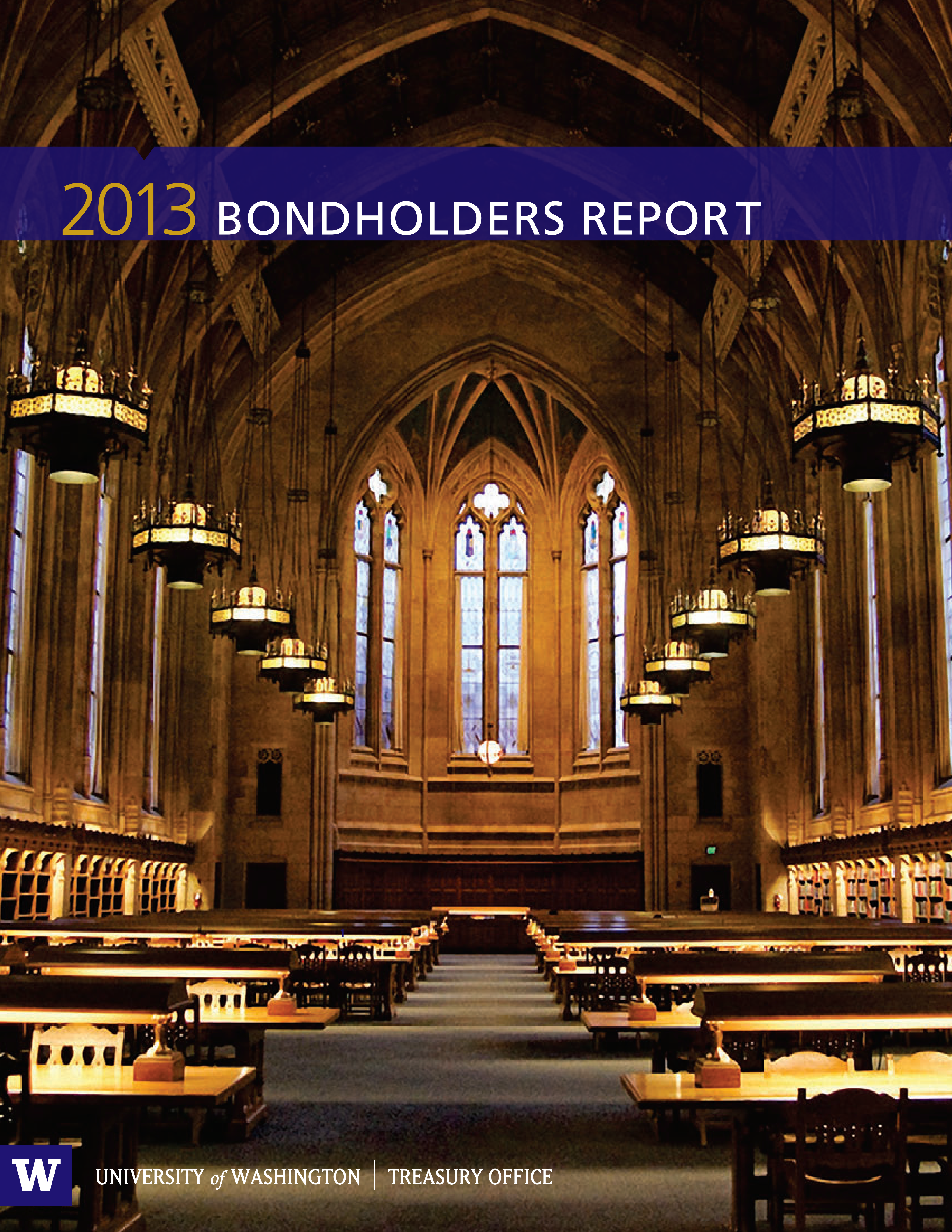

2013 BONDHOLDERS REPORT

UNIVERSITY *of* WASHINGTON | TREASURY OFFICE

2013 Bondholders Report

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UNIVERSITY OF WASHINGTON

OFFICE OF THE TREASURER OF THE BOARD OF REGENTS

2013 Bondholders Report

This report includes financial and operating information on the University of Washington most often requested by bondholders, lenders, underwriters, and credit rating agencies.

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 of Washington as one of the nation's premier research universities. The enclosed audited financial statements are for June 30, 2013 – the University of Washington's fiscal year end. Certain enrollment and other data are for Autumn 2013.

The 2013 Bondholders Report should meet your information needs. However, if you have comments, questions, or need additional information, please contact us using the contact information shown below.

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UNIVERSITY *of* WASHINGTON

2013 FINANCIAL REPORT

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University Facts

	2012 - 2013	2007 - 2008	2002 - 2003
STUDENTS			
Autumn Enrollment [1]			
Undergraduate	36,792	32,355	31,474
Graduate	12,785	10,591	9,768
Professional	1,999	1,803	1,671
TOTAL	**51,576**	**44,749**	**42,913**
Extension course and conference registrations	74,922	56,097	36,203
Number of Degrees Awarded			
Bachelor's	9,782	8,306	8,053
Master's	3,906	2,877	2,735
Doctoral	763	631	495
Professional	566	500	469
TOTAL	**15,017**	**12,314**	**11,752**
FACULTY [1] (Professorial, Instructional, Research)	4,356	4,101	3,637
FACULTY AND STAFF[2]	26,315	24,468	19,313
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,238,000	$ 1,040,000	$ 933,000
SELECTED REVENUES *(in thousands of dollars)*			
Gifts, Grants, and Contracts	$ 1,412,541	$ 1,115,975	$ 968,295
Patient Service and Other Medical-Related Revenues [3]	1,971,451	968,216	667,858
Auxiliary Enterprises and Other Revenues	814,408	389,594	345,396
State Appropriations (Operating)	218,165	388,485	332,518
Tuition and Fees [4]	808,053	419,690	282,132
SELECTED EXPENSES *(in thousands of dollars)*			
Instruction, Academic Support, and Student Services	$ 1,285,489	$ 1,122,688	$ 784,167
Research and Public Service	803,981	654,468	522,534
Medical-Related [3]	1,785,696	748,832	538,410
Auxiliary Enterprises	203,615	161,807	127,891
Institutional Support and Physical Plant	407,381	324,613	252,676
CONSOLIDATED ENDOWMENT FUNDS[5] *(in thousands of dollars)*	$ 2,347,000	$ 2,161,000	$ 1,000,000
SQUARE FOOTAGE[6] *(in thousands of square feet)*	21,773	18,535	17,133

[1] Headcount

[2] Full-time equivalents

[3] Includes Valley Medical Center and Northwest Hospital (2012-2013 only)

[4] Net of scholarship allowances of $135,354,000 in 2012-2013, $69,027,000 in 2007-2008, and $38,848,000 in 2002-2003

[5] Stated at fair value

[6] Gross square footage, all campuses

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the business-type activities of the University of Washington (the University), an agency of the state of Washington, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, as well as its discretely presented component units as of and for the years ended June 30, 2013 and 2012.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As discussed in note 1, the financial statements of the University of Washington, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the University of Washington and its discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2013 and 2012, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended, and the financial position of its discretely presented component units as of June 30, 2013 and 2012, and the changes in their financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, WA
November 8, 2013

Management's Discussion *and* Analysis

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington ("University") for the years ended June 30, 2013 and 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

Financial Highlights for Fiscal Year 2013

The University recorded an increase in net position of $423 million in fiscal year 2013; $409 million more than the fiscal year 2012 increase of $14 million. This is primarily related to an increase in investment income of $307 million in fiscal year 2013, a result of increased investment market values during the year. The University adjusts the carrying value of investments to market value each year, with the change recorded as investment income or loss. Revenues from tuition and patient services continued to show growth during 2013, while revenues from research activities were mostly unchanged.

Key Financial Results for Fiscal Years 2013, 2012 and 2011:

(in millions)	2013	2012	2011
Total operating revenues	$ 3,783	$ 3,522	$ 3,390
Total operating expenses	4,121	3,911	3,769
Operating loss	(338)	(389)	(379)
State appropriations	218	218	297
Investment income	341	34	395
Gifts	178	152	177
Other nonoperating revenue (expense), net	24	(1)	44
Increase in net position	423	14	534
Net position, beginning of year	5,742	5,728	5,194
Net position, end of year	**$ 6,165**	**$ 5,742**	**$ 5,728**

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

Economic Factors Affecting the Future

A number of contingencies face the University over the next few years. The slow economic recovery is a primary source of uncertainty.

The state of Washington, which provided 5% of the University's total revenues in fiscal year 2013, continues to emerge from the recession. The University's 2014 general operating appropriation from the state (excluding amounts appropriated for specific purposes) is approximately $254 million, an increase of $40 million over 2013. The University expects state funding to remain at this level through fiscal year 2015. In exchange for this increase in state funding, the University committed to freezing tuition rates for resident undergraduate students. The University's Board of Regents continues to have broad tuition and fee setting authority, including undergraduate resident tuition. State funding for capital appropriations continues to be under pressure, though some state bonding capacity was provided this biennium for critical renovation projects.

Since 2009, Federal ARRA funding for basic research and activities in the health sciences has totalled $355 million. The University has $26 million of unspent ARRA awards that will be expended in fiscal year 2014 or later. The federal budget remains under significant pressure; ongoing federal funding for research could be impacted.

Rising benefit costs, particularly for healthcare and pensions, continue to impact the University as well. Employer pension funding rates for the state pension were mostly flat during fiscal year 2013, but will be increasing by 27% in 2014, to 9.2% of covered salary, and are likely to continue increasing over the next few years.

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

Using the Financial Statements

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

On January 1, 2010, the University affiliated with Northwest Hospital & Medical Center (Northwest Hospital). GASB standards require that this entity be presented as a discrete component unit; therefore, its financial position at June 30, 2013 and 2012, and the results of its operations for the years ended June 30, 2013 and 2012, are included with Valley Medical Center in a separate column for financial statement presentation purposes. (See Note 1 and Note 19 to the Financial Statements.)

On July 1, 2011, the University affiliated with Valley Medical Center, a Washington public hospital district which owns and operates a 303-bed full-service acute care hospital and 22 clinics

Unaudited – see accompanying notes to basic financial statements

located throughout southeast King County. Valley Medical Center is also being reflected as a discrete component unit; therefore its financial position and the results of its operations are included with Northwest Hospital in a separate column for financial statement presentation purposes. (See Note 1 and Note 19 to the Financial Statements.)

The analysis presented below includes the consolidated balances of the University of Washington and its blended component units (see Note 1), but excludes the financial position and results of operations of its discrete component units (Northwest Hospital and Valley Medical Center), unless otherwise noted.

Financial Health

STATEMENTS OF NET POSITION

The Statements of Net Position present the financial condition of the University at the end of the last two fiscal years and report all assets and liabilities of the University. A summarized comparison of the University's assets, liabilities and net position as of June 30, 2013, 2012, and 2011, follows:

(in millions)	2013	2012	2011
Current assets	$ 1,459	$ 1,161	$ 924
Noncurrent assets:			
Capital assets, net	3,976	3,618	3,246
Other	3,732	3,624	3,843
Total assets	9,167	8,403	8,013
Current liabilities	729	728	651
Noncurrent liabilities	2,273	1,933	1,634
Total liabilities	3,002	2,661	2,285
Net position	**$ 6,165**	**$ 5,742**	**$ 5,728**

The excess of current assets over current liabilities of $730 million in 2013 and $433 million in 2012 reflects the continuing ability of the University to meet its short-term obligations. Current assets consist primarily of cash, short-term investments and accounts receivable. Current assets increased $298 million in 2013 and $237 million in 2012, due to increases in the value of cash and short-term investments. The short-term portion of the University's investment portfolio can fluctuate based upon changes in investment mix and the expected short-term needs for University funds.

Long-term investments increased $91 million during 2013 and decreased $227 million during 2012, as a result of market value changes during the year for the University's investments. Realized and unrealized gains in fiscal year 2013 totaled $264 million, versus $35 million of realized and unrealized losses in 2012.

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

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, consists of funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditures but rather for investment purposes only;
  - Expendable net position consists of resources which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed by donors and/or other external parties;
- Unrestricted Net Position – is all other funds available to the institution for any purpose associated with its mission. Unrestricted net position is often internally designated for specific purposes.

The University's net position at June 30, 2013, 2012, and 2011 are summarized as follows:

(in millions)	2013	2012	2011
Net investment in capital assets	$ 2,038	$ 2,113	$ 2,060
Restricted:			
Nonexpendable	1,183	1,116	1,075
Expendable	1,345	1,162	1,227
Unrestricted	1,599	1,351	1,366
Total net position	**$ 6,165**	**$ 5,742**	**$ 5,728**

Net investment in capital assets decreased $75 million, or 4%, in 2013, and increased $53 million, or 3%, in 2012. This balance increases as debt is paid off or when the University funds fixed asset purchases without financing. This balance decreases as assets are depreciated.

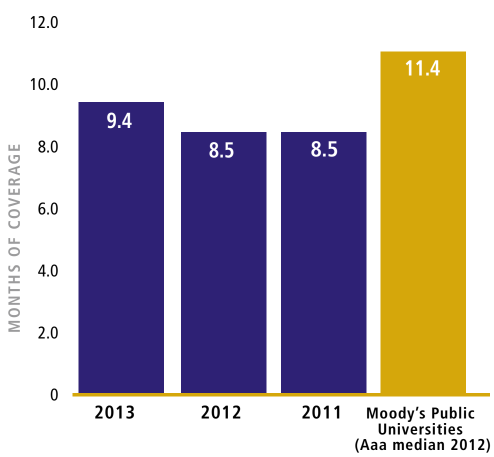
Restricted nonexpendable net position increased $67 million, or 6%, in 2013, and $41 million, or 4%, in 2012. For both years the increase reflects the receipt of new endowment gifts, while 2013 also reflects the recovery of unrealized losses on underwater endowments due to increases in market values during the year.

Restricted expendable net position increased $183 million, or 16%, in 2013, and decreased $65 million, or 5%, in 2012. This category is primarily affected by new operating and capital gifts, and earnings or losses on restricted investments, including endowments. The recovery of market value for the Consolidated Endowment Fund (CEF) was a significant reason for the increase during 2013.

Unrestricted net position increased by $248 million, or 18%, in 2013, and decreased by $15 million, or 1%, in 2012, due to auxiliary and medical-related margins, as well as overall conservative spending.

The ratio of expendable financial resources to operations (as defined by Moody's) measures the strength of net position. This ratio, illustrated in the chart below, shows that in 2013 the University had enough expendable resources from various sources to fund operations for a period of 9.4 months.

Expendable Financial Resources to Operations[1]



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 and annuities, and gifts.

Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. Most endowments are commingled in the Consolidated Endowment Fund (CEF), a diversified investment fund. As in a mutual fund, each individual endowment maintains a separate identity and owns units in the fund.

The CEF has experienced considerable growth over the past 10 years due to gifts and endowment returns. The number of endowments in the CEF increased from 1,801 to 3,982 and the market value of the CEF rose to over $2.3 billion as of June 30, 2013.

The impact to program support has been substantial with $747 million distributed over the past 10 years. Programs supported by the endowment include academic support, scholarships, fellowships, professorships, chairs and research activities. Under the Board of Regents approved long-term spending policy for the CEF, quarterly distributions to programs are made based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. An additional 1% is distributed to support fundraising and stewardship activities (0.80%) and investment management (0.20%). Similar to program distributions, the fee is based on the endowment's five-year average market value.

Endowment portfolios are commonly managed around a core set of objectives focused on the need to provide support for endowed programs in perpetuity. The Board of Regents, in conjunction with the University of Washington Investment Committee (UWINCO), establishes the policy asset allocation judged to be most appropriate for the University from a long-term potential return and risk perspective. The policy asset allocation is reviewed annually for its continuing fit with the University's risk profile and with consideration of the changing dynamics of the capital markets.

The CEF asset allocation includes two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2013, 74% of the CEF was invested in Capital Appreciation and 26% in Capital Preservation.

For the fiscal year ended June 30, 2013 the CEF earned an investment return of +13.5%, significantly outperforming both the policy and blended benchmarks. All CEF strategies delivered positive relative performance, with the exception of Emerging Markets which lagged a remarkably strong global equity benchmark. Intermediate-term returns for the CEF continued to be weighed down substantially by the 2008-09 global financial crisis. CEF returns over the past five years averaged +2.3%. Performance over the ten-year period remains solid, with the CEF returning an annual average of +8.2%.

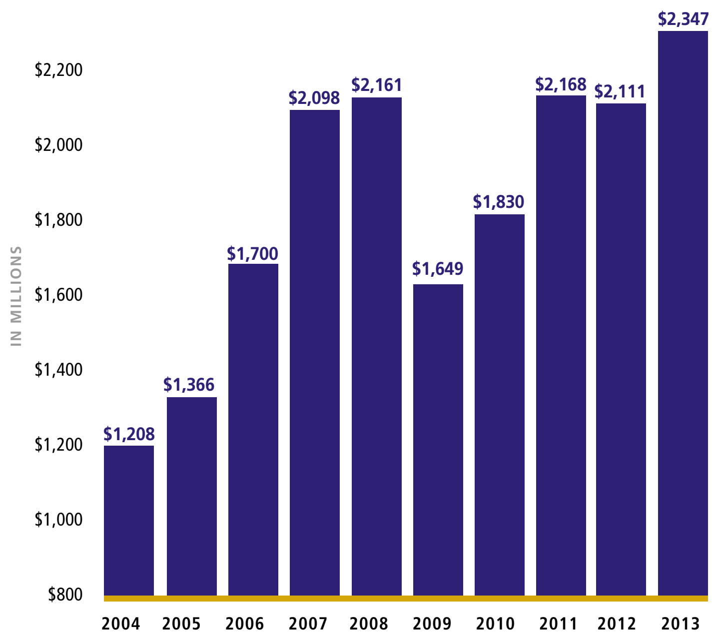
1 The sum of Unrestricted Net Position and Restricted Expendable Net Position, divided by Total Operating Expenses (Operating Expenses plus interest expense). The result is multiplied by 12 to arrive at months of coverage. Net Position amounts include Northwest Hospital (from 2011) and Valley Medical Center (from 2012).

Unaudited – see accompanying notes to basic financial statements

A portion of the University's operating funds are invested in the CEF. As of June 30, 2013 these funds comprise $468 million of the CEF market value.

Consolidated Endowment Fund Market Value

(in millions)



Debt and Related Capital Improvements

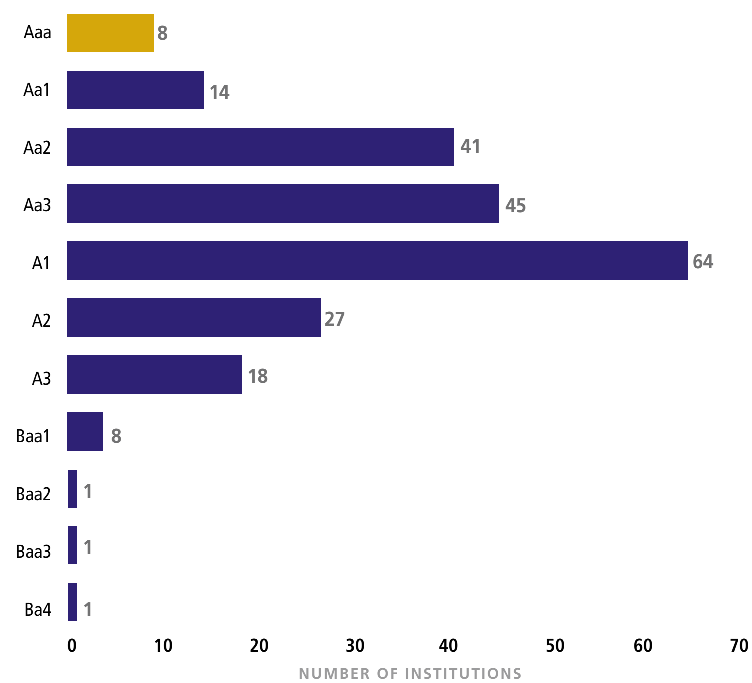
The University's general revenue borrowing platform, established in 2003, has been used to fund buildings that support the educational, research and service missions of the institution.

Credit ratings are a reflection of the University's strength. During 2013, the University was rated Aaa (the highest rating) by Moody's Investors Service and AA+ (the second highest) by Standard & Poor's. In August 2013, Standard & Poor's raised its outlook for the University from stable to positive. Strong ratings carry substantial advantages for the University: continued and wider access to capital markets when the University issues debt, lower interest rates on bonds and the ability to negotiate favorable bond terms.

The University takes its role of financial stewardship seriously and works diligently to manage its financial resources effectively. Continued high debt ratings are important indicators of the University's success in this area.

Moody's Fiscal Year 2012
Public College and University Rating Distribution

(As of the August 2013 Moody's Median Report)



The $299 million UW General Revenue and Refunding Bonds, issued in December 2012, partially funded the renovation of Husky Stadium, new student housing, renovation of the Husky Union Building and the Ethnic Cultural Center.

During 2013, debt-related capital expenditures included $147 million for the renovation and expansion of the stadium, $116 million for construction of new student housing, $24 million for the expansion of the University of Washington Medical Center (UWMC), and $19 million for the renovation of the Husky Union Building.

Unaudited – see accompanying notes to basic financial statements

Key projects substantially completed in 2013 include:

Major renovation of the Husky Union Building that includes enhanced areas for programs, student government and organizations, lounges and event spaces.

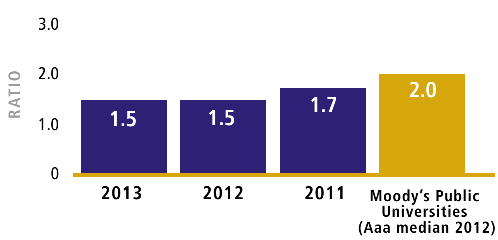
Phase 1 of the UWMC Montlake Tower project increased capacity for the Oncology unit, interventional and diagnostic imaging, and the Neonatal Intensive Care Unit (NICU).

New residence halls and apartments built as part of Phase 1 of the Housing Master Plan.

During 2012, debt-related capital expenditures included $112 million for the construction of new student housing, $78 million for the renovation and expansion of Husky Stadium, $61 million for the expansion of UWMC, $57 million for the renovation of the Husky Union Building, $18 million for the new Molecular Engineering building, and $18 million for the renovation of Balmer Hall.

One measure of the University's ability to repay debt is the ratio of expendable resources to debt. The 2013 ratio of expendable financial resources to debt (as defined by Moody's) shows that the University has sufficient expendable resources to pay its long-term debt obligations 1.5 times over.

Expendable Financial Resources to Direct Debt[2]



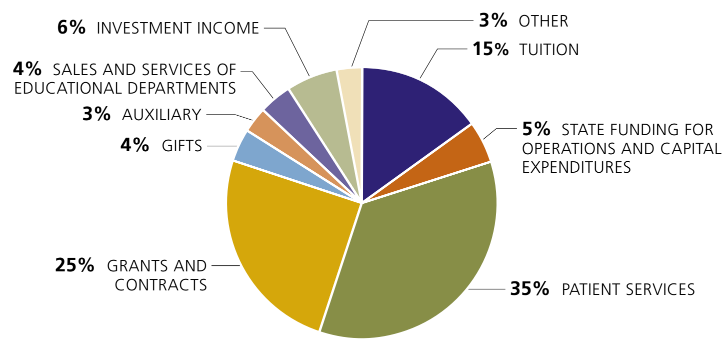
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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. A condensed comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2013, 2012, and 2011 follows:

(in millions)	2013	2012	2011
Total operating revenues	$ 3,783	$ 3,522	$ 3,390
Total operating expenses	4,121	3,911	3,769
Operating loss	(338)	(389)	(379)
Nonoperating revenues, net of expenses	630	317	766
Other revenues	131	86	147
Increase in net position	423	14	534
Net position, beginning of year	5,742	5,728	5,194
Net position, end of year	**$ 6,165**	**$ 5,742**	**$ 5,728**

The University has a diversified revenue base. No single source generated more than 35% of the total fiscal year 2013 revenues of $5.4 billion.

Sources of Funds*



*Includes discrete component units

The following table summarizes revenues from all sources for the years ended June 30, 2013, 2012, and 2011:

(in millions)	2013	2012	2011
Tuition and fees	$ 808	$ 681	$ 595
Patient services	1,162	1,098	1,064
Grants and contracts	1,364	1,353	1,365
Sales and services of educational departments	198	186	165
Auxiliary enterprises	184	161	154
State funding for operations	218	218	297
Gifts	178	152	177
Investment income	341	34	395
State funding for capital projects	47	6	37
Other	122	95	111
Total revenue – all sources	**$ 4,622**	**$ 3,984**	**$ 4,360**

2 The sum of Unrestricted Net Position and Restricted Expendable Net Position, divided by total capital lease obligations, bonds and notes payable outstanding. Includes Northwest Hospital (from 2011) and Valley Medical Center (from 2012).

Grant Revenue

Excluding the discrete component units, the largest source of revenues (29%) continues to be grants and contracts. This revenue increased $11 million, or 7% in 2013, compared to a decrease of $12 million, or 1%, in 2012. Revenues generated by Federal ARRA research funding decreased to $32 million in fiscal year 2013, compared to $74 million in 2012, but were offset by increases in other federal programs.

Grants and contracts provided the opportunity for graduate and undergraduate students to work with nationally recognized faculty in research as part of their educational experience.

Grant and contract revenue is earned when direct expenditures (such as researchers' compensation or purchases of goods and services) are made; therefore, there is little effect on the University's operating margin as a result of this direct expense reimbursement process.

Facility and administrative expenses necessary to support grants and contracts are reimbursed by an indirect cost recovery. The current indirect cost recovery for research grants is approximately 29 cents on every direct expenditure dollar.

Primary Nongrant Funding Sources

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support its nongrant funded educational operating expenses. State support for education has declined, as reflected in the table below:

Operating Support for Instruction

(in millions)	2013		2012		2011	
State operating appropriations	$ 218	21%	$ 218	24%	$ 297	33%
Operating tuition and fees	547	53%	461	51%	410	46%
Fees for self-sustaining educational programs	261	26%	220	25%	185	21%
Total educational support	**$1,026**	**100%**	**$ 899**	**100%**	**$ 892**	**100%**

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

Tuition and fees, net of scholarship allowances, increased to $808 million in 2013, from $681 million in 2012 and $595 million in 2011. The increases were primarily due to a 16% increase in average undergraduate resident tuition rates in 2013 and 20% in 2012.

Tuition increases were partially offset by the increase in scholarships and fellowships, and scholarship allowances of $36 million in 2013, $49 million in 2012, and $18 million in 2011.

Self-sustaining educational programs (Fee-Supported Programs) include the following amounts for each of the fiscal years 2013, 2012 and 2011: UW Educational Outreach (the continuing education branch of the University), $98 million, $85 million and $67 million, respectively, summer quarter tuition $57 million, $47 million and $31 million, respectively, and for Business School and School of Medicine programs $40 million, $38 million and $36 million, respectively.

Patient Services-UW Medicine

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

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

UW Medical Center (UWMC) is a 450-bed hospital that provides comprehensive healthcare services to the Puget Sound community and patients from throughout the Pacific Northwest. UWMC also serves as the major clinical, teaching and research site for students and faculty in the Health Sciences at the University. Nearly 18,000 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 (NICU) and the Organ Transplantation program. August 2012 marked the opening of Phase 1 of the UW Medical Center Montlake Tower. This project included updating and expanding the NICU from 36 to 50 beds, adding an additional 30 Oncology beds as well as state of the art interventional radiology and hybrid operating and interventional procedure rooms.

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

Northwest Hospital & Medical Center (NWH) is a full-service medical facility with 281 beds, and treats approximately 10,000 inpatients per year. NWH joined UW Medicine in January 2010. NWH's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are presented in a discrete column together with VMC on the financial statements of the University.

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

UW Physicians (UWP) is the physician practice group for more than 1,800 faculty physicians and healthcare providers associated with UW Medicine. The revenues, expenses, assets and liabilities of UWP are included in the University's financial statements.

Airlift Northwest is a preeminent provider of air medical transport services in the Pacific Northwest. The revenues, expenses, assets and liabilities of Airlift Northwest are included in the University's financial statements.

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

In combination, these organizations (not including Valley Medical Center and Northwest Hospital) contributed $1,162 million in patient service revenues in fiscal year 2013, $1,098 million in fiscal year 2012, and $1,064 million in 2011. UWMC generated 76% of this revenue in 2013, and 77% in both 2012 and 2011. UWMC admissions were approximately 18,000 in 2013, a slight decrease from 2012 which was a 5.3% decrease from 2011. Average patient length of stay, however, increased to 6.9 days in 2013, up from 6.7 days in 2012 and 6.1 days in 2011. Increases in UWMC patient services revenue during 2013 were attributable to a price increase executed on July 1, 2012 and favorable third party reimbursement settlements.

Considerable progress has been made in implementing the Electronic Medical Record (EMR) throughout UW Medicine. Valley Medical Center operating results were negatively impacted by expenses associated with implementation of the EMR, and a reduction in tax levy revenues.

Gifts, Endowments and Investment Revenues

Net investment returns for the years ended June 30, 2013, 2012, and 2011 consisted of the following:

(in millions)	2013	2012	2011
Interest and dividends	$ 71	$ 63	$ 59
Metropolitan Tract net income	6	7	7
Investment in Seattle Cancer Care Alliance	8	7	12
Net appreciation (depreciation) of fair value of investments	264	(35)	324
Investment expenses	(8)	(8)	(7)
Net investment income	**$ 341**	**$ 34**	**$ 395**

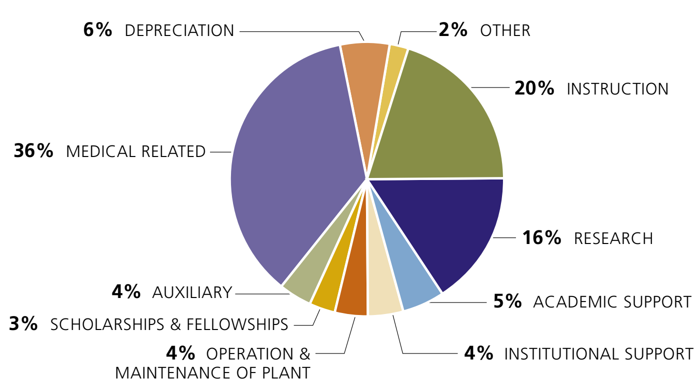
Net appreciation includes both realized and unrealized gains and losses; however, the unrealized gains are not expendable until the underlying securities have been sold. Net investment income increased by $307 million in 2013, compared to a decrease of $361 million in 2012. The change in realized and unrealized gains and losses was the major factor in the variance each year.

Donor support increased by 26 million, or 17%, to $178 million in 2013 from $152 million in 2012. Gifts are a key and necessary source of support for a variety of purposes including capital improvements, scholarships, research and endowments for various academic and research positions.

Expenses

Two primary functions of the University, instruction and research, comprised 36% of total operating expenses. These dollars provided instruction to more than 51,000 students and funded 4,800 research awards. Medical-related expenses are the largest individual component, due to the inclusion of Northwest Hospital and Valley Medical Center.

Uses of Funds*



*Includes discrete component units

Unaudited – see accompanying notes to basic financial statements

A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2013, 2012, and 2011 follows:

(in millions)	2013	2012	2011
Operating expenses:			
Educational and general instruction	$ 988	$ 936	$ 902
Research	756	777	749
Public service	48	40	39
Academic support	261	248	239
Student services	36	37	36
Institutional support	201	192	185
Operation and maintenance of plant	207	174	167
Scholarships and fellowships	141	108	104
Auxiliary enterprises	204	195	188
Medical-related	999	961	926
Depreciation/amortization	280	243	234
Total operating expenses	**$ 4,121**	**$ 3,911**	**$ 3,769**

Scholarships and fellowships increased $33 million, or 31%, reflecting an increase in aid to students approved by the Board of Regents to help mitigate the impact of increased tuition rates.

Operation and maintenance of plant increased $33 million, or 19%, due to an increase in estimated costs associated with pollution remediation efforts for the University's Tacoma campus and a general increase in maintenance and utility costs for all campuses.

Overall, the University's operating expenses increased by $210 million, or 5%, over 2012. Salaries expense increased $55 million, or 3%, reflecting a modest increase in staffing. Benefits expense increased by $14 million, or 2%, offset slightly by a reduction in the University's healthcare contribution rate during the year. Purchased services increased $45 million, or 8%, driven by a $20 million increase in consulting fees incurred by UWMC in support of IT projects, $12 million increase in expenses related to subcontracts (primarily research related) and $7 million increase in non-capitalizable expenses for pollution remediation. Depreciation/amortization expense increased $37 million, or 15%, driven by several large capital additions that were placed into service during the year including new residence halls and apartments, renovation of the Husky Union Building and the UWMC expansion.

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

OPERATING LOSS

The University's operating loss decreased to $338 million in 2013 from $389 million in 2012. The 2012 operating loss was a slight increase from $379 million in 2011.

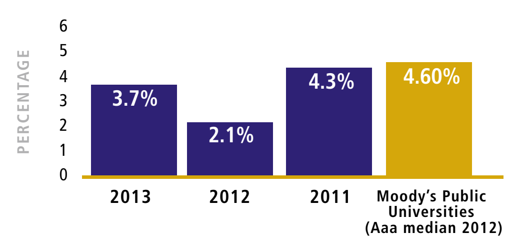
State appropriations are shown as nonoperating revenue, pursuant to GASB standards. If state appropriations were classified as operating revenue, the operating loss would be as follows for 2013, 2012 and 2011, respectively: $120 million, $170 million, and $82 million. The University continues to rely on nonoperating revenues, in addition to state appropriations, to fund its operations including operating gift revenues and investment income distributions.

OPERATING MARGIN

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

The 2013 operating margin increased to 3.7% from 2.1% in 2012. Operating margin calculations include an estimated return on the University's investments rather than actual investment income. Therefore, variances in investment performance in a given year will not impact the operating margin.

