supplemental contribution rates from the preceding legislative session, determines the ADC for the period beginning July 1, 2021 and ending June 30, 2023.

Additional Considerations on ADC for All Plans:

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

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

Plans administered by the University

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

Covered payroll for the fiscal years ending June 30, 2023 and 2022 is based on the payroll of participants in the University's 403(b) defined contribution UWRP.

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

Changes that impacted the TPL and NPL include changing the valuation date from June 30, 2022 to January 1, 2023 for the June 30, 2023 measurement. The new data file decreased the TPL. Some of the larger experience items that impacted the TPL were salaries generally lower than assumed and SRP benefits for new retirees were lower than estimated. In addition, OSA's model estimates the SRP benefit of future retirees by relying on assumptions for the benefit calculation performed by Teachers Insurance and Annuity Association of America (TIAA). Based on information provided by TIAA and OSA's professional judgment, some of the long-term assumptions were updated which decreased the TPL. The source for the discount rate changed in 2021 from the bond rate required of plans with no assets, to the investment return for plans with assets, due to the change in the plan on July 1, 2020, which led to a change in the appropriate accounting guidance.

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

OPEB Plan administered by Healthcare Authority of Washington State

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

Material assumption changes in fiscal year 2023 relate to a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 2.16% for the June 30, 2021 measurement date to 3.54% for the June 30, 2022 measurement date. This change resulted in a decrease in the TOL.

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

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Schedule of Net Position

June 30, 2023

(Dollar amounts in thousands)

	UW Medical Center	UWP	Primary Care	Airlift	Shared services	Eliminating entries	Combined
Current assets:							
Cash and cash equivalents	$ —	61,324	4,870	3,404	—	—	69,598
Funds held by the University of Washington	22,930	—	—	9,863	47,227	—	80,020
Patient accounts receivable, net	285,260	—	3,168	17,243	—	—	305,671
Other receivables	78,138	434	1,037	987	872	(16)	81,452
Due from related parties	38,093	7,908	5,471	—	42,681	(46,548)	47,605
Supplies inventory	38,151	—	471	—	—	—	38,622
Other current assets	19,947	7,237	114	1,675	7,780	(10,331)	26,422
Total current assets	482,519	76,903	15,131	33,172	98,560	(56,895)	649,390
Noncurrent assets:							
Capital assets, net of accumulated depreciation and amortization	806,330	498	12,612	3,238	119,443	—	942,121
Right-to-use lease and subscription IT assets, net of accumulated amortization	131,922	2,359	36,614	66,744	25,102	(8,747)	253,994
Funds held by the University of Washington	245,368	—	—	—	—	—	245,368
Investments	—	173,783	—	—	—	—	173,783
Donor restricted assets	11,332	—	—	102	—	—	11,434
Investment in Fred Hutchinson Cancer Center	428,827	—	—	—	—	—	428,827
Other assets	75,314	—	159	275	124,909	(105,897)	94,760
Net pension assets	149,352	—	—	3,946	31,602	—	184,900
Total noncurrent assets	1,848,445	176,640	49,385	74,305	301,056	(114,644)	2,335,187
Total assets	2,330,964	253,543	64,516	107,477	399,616	(171,539)	2,984,577
Deferred outflows of resources:							
Deferred outflows of resources related to pensions	199,053	—	—	4,304	51,087	—	254,444
Deferred outflows of resources related to other postemployment benefits	117,592	—	—	2,485	60,451	—	180,528
Other deferred outflows of resources	3,479	—	—	—	—	—	3,479
Total assets and deferred outflows of resources	$ 2,651,088	253,543	64,516	114,266	511,154	(171,539)	3,423,028

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Schedule of Net Position

June 30, 2023

(Dollar amounts in thousands)

	UW Medical Center	UWP	Primary Care	Airlift	Shared services	Eliminating entries	Combined
Current liabilities:							
Accounts payable and accrued expenses	$ 55,095	4,728	1,283	2,405	33,257	—	96,768
Accrued salaries, wages, and employee benefits	92,558	26,049	3,728	2,182	35,559	—	160,076
Payable to contractual agencies	64,061	—	—	—	—	—	64,061
Due to related parties	57,158	17,912	3,368	5,744	15,542	(46,545)	53,179
Current portion of long-term debt	18,656	—	88	—	—	—	18,744
Current portion of lease and subscription IT liabilities	10,607	1,756	5,088	17,808	9,729	(1,731)	43,257
Other current liabilities	3,303	106	83	987	19,105	(8,616)	14,968
Clinical medicine fund and departmental payables	—	201,734	—	—	—	—	201,734
Total current liabilities	301,438	252,285	13,638	29,126	113,192	(56,892)	652,787
Noncurrent liabilities:							
Long-term debt, net of current portion	513,792	—	250	—	108,486	—	622,528
Long-term lease and subscription IT liabilities, net of current portion	132,160	1,258	34,788	48,460	16,961	(7,559)	226,068
Net pension liabilities	93,097	—	—	2,401	26,428	—	121,926
Other postemployment benefits	228,835	—	—	4,525	76,172	—	309,532
Due to related parties – long-term	199,762	—	—	—	—	(85,198)	114,564
Other noncurrent liabilities	2,205	—	60	—	41,016	(13,143)	30,138
Total liabilities	1,471,289	253,543	48,736	84,512	382,255	(162,792)	2,077,543
Deferred inflows of resources:							
Deferred inflows of resources related to pensions	168,414	—	—	4,531	53,988	—	226,933
Deferred inflows of resources related to other postemployment benefits	182,208	—	—	4,228	71,293	—	257,729
Other deferred inflows of resources	46,871	—	—	—	—	(8,747)	38,124
Total liabilities and deferred inflows of resources	1,868,782	253,543	48,736	93,271	507,536	(171,539)	2,600,329
Net position:							
Net investment in capital assets	394,566	—	9,013	3,714	9,368	543	417,204
Nonexpendable, restricted	3,465	—	—	100	—	—	3,565
Expendable, restricted	7,867	—	—	—	—	—	7,867
Unrestricted	376,408	—	6,767	17,181	(5,750)	(543)	394,063
Total net position	782,306	—	15,780	20,995	3,618	—	822,699
Total liabilities, deferred inflows of resources, and net position	$ 2,651,088	253,543	64,516	114,266	511,154	(171,539)	3,423,028

See accompanying independent auditors’ report.