Operating Margin[3]



3 Operating loss, (including interest expense, operating appropriations, nonoperating federal grants, an assumed 5% spending rate on investments and nonpermanent endowment gifts), divided by operating revenues (less scholarship expenses, and including operating appropriations, nonoperating federal grants, an assumed 5% return on investments and nonpermanent endowment gifts). Excludes Northwest Hospital and Valley Medical Center .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Statements *of* Net Position

	University of Washington June 30, 2013	University of Washington June 30, 2012	Discrete Component Units [1] June 30, 2013	Discrete Component Units [1] June 30, 2012
ASSETS				
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 78,206	$ 50,158	$ 53,349	$ 45,333
INVESTMENTS, CURRENT PORTION (NOTE 6)	769,607	577,962	23,666	63,121
ACCOUNTS RECEIVABLE (NET OF $77,553 AND $81,299 ALLOWANCE) (NOTE 5)	574,352	496,944	98,073	99,890
INVENTORIES	31,658	31,676	9,466	9,362
OTHER CURRENT ASSETS	5,227	4,366	40,734	12,394
TOTAL CURRENT ASSETS	1,459,050	1,161,106	225,288	230,100
NONCURRENT ASSETS:				
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	58,392	50,418	–	–
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	3,368,726	3,278,068	79,775	130,221
METROPOLITAN TRACT (NOTE 7)	112,461	114,211	–	–
STUDENT LOANS RECEIVABLE (NET OF $8,158 AND $9,441 ALLOWANCE) (NOTE 4)	70,392	69,039	–	–
OTHER NONCURRENT ASSETS	122,203	112,192	56,694	12,345
CAPITAL ASSETS (NET OF $3,111,454 AND $2,908,441 ACCUMULATED DEPRECIATION) (NOTE 8)	3,975,957	3,618,409	510,947	510,903
TOTAL NONCURRENT ASSETS	7,708,131	7,242,337	647,416	653,469
TOTAL ASSETS	**$ 9,167,181**	**$ 8,403,443**	**$ 872,704**	**$ 883,569**
LIABILITIES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE	$ 156,527	$ 161,241	$ 24,602	$ 32,010
ACCRUED LIABILITIES	298,857	281,410	98,760	89,329
COMMERCIAL PAPER (NOTE 11)	25,000	25,000	–	–
UNEARNED REVENUES	127,492	154,958	8,023	10,727
FUNDS HELD FOR OTHERS	30,206	33,213	–	–
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-12)	91,332	72,311	12,662	11,855
TOTAL CURRENT LIABILITIES	729,414	728,133	144,047	143,921
NONCURRENT LIABILITIES:				
U.S. GOVERNMENT GRANTS REFUNDABLE	49,555	49,401	–	–
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9–12)	2,223,161	1,884,301	412,175	424,406
TOTAL NONCURRENT LIABILITIES	2,272,716	1,933,702	412,175	424,406
TOTAL LIABILITIES	3,002,130	2,661,835	556,222	568,327
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	2,038,495	2,113,238	93,222	99,131
RESTRICTED:				
NONEXPENDABLE	1,182,986	1,115,854	1,773	1,719
EXPENDABLE	1,344,643	1,161,583	8,537	8,673
UNRESTRICTED	1,598,927	1,350,933	212,950	205,719
TOTAL NET POSITION	6,165,051	5,741,608	316,482	315,242
TOTAL LIABILITIES AND NET POSITION	**$ 9,167,181**	**$ 8,403,443**	**$ 872,704**	**$ 883,569**

[1] See Note 19

See accompanying notes to basic financial statements.

Dollars in thousands

Statements *of* Revenues, Expenses *and* Changes *in* Net Position

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNITS [1]	
	Year ended June 30,		Year ended June 30,	
	2013	2012	2013	2012
REVENUES				
OPERATING REVENUES:				
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $135,354 AND $133,243)	$ 808,053	$ 681,227	$ –	$ –
PATIENT SERVICES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $26,699 AND $24,845)	1,162,389	1,097,525	741,581	704,423
FEDERAL GRANTS AND CONTRACTS	1,057,829	1,070,901	–	–
STATE AND LOCAL GRANTS AND CONTRACTS	93,891	83,954	–	–
NONGOVERNMENTAL GRANTS AND CONTRACTS	158,998	146,699	–	–
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	198,320	185,521	–	–
AUXILIARY ENTERPRISES:				
HOUSING AND FOOD SERVICES	91,133	67,357	–	–
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $6,301 AND $5,757)	47,481	46,714	–	–
OTHER AUXILIARY ENTERPRISES	45,861	47,225	–	–
OTHER MEDICAL-RELATED REVENUE	28,593	28,536	38,888	32,073
OTHER OPERATING REVENUE	90,372	66,711	–	–
TOTAL OPERATING REVENUES	**3,782,920**	**3,522,370**	**780,469**	**736,496**
EXPENSES				
OPERATING EXPENSES (NOTE 13)				
SALARIES	1,894,510	1,839,181	339,083	325,944
BENEFITS	610,338	596,525	102,389	92,065
SCHOLARSHIPS AND FELLOWSHIPS	140,897	107,729	–	–
UTILITIES	55,068	51,956	8,769	8,425
SUPPLIES AND MATERIALS	395,251	383,355	129,762	133,320
PURCHASED SERVICES	630,249	585,079	134,048	117,181
DEPRECIATION / AMORTIZATION	280,099	242,929	52,028	54,529
OTHER	114,737	104,271	19,930	17,211
TOTAL OPERATING EXPENSES	**4,121,149**	**3,911,025**	**786,009**	**748,675**
OPERATING LOSS	**(338,229)**	**(388,655)**	**(5,540)**	**(12,179)**
NONOPERATING REVENUES (EXPENSES)				
STATE APPROPRIATIONS	218,165	218,343	–	–
GIFTS	101,823	76,718	224	301
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $8,326 AND $8,207)	341,241	34,123	7,519	6,767
INTEREST ON CAPITAL ASSET-RELATED DEBT	(57,200)	(41,182)	(22,620)	(22,689)
PELL GRANT REVENUE	45,655	47,387	–	–
PROPERTY TAX REVENUE	–	–	16,254	17,818
OTHER NONOPERATING REVENUES (EXPENSES)	(19,780)	(18,330)	(2,937)	1,382
NET NONOPERATING REVENUES	**629,904**	**317,059**	**(1,560)**	**3,579**
INCOME (LOSS) BEFORE OTHER REVENUES	**291,675**	**(71,596)**	**(7,100)**	**(8,600)**
CAPITAL APPROPRIATIONS	47,123	6,066	–	–
CAPITAL GRANTS, GIFTS AND OTHER	26,763	25,514	8,340	1,263
GIFTS TO PERMANENT ENDOWMENTS	57,882	53,259	–	–
TOTAL OTHER REVENUES	**131,768**	**84,839**	**8,340**	**1,263**
INCREASE (DECREASE) IN NET POSITION	**423,443**	**13,243**	**1,240**	**(7,337)**
NET POSITION				
NET POSITION – BEGINNING OF YEAR	5,741,608	5,728,365	315,242	322,579
NET POSITION – END OF YEAR	**$ 6,165,051**	**$ 5,741,608**	**$ 316,482**	**$ 315,242**

[1] See Note 19

See accompanying notes to basic financial statements.

Dollars in thousands

Statements *of* Cash Flows

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	2013	2012
STUDENT TUITION AND FEES	$ 754,131	$ 665,192
PATIENT SERVICES	1,148,870	1,081,711
GRANTS AND CONTRACTS	1,276,506	1,319,705
PAYMENTS TO SUPPLIERS	(395,116)	(369,199)
PAYMENTS FOR UTILITIES	(55,051)	(51,018)
PURCHASED SERVICES	(630,170)	(573,664)
OTHER OPERATING DISBURSEMENTS	(114,101)	(99,776)
PAYMENTS TO EMPLOYEES	(1,892,338)	(1,835,546)
PAYMENTS FOR BENEFITS	(543,668)	(530,790)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(140,897)	(107,729)
LOANS ISSUED TO STUDENTS	(24,716)	(28,965)
COLLECTION OF LOANS TO STUDENTS	23,520	24,451
OTHER MEDICAL CENTER RECEIPTS	28,593	28,536
AUXILIARY ENTERPRISE RECEIPTS	191,732	161,858
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	196,927	185,856
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	670,350	664,145
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(688,722)	(626,859)
OTHER RECEIPTS	78,870	72,000
NET CASH USED BY OPERATING ACTIVITIES	**$ (115,280)**	**$ (20,092)**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	$ 237,068	$ 195,422
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	45,655	47,387
PRIVATE GIFTS	90,323	65,400
PERMANENT ENDOWMENT RECEIPTS	57,882	53,259
DIRECT LENDING RECEIPTS	240,350	249,363
DIRECT LENDING DISBURSEMENTS	(238,113)	(265,599)
OTHER	(19,571)	(18,762)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**$ 413,594**	**$ 326,470**

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	$ 438,385	$ 652,752
STATE CAPITAL APPROPRIATIONS	47,504	6,982
CAPITAL GRANTS AND GIFTS RECEIVED	24,818	24,893
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(624,457)	(576,745)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(142,933)	(404,692)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(67,939)	(63,449)
OTHER	(7,207)	1,402
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**$ (331,829)**	**$ (358,857)**

	Year Ended June 30, 2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM SALES OF INVESTMENTS	6,408,348	6,369,847
DISBURSEMENTS FOR INVESTMENTS	(6,417,393)	(6,372,671)
INVESTMENT INCOME	70,608	62,746
NET CASH PROVIDED BY INVESTING ACTIVITIES	**61,563**	**59,922**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**28,048**	**7,443**
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	50,158	42,715
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 78,206**	**$ 50,158**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (338,229)	$ (388,655)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	280,099	242,929
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	(78,751)	4,511
INVENTORIES	18	(2,966)
OTHER ASSETS	(10,872)	(10,035)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	(1,098)	84,439
UNEARNED REVENUE	(27,466)	11,405
OTHER LONG-TERM LIABILITIES	62,218	42,794
U.S. GOVERNMENTAL GRANTS REFUNDABLE	154	(5,144)
LOANS TO STUDENTS	(1,353)	630
NET CASH USED BY OPERATING ACTIVITIES	**$ (115,280)**	**$ (20,092)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
STOCK GIFTS	$ 11,500	$ 11,318
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	7,508	6,509
NET UNREALIZED GAINS (LOSSES)	191,376	(43,034)
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ 210,384**	**$ (25,207)**

See accompanying notes to basic financial statements.

Dollars in thousands

Notes *to* Financial Statements

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

The University of Washington (University), an agency of the state of Washington, is governed by a 10-member Board of Regents, appointed by the Governor and confirmed by the state senate.

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

Harborview Medical Center, 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 14).

Component units are legally separate organizations for which the University is financially accountable. These entities may be reported in the financial statements of the primary government in one of two ways: the component units' amounts may be blended with the amounts reported by the primary government, or they may be shown in a separate column, depending on the application of the criteria of Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity: Omnibus." All component units of the University meet the criteria for blending except Northwest Hospital & Medical Center and Valley Medical Center. They are reported discretely, since they have separate boards of directors and they do not provide services exclusively to the University.

BLENDED COMPONENT UNITS

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

The Association of University Physicians dba UW Physicians (UWP) was established as a tax-exempt entity for the exclusive benefit of the University of Washington School of Medicine (UWSOM). UWP employs UWSOM faculty and bills and collects for their clinical services as an agent for UWSOM. UWP had operating revenues of $173,566,000 and $145,502,000 in 2013 and 2012, respectively.

UW Medicine Neighborhood Clinics (Neighborhood Clinics) was established as a tax-exempt entity for the benefit of UWSOM, UWP and its affiliated medical centers, Harborview Medical Center (HMC) and UWMC, exclusively for charitable, scientific and educational purposes. The Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of $14,614,000 and $13,116,000 in 2013 and 2012, respectively.

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

- TSB Properties
- Washington Biomedical Research Properties I
- Washington Biomedical Research Properties II
- Washington Biomedical Research Facilities 3

These entities collectively have net capital assets of $323,144,000 and $285,108,000 in 2013 and 2012, respectively. They collectively have long-term debt of $333,450,000 and $371,230,000 in 2013 and 2012, respectively. These amounts are reflected in the University's financial statements. Fiscal year 2012 balances also include Twenty-Fifth Avenue Properties, which was dissolved during fiscal year 2013 as described in "Changes in Reporting Entity."

DISCRETELY PRESENTED COMPONENT UNITS

Northwest Hospital

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

Valley Medical Center

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

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

JOINT VENTURES

The University, together with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center established the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA has a one-third interest. The University accounts for its interest in SCCA under the equity method and has recorded $89,146,000 and $81,638,000 in "Other Assets," together with $7,508,000 and $6,509,000 in "Investment Income," for its share of the joint venture in 2013 and 2012, respectively.

The University and Seattle Children's Hospital established Children's University

Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care, charitable, educational, and scientific missions. CUMG employs UWSOM faculty physicians, and bills and collects for their services as an agent for UWSOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (Note 5) includes amounts due from CUMG of $17,937,000 and $15,767,000 in 2013 and 2012, respectively.

CHANGES IN REPORTING ENTITY

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

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

In fiscal year 2013, the University paid the remaining outstanding principal balance on the Twenty-Fifth Avenue Properties Student Housing Revenue Bonds, 2002 and title to the property known as Nordheim Court was passed to the University. The entity that issued the leased-backed bonds, Twenty-Fifth Avenue Properties, was dissolved and is no longer a component unit of the University.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with GASB Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments," as amended by GASB Statement No. 35, "Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities." The University is reporting as a special-purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the University presents management's discussion and analysis, 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 are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated. The University reports capital assets net of accumulated depreciation/amortization (as applicable), and reports depreciation/amortization expense in the Statements of Revenues, Expenses and Changes in Net Position.

On July 1, 2011, the University adopted GASB Statement No. 61, "The Financial Reporting Entity: Omnibus," an amendment of GASB Statements No. 14 and No. 34. This Statement modified existing requirements for the assessment of potential component units and their inclusion in the financial reporting entity, and requirements regarding financial statement presentation and disclosure. There was no impact to the University's definition of the reporting entity as a result of the implementation of this Statement.

The University reports its BTA activities in a single column for financial statement presentation purposes, which includes the data for its blended component units. Statement No. 61 includes a requirement to present condensed combining information in the notes to the financial statements regarding these component units in such cases. This information can be found in Note 18. Combining information for the University's discretely presented component units can be found in Note 19.

On July 1, 2012, the University adopted GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance contained in accounting pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors, which was issued on or before November 30, 1989 and which does not conflict with or contradict existing GASB pronouncements. Implementation of this Statement resulted in a minor footnote revision.

On July 1, 2012, the University adopted GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement provides guidance for accounting and financial reporting of deferred outflows of resources and deferred inflows of resources. GASB Concepts Statement No. 4, "Elements of Financial Statements," introduced and defined these elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards did not include guidance for reporting these financial statement elements, which are distinct from assets and liabilities.

This Statement amends the net asset reporting requirements of Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as Net Position, rather than Net Assets. The impact to the University from implementation of this Statement is limited to renaming the Balance Sheets as "Statements of Net Position," and renaming the title of Net Assets to "Net Position" on the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position.

ACCOUNTING STANDARDS IMPACTING THE FUTURE

In June 2011, GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities," which specifically identifies transactions qualifying for reporting as Deferred Outflows of Resources and Deferred Inflows of Resources, as required in GASB 63. The standard is effective for fiscal year 2014. The University is currently analyzing the financial statement impact of this statement.

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

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, revenues and expenses during the reporting period. Actual results could differ from those estimates; however, in each case, the University believes that allowances, reserves and estimates of expected liabilities are adequate.

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

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

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

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

OTHER ACCOUNTING POLICIES

Investments. Investments 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.

Inventories. Inventories are carried at the lower of cost or market value. 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 books and intangibles are stated at cost or, if acquired by gift, at fair market value at the date of the gift. Additions, replacements, major repairs and renovations are capitalized. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, 5 to 7 years for equipment, 15 years for library books, and 3 to 15 years for intangibles.

Interest incurred on capital asset-related debt was $76,371,000 and $69,299,000 during 2013 and 2012, respectively. Of those costs, the University capitalized $19,171,000 and $28,117,000 during 2013 and 2012, respectively.

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

Split-Interest Agreements. Under these agreements, donors/beneficiaries receive income for their lifetime or for a stated term, with the University receiving the remaining principal. The University records an asset related to these agreements at fair market value at year-end. The University also records a liability related to the split-interest agreements equal to the present value of expected future distributions; the discount rates applied range from 3.7% to 8.0%.

Compensated Absences. University employees accrue annual leave at rates based on length of service and for sick leave at the rate of one day per month. Annual leave accrued at June 30, 2013 and 2012 was $86,902,000 and $86,290,000, respectively, and is included in Accrued Liabilities. Sick leave accrued as of June 30, 2013 and 2012 was $35,878,000 and $34,630,000, respectively, and is included in Long-Term Liabilities.

Scholarship Allowances. Tuition and Fees are reported net of scholarship allowances that are applied to students' accounts from external funds that have already been recognized as revenue by the University. Student aid paid directly to students is reported as scholarships and fellowships expense.

Net Patient Service Revenue. Patient services revenue is recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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. Charity care is excluded from net patient service revenue. Third-party payor agreements with Medicare and Medicaid that provide for payments at amounts different from established rates 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. The estimated final settlements for open years are based on preliminary cost findings after giving consideration to interim payments that have been received on behalf of patients covered under these programs.

Charity Care. Based on established rates, the charges for patient services forgone as a result of charity care during the years ended June 30, 2013 and 2012 were $81,347,000 and $79,339,000, respectively.

The cost of charity care is estimated based on the ratio of the cost of providing care to the value of the charges forgone. Applying this ratio results in an estimated cost of charity care and uncompensated care of $32,000,000 and $32,100,000 in fiscal years 2013 and 2012, respectively.

State Appropriations. The state of Washington appropriates funds to the University on both annual and biennial bases. These revenues are reported as nonoperating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

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 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/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 funds;

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

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

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

Reclassifications. Certain amounts in the 2012 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2013 financial statements.

NOTE 2:

Cash and Cash Equivalents

Cash includes cash on hand, petty cash and bank deposits. Most cash, except for cash held at the University, is covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). As of January 1, 2013 balances in excess of FDIC limits are being covered by the collateral of the PDPC.

At June 30, 2013 and 2012, bank balances of $1,000,000 and $54,656,000, respectively, were insured by the FDIC and balances of $88,742,000 and $0, respectively, were collateralized under the PDPC.

NOTE 3:

Deposit with State of Washington

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

NOTE 4:

Student Loans Receivable

Net student loans of $70,392,000 and $69,039,000 at June 30, 2013 and 2012, respectively, consist of $54,943,000 and $54,670,000 from federal programs and $15,449,000 and $14,369,000 from University programs. Interest income from student loans for the years ended June 30, 2013 and 2012 was $1,331,000 and $1,781,000, respectively. These unsecured loans are made primarily to students who reside in the state of Washington.

NOTE 5:

Accounts Receivable

The major components of accounts receivable as of June 30, 2013 and 2012 were:

(Dollars in thousands)	2013	2012
PATIENT SERVICES, NET	$ 285,378	$ 272,166
GRANTS AND CONTRACTS	189,134	165,391
SALES AND SERVICES	23,444	22,051
TUITION	15,004	13,951
DUE FROM OTHER AGENCIES	42,649	29,521
ROYALTIES	25,201	12,591
INVESTMENTS	37,308	19,368
STATE APPROPRIATIONS	5,364	24,647
OTHER	28,423	18,557
	651,905	578,243
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(77,553)	(81,299)
TOTAL	**$ 574,352**	**$ 496,944**

NOTE 6:

Investments

INVESTMENTS – GENERAL

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board of Regents establishes investment policy, which is carried out by the Chief Investment Officer. The University of Washington Investment Committee, comprised of board members and investment professionals, advises on matters relating to the management of the University's investment portfolios. The composition of the carrying amounts of investments by type at June 30, 2013 and 2012 are listed in Table 1.

TABLE 1 – UNIVERSITY INVESTMENTS

(Dollars in thousands)

	Carrying Value	
Investment Type	**2013**	**2012**
CASH EQUIVALENTS	$ 256,781	$ 243,017
FIXED INCOME	1,655,711	1,726,157
EQUITY	1,287,084	974,827
NON-MARKETABLE ALTERNATIVES*	362,632	405,866
ABSOLUTE RETURN*	404,416	332,359
REAL ASSETS*	165,792	166,461
MISCELLANEOUS	5,917	7,343
TOTAL INVESTMENTS	**$ 4,138,333**	**$ 3,856,030**

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

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2013, the Invested Funds Pool totaled $1,564,368,000 compared to $1,386,561,000 at June 30, 2012. The Invested Funds Pool also owns units in the Consolidated Endowment Fund valued at $468,187,000 on June 30, 2013 and $422,817,000 on June 30, 2012. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 2.0% in fiscal years 2013 and 2012. Endowment operating and gift accounts received 3% in both fiscal years 2013 and 2012 with the distributions directed to University Advancement. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments purchase units in the pool on the basis of a per-unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. RCW 24.55 of the Washington State Code and the Uniform Prudent Management of Institutional Funds Act allow for total return expenditure under comprehensive prudent standards.

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

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value is $18,297,000 and $41,598,000 at June 30, 2013 and 2012, respectively.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was $49,575,000 at June 30, 2013 compared to $49,099,000 at June 30, 2012. Income received from these trusts, which is included in Investment Income, was $2,224,000 for the year ended June 30, 2013 and $2,328,000 for the year ended June 30, 2012.

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 $72,750,000 and $7,902,000 in 2013 and 2012, 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, 2013 and 2012 was $264,126,000 and $(35,132,000), respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2013 and 2012, the University had outstanding commitments to fund alternative investments of $191,669,000 and $236,531,000, respectively.

SECURITIES LENDING

The University's investment policies permit it to lend its securities to broker dealers and other entities. Due to market conditions, the University suspended this program in September 2008. As of June 30, 2013 and 2012, the University had no securities on loan.

DERIVATIVES

The University's investment policies allow investing in various derivative instruments, including futures, swaps and forwards, to manage exposures within or across the portfolio and to improve the portfolio's risk/return profile. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price. Total return swaps involve commitments to pay interest in exchange for a market linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2013 and 2012, categorized by type, the changes in fair value and the counterparty credit ratings of such derivatives for the years then ended are as follows:

TABLE 2 – INVESTMENT DERIVATIVES *(Dollars in thousands)*

Notional Amount			Fair Value as of June 30			Changes in Fair Value			Counterparty Credit Rating	
DESCRIPTION	2013	2012	ASSET CLASSIFICATION	2013	2012	INCOME CLASSIFICATION	2013	2012	2013	2012
FUTURES CONTRACTS	$ 34,462	$ 86,732	INVESTMENTS	$ 34,278	$ 90,732	INVESTMENT INCOME	$ 184	$ 8,336	NA	NA

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, 2013 or June 30, 2012. 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 2.95 and 2.84 years at June 30, 2013 and 2012, respectively.

CREDIT RISK

Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University Investment Policies limit fixed income exposure to investment grade assets. The Investment Policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The Invested Funds' liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 25% of their portfolios in government and government agency issues. The Investment Policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investment to investment grade credits.

Duration and credit risk figures at June 30, 2013 and 2012 exclude $53,541,000 and $150,232,000, respectively, of fixed-income securities held outside the CEF and the Invested Funds Pool. These amounts make up 2.80% and 7.63%, respectively, of the University's fixed income investments (including cash equivalents), and are not included in the duration figures detailed in Table 3.

The composition of the fixed income securities at June 30, 2013 and 2012, along with credit quality and effective duration measures is summarized as follows:

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

2013

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	$ 730,492	$ –	$ –	$ –	$ 730,492	2.42
U.S. GOVERNMENT AGENCY	661,159	–	–	–	661,159	3.41
MORTGAGE BACKED	–	98,779	94,196	9,067	202,042	4.33
ASSET BACKED	–	164,394	9,743	3,908	178,045	2.44
CORPORATE AND OTHER	–	86,585	–	628	87,213	2.51
TOTAL	**$ 1,391,651**	**$ 349,758**	**$ 103,939**	**$ 13,603**	**$ 1,858,951**	**2.95**

2012

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	$ 825,433	$ –	$ –	$ –	$ 825,433	3.20
U.S. GOVERNMENT AGENCY	632,353	–	–	–	632,353	2.61
MORTGAGE BACKED	–	64,500	16,739	5,920	87,159	3.59
ASSET BACKED	–	122,815	3,757	–	126,572	2.02
CORPORATE AND OTHER	–	142,890	151	4,384	147,425	1.62
TOTAL	**$ 1,457,786**	**$ 330,205**	**$ 20,647**	**$ 10,304**	**$ 1,818,942**	**2.84**

*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 at June 30, 2013 and 2012 of $771,070,000 and $637,514,000, respectively.

TABLE 4 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	June 30, 2013	June 30, 2012
EURO (EUR)	$ 114,213	$ 70,764
CHINESE RENMINBI (RMB)	73,109	52,213
INDIAN RUPEE (INR)	65,686	49,802
BRITISH POUND (GBP)	51,193	67,889
BRAZILIAN REAL (BRL)	47,956	36,451
RUSSIAN RUBLE (RUB)	47,302	38,328
JAPANESE YEN (JPY)	45,735	48,273
SWISS FRANC (CHF)	36,888	22,876
SOUTH KOREAN WON (KRW)	29,477	22,465
CANADIAN DOLLAR (CAD)	27,109	28,153
HONG KONG DOLLAR (HKD)	24,285	24,181
TAIWANESE DOLLAR (TWD)	23,796	13,159
PHILIPPINE PESO (PHP)	22,737	12,309
INDONESIA RUPIAH (IDR)	19,301	12,829
REMAINING CURRENCIES	142,283	137,822
TOTAL	**$ 771,070**	**$ 637,514**

NOTE 7:

Metropolitan Tract

The Metropolitan Tract, located in downtown Seattle, comprises approximately 11 acres of developed property, including office space, retail space, parking and a luxury hotel. This land was the original site of the University from 1861 until 1895 when the University moved to its present location. Since the early 1900's, the Metropolitan Tract has been leased by the University to entities responsible for developing and operating the property.

On July 18, 1953, the Board of Regents of the University and the entity now known as Unico Properties, Inc. entered into a lease agreement for office, retail and parking facilities which will expire in 2014. On January 19, 1980, the Board of Regents of the University entered into a lease with the Urban/ Four Seasons Hotel Venture for the Olympic Hotel property, which will expire in 2040. The hotel was operated as the Four Seasons Olympic Hotel until July 31, 2003. On August 1, 2003, the remaining lease term was assigned to LHCS Hotel Holding (2002) LLC. The hotel was renamed the Fairmont Olympic Hotel and is now managed by Fairmont Hotels & Resorts.

The balances as of June 30, 2013 and 2012 represent operating assets, net of liabilities, and land, buildings and improvements stated at appraised value as of November 1, 1954. The balances also include subsequent capital additions and improvements at cost, less retirements and accumulated depreciation of $146,350,000 and $135,236,000, respectively, and are net of the outstanding balance of the line of credit.

The Metropolitan Tract credit line, which had an initial termination date of June 30, 2009, was amended and extended in June 2011, 2012 and 2013. The most recent amendment extended the line of credit to June 30, 2014, and reduced the credit line to $8,500,000. The credit line is secured by future revenues of the Metropolitan Tract. As of June 30, 2013 and 2012, $8,500,000 was outstanding on the credit line.

On September 20, 2013, the University exercised its option to terminate its lease with Unico for the Cobb Building (and take possession of certain leasehold improvements) in 2014. The termination payment amount has not been determined as of the date of this report.

NOTE 8:

Capital Assets

Capital asset activity for the two-year period ended June 30, 2013 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2011	Additions/ Transfers	Retirements	Balance at June 30, 2012	Additions/ Transfers	Retirements	Balance at June 30, 2013
LAND	$ 121,777	$ 1,893	$ 6,056	$ 117,614	$ 9,793	$ 2,019	$ 125,388
INFRASTRUCTURE	184,020	7	–	184,027	9,975	–	194,002
BUILDINGS	3,762,604	242,763	38,679	3,966,688	735,071	14,510	4,687,249
FURNITURE, FIXTURES, AND EQUIPMENT	1,102,723	87,448	37,069	1,153,102	120,700	69,633	1,204,169
LIBRARY MATERIALS	297,431	8,937	1,600	304,768	12,481	1,645	315,604
CAPITALIZED COLLECTIONS	5,699	52	–	5,751	1,134	–	6,885
INTANGIBLE ASSETS	41,283	26,164	3	67,444	5,663	–	73,107
CONSTRUCTION IN PROGRESS	448,805	272,123	–	720,928	(253,342)	–	467,586
INTANGIBLES IN PROCESS	4,896	3,003	1,371	6,528	6,893	–	13,421
TOTAL	5,969,238	642,390	84,778	6,526,850	648,368	87,807	7,087,411
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION:							
INFRASTRUCTURE	82,088	4,199	–	86,287	4,566	–	90,853
BUILDINGS	1,536,053	130,682	32,401	1,634,334	157,299	9,137	1,782,496
FURNITURE, FIXTURES, AND EQUIPMENT	879,017	70,396	24,238	925,175	93,621	66,762	952,034
LIBRARY MATERIALS	204,033	12,482	598	215,917	14,861	1,187	229,591
INTANGIBLE ASSETS	21,561	25,170	3	46,728	9,752	–	56,480
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	2,722,752	242,929	57,240	2,908,441	280,099	77,086	3,111,454
CAPITAL ASSETS, NET	**$ 3,246,486**	**$ 399,461**	**$ 27,538**	**$ 3,618,409**	**$ 368,269**	**$ 10,721**	**$ 3,975,957**

Notes *to* Financial Statements (CONTINUED)

NOTE 9:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

Long-term liability activity for the two-year period ended June 30, 2013 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Current Portion 2012	Current Portion 2013
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	$ 209,239	$ 15,935	$ 30,560	$ 194,614	$ 11,435	$ 26,110	$ 179,939	$ 14,240	$ 14,895
REVENUE BONDS PAYABLE (NOTE 11)	1,073,370	478,945	171,650	1,380,665	299,425	19,975	1,660,115	19,975	40,900
UNAMORTIZED PREMIUM ON BONDS	21,304	66,032	6,631	80,705	32,558	11,642	101,621	7,480	8,153
TOTAL BONDS PAYABLE	1,303,913	560,912	208,841	1,655,984	343,418	57,727	1,941,675	41,695	63,948
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED (NOTE 11)	109,432	11,939	91,571	29,800	3,337	6,784	26,353	3,967	2,671
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	1,397	20	450	967	419	208	1,178	103	387
CAPITAL LEASE OBLIGATIONS (NOTE 10)	7,998	4,901	4,279	8,620	16,629	3,422	21,827	3,404	4,724
TOTAL NOTES PAYABLE AND CAPITAL LEASES	118,827	16,860	96,300	39,387	20,385	10,414	49,358	7,474	7,782
OTHER LONG-TERM LIABILITIES:									
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	31,743	–	1,516	30,227	1,354	79	31,502	3,866	799
POLLUTION REMEDIATION LIABILITY (NOTE 1)	6,000	–	–	6,000	7,000	–	13,000	–	–
SICK LEAVE (NOTE 1)	31,491	7,641	4,502	34,630	5,842	4,594	35,878	4,336	4,548
SELF-INSURANCE (NOTE 17)	50,092	24,839	12,012	62,919	28,605	11,816	79,708	12,953	11,914
NET PENSION OBLIGATION (NOTE 16)	99,124	30,381	2,040	127,465	38,550	2,643	163,372	1,987	2,341
TOTAL OTHER LIABILITIES	218,450	62,861	20,070	261,241	81,351	19,132	323,460	23,142	19,602
TOTAL LONG-TERM LIABILITIES	**$ 1,641,190**	**$ 640,633**	**$ 325,211**	**$ 1,956,612**	**$ 445,154**	**$ 87,273**	**$ 2,314,493**	**$ 72,311**	**$ 91,332**

DISCRETE COMPONENT UNITS

Long-term liability activity for the two-year period ended June 30, 2013 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Current Portion 2012	Current Portion 2013
VALLEY MEDICAL CENTER									
LIMITED TAX GENERAL OBLIGATION BONDS	$ 262,021	$ 35,636	$ 42,195	$ 255,462	$ –	$ 5,892	$ 249,570	$ 5,995	$ 6,145
REVENUE BONDS	22,460	–	1,072	21,388	–	1,230	20,158	1,445	1,520
BUILD AMERICA BONDS	61,155	–	–	61,155	–	–	61,155	–	–
NOTES PAYABLE & OTHER	3,593	–	1,728	1,865	–	765	1,100	765	772
TOTAL LONG-TERM LIABILITIES	**$ 349,229**	**$ 35,636**	**$ 44,995**	**$ 339,870**	**$ –**	**$ 7,887**	**$ 331,983**	**$ 8,205**	**$ 8,437**
NORTHWEST HOSPITAL									
REVENUE BONDS	$ 79,900	$ –	$ 1,900	$ 78,000	$ –	$ 2,000	$ 76,000	$ 2,000	$ 2,600
NOTES PAYABLE & CAPITAL LEASES	18,156	4,861	4,626	18,391	–	1,537	16,854	1,650	1,625
TOTAL LONG-TERM LIABILITIES	**$ 98,056**	**$ 4,861**	**$ 6,526**	**$ 96,391**	**$ –**	**$ 3,537**	**$ 92,854**	**$ 3,650**	**$ 4,225**

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2013, are as follows:

CAPITAL LEASES

Year *(Dollars in thousands)*	Future Payments
2014	$ 4,724
2015	4,401
2016	3,131
2017	2,772
2018	1,982
THEREAFTER	6,948
TOTAL MINIMUM LEASE PAYMENTS	23,958
LESS: AMOUNT REPRESENTING INTEREST COSTS	2,131
PRESENT VALUE OF MINIMUM PAYMENTS	**$ 21,827**

Buildings and equipment under capital leases were as follows:

(Dollars in thousands)	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012	Additions	Retirements	Balance at June 30, 2013
EQUIPMENT	$ 28,183	$ 4,901	$ 4,022	$ 29,062	$ 16,630	$ 14,989	$ 30,703
REAL ESTATE	9,987	–	–	9,987	–	–	9,987
TOTAL	38,170	4,901	4,022	39,049	16,630	14,989	40,690
LESS ACCUMULATED DEPRECIATION:							
EQUIPMENT	22,204	2,814	4,022	20,996	5,027	14,989	11,034
REAL ESTATE	9,987	–	–	9,987	–	–	9,987
TOTAL ACCUMULATED DEPRECIATION	32,191	2,814	4,022	30,983	5,027	14,989	21,021
LEASED CAPITAL ASSETS, NET	**$ 5,979**	**$ 2,087**	**$ –**	**$ 8,066**	**$ 11,603**	**$ –**	**$ 19,669**

OPERATING LEASES

The University has certain lease agreements in effect that are considered operating leases, which are primarily for leased building space. During the years ended June 30, 2013 and 2012, the University recorded rent expenses of $31,303,000 and $29,299,000, respectively, for these leases. Future lease payments under these leases as of June 30, 2013 are as follows:

Years	*(Dollars in Thousands)*
2014	$ 45,436
2015	41,472
2016	31,794
2017	22,600
2018	21,028
2019-2023	76,005
2024-2028	31,945
2029-2033	21,328
THEREAFTER	64,764
TOTAL MINIMUM LEASE PAYMENTS	**$ 356,372**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2013 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 1.64% to 6.50%. Debt service requirements at June 30, 2013 were as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*

	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON REVENUE BONDS		NOTES PAYABLE AND OTHER	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 14,895	$ 8,782	$ 40,900	$ 79,832	$ 3,058	$ 1,055
2015	15,459	8,070	36,025	77,544	3,522	942
2016	18,290	7,197	38,375	75,906	2,820	841
2017	17,620	6,305	39,860	74,281	2,935	733
2018	14,300	5,409	39,110	72,652	2,822	612
2019 - 2023	60,810	17,411	215,205	335,615	10,953	1,344
2024 - 2028	36,940	3,641	229,740	281,411	1,059	80
2029 - 2033	1,625	33	230,630	221,827	200	1
2034 - 2038	–	–	398,445	155,157	162	–
2039 - THEREAFTER	–	–	391,825	48,789	–	–
TOTAL PAYMENTS	**$ 179,939**	**$ 56,848**	**$ 1,660,115**	**$ 1,423,014**	**$ 27,531**	**$ 5,608**

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

ISSUANCE ACTIVITY

On December 5, 2012, the University issued $299,425,000 in General Revenue & Refunding Bonds, 2012C, at a premium of $30,721,000. The proceeds were used to fund various projects such as renovation of Husky Stadium, the Husky Union Building, and the Ethnic Cultural Center; implementation of the Housing and Food Services Master Capital Plan, Phases 1-3; expansion of the UW Medical Center; improvements at the University's Bothell and Tacoma campuses; and construction of the new Molecular Engineering Building. In addition, proceeds were used to pay $75,000,000 in commercial paper. The 2012C bonds have coupon rates ranging from 2.00% to 5.00% with an average coupon rate of 3.61%. The average life of the 2012C General Revenue bonds is 21.75 years with final maturity on July 1, 2043.