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Schedule of Net Position

June 30, 2022

(Dollar amounts in thousands)

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

UW MEDICINE SELECT UNITS – UW DIVISION

Combining Schedule of Net Position

June 30, 2022

(Dollar amounts in thousands)

	UW Medical Center	UWP	Primary Care	Airlift	Shared services	Eliminating entries	Combined
Current liabilities:							
Accounts payable and accrued expenses	$ 73,524	5,851	543	2,949	22,647	(292)	105,222
Accrued salaries, wages, and employee benefits	82,382	23,701	3,389	1,975	33,406	—	144,853
Payable to contractual agencies	55,047	—	—	—	—	—	55,047
Due to related parties	49,868	18,711	3,245	4,653	18,041	(41,300)	53,218
Current portion of long-term debt	29,506	—	81	—	7,538	—	37,125
Current portion of lease liabilities	9,307	1,550	4,864	14,144	2,563	(1,641)	30,787
Other current liabilities	12,747	131	50	819	19,015	(9,319)	23,443
Clinical medicine fund and departmental payables	—	178,119	—	—	—	—	178,119
Total current liabilities	312,381	228,063	12,172	24,540	103,210	(52,552)	627,814
Noncurrent liabilities:							
Long-term debt, net of current portion	460,100	—	338	—	104,233	—	564,671
Long-term lease liabilities, net of current portion	131,585	2,599	24,860	23,487	10,093	(9,289)	183,335
Net pension liabilities	47,223	—	—	1,182	17,393	—	65,798
Other postemployment benefits	348,649	—	—	6,379	107,326	—	462,354
Due to related parties – long-term	158,464	—	—	—	—	(29,733)	128,731
Other noncurrent liabilities	2,309	—	793	—	46,541	(12,296)	37,347
Total liabilities	1,460,711	230,662	38,163	55,588	388,796	(103,870)	2,070,050
Deferred inflows of resources:							
Deferred inflows of resources related to pensions	427,657	—	—	10,342	96,367	—	534,366
Deferred inflows of resources related to other postemployment benefits	74,493	—	—	2,108	35,544	—	112,145
Other deferred inflows of resources	50,956	—	—	—	—	(10,528)	40,428
Total liabilities and deferred inflows of resources	2,013,817	230,662	38,163	68,038	520,707	(114,398)	2,756,989
Net position:							
Net investment in capital assets	302,420	—	5,462	2,493	12,904	402	323,681
Nonexpendable, restricted	3,407	—	—	—	—	—	3,407
Expendable, restricted	7,449	—	—	—	—	—	7,449
Unrestricted	221,824	—	7,547	26,336	(35,619)	(402)	219,686
Total net position	535,100	—	13,009	28,829	(22,715)	—	554,223
Total liabilities, deferred inflows of resources, and net position	$ 2,548,917	230,662	51,172	96,867	497,992	(114,398)	3,311,212

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

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

Year ended June 30, 2023

(Dollar amounts in thousands)

	UW Medical Center	UWP	Primary Care	Airlift	Shared services	Eliminating entries	Combined
Operating revenue:							
Net patient service revenues	$ 2,019,413	—	—	65,423	—	—	2,084,836
UWP billing revenues, net	—	425,040	—	—	—	(5,584)	419,456
Other revenue	236,713	—	92,044	1,343	422,756	(353,299)	399,557
Total operating revenues	2,256,126	425,040	92,044	66,766	422,756	(358,883)	2,903,849
Operating expenses:							
Salaries and wages	782,079	250,156	31,115	20,998	186,775	—	1,271,123
Employee benefits	160,697	34,232	11,121	4,760	48,073	—	258,883
Purchased services	677,128	80,729	29,986	22,338	110,031	(326,062)	594,150
Supplies	574,200	81	10,076	5,361	9,929	(6,607)	593,040
Other	45,583	58,085	4,398	4,295	17,281	(24,418)	105,224
Depreciation and amortization	67,936	1,691	6,398	16,291	33,863	(1,781)	124,398
Total operating expenses	2,307,623	424,974	93,094	74,043	405,952	(358,868)	2,946,818
(Loss) income from operations	(51,497)	66	(1,050)	(7,277)	16,804	(15)	(42,969)
Nonoperating revenues (expenses):							
Investment income	1,398	—	—	20	—	—	1,418
Interest expense	(26,913)	(66)	(849)	(730)	(4,888)	214	(33,232)
Funding to affiliates	(22,719)	—	—	—	(99,914)	11,215	(111,418)
Funding from affiliates	5,000	—	—	—	116,878	(7,242)	114,636
Recurring state appropriations	7,029	—	—	—	—	—	7,029
Non-recurring state appropriations	62,000	—	—	—	278	—	62,278
Fred Hutchinson Cancer Center financial alignment income	87,431	—	—	—	—	—	87,431
Federal Emergency Management Agency public assistance program	43,390	—	—	—	—	—	43,390
Other, net	10,220	—	(295)	53	(2,827)	(200)	6,951
Nonoperating revenues (expenses), net	166,836	(66)	(1,144)	(657)	9,527	3,987	178,483
Income (loss) before capital appropriations and other	115,339	—	(2,194)	(7,934)	26,331	3,972	135,514
Capital contributions and other transfers	131,867	—	4,965	100	2	(3,972)	132,962
Increase (decrease) in net position	247,206	—	2,771	(7,834)	26,333	—	268,476
Net position – beginning of the year	535,100	—	13,009	28,829	(22,715)	—	554,223
Net position – end of year	$ 782,306	—	15,780	20,995	3,618	—	822,699

See accompanying independent auditors' report.

UW MEDICINE SELECT UNITS – UW DIVISION

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

Year ended June 30, 2022

(Dollar amounts in thousands)

	UW Medical Center	UWP	Primary Care	Airlift	Shared services	Eliminating entries	Combined
Operating revenue:							
Net patient service revenues	$ 1,819,829	—	—	63,304	—	—	1,883,133
UWP billing revenues, net	—	395,887	—	—	—	(4,084)	391,803
Other revenue	154,849	—	68,689	1,330	375,576	(314,011)	286,433
Total operating revenues	1,974,678	395,887	68,689	64,634	375,576	(318,095)	2,561,369
Operating expenses:							
Salaries and wages	700,730	238,030	24,716	16,476	171,628	—	1,151,580
Employee benefits	77,902	30,984	8,138	1,825	29,805	—	148,654
Purchased services	586,357	71,717	25,487	18,935	93,670	(282,817)	513,349
Supplies	470,095	82	8,206	4,423	6,919	(5,469)	484,256
Other	37,506	54,591	4,103	2,606	18,388	(28,207)	88,987
Depreciation and amortization	68,048	1,578	5,939	15,710	28,402	(1,602)	118,075
Total operating expenses	1,940,638	396,982	76,589	59,975	348,812	(318,095)	2,504,901
Income (loss) from operations	34,040	(1,095)	(7,900)	4,659	26,764	—	56,468
Nonoperating revenues (expenses):							
Investment income	2,637	—	—	39	—	—	2,676
Interest expense	(20,487)	(89)	(612)	(802)	(4,865)	219	(26,636)
Funding to affiliates	(18,804)	—	—	—	(65,032)	6,914	(76,922)
Funding from affiliates	1,000	—	—	—	123,074	(1,709)	122,365
Recurring state appropriations	6,909	—	—	—	—	—	6,909
Non-recurring state appropriations	12,000	—	—	—	42	—	12,042
Fred Hutchinson Cancer Center financial alignment income	6,669	—	—	—	—	—	6,669
Federal Emergency Management Agency public assistance program	15,000	—	—	—	—	—	15,000
Other, net	46,084	1,184	4,576	5,108	(2,646)	(31)	54,275
Nonoperating revenues, net	51,008	1,095	3,964	4,345	50,573	5,393	116,378
Income (loss) before capital appropriations and other	85,048	—	(3,936)	9,004	77,337	5,393	172,846
Capital contributions and other transfers	55,282	—	6,507	—	1	(5,393)	56,397
Increase in net position	140,330	—	2,571	9,004	77,338	—	229,243
Net position – beginning of the year	394,770	—	10,438	19,825	(100,053)	—	324,980
Net position – end of year	$ 535,100	—	13,009	28,829	(22,715)	—	554,223

See accompanying independent auditors’ report.

University of Washington Metropolitan Tract

Financial Statements

Years Ended June 30, 2023 and 2022

The report accompanying these financial statements was issued
by BDO USA, P.C., a Virginia professional corporation, and the U.S. member
of BDO International Limited, a UK company limited by guarantee.

University of Washington Metropolitan Tract

Financial Statements
Years Ended June 30, 2023 and 2022

Contents

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Independent Auditor's Report

The Board of Regents
University of Washington
Seattle, Washington

Opinion

We have audited the accompanying financial statements of the University of Washington Metropolitan Tract, a department of the University of Washington, for the years ended June 30, 2023 and 2022, and the related notes to the financial statements which collectively comprise the Metropolitan Tract's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Metropolitan Tract as of June 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University of Washington Metropolitan Tract's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University of Washington Metropolitan Tract's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University of Washington Metropolitan Tract's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University of Washington Metropolitan Tract's basic financial statements. The details of property on page 22 is presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

BDO USA, P.C.

September 20, 2023

Financial Statements

University of Washington Metropolitan Tract

Statements of Net Position
(amounts in thousands)

June 30,	**2023**	2022
Assets		
Current Assets		
Cash held in trust	**$ 11,101**	$ 7,828
Funds held by the University	**60,428**	66,895
Security deposits - residential	**58**	46
Due from Fairmont Olympic Hotel	**234**	252
Accounts receivable, net of allowance	**657**	293
Short-term lease receivable	**31,494**	34,590
Accrued interest receivable	**4,650**	4,212
Other current assets	**789**	544
Total Current Assets	**109,411**	114,660
Property, Net	**157,810**	146,785
Long-Term Lease Receivable	**288,565**	310,847
Long-Term Receivable - LID	**2,449**	2,522
Total Assets	**$ 558,235**	$ 574,814
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	**$ 4,131**	$ 4,397
Leasehold excise tax payable	**1,792**	1,772
Security deposits - residential	**58**	46
Unearned rent revenue	**1,719**	1,862
Current portion of long-term debt	**856**	830
Total Current Liabilities	**8,556**	8,907
Security Deposits, commercial	**4,122**	4,153
Long-Term Debt, net of current portion	**26,460**	27,316
Total Liabilities	**39,138**	40,376
Deferred Inflow of Resources	**299,778**	331,989
Net Position		
Net investment in capital assets	**130,494**	118,639
Restricted	**88,825**	83,810
Total Net Position	**219,319**	202,449
Total Liabilities, Deferred Inflow of Resources, and Net Position	**$ 558,235**	$ 574,814

See accompanying notes to financial statements.

University of Washington Metropolitan Tract

Statements of Revenues, Expense, and Changes in Net Position
(amounts in thousands)

Year ended June 30,		**2023**		2022
Operating Revenues				
Lease revenue	$	**74,904**	$	71,018
Total Operating Revenues		**74,904**		71,018
Operating Expenses				
Property operating expenses		**15,309**		14,290
Taxes		**6,653**		6,367
General and administrative		**6,112**		6,098
Property management		**2,278**		2,267
Total Operating Expenses		**30,352**		29,022
Operating Income, before depreciation		**44,552**		41,996
Depreciation		**13,829**		13,609
Net Operating Income		**30,723**		28,387
Other Revenues (Expenses)				
Loss on disposal of property		**-**		(46)
Other income		**115**		-
Interest expense		**(968)**		(987)
Total Other Expenses		**(853)**		(1,033)
Income, before distribution		**29,870**		27,354
Distribution to UW Facilities Bond Retirement Account		**(13,000)**		(12,000)
Change in Net Position		**16,870**		15,354
Total Net Position, beginning of year		**202,449**		187,095
Total Net Position, end of year	$	**219,319**	$	202,449

See accompanying notes to financial statements.

University of Washington Metropolitan Tract

Statements of Cash Flows
(amounts in thousands)

Year ended June 30,		2023		2022
Cash Flows from Operating Activities				
Cash received from tenants	$	**67,205**	$	63,894
Payments made to vendors		**(20,549)**		(24,864)
Payments made to the University to reimburse for employees		**(3,644)**		(3,217)
Payments for leasehold excise taxes		**(6,633)**		(6,260)
Net Cash Flows from Operating Activities		**36,379**		29,553
Cash Flows for Capital and Related Financing Activities				
Improvements made to long-lived assets		**(24,890)**		(13,734)
Other income received		**115**		-
Principal repayments to University Treasury Department		**(830)**		(811)
Interest paid		**(968)**		(987)
Net Cash Flows for Capital and Related Financing Activities		**(26,573)**		(15,532)
Cash Flows for Noncapital Financing Activities				
Distribution to UW Facilities Bond Retirement Account		**(13,000)**		(12,000)
Net Cash Flows for Noncapital Financing Activities		**(13,000)**		(12,000)
Net Change in Cash		**(3,194)**		2,021
Cash, beginning of year		**74,723**		72,702
Cash, end of year	$	**71,529**	$	74,723
Cash in the Statements of Cash Flows is Reported in the Statements of Assets, Liabilities, and Net Position				
Cash held in trust	$	**11,101**	$	7,828
Funds held by the University		**60,428**		66,895
Total	$	**71,529**	$	74,723
Reconciliation of Net Operating Income to Net Cash Flows from Operating Activities:				
Net operating income	$	**30,723**	$	28,387
Adjustments to reconcile net operating income to net cash flows from operating activities:				
Depreciation		**13,829**		13,609
Changes in operating assets and liabilities:				
Security deposits - residential		**(12)**		-
Due from Fairmont Olympic Hotel		**18**		13
Accounts receivable		**24,649**		19,119
Other current assets		**(245)**		(114)
Accounts payable and accrued expenses		**(32,441)**		(31,693)
Leasehold excise tax payable		**20**		107
Unearned rent revenue		**(143)**		(306)
Security deposits payable (residential and commercial)		**(19)**		431
Net Cash Flows from Operating Activities	$	**36,379**	$	29,553
Non-Cash Activity				
Purchase of improvements not paid for with cash at year-end	$	**2,133**	$	2,169

See accompanying notes to financial statements.