REFUNDING ACTIVITY

On July 28, 2011, the University issued $211,370,000 in General Revenue & Refunding Bonds, 2011A. Part of the proceeds were used to refund 63-20 financings issued through third parties. The amount refunded was $89,320,000; the new par was $74,515,000 (plus premium of $8,148,000 and debt service reserve contributions of $8,582,000). The refunded bonds had coupon rates ranging from 5.00% to 6.60%; the new bonds have an average interest rate of 4.623%. The refunding decreased the total debt service payments to be made over the next 20.68 years by $16,967,000 and resulted in a total economic gain of $13,703,000. The average life of the 2011A General Revenue bonds (new money only) is 15.0 years with final maturity on April 1, 2035. The average interest rate of these bonds is 4.839%.

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

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

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

On February 5, 2013, the state of Washington refunded General Obligation Bonds totaling $11,870,000 (UW portion) with new bond issuances totaling $11,435,000 and premium of $1,837,000. The refunded bonds had a coupon rate of 5.00%; the new bonds have an average interest rate of 4.50%. The refunding decreased the total debt service payments to be made over the next 5 years by $837,000 and resulted in a total economic gain of $815,000.

Combined COP Refunding:
On August 24, 2011, the state of Washington refunded Certificates of Participation (COP) totaling $11,370,000 with new COP issuances totaling $10,310,000 (plus premium of $1,352,000). The refunding decreased the total debt service payments to be made over the next 11 years by $1,625,000 and resulted in a total economic gain of $1,412,000.

On March 19, 2013, the state of Washington refunded COP totaling $2,740,000 with new COP issuances totaling $2,410,000 (plus premium of $358,000). The refunding decreased the total debt service payments to be made over the next 12 years by $338,000 and resulted in a total economic gain of $368,000.

COMMERCIAL PAPER PROGRAM

In July 2006, the Board of Regents authorized a commercial paper program with a maximum borrowing limit of $250,000,000, payable from University general revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2013 and 2012, there was $25,000,000 and $25,000,000, respectively, in outstanding commercial paper.

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

During fiscal year 2013, the University issued an additional $75,000,000 and retired $75,000,000 of commercial paper debt.

SUBSEQUENT DEBT OFFERING

On August 5, 2013, the University issued $20,000,000 in short-term commercial paper.

On September 5, 2013, the University issued General Revenue Bonds Series 2013. Par value of the bonds is $146,400,000, and total bond proceeds were $155,000,000. The proceeds will be used to partially finance renovations to Husky Stadium, implementation of the Housing and Food Services Master Capital Plan, Phases 2 and 3, and construction of Husky Ballpark. In addition, bond proceeds were used to pay off $20,000,000 in commercial paper issued on August 5, 2013.

NOTE 12:

Pledged Revenues

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

(Dollars in thousands) Source of Revenue Pledged	Total Future Revenues Pledged*	Description of Debt	Purpose of Debt	Term of Commitment	Proportion of Current Year Debt Service to Current Year Pledged Revenues
Student Facilities Fees and earnings on invested fees	$ 58,161	Student Facilities Refunding Revenue Bonds issued in 2005	Construction of student recreational sports facilities	2030	19.2%

** Total future principal and interest payments on the debt*

NOTE 13:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2013 and 2012 are summarized as follows:

(Dollars in thousands) Operating Expenses	2013	2012
INSTRUCTION	$ 987,945	$ 935,666
RESEARCH	756,162	777,040
PUBLIC SERVICE	47,818	40,330
ACADEMIC SUPPORT	261,222	248,391
STUDENT SERVICES	36,322	37,029
INSTITUTIONAL SUPPORT	200,872	192,139
OPERATION & MAINTENANCE OF PLANT	206,510	173,742
SCHOLARSHIPS & FELLOWSHIPS	140,897	107,704
AUXILIARY ENTERPRISES	203,615	194,949
MEDICAL-RELATED	999,687	961,106
DEPRECIATION/AMORTIZATION	280,099	242,929
TOTAL OPERATING EXPENSES	**$ 4,121,149**	**$ 3,911,025**

Instruction
Instruction includes expenses for all activities that are part of an institution's instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; and tutorial instruction are included in this category. The University's professional and continuing education programs are also included.

Research
The research category includes all expenses for activities specifically organized to produce research, and which are funded by federal, state, and private institutions.

Public Service
Public service includes activities conducted primarily to provide non-instructional services to individuals and groups other than the University and its students, such as community service programs, conferences, institutes and general advisory services.

The activities of the University's public radio stations, Center for Educational Leadership and clinical trials are included in this category.

Academic Support
Academic support includes expenses incurred to provide support services for the institution's primary missions: instruction, research, and public service. The activities of the University's academic administration, libraries, museums and galleries, and information technology support for academic activities are included in this category.

Student Services
The student services category includes the offices of admissions and the registrar. The activities of the Center for Undergraduate Advising, Diversity, and Student Success, the operations of the Rubenstein Pharmacy in the student health center, and the Offices of the University Registrar and Admissions are included in this category.

Institutional Support
The institutional support category includes central activities that manage long-range planning for the institution, such as planning and programming operations, and legal services; fiscal operations; space management, procurement and activities concerned with community and alumni relations. The University's central administration departments and information technology support for non-academic activities are included in this category.

Operation and Maintenance of Plant
The operation and maintenance of plant category includes the administration, operation, maintenance, preservation, and protection of the institution's physical plant.

Scholarships and Fellowships
This category includes expenses for scholarships and fellowships and other financial aid not funded from existing University resources. Financial aid funded from existing University resources are considered Scholarship Allowances, which are reflected as an offset to tuition revenues. Expenditure of amounts received from the Washington State Need grant, Washington Higher Education grant, and Pell grants are included in this category.

Auxiliary Enterprises
Auxiliary enterprises furnish goods or services to students, faculty, staff or the general public. These units charge a fee directly related to the cost of the goods or services. A distinguishing characteristic of an auxiliary enterprise is that it operates as a self-supporting activity. The activities of the University's Intercollegiate Athletics, Commuter Services and Housing and Food Services departments are included in this category.

Medical-related
The medical-related category includes all expenses associated with patient-care operations, including nursing and other professional services, general services, administrative services, and fiscal services. The activities of UWMC, UWP, and Neighborhood Clinics are included in this category (Note 1).

Depreciation/Amortization
Depreciation and amortization reflect a periodic expensing of the cost of capitalized assets, such as buildings, equipment, software, or other intangible assets, such as bond related costs, spread over their estimated useful lives.

NOTE 14:

Related Parties

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center in Seattle, is a component unit of King County, Washington. It has been managed by the University under a management contract between King County and the University since 1967. The current management contract will be in effect through June 30, 2015.

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

HMC revenues and expenses are not recognized in the University's financial statements. The University's financial statements do, however, include accounts receivable from HMC of $23,404,000 in 2013 and $25,365,000 in 2012, as well as HMC investments of $2,955,000 and $2,659,000, respectively, and accrued liabilities of $18,526,000 and $17,952,000, respectively.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University of Washington. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2013 and 2012, the UWF transferred $64,813,000 and $50,516,000, respectively, to the University in gifts and grants received on its behalf; these are included in the financial statements of the University. The remaining amounts retained by the UWF are not significant to the University's financial statements.

The University of Washington Alumni Association is a tax-exempt entity that was established to connect and celebrate alumni and to support the University's mission. The Alumni Association received $2,491,000 and $2,456,000 from the University in support of its operations in fiscal years 2013 and 2012, respectively.

During fiscal years 2013 and 2012, UWMC provided $2,100,000 and $4,100,000, respectively, to Northwest Hospital (NWH, a discrete component unit of the University) to mitigate the negative impact of several state program reductions including the hospital safety net funding. These amounts are presented in the Statements of Revenues, Expenses and Changes in Net Position for the University as a reduction of Patient Services revenue and for NWH as an increase in Patient Services Revenue. In addition, $8,321,000 and $1,171,000, respectively, of capital funding was also provided by UWMC to NWH, and is reflected by the University in Other Nonoperating Revenues (Expenses) and by NWH in Capital Grants, Gifts and Other.

During fiscal year 2012, in support of strategic program expansion, $6,400,000 of operational funding was provided by UWMC to NWH, which is reflected by the University in Other Nonoperating Revenues (Expenses), and by NWH in Other Operating Revenue ($2,000,000) and in Other Nonoperating Revenues ($4,400,000).

NOTE 15:

Other Post Employment Benefits (OPEB)

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

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The healthcare premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of retirees.

An additional factor in the OPEB obligation is a payment that is required by the state legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). For both calendar years 2013 and 2012, this amount was $150 per retiree eligible for parts A and B of Medicare. This is also passed through to state agencies through active employee rates charged to the agency.

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

ACTUARIAL STUDY

Actuarial studies, performed every two years by the Washington Office of the State Actuary, calculated that the total OPEB obligation of the state of Washington at January 1, 2013 and 2011 was $3.7 billion and $3.5 billion, respectively. The annual cost was $342 million and $321 million for the University for 2013 and 2011, respectively. The actuary calculated the OPEB obligation based on individual state employee data, including age, retirement eligibility and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

The actuary's allocation of the cumulative statewide liability related to the University and its unconsolidated affiliates, was estimated at approximately $671 million and $605 million for 2013 and 2011, respectively. These amounts are not included in the University's financial statements.

The University paid $289 million and $297 million for healthcare expenses in 2013 and 2012, respectively, which included its pay-as-you-go portion of the OPEB liability, calculated by the actuary at $6.8 million and $7.4 million in 2013 and 2011, respectively.

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

NOTE 16:

Pension Plans

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

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description: The University of Washington contributes to PERS, a cost sharing, multiple-employer, defined-benefit pension plan administered by the state of Washington Department of Retirement Systems. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases beginning at age 66 to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living allowance to eligible nonacademic plan members hired on or after October 1, 1977. In addition, PERS Plan 3 has a defined-contribution component, which is fully funded by employee contributions. The authority to establish and amend benefit provisions resides with the legislature.

The Washington State Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Department of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380, or visiting www.drs.wa.gov/administration/.

Funding Policy: The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members were required to contribute 6% of their annual covered salary in fiscal years 2013 and 2012. Contributions for Plan 2 members are determined by the aggregate method, and may vary over time. The contribution rate for Plan 2 employees at June 30, 2013 and 2012 was 4.6% and 4.6%, respectively. Plan 3 members can choose contributions ranging from 5% to 15% of salary, based on the age of the member. The defined-contribution benefit for PERS 3 will depend on the member's contributions, the investment earnings on those contributions, and if an annuity is taken, the age at which the member receives payment. The blended contribution rate for the University at June 30, 2013 and 2012, for each of PERS Plans 1, 2, and 3 was 7.21% and 7.18% for the respective years.

The University's contributions to PERS for the years ended June 30, 2013, 2012, and 2011 were $62,030,000, $59,708,000, $42,967,000, respectively, as determined by rates established in accordance with RCW 41.45.

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

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

403(b) Plan Description: Contributions to the plan are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from 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.

403(b) Funding Policy: Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employee and employer contributions for the years ended June 30, 2013 and 2012 were $90,837,000 and $86,912,000, respectively.

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

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

401(a) Plan Funding: The University received an actuarial valuation of the supplemental payment component of the UWRP with a valuation date of July 1, 2013. The previous evaluations were performed in 2011 and 2009. The University has set aside $148,270,000 and $109,588,000 as of June 30, 2013 and 2012, respectively, for this liability. These funds do not meet the GASB technical definition of "Plan Assets" since they have not been segregated and restricted in a trust, or equivalent arrangement. The UAL shown in the table above, therefore, does not reflect a credit for these amounts.

UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN

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

(Dollars in thousands)	2013	2011	2009
UAL	$ 292,535	$ 235,048	$ 218,036
NORMAL COST	9,529	10,774	8,860
AMORTIZATION OF UAL, INCLUDING INTEREST	29,021	19,607	17,220
ARC	**$ 38,550**	**$ 30,381**	**$ 26,080**

(Dollars in thousands) **Actuarial assumptions**	2013	2011	2009
PAYROLL COVERED BY PLAN	$ 1,047,000	$ 1,129,000	$ 976,000
RATE OF RETURN ASSUMPTION	4.25%	4.25%	5.00%
SALARY INCREASES FOR YEARS 1 AND 2	3%	2%	2%
SALARY INCREASE FOR THIRD YEAR	3%	4%	4%
SALARY INCREASES THEREAFTER	3%	4%	4%

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

The following table reflects the activity in the Net Pension Obligation for the years ended June 30, 2013, 2012, and 2011:

(Dollars in thousands)	2013	2012	2011
BALANCE AT BEGINNING OF FISCAL YEAR	$ 127,465	$ 99,124	$ 70,675
ANNUAL REQUIRED CONTRIBUTION	38,550	30,381	30,381
PAYMENTS TO BENEFICIARIES	(2,643)	(2,040)	(1,932)
BALANCE AT END OF FISCAL YEAR	**$ 163,372**	**$ 127,465**	**$ 99,124**

NOTE 17:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2013 and 2012 were $156,326,000 and $568,337,000, respectively. These expenditures will be funded from local funds and state appropriations.

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

The University is exposed to risk of loss related to tort liability, injuries to employees and loss of property. The University purchases insurance protection for workers' compensation as well as marine, aviation and certain other risks. The University also purchases insurance protection for loss of property at self-sustaining units, bond-financed buildings and where otherwise required by contract; otherwise, the risk of property loss is retained, unfunded. For medical professional, general, employment practices and automobile liability, the University maintains a program of self-insurance reserves and excess insurance coverage. The self-insurance reserve represents the estimated ultimate cost of settling claims resulting from events that have occurred on or before the statements of net position date. The reserve includes the amount that will be required for future payments of claims that have been reported, and claims related to events that have occurred but have not yet been reported. The reserve was discounted at 4% in the year ended June 30, 2011. Beginning in fiscal year 2012, the University is no longer discounting the reserve.

The self-insurance reserve is estimated through an actuarial calculation and included in Long-Term Liabilities. Changes in the self-insurance reserve for the years ended June 30, 2013, 2012, and 2011 are noted below:

(Dollars in thousands)	2013	2012	2011
RESERVE AT BEGINNING OF FISCAL YEAR	$ 62,919	$ 50,092	$ 57,624
INCURRED CLAIMS AND CHANGES IN ESTIMATES	28,605	24,839	6,361
CLAIM PAYMENTS	(11,816)	(12,012)	(13,893)
RESERVE AT END OF FISCAL YEAR	**$ 79,708**	**$ 62,919**	**$ 50,092**

On October 26, 2012, the Commissioners of Public Hospital District No. 1 filed a lawsuit alleging that Valley Medical Center lacked the authority to assent to the strategic alliance agreement and seeking to prevent the Board of Trustees formed by the strategic alliance agreement from exercising "legislative responsibilities of the District's elected commissioners." The superior court ruled for the University, and the case has been appealed. Although the University cannot predict the result of this appeal, University management believes that the lawsuit will not have a material adverse impact upon the financial position of the University.

As enacted, the health reform law will change how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital (DSH) payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Further, it provides for a value-based purchasing program, the establishment of accountable care organizations (ACOs) and bundled payment pilot programs, which may create sources of additional revenue. On June 28, 2012, the United States Supreme Court upheld the constitutionality of the individual mandate provisions of the health reform law but struck down the provisions that would have allowed Health and Human Services (HHS) to penalize states that do not implement the Medicaid expansion provisions with the loss of existing federal Medicaid funding. States that choose not to implement the Medicaid expansion will forgo funding established by the health reform law to cover most of the expansion costs. The state of Washington has elected to implement Medicaid expansion in order to take advantage of all opportunities associated with healthcare reform. A Health Care Cabinet has been established by the state of Washington and has been tasked with implementing the policies and rules necessary to carry out healthcare reform statewide for all affected state agencies. In October 2013, the Washington Health Benefit Exchange began open enrollment for Washington State residents through Washington Healthplanfinder. The insurance exchange, coupled with penalties for individuals electing to not obtain health insurance and subsidies for individuals meeting certain income thresholds, will likely result in reductions in uninsured and underinsured patients as well as reducing the amount of revenue generated from traditional commercial insurance plans. The reduction of uninsured and underinsured patients will also have an impact on Medicare and DSH reimbursement methodologies. The University has not yet determined the financial impact that this legislation might cause as further provisions become effective.

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, 2013**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
CURRENT ASSETS:						
TOTAL CURRENT ASSETS	$ 1,459,050	$ (9,587)	$ 1,384,933	$ 83,704	$ 61,368	$ 22,336
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	3,732,174	–	3,630,935	101,239	90,137	11,102
CAPITAL ASSETS, NET	3,975,957	–	3,641,225	334,732	11,588	323,144
TOTAL ASSETS	**$ 9,167,181**	**$ (9,587)**	**$ 8,657,093**	**$ 519,675**	**$ 163,093**	**$ 356,582**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 729,414	$ (28,746)	$ 662,260	$ 95,900	$ 50,194	$ 45,706
TOTAL NONCURRENT LIABILITIES	2,272,716	–	1,959,076	313,640	–	313,640
TOTAL LIABILITIES	**3,002,130**	**(28,746)**	**2,621,336**	**409,540**	**50,194**	**359,346**
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,038,495	–	2,031,336	7,159	11,588	(4,429)
RESTRICTED:						
NONEXPENDABLE	1,182,986	–	1,182,986	–	–	–
EXPENDABLE	1,344,643	–	1,344,643	–	–	–
UNRESTRICTED	1,598,927	19,159	1,476,792	102,976	101,311	1,665
TOTAL NET POSITION	**6,165,051**	**19,159**	**6,035,757**	**110,135**	**112,899**	**(2,764)**
TOTAL LIABILITIES AND NET POSITION	**$ 9,167,181**	**$ (9,587)**	**$ 8,657,093**	**$ 519,675**	**$ 163,093**	**$ 356,582**

(Dollars in thousands) **Statements of Net Position – June 30, 2012**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
CURRENT ASSETS:						
TOTAL CURRENT ASSETS	$ 1,161,106	$ (3,029)	$ 1,096,993	$ 67,142	$ 48,418	$ 18,724
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	3,623,928	–	3,433,197	190,731	93,981	96,750
CAPITAL ASSETS, NET	3,618,409	–	3,320,837	297,572	12,464	285,108
TOTAL ASSETS	**$ 8,403,443**	**$ (3,029)**	**$ 7,851,027**	**$ 555,445**	**$ 154,863**	**$ 400,582**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 728,133	$ (11,426)	$ 655,129	$ 84,430	$ 46,827	$ 37,603
TOTAL NONCURRENT LIABILITIES	1,933,702	–	1,568,311	365,391	–	365,391
TOTAL LIABILITIES	**2,661,835**	**(11,426)**	**2,223,440**	**449,821**	**46,827**	**402,994**
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,113,238	–	2,186,896	(73,658)	12,464	(86,122)
RESTRICTED:						
NONEXPENDABLE	1,115,854	–	1,115,854	–	–	–
EXPENDABLE	1,161,583	–	1,161,583	–	–	–
UNRESTRICTED	1,350,933	8,397	1,163,254	179,282	95,572	83,710
TOTAL NET POSITION	**5,741,608**	**8,397**	**5,627,587**	**105,624**	**108,036**	**(2,412)**
TOTAL LIABILITIES AND NET POSITION	**$ 8,403,443**	**$ (3,029)**	**$ 7,851,027**	**$ 555,445**	**$ 154,863**	**$ 400,582**

(Dollars in thousands)

Statements of Revenues, Expenses and Changes in Net Position – Year ended June 30, 2013	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 808,053	$ –	$ 808,053	$ –	$ –	$ –
PATIENT SERVICES	1,162,389	(16,942)	991,483	187,848	187,848	–
GRANT REVENUE	1,310,718	–	1,310,718	–	–	–
OTHER OPERATING REVENUE	501,760	(26,003)	504,327	23,436	332	23,104
TOTAL OPERATING REVENUE	**3,782,920**	**(42,945)**	**3,614,581**	**211,284**	**188,180**	**23,104**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	3,841,050	(75,298)	3,698,200	218,148	209,455	8,693
DEPRECIATION / AMORTIZATION	280,099	–	262,297	17,802	1,648	16,154
TOTAL OPERATING EXPENSES	**4,121,149**	**(75,298)**	**3,960,497**	**235,950**	**211,103**	**24,847**
OPERATING INCOME (LOSS)	**(338,229)**	**32,353**	**(345,916)**	**(24,666)**	**(22,923)**	**(1,743)**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	218,165	–	218,165	–	–	–
GIFTS	101,823	–	101,823	–	–	–
INVESTMENT INCOME	341,241	–	335,200	6,041	6,037	4
OTHER NONOPERATING REVENUES (EXPENSES)	(31,325)	(21,591)	(21,995)	12,261	21,749	(9,488)
NET NONOPERATING REVENUES (EXPENSES)	**629,904**	**(21,591)**	**633,193**	**18,302**	**27,786**	**(9,484)**
INCOME (LOSS) BEFORE OTHER REVENUES	**291,675**	**10,762**	**287,277**	**(6,364)**	**4,863**	**(11,227)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	73,886	–	73,886	–	–	–
GIFTS TO PERMANENT ENDOWMENTS	57,882	–	57,882	–	–	–
TOTAL OTHER REVENUES	**131,768**	**–**	**131,768**	**–**	**–**	**–**
INCREASE (DECREASE) IN NET POSITION	**423,443**	**10,762**	**419,045**	**(6,364)**	**4,863**	**(11,227)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,741,608	8,397	5,616,712	116,499	108,036	8,463
NET POSITION – END OF YEAR	**$ 6,165,051**	**$ 19,159**	**$ 6,035,757**	**$ 110,135**	**$ 112,899**	**$ (2,764)**

(Dollars in thousands)

Statements of Revenues, Expenses and Changes in Net Position – Year ended June 30, 2012	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 681,227	$ –	$ 681,227	$ –	$ –	$ –
PATIENT SERVICES	1,097,525	(6,140)	945,137	158,528	158,528	–
GRANT REVENUE	1,301,554	–	1,301,554	–	–	–
OTHER OPERATING REVENUE	442,064	(22,921)	438,588	26,397	90	26,307
TOTAL OPERATING REVENUE	**3,522,370**	**(29,061)**	**3,366,506**	**184,925**	**158,618**	**26,307**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	3,668,096	(51,048)	3,502,120	217,024	208,117	8,907
DEPRECIATION / AMORTIZATION	242,929	–	231,783	11,146	1,468	9,678
TOTAL OPERATING EXPENSES	**3,911,025**	**(51,048)**	**3,733,903**	**228,170**	**209,585**	**18,585**
OPERATING INCOME (LOSS)	**(388,655)**	**21,987**	**(367,397)**	**(43,245)**	**(50,967)**	**7,722**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	218,343	–	218,343	–	–	–
GIFTS	76,718	–	76,718	–	–	–
INVESTMENT INCOME	34,123	–	42,121	(7,998)	2,394	(10,392)
OTHER NONOPERATING REVENUES (EXPENSES)	(12,125)	(15,590)	(18,995)	22,460	21,960	500
NET NONOPERATING REVENUES (EXPENSES)	**317,059**	**(15,590)**	**318,187**	**14,462**	**24,354**	**(9,892)**
INCOME (LOSS) BEFORE OTHER REVENUES	**(71,596)**	**6,397**	**(49,210)**	**(28,783)**	**(26,613)**	**(2,170)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	31,580	–	31,580	–	–	–
GIFTS TO PERMANENT ENDOWMENTS	53,259	–	53,259	–	–	–
TOTAL OTHER REVENUES	**84,839**	**–**	**84,839**	**–**	**–**	**–**
INCREASE (DECREASE) IN NET POSITION	**13,243**	**6,397**	**35,629**	**(28,783)**	**(26,613)**	**(2,170)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,728,365	2,000	5,591,958	134,407	134,649	(242)
NET POSITION – END OF YEAR	**$ 5,741,608**	**$ 8,397**	**$ 5,627,587**	**$ 105,624**	**$ 108,036**	**$ (2,412)**

(Dollars in thousands)

Statements of Cash Flows – Year ended June 30, 2013	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (115,280)	$ –	$ (161,271)	$ 45,991	$ (23,738)	$ 69,729
NONCAPITAL FINANCING ACTIVITIES	413,594	–	389,341	24,253	24,253	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(331,829)	–	(325,546)	(6,283)	216	(6,499)
INVESTING ACTIVITIES	61,563	–	124,128	(62,565)	9,769	(72,334)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**28,048**	**–**	**26,652**	**1,396**	**10,500**	**(9,104)**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	50,158	–	28,781	21,377	8,628	12,749
CASH AND CASH EQUIVALENTS – END OF THE YEAR	**$ 78,206**	**$ –**	**$ 55,433**	**$ 22,773**	**$ 19,128**	**$ 3,645**

(Dollars in thousands)

Statements of Cash Flows – Year ended June 30, 2012	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (20,092)	$ –	$ (13,417)	$ (6,675)	$ (14,293)	$ 7,618
NONCAPITAL FINANCING ACTIVITIES	326,470	–	335,400	(8,930)	(8,930)	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(358,857)	–	(290,104)	(68,753)	(2,085)	(66,668)
INVESTING ACTIVITIES	59,922	–	(28,609)	88,531	21,418	67,113
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**7,443**	**–**	**3,270**	**4,173**	**(3,890)**	**8,063**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	42,715	–	25,511	17,204	12,518	4,686
CASH AND CASH EQUIVALENTS – END OF THE YEAR	**$ 50,158**	**$ –**	**$ 28,781**	**$ 21,377**	**$ 8,628**	**$ 12,749**

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, 2013			June 30, 2012		
	Total Discrete Component Units	**Northwest Hospital**	**Valley Medical Center**	**Total Discrete Component Units**	**Northwest Hospital**	**Valley Medical Center**
ASSETS						
CURRENT ASSETS:						
TOTAL CURRENT ASSETS	$ 225,288	$ 81,949	$ 143,339	$ 230,100	$ 67,790	$ 162,310
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	136,469	50,845	85,624	142,566	46,920	95,646
CAPITAL ASSETS, NET	510,947	123,243	387,704	510,903	123,911	386,992
TOTAL ASSETS	**$ 872,704**	**$ 256,037**	**$ 616,667**	**$ 883,569**	**$ 238,621**	**$ 644,948**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 144,047	$ 62,615	$ 81,432	$ 143,921	$ 58,711	$ 85,210
TOTAL NONCURRENT LIABILITIES	412,175	88,629	323,546	424,406	92,741	331,665
TOTAL LIABILITIES	**556,222**	**151,244**	**404,978**	**568,327**	**151,452**	**416,875**
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	93,222	38,227	54,995	99,131	36,010	63,121
RESTRICTED:						
NONEXPENDABLE	1,773	1,773	–	1,719	1,719	–
EXPENDABLE	8,537	809	7,728	8,673	966	7,707
UNRESTRICTED	212,950	63,984	148,966	205,719	48,474	157,245
TOTAL NET POSITION	**316,482**	**104,793**	**211,689**	**315,242**	**87,169**	**228,073**
TOTAL LIABILITIES AND NET POSITION	**$ 872,704**	**$ 256,037**	**$ 616,667**	**$ 883,569**	**$ 238,621**	**$ 644,948**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position**	Year Ended June 30, 2013			Year Ended June 30, 2012		
	Total Discrete Component Units	**Northwest Hospital**	**Valley Medical Center**	**Total Discrete Component Units**	**Northwest Hospital**	**Valley Medical Center**
REVENUES						
OPERATING REVENUES:						
PATIENT SERVICES	$ 741,581	$ 312,206	$ 429,375	$ 704,423	$ 285,311	$ 419,112
OTHER OPERATING REVENUE	38,888	15,601	23,287	32,073	14,778	17,295
TOTAL OPERATING REVENUE	**780,469**	**327,807**	**452,662**	**736,496**	**300,089**	**436,407**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	733,981	299,824	434,157	694,146	283,101	411,045
DEPRECIATION / AMORTIZATION	52,028	19,118	32,910	54,529	21,575	32,954
TOTAL OPERATING EXPENSES	**786,009**	**318,942**	**467,067**	**748,675**	**304,676**	**443,999**
OPERATING INCOME (LOSS)	**(5,540)**	**8,865**	**(14,405)**	**(12,179)**	**(4,587)**	**(7,592)**
NONOPERATING REVENUES (EXPENSES)						
PROPERTY TAX REVENUE	16,254	–	16,254	17,818	–	17,818
INVESTMENT INCOME	7,519	4,569	2,950	6,767	1,963	4,804
OTHER NONOPERATING EXPENSES	(25,333)	(4,150)	(21,183)	(21,006)	(77)	(20,929)
NET NONOPERATING REVENUES	**(1,560)**	**419**	**(1,979)**	**3,579**	**1,886**	**1,693**
INCOME (LOSS) BEFORE OTHER REVENUES	**(7,100)**	**9,284**	**(16,384)**	**(8,600)**	**(2,701)**	**(5,899)**
CAPITAL GRANTS, GIFTS AND OTHER	8,340	8,340	–	1,263	1,263	–
INCREASE (DECREASE) IN NET POSITION	**1,240**	**17,624**	**(16,384)**	**(7,337)**	**(1,438)**	**(5,899)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	315,242	87,169	228,073	322,579	88,607	233,972
NET POSITION – END OF YEAR	**$ 316,482**	**$ 104,793**	**$ 211,689**	**$ 315,242**	**$ 87,169**	**$ 228,073**

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UNIVERSITY *of*
WASHINGTON

Supplemental
Bondholder Information

Students & Enrollment

	Autumn Quarter				
	2009	2010	2011	2012	2013
Undergraduate					
Freshmen (1)					
Applied	23,156	25,269	27,469	29,723	33,857
Accepted	13,748	14,753	16,527	18,152	19,560
Percent Accepted to Applied	59%	58%	60%	61%	58%
Enrolled	5,855	6,122	6,546	6,931	7,233
Percent Enrolled to Accepted	43%	41%	40%	38%	37%
Transfers (1)					
Applied	6,788	7,430	8,277	8,415	8,809
Accepted	3,477	3,854	4,250	4,448	4,705
Pecent Accepted to Applied	51%	52%	51%	53%	53%
Enrolled	2,553	2,783	3,046	3,084	3,252
Percent Enrolled to Accepted	73%	72%	72%	69%	69%
Total					
Undergraduate FTE (2)	31,397	32,833	33,827	34,402	35,737
Undergraduate Headcount (2)	34,972	35,615	36,192	36,785	37,895
Tuition and Fees (full academic year):					
Undergraduate Resident	$7,692	$8,701	$10,574	$12,383	$12,397
Undergraduate Non-Resident	$24,367	$25,329	$28,058	$29,938	$31,971
Additional Enrollment Statistics:					
% of students from outside state - Graduate and Undergraduate	24%	25%	32%	30%	30%
% retention (Freshman to Sophomore)	91%	92%	92%	91%	91%
Mean GPA	3.69	3.69	3.70	3.69	3.69
Median GPA	3.75	3.76	3.77	3.76	3.77
% of class reporting GPA data	99%	99%	100%	100%	100%
Mean Combined SAT scores	1197	1198	1193	1198	1200
Median Combined SAT scores	1210	1210	1210	1210	1220
% of class reporting SAT data	90%	90%	86%	86%	87%
Graduate					
Applied	20,636	23,316	24,692	26,350	27,381
Accepted	6,463	6,844	7,493	8,106	8,980
Percent Accepted to Applied	31%	29%	30%	31%	33%
Enrolled	3,407	3,485	3,720	3,643	4,383
Percent Enrolled to Accepted	53%	51%	50%	45%	49%
Graduate FTE (3)	11,745	12,499	12,820	13,049	13,557
Graduate Headcount (3)	11,996	12,389	12,574	12,782	13,177
Tuition and Fees (full academic year):					
Graduate Resident	$11,727	$11,989	$13,438	$14,698	$15,666
Graduate Non-Resident	$24,567	$25,329	$26,308	$27,318	$28,119
Buisness Masters Resident	$23,917	$25,099	$26,338	$27,608	$28,950
Buisness Masters Non-Resident	$35,657	$37,419	$38,408	$40,158	$42,126

(1) Beginning with 2013 Bondholders Report edition, all freshman and transfer student figures have been updated to include Seattle, Tacoma, and Bothell campuses.
(2) Includes nonmatriculated undergraduate students at Seattle, Tacoma, and Bothell campuses.
(3) Includes graduate students at Seattle, Tacoma, and Bothell campuses.