1. Metropolitan Tract Ownership and Operation

The University of Washington Metropolitan Tract (the Metropolitan Tract), located in downtown Seattle, comprises approximately 11 acres of developed property including office space, retail space, residential apartments, parking, and a luxury hotel. This land was the original site of the University of Washington (the University) from 1861 until 1895 when the University moved to its present location on Lake Washington. Since the early 1900s, the University manages the Metropolitan Tract by leasing to third-party tenants and leasing ground to entities responsible for developing and operating new buildings.

The University owns the Rainier Tower, Financial Center, 1200 5th Ave (formerly IBM Building), Skinner Building, and Puget Sound Plaza. The buildings include approximately 1.6 million square feet of office space and 100,000 square feet of retail space located at street level. The Financial Center and 1200 5^{th} Ave have underground parking garages and the Puget Sound Plaza is connected to a multi-level parking structure also owned by the University. The University also owns the 91-unit Cobb apartment building.

In 2014, the University entered into a property management agreement with Unico Properties LLC (Unico) to manage all of the office buildings, except the Rainier Tower, and the Cobb Building. Unico subcontracts with Blanton Turner, a residential property manager, to manage the Cobb Building. Wright Runstad Limited Partnership, an entity controlled by Wright Runstad Company (Wright Runstad), was contracted to manage the Rainer Tower due to its proximity to the Rainier Square Site (see below and Note 6).

The University contracted with Unico to perform leasing services for all of the office properties on the Metropolitan Tract.

Rainier Square Site

The Rainier Square was a three-story building completed in 1980 and consisted of 112,000 square feet of retail space. The property underperformed, and in the early 2000s, it was deemed a development site. In May 2014, the University entered into an agreement with WRC Fourth Avenue LLC (WRC), an entity controlled by Wright Runstad, to redevelop the Rainier Square Site (the Predevelopment Agreement). The Predevelopment Agreement commenced on November 1, 2014, and provided WRC the rights to enter into two separate ground leases on the Rainier Square Site with the University, a hotel ground lease, and a mixed use office/residential tower ground lease. On September 12, 2017, the University signed a ground lease with RSQ Tower LLC (an entity controlled by Wright Runstad) (the RSQ Tower Lease), which resulted in the demolition of the original Rainier Square building and the commencement of the development of a 58-story mixed use retail, office, and residential building called the Rainier Square Tower (see Note 6). On September 30, 2019, the University signed a ground lease with WRC 400 University LLC, (an entity controlled by Wright Runstad)(the 400 University Lease), which commenced on January 1, 2020. An 11-story office building (400 University) was constructed on the site and was substantially completed in July 2021. The Predevelopment Agreement expired upon execution of the 400 University Lease.

Fairmont Olympic Hotel

On January 18, 1980, the Board of Regents entered into a lease (the Hotel Lease) with the Olympic Hotel property (including a garage). 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 managed by Fairmont Hotels and Resorts, Inc. On September 18, 2007, Legacy REIT, a publicly traded Canadian real estate investment trust and parent company of LHCS Hotel Holding (2002), LLC, was purchased by Cadbridge Investors, LP, a limited partnership majority owned by Cadim (a division of the Caisse de depot et placement du Quebec). The Hotel Lease tenant and management remained the same. On June 1, 2015, the University consented to the assignment of the Hotel Lease from LHCS Hotel Holding (2002), LLC to IC/RCDP Seattle Hotel, an entity owned by affiliates of Cadim, Rockwood IX REIT, Inc., and an affiliate of DiNapoli Capital Partners, LLC.

In May 2019, the University renewed the Hotel Lease with the current tenant by amending and restating the lease with a new expiration date of June 30, 2075. In September 2020, the lease was amended to extend the expiration date to June 30, 2083. The garage premises expiration date remains September 30, 2040. The new lease preserves the same rent structure while updating terminology and benchmarks commensurate to the contemporary hotel industry. In addition, the new lease requires substantial upfront renovations as well as establishes a clear framework for periodic capital improvements in the hotel over time. The amended and restated lease did not impact the financial statements of the Metropolitan Tract.

2. Summary of Significant Accounting Policies

Basis of Accounting

These financial statements present only a selected portion of the activities of the University of Washington. As such, the financial position and changes in financial net position of the Metropolitan Tract and do not purport to, and do not, present the financial position of the University of Washington or the changes in its financial net position, including its net pension obligations (and other post-retirement benefit obligations) and related deferred inflows and outflows of resources. The financial statements have been prepared in accordance with governmental accounting principles generally accepted in the United States of America. The financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

Significant revenue recognition and related expense policies are as follows:

- The Metropolitan Tract determines if an arrangement is a lease at inception of the lease contract. Lessor arrangements are included in lease receivables and deferred inflows of resources in the statement of net position. The deferred inflows of resources related to leases are recognized as lease revenue on a straight-line basis over the lease term. Interest revenue is recognized ratably over the contract term on a straight-line basis. The Metropolitan Tract recognizes payments received for short-term leases with a lease term of 12 months or less as revenue in accordance with the lease terms.
- Direct operating expenses related to the properties, including utilities, repairs and maintenance, and security and janitorial costs, are reported as property operating expenses.
- Expenses incurred in the management of the property, including contractual payments, are reported as property management.
- All other indirect expenses not related to the direct operating or property management expenses are recorded as general and administrative.

- Non-operating revenue and expenses are activities that are not related to rental activities, including interest income and interest expense.

Cash Held in Trust

Cash held in trust represents operating cash held in financial institutions for various properties on behalf of the University. Cash balances held in the trust and other cash balances may exceed federally insured limits during the year.

Funds Held by the University

Funds held by the University are funds invested in pooled investments with the University. The University combines most short-term available cash balances from various departments into the invested funds pool, which is primarily composed of U.S. government and agency securities, mortgage rated investments, and asset-backed securities, as well as units in the Consolidated Endowment Fund (CEF), which is a diversified investment fund. The underlying investments in the CEF include emerging market equity securities, developed market equity securities, and fixed-income securities.

The University may allocate investment earnings on an annual basis to the departments with qualifying funds in the invested funds pool based on relative amounts invested at a rate determined and approved by the University. For the years ended June 30, 2023 and 2022, the rate determined by the University was zero for both years. Principal amounts invested in the pool are guaranteed by the University.

Security Deposits

Security deposits – residential consists of amounts collected by the Metropolitan Tract from residential tenants in the Cobb Building as security in the event of a lease default. These deposits are required to be retained and segregated from the Metropolitan Tract's operating cash. There are no such requirements for security deposits received by commercial tenants.

In lieu of a security deposit, commercial tenants are permitted to obtain letters of credit to serve as their security deposit. At June 30, 2023 and 2022, these letters of credit amounted to $924,000 and $1,131,000, respectively.

Accounts Receivable

Accounts receivable are due from tenants for rent and other reimbursements. The Metropolitan Tract considers all accounts greater than 90 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is generally written off against the allowance. These receivables are generally unsecured and do not bear interest. At June 30, 2023 and 2022, the balance of allowance for uncollectible accounts amounted to $29,000 and $9,000, respectively.

Long-term Receivable - LID

Long-term receivable are amounts due from tenants for certain property tax assessments to be recovered over 20 years (see Note 9).

Due from Fairmont Olympic Hotel

Amounts due from the Fairmont Olympic Hotel consist primarily of leasehold improvement taxes and rent.

Leases

Lessor arrangements are included in accounts receivables and deferred inflows of resources in the statements of net position. Lease receivables represent the Tract's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term on a straight-line basis. Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflows related to leases are recognized as lease revenue over the lease term.

Property and Depreciation

Land and buildings are recorded at the appraised values as of November 1, 1954, with subsequent additions at cost, when the assets are placed in service. Tenant and building improvements that have not yet been placed in service as of year-end are recorded as construction in progress (CIP) and are expected to be completed within the next year. Improvements costing over $5,000 with a useful life greater than one year are capitalized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets generally ranging from 50 to 60 years, and modernizations are depreciated over the estimated useful lives of 20 years. Tenant improvements are depreciated over the term of the related lease.

The Metropolitan Tract reviews long-lived assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable. There were no such impairments during the years ended June 30, 2023 or 2022.

Leasehold Excise Tax Payable

Leasehold excise tax (LET) is payable on a quarterly basis to the State of Washington. The current liability represents taxes collected on contract rent, as defined by the Washington State Department of Revenue, during April to June of 2023 and 2022.

Net Position

The Metropolitan Tract's net position is presented as net investment in capital assets, with the remainder considered unrestricted net position. Capital assets consist of land, building, modernizations, furniture, fixtures and equipment, and CIP. The related debt is debt issued to support the acquisition and construction of capital assets and is subtracted from the capital asset balance to arrive at the net investment in capital assets. Unrestricted assets include assets that have no restrictions placed on them, as well as assets that have been internally restricted, if any.

Unearned Rent Revenue

Tenant rent payments received in advance are deferred until the period to which the payments relate.

Distribution to UW Facilities Bond Retirement Account

During the years ended June 30, 2023 and 2022, $13 million and $12 million, respectively, were distributed from the Metropolitan Tract to the University's Facilities Bond Retirement Account, a department of the University of Washington. The distribution is determined annually based on cash available after consideration of future operating and capital expenses, and adequacy of reserves.

Property Management Fees

Property management fees are included with operating expenses and represent costs paid to Unico, Wright Runstad, and Blanton Turner for services rendered on the properties. The fees are based on a percentage of tenant rent recognized at each property. Total fees paid to Unico and Wright Runstad were $383,000 and $262,000, respectively, for the year ended June 30, 2023. Total fees paid to Unico and Wright Runstad were $369,000 and $252,000, respectively, for the year ended June 30, 2022. Blanton Turner serves as a sub-contractor to Unico for the Cobb Building under the University's property management agreement with Unico.

Lease Commissions

Lease commissions are costs paid to commercial real estate brokers that facilitate the execution of tenant leases. These commissions are expensed as incurred and are included with general and administrative expenses on the statements of revenues, expenses, and changes in net position.

Income Taxes

As part of the University, the Metropolitan Tract is exempt from federal income taxes unless it earns unrelated business income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

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3. Property

Property activity for the years ended June 30, 2023 and 2022, is summarized as follows (amounts in thousands):

Year ended June 30, 2023

	2022	Additions	Transfers and Adjustments	Disposals and Other	2023
Property, not being depreciated					
Land	$ 9,974	$ -	$ -	$ -	$ 9,974
Construction in progress	11,491	24,686	(13,809)	-	22,368
Total Property Not Being Depreciated	21,465	24,686	(13,809)	-	32,342
Property, being depreciated					
Land improvements	793	-	-	-	793
Buildings	77,877	-	-	-	77,877
Tenant improvements	84,508	-	6,784	(535)	90,757
Modernizations	183,755	168	7,025	-	190,948
Furniture, fixtures, and equipment	525	-	-	-	525
Total Property Being Depreciated	347,458	168	13,809	(535)	360,900
Less: Accumulated Depreciation					
Land improvements	793	-	-	-	793
Buildings	66,566	854	-	-	67,420
Tenant improvements	61,968	5,760	-	(535)	67,193
Modernizations	92,550	7,168	-	-	99,718
Furniture, fixtures, and equipment	261	47	-	-	308
Total Accumulated Depreciation	222,138	13,829	-	(535)	235,432
Property, Net	$ 146,785	$ 11,025	$ -	$ -	$ 157,810

Year ended June 30, 2022

	2021	Additions	Transfers and Adjustments	Disposals and Other	2022
Property, not being depreciated					
Land	$ 9,974	$ -	$ -	$ -	$ 9,974
Construction in progress	11,614	15,783	(15,906)	-	11,491
Total Property Not Being Depreciated	21,588	15,783	(15,906)	-	21,465
Property, being depreciated					
Land improvements	793	-	-	-	793
Buildings	77,877	-	-	-	77,877
Tenant improvements	80,883	-	7,216	(3,591)	84,508
Modernizations	174,945	120	8,690	-	183,755
Furniture, fixtures, and equipment	525	-	-	-	525
Total Property Being Depreciated	335,023	120	15,906	(3,591)	347,458
Less: Accumulated Depreciation					
Land improvements	793	-	-	-	793
Buildings	65,713	853	-	-	66,566
Tenant improvements	60,077	5,436	-	(3,545)	61,968
Modernizations	85,293	7,257	-	-	92,550
Furniture, fixtures, and equipment	198	63	-	-	261
Total Accumulated Depreciation	212,074	13,609	-	(3,545)	222,138
Property, Net	$ 144,537	$ 2,294	$ -	$ (46)	$ 146,785

Depreciation expense for the years ended June 30, 2023 and 2022 was $13,829,000 and $13,609,000, respectively.

4. Leases

The Metropolitan Tract buildings and ground space are leased to external parties. The leases expire at various dates through 2097 and provide for renewal options ranging from one year to 25 years. The Metropolitan Tract records lease receivables and deferred inflows of resources based on the present value of expected receipts over the term of the respective leases. The expected receipts are discounted using the incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. Amounts recognized for variable and other payments not included in the measurement of the lease receivable is $25.8 million and $19.9 million as of June 30, 2023 and 2022, respectively. Amounts recorded as deferred inflows of resources related to these leases were $299,778 and $331,989 at June 30, 2023 and 2022, respectively. The Metropolitan Tract recognized revenues (rent and interest) related to lease agreements totaling $74.9 million and $71.0 million, as of June 30, 2023 and 2022, respectively.