Students & Enrollment

(Cont'd)

Professional	Autumn Quarter 2009	2010	2011	2012	2013
Law:					
Applied	2,448	2,560	2,656	2,930	2,624
Accepted	623	545	586	638	686
Enrolled	181	186	182	176	143
Law Headcount	509	528	520	527	508
Pharmacy:					
Applied	396	470	354	411	413
Accepted	85	86	108	123	131
Enrolled	81	80	94	99	96
Pharmacy Headcount	375	338	350	361	372
Dentistry:					
Applied	1,152	1,027	996	1,085	1,058
Accepted	72	79	80	83	82
Enrolled	63	63	63	62	63
Dental Headcount	235	242	258	260	262
Medicine:					
Applied	4,266	4,459	4,962	5,101	6,015
Accepted	271	270	285	272	296
Enrolled	216	216	219	220	235
Medicine Headcount	794	828	851	851	858
Total Professional FTE	3,739	3,970	3,932	3,949	4,086
Total Professional Headcount	1,913	1,936	1,979	1,999	2,000
Tuition and Fees (full academic year):					
Law Resident	$22,267	$24,339	$26,608	$29,948	$31,983
Law Non-Resident	$32,777	$37,299	$40,678	$42,918	$45,024
Pharmacy Resident	$16,187	$18,389	$20,778	$24,018	$26,325
Pharmacy Non-Resident	$31,487	$33,659	$37,878	$43,688	$47,964
Medical Resident	$20,997	$23,049	$25,548	$28,268	$30,186
Medical Non-Resident	$50,037	$52,029	$54,528	$57,198	$59,175
Dentistry Resident	$20,997	$23,869	$27,388	$32,948	$36,150
Dentistry Non-Resident	$50,037	$50,049	$50,298	$53,018	$56,667
Graduate & Professional FTE	15,484	16,469	16,752	16,998	17,643
Graduate & Professional Headcount	13,909	14,325	14,553	14,781	15,177
Total University FTE	46,881	49,302	50,579	51,400	53,380
Total University Headcount	48,881	49,940	50,745	51,566	53,072

Faculty & Other Data

	Autumn Quarter				
	2009	2010	2011	2012	2013
Faculty Data:					
Number of faculty (1)	4,169	4,235	4,280	4,356	4,497
Tenure rate (%)(2)	40%	39%	39%	39%	37%
Percent holding terminal degree (Ph.D., MD, DDS)(3)	93%	93%	93%	93%	92%
Housing and Dining (4):					
Room and board:	$7,227	$7,581	$7,785	$8,091	$9,360
Autumn opening occupancy	5,459	5,774	5,677	5,294	6,403
Occupancy:	100%	100%	100%	100%	100%
Medicare/Medicaid payments (5):					
Percent of total clinical revenue	N/A	N/A	N/A	36%	37%

(1) Number of faculty. Effective October 31, 2013, faculty headcount is restated to reflect core faculty comprised of professorial, instructional, and research categories. Headcount associated with temporary faculty categories is excluded.

(2) Tenure rate. Effective October 31, 2013, terminal degree percentage is restated using the core faculty total headcount comprised of professorial, instructional, and research categories.

(3) Percent holding terminal degree. Effective October 31, 2013, terminal degree percentage is restated using the core faculty total headcount comprised of professorial, instructional, and research categories.

(4) UW Housing and Dining. Figures for Autumn 2013 include Residence Hall units and exclude Single Student and Family Housing Apartments. Room and board pricing is for the full academic year. Autumn opening occupancy is for used capacity. Room portion of annual room and board pricing is the weighted average of all Residence Hall double rooms in inventory, and dining amount is for a representative meal plan.

(5) Percent of total clinical revenue. Medicare and Medicaid payments as a percentage of total clinical revenue. Includes Northwest Hospital and Valley Medical Center. Data not available for 2009-2011.

N/A Data not available

Endowment Resources

Portfolio:	Fiscal Years ($000)				
University Endowment	**2009**	**2010**	**2011**	**2012**	**2013**
True Endowment (Mkt Value)	$1,003,451	$1,122,974	$1,354,585	$1,339,251	$1,493,747
Term Endowment (Mkt Value)	$29,537	$31,756	$35,231	$33,513	$36,202
Quasi Endowment (Mkt Value)	$616,171	$675,139	$785,477	$738,570	$816,744
Total Endowment	$1,649,159	$1,829,869	$2,175,293	$2,111,334	$2,346,693
Portfolio Breakdown					
Equity	**72.9%**	**72.2%**	**79.0%**	**81.0%**	**84.0%**
Domestic	14.0%	9.1%	13.0%	17.0%	19.0%
International	23.6%	27.5%	29.0%	28.0%	32.0%
Absolute Return	20.7%	20.7%	20.0%	17.0%	17.0%
Private Equity	8.4%	9.1%	12.0%	13.0%	11.0%
Venture Capital	6.2%	5.8%	5.0%	6.0%	5.0%
Real Assets	**10.0%**	**9.6%**	**7.0%**	**8.0%**	**7.0%**
Fixed Income	**5.3%**	**6.3%**	**5.0%**	**9.0%**	**8.0%**
Domestic	4.8%	6.3%	5.0%	9.0%	8.0%
International	0.5%	0.0%	0.0%	0.0%	0.0%
Cash	**11.8%**	**11.9%**	**9.0%**	**2.0%**	**1.0%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Return & Spending:

Annualized Rates of Return (1)					
One	-23.3%	12.5%	16.0%	-0.9%	13.5%
Three	-1.2%	-4.2%	-0.1%	9.0%	9.3%
Five	5.0%	5.0%	4.7%	0.2%	2.3%
Endowment Return & Spending (2)					
Total Annual Return on Endowment	-$514,000	$201,000	$301,068	-$17,822	$284,736
Amount of Annual Return Spent	$75,476	$59,015	$75,688	$85,104	$87,492
Actual Annual Spending Rate	4.25%	3.60%	4.14%	3.95%	4.14%

Externally Managed Funds:

Total Annuity and Life Income Funds	$63,841	$65,589	$69,878	$66,514	$70,863
Externally Managed Endowments	$43,365	$45,580	$51,806	$49,099	$49,755

(1) Net of manager fees.

(2) Prior to FY2009, annual distributions were 5% of the average market value of the Consolidated Endowment Fund for the previous three years. Under an interim spending policy, annual distributions per unit were reduced by 25% per year in FY2009 and FY2010. In October 2010, the Board of Regents approved a new long-term spending policy under which distributions to campus will be 4% of a 5-year moving average market value.

Future Debt Service

	Fiscal Year (000's)					
Total General Revenue Debt Service	**2014**	**2015**	**2016**	**2017**	**2018**	**2019-2044**
State General Obligation Bonds	23,677	23,530	25,487	23,925	19,709	120,459
State Certificates of Participation	3,442	3,394	3,383	3,396	3,044	10,330
Revenue Bonds						
General Revenue Bonds (1)	82,440	90,961	91,737	91,688	89,387	2,274,381
Other Revenue Bonds (2)	3,424	3,419	3,421	3,418	3,422	41,058
Lease Revenue Bonds (3)	37,113	29,016	28,952	28,863	28,783	426,898
Subtotal	122,976	123,396	124,109	123,969	121,592	2,742,337
Interest on Commercial Paper (4)	26	-	-	-	-	-
Equipment Leases & Other	4,968	4,567	3,298	3,032	2,242	8,896
Total General Revenue Debt Service	**155,089**	**154,887**	**156,277**	**154,322**	**146,587**	**2,882,023**
Affiliated Entities						
Northwest Hospital Revenue Bonds	6,639	6,704	6,563	6,518	6,565	89,822
Valley Medical Center Revenue Bonds (5)	25,488	25,477	25,477	25,477	25,470	505,166
Equipment & Other	2,934	2,283	1,578	5,153	1,001	9,981
Total Affiliated Entities	**35,061**	**34,464**	**33,619**	**37,148**	**33,036**	**604,969**
Total Debt Service All Obligations	**190,150**	**189,351**	**189,896**	**191,470**	**179,623**	**3,486,992**

Notes:

Sub Totals may not foot due to rounding.

(1) General Revenue Bonds Series 2007, 2008, 2009, 2009B, 2010A&B, 2011, 2012A, B & C, 2013

(2) General Revenue Bonds Series 2002, 2004, and 2005

(3) 2004 Washington Biomedical Research Properties (WABRP) I, 2005E WABRP II, 2006J WABRP II, and

(4) Reflects interest paid on outstanding commercial paper ($25 million in principal was outstanding on 6/30/2013).

(5) Does not include Limited Tax General Obligation Bonds payable by property tax revenues.

Official Statement Disclosures

Official Statement Disclosure Obligation	Location in Bondholders Report
The audited financial statements of the University for the prior fiscal year, prepared in accordance with generally accepted accounting principles.	Tab 2 (UW Financial Rpt.)
Updates to the following financial and operating data of the University:	
The amount of outstanding University revenue and other obligations in that fiscal year.	Tab 2 (UW Financial Rpt.: Note 9)
Student enrollment information for that fiscal year, of the type provided in the table entitled "STUDENT ENROLLMENT" under the heading "UNIVERSITY OF WASHINGTON – Admissions, Student Enrollment and Faculty Information."	Tab 3 (Supp. Bondholder Info.)
Information regarding the number of faculty, tenure rate, and percent holding terminal degrees for that fiscal year, of the type provided in the table entitled "FACULTY DATA" under the heading "UNIVERSITY OF WASHINGTON – Admissions, Student Enrollment and Faculty Information."	Tab 3 (Supp. Bondholder Info.)
Information regarding room and board fees, autumn opening occupancy, and occupancy for that fiscal year, of the type provided in the table entitled "HOUSING AND DINING DATA" under the heading "UNIVERSITY OF WASHINGTON – Admissions, Student Enrollment and Faculty Information."	Tab 3 (Supp. Bondholder Info.)
General Revenues, and General Revenue components, for that fiscal year, of the type provided in the table entitled "GENERAL REVENUES" under the heading "UNIVERSITY OF WASHINGTON – General Revenues."	Tab 4 (General Revenues)
Grant and contract revenues for that fiscal year, and amount or percentageTab 2 (UW Financial Rpt. - SRECNA) of grant and contract revenues from federal sources.	Tab 2 (UW Financial Rpt. - SRECNA)
Information regarding the amount or percentage of revenues from Medicare or Medicaid payments in that fiscal year	Tab 3 (Supp. Bondholder Info.)
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 (2008-2012)" under the heading "UNIVERSITY OF WASHINGTON – State Funding".	Tab 2 (UW Financial Rpt. - SRECNA)
Value of investments, including operating fund investments (currently referred to as "Invested Funds") and the Consolidated Endowment Fund, for that fiscal year	Tab 3 (Supp. Bondholder Info.)
A narrative description of any material changes to the University's investment policy or CEF distribution policy during the preceding fiscal year.	Tab 3 (Supp. Bondholder Info.)
Gift revenue for that fiscal year.	Tab 2 (UW Financial Rpt. - SRECNA)
University revenue by source for that fiscal year, of the type provided in the table "University Revenues by Source" under the heading "UNIVERSITY OF WASHINGTON – University Revenues."	Tab 2 (UW Financial Rpt. - MD&A)
Total University expenditures and percentages of expenditures by category for that fiscal year, of the type presented under the heading "UNIVERSITY OF WASHINGTON – University Expenditures."	Tab 2 (UW Financial Rpt. - MD&A)
University total net assets and unrestricted net assets, of the type presented under the heading "UNIVERSITY OF WASHINGTON – University Net Assets."	Tab 2 (UW Financial Rpt. - SNA)
A description of any material changes to the University's obligations with respect to its pension plans, of the type presented under the heading "UNIVERSITY OF WASHINGTON – Pension Plans."	Tab 2 (UW Financial Rpt. - Note 16)
A description of any material changes to the University's obligations with respect to other post-employment benefits, of the type presented under the heading "UNIVERSITY OF WASHINGTON – Other Post-Employment Retirement Benefits ("OPEB")."	Tab 2 (UW Financial Rpt. - Note 15)
Amount of the University's self-insurance reserve, of the type presented under the heading "UNIVERSITY OF WASHINGTON - Risk Management."	Tab 2 (UW Financial Rpt. - Note 17)

Supplemental
Financial Reports

UNIVERSITY OF WASHINGTON

Supplementary Information

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
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 of the University of Washington, an agency of the State of Washington, as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated November 8, 2013 which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to November 8, 2013.

The supplementary information included on pages 2 through 4 is presented for the purposes of additional analysis and is 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.

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, 2013 and 2012, and our unmodified opinion 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

December 12, 2013

UNIVERSITY OF WASHINGTON

Reconciliation of Total University Revenue to General Revenue

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
General revenue:			
Total revenue	$	4,601,792	3,965,450
Less:			
State appropriations		218,165	218,343
Grant and contract direct costs		1,109,871	1,101,106
Gifts		101,823	76,718
Revenues of component units		171,238	156,653
Student activities fees and U-Pass fees		40,082	30,827
Student technology fees, student building fees, student loan funds		66,726	58,220
Trust and endowment income (loss), net unrealized gains (losses) on noninvested funds investments, metro tract net operating income, component unit investment income (losses), other restricted investment income (losses)		324,901	(17,738)
Capital appropriations		47,123	6,066
Capital grants, gifts and other		26,763	25,514
Other nonoperating revenues (expenses)		(19,780)	(18,330)
Gifts to permanent endowments		57,882	53,259
Total general revenue	$	2,456,998	2,274,812
General revenue components:			
Student tuition and fees (less student activities fees, U-Pass fees, technology fees, building fees, and loan funds)	$	711,056	601,964
Grant and contract indirect costs		246,502	247,835
Invested funds distribution and net invested funds unrealized gains and losses (note 2)		16,340	51,861
Sales and services of educational departments		198,320	185,521
Auxiliary systems and patient services		1,194,740	1,125,187
Other operating revenues		90,040	62,444
Total general revenue	$	2,456,998	2,274,812

See accompanying notes to supplementary information.

UNIVERSITY OF WASHINGTON

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

June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Total University unrestricted net position per financial statements	$	1,598,927	1,350,933
Less:			
Auxiliary fund balances:			
Student and activities fees		18,542	14,097
Component units:			
Association of University Physicians		93,345	95,088
UW Neighborhood Clinics		9,449	5,487
Real estate entities		17,981	(13,845)
Total to be excluded		139,317	100,827
General net position	$	1,459,610	1,250,106

See accompanying notes to supplementary information.

(1) Basis of Presentation

The General Revenue schedule presents the general income of the University of Washington (University) that is not restricted in its use by law, regulation, or contract. For example, the following items are restricted and, therefore, excluded from General Revenues:

a) Appropriations to the University by the State from the State's General Fund;

b) Each fund the purpose of which has been restricted in writing by the terms of the gift or grant under which such fund has been donated, or by the donor thereof;

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

d) Revenues and receipts attributable to the Metro 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.

(2) 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.

(3) Reclassifications

Certain amounts in the supplementary information have been reclassified for comparative purposes to conform to the presentation in the 2013 supplementary information.

UNIVERSITY OF WASHINGTON
SEATTLE, WASHINGTON

DEPARTMENT OF HOUSING AND
FOOD SERVICES

HOUSING AND DINING SYSTEM

FINANCIAL REPORT

JUNE 30, 2013

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
University of Washington
Seattle, Washington

We have audited the accompanying financial statements of the University of Washington Housing and Dining System, a division of the University of Washington Department of Housing and Food Services, which comprise the statements of assets, liabilities, and net position as of June 30, 2013 and 2012, and the related statements of revenue, expenditures, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes assessing the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Housing and Dining System, a division of the University of Washington Department of Housing and Food Services, as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Peterson Sullivan LLP

November 1, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position and activities of the Housing and Dining System ("the System"), a division of the University of Washington's ("the University") Housing and Food Services ("HFS") for the fiscal years ended June 30, 2013 and 2012. 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.

Overview of the Financial Statements

The financial statements of the System include the Statements of Assets, Liabilities, and Net Position; the Statements of Revenue, Expenditures, 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 public colleges and universities.

The Statements of Assets, Liabilities, and Net Position (Balance Sheets) present the financial condition of the System at the end of the last two fiscal years and reports all assets and liabilities. A summarized comparison of the System's assets, liabilities, and net position is as follows as of June 30:

Statements of Assets, Liabilities, and Net Position

	2013	2012	% Change
ASSETS:			
Current assets	$ 48,909,133	$ 42,332,164	15.5%
Non-current assets	342,526,852	243,822,526	40.5%
TOTAL ASSETS	$ 391,435,985	$ 286,154,690	36.8%
LIABILITIES:			
Current liabilities	$ 27,312,678	$ 26,215,592	4.2%
Non-current liabilities	341,769,018	224,258,526	52.4%
Total Liabilities	369,081,696	250,474,118	47.4%
NET POSITION:			
Net investment in capital assets	(2,925,615)	9,728,014	-130.1%
Unrestricted	25,279,904	25,952,558	-2.6%
Total Net Positon	22,354,289	35,680,572	-37.3%
TOTAL LIABILITIES AND NET POSITION	$391,435,985	$286,154,690	36.8%

Current assets consist primarily of cash, accounts receivable, inventory, prepaid expenses, and receivables from other University departments. Current assets were $21.6 million more than current liabilities at June 30, 2013. Total current assets increased from $42.3 million at June 30, 2012, to a total of $48.9 million at June 30, 2013. The increase was caused by an increase in cash due to an overall increase in residence hall room rents and related food services associated with the new residential housing available this fiscal year.

Non-current assets consist of capital assets of land, buildings, building improvements, equipment, and construction in process. Non-current assets were $98.7 million more at June 30, 2013, than at June 30, 2012, mainly due to the construction of additional housing under the new Housing Master Plan.

Current liabilities consist primarily of accounts payable, accrued interest, accrued expenses, unearned revenue, deposits, due to other University departments, and the current portion of debt payments. Current liabilities increased by 4.2% to a total of $27.3 million at June 30, 2013, from $26.2 million at June 30, 2012, due primarily to an increase in current portion of Internal Lending Program ("ILP") debt related to the continued housing construction under the Housing Master Plan.

Non-current liabilities consist of the long-term portion of ILP debt. Total long-term debt increased by 52.4% to a total of $341.8 million at June 30, 2013, from $224.3 million at June 30, 2012, due primarily to additional debt incurred to finance the Housing Master Plan.

The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the past year. Total net position decreased by 37.3% to a total of $22.4 million at June 30, 2013. Although the continued strong demand for campus housing resulted in a positive net operating income, the System also made significant furnishing expenses for the new residences, higher debt interest payments and incurred a loss on disposal of Lander Hall, which was demolished to be rebuilt under the Housing Master Plan. The System transferred the Cedar Garage to the University's Commuter Services as a capital asset contribution.

Statements of Revenue, Expenditures, and Changes in Net Position

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

In general, operating revenue is revenue received for providing housing, dining, and related services to the customers of the System, the majority of which consists of room and board services to students. Operating expenses are those expenses paid to provide the services and resources, including costs related to soil contamination removal resulted from the Housing Master Plan.

Non-operating revenue is that received for which goods and services were not provided. Under GASB reporting principles, investment income and expenses are classified as non-operating activities. Also included as non-operating are losses on disposal of capital assets demolished and replaced by new buildings under the Housing Master Plan.

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

	2013	2012	% Change
Operating revenue	$ 67,995,229	$ 58,565,797	16.1%
Operating expenses	(59,537,481)	(53,426,601)	11.4%
Net operating income	8,457,748	5,139,196	64.6%
Net non-operating expense	(16,728,007)	(6,082,088)	175.0%
Capital asset contribution	(5,056,024)		-100.0%
Change in net positon	(13,326,283)	(942,892)	1313.3%
Net positon, beginning of year	35,680,572	36,623,464	-2.6%
Net positon, end of year	$ 22,354,289	$ 35,680,572	-37.3%

The largest revenue source is residence hall/single-student room rent and food services which comprised 86.7% of revenue in 2013 versus 85.8% in 2012. Residence hall/single-student rent increased by 21.2% or $7.0 million over the prior year. This increase was directly due to a rate increase in 2013 and a net increase in rentable space under the Housing Master Plan. Food service revenue also increased due to new venues under the Housing Master Plan.

Cost of residence hall food service increased by 17.3% or $2.8 million over the prior year while revenue from residence hall food service only increased 10%. Cost of food was 28.1% of total revenue for 2013 versus 27.8% of total revenue for 2012.

Salaries and benefits increased by 12.9% or $1.2 million over the prior year due mainly to increased housing and food operation with two new residences halls placed in service in fiscal year 2013.

Administrative expenses increased slightly in dollars but remained constant as a percent of revenue.

Depreciation expense increased by 78.3% or $4.2 million over the prior year due to depreciation of four new residential buildings. Non-capitalized expenses decreased by 24.1% or $2.5 million over prior year as the soil contamination removal costs associated with a new project were not as high as what was measured for other projects in the prior year.

Non-operating revenue increased by 10.5% due to an $80,000 increase in interest earned on investments. Non-operating expenses increased by 175% or $15.9 million over the prior year due to increased debt interest payment and loss on disposal of Lander Hall. Under the Housing Master Plan, Lander Hall is being rebuilt and will open Winter 2014.

Capital asset contribution resulted from a transfer of the parking garage located in Cedar Apartments to another University Department, the Commuter Services, during fiscal year 2013 at a net book value of $5,056,024.

Economic Factors and Significant Events

Housing Operation

The 2013 autumn quarter opened at 109.5% occupancy of as-built capacity with approximately 103 students in temporary lounge space and 94 students on the waiting list. UW Real Estate managed off-campus facilities are showing similar strength in demand. The first complex in Phase 2, Mercer Court (a total of five buildings), opened with two buildings in a residence hall type configuration, one building operating as 9-month apartments, and two buildings dedicated to graduate students in 12-month apartments. Lander is the second and final portion of Phase 2 and will open in January 2014. Triples beds were removed from Terry Hall to better match resident counts in anticipation of residents moving from Terry to the newly completed Lander at winter break. Stevens Court K-L which had been used for residence hall style apartments has been returned to its previous configuration of single bed apartments.

Updates to the Housing Master Plan

Phase 1, which consisted of four new buildings, was completed as of September 2012. Poplar residence hall and Cedar Apartments were opened on September 2011 and Alder and Elm residence halls opened in September 2012.

Phase 2, which consisted of two properties is on schedule for completion. Mercer Court opened on schedule in Autumn 2013. Lander residence hall is scheduled to open in January 2014.

In June 2012, the Board of Regents approved borrowing under the ILP for up to $142.3 million for Phase 3. Phase 3 will include the demolition of Terry Hall and the construction of two new residence halls, Maple and New Terry. Demolition is on schedule to begin Winter of 2014. By Autumn 2015, Phase 3 will complete the west campus development phase of the Housing Master Plan which will add a net bed space of approximately 2,450.

Phase 4 of the Housing Master Plan will include the renovation of McMahon Hall and the demolition and replacement of Haggett Hall and McCarty Hall. Planning and timing for Phase 4 is in early development and is expected to be vetted by the UW Treasury Office in the next fiscal year.

Debt service is currently being paid to the ILP for all Phase 1 buildings. Debt service on Mercer Court will begin in September 2013 and for Lander Hall in September 2014. The expected debt service ratio for the fiscal year 2013 is 1.27.

Dining Operation

Included in the Housing Master Plan are two new residence hall dining venues which opened in September 2012, one each in Alder and Elm Halls. Alder Hall's District Market provides residents and the public with a small market offering groceries, fresh produce, deli items, and coffee. Students have responded very positively to the District Market and sales exceeded budget. Elm Hall's Cultivate offered residents and the University community sit-down dining, a departure from the traditional residence hall dining. Sales were not as strong as budgeted. Sales at Eleven01 in Terry Hall were negatively impacted by the physical difficulty of getting past the adjacent construction of Lander residence hall to eat in the dining hall.

Phase 2 of the Housing Master Plan includes the Husky Grind café in Mercer Court offering coffee with grab and go items and Local Point in Lander residence hall. Husky Grind is located next to the Burke Gilman Trail and is expected to be a destination for the Mercer Court and Stevens Court residents as well as Phase 1 residents. Local Point will be a replacement dining option for Eleven01 which will be demolished with Terry residence hall. Local Point is located on the ground level of Lander and is easily accessible by all Phase 1 buildings, Stevens Court and Mercer Court.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF HOUSING AND FOOD SERVICES
HOUSING AND DINING SYSTEM

STATEMENTS OF ASSETS, LIABILITIES, AND NET POSITION

June 30, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash deposits with the University	$ 42,735,907	$ 38,614,331
Accounts receivable, net	867,291	798,841
Inventory	545,320	334,176
Prepaid financing costs	1,498,899	
Other current assets	188,933	116,252
Due from other University departments	3,072,783	2,468,564
Total current assets	48,909,133	42,332,164
Non-Current Assets		
Capital assets, less accumulated depreciation	342,526,852	243,822,526
Total assets	$ 391,435,985	$ 286,154,690

LIABILITIES AND NET POSITION	2013	2012
Current Liabilities		
Accounts payable	$ 3,814,172	$ 4,579,534
Accrued interest	875,786	
Other accrued expenses	1,680,987	1,416,463
Unearned Revenue	3,720,228	3,453,895
Deposits	3,468,865	3,335,515
Due to other entities within the Department of Housing and Food Services	727,265	732,066
Due to other University departments	6,754,517	7,541,619
Internal lending program payable, current portion (Note 5)	6,270,858	4,581,500
Lease payable, current portion (Note 4)		575,000
Total current liabilities	27,312,678	26,215,592
Non-Current Liabilities		
Internal lending program payable, less current portion (Note 5)	341,769,018	224,258,526
Total liabilities	369,081,696	250,474,118
Net Position		
Net Investment in Capital Assets	(2,925,615)	9,728,014
Unrestricted	25,279,904	25,952,558
Total net position	22,354,289	35,680,572
Total liabilities and net position	$ 391,435,985	$ 286,154,690

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
DEPARTMENT OF HOUSING AND FOOD SERVICES
HOUSING AND DINING SYSTEM

STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenue		
Residence halls and single-student apartment rent	$ 39,892,996	$ 32,919,710
Residence halls food services	19,069,782	17,351,577
Conferences and guest rent	2,934,851	2,123,270
Leases	2,419,018	2,604,465
Family housing rent	1,866,175	1,858,162
Forfeitures and miscellaneous fees	1,172,259	1,112,698
Laundry	328,571	311,510
Vending machines	224,452	218,403
Refrigerator rent	5,731	10,972
Other	81,394	55,030
Total operating revenue	67,995,229	58,565,797
Operating Expenditures		
Cost of residence hall food services	19,089,048	16,275,579
Salaries and related benefits	10,126,970	8,968,667
Depreciation	9,610,195	5,388,896
Non-capitalized equipment	7,722,492	10,180,962
Utilities	5,239,811	4,957,743
Indirect expenses	3,468,359	3,284,137
Contract services	1,990,460	2,172,763
Repairs and maintenance	1,217,996	1,253,205
Supplies	920,897	815,298
Other	151,253	129,351
Total operating expenditures	59,537,481	53,426,601
Net operating income	8,457,748	5,139,196
Non-operating Revenue (Expense)		
Investment income	839,016	759,533
Interest expense on capital asset-related debt	(12,487,496)	(5,439,343)
Loss on capital asset disposals	(5,079,527)	(1,402,278)
Total non-operating revenue (expense)	(16,728,007)	(6,082,088)
Capital asset contribution to other University department	(5,056,024)	
Change in net position	**(13,326,283)**	**(942,892)**
Net Position, beginning of year	35,680,572	36,623,464
Net Position, end of year	$ 22,354,289	$ 35,680,572

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
DEPARTMENT OF HOUSING AND FOOD SERVICES
HOUSING AND DINING SYSTEM

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Cash received from student housing fees	$ 41,749,342	$ 35,081,114
Cash received from residence hall food services	19,142,693	17,369,983
Cash received from conference services	2,974,616	2,470,930
Cash received from facility rentals	1,639,912	1,528,160
Cash received from leases	1,490,479	1,904,465
Cash received from vending commissions	224,452	218,403
Cash received from others	81,620	54,709
Cash received (paid) for interfund and debit card activities	95,615	(59,755)
Cash paid to suppliers	(26,901,604)	(27,679,034)
Cash paid for employee salaries, wages, and benefits	(16,833,383)	(14,472,549)
Cash paid for indirect expenses	(5,295,842)	(5,000,587)
Net cash flows from operating activities	18,367,899	11,415,839
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(116,989,154)	(101,594,486)
Borrowing on internal lending program	123,885,566	118,575,019
Interest paid on capital debt	(15,288,616)	(8,306,979)
Principal payments on capital debt	(5,194,236)	(19,539,512)
Financing cost paid on capital debt	(1,498,899)	
Net cash flows from capital and related financing activities	(15,085,339)	(10,865,958)
Cash Flows from Investing Activities		
Interest received	839,016	796,788
Withdrawal of deposits with trustee		1,135,797
Net cash flows from investing activities	839,016	1,932,585
Net change in cash deposits with the University	**4,121,576**	**2,482,466**
Cash deposits with the University, beginning of year	38,614,331	36,131,865
Cash deposits with the University, end of year	$ 42,735,907	$ 38,614,331

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
DEPARTMENT OF HOUSING AND FOOD SERVICES
HOUSING AND DINING SYSTEM

STATEMENTS OF CASH FLOWS
(CONTINUED)

For the Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash flows from operating activities		
Operating income	$ 8,457,748	$ 5,139,196
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation	9,610,195	5,388,896
Change in operating assets and liabilities		
Accounts receivable	(68,451)	(90,207)
Prepaid expenses and other	(72,681)	(11,526)
Inventory	(211,144)	28,113
Due to/from other University departments	(913,087)	(689,265)
Due to/from entities within the Department of Housing and Food Services	(4,801)	(127,278)
Accounts payable	905,913	809,523
Unearned revenue	266,333	800,587
Accrued expenses	264,524	74,820
Deposits	133,350	92,980
Net cash flows from operating activities	$ 18,367,899	$ 11,415,839

Supplemental Disclosure for Cash Flow Information		
Capitalized Interest	$ 3,610,420	$ 3,584,556
Additions to construction-in-progress that have not been paid as of June 30 (included in accounts payable and due to the University)	$ 5,657,995	$ 7,807,502
Amortization of deferred premium on refunded bonds	$ 66,480	$ 66,480
Capital asset contribution to other University department	$ 5,056,024	
Loss on disposal of capital assets	$ 5,079,527	

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

The Housing and Dining System ("the System") is a division of the University of Washington Department of Housing and Food Services ("HFS") which operates residence halls and apartment complexes both on and off the University of Washington ("the University") campus. In addition, the System provides conference facilities and catering services to various organizations. The University provides certain administrative services to the System.

Basis of Accounting

These financial statements present only a selected portion of the activities of the University. As such, they are not intended to and do not present either the financial position, results of operations, or changes in net positions of the University or HFS. The financial statements have been prepared in accordance with generally accepted governmental accounting principles. The statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred.

For enterprise funds, Governmental Accounting Standards Board ("GASB") statements No. 20 and 34 provide HFS the option of electing to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989. HFS has not elected to apply these pronouncements.

Cash Deposits with the University

All cash balances are deposited with the University. The System shares in the earnings of the University's pooled investments, which amounted to rates of return of approximately 2% during each of the years ended June 30, 2013 and 2012.

The University's pooled investments were allocated as follows:

	Percent of Total Allocated	
	June 30, 2013	June 30, 2012
U.S. Treasury and other agencies' debt	36%	50%
Collateralized mortgage obligations	32%	15%
Consolidated endowment fund (a mutual fund sponsored by the University)	23%	23%
Asset-backed securities	6%	5%
Cash and certificates of deposit (partially unsecured)	3%	7%
	100%	100%

Accounts Receivable

The System has established an allowance for doubtful accounts to allow for those receivables which may be uncollectible. The allowance is based on historical rates. 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. When an account is deemed uncollectible, it is generally written off against the allowance. The balance of the allowance account was $39,242 and $29,802 at June 30, 2013 and 2012, respectively.

Inventory

Inventory, consisting primarily of food, is stated at the lower of cost (first-in, first-out method) or market.

Prepaid Financing Costs

This represents financing costs charged for draws on the Internal Lending Program ("ILP") which are amortizable over the term of the loan. Since this asset will be retroactively expensed when GASB 65 is implemented in fiscal year 2014, management has elected to present the full amount as a current asset at June 30, 2013.

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 non-capitalized 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 individually that do not meet the criteria described below. Building and improvements are capitalized if they result in additional asset services (i.e., expanded facilities), result in more valuable asset services (i.e., 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 $2,000 and above is generally capitalized if it benefits more than one operating cycle.

HFS developed a Comprehensive Housing Master Plan to develop residence halls and single-student apartments in four phases. The development of these residence halls will assist in creating a richer on-campus community, alleviating the currently overcrowded conditions within student housing, and will also provide additional bed capacity (surge space) to support renovation of existing residence halls, which is anticipated to begin in 2014. This additional capacity permits HFS to renovate existing facilities while continuing to meet current housing demand. As of June 30, 2013, costs incurred related to the Housing Master Plan are approximately $118.4 million. These costs were recorded in construction in process and building costs at June 30, 2013. Total projected cost of the Housing Master Plan is $489.9 million, which will be funded by borrowing under the ILP (see Note 5). The Board of Regents has approved borrowing under the ILP of up to $523.4 million for three of the four phases of the Housing Master Plan as of June 30, 2013.

Capitalized Interest

It is the University's policy to require its auxiliary units to use the University's weighted average debt interest rate, rather than the auxiliary unit's standalone weighted average debt interest rate, when the auxiliary unit calculates the amount of capitalized interest. Having all units use the weighted average debt interest rate simplifies the University's consolidation process when preparing the University's financial statements. The University's weighted average rate was 4.1% and 4.4% for the years ended June 30, 2013 and 2012, respectively. The System's standalone interest rate was 5.5% for the fiscal years ended June 30, 2013 and 2012. If the System had used its standalone interest rate of 5.5% to calculate the interest to be capitalized, the amount capitalized would have been greater by approximately $269,000 and $387,000 for the years ended June 30, 2013 and 2012, respectively. Rather than being capitalized, this difference remains in interest expense for both fiscal years presented. Management of the System believes that these differences in the capitalized interest do not have any material impact on the System's financial statements.

Interest expense is capitalized during the time a project is under construction and begins upon the issuance of debt to finance the construction of a capital asset. Capitalized construction-related interest was $3.6 million during both 2013 and 2012.

Unearned Revenue

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

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).