Future minimum lease payments to be received under lessor agreements are as follows (amounts in thousands):

Year ending June 30,	Principal	Interest	Total
2024	$ 31,638	$ 9,114	$ 40,752
2025	28,824	8,190	37,014
2026	26,172	7,445	33,617
2027	23,618	6,868	30,486
2028	15,076	6,403	21,479
2029-2033	32,861	28,425	61,286
2034-2038	10,091	25,242	35,333
2039-2043	5,580	24,131	29,711
2044-2048	6,570	23,660	30,230
2049-2053	7,760	23,057	30,817
2054-2058	9,152	22,331	31,483
2059-2063	10,792	21,442	32,234
2064-2068	12,721	20,364	33,085
2069-2073	15,010	19,037	34,047
2074-2078	17,702	17,434	35,136
2079-2083	20,876	15,492	36,368
2084-2088	9,881	10,381	20,262
2089-2093	17,277	4,561	21,838
2094-2098	18,458	1,358	19,816
	$ 320,059	$ 294,935	$ 614,994

5. Fairmont Olympic Hotel Lease

The amended and restated Hotel Lease commenced in May 2019, with the hotel expiring on June 30, 2083 and the garage expiring on September 30, 2040. Rent is determined based on the greater of minimum rent of $3,500,000 per year for the hotel or:

- The greater of 6% of the total of gross room revenue plus gross food and beverage revenue for such Lease year, or 12% of the gross room revenue only (nothing for gross food and beverage revenue).
- 4 $^{4}/_{10}$% of gross garage revenue.
- 12% of gross retail revenue and miscellaneous revenue.
- 9% of the gross office revenue.

Minimum future rental income under the Hotel Lease is as follows (amounts in thousands):

Year ending June 30,	Principal	Interest	Total
2024	$ 485	$ 3,015	$ 3,500
2025	509	2,991	3,500
2026	526	2,974	3,500
2027	544	2,956	3,500
2028	554	2,946	3,500
2029-2033	3,096	14,404	17,500
2034-2038	3,652	13,849	17,501
2039-2043	4,306	13,194	17,500
2044-2048	5,071	12,429	17,500
2049-2053	5,988	11,512	17,500
2054-2058	7,062	10,438	17,500
2059-2063	8,328	9,172	17,500
2064-2068	9,818	7,682	17,500
2069-2073	11,583	5,917	17,500
2074-2078	13,660	3,840	17,500
2079-2083	16,110	1,390	17,500
	$ 91,292	$ 118,709	$ 210,001

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6. Rainier Square Site Redevelopment

RSQ Tower Lease

The RSQ Tower Lease commenced on September 12, 2017, has 80 year term, is unsubordinated, and rent is 8% of adjusted gross revenue from the project. Minimum rents for the first five years of the lease are to be $413,000 per lease year, increasing to $1,652,000 per year for the next five lease years, and continuing after, and adjusted each tenth lease year to 60% of the average annual percentage rents for the previous five lease years, added to the minimum rent payment (beginning with $1,652,000). Future minimum lease payments to be received under the lease agreement as of June 30, 2023 are as follows (amounts in thousands):

Year ending June 30,	Principal	Interest	Total
2024	$ -	$ 1,652	$ 1,652
2025	-	1,652	1,652
2026	-	1,652	1,652
2027	-	1,652	1,652
2028	-	1,652	1,652
2029-2033	-	8,261	8,261
2034-2038	677	7,584	8,261
2039-2043	1,274	6,987	8,261
2044-2048	1,499	6,762	8,261
2049-2053	1,772	6,489	8,261
2054-2058	2,089	6,171	8,260
2059-2063	2,464	5,797	8,261
2064-2068	2,903	5,358	8,261
2069-2073	3,427	4,834	8,261
2074-2078	4,041	4,220	8,261
2079-2083	4,766	3,495	8,261
2084-2088	5,619	2,642	8,261
2089-2093	6,628	1,633	8,261
2094-2098	6,423	461	6,884
	$ 43,582	$ 78,954	$ 122,536

In connection with the RSQ Tower Lease, the University executed an Operating Agreement with RSQ Tower LLC that regulates how the Rainier Tower and the lessees of the Rainier Square Tower and the 400 University Building will operate the shared mixed-use space on the Rainier Square block.

400 University

The 400 University Lease commenced on January 1, 2020, and has a 77-year term expiring September 7, 2097. The lease required WRC 400 University LLC to complete development of the approved 11-story office building in three years and is unsubordinated. Minimum ground rent during the first three lease years is $250,000, $375,000, and $500,000. Upon completion of the building, ground rent converts to the greater of minimum rent or 10% of adjusted gross revenue from the project.

Future minimum lease payments to be received under the lease agreement as of June 30, 2023 are as follows (amounts in thousands):

Year ending June 30,	Principal	Interest	Total
2024	$ -	$ 519	$ 519
2025	-	532	532
2026	-	545	545
2027	-	559	559
2028	-	573	573
2029-2033	-	3,086	3,086
2034-2038	-	3,491	3,491
2039-2043	-	3,950	3,950
2044-2048	-	4,469	4,469
2049-2053	-	5,057	5,057
2054-2058	-	5,721	5,721
2059-2063	-	6,473	6,473
2064-2068	-	7,324	7,324
2069-2073	-	8,286	8,286
2074-2078	-	9,375	9,375
2079-2083	-	10,607	10,607
2084-2088	4,262	7,739	12,001
2089-2093	10,649	2,929	13,578
2094-2098	12,035	897	12,932
	$ 26,946	$ 82,132	$ 109,078

7. Long-Term Debt

In 2014, the University's Treasury Department issued general revenue bonds, which provided $33.6 million to the Metropolitan Tract and financed the acquisition of the Cobb Building from Unico. The outstanding balance as of June 30, 2023 and 2022, was $27.3 million and $28.1 million, respectively. The effective interest rate over the 30-year term of the loan is 3.49% and the loan matures in December 2044. The loan is unsecured but is expected to be repaid through revenues generated by the Metropolitan Tract properties.

Long-term liability activity is summarized as follows (amounts in thousands):

Year ended June 30,	**2023**	2022
Beginning balance	**$ 28,146**	$ 28,957
Reductions	**(830)**	(811)
Total	**27,316**	28,146
Less: current portion	**(856)**	(830)
Non-Current Portion	**$ 26,460**	$ 27,316

The following is a summary of future payments (principal and interest) to be paid to the University (amounts in thousands):

Year ending June 30,	Principal	Interest	Total
2024	$ 856	$ 944	$ 1,800
2025	875	920	1,795
2026	905	894	1,799
2027	935	864	1,799
2028	965	833	1,798
2029-2033	5,327	3,660	8,987
2034-2038	6,348	2,654	9,002
2039-2043	7,630	1,371	9,001
2044-2045	3,475	130	3,605
	$ 27,316	$ 12,270	$ 39,586

8. Related Party Transactions

The University rents office space in the Metropolitan Tract, and the leases expire at various dates through 2025. The lease revenues recorded from the University tenants for the years ended June 30, 2023 and 2022, were $701 thousand and $1.1 million, respectively.

9. City of Seattle Waterfront Local Improvement District (LID)

As part of the City of Seattle (City) waterfront transformation program, the City Council established an LID in 2019 to fund the program. The Metropolitan Tract properties are within the LID. In June 2021, the City passed an ordinance confirming the final assessment roll resulting in the University being assessed approximately $4.5 million. The assessment payment period is 20 years with a discounted prepayment option permitted by August 2021. The University prepaid the assessment in August 2021 at the discounted amount of $4.2 million.

A certain portion of the assessment is recoverable through contracted leasing arrangements. For the years ended June 30, 2023 and 2022, approximately $2.5 million and $2.5 million, respectively, is recorded as a long-term receivable in the statement of net position.

10. Subsequent Events

Management of the Metropolitan Tract has evaluated subsequent events through the date of these financial statements were available to be issued, which was September 20, 2023.

Supplemental Information

University of Washington Metropolitan Tract

Details of Property
(amounts in thousands)

June 30, 2023

	Cobb Building	Skinner Building	Puget Sound Plaza	1200 5th Ave	Rainier Tower	Financial Center	Fairmont Olympic Hotel	Fairmont Olympic Garage	Total
Buildings, Tenant Improvements, and Modernizations									
Buildings	$ 752	$ 2,037	$ 9,113	$ 8,413	$ 25,252	$ 16,984	$ 12,535	$ 2,791	$ 77,877
Tenant improvements	-	9,456	15,910	13,384	36,824	15,183	-	-	90,757
Modernizations	44,293	31,938	27,498	19,694	48,373	19,152	-	-	190,948
Construction in progress	2,098	2,959	2,019	946	12,736	1,610	-	-	22,368
Furniture, fixtures, and equipment	354	3	11	17	95	45	-	-	525
Total Buildings, Tenant Improvements, and Modernizations	47,497	46,393	54,551	42,454	123,280	52,974	12,535	2,791	382,475
Less: accumulated depreciation and amortization									
Buildings	(752)	(2,037)	(9,113)	(8,413)	(19,570)	(14,295)	(10,495)	(2,745)	(67,420)
Tenant improvements	-	(8,179)	(12,700)	(9,278)	(25,201)	(11,835)	-	-	(67,193)
Modernizations	(19,914)	(18,785)	(16,720)	(13,052)	(18,507)	(12,740)	-	-	(99,718)
Furniture, fixtures, and equipment	(207)	(2)	(9)	(12)	(36)	(42)	-	-	(308)
Total Accumulated Depreciation and Amortization	(20,873)	(29,003)	(38,542)	(30,755)	(63,314)	(38,912)	(10,495)	(2,745)	(234,639)
Net Investment	26,624	17,390	16,009	11,699	59,966	14,062	2,040	46	147,836
Land [a]									9,974
Land improvements [a]									793
Less: Accumulated depreciation [a]									(793)
Net Land and Land Improvements	-	-	-	-	-		-	-	9,974
Net Investment Including Land and Land Improvements	$ 26,624	$ 17,390	$ 16,009	$ 11,699	$ 59,966	$ 14,062	$ 2,040	$ 46	$ 157,810

[a] Land not allocated between properties.

STUDENT SERVICES AND FACILITIES FEES – SEATTLE CAMPUS

Administered by the Division of Student Life of the University of Washington

Statements of Cash Receipts, Cash Disbursements,
And Changes in Cash Balances
Years Ended June 30, 2023 and 2022
With Independent Auditor's Report

Perkins & Co

STUDENT SERVICES AND FACILITIES FEES - SEATTLE CAMPUS

Administered by the Division of Student Life of the University of Washington
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Regents
University of Washington
Seattle, Washington

Opinion

We have audited the statements of cash receipts, cash disbursements, and changes in cash balances of Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington (Student Services and Facilities Fees), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the cash receipts, cash disbursements, and changes in cash balances of Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington as of and for the years ended June 30, 2023 and 2022, in accordance with the cash basis of accounting described in Note 1.

Basis for Opinion

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

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Student Services and Facilities Fees' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Student Services and Facilities Fees' ability to continue as a going concern for a reasonable period of time.

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

Perkins & Company P.C.

Portland, OR
January 5, 2024

STUDENT SERVICES AND FACILITIES FEES - SEATTLE CAMPUS
Administered by the Division of Student Life of the University of Washington
STATEMENTS OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

As Of And For The Year Ended June 30,	2023	2022
Total Cash Receipts	$ 32,834,591	$ 32,874,978
Debt Service		
Principal - ILP - IMA Bonds	(2,305,833)	(2,196,250)
Principal - ILP - Student Facilities Renovation	(3,149,329)	(3,018,689)
Interest - ILP - IMA Bonds	(1,114,937)	(1,224,750)
Interest - ILP - Student Facilities Renovation	(3,774,798)	(3,918,647)
Total Debt Service Payments	(10,344,897)	(10,358,336)
Cash Receipts Available after Debt Service	22,489,694	22,516,642
Other Cash Disbursements		
Hall Health Center	5,786,276	5,413,006
Recreation	3,052,599	3,501,429
Student Counseling Center	2,179,867	2,066,903
Student Activities and Union Facilities	1,787,083	1,713,915
Student Parent Resource Center	1,746,486	1,542,398
Associated Students of the University of Washington	1,337,282	1,266,002
Ethnic Cultural Center and Theatre Complex	1,275,271	1,134,568
Q-Center	585,835	572,168
Graduate and Professional Student Senate	462,152	444,377
Campus Sustainability Fund	396,338	387,767
Student Publications	382,176	382,170
Student Legal Services	317,441	311,937
Student Veteran Life	237,078	201,208
Classroom Support Services	215,963	196,016
Intellectual House	201,009	201,009
LiveWell / Peer Health Education	183,385	176,482
D-Center	146,886	142,777
Food Pantry	76,012	50,564
Services and Activities Committee Operations & COVID-19 Impact Mitigation	66,024	2,124,826
Total Other Cash Disbursements	20,435,163	21,829,522
Excess of cash receipts over cash disbursements before transfers	2,054,531	687,120
Transfers		
Transfer to Recreation for capital projects	(15,000,000)	(4,500,000)
Change in Cash Balances	(12,945,469)	(3,812,880)
Cash Balance, beginning of year	25,548,188	29,361,068
Cash Balance, end of year	$ 12,602,719	$ 25,548,188

See notes to financial statements.