Indirect Expenses

HFS allocates administrative expenses to its various divisions based on services provided. These internal cost allocations allocated to the System amounted to $5,295,842 and $5,006,473 for the years ended June 30, 2013 and 2012, respectively. Of this total, $1,827,483 and $1,722,336 are included in the cost of residence hall food services.

Operating and Non-operating Revenue and Expenses

In general, operating revenue is revenue received for providing housing, dining, and related services to the customers of the System, the majority of which consists of room and board services to students. Revenue is recognized as the food service is provided, the appropriate rental period occurs, or the conference takes place. Operating expenses are those expenses paid to provide the services and resources, mainly consisting of the cost of food, salaries and benefits, utilities, building maintenance, and administrative overhead expenses. Under applicable accounting principles, special items such as soil contamination remediation expenses related to the Housing Master Plan project are also reported as operating expenses. In fiscal year 2012, the System incurred soil contamination remediation expenses of $3,128,017, related to the redevelopment of Mercer Hall. In fiscal year 2013, the System incurred remediation expenses of $919,455, related to the Lander Hall redevelopment. These expenses are included in the non-capitalized equipment in the accompanying statements of revenue, expenditures, and changes in net position.

Capital Asset Contribution to Other University Department

During fiscal year 2013, the System made a capital asset contribution by transferring a parking garage located in Cedar Apartments to Commuter Services without receiving any considerations. The net book value of the capital asset contribution amounted to $5,056,024.

Income Taxes

As a part of the University, the operations of the System are exempt from federal income taxes.

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.

Net Position

Net position consists of the following components:

> Net Investment in Capital Assets – This component 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 at June 30, 2013, is due to the inclusion of existing debt on Mercer and Lander Halls, both of which were demolished in fiscal year 2013, while additional debt was incurred for the demolition and redevelopment.
>
> Unrestricted – This component consists of assets and liabilities that do not meet the definition of "net investment in capital assets."

Reclassification

Certain 2012 balances were reclassified to conform to the current year presentation.

Note 2. Non-Current Liabilities

Non-current liability activity for the years ended June 30, 2013 and 2012, is summarized as follows:

	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013
Non-current liabilities							
ILP payable	$ 113,861,573	$118,575,019	$ (3,596,566)	$ 228,840,026	$ 123,885,566	$ (4,685,716)	$ 348,039,876
Bonds payable	16,495,000		(16,495,000)				
Lease payable	1,125,000		(550,000)	575,000		(575,000)	
Total non-current liabilities	131,481,573	$118,575,019	$(20,641,566)	229,415,026	$ 123,885,566	$ (5,260,716)	348,039,876
Current portion	(3,948,327)			(5,156,500)			(6,270,858)
Non-current portion	$ 127,533,246			$ 224,258,526			$ 341,769,018

Note 3. Capital Assets

Capital asset activity for the years ended June 30, 2013 and 2012, is summarized as follows:

	Balance at June 30, 2011	Additions/ Transfers	Retirements/ Transfers	Balance at June 30, 2012	Additions/ Transfers	Retirements/ Transfers	Balance at June 30, 2013
Capital assets, not being depreciated:							
Land	$ 6,775,215	$ -	$ -	$ 6,775,215	$ -	$ -	$ 6,775,215
Construction in process	89,716,699	105,567,460	(67,123,743)	128,160,416	117,680,103	(111,278,707)	134,561,812
Total capital assets not being depreciated	96,491,914	105,567,460	(67,123,743)	134,935,631	117,680,103	(111,278,707)	141,337,027
Capital assets, being depreciated:							
Building and building improvements	114,008,032	67,123,743	(5,246,391)	175,885,384	111,278,707	(21,263,578)	265,900,513
Equipment	2,312,849	320,147	(174,347)	2,458,649	769,969	(267,423)	2,961,195
Total capital assets being depreciated	116,320,881	67,443,890	(5,420,738)	178,344,033	112,048,676	(21,531,001)	268,861,708
Less accumulated depreciation							
Building and building improvements	66,176,942	5,198,146	(3,846,933)	67,528,155	9,270,215	(11,132,426)	65,665,944
Equipment	1,905,209	190,750	(166,976)	1,928,983	339,980	(263,024)	2,005,939
Total accumulated depreciation	68,082,151	5,388,896	(4,013,909)	69,457,138	9,610,195	(11,395,450)	67,671,883
Capital assets, net	$ 144,730,644	$ 167,622,454	$ (68,530,572)	$ 243,822,526	$ 220,118,584	$ (121,414,258)	$ 342,526,852

Note 4. 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. The proceeds from the CoPs were used for improvements to McCarty and Lander Halls. The University has agreed to make certain payments (considered lease payments) as required by the CoPs, and the System has agreed to reimburse the University for these payments.

The total remaining principal amount of the obligation under this agreement of $575,000 was fully paid in 2013.

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, Radford Court, and Nordheim Court properties, mainly for student housing. In July 2011 and 2012 the University took over the Commodore Duchess, Radford Court, and Nordheim Court properties and 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 properties are insufficient. The properties have been self-sustaining over the past years. The properties are managed by University Real Estate Office ("REO") with an outside property manager. As of June 30, 2013, the outstanding debt under this agreement was $69,941,871.

The University receives an annual payment from these properties, which it designates to the System. Revenue from these properties was $2,419,018 and $2,607,463 for the years ended June 30, 2013 and 2012, respectively.

Note 5. The Internal Lending Program

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 ("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 the System's 1996 junior lien revenue bonds with a premium. The System is obligated to the ILP in the amount of $17,464,583 and $18,655,000 as of June 30, 2013 and 2012, respectively. The final payment is due in the fiscal year ending 2022. The interest rate ranges between 3% and 5%. The balance of the deferred premium was $475,700 and $528,560 as of June 30, 2013 and 2012, respectively.

In December 2008, the System drew funds from the ILP in a total amount of $6,348,067 for the purchase of a piece of property called the Cavalier Apartments for future housing development plans. The final payment is due in the fiscal year ending 2034. The annual interest rate is 5.5%, which is reviewed annually and is subject to adjustment. The System is obligated to the ILP in the amount of $5,756,431 and $5,903,210 as of June 30, 2013 and 2012, respectively.

In October 2010, the University issued General Revenue & Refunding Bonds, 2010A&B. A portion of the proceeds was used to partially refund the 2002 Housing and Dining Revenue & Refunding Bonds with a premium. The System is obligated to the ILP in the amount of $8,966,074 and $9,190,941 as of June 30, 2013 and 2012, respectively. The final payment is due in the fiscal year ending 2031. The interest rate ranges between 3.3% and 4.1%. The balance of the deferred premium was $122,599 and $136,219 as of June 30, 2013 and 2012, respectively.

In March 2012, the University issued General Revenue & Refunding Bonds, 2012A. 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. The System is obligated to the ILP in the amount of $12,834,852 and $14,144,416 as of June 30, 2013 and 2012 respectively. The final payment is due in the fiscal year ending 2028. The average interest rate is 3.7%.

From May 2009 through June 2012, the Board of Regents approved borrowing for the System under the ILP of up to $523.4 million for three of the four phases of the Housing Master Plan to build residence halls and single student apartments. The total draws to fund the project as of June 30, 2013, has amounted to approximately $304.9 million and the System has made principal payments beginning October 2011 for Phase 1. The System is obligated to the ILP in the amount of $302,419,652 and $180,281,680 as of June 30, 2013 and 2012, respectively. The final payments are due in the fiscal years ending 2041 and 2044. The interest rate is 5.5% which is reviewed annually and is subject to adjustment.

The ILP agreements require the System to maintain certain financial performance ratios. If these requirements were violated, future financing for the ILP can be ceased or minimized. As of June 30, 2013 and 2012, the System met all these requirements.

The following is a summary of future payments (principal and interest) to be paid to the University to cover the debt service payments for the years ending June 30:

	Principal	Interest	Total
2014	$ 6,270,858	$ 15,143,208	$ 21,414,066
2015	7,408,801	17,889,125	25,297,926
2016	7,917,142	17,974,218	25,891,360
2017	8,356,287	17,583,887	25,940,174
2018	8,796,190	17,140,921	25,937,111
2019-2023	48,106,459	78,196,223	126,302,682
2024-2028	47,483,812	65,587,655	113,071,467
2029-2033	57,862,834	51,057,308	108,920,142
2034-2038	70,594,162	33,549,401	104,143,563
2039-2043	79,747,242	11,800,323	91,547,565
2044-2045	4,897,790	137,020	5,034,810
	347,441,576	$ 326,059,289	$ 673,500,866
Add: unamortized premium	598,299		
	$ 348,039,875		

Note 6. Pension Plan

As employees of the University, the System's full-time employees are participants in the State of Washington Public Employees' Retirement System ("PERS") and the University of Washington Retirement Plan ("UWRP"). PERS is a hybrid defined benefit/contribution pension plan. The UWRP is a defined contribution plan. Under these plans, the employee and the employer contribute a percentage of the employee's compensation. The System contributed approximately $793,000 and $561,000 to these plans in 2013 and 2012, respectively. An actuarial valuation of the PERS plan for the System as a stand-alone entity is not available.

Note 7. Other Post-Employment Benefits

The System participates in the Other Post-Employment Benefits ("OPEB") plan through the University and administered by the Washington State Health Care Authority. Relevant disclosure information related to the OPEB plan as a stand-alone entity is not available. Employees of the System are covered by the Washington State Plan and therefore there is no liability to the System.

Note 8. Cost of Residence Hall Food Services

	2013	2012
Food and merchandise	$ 8,159,773	$ 7,097,176
Salaries and related benefits	6,965,551	5,557,422
Indirect expenses	1,827,483	1,722,336
Supplies	960,169	819,033
Contract services	431,983	383,973
Repairs and maintenance	388,965	351,313
Utilities	68,603	66,986
Other	286,521	277,340
	$ 19,089,048	$ 16,275,579

Note 9. Subsequent Events

Phase 3 of the Housing Master Plan is underway with Terry Hall being torn down for a new student residential building estimated to open in autumn 2015. The site preparation anticipates a soil contamination remediation. The extent of the contamination and cost of remediation, if any, was unknown and not possible to estimate at June 30, 2013.

STUDENT FACILITIES FEES –
SEATTLE CAMPUS

ADMINISTERED BY
THE DIVISION OF STUDENT LIFE
OF THE UNIVERSITY OF WASHINGTON

FINANCIAL REPORT

JUNE 30, 2013

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
University of Washington
Seattle, Washington

We have audited the accompanying statements of cash receipts, cash disbursements, and changes in cash balances of Student Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the audit considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts, cash disbursements, and changes in cash balances of the Student Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2013 and 2012, on the cash basis of accounting described in Note 1.

Correction of Error

As described in Note 7 to the financial statements, certain errors resulting in the understatement of amounts previously reported for cash receipts and debt service payments for the year ended June 30, 2012, were discovered during the current year. Accordingly, certain amounts reported have been restated in the 2012 financial statements now presented. Our opinion is not modified with respect to this matter.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. This statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Our opinion is not modified with respect to that matter.

Peterson Sullivan L.L.P.

November 22, 2013

STUDENT FACILITIES FEES –
SEATTLE CAMPUS
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THE DIVISION OF STUDENT LIFE
OF THE UNIVERSITY OF WASHINGTON

STATEMENTS OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES

For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Receipts		
Student facilities fees - Seattle campus	$ 27,372,940	$ 18,152,107
Interest income	312,898	265,683
Total cash receipts	27,685,838	18,417,790
Debt Service		
Principal - Bonds	(1,435,417)	(1,381,667)
Principal - Internal Lending Program	(1,253,621)	(66,892)
Interest - Bonds	(1,986,540)	(2,034,618)
Interest - Internal Lending Program	(5,109,925)	(273,696)
Total debt service payments	(9,785,503)	(3,756,873)
Cash receipts available after debt service	17,900,335	14,660,917
Other Cash Disbursements		
Hall Health Center	6,243,148	6,130,188
Recreational Sports Operations	2,036,352	1,992,760
Childcare Programs/Office	1,379,924	1,279,924
Associated Students of the University of Washington	813,756	748,856
Program Lost Revenue - Hall Health Center		(57,667)
Program Lost Revenue - Housing and Food Services	128,044	647,319
Ethnic Cultural Center and Theatre Complex	610,256	613,259
Student Activities and Union Facilities	651,616	565,796
SADC Expenditure Fund		404,100
Student Counseling Center	473,167	357,917
Graduate and Professional Student Senate	309,000	309,000
Campus Sustainability Fund	330,000	300,000
Student Publications	253,614	250,000
Q-Center	192,576	183,376
Student Legal Services	155,904	149,856
Classroom Support Services	87,164	87,164
Services and Activities Committee Operations	19,644	22,000
CSSC		13,488
D-Center	37,672	
Total other cash disbursements	13,721,837	13,997,336
Cash Receipts in Excess of Other Cash Disbursements	4,178,498	663,581
Unspent Cash Returned - various organizations		41,485
Change in cash balances before transfers	4,178,498	705,066
Transfer from other University departments	692,176	
Change in cash balances	**4,870,674**	**705,066**
Cash balance, beginning of year	12,402,054	11,696,988
Cash balance, end of year	$ 17,272,728	$ 12,402,054

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

The Division of Student Life ("Student Life") is a unit within the University of Washington ("the University") and is responsible for all aspects of the student experience on campus, including admissions, financial aid, registration, housing, food services, recreational sports programs, student government, and counseling and career services. Student Life administers the allocation and expenditure of certain fees collected from students on the Seattle campus called "Student Facilities Fees." Student Facilities Fees are a portion of the total fees collected from students. Student Facilities Fees include Service and Activities Fees, Intramural Bond Fees, and Facilities Renovation Fees.

The Student Facilities Fees are first used to pay debt service on current and future bonds and debt obtained from the University's Internal Lending Program ("ILP"), and are then used to support programs recommended by the Services and Activities Fee Committee and approved by the Board of Regents of the University ("Board of Regents"). The Services and Activities Fee is a student levied, student distributed fee to support and enhance the out of class experience of students at the University. The Services and Activities Fee provides ongoing operational and capital funding for programs, which protect and enrich the cultural, emotional, intellectual, physical, and social well being of the student. Each academic quarter, Student Facilities Fees are charged to full-time and part-time students registered at the University.

As a part of the University, Student Facilities Fee activity is exempt from income taxes and does not file a tax return. Student 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. Accordingly, revenue is recognized when cash is received and expenses are recognized when cash is disbursed.

Cash Receipts

All cash receipts are deposited with the University. The Student Facilities Fees shares in the earnings of the University's pooled investments, which amounted to a rate of return of 2% during each of the years ended June 30, 2013 and 2012.

At June 30, 2013 and 2012, the University's pooled investments were allocated as follows:

	2013	2012
U.S. Treasury and other agencies' debt	36%	50%
Collateralized mortgage obligations	32%	15%
Consolidated endowment fund (a mutual fund sponsored by the University)	23%	23%
Asset-backed securities	6%	5%
Cash and certificates of deposit (partially unsecured)	3%	7%
	100%	100%

Program Lost Revenue/Return of Program Lost Revenue

In July 2009, the Board of Regents approved the renovation of the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center (see Note 5). As part of this approval, $3.6 million of the Student Facilities Fees was committed to reimburse these entities for lost operational revenue. The actual reimbursements will be based on amounts requested by the various departments.

Funds disbursed to Housing and Food Services were $128,044 and $647,319 during the years ended June 30, 2013 and 2012, respectively.

During the year ended June 30, 2012, the Hall Health Center did not use $57,667 which was returned to the Services and Activities Fee Committee. No funds were returned during the year ended June 30, 2013.

Transfers from Other University Departments

During the year ended June 30, 2013, the University was required to return excess fees charged to students (amounting to $692,176) and is administering this refund through Student Facilities Fees. The transfer out of these fees from Student Facilities Fees to students occurred in July 2013.

Note 2. Uncollected Fees

As these financial statements are presented on the cash basis of accounting, receivables and payables are not recognized.

Student Life had Student Facilities Fees that were uncollected (and are therefore receivable) of approximately $1,957,305 and $595,000 at June 30, 2013 and 2012, respectively.

Note 3. Unspent Cash

During the year ended June 30, 2012, unspent cash of $41,485 was returned to Student Facilities Fees which was related to 2011 funding. A new policy has been approved which allows the carry forward of unspent cash previously distributed from one fiscal year to the next.

Note 4. Bonds

Student Facilities Fees are used to make semi-annual debt service payments on the Series 2005 Revenue Bonds issued by the University. The Series 2005 Bonds require varying annual principal and interest payments, with the final payment due in June 2030. The principal amount of the bonds outstanding was $38,570,000 and $40,010,000 at June 30, 2013 and 2012, respectively, with interest rates ranging from 2.75% to 5.00%. These bonds were issued for the purpose of redeeming certain other outstanding bonds.

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
2014	$ 1,495,000	$ 1,928,500	$ 3,423,500
2015	1,565,000	1,853,750	3,418,750
2016	1,645,000	1,775,500	3,420,500
2017	1,725,000	1,693,250	3,418,250
2018	1,815,000	1,607,000	3,422,000
2019-2023	10,525,000	6,580,000	17,105,000
2024-2028	13,435,000	3,672,000	17,107,000
2029-2030	6,365,000	481,250	6,846,250
	$ 38,570,000	$ 19,591,250	$ 58,161,250

Note 5. Internal Lending Program

As discussed in Note 1, in July 2009, the Board of Regents approved the renovation of the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center. A majority of the money to fund the renovation was borrowed from the University's Internal Lending Program (a program sponsored by the University to consolidate borrowing activities by University departments).

On behalf of the Services and Activities Fee Committee, Student Life has borrowings available from the University Internal Lending Program of $126,000,000, $8,000,000, and $16,000,000 for the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively. At June 30, 2013, the outstanding balances on these borrowings were $94,080,779, $6,942,059, and $13,478,613 for the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively, all bearing interest at 5.5%. The interest rate is reviewed each year and is subject to adjustment by the Board of Regents. 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 renovation activity is not included in these financial statements.

Borrowings are being repaid by a new Facilities Renovation Fee, which is included in the student facilities fees cash receipts at both June 30, 2013 and 2012.

The following is a summary of future payments (principal and interest) to be paid to the University to cover the debt service payments for the years ending June 30:

	Principal	Interest	Total
2014	$ 1,639,843	$ 6,256,239	$ 7,896,082
2015	1,732,343	6,163,740	7,896,083
2016	1,830,061	6,066,021	7,896,082
2017	1,933,291	5,962,791	7,896,082
2018	2,042,343	5,853,739	7,896,082
2019-2023	12,075,373	27,405,037	39,480,410
2024-2028	15,887,613	23,592,795	39,480,408
2029-2033	20,903,391	18,577,017	39,480,408
2034-2038	27,502,672	11,977,737	39,480,409
2039-2043	28,954,521	3,468,130	32,422,651
	$ 114,501,451	$ 115,323,246	$ 229,824,697

The ratio of cash receipts to all debt service payments (bonds and Internal Lending Program debt) for the years ended June 30 were as follows:

2012	4.9 to 1
2013	2.8 to 1

Note 6. Subsequent Events

Student Facilities Fees has evaluated subsequent events through the date these financial statements were available to be issued, which is the same date as the independent auditors' report.

Note 7. Restatement of Previously Issued Financial Statements

Student Facilities Fees began receiving Facilities Renovation Fees during the year ended June 30, 2012, and began to make principal and interest payments on ILP debt, which, in error, were previously not recorded. The cash received amounted to approximately $660,000, and payments of approximately $341,000 were made during the year ended June 30, 2012. The 2012 balances included in these statements have been restated to correct this error by including the cash received and paid through June 30, 2012. The following summarizes the changes to the June 30, 2012, financial statement due to this restatement:

	As Originally Reported	Change	Restated Balances
Student facilities fees - Seattle campus	$ 17,492,378	$ 659,729	$ 18,152,107
Interest income	261,576	4,107	265,683
Total cash receipts	17,753,954	663,836	18,417,790
Principal - Internal Lending Program		(66,892)	(66,892)
Interest - Internal Lending Program		(273,696)	(273,696)
Total debt service payments	(3,416,285)	(340,588)	(3,756,873)
Cash receipts available after debt service	14,337,669	323,248	14,660,917
Cash receipts in excess of other cash disbursements	340,333	323,248	663,581
Change in cash balances	381,818	323,248	705,066
Cash balance, end of year	12,078,806	323,248	12,402,054

UNIVERSITY OF WASHINGTON
COMMUTER SERVICES
(A Department of University of Washington)

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
COMMUTER SERVICES
(A Department of University of Washington)

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington Commuter Services (Unit or CS), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As discussed in note 1 to the financial statements, the financial statements of the Unit, an auxiliary enterprise within the University of Washington (the University), are intended to present the financial position, the changes in financial position and cash flows of only the respective portion of the business-type activities of the University that is attributable to the transactions of the Unit. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2013 and 2012, the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Commuter Services as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
November 6, 2013

Discussion and Analysis Prepared by Management

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Commuter Services (CS) for the years ended June 30, 2013, 2012, and 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Using the Financial Statements

CS's financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, 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 public colleges and universities. The financial health of CS can be measured by reviewing the summaries and explanations that follow.

Statements of Net Position Summary

The statements of net position in the financial statements reflect the financial condition of CS at the end of the year and report the various categories of all assets and liabilities. The following statements of net position summary shows CS's total assets, total liabilities, and net position as of June 30, 2013, 2012, and 2011:

Statements of Net Position Summary

		2013	2012	2011
Current assets	$	9,832,832	8,891,615	8,521,145
Noncurrent assets:				
Capital assets, net		46,738,698	39,413,815	41,009,073
Other noncurrent assets		7,801,657	9,263,102	7,614,287
Total assets	$	64,373,187	57,568,532	57,144,505
Current liabilities	$	1,719,055	2,567,092	1,837,150
Noncurrent liabilities		13,782,853	14,335,105	16,148,632
Total liabilities		15,501,908	16,902,197	17,985,782
Net position		48,871,279	40,666,335	39,158,723
Total liabilities and net position	$	64,373,187	57,568,532	57,144,505

Following are comments about the changes highlighted by the statements of net position summary:

- Current assets consist of cash, accounts receivable, and prepaid expenses. Current assets were $8.1 million, $6.3 million, and $6.7 million greater than current liabilities at the end of fiscal years 2013, 2012, and 2011, respectively. The 2013 increase of $941,000 (11%) was caused by an increase in cash generated from a slight increase in parking volume and a decrease in expenses from operations. The 2012 increase of $370,000 (4%) was caused by cash generated from operations due to a slight increase in parking volume.

- Noncurrent assets consist of capital assets and advances to University of Washington (the University) for capital projects. Noncurrent assets increased by $5.9 million (12%) in 2013 and increased by $54,000 (0.1%) in 2012. The 2013 increase was primarily because of a $1.5 million decrease in advances to the University for capital projects and $9.2 million of capital asset additions offset by $1.8 million of depreciation due to the timing of projects compared to 2012. The 2012 increase was primarily because of $3.2 million increase in advances to the University for capital projects and $189,000 of capital asset additions offset by $1.8 million of depreciation and transfer of restricted cash and investments of $1.6 million for the Internal Lending Program (ILP) refinancing discussed below.
- Current liabilities decreased by $848,000 (33%) during fiscal year 2013 and increased by $730,000 (40%) during fiscal year 2012. The 2013 decrease is caused by $1.0 million decrease in due to the University as CS paid off this obligation in full offset by an increase in accounts payable, whereas the 2012 increase is derived from $1.0 million due to the University offset by a decrease in accounts payable and accrued salaries and vacation payable. Changes in accounts payable are due to the timing of payments to suppliers. Changes in accrued salaries and vacation payable are due to changes in employee headcount.
- Noncurrent liabilities decreased by $552,000 (4%) and $1.8 million (11%) in fiscal years 2013 and 2012, respectively. The 2013 decrease was due to $552,000 moving into the current portion of Internal Lending Program payable due to a 2014 principal payment. The 2012 decrease was primarily because of the $1.4 million payoff during the refinancing of the 2004 Revenue bonds into the ILP and $557,000 of bond principal payments.
- The change in net position measures whether the overall financial condition has improved or deteriorated during the year. Total net position increased by $8.2 million (20%) and $1.5 million (4%) during fiscal years 2013 and 2012, respectively. The 2013 and 2012 increases are mostly due to the increase in parking revenue mentioned below in addition to the acquisition of a parking garage in 2013.

Net Position

The following table is a summary of the net position for CS at June 30, 2013, 2012, and 2011:

Net Position Summary

		2013	2012	2011
Net investment in capital assets	$	32,403,594	24,551,459	25,874,316
Unrestricted		16,467,685	16,114,876	13,284,407
Total net position	$	48,871,279	40,666,335	39,158,723

The categories of net position listed in the table above are defined as follows:

- "Net investment in capital assets" is CS's total investment in property, plant, equipment and infrastructure and unspent debt proceeds, net of accumulated depreciation, and any outstanding debt obligations related to those capital assets.

- "Unrestricted net position" is all other funds available to CS for any purpose. Unrestricted assets are often internally designated for specific purposes.

Following are comments about the changes CS's net position summary:

- Net investment in capital assets increased by $7.9 million and decreased by $1.3 million or (32%) and (5%) in fiscal years 2013 and 2012 to a total of $32.4 million and $24.6 million, respectively. The balance increases as CS's payable to the University's ILP are paid down or when CS funds fixed asset purchases without financing. The increase reflects CS's continuing investment in facilities.
- Unrestricted net position increased by $353,000 or 2%, and increased by $2.8 million or 21% in fiscal years 2013 and 2012, respectively. The increase in 2013 was caused by the increase of operating revenue due to a slight increase in parking volume. The 2012 increase was due to the increased parking rates.

Capital Improvements and Related Debt

- In fiscal year 2013, capital additions were $9.2 million, which included $5.1 million for Cedar parking garage, $3.5 million for Mercer garage, $163,000 E 12 Parking Study, and $461,000 for Burke Gilman Trail Design.
- In fiscal year 2012, capital additions were $196,000, which included $77,000 for E 12 Parking Study, $63,000 for the Padelford Parking Seismic Upgrade and $37,000 for Burke Gilman Trail Design.
- Total debt decreased from $14.9 million of outstanding principal due at the end of fiscal year 2012 to $14.3 million at the end of fiscal year 2013 as a result of scheduled principal payments. Total debt decreased from $16.7 million of outstanding principal due at the end of fiscal year 2011 to $14.9 million at the end of fiscal year 2012 as a result of the payoff during the refinancing of the 2004 Revenue bonds into the Internal Lending Program and scheduled principal payments. See note (5) to the financial statements for more details.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present how CS's operations 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, 2013, 2012, and 2011.

Revenues, Expenses, and Changes in Net Position Summary

		2013	2012	2011
Operating revenues	$	13,322,100	13,336,085	17,800,485
Operating expenses		(9,293,205)	(10,317,761)	(8,964,927)
Operating income		4,028,895	3,018,324	8,835,558
Nonoperating expenses		(334,393)	(450,119)	(508,949)
Other revenues and transfers		4,510,442	(1,060,593)	(6,088,908)
Increase in net position		8,204,944	1,507,612	2,237,701
Net position, beginning of year		40,666,335	39,158,723	36,921,022
Net position, end of year	$	48,871,279	40,666,335	39,158,723

Revenues from All Sources

The following table summarizes revenues from all sources for the years ended June 30, 2013, 2012, and 2011:

Revenues from All Sources Summary

		2013	2012	2011
Parking revenue	$	11,139,627	11,087,208	16,212,878
Fine revenue		1,235,304	1,060,593	—
Reimbursement for football related expenses		27,230	178,556	215,408
Revenue from Triangle garage		919,939	1,009,728	1,372,199
Interest income		341,427	346,920	336,395
Capital contribution		5,056,024	—	—
Due from University		331,406	—	—
Transfer from University		358,316	—	—
Total revenue – all sources	$	19,409,273	13,683,005	18,136,880

(Continued)

Following are comments about the changes highlighted by the revenues from all sources summary:

- Parking revenue continues to be the largest source of revenue for CS. Parking revenue increased by $52,000 (0.5%) in 2013 primarily due to a minor increase in volume.
- Fine revenue in 2013 increased $175,000 (16%) from 2012 as a result of increased collection on outstanding citation balances. Fine revenue of $1.0 million was recorded in FY12 as a result of CS becoming fully responsible for this revenue source whereas in the prior year it was the responsibility of another department within the University.
- Interest income represents interest earned from cash and cash equivalents in the University's Invested Funds Pool and advances to the University for capital projects. Interest income in 2013 was materially unchanged from 2012 and 2011 as the average cash balance was consistent year over year.
- The 2013 capital contribution resulted from the transfer of the Cedar garage from Housing and Food Services to Commuter Services.
- Transfer from University in 2013 includes adjustments to revenue for refunds returned on expensed capital projects.

Expenses and Expense Transfers

The following table summarizes expenses and expense transfers for the years ended June 30, 2013, 2012, and 2011:

Expenses and Expense Transfers Summary

	2013	2012	2011
Salaries and wages	$ 2,265,294	2,291,067	2,469,706
Employee benefits	764,288	688,600	664,457
Temporary services	53,183	121,875	27,782
Maintenance	637,455	907,445	669,474
Printing	58,051	58,873	93,148
Outside services	300,933	1,213,773	188,068
Utilities	273,577	258,484	245,932
Data processing	219,397	211,505	150,206
Motorpool	121,029	126,711	115,268
Garage rental	34,642	27,177	29,479
Insurance	27,582	31,496	22,011
Supplies and materials	318,017	336,859	392,019
Telephone	50,607	52,134	62,388
Campus services	1,107,289	1,089,428	877,805
Miscellaneous	148,471	180,818	62,012

Expenses and Expense Transfers Summary

		2013	2012	2011
University overhead	$	1,086,928	929,807	941,362
Depreciation		1,826,462	1,791,709	1,953,810
Interest		675,820	797,039	845,344
Total expenses		9,969,025	11,114,800	9,810,271
Transfer to the University for UPASS		1,235,304	453,199	6,088,908
Transfer to the University for Shuttles		—	607,394	—
Total expense transfers		1,235,304	1,060,593	6,088,908
Total expenses and expense transfers	$	11,204,329	12,175,393	15,899,179

Following are comments about the changes in expenses and expense transfers highlighted by the expenses and transfers summary:

- CS's expenses decreased by $1.1 million or 10% in fiscal year 2013 and increased by $1.3 million or 13% in fiscal year 2012. This is primarily due to the fluctuation in CS's outside services expense discussed below. Additionally, the combination of salaries and wages and employee benefits increased by $50,000 (2%) in fiscal year 2013 and decreased by $154,000 (5%) in fiscal year 2012. The $50,000 increase in 2013 is due to increases in benefits rates. The 2012 decrease of $154,000 is primarily due to decreases in headcounts and salaries and benefits rates.
- CS's outside services expense decreased by $913,000 or 75% in fiscal year 2013 and increased by $1.0 million or 545% in fiscal year 2012. The decrease in 2013 is the result of a decrease in outside repairs and maintenance on facilities. The increase in 2012 is the result of an increase in outside repairs and maintenance on facilities.
- CS's maintenance expense decreased by $270,000 and increased by $238,000, or (30%) and 36% in fiscal years 2013 and 2012, respectively. The primary increase in 2012 was the result of work performed on a new escalator maintenance contract in 2012, and no similar project in 2013.
- CS's campus services expense increased by $18,000 or 2% in fiscal year 2013 and increased by $212,000 or 24% in fiscal year 2012. The increase in 2013 is due to an increase in the percentage use of shared services charged to CS. The increase in 2012 is due to the change in structure of shared services from outside services to campus services.
- CS's depreciation expense increased by $35,000 or 2% because of the capital asset additions in fiscal year 2013 and decreased by $162,000 or 8% in fiscal year 2012 primarily because some assets had become fully depreciated.

(Continued)

- CS's transfer to the University for UPASS increased by $782,000, or 173% in fiscal 2013, and decreased by $5.6 million, or 93% in fiscal year 2012. The fine revenue in 2013 was used to support the UPASS program. CS changed the method of transfer to the University for UPASS as this is now collected by the University of Washington on a transaction basis through the collection of the TDM fee on most parking permits sold. This was partially offset by the fine revenue used to support this program and as discussed above, CS is now responsible for this revenue source. Prior to fiscal year 2012, Commuter Services transferred revenue received from the sales of parking permits to the University to fund a portion of the UPASS program costs. The UPASS program is operated by the University's Commute Options Group and provides a package of flexible, low cost transportation choices for faculty, staff, and students. It includes unlimited access to public transit, and a parking management component that subsidizes carpool and vanpool parking rather than single occupant vehicles. The amount of funds transferred increased in fiscal year 2011 due to increases in transit fees from King County Metro and Sound Transit offset by increases in UPASS rates charged to users.
- CS recorded a transfer to the University for the Shuttles program used to transport student, faculty, and staff between different University locations of $607,000 in 2012 as the fine revenue was used to support the Shuttles program. There was no transfer to the University for the Shuttles program in 2013 as the fine revenue was used to support the UPASS program as discussed above.