STUDENT SERVICES AND FACILITIES FEES - SEATTLE CAMPUS
Administered by the Division of Student Life of the University of Washington
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations - The Division of Student Life (Student Life) is a unit within the University of Washington (the University) and is responsible for a variety of programs, services, facilities, and operations supporting the student experience on campus, including, but not limited to, housing, food services, recreational sports programs, student government, the Husky Union Building, student conduct, counseling, health and wellness, disability resources, career services, student publications, fraternity and sorority life, the Q-Center, the D-Center, student veterans, ceremonies, and Hall Health Center. Student Life administers the allocation and expenditure of certain fees collected from students on the Seattle campus called "Student Services and Facilities Fees." Student Services and Facilities Fees are a portion of the total fees collected from students. Student Services and Facilities Fees include Services and Activities Fees, Intramural Bond Fees, and Student Facilities Renovation Fees.

The Student Services and Facilities Fees are first used to pay debt service on current and future bonds, and debt obtained from the University's Internal Lending Program, and are then used to support programs recommended by the Services and Activities Fee Committee (SAF Committee) and approved by the Board of Regents of the University (the Board of Regents). The Services and Activities Fees are student-levied, student-distributed fees to support and enhance the out-of-class experience of students at the University. The Services and Activities Fees provide ongoing operational and capital funding for programs that protect and enrich the cultural, emotional, intellectual, physical, and social well-being of the student. Each academic quarter, Student Services and Facilities Fees are charged to full-time and part-time students registered at the University.

As a part of the University, Student Services and Facilities Fee activity is exempt from income taxes and no tax return is filed. Student Services and Facilities Fee activity receives administrative support from the University without charge.

These financial statements only present a selected portion of the activities of the University. As such, they are not intended and do not present either the financial position, results of operations, or changes in net position of the University.

Financial Statement Presentation - These financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, revenue is recognized when cash is received, and expenses are recognized when cash is disbursed.

Cash Receipts - Cash receipts reflect only those fees collected during the fiscal year ended June 30, 2023. All cash receipts are deposited with the University. Funds held by the University are funds invested in pooled investments with the University. The University combines most short-term available cash balances from various departments into the invested funds pool, which is primarily composed of U.S. government and agency securities, mortgage-rated investments, and asset-backed securities, as well as units in the Consolidated Endowment Fund (CEF), which is a diversified investment fund. The underlying investments in CEF include emerging market equity securities, developed market equity securities, and fixed-income securities.

The University annually allocates investment earnings to the departments with qualifying funds in the invested funds pool based on relative amount invested at a rate determined and approved by the University.

For the years ended June 30, 2023 and 2022, due to market conditions and the impact of the global pandemic, it was determined that no distributions would be made to certain campus depositors, including student fee accounts. Principal amounts invested in the pool are guaranteed by the University.

Transfers - During the years ended June 30, 2023 and 2022, zero and $600,000, respectively, of funding for capital improvements and equipment purchases was allocated to various recipients and is included together with operations funding in their cash disbursement totals.

During the years ended June 30, 2023 and 2022, $15,000,000 and $4,500,000, respectively, was transferred from the Student Facilities Renovation and IMA Bond Fees (included in cash balances held by Student Services and Facilities Fees) to Recreation for the IMA locker room and pool upgrade capital projects.

NOTE 2 – UNCOLLECTED FEES AND FUTURE DISBURSEMENTS

As these financial statements are presented on the cash basis of accounting, receivables and payables are not recognized.

Student Services and Facilities Fees that were uncollected (and are therefore receivable) were $950,834 and $997,208 on the last business day of the years ended June 30, 2023 and 2022, respectively.

In June 2023, the Board of Regents accepted proposed disbursements for the year ending June 30, 2024, totaling $21,541,614.

NOTE 3 – INTERNAL LENDING PROGRAM – IMA BONDS

Student Services and Facilities Fees are used to make debt service payments on the Series 2005 Revenue Bonds issued by the University. The debt is managed by the University's Internal Lending Program (ILP).

At June 30, 2023, the principal amount of the debt outstanding was $19,992,917. Interest on this debt matches the 2005 external bond payment schedule and approximates 5%. The monthly payments are reset annually on August 1 to reflect the following year of external debt. Since the interest on this loan is fixed to the external debt service payments, the interest rate will not change as the ILP internal interest rate changes. The final loan payment is due in June 2030.

Borrowings are being repaid by the IMA Bond Fees, which are included in the Student Services and Facilities Fees cash receipts at both June 30, 2023 and 2022.

The following is a summary of future payments (principal and interest) to be paid to cover the debt service payments for the years ending June 30:

	Principal	Interest	Total
2024	$ 2,420,417	$ 999,646	$ 3,420,063
2025	2,544,583	878,625	3,423,208
2026	2,669,583	751,396	3,420,979
2027	2,803,750	617,917	3,421,667
2028	2,943,333	477,729	3,421,062
2029 - 2030	6,611,251	520,083	7,131,334
	$ 19,992,917	$ 4,245,396	$ 24,238,313

NOTE 4 – INTERNAL LENDING PROGRAM – STUDENT FACILITIES RENOVATION

Student Services and Facilities Fees has borrowings available from the University's Internal Lending Program of $126,000,000, $8,000,000, and $16,000,000 for the renovation of the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively. At June 30, 2023, the principal amount of the debt outstanding on these borrowings was $75,805,241, $5,419,092, and $11,429,334 for the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively (total of $92,653,667). The interest rate is reviewed each year and is subject to adjustment by the Board of Regents. The interest rate is 4.0% for the years ended June 30, 2023 and 2022. Loan payments began in October 2011 for the Hall Health Center with a 30-year amortization and term. Loan payments began in October 2012 for the Husky Union Building and the Ethnic Cultural Center, also with 30-year amortizations and terms. The final loan payments are due in September 2042. The renovation activity is not included in these financial statements.

Borrowings are being repaid by the Student Facilities Renovation Fees, which are included in the Student Services and Facilities Fees cash receipts at both June 30, 2023 and 2022.

The following is a summary of future payments (principal and interest) to be paid to cover the debt service payments for the years ending June 30:

	Principal	Interest	Total
2024	$ 3,277,638	$ 3,646,490	$ 6,924,128
2025	3,411,174	3,512,954	6,924,128
2026	3,550,150	3,373,977	6,924,127
2027	3,694,789	3,229,338	6,924,127
2028	3,845,320	3,078,807	6,924,127
2029 – 2033	21,708,184	12,912,454	34,620,638
2034 – 2038	26,505,619	8,115,019	34,620,638
2039 – 2043	26,660,793	2,347,887	29,008,680
	$ 92,653,667	$ 40,216,926	$ 132,870,593

The ratio of cash receipts to all debt service payments (IMA bonds and ILP debt) for the years ended June 30 were as follows:

2022	3.2 to 1
2023	3.2 to 1

NOTE 5 – CONTINGENCIES

The University is periodically involved in litigation and administrative proceedings arising in the normal course of its operations, which may impact Student Services and Facilities Fees. The ultimate disposition of these contingencies cannot be predicted with certainty at this time.

NOTE 6 – SUBSEQUENT EVENTS

Student Services and Facilities Fees has evaluated subsequent events through January 5, 2024, which is the date these financial statements were available to be issued.