UNIVERSITY OF WASHINGTON
COMMUTER SERVICES
(A Department of University of Washington)

Statements of Net Position

June 30, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents in the University of Washington Invested Funds Pool (note 2)	$	9,402,148	8,291,011
Accounts receivable		420,882	595,691
Prepaid expenses		9,802	4,913
Total current assets		9,832,832	8,891,615
Noncurrent assets:			
Advances to University for capital projects		7,801,657	9,263,102
Capital assets (less accumulated depreciation of $37,749,073 and $35,965,310, respectively) (note 3)		46,738,698	39,413,815
Total noncurrent assets		54,540,355	48,676,917
Total assets	$	64,373,187	57,568,532
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$	642,696	491,746
Accrued salaries and vacation payable		352,326	344,583
Due to University		—	1,041,971
Unearned revenue		171,782	161,541
Internal lending program payable, current portion (note 5)		552,251	527,251
Total current liabilities		1,719,055	2,567,092
Noncurrent liabilities:			
Internal lending program payable, net of current portion (note 5)		13,782,853	14,335,105
Total noncurrent liabilities		13,782,853	14,335,105
Total liabilities		15,501,908	16,902,197
Net position:			
Net investment in capital assets		32,403,594	24,551,459
Unrestricted		16,467,685	16,114,876
Total net position		48,871,279	40,666,335
Total liabilities and net position	$	64,373,187	57,568,532

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
COMMUTER SERVICES
(A Department of University of Washington)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Parking revenue	$ 11,139,627	11,087,208
Fine revenue	1,235,304	1,060,593
Reimbursement for football related expenses	27,230	178,556
Revenue from Triangle Garage	919,939	1,009,728
Total operating revenues	13,322,100	13,336,085
Operating expenses:		
Salaries and wages	2,265,294	2,291,067
Employee benefits	764,288	688,600
Temporary services	53,183	121,875
Maintenance	637,455	907,445
Printing	58,051	58,873
Outside services	300,933	1,213,773
Utilities	273,577	258,484
Data processing	219,397	211,505
Motorpool	121,029	126,711
Garage rental	34,642	27,177
Insurance	27,582	31,496
Supplies and materials	318,017	336,859
Telephone	50,607	52,134
Campus services	1,107,289	1,089,428
Miscellaneous	148,471	180,818
University overhead	1,086,928	929,807
Depreciation	1,826,462	1,791,709
Total operating expenses	9,293,205	10,317,761
Operating income	4,028,895	3,018,324
Nonoperating revenues (expenses):		
Interest income	341,427	346,920
Interest expense	(675,820)	(797,039)
Total net nonoperating expenses	(334,393)	(450,119)
Income before other revenues and transfers	3,694,502	2,568,205
Other revenues and transfers:		
Transfer to the University for UPASS	(1,235,304)	(453,199)
Transfer to the University for Shuttles	—	(607,394)
Due from University	331,406	—
Transfer from the University	358,316	—
Capital contribution	5,056,024	—
Total other revenues (expenses) and transfers	4,510,442	(1,060,593)
Increase in net position	8,204,944	1,507,612
Net position:		
Net position at beginning of year	40,666,335	39,158,723
Net position at end of year	$ 48,871,279	40,666,335

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
COMMUTER SERVICES
(A Department of University of Washington)

Statements of Cash Flows

Years ended June 30, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Receipts from parking fees and fines	$	12,478,405	13,129,263
Receipts from reimbursement for football related expenses		27,230	178,556
Receipts from Triangle Garage		1,001,515	1,055,159
Payments to suppliers		(3,204,172)	(4,784,368)
Payments to employees		(2,257,551)	(2,312,656)
Payments for benefits		(764,288)	(688,600)
Payments to the University for overhead		(1,086,928)	(929,807)
Net cash provided by operating activities		6,194,211	5,647,547
Cash flows from noncapital financing activities:			
Transfer to the University for UPASS		(1,235,304)	(453,199)
Transfer to the University for Shuttles		—	(607,394)
Other Transfers to the University		(352,249)	—
Net cash used in noncapital financing activities		(1,587,553)	(1,060,593)
Cash flows from capital and related financing activities:			
Proceeds from internal lending program		—	14,862,356
Payments to University for capital assets		(2,633,876)	(3,444,141)
Principal paid on bonds payable		(527,252)	(16,733,632)
Interest paid		(675,820)	(797,039)
Sale of investment		—	1,340,575
Net cash used in capital and related financing activities		(3,836,948)	(4,771,881)
Cash flows from investing activities:			
Interest income		341,427	346,920
Net cash provided by investing activity		341,427	346,920
Net increase in cash and cash equivalents		1,111,137	161,993
Cash and cash equivalents at beginning of year		8,291,011	8,129,018
Cash and cash equivalents at end of year	$	9,402,148	8,291,011
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	4,028,895	3,018,324
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense		1,826,462	1,791,709
Changes in assets and liabilities:			
Decrease in accounts receivable		174,809	41,845
(Increase) decrease in prepaid expenses		(4,889)	7,978
Increase (decrease) in accounts payable		150,950	(175,769)
Increase (decrease) in accrued salaries and vacation payables		7,743	(21,589)
Increase (decrease) in unearned revenue		10,241	(56,922)
(Decrease) increase in payment due to University		—	1,041,971
Net cash provided by operating activities	$	6,194,211	5,647,547
Noncash capital and related financing activity:			
Capital assets paid for by University advances	$	4,095,321	196,451
Capital contribution from Housing and Food Services		5,056,024	—

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Washington Commuter Services (Unit or CS), a unit of Facilities Services, is responsible for the operation of the parking facilities of the University of Washington (the University).

(b) Basis of Presentation

The financial statements of the Unit 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 Unit is reporting as a special purpose government engaged in business type activities (BTA). In accordance with BTA reporting, the Unit 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 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 Unit reports capital assets net of accumulated depreciation (as applicable), and reports depreciation expense in the statement of revenues, expenses, and changes in net position.

(c) Capital Assets

Capital expenditures for facilities and equipment funded by the Unit are reflected as capital assets on the Unit's statements of net position. Buildings 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 15 – 50 years for building components, 20 – 50 years for infrastructure and land improvements, and 5 – 7 years for equipment. Expenditures for equipment and repairs that represent normal replacement of such equipment and routine maintenance of the buildings are expensed as incurred.

(d) Advances to University for Capital Projects

Advances to the University for capital projects represent the difference between the cash paid and the capital expenditures incurred by the University for various capital projects at year-end, which CS expects to use in capital expenditures or be refunded if not used in the future.

(e) Revenue Recognition

Parking sales are recognized as revenue in the period when the parking is utilized.

The University Department of Intercollegiate Athletics (ICA) and CS entered into a formal written agreement whereby CS operates the parking for Husky football home games for ICA. ICA is entitled to all parking revenues from Husky football games and reimburses CS for all expenses incurred by CS. The reimbursement for football related expenses is reported as CS's operating revenue.

The University of Washington Medical Center (UWMC) and CS entered into a formal written agreement whereby UWMC operates the Triangle Garage for CS and pays the Net Operating Revenue from the Triangle Garage to CS. The Net Operating Revenue accrued per the Triangle Garage operating results is reported as CS's operating revenue.

(f) Unearned Revenues

Funds received from the sale of permits to be utilized for periods subsequent to June 30 are reported as unearned. Permit sales are recognized as revenue in the period when the parking is utilized. At June 30, 2013 and 2012, unearned revenues were $171,782 and $161,541, respectively.

(g) Federal Income Taxes

As a part of the University, the Commuter Services is exempt from federal income taxes, except to the extent of unrelated business taxable income. Commuter Services did not incur unrelated business income tax during fiscal years 2013 and 2012, and accordingly, the financial statements do not include a provision for federal income taxes.

(2) Cash and Cash Equivalents in the University of Washington Invested Funds Pool

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy, which is carried out by the Chief Investment Officer. The University of Washington Investment Committee, comprising Board members and investment professionals, advises on matters relating to the management of the University's investment portfolios. The composition of the carrying amounts of investments by type at June 30, 2013 and 2012 are listed below.

University Investments

Investment type	Carrying value 2013	Carrying value 2012
	(Dollars in thousands)	
Cash equivalents	$ 256,781	243,017
Fixed income	1,655,711	1,726,157
Equity	1,287,084	974,827
Nonmarketable alternatives	362,632	405,866
Absolute return	404,416	332,359
Real assets	165,792	166,461
Miscellaneous	5,917	7,343
Total investments	$ 4,138,333	3,856,030

Investment Pools – The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2013, the Invested Funds Pool totaled $1,564,368,000 compared to $1,386,561,000 at June 30, 2012. The Invested Funds Pool also owns units in the Consolidated Endowment Fund valued at $468,187,000 on June 30, 2013 and $422,817,000 on June 30, 2012. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 2.0% in fiscal years 2013 and 2012. Endowment operating and gift accounts received 3% in both fiscal years 2013 and 2012. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments 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.

Interest Rate Risk – The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. The weighted average effective duration of the University's fixed income portfolio was 2.95 years at June 30, 2013 and 2.84 years, as of June 30, 2012.

Credit Risk – Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University Investment Policies limit fixed income exposure to investment grade assets. The Investment Policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The Invested Funds' liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 25% of their portfolios in government and government agency issues. The Investment Policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investment to investment grade credits.

Duration and credit risk figures at June 30, 2013 and 2012 exclude $53,541,000 and $150,232,000, respectively, of fixed income securities held outside the CEF and the Invested Funds Pool. These amounts make up 2.80% and 7.63%, respectively, of the University's fixed income investments (including cash equivalents), and are not included in the duration figures detailed in the following table.

The composition of the fixed income securities at June 30, 2013 and 2012, along with credit quality and effective duration measures is summarized below:

Fixed Income: Credit Quality and Effective Duration

Investments		U.S. government	Investment grade	Noninvestment grade	Not rated	Total	Duration (in years)
				(Dollars in thousands)			
2013:							
U.S. Treasuries	$	730,492	—	—	—	730,492	2.42
U.S. government agency		661,159	—	—	—	661,159	3.41
Mortgage backed		—	98,779	94,196	9,067	202,042	4.33
Asset backed		—	164,394	9,743	3,908	178,045	2.44
Corporate and other		—	86,585	—	628	87,213	2.51
Total	$	1,391,651	349,758	103,939	13,603	1,858,951	2.95

Fixed Income: Credit Quality and Effective Duration

Investments		U.S. government	Investment grade	Noninvestment grade	Not rated	Total	Duration (in years)
				(Dollars in thousands)			
2012:							
U.S. Treasuries	$	825,433	—	—	—	825,433	3.20
U.S. government agency		632,353	—	—	—	632,353	2.61
Mortgage backed		—	64,500	16,739	5,920	87,159	3.59
Asset backed		—	122,815	3,757	—	126,572	2.02
Corporate and other		—	142,890	151	4,384	147,425	1.62
Total	$	1,457,786	330,205	20,647	10,304	1,818,942	2.84

Foreign Currency Risk – The University’s Investment Policies permit investments in international equity and other asset classes which can include foreign currency exposure. The University held non-U.S. denominated securities at June 30, 2013 and 2012 of $771,070,000 and $637,514,000, respectively.

Investments Denominated in Foreign Currency

		June 30	
		2013	**2012**
		(Dollars in thousands)	
Euro (EUR)	$	114,213	70,764
Chinese Renminbi (RMB)		73,109	52,213
Indian Rupee (INR)		65,686	49,802
British Pound (GBP)		51,193	67,889
Brazilian Real (BRL)		47,956	36,451
Russian Ruble (RUB)		47,302	38,328
Japanese Yen (JPY)		45,735	48,273
Swiss Franc (CHF)		36,888	22,876

Investments Denominated in Foreign Currency

	June 30	
	2013	2012
	(Dollars in thousands)	
South Korean Won (KRW)	$ 29,477	22,465
Canadian Dollar (CAD)	27,109	28,153
Hong Kong Dollar (HKD)	24,285	24,181
Taiwanese Dollar (TWD)	23,796	13,159
Philippine Peso (PHP)	22,737	12,309
Indonesian Rupiah (IDR)	19,301	12,829
Remaining currencies	142,283	137,822
Total	$ 771,070	637,514

(3) Capital Assets

Capitalized asset activity for the years ended June 30, 2013 and 2012 is summarized as follows:

	Balance at June 30, 2012	Additions	Retirements	Balance at June 30, 2013
Buildings	$ 74,062,587	5,056,024	—	79,118,611
Furniture, fixtures, and equipment	1,182,631	19,390	(42,699)	1,159,322
Construction in progress*	133,907	4,075,931	—	4,209,838
Total	75,379,125	9,151,345	(42,699)	84,487,771
Less accumulated depreciation:				
Buildings	34,889,455	1,786,538	—	36,675,993
Furniture, fixtures, and equipment	1,075,855	39,924	(42,699)	1,073,080
Total accumulated depreciation	35,965,310	1,826,462	(42,699)	37,749,073
Capital assets, net	$ 39,413,815	7,324,883	—	46,738,698

* Nondepreciable

	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012
Buildings	$ 74,062,587	—	—	74,062,587
Furniture, fixtures, and equipment	1,140,039	50,474	(7,882)	1,182,631
Construction in progress*	(12,070)	145,977	—	133,907
Total	75,190,556	196,451	(7,882)	75,379,125
Less accumulated depreciation:				
Buildings	33,152,476	1,736,979	—	34,889,455
Furniture, fixtures, and equipment	1,029,007	54,730	(7,882)	1,075,855
Total accumulated depreciation	34,181,483	1,791,709	(7,882)	35,965,310
Capital assets, net	$ 41,009,073	(1,595,258)	—	39,413,815

* Nondepreciable

(4) Operating Leases

CS has lease agreements with the University's Real Estate Office in effect that are considered operating leases for leased parking spaces from May 1, 2010 through June 30, 2021. During the year ended June 30, 2013, CS recorded rent expense of $34,642. Future lease payments under these leases as of June 30, 2013 are as follows:

	Dollars
Years ending June 30:	
2014	$ 34,894
2015	34,894
2016	34,894
2017	34,894
2018	34,894
2019 – 2021	41,374
Total minimum lease payments	$ 215,844

(5) Revenue Bond Refinancing and Internal Lending Program

During 2004, Commuter Services issued $20,410,000 of Revenue Bonds to refund the outstanding Series 1995 Revenue Bonds and to finance various parking projects. The Revenue Bonds are held by the University and bear interest rates from 3.00% to 5.00% depending on the fiscal year, with interest and principal payments due on May 1 and November 1 of each year. The Bonds are secured by the pledge of the Parking System revenues over operating expenses.

On March 7, 2012, these 2004 Revenue Bonds were refunded and replaced by General Revenue and Refunding Bonds by the University. The amount refunded was $16,405,000, which resulted in no change in the total debt service payments and resulted in an economic gain of $210,023 to the University. The new bonds are administered under the 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 makes loans to internal borrowers at a uniform internal lending rate. These loans are 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. Final rate adjustments require approval by the Board of Regents.

Future principal and interest payments due through maturity dates are as follows:

	Principal	Interest
Years ending June 30:		
2014	$ 552,251	652,664
2015	577,251	627,752
2016	602,251	601,052
2017	627,251	573,352
2018	657,251	544,552
Thereafter	11,318,849	3,209,629
	$ 14,335,104	6,209,001

Revenue bond and ILP activity for the years ended June 30, 2013 and 2012 is summarized as follows:

	Balance as of June 30, 2012	Additions	Reductions	Balance as of June 30, 2013
Internal lending program payable	$ 14,862,356	—	527,252	14,335,104
Total internal lending program payable	$ 14,862,356	—	527,252	14,335,104

	Balance as of June 30, 2011	Additions	Reductions	Balance as of June 30, 2012
Revenue bonds and internal lending program payable:				
Revenue bonds	$ 16,733,632	—	16,733,632	—
Internal lending program payable	—	15,031,440	169,084	14,862,356
Total bonds and internal lending program payable	$ 16,733,632	15,031,440	16,902,716	14,862,356

(6) Related-Party Transactions

The University provides support to Commuter Services by performing the following services:

- The University requires a discretionary transfer for overhead equal to 8.88% of certain Commuter Services' revenues in exchange for providing the following:
  - Use of the University's buildings and equipment
  - Administrative and accounting support
  - Serving as the purchasing and disbursing agent
  - Various other operational and support services
- The University has included Commuter Services in its liability self-insurance program and allocates a portion of the program's cost to Commuter Services in an amount established at the University's discretion.
- Additionally, transfers to and from the University are made at the discretion of the University and Commuter Services.

In the year ended June 30, 2012, Commuter Services eliminated the transfer to the University for UPASS as this is now collected by the University of Washington on a transaction basis through the collection of the TDM fee on most parking permits sold. Prior to the year ended June 30, 2012, Commuter Services transferred revenue received from the sales of parking permits to the University to fund a portion of the UPASS program costs. The UPASS program is operated by the University's Transportation Commute Options Department and provides a package of flexible, low cost transportation choices for faculty, staff, and students. It includes unlimited access to public transit, and a parking management component that subsidizes carpool and vanpool parking rather than single occupant vehicles.

(7) Pension Plan

The University offers two contributory plans: the Washington State Public Employees Retirement System (PERS) plan, a defined benefit retirement plan; and the University of Washington Retirement Plan (UWRP), a defined contribution plan with supplemental payment, when required. The Unit's employees participate in the PERS, UWRP and Other Postemployment Benefits (OPEB). The Unit is allocated a cost for the participation of these plans. The cost is included in the benefits load rate set by the University in calculating its fringe benefit expense and is applied on a per employee basis and is not a significant dollar amount.

(a) Public Employees Retirement System

Plan Description – The University contributes to PERS, a cost sharing multiple employer defined benefit pension plan administered by the State of Washington Department of Retirement Systems. PERS Plan 1 provides retirement and disability benefits, and minimum benefit increases beginning at age 66 to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost of living allowance to eligible nonacademic plan members hired on or after October 1, 1977. In addition, PERS Plan 3 has a defined contribution component, which is fully funded by employee contributions. The authority to establish and amend benefit provisions resides with the legislature. The PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Department of Retirement Systems, P.O. Box 48380, Olympia, WA 8504 8380, or visiting http://www.drs.wa.gov/administration.

Funding Policy – The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method, and may vary over time. The contribution rate for Plan 2 employees at June 30, 2013 and 2012 was 4.64% and 4.64%, respectively. PERS Plan 3 members can choose contributions ranging from 5.00% to 15.00% of salary, based on the age of the member. The defined contribution benefit for PERS Plan 3 will depend on the member's contributions, the investment earnings on those contributions, and if an annuity is taken, the age at which the member receives payment. The blended contribution rate for the University at June 30, 2013 and 2012 for each of PERS Plans 1, 2, and 3 was 7.21% and 7.18%, respectively.

The Commuter Services' contributions to PERS for the years ended June 30, 2013 and 2012 were $175,172 and $169,014, respectively, which was equal to the annual required contributions for each year.

(b) University of Washington Retirement Plan

Plan Description – Professional staff and certain other salaried employees are eligible to participate in the UWRP, a defined contribution plan administered by the University. Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations.

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

The Plan has a supplemental payment component that guarantees a minimum retirement benefit based upon a one time calculation at each employee's retirement date. The University makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. During the fiscal year ending June 30, 2011, the University amended the supplemental retirement plan, limiting participation to those individuals who were active participants on February 28, 2011.

Funding Policy – Employee contribution rates, based on age, are 5.0%, 7.5%, or 10.0% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employee and employer contributions for the years ended June 30, 2013 and 2012 were each $40,740 and $40,494, respectively. The supplemental component of the UWRP is financed on a pay as you go basis.

(c) Other Postemployment Benefits (OPEB)

The University funds OPEB obligations at a university wide level on a pay as you go basis. Disclosure information, as required under GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, does not exist at the Unit level, and as a result, the Actuarial Accrued Liability (AAL) is not available for auxiliary entities. The University is ultimately responsible for the obligation; therefore, the annual required contribution (ARC) is not recorded on the Unit's financial statements.

(8) Commitments and Contingencies

The Unit is subject to various claims and lawsuits that are covered by the University's self-insurance fund in excess of $100,000.

KPMG

UNIVERSITY OF WASHINGTON
DEPARTMENT OF
INTERCOLLEGIATE ATHLETICS

Financial Statements and Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF
INTERCOLLEGIATE ATHLETICS

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington Department of Intercollegiate Athletics (the Department), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As discussed in note 1 to the financial statements, the financial statements of the Department, an auxiliary enterprise within the University of Washington (the University), are intended to present the financial position, the changes in financial position and cash flows of only the respective portion of the business-type activities of the University 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 as of June 30, 2013 and 2012, the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Department of Intercollegiate Athletics as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is 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.

KPMG LLP

Seattle, Washington
November 8, 2013

Discussion and Analysis Prepared by Management

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Department of Intercollegiate Athletics (ICA) for the years ended June 30, 2013, 2012, and 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Using the Financial Statements

ICA's financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flow, 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 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 statements of net position in the financial statements reflect the financial conditions of ICA at the end of the last three years and report the various categories of all assets and liabilities. The following statements of net position summary shows ICA's total assets, total liabilities, and net position as of June 30, 2013, 2012, and 2011:

Statements of Net Position Summary

		2013	2012 (In thousands)	2011
Current assets	$	26,031	12,025	12,347
Noncurrent assets:				
Capital assets, net		351,023	183,947	101,151
Other		69,464	59,608	60,587
Total assets	$	446,518	255,580	174,085
Current liabilities	$	33,121	23,173	22,171
Noncurrent liabilities		237,369	71,611	2,600
Total liabilities		270,490	94,784	24,771
Net position		176,028	160,796	149,314
Total liabilities and net position	$	446,518	255,580	174,085

Following are comments about the changes highlighted by the statements of net position summary.

- Current assets consist primarily of cash and cash equivalents, accounts receivable, and prepaid expenses. Current assets were $7.1 million less than current liabilities at the end of 2013. Total current assets were $12.0 million at the end of 2012 and increased to $26.0 million at the end of 2013 mainly due to an increase in cash and cash equivalents in the University of Washington Invested Funds Pool and a receivable for the capitalized scoreboard lease proceeds of $4.0 million. Current assets decreased to $12.0 million at the end of 2012 primarily due to a decrease cash and cash equivalents in the University of Washington Invested Funds Pool. Increases and decreases in the University of Washington Invested Funds 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 $176.9 million more at the end of 2013 than at the end of 2012 due to the increased value of capital assets from the ongoing renovation of Husky Stadium and due to the contributions to permanent endowments in 2013. Noncurrent assets were $81.8 million more at the end of 2012 than at the end of 2011 primarily due to the increase in the value capital assets from the Husky Stadium renovation. At the end of 2013, there is $22.6 million of noncurrent assets in long-term investment funds. These investments can be used to meet ICA's long-term obligations.
- Current liabilities increased by $9.9 million during 2013 to a total of $33.1 million. Current liabilities increased by $1.0 million during 2012 to a total of $23.2 million. These changes are comprised primarily of increases in accounts payable due to the timing of payments near year-end and increases in unearned income.
- Noncurrent liabilities increased by $165.8 million in 2013 and by $69.0 million in 2012 because of changes in principal due to the Internal Lending Program (ILP) of the University of Washington (University). The increase in 2013 and 2012 is primarily related to the debt funding of the renovation of Husky Stadium.
- The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the year. The total of net position increased by $15.2 million during 2013 and $11.5 million during 2012 due to the combination of an increase in capital assets (net of related debt) and related contributions in the current year and an increase in 2013 and a decrease in 2012 in market value of long-term investments and endowments.

ICA's Net Position or "Equity"

The following table is a summary of the net position or "equity" for ICA at June 30, 2013, 2012, and 2011:

		2013	2012	2011
			(In thousands)	
Net investment in capital assets	$	111,659	111,283	97,542
Restricted:				
Nonexpendable		35,817	32,735	30,832
Expendable		12,513	8,974	13,146
Unrestricted		16,039	7,804	7,794
Total net position	$	176,028	160,796	149,314

The categories of net position or "equity" 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" are resources that ICA is obligated to spend in accordance with the restrictions placed by donors and/or external parties.
- "Unrestricted net position" are all other funds available to ICA for any purpose. Unrestricted assets are often internally designated for specific purposes.

Following are comments about the changes highlighted in the net position or "equity" summary:

- Net investment in capital assets increased by $375 thousand or 0.3% in 2013 to a total of $111.7 million. Net investment in capital assets increased by $13.7 million or 14.1% in 2012 to a total of $111.3 million. This balance increases as debt is paid off or when ICA funds fixed asset purchases without financing. The balance decreases as assets are depreciated.
- Restricted nonexpendable net position increased by $3.1 million or 9.4% in 2013 and $1.9 million or 6.2% in 2012. The increase in 2013 was a combination of an increase in the value of endowments and an increase in additions for new endowments of $1.8 million that were donated to ICA. The increase 2012 was also caused by an increase in the value of endowments and an increase in additions for new endowments.
- Restricted expendable net position increased by $3.5 million or 39.5% in 2013 to a total of $12.5 million due to contributions received offset by expenditures for the Husky Stadium renovation project made in accordance with the donors' stipulations. Restricted expendable net position decreased by $4.2 million or 31.7% in 2012 to a total of $9.0 million due to contributions received offset by expenditures for the Husky Stadium renovation project made in accordance with the donors' stipulations.
- Unrestricted net position increased by $8.2 million in 2013 to $16.0 million due to the increase in the market value of long-term investment funds. Unrestricted net position increased by only $10 thousand in 2012 to $7.8 million.

Endowments and Other Investments

- The fair market value of ICA's endowments was $44.5 million at June 30, 2013 compared to $39.5 million at June 30, 2012 and $38.9 million at June 30, 2011. The increase in 2013 is due to improvements in the market as well as additional endowment contributions of $1.8 million. The increase in 2012 is due to additional endowment contributions of $2.9 million offset by a slight decrease in the market.

- ICA had $22.6 million and $19.6 million of long-term investments, not including endowments, in the Consolidated Endowment Fund (CEF) at June 30, 2013 and 2012, respectively. See further discussion regarding the investment income on page 9.
- Short-term investments in the Invested Funds Pool used as operating funds for ICA yielded returns of 2.0% in 2013, 2012, and 2011. See further discussion on the investment income on page 9.

Capital Improvements and Related Debt

- In 2013, there was a net increase of $167.1 million in capital assets, primarily related to the Husky Stadium renovation project. This project was completed in August 2013.
- In 2012, there was a net increase of $82.8 million in capital assets, primarily related to the Husky Stadium renovation project.
- Total long-term debt (net of current portion) at the end of 2013 was $237.4 million, which is an increase from the $71.6 million of outstanding principal due at the end of 2012. The increase is primarily due to the Husky Stadium renovation project. The portion of ILP long-term debt not related to Husky Stadium renovation, namely the $1.5 million due at the end of 2012, decreased to zero at the end of 2013. In May of 2008, the University refunded ICA's outstanding bonds and replaced them with a new bond issuance with lower interest rates. ICA's annual obligation for debt for the next several years was consequently reduced. The obligation for this debt was also shifted to the University's ILP. See note 4 to the financial statements for more details. The $796 thousand in savings will be amortized over the remaining life of the bonds.
- In 2013, ICA obtained a capitalized scoreboard lease of $8.9 million from the Bank of America to be paid over 10 years.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present how ICA's operations 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, 2013, 2012, and 2011.

Revenues, Expenses, and Changes in Net Position Summary

		2013	2012	2011
			(In thousands)	
Total operating revenues	$	53,509	54,949	48,007
Operating expenses		(85,063)	(80,553)	(73,300)
Operating loss		(31,554)	(25,604)	(25,293)
Nonoperating revenues and expenses		37,211	21,876	25,929
Other revenues		9,575	15,210	13,471
Increase in net position		15,232	11,482	14,107
Net position, beginning of year		160,796	149,314	135,207
Net position, end of year	$	176,028	160,796	149,314

Revenues from All Sources

The following table summarizes revenues from all sources for the years ended June 30, 2013, 2012, and 2011:

Revenues from All Sources Summary

		2013	2012	2011
			(In thousands)	
Gate ticket sales	$	20,481	23,789	22,034
NCAA/conference distributions		22,453	16,215	12,584
Sponsorships		7,952	9,577	9,238
Other TV, radio, and Internet rights		—	1,083	932
Concessions/souvenirs/parking/boat moorage		747	1,674	1,260
Other operating revenue		1,877	2,611	1,961
Contributions (noncapital)		26,599	23,101	15,840
Investment income, net		1,629	1,479	1,469
Gain on investments		5,630	—	6,181
University funded tuition waivers		3,336	3,066	2,459
Capital gifts		7,759	12,287	11,468
Amortization on debt refinance gain		144	144	144
Endowment gifts		1,816	2,924	2,003
Total revenue – all sources	$	100,423	97,950	87,573

Following are comments about the changes highlighted by the revenues from all sources summary:

- Gate ticket sales continue to be a large source of revenue for ICA. Gate ticket sales decreased by $3.3 million in 2013 from 2012, due to a decrease in season ticket sales in 2013 than 2012 and a less desirable home schedule than 2012. Gate ticket sales increased by $1.8 million in 2012 from 2011 as there was a slightly more desirable home schedule than 2011.
- NCAA/Conference distributions increased by $6.2 million in 2013 from 2012. The main reason for the large increase in 2013 is due to the new Pac-12 television contract, which resulted in $8.0 million more in ICA's share of conference television revenue. Conference postseason/regular season shares decreased $1.0 million from 2012. Other decreases in Pac-12 distributions in 2013 include decreases in the bowl reimbursement and Pac-12 championships for ICA. In 2012, the distributions increased by $3.6 million from 2011. The largest change is that $2.3 million more football television revenue was received from the Conference, mainly due to the Conference expanding to twelve members, but also due to a different mix of telecasts selected in each year. Other reasons for the increase include $630 thousand more from the conference from football bowl games and $488 thousand more men's basketball television revenue due to conference expansion.

- Other TV, radio, and Internet rights revenue was eliminated in 2013 due to the new Pac-12 television agreement. Revenue increased by $151 thousand in 2012 from 2011 due to more football games being selected for local telecasts than in 2011.
- Contributions related to noncapital gifts increased by $3.5 million in 2013 from 2012. The majority of the increase ($3.7 million) was for payments for football premium seating that were received in 2013. This was offset by a slight decrease in other seat related contributions for men's and women's basketball in 2013 from 2012. There was a $7.3 million increase in 2012 from 2011. In 2012, $6.2 million of this increase was for payments for football premium seating that were received in 2012. The remaining increase for 2012 was for football seat related contributions.
- Investment income increased by $150 thousand in 2013 after a $10 thousand increase in 2012. Investment income is earned on two categories including investments in the CEF and short-term investments with the activity described as follows:
  - Investment income in the CEF increased by $108 thousand in 2013 and $178 thousand in 2012 mainly due to an increase in the balance held in the CEF during these periods.
  - Short-term investments received 2.0% distributions in 2013, 2012, and 2011. Since the returns were the same for each year, the change in the average investment balances accounted for any change in investment income.
- In 2013, there was a gain on investments of $5.6 million due to the increased value of long-term investments and endowment funds, whereas in 2012 there was a loss. See further discussion regarding the 2012 loss on page 11.
- University funded tuition waivers increased by $270 thousand in 2013 due to the impact of the 16% increase in the in-state tuition rate.
- Capital gifts were $11.5 million in 2011, $12.3 million in 2012, and $7.8 million in 2013. The 2011, 2012, and 2013 gifts are mostly for the Husky Stadium renovation project.
- Endowment gifts decreased by $1.1 million in 2013 to a total of $1.8 million from the $2.9 million received in 2012. The total received in 2011 was $2.0 million.

Expenses and Losses

The following table summarizes expenses and losses for the years ended June 30, 2013, 2012, and 2011:

Expenses and Losses Summary

		2013	2012	2011
			(In thousands)	
Salaries and wages	$	23,948	24,070	22,287
Payroll taxes and employee benefits		6,905	6,216	5,551
Athletic student aid		10,894	10,066	8,806
Guarantees paid to visiting teams		1,929	3,111	1,955
Team travel		5,926	4,873	4,460
Day of game		4,977	4,602	4,807
Direct facilities, maintenance, and utilities		2,354	2,303	2,766
Advertising		584	1,381	1,494
Uniforms and supplies		4,966	4,822	4,265
Training table		1,243	1,146	1,093
Department relations		595	613	498
Banquets and special events		568	437	481
Depreciation		5,877	4,610	4,527
Noncapitalized equipment and repairs		2,977	2,110	872
Institutional overhead		2,180	1,605	2,021
Other		9,140	8,588	7,417
Total operating expenses		85,063	80,553	73,300
Loss on investments		—	2,658	—
Loss on disposal of capital assets		46	3,132	—
Interest expense		82	125	165
Total nonoperating expenses and losses		128	5,915	165
Total	$	85,191	86,468	73,465

Following are comments about the changes in expenses highlighted by the expenses and losses summary:

- Operating expenses increased from $73.3 million in 2011 to $80.6 million in 2012 and to $85.1 million in 2013. Reasons for the changes in operating expenses are explained below.
- Salaries and wages decreased by $122 thousand in 2013 from 2012 due to no severance being paid to former staff and the fact that there were no home football games and no football event staff being paid by ICA in 2013 as a result of closing the stadium for renovations in 2013. There was an increase of

$1.8 million in 2012 from 2011 due to the combination of additional salaries for contract staff and severance paid to former staff.

- Payroll taxes and employee benefits increased by $689 thousand in 2013 from 2012 and by $665 thousand in 2012 from 2011. Since payroll taxes and employee benefits are a percentage of salaries and wages, the changes detailed above in salaries and wages directly impact the changes in payroll taxes and employee benefits. There were increases in the percentages charged for employee benefit loading rates in 2013 and 2012. The percentages charged to ICA on professional and contract staff salaries increased from 30.6% in 2011 to 33.6% in 2012 to 34.0% in 2013. The percentages charged on classified staff salaries decreased from 36.6% in 2011 to 33.4% in 2012. The percentage increased to 37.7% in 2013 for classified staff salaries, but the smaller amount spent on classified staff salaries compared to professional and contract staff salaries only had a small impact on increasing the total amount of payroll taxes and employee benefits paid. The percentages charged on hourly staff, overtime, and additional compensation for contract staff increased from 13.9% in 2011 to 14.9% in 2012 to 16.5% in 2013.

- Athletic student aid increased by $828 thousand in 2013 from 2012 due to large rate increases for tuition and smaller increases for room and board. The increases in 2013 were 16% for in-state tuition and 10% for out of state tuition. Athletic student aid increased by $1.3 million in 2012 from 2011 due to significant rate increases for tuition and smaller increases for room and board. The increases in 2012 were 20% for in-state tuition and 10% for out of state tuition.

- Guarantees paid to visiting teams fluctuated due to the difference in the nonconference football game schedule and the impact of the Washington State University football game guarantee being greater in years when this game is played in Seattle (2012 fiscal year) than when played in Pullman (2011 fiscal year). Guarantees for conference football games were eliminated in 2013.

- Team travel increased by $1.1 million in 2013 from 2012, due to an increase in airfare and ground transportation costs and the fact that several teams went on foreign tours in 2013. There was an increase of $413 thousand in 2012 from 2011, primarily due to an increase of $200 thousand for the higher cost of airfare to the Alamo Bowl in fiscal year 2012 versus the Holiday Bowl in 2011.

- Day of game increased by $375 thousand in 2013 mostly due to the rental of Century Link field for home football games for the 2013 season. Day of game decreased by $205 thousand in 2012 mainly because of the additional expense of the UCLA football game being played on Thursday night in 2011 for television broadcast purposes. There were no Thursday night broadcasts with these additional expenses in 2012.

- Noncapitalized equipment and repairs increased by $866 thousand in 2013 and by $1.2 million in 2012, primarily due to additional maintenance costs related to the Husky Stadium renovation project.

- There was a $2.7 million nonoperating loss on investments in 2012 due to lower market value at year-end. Unrealized gains on investments due to higher market value were shown as revenue in 2013 and 2011.

- Loss on disposal of capital assets decreased $3.1 million in 2013. There was a large loss in 2012 for asset retirement, as a portion of Husky Stadium that had not yet been fully depreciated was demolished to renovate Husky Stadium.

- Other expenses increased $553 thousand in 2013 from 2012 due to additional costs for the Pac-12 Conference Office assessment and the ticket expense for the Las Vegas Bowl. Other expenses increased by $1.2 million in 2012 from 2011 due to additional costs for Pac-12 Conference Office assessment, credit card merchant fees, medical expenses, advertising, and training table meals.

Operating Loss

There were operating losses of approximately $31.6 million in 2013, $25.6 million in 2012, and $25.3 million in 2011. There were sufficient nonoperating revenues from contributions, investment income, and University funded tuition waivers to cover the operating losses for 2011 and 2013. Nonoperating revenues would also have covered the operating loss for 2012, if not for the unrealized loss on investments.

Economic Factors Affecting the Future

The greatest factor that determines the amount of gate revenues and contributions for Intercollegiate Athletics is having winning seasons for the football team. Football revenue supports the operations of all 21 Intercollegiate Athletic programs. The renovation of Husky Stadium, which began in November 2011 and was completed before the 2013 football season, will increase the availability of premium seating at football games. The Husky Stadium renovation project could include cost overruns, which would increase future debt service, but cost overruns are within the expected range at this point in the project. The probability of large unexpected overruns at this point in the project is low. Additionally, a return to an economic downturn would have a negative financial impact on Athletic programs.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF
INTERCOLLEGIATE ATHLETICS

Statements of Net Position

June 30, 2013 and 2012

Assets		2013	2012
Current assets:			
Cash and cash equivalents in the University of Washington Invested Funds Pool (note 2)	$	16,403,994	7,518,109
Accounts receivable		4,702,650	3,304,845
Accounts receivable – scoreboard lease proceeds		3,950,993	—
Prepaid expenses		973,071	1,202,240
Total current assets		26,030,708	12,025,194
Noncurrent assets:			
Investments:			
University of Washington Consolidated Endowment Fund (note 2)		22,633,552	19,625,603
Endowments (note 2)		44,537,345	39,503,940
Advances to University for capital projects		2,292,420	477,939
Capital assets, less accumulated depreciation of $66,619,580 and $61,835,292 in 2013 and 2012, respectively (note 3)		351,023,478	183,947,155
Total noncurrent assets		420,486,795	243,554,637
Total assets	$	446,517,503	255,579,831
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$	5,022,472	3,948,657
Accrued salaries and vacation payable		5,281,963	4,729,734
Admission taxes payable		966,121	651,239
Accrued interest payable		6,823	10,396
Unearned income		19,846,911	12,780,095
Capitalized scoreboard lease payable, current portion (note 5)		799,039	—
Internal lending program payable, current portion (note 4)		1,197,396	1,052,604
Total current liabilities		33,120,725	23,172,725
Noncurrent liabilities:			
Payable to University for construction in progress		22,721,549	17,978,770
Capitalized scoreboard lease payable, net of current portion (note 5)		8,094,431	—
Internal lending program payable, net of current portion (note 4)		206,552,545	53,632,382
Total noncurrent liabilities		237,368,525	71,611,152
Total liabilities		270,489,250	94,783,877
Net position:			
Net investment in capital assets		111,658,518	111,283,399
Restricted:			
Nonexpendable (note 2)		35,816,877	32,735,492
Expendable:			
Expendable endowment principal (note 2)		940,059	870,991
Expendable endowment gains		7,780,409	5,897,457
Other expendable		3,793,780	2,204,176
Unrestricted		16,038,610	7,804,439
Total net position		176,028,253	160,795,954
Total liabilities and net position	$	446,517,503	255,579,831

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, 2013 and 2012

	2013	2012
Operating revenue:		
Gate ticket sales	$ 20,480,655	23,788,991
NCAA/conference distributions	22,452,934	16,215,021
Sponsorships	7,951,826	9,577,317
Other TV, radio, and Internet rights	—	1,082,822
Concessions, souvenirs, parking, and boat moorage	747,327	1,673,624
Trademarks and licensing	602,639	689,811
Facility income	399,789	490,723
Other	873,940	1,430,713
Total operating revenue	53,509,110	54,949,022
Operating expenses:		
Salaries and wages	23,948,398	24,070,064
Payroll taxes and employee benefits	6,905,130	6,216,195
Athletic student aid	10,893,865	10,065,953
Guarantees paid to visiting teams	1,929,254	3,111,180
Team travel	5,925,748	4,872,873
Day of game expenses	4,977,229	4,601,795
Direct facilities, maintenance, and utilities	2,353,903	2,303,440
Advertising	584,135	1,381,460
Uniforms and supplies	4,966,204	4,822,320
Training table	1,243,060	1,145,956
Department relations	595,396	613,327
Banquets and special events	567,938	436,860
Depreciation	5,876,753	4,609,596
Noncapitalized equipment and repairs	2,976,642	2,110,313
Institutional overhead	2,179,521	1,605,232
Medical expenses	855,457	887,518
Fund-raising, marketing, and promotions	778,611	786,480
Recruiting	379,972	313,828
Equipment	6,980	33,474
Other	7,119,127	6,565,686
Total operating expenses	85,063,323	80,553,550
Operating loss	(31,554,213)	(25,604,528)
Nonoperating revenues (expenses):		
Contributions	26,598,770	23,101,104
Investment expense on Invested Funds	(3,545)	(45,532)
Investment income on CEF	1,632,550	1,524,688
Gain (loss) on investments	5,630,380	(2,657,862)
Loss on disposal of capital assets	(45,600)	(3,131,948)
University funded tuition waivers	3,335,999	3,065,500
Amortization of debt refinance gain	144,768	144,768
Interest expense	(81,875)	(124,737)
Total nonoperating revenues (expenses)	37,211,447	21,875,981
Income (loss) before other revenues	5,657,234	(3,728,547)
Other revenues:		
Capital gifts	7,759,091	12,286,628
Gifts to permanent endowments	1,815,974	2,923,671
Total other revenues	9,575,065	15,210,299
Increase in net position	15,232,299	11,481,752
Net position:		
Net position at beginning of year	160,795,954	149,314,202
Net position at end of year	$ 176,028,253	160,795,954

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF
INTERCOLLEGIATE ATHLETICS

Statements of Cash Flows

Years ended June 30, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Gate ticket sales	$	27,853,043	23,598,923
NCAA/conference distributions		20,861,606	16,155,581
Sponsorships		4,875,924	5,084,783
Other TV, radio, and Internet rights		—	1,082,822
Concessions and souvenirs		627,390	1,684,143
Trademarks and licensing		568,211	463,818
Facility income		337,812	557,498
Other		896,898	1,361,329
Payments to suppliers		(32,920,639)	(31,776,435)
Payments to employees		(23,396,169)	(23,464,309)
Payments for benefits		(6,905,130)	(6,216,195)
Payments for scholarships		(10,906,979)	(10,190,711)
Net cash used in operating activities		(18,108,033)	(21,658,753)
Cash flows from noncapital financing activities:			
Contributions, excluding permanent endowments and capital		26,891,972	22,807,904
Contributions to permanent endowments		1,815,974	2,923,671
University funded tuition waivers		3,335,999	3,065,500
Net cash provided by noncapital financing activities		32,043,945	28,797,075
Cash flows from capital and related financing activities:			
Capital gifts received		7,759,091	12,286,628
Proceeds from Internal Lending Program		154,262,327	52,229,872
Proceeds from Scoreboard Equipment Lease		4,942,477	—
Acquisition and construction of capital assets		(170,070,378)	(70,553,391)
Principal paid on capital debt		(1,052,604)	(1,009,115)
Interest paid on capital debt		(85,448)	(128,131)
Net cash used in capital and related financing activities		(4,244,535)	(7,174,137)
Cash flows from investing activities:			
Purchases of investments		(2,410,974)	(3,683,670)
Investment income		1,605,482	1,491,076
Net cash used in investing activities		(805,492)	(2,192,594)
Net increase (decrease) in cash and cash equivalents		8,885,885	(2,228,409)
Cash and cash equivalents at beginning of year		7,518,109	9,746,518
Cash and cash equivalents at end of year	$	16,403,994	7,518,109
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(31,554,213)	(25,604,528)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		5,876,753	4,609,596
Changes in assets and liabilities:			
Increase in accounts receivable		(1,667,484)	(1,383,988)
Decrease (increase) in prepaid expenses		229,169	(241,142)
Increase in accounts payable		1,073,815	542,697
Increase (decrease) in unearned revenue		7,066,816	(277,987)
Increase in accrued salaries and vacation payable		552,229	605,755
Increase in admissions taxes payable		314,882	90,844
Net cash used in operating activities	$	(18,108,033)	(21,658,753)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Washington Department of Intercollegiate Athletics (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, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. 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) Capital Assets

Expenditures for equipment and repairs that represent normal replacement of such equipment and routine maintenance of the buildings are expensed as incurred. Capital expenditures for facilities and equipment funded by the Department are reflected as capital assets on the Department's balance sheets. Buildings 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 15–50 years for building components, 20–50 years for infrastructure and land improvements, and 5–7 years for equipment.

(d) Advances to University for Capital Projects

Advances to 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) Payable to University for Construction in Progress

Construction in progress provided before year-end yet not paid by the Department is accrued as of year-end and recorded as a payable to the University.

(f) Unearned Income

Funds received from the sale of tickets (which could be shared with visiting teams) for games to be played subsequent to June 30, 2013 are unearned. The Department's share of such receipts is recognized as income in the period in which the games are played. At June 30, 2013 and 2012, unearned revenues consist of the following:

		2013	2012
Advance sales of football tickets	$	19,323,542	12,268,742
Advance sales for men's and women's basketball		437,789	485,948
Other unearned income		85,580	25,405
	$	19,846,911	12,780,095

(g) Contributions

Contributions are recorded as income when all conditions have been met.

(h) Sponsorships

Sponsorships revenue for donated advertising and supplies is recognized as an exchange transaction and is recorded in income when the related advertising or supplies are received.

The Department recorded $3.1 million and $3.9 million in sponsorship revenue for these transactions in the years ended June 30, 2013 and 2012, 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, 2013 and 2012.

(2) Cash and Cash Equivalents in the University of Washington Invested Funds Pool and Investments

The Department's cash and investments are managed by the University through the Treasurer of the Board of Regents.

The Department's funds on deposit with the University and nonendowment investments were invested in the University's Invested Funds Pool (IFP). The IFP is unrated and the principal balance in each account is available to be withdrawn at any time. Since the IFP funds can be withdrawn at any time, the IFP funds are recorded on the financial statements as cash and cash equivalents. The IFP funds are invested in highly liquid, shorter-term investments. For funds invested in the IFP, the University credits the Department with interest at rates established at the University's discretion (2.0% for fiscal year 2013 and 2012) on the average month-end balance of IFP funds. The Department's cash and cash equivalents and University IFP investments represent 2.5% and 2.0% of the IFP balance as of June 30, 2013 and 2012, respectively.

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 on the investments portion of the CEF funds for the years ended June 30, 2013 and 2012 was approximately 13.5% and (0.9)%, respectively. During fiscal year 2011, the Board of Regents adopted a new long-term spending policy for the CEF replacing the interim spending policy, which was effective in fiscal year 2010. Under the new policy, quarterly distributions to programs are based on an annual percentage rate of 4.0%, applied to the five-year rolling average of the CEF's market valuation. The new policy was effective with the December 2010 quarterly distributions with the five-year averaging period implemented incrementally. The administrative fee of 1.0% supporting campuswide fund-raising and stewardship activities (0.8%) and offsetting the internal cost of managing endowment assets (0.2%) continues, but is now based on a five-year average value similar to program distributions. The Department's endowments represent 1.9% of the CEF balance as of June 30, 2013 and 2012.

At June 30, 2013 and 2012, the fund balance of the Endowment and Expendable Endowment funds stated at fair value comprised the following:

		2013	2012
Expendable endowments:			
Graham*	$	380,442	352,490
Spence*		559,617	518,501
Endowments		43,597,286	38,632,949
Total	$	44,537,345	39,503,940

* Expenditure of principal is permitted under certain circumstances.

The Department received $1,815,974 and $2,923,671 in endowment gifts in 2013 and 2012, respectively, which is invested in the CEF.

University of Washington Investment

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy, which is carried out by the Chief Investment Officer. The University of Washington Investment Committee, comprising Board members and investment professionals, advises on matters relating to the management of the University's investment portfolios. The composition of the carrying amounts of investments by type at June 30, 2013 and 2012 is listed below.

University Investments

Investment type		Carrying value 2013	Carrying value 2012
		(Dollars in thousands)	
Cash equivalents	$	256,781	243,017
Fixed income		1,655,711	1,726,157
Equity		1,287,084	974,827
Nonmarketable alternatives		362,632	405,866
Absolute return		404,416	332,359
Real assets		165,792	166,461
Miscellaneous		5,917	7,343
Total investments	$	4,138,333	3,856,030

Investment Pools – The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2013, the Invested Funds Pool totaled $1,564,368,000 compared to $1,386,561,000 at June 30, 2012. The Invested Funds Pool also owns units in the Consolidated Endowment Fund valued at $468,187,000 on June 30, 2013 and $422,817,000 on June 30, 2012. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 2.0% in fiscal years 2013 and 2012. Endowment operating and gift accounts received 3.0% in both fiscal years 2013 and 2012. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments 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.

Interest Rate Risk – The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed-income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. The weighted average effective duration of the University's fixed-income portfolio was 2.95 years at June 30, 2013 and 2.84 years at June 30, 2012.

Credit Risk – Fixed-income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University Investment Policies limit fixed-income exposure to investment grade assets. The Investment Policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The Invested Funds' liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 25% of their portfolios in government and government agency issues. The Investment Policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investment to investment grade credits.

Duration and credit risk figures at June 30, 2013 and 2012 exclude $53,541,000 and $150,232,000, respectively, of fixed-income securities held outside the CEF and the Invested Funds Pool. These amounts make up 2.80% and 7.63%, respectively, of the University's fixed income investments (including cash equivalents), and are not included in the duration figures detailed below.

The composition of the fixed-income securities at June 30, 2013 and 2012, along with credit quality and effective duration measures is summarized below:

Fixed Income: Credit Quality and Effective Duration

Investments	U.S. government	Investment grade	Noninvestment grade	Not rated	Total	Duration (in years)
			(Dollars in thousands)			
2013:						
U.S. Treasuries	$ 730,492	—	—	—	730,492	2.42
U.S. government agency	661,159	—	—	—	661,159	3.41
Mortgage backed	—	98,779	94,196	9,067	202,042	4.33
Asset backed	—	164,394	9,743	3,908	178,045	2.44
Corporate and other	—	86,585	—	628	87,213	2.51
Total	$ 1,391,651	349,758	103,939	13,603	1,858,951	2.95

Fixed Income: Credit Quality and Effective Duration

Investments		U.S. government	Investment grade	Noninvestment grade	Not rated	Total	Duration (in years)
				(Dollars in thousands)			
2012:							
U.S. Treasuries	$	825,433	—	—	—	825,433	3.20
U.S. government agency		632,353	—	—	—	632,353	2.61
Mortgage backed		—	64,500	16,739	5,920	87,159	3.59
Asset backed		—	122,815	3,757	—	126,572	2.02
Corporate and other		—	142,890	151	4,384	147,425	1.62
Total	$	1,457,786	330,205	20,647	10,304	1,818,942	2.84

Foreign Currency Risk – The University's Investment Policies permit investments in international equity and other asset classes which can include foreign currency exposure. The University held non-U.S. denominated securities at June 30, 2013 and 2012 of $771,070,00 and $637,514,000, respectively.

Investments Denominated in Foreign Currency

		June 30 2013	June 30 2012
		(Dollars in thousands)	
Euro (EUR)	$	114,213	70,764
Chinese Renminbi (RMB)		73,109	52,213
Indian Rupee (INR)		65,686	49,802
British Pound (GBP)		51,193	67,889
Brazilian Real (BRL)		47,956	36,451
Russian Ruble (RUB)		47,302	38,328
Japanese Yen (JPY)		45,735	48,273
Swiss Franc (CHF)		36,888	22,876
South Korean Won (KRW)		29,477	22,465
Canadian Dollar (CAD)		27,109	28,153
Hong Kong Dollar (HKD)		24,285	24,181
Taiwanese Dollar (TWD)		23,796	13,159
Philippine Peso (PHP)		22,737	12,309
Indonesian Rupiah (IDR)		19,301	12,829
Remaining Currencies		142,283	137,822
Total	$	771,070	637,514

(3) Capital Assets

Capitalized asset activity for the year ended June 30, 2013 is summarized as follows:

	Balance at June 30, 2012	Additions/ transfers	Retirements	Balance at June 30, 2013
Buildings	$ 143,542,485	245,857	—	143,788,342
Furniture, fixtures, and equipment	5,082,680	6,900,354	(855,936)	11,127,098
Construction in progress*	97,157,282	165,870,336	—	263,027,618
Total	245,782,447	173,016,547	(855,936)	417,943,058
Less accumulated depreciation:				
Buildings	57,980,413	4,023,473	—	62,003,886
Furniture, fixtures, and equipment	3,854,879	1,871,151	(810,336)	4,915,694
Total accumulated depreciation	61,835,292	5,894,624	(810,336)	66,919,580
Capital assets, net	$ 183,947,155	167,121,923	(45,600)	351,023,478

* Nondepreciable

(Continued)

Capitalized asset activity for the year ended June 30, 2012 is summarized as follows:

	Balance at June 30, 2011	Additions/ transfers	Retirements	Balance at June 30, 2012
Buildings	$ 150,765,689	4,943,207	(12,166,411)	143,542,485
Furniture, fixtures, and equipment	5,078,526	389,499	(385,345)	5,082,680
Construction in progress*	11,952,511	85,204,771	—	97,157,282
Total	167,796,726	90,537,477	(12,551,756)	245,782,447
Less accumulated depreciation:				
Buildings	62,796,737	4,218,139	(9,034,463)	57,980,413
Furniture, fixtures, and equipment	3,848,767	391,457	(385,345)	3,854,879
Total accumulated depreciation	66,645,504	4,609,596	(9,419,808)	61,835,292
Capital assets, net	$ 101,151,222	85,927,881	(3,131,948)	183,947,155

* Nondepreciable

(4) Internal Lending Program

In February 2012, ICA began drawing money from the 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. At the end of June 2013, ICA had drawn $206.5 million from the ILP relating to the construction of the Husky Stadium renovation. Capitalized interest at June 30, 2013 was $7.6 million. In addition, ICA has a payable to University for construction in progress of $22.7 million as of June 30, 2013 in project costs that will be funded through the 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 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. Final rate adjustments require approval by the Board of Regents.

Future principal and interest payments due through maturity dates are as follows:

		Principal	**Interest**
Years ending June 30:			
2014	$	1,197,396	27,734
2015		2,543,957	10,352,883
2016		2,925,134	11,144,147
2017		3,090,135	10,979,146
2018		3,264,442	10,804,837
Thereafter		194,668,532	172,305,187
		207,689,596	215,613,934
Deferred gain on refunding		60,345	—
	$	207,749,941	215,613,934

Internal Lending Program activity for the years ended June 30, 2013 and 2012 is summarized as follows:

Balance as of June 30, 2011	$	3,608,997
Additions		52,229,872
Reductions		(1,153,883)
Balance as of June 30, 2012		54,684,986
Additions		154,262,327
Reductions		(1,197,372)
Balance as of June 30, 2013	$	207,749,941

(5) Capital Lease

Future minimum lease payments under capital lease and the present value of the net minimum lease payments as of June 30, 2013 are as follows:

		Future payments
Years ending June 30:		
2014	$	997,934
2015		997,934
2016		997,934
2017		997,934
2018		997,934
Thereafter		4,989,668
Total minimum lease payments		9,979,338
Less amount representing interest cost		1,085,868
Present value of minimum payments	$	8,893,470

Equipment under capital lease are as follows:

		Balance at June 30, 2012	Additions	Retirements	Balance at June 30, 2013
Equipment	$	—	5,995,767	—	5,995,767
Total		—	5,995,767	—	5,995,767
Less accumulated depreciation:					
Equipment		—	1,378,053	—	1,378,053
Total accumulated depreciation		—	1,378,053	—	1,378,053
Leased capital assets, net	$	—	4,617,714	—	4,617,714

(Continued)

(6) 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 office supplies and other services from the University and is allocated institutional overhead from the University for services provided and payment for utility costs. The institutional overhead allocated from the University for fiscal years 2013 and 2012 was $2,179,521 and $1,605,232, respectively, and is included in administration expense.

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.

(7) Pension Plan

The University offers two contributory plans in which Department employees can participate: the Washington State Public Employees Retirement System (PERS) plan, a defined benefit retirement plan; and the University of Washington Retirement Plan (UWRP), a defined contribution plan with supplemental payment, when required. The Department's employees participate in the PERS, UWRP, and Other Postemployment Benefits (OPEB). The Department is allocated a cost for the participation of these plans. The cost is included in the benefits load rate set by the University in calculating its fringe benefit expense and is applied on a per employee basis and is not significant dollar amount.

(a) Public Employees Retirement System

Plan Description

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

Funding Policy

The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 employees at June 30, 2013 and 2012 was 4.6% and 4.6%, respectively. PERS 3 members can choose contributions ranging from 5% to 15% of salary, based on the age of the member. The defined contribution benefit for PERS 3 will depend on the member's contributions, the investment earnings on those contributions, and if an annuity is taken, the age at which the member receives payment. The contribution rate for the University at June 30, 2013 and 2012, for each of PERS Plans 1, 2, and 3 was 7.21% and 7.18%, respectively. The University's contributions to PERS on the Department's behalf for the years ended June 30, 2013 and 2012 was $300,558 and $318,142, respectively, which was equal to the annual required contributions (ARC) for the year.

(b) University of Washington Retirement Plan

Plan Description

Professional staff and certain other salaried employees are eligible to participate in the UWRP, a defined contribution plan administered by the University. Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations.

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

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

Funding Policy

Employee contribution rates, based on age, are 5%, 7.5%, or 10% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the Board of Regents. Employee and employer contributions for the years ended June 30, 2013 and 2012 were each $789,633 and $756,198, respectively. This plan is closed to new entrants as of February 28, 2011. As of June 30, the University has set aside $148,270,000 in 2013 and $109,588,000 in 2012.

(c) Other Postemployment Benefits (OPEB)

The University funds OPEB obligations at a university-wide level on a pay-as-you-go basis. Disclosure information, as required under GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, does not exist at the Department level, and as a result, the Actuarial Accrued Liability (AAL) is not available for auxiliary entities. The University is ultimately responsible for the obligation; therefore, the (ARC) is not recorded on the Department's financial statements.

(8) 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.

Schedule 1

UNIVERSITY OF WASHINGTON
DEPARTMENT OF
INTERCOLLEGIATE ATHLETICS

Operating and Other Revenue by Specific Function

Year ended June 30, 2013

	Men's football	Men's basketball	Women's basketball	Other sports		Administration and other	Total
				Men's	Women's		
Gate ticket sales revenue:							
Ticket sales for home events	$ 16,387,866	3,587,834	170,464	53,399	301,264	—	20,500,827
Admission taxes	(780,710)	(170,856)	(8,147)	(2,550)	(14,202)	—	(976,465)
Ticket-processing fees	312,812	42,442	4,494	1,422	10,000	—	371,170
	15,919,968	3,459,420	166,811	52,271	297,062	—	19,895,532
University's share of gate revenue for away games	550,000	5,095	—	23,488	6,540	—	585,123
Total gate ticket sales revenue	16,469,968	3,464,515	166,811	75,759	303,602	—	20,480,655
NCAA/conference distributions:							
PAC-12 television share	13,674,983	2,413,044	—	—	—	—	16,088,027
PAC-12 rose/other bowl shares	2,039,280	—	—	—	—	—	2,039,280
Conference postseason other	(119,852)	—	—	—	—	—	(119,852)
Bowl Participation	1,402,500	—	—	—	—	—	1,402,500
NCAA MBB tournament	—	1,210,348	—	—	—	—	1,210,348
Football Pac-12 Championship Game	104,348	—	—	—	—	—	104,348
MBB PAC-12 tournament	—	(151,913)	—	—	—	—	(151,913)
Other	—	—	—	—	—	1,880,196	1,880,196
Total NCAA/conference distributions	17,101,259	3,471,479	—	—	—	1,880,196	22,452,934
Royalties, advertisements, and sponsorships:							
Sponsorships	5,000	—	—	48,031	98,065	4,691,595	4,842,691
Donated advertising	—	—	—	—	—	584,135	584,135
Trademarks and licensing	—	—	—	—	—	602,639	602,639
Donated supplies	833,000	150,000	166,000	545,720	654,280	176,000	2,525,000
Total royalties, advertisements, and sponsorships	838,000	150,000	166,000	593,751	752,345	6,054,369	8,554,465
Contributions	21,024,004	2,896,423	47,785	542,929	595,336	1,492,293	26,598,770
Capital gifts	—	—	—	—	—	7,759,091	7,759,091
Gifts to permanent endowments	—	—	—	—	—	1,815,974	1,815,974
Gain on investments	—	—	—	—	—	5,630,380	5,630,380
Investment income, net	—	—	—	—	—	1,629,005	1,629,005
University funded tuition waivers	—	—	—	—	—	3,335,999	3,335,999
Concessions, souvenirs, parking, and boat moorage	309,301	114,450	22,567	8,337	34,572	258,100	747,327
Facility income	—	—	—	—	—	399,789	399,789
Amortization of debt refinance gain	—	—	—	—	—	144,768	144,768
Other	67,125	—	—	237,420	287,302	282,093	873,940
Total revenue	$ 55,809,657	10,096,867	403,163	1,458,196	1,973,157	30,682,057	100,423,097

See accompanying independent auditors' report.

Schedule 2

UNIVERSITY OF WASHINGTON
DEPARTMENT OF
INTERCOLLEGIATE ATHLETICS

Operating Expenses and Other Deductions by Specific Function

Year ended June 30, 2013

	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	$ 6,075,436	2,878,524	921,017	1,571,044	2,396,076	245,635	8,301,375	1,512,645	46,646	23,948,398
Payroll taxes and employee benefits	1,538,893	652,023	275,666	486,474	722,551	40,530	2,682,854	506,139	—	6,905,130
Athletic student aid	3,199,440	442,601	309,224	2,097,734	3,865,722	—	790,401	—	188,743	10,893,865
Guarantees paid to visiting teams	1,275,000	594,156	29,000	12,634	18,464	—	—	—	—	1,929,254
Team travel	1,285,404	634,511	375,007	846,064	1,392,048	1,093,312	266,535	—	32,867	5,925,748
Day of game expenses	1,601,568	302,553	149,742	186,333	252,847	89,445	420,388	65,244	1,909,109	4,977,229
Direct facilities, maintenance, and utilities	53,132	1,873	—	28,430	22,042	—	1,720,154	528,272	—	2,353,903
Donated advertising	—	—	—	—	—	—	584,135	—	—	584,135
Uniforms and supplies	729,590	76,595	49,166	280,079	340,529	95,105	686,896	176,266	31,978	2,466,204
Donated supplies	833,000	150,000	166,000	545,720	654,280	—	151,000	—	—	2,500,000
Institutional overhead	—	—	—	—	—	—	2,179,521	—	—	2,179,521
Medical expenses	—	18,597	—	—	—	—	836,860	—	—	855,457
Fund-raising, marketing, and promotions	—	—	—	—	—	—	441,447	—	337,164	778,611
Recruiting	—	—	—	—	—	—	—	—	379,972	379,972
Equipment	1	—	—	—	—	—	—	6,979	—	6,980
Training table	619,969	22,595	17,561	205,525	293,424	28,987	26,151	—	28,848	1,243,060
Department relations	65,929	2,004	3,924	24,873	37,952	43,722	30,992	546	385,454	595,396
Banquets and special events	16,891	96,262	515	78,752	50,424	—	64,674	—	260,420	567,938
Depreciation	—	—	—	—	—	—	5,876,753	—	—	5,876,753
Noncapitalized equipment and repairs	—	—	—	—	—	—	—	2,976,642	—	2,976,642
Other	695,252	248,830	156,989	336,036	347,168	422,449	3,947,938	32,616	931,849	7,119,127
Total operating expenses	17,989,505	6,121,124	2,453,811	6,699,698	10,393,527	2,059,185	29,008,074	5,805,349	4,533,050	85,063,323
Other deductions:										
Loss on investments	—	—	—	—	—	—	—	—	—	—
Loss on disposal of capital assets	—	—	—	—	—	—	—	45,600	—	45,600
Interest expense	—	—	—	—	—	—	81,875	—	—	81,875
Total other deductions	—	—	—	—	—	—	81,875	45,600	—	127,475
Total operating expenses and other deductions	$ 17,989,505	6,121,124	2,453,811	6,699,698	10,393,527	2,059,185	29,089,949	5,850,949	4,533,050	85,190,798

See accompanying independent auditors' report.

UNIVERSITY OF WASHINGTON MEDICAL CENTER
(A Division of the University of Washington)

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON MEDICAL CENTER
(A Division of the University of Washington)

Table of Contents

The following discussion and analysis provides an overview of the financial position and activities of University of Washington Medical Center (UW Medical Center), for the years ended June 30, 2013, 2012 and 2011. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and accompanying notes that follow this section.

Using the Financial Statements

UW Medical Center's 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 UW Medical Center, including resources held by UW Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

The statement of net position includes all of UW Medical Center's assets and liabilities, using the accrual basis of accounting. The statement also provides an indication about which assets can be used for general purposes and which are designated for a specific purpose and includes information to help compute the rate of return on investments, evaluate the capital structure of UW Medical Center, and assess the liquidity and financial flexibility of the organization.

The statements of revenues, expenses and changes in net position reports 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 UW Medical Center and whether the organization has been able to recover all costs through net patient service revenues and other revenue sources.

The statement of cash flows report the cash provided by UW Medical Center's operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements. The statement provides meaningful information on where UW Medical Center's cash was generated and what it was used for.

Financial Analysis

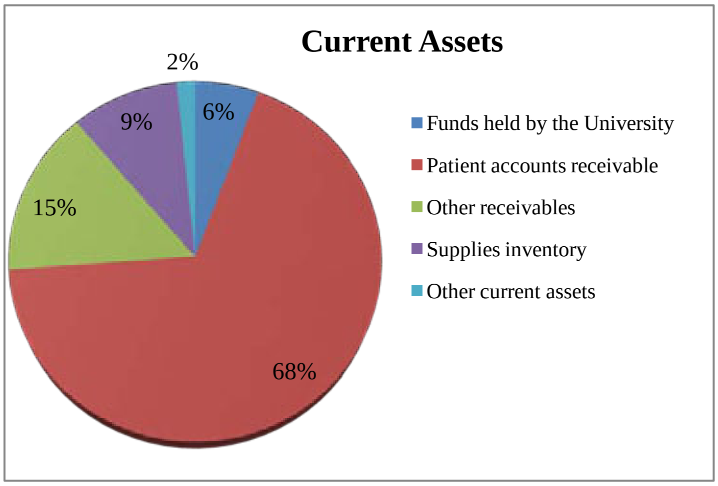
Statements of Net Position

The table to the right is a presentation of certain condensed financial information derived from UW Medical Center's statements of net position as of the fiscal years ended June 30, 2013, 2012 and 2011.

(in thousands)		**2013**	**2012**	**2011**
Current assets	$	189,352	171,637	147,590
Noncurrent assets:				
Capital assets, net		496,908	480,782	406,927
Funds held by the University		231,664	247,878	302,351
Assets Whose Use is Limited (AWUL)		3,493	2,676	2,597
Investment in SCCA		89,115	81,638	75,130
Other noncurrent assets		1,490	1,292	-
Total assets		1,012,022	985,903	934,595
Current liabilities		128,707	129,004	131,590
Noncurrent liabilities		213,941	193,429	175,610
Total liabilities		342,648	322,433	307,200
Net position	**$**	**669,374**	**663,470**	**627,395**

Total assets were $1,012.0 million at June 30, 2013 compared to $985.9 million at June 30, 2012, an increase of $26.1 million. Significant events within total assets during fiscal year 2013 included implementation of the computerized physician order entry and completion of the Montlake Tower expansion project. Total assets increased $51.3 million during fiscal years 2012. The increase was primarily driven by continued construction of the Montlake Tower expansion project and significant investment in information technology. Overall net position increased $5.9 million during fiscal year 2013 and increased $36.1 million during fiscal year 2012. The increase in 2013 was a result of a combination of lower than anticipated inpatient volumes and favorable third-party reimbursement settlements. The increase in 2012 was driven by income from operations.

Current Assets

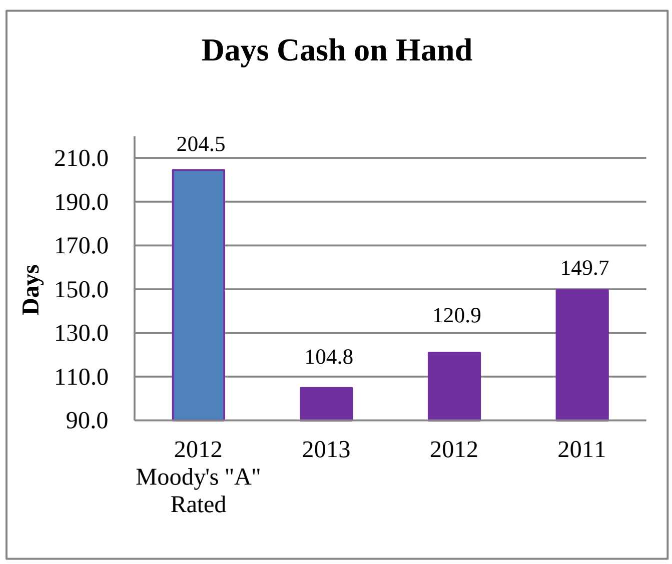


Current assets consist of cash and cash equivalents, and other assets that are expected to be converted to cash within a year. Current assets also include net patient accounts receivable valued at the estimated net realizable amount due from patients and insurers.

Total current assets were $189.4 million at fiscal year-end 2013, compared to $171.6 million at year-end 2012. Fiscal year 2013 composition of current assets is illustrated in the chart to the left.

Funds held by the University of Washington (the University) represent cash and short-term investments held by the University on behalf of UW Medical Center. The funds have no principal risk and are available on demand to UW Medical Center. The current portion of funds held by the University generally represents the current annual debt service requirements. All other funds held by UW are shown as noncurrent assets as it is not expected that the funds will be utilized over the next year. The current portion of funds held by the University increased $1.2 million in 2013 from $9.5 million at June 30, 2012 to $10.7 million at June 30, 2013 and increased $2.3 million in 2012 from $7.2 million at June 30, 2011 to $9.5 million at June 30, 2012.

Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on hand (including noncurrent funds held by the University of Washington) as of June 30 for fiscal years 2013, 2012 and 2011 is illustrated in the chart to the right.

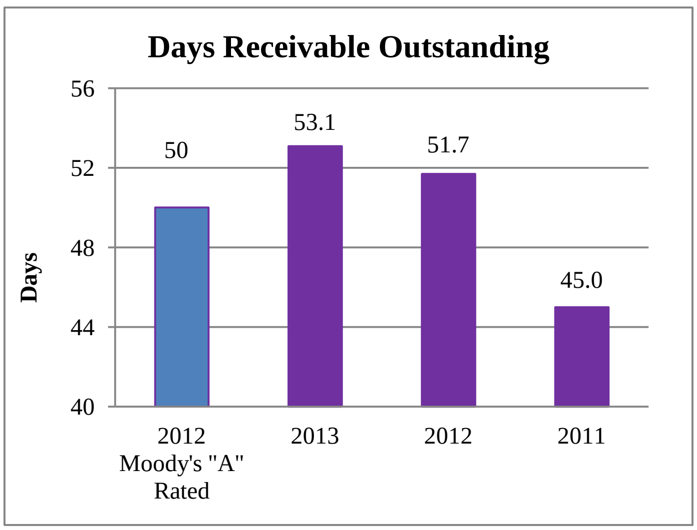


UW Medical Center's total days cash on hand, including investments held by UW, decreased 16.1 days from 120.9 days at June 30, 2012 to 104.8 days at June 30, 2013 and decreased 28.8 days from 149.7 days at June 30, 2011 to 120.9 days at June 30, 2012. Decreases in both years were primarily due to planned funding of major capital projects including computerized physician order entry and the

Montlake Tower expansion. Days cash on hand at June 30, 2013 was also impacted by declining operating performance in fiscal year 2013.

Net patient accounts receivable was $128.8 million as of June 30, 2013, compared to $119.4 million at June 30, 2012. The increase of $9.4 million was driven by growth in revenue and industry trends regarding payer strategy for cost containment and contract management.

Net patient accounts receivable increased $18.7 million during fiscal year 2012. The change in net patient accounts receivable was due to an increase in high dollar accounts associated with higher-intensity cases such as neonatal intensive care, and organ and bone marrow transplantation, which generally have a longer period of collection.



Days receivable outstanding illustrates an organization's ability to convert service revenue to cash. Days receivable outstanding as of June 30 for fiscal years 2013, 2012 and 2011 are illustrated in the chart to the left.

UW Medical Center's total days receivable outstanding increased 1.4 days from 51.7 days at June 30, 2012 to 53.1 days at June 30, 2013 and increased 6.7 days from 45.0 days at June 30, 2011 to 51.7 days at June 30, 2012. The increase during fiscal year 2013 was driven by growth in revenue and higher initial denial rates from payers while the increase in fiscal year 2012 was a result of increased high dollar accounts as a result of higher-intensity cases.

As of June 30, 2013 and 2012, 47% and 49% of the gross patient accounts receivable balance is due from commercial payers, 44% and 40% is due from governmental payers Medicare and Medicaid, 9% and 11% from patients. Due to a variety of factors, including overall economic conditions, employers and insurers have continued to shift responsibility of payment to patients in the form of increased coinsurance and deductibles. Therefore, the patient responsibility component of accounts receivable has increased. Generally speaking, the collection of patient responsibility amounts requires more effort than collection of insurance amounts because patient responsibility balances are typically composed of a high number of smaller dollar accounts.

Other receivables consist of amounts due from external and related parties for nonpatient services. Other receivables increased $6.1 million from $22.1 million at June 30, 2012 to $28.2 million at June 30, 2013. Changes in affiliate receivables primarily relates to timing of payments between UW Medical Center and Seattle Cancer Care Alliance (SCCA), a UW Medical Center equity method joint venture.

During fiscal year 2012, other receivables decreased $0.4 million.

Supplies inventory was $18.1 million as of June 30, 2013, compared to $18.6 million at June 30, 2012. The decrease of $0.5 million was the result of general inventory movement and timing of stock reorders.

Supplies inventory increased $3.8 million during fiscal year 2012. The increase in 2012 was a result of a focused effort to build sufficient safety stock of critical pharmaceuticals in order to minimize sourcing risk in the event of a vendor shortage.

Other current assets include prepaid expenses, interest receivable and other assets.

Noncurrent Assets

Capital assets increased $16.1 million during fiscal year 2013 from $480.8 million at June 30, 2012 to $496.9 million at June 30, 2013 and $73.9 million during fiscal year 2012 from $406.9 million at June 30, 2011 to $480.8 million at June 30, 2012. The increase in both years was largely due to continued work on the construction of Montlake Tower and investment in information technology infrastructure and business systems.

Additional discussion regarding capital asset activity during the fiscal years can be found in the notes to the financial statements.

Noncurrent Funds held by the University represents funds invested with the University of Washington Invested Funds program (the program) and represent cash in excess of amounts required for operations. Through the program, UW Medical Center receives a rate of return representative of fund performance. For the fiscal years 2013, 2012 and 2011, the program generated a rate of return of 2% on UW Medical Center assets. Noncurrent funds held by the University decreased by $16.2 million in fiscal year 2013 which was primarily due to Montlake Tower expansion funding. Noncurrent funds held by the UW decreased by $54.5 million in fiscal year 2012 due to expansion funding offset by cash generated from operations.

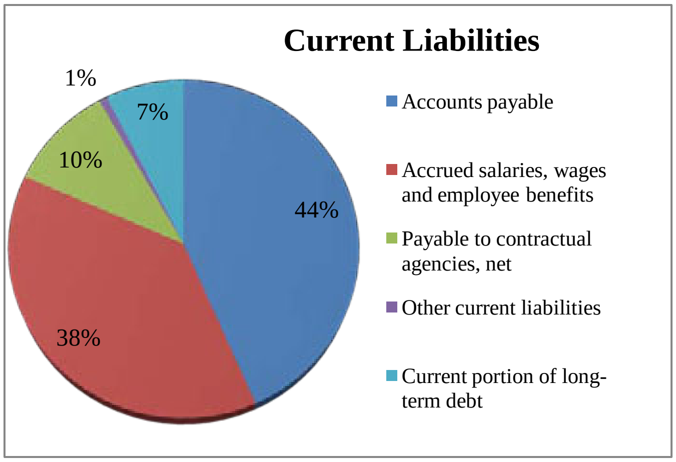
Assets whose use is limited (AWUL) consists of donations temporarily restricted by donors. Donor-restricted assets are invested with the University until restrictions have been met. At June 30, 2013, 2012 and 2011, assets whose use is limited was $3.5 million, $2.7 million and $2.6 million, respectively.

Investment in Seattle Cancer Care Alliance (SCCA) represents UW Medical Center's interest in the joint venture. UW Medical Center accounts for its interest in the SCCA using the equity method of accounting. Investment in SCCA increased by approximately $7.5 million during fiscal year 2013 from $81.6 million at June 30, 2012 to $89.1 million at June 30, 2013 and $6.5 million during fiscal year 2012 from $75.1 million at June 30, 2011 to $81.6 million at June 30, 2012. Changes in the investment value reflected UW Medical Center's proportionate interest in the change in net assets of SCCA. The increase in 2013 was attributable to positive results in operations partially offset by losses incurred from a proton therapy joint venture for which SCCA holds 19% preferred interest equity.

Other noncurrent assets consist of deferred bond financing costs as a result of borrowings from the University of Washington Internal Lending Program to finance the Montlake Tower expansion project.

(Continued)

Current Liabilities



Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within a year. Total current liabilities were $128.7 million at June 30, 2013, compared to $129.0 million at June 30, 2012. Fiscal year 2013 composition of current liabilities is illustrated in the chart to the left.

Accounts payable increased $2.0 million from $53.9 million at June 30, 2012 to $55.9 million at June 30, 2013 and decreased $9.5 million from $63.4 million at June 30, 2011 to $53.9 million at June 30, 2012. Changes in accounts payable and accrued liabilities are primarily driven by timing of payments to vendors and employees. Accounts payable includes amounts accrued for capital related expenditures. Included in accounts payable as of June 30, 2013 and 2012 were amounts accrued for capital related expenditures of $3.1 million and $4.5 million, respectively.

Accrued salaries, wages and employee benefits increased $1.5 million from $47.6 million at June 30, 2012 to $49.1 million at June 30, 2013 and $3.2 million from $44.4 million at June 30, 2011 to $47.6 million at June 30, 2012.

Payable to contractual agencies, net consist of estimated reserves for cost report settlements and amounts due as intergovernmental transfers to the Washington State (the State) Department of Social and Health Services. Payable to contractual agencies decreased $5.3 million from $18.4 million at June 30, 2012 to $13.1 million at June 30, 2013 and increased $1.2 million from $17.2 million at June 30, 2011 to $18.4 million at June 30, 2012. The decrease in fiscal year 2013 was driven by changes in UW Medical Center's reserve methodology, settlement of Medicare and Medicaid CPE reports and development in open Medicare cost report and CPE hold harmless. The increase in fiscal year 2012 was driven by amounts outstanding to the State as intergovernmental transfers in support of the Professional Services Supplemental Payment (PSSP) program.

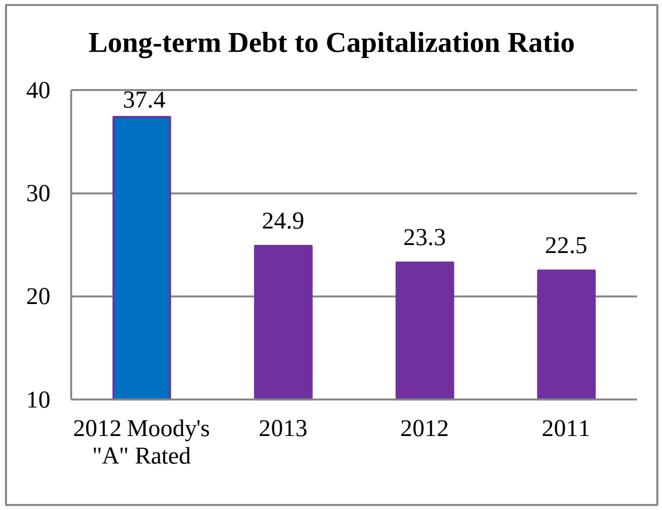
The current portion of long-term debt was $9.6 million as of June 30, 2013 and represents upcoming debt payments on various internal lending program (ILP) debts and capital leases within the next year. The current portion of long-term debt as of June 30, 2012 and 2011 was $8.2 million and $5.9 million, respectively.

Other current liabilities consist of accrued interest relating to long-term debt.

Noncurrent Liabilities

Noncurrent liabilities consist primarily of ILP debts and capital leases issued to finance construction and equipment. The ILP debt increased $18.4 million between fiscal years ended June 30, 2012 and 2013 and $17.8 million between fiscal years ened June 30, 2011 and 2012. Increases in both years were a result of financing needs related to the Montlake Tower expansion.

Long-term debt to capitalization is a ratio used to evaluate capital structure of healthcare organizations. The chart to the right shows the long-term debt to capitalization ratio as of June 30 for 2013, 2012 and 2011 and comparison to the freestanding hospital median.



UW Medical Center outperforms its peer group with respect to long-term debt to capitalization as a result of strong historical operating performance and effective maximization of its capital structure.

Additional discussion regarding long-term debt activity during the fiscal years can be found in the notes to the financial statements.

Unearned revenue relates to long-term service agreements with affiliate entities.

Net Position

UW Medical Center reports its net position in three categories (UW Medical Center does not have assets meeting the criteria of the fourth category, donor-restricted nonexpendable net position):

> **Net investment in capital assets** – Total investment in UW Medical Center property, plant, and equipment net of accumulated depreciation and outstanding debt obligations related to those capital assets.
>
> **Restricted expendable net position** – Restricted expendable net position represent resources that UW Medical Center is legally or contractually obligated to spend in accordance with restrictions placed by donors and/or external parties that have placed time or purpose restrictions on the use of the asset.
>
> **Unrestricted net position** – All other funds available to UW Medical Center that do not meet the definition of restricted or invested in capital net of related debt.

As of June 30, 2013, 2012 and 2011, total net position was $669.4 million, $663.5 million and $627.4 million, respectively.

Statements of Revenues, Expenses and Changes in Net Position

UW Medical Center reported operating income of $34.9 million and an increase to net position of $5.9 million for the year ended June 30, 2013. UW Medical Center reported operating income of $61.7 million and $57.1 million and an increase in net position of $36.1 million and $59.6 million for the years ended June 30, 2012 and 2011, respectively. Contributing factors for the declining performance in fiscal year 2013 included the following:

(in thousands)		2013	2012	2011
Total operating revenues	$	920,705	877,548	847,861
Total operating expenses		885,825	815,850	790,721
Operating income		34,880	61,698	57,140
Investment income, net		12,269	11,984	17,147
Interest expense		(10,444)	(2,566)	(3,934)
Other, net		(30,907)	(35,090)	(10,462)
Capital contributions and transfers		106	49	(293)
Increase in net assets		5,904	36,075	59,598
Net position, beginning of year		663,470	627,395	567,797
Net position, end of year	$	**669,374**	**663,470**	**627,395**

- Lower than anticipated volume growth from new and expanded services provided as a result of the completed Montlake Tower expansion project.
- Increased average length of stay despite decreases in case acuity.
- Higher labor costs as a result of anticipated staffing needs for the Montlake Tower expansion.
- Increased Departmental Support Agreement payments as a result of State requirements for Medicaid enrollment in managed Medicaid plans resulting in reduced reimbursement through the State's Professional Services Supplemental Payment program.
- Increased depreciation expense as a result of continued investment in information technology and the opening of Phase I of the Montlake Tower expansion.
- Increased outpatient volumes with a decrease in inpatient volumes.

	2013	2012	2011
Available beds	421	406	406
Admissions	17,728	17,915	18,919
Patient days	122,867	120,745	115,447
Average length of stay	6.9	6.7	6.1
Occupancy	79.8%	81.3%	77.9%
Case mix index (CMI)	1.979	1.992	1.874
Surgery cases	14,271	14,696	14,924
Emergency room visits	22,977	23,487	24,119
Primary care clinic visits	58,007	73,273	84,618
Specialty care clinic visits	226,823	227,214	222,207
Full time equivalents (FTEs)	4,569	4,383	4,188
Births	1,557	1,950	2,125
Transplants	258	263	282
NICU Admissions	508	375	340

Offsetting these factors were governmental incentive payments received for implementation of electronic health records and adjustments to cost report reserves as a result of final settlement of open cost report years.

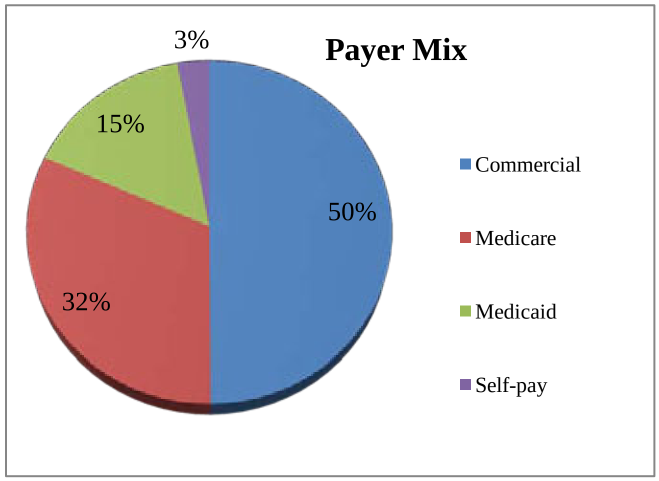
Increased patient volumes driven by neonatal intensive care admissions and advanced cardiac procedures and federal and state funding programs, such as electronic health record incentive payments and Hospital Safety Net Assessments, contributed to favorable operating performance in fiscal years 2012 and 2011.

Total Operating Revenues

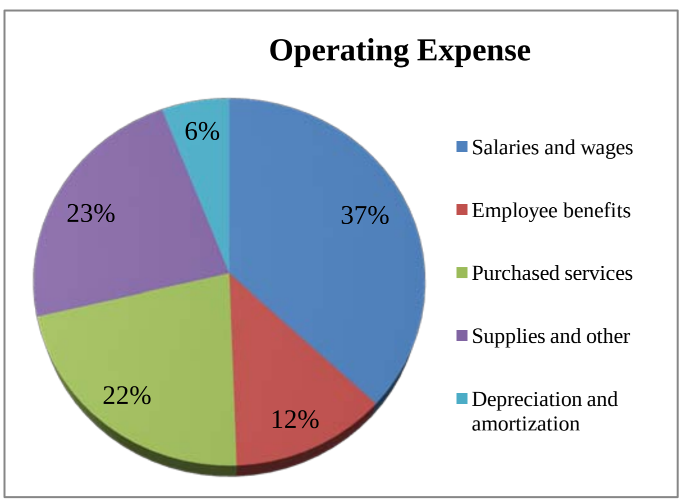
Total operating revenues consists primarily of net patient service revenues and other operating revenues. Net patient service revenues are recorded based on standard billing rates less contractual adjustments, charity, and a provision for uncollectible accounts. UW Medical Center has agreements with federal and state agencies, and commercial insurers that provide for payments at amounts different from gross charges. UW Medical Center provides care at no charge or reduced charges to patients who qualify under UW Medical Center's charity policy.

UW Medical Center also estimates the amount of patient responsibility accounts receivable that will become uncollectible, which is reported as a reduction of operating 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 revenue is shown in the statements of revenues, expenses and changes in net position.

Net patient service revenues are comprised of inpatient and outpatient revenue. Outpatient revenue consists of both hospital-based and clinic network revenue. Other operating revenue comprises hospital-related revenues such as parking and cafeteria sales. The composition of services provided to patients (whether governmental or commercial insured or self-pay) is a key factor in UW Medical Center's overall financial operating results. Reimbursement from governmental payers is generally below commercial rates and reimbursement rules are complex and subject to both interpretation and modification. The chart to the right illustrates payer mix for 2013.



For the years ended June 30, 2013, 2012 and 2011, UW Medical Center's total operating revenues were \$920.7 million, \$877.5 million and \$847.9 million and were comprised of \$885.6 million, \$842.6 million and \$817.5 million in net patient service revenues and \$35.1 million, \$34.9 million and \$30.4 million in state appropriations and other operating revenue, respectively. The increase in operating revenues between fiscal years 2013 and 2012 is attributable to a price increase executed on July 1, 2012 and favorable third-party reimbursement settlements. The increase between fiscal years 2012 and 2011 is attributable to higher tertiary and quaternary patient volumes, price increases as well as Medicaid electronic health record (EHR) incentive payments and favorable third-party reimbursement settlements.



Total Operating Expenses

Total operating expenses were \$885.8 million for the fiscal year 2013 compared to \$815.9 million for the fiscal year 2012 and \$790.7 million for the fiscal year 2011. The composition of fiscal year 2013 operating expenses is illustrated in the chart to the left.

Salaries and wages increased \$13.3 million from \$315.1 million in fiscal year 2012 to \$328.4 million in fiscal year 2013. The increase in salaries and wages expense was driven by increased full-time equivalent (FTE) employees as a result of expanded staffing needs for space opened under Phase I of the Montlake Tower expansion project at the beginning of the fiscal year.

Salaries and wages increased $17.7 million from $297.4 million in fiscal year 2011 to $315.1 million in fiscal year 2012. The increase was a result of increased FTEs in information technology in support of implementation of computerized physician order entry (CPOE) and other technology investment.

Employee benefits increased $15.2 million from $94.4 million in fiscal year 2012 to $109.6 million in fiscal year 2013 and increased $0.5 million from $93.9 million in fiscal year 2011 to $94.4 million in fiscal year 2012. Employee benefit costs are function of employment and increases in expense between fiscal years 2013, 2012 and 2011 were consistent with increased salaries and wages expense.

Purchased services expense, which consists of professional and consulting fees, increased $23.0 million from $170.3 million in fiscal year 2012 to $193.3 million in fiscal year 2013 and increased $1.9 million from $168.4 million in fiscal year 2011 to $170.3 million in fiscal year 2012. The increase in both fiscal years was primarily driven by increased consulting fees for IT work related to CPOE implementation and other planned major projects. Activity during fiscal year 2012 was partially offset by reduced departmental support payments to the University of Washington School of Medicine.

Supplies and other expense includes medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased $7.8 million from $194.9 million in fiscal year 2012 to $202.7 million in fiscal year 2013. The increase was driven by increases in medical supplies expense as result price inflation.

Supplies and other expense increased $3.9 million from $191.0 million in fiscal year 2011 to $194.9 million in fiscal year 2012. The primary increases were in pharmaceutical expenses due to the addition of several new outpatient pharmacies, information technology maintenance agreements and minor equipment, and sales taxes.

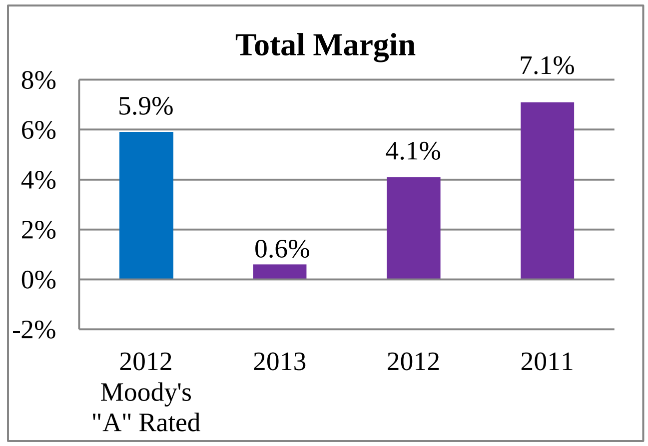
Depreciation expense increased $10.7 million from $41.1 million in fiscal year 2012 to $51.8 million in fiscal year 2013 and increased $1.1 million from $40.0 million in fiscal year 2011 to $41.1 million in fiscal year 2012. The increase in fiscal year 2013 was due to the capitalization of Phase I of the Montlake Tower expansion project and the increase during fiscal year 2012 was the result of completed CPOE implementation and other major IT projects.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, interest expense, intergovernmental transfer expense, and strategic funding to affiliates. Net nonoperating expenses increased $3.4 million and $28.4 million between fiscal years 2013, 2012 and 2011, respectively. The increase in fiscal year 2013 was driven by increased interest expense as a result of capital project funding through ILP debt. The increase in fiscal year 2012 was due to increased funding for development and integration activities for Northwest Hospital & Medical Center and UW Physicians Network dba UW Neighborhood Clinics and reduced investment income generated through SCCA.

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue that has been realized in the form of net income and is a common measure of total hospital profitability. Total margin for the fiscal years 2013, 2012 and 2011 compared to industry median is illustrated in the chart to the right.



Factors Affecting the Future

UW Medicine Strategic Planning

- ***Accountable Care Organization (ACO)***

UW Medicine continues to work toward developing an integrated network of healthcare practitioners and entities as an accountable care organization (ACO) that improves the health of the population it serves while reducing the overall cost of care. The UW Medicine ACO will include all UW Medicine entities, UW Medicine affiliated entities through interaffiliate agreements and UW Medicine ACO network organizations established with contracts.

- ***PeaceHealth Strategic Alliance***

In May 2013, UW Medicine signed a letter of intent with PeaceHealth to create a strategic affiliation. The letter of intent outlines opportunities the organizations could pursue together, including ongoing performance improvement initiatives to reduce costs and clinical programming to increase access to tertiary and quaternary care. The two organizations will remain legally independent and governance will not be affected. The affiliation is expected to be further defined in additional agreements in the Fall of 2013.

- ***UW Medicine IT Services***

In July 2013, UW Medicine created a shared service function for enterprise-wide information technology (IT) services and solutions. This function operates as a division of UW Medicine within the University of Washington. As members of UW Medicine, UW Medical Center and other UW Medicine entities will purchase IT services through the shared service function. As a result of the organizational change UW Medical Center will no longer record IT related capital assets.

UW Medicine Patients Are First

UW Medicine is committed to its mission of improving the health of the public. The Patients Are First program, implemented throughout UW Medicine in 2011, is the organizational framework for delivering consistent service excellence to every patient, every time. Through Patients Are First, UW Medicine creates better leaders, refines metrics to support systems of accountability, and provides staff, managers, physicians, and leaders with the tools, tactics, and reports to achieve its strategic outcomes. UW Medicine relies on the following four "pillars" as the foundation for building its Patients Are First culture:

- Focus on Serving the Patient & Family: serve all patients and family members with compassion, respect, and excellence

- Provide the Highest Quality Care: provide the highest quality, safest and most effective care to every patient, every time
- Become the Employer of Choice: recruit and retain a competent, professional workforce focused on serving our patients and their families
- Practice Fiscal Responsibility: ensure effective financial planning and the economic performance necessary to invest in strategies that improve the health of our patients

Each pillar has several measurable core goals that, when cascaded throughout the entire health system and teamed with other evidence-based leadership tactics, hardwire commitment to Patients Are First.

In support of the initiative, UW Medicine has engaged the Studer Group, LLC, a national expert consultant group on implementing evidence-based practices that improve service, satisfaction, quality, and safety while reducing costs. The current contract with the Studer Group runs through fiscal year 2016.

Regulatory and Legislative Changes

The following regulatory and legislative activity will impact all entities in UW Medicine during fiscal year 2014 and beyond:

- ***International Classification of Diseases v10 (ICD-10)*** – Code of Federal Regulations (45 CFR Part 162) requires healthcare providers to implement ICD-10 no later than October 1, 2014. ICD-10 represents a significant change in the standard healthcare coding system and will impact every system, process and transaction that contains or uses a diagnosis code or inpatient procedure code.

  UW Medicine has been undertaking activities related to the implementation of ICD-10 since the beginning of fiscal year 2013.

- ***Medicare Sequestration*** – On April 1, 2013, a provision of the *Budget Control Act of 2011* requiring mandatory across-the-board reductions in Federal spending commenced (commonly referred to as sequestration). The provision included a 2% reduction to Medicare payments made to healthcare providers, including payments made under the meaningful use incentive program. The payment reduction is effective for nine years; however, Congress does have the ability to repeal or amend provisions of the Budget Control Act.
- ***WA Medicaid IP & OP Payment System Rebasing*** – The Washington Healthcare Authority (HCA) uses the Outpatient Prospective Payment System (OPPS) and All Patient Diagnosis Related Group (AP-DRG) methodologies for reimbursing outpatient and inpatient Medicaid claims, respectively. In 2013, HCA began a project to implement new payment systems for outpatient and inpatient claims with anticipated go-live in 2014. Under the project, outpatient reimbursement will transition to Enhanced Ambulatory Payment Groups (EAPG) methodology and inpatient reimbursement will transition to All Patient Refined Diagnosis Related Group (APR-DRG) methodology. The EAPG method is a visit-based patient classification system that directs payment to the main significant procedure or treatment provided during a visit, instead of "a la carte" volume-based purchasing and uses packaging and bundling of payment for related services to create incentives to provide services in the most efficient way. The APR-DRG will ensure the state is compliant with ICD-10 requirements, is more granular than AP-DRG and will increase the number of acuity-driven groupings for payment purposes.

(Continued)

- ***Health Insurance Exchange Enrollment*** – In October 2013, the Washington Health Benefit Exchange will begin open enrollment for Washington State residents through Washington Healthplanfinder. It is anticipated that the insurance exchange, coupled with penalties for individuals electing to not obtain health insurance and subsidies for individuals meeting certain income thresholds, will result in reductions in uninsured and underinsured patients and significantly change hospital payor mix. The reduction of uninsured and underinsured patients will also have an impact on Medicare and Medicaid Disproportionate Share (DSH) reimbursement methodologies.

Montlake Tower Expansion Project

In February 2008, the University of Washington Board of Regents granted approval to proceed with phase one of a multiphase inpatient expansion known as the Montlake Tower. The scope of phase one included the vertical shell for the entire eight-floor expansion, as well as, a new neonatal intensive care unit, an adult oncology and blood and bone marrow transplant unit, additional diagnostic imaging capacity, and future operating room capacity. In July 2012, phase one was substantially completed and operational components of phase one began servicing patients in October 2012. Total cost of phase one was $210.4 million, which was primarily funded through borrowings from the University of Washington Internal Lending Program.

In November 2012, the University of Washington Board of Regents granted approval to proceed with phase two of the Montlake Tower project. The scope of phase two will complete three shelled inpatient floors including the addition of intensive care and medical/surgical beds as well as additional operating rooms. Estimated cost of phase two is currently projected at $186.3 million. As part of the approval the Board of Regents authorized funding from the University of Washington Internal Lending Program up to $136.1 million, with the remaining $50.2 million of anticipated cost to be funded through hospital operations. Construction on phase two is anticipated to begin in March 2014.

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The University of Washington
UW Medicine Board:

We have audited the accompanying financial statements of University of Washington Medical Center (UW Medical Center), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of UW Medical Center as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 1 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
October 25, 2013

UNIVERSITY OF WASHINGTON MEDICAL CENTER
(A Division of the University of Washington)

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

Assets		**2013**	**2012**
Current assets:			
Funds held by the University of Washington	$	10,732	9,524
Patient accounts receivable, less allowance for uncollectible accounts of $21,679 in 2013 and $21,925 in 2012		128,832	119,441
Other receivables		28,163	22,143
Supplies inventory		18,145	18,634
Other current assets		3,480	1,895
Total current assets		189,352	171,637
Noncurrent assets:			
Capital assets, at cost, net of accumulated depreciation		496,908	480,782
Funds held by the University of Washington		231,664	247,878
Assets whose use is limited		3,493	2,676
Investment in SCCA		89,115	81,638
Other assets		1,490	1,292
Total noncurrent assets		822,670	814,266
Total assets	$	1,012,022	985,903

(Continued)

UNIVERSITY OF WASHINGTON MEDICAL CENTER
(A Division of the University of Washington)

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

Liabilities and Net Position		**2013**	**2012**
Current liabilities:			
Accounts payable	$	55,945	53,934
Accrued salaries, wages and employee benefits		49,082	47,646
Payable to contractual agencies, net		13,118	18,379
Current portion of long-term debt		9,580	8,158
Other current liabilities		982	887
Total current liabilities		128,707	129,004
Noncurrent liabilities:			
Long-term debt, net of current portion		211,843	193,429
Unearned revenue		2,098	—
Total liabilities		342,648	322,433
Net position:			
Net investment in capital assets		275,485	279,196
Expendable, restricted		3,495	2,678
Unrestricted		390,394	381,596
Total net position		669,374	663,470
Total liabilities and net position	$	1,012,022	985,903

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON MEDICAL CENTER
(A Division of the University of Washington)

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2013 and 2012

(In thousands)

		2013	**2012**
Operating revenues:			
Net patient service revenues (net of provision for uncollectible accounts of $13,287 in 2013, and $11,843 in 2012)	$	885,655	842,591
State appropriation		6,419	6,421
Other revenue		28,631	28,536
Total operating revenues		920,705	877,548
Operating expenses:			
Salaries and wages		328,393	315,065
Employee benefits		109,588	94,398
Purchased services		193,333	170,332
Supplies and other		202,709	194,947
Depreciation and amortization		51,802	41,108
Total operating expenses		885,825	815,850
Income from operations		34,880	61,698
Nonoperating revenues (expenses):			
Investment income		12,269	11,984
Interest expense		(10,444)	(2,566)
Other, net		(30,907)	(35,090)
Nonoperating expenses		(29,082)	(25,672)
Income before capital contributions and transfers		5,798	36,026
Gifts, grants and other capital contributions and transfers		106	49
Total increase in net position		5,904	36,075
Net position – beginning of year		663,470	627,395
Net position – end of year	$	669,374	663,470

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON MEDICAL CENTER
(A Division of the University of Washington)

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from operating activities:			
Cash received for patient care	$	876,264	823,858
Cash received for other services		27,884	31,853
Cash paid to employees		(436,545)	(406,175)
Cash paid to suppliers, and others		(395,281)	(371,238)
Net cash provided by operating activities		72,322	78,298
Cash flows from capital and related financing activities:			
Proceeds from borrowings		28,165	25,812
Purchases of capital assets		(69,640)	(120,784)
Principal payments on long-term debt		(8,527)	(7,039)
Interest payments on long-term debt, net of amounts capitalized		(10,444)	(2,434)
Net cash used in capital and related financing activities		(60,446)	(104,445)
Cash flows from investing activities:			
Change in funds held by UW		16,214	55,166
Cash received from interest income		4,811	5,537
Distributions from joint ventures		225	135
Cash paid for funding to the Clinics		(18,600)	(19,712)
Cash paid for funding to Northwest Hospital		(8,220)	(7,469)
Cash paid for governmental transfers		(5,098)	(5,182)
Net cash (used in) provided by investing activities		(10,668)	28,475
Increase in cash and cash equivalents		1,208	2,328
Cash and cash equivalents, beginning of year		9,524	7,196
Cash and cash equivalents, end of year	$	10,732	9,524
Reconciliation of income from operations to net cash provided by operating activities:			
Income from operations	$	34,880	61,698
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation and amortization		51,802	41,108
Loss (gain) on disposal of capital assets		455	(56)
Net increase in current assets, except cash and cash equivalents		(16,557)	(21,781)
Net decrease in current liabilities, except current portion of long-term debt		(356)	(2,671)
Increase in unearned revenue		2,098	—
Net cash provided by operating activities	$	72,322	78,298
Supplemental disclosure of noncash investing, capital, and financing activities:			
Decrease in capital assets included in accounts payable	$	(1,363)	(5,926)
Capital contributions		106	49

See accompanying notes to financial statements.

(1) Organization

University of Washington Medical Center (UW Medical Center) is a 450 licensed-bed hospital and is a division of the University of Washington (a not-for-profit, tax-exempt agency of the State of Washington) (the University). Authority for specified governance functions of UW Medical Center has been delegated by the Board of Regents (the Regents) to the UW Medicine Board (the Board) as specified in the Board's bylaws, originally adopted by the Regents in 1976 and amended in February 2000. The Board's members during fiscal year 2013 were:

Gerald Grinstein, Chairman	Michael D. Garvey, Vice Chairman
James K. Anderson	Sue Bowman
Alan Frazier	Allan C. Golston
Sally Jewell	Rich Jones
Gary Kohlwes	Shan Mullin
Julie A. Nordstrom	Dennis I. Okamoto
Paul G. Ramsey	William J. Rex
Herman Sarkowsky	Jo Ann Taricani
Michael K. Young	

UW Medical Center is under the direction of the Executive Director, who is accountable to the Board and UW Medicine's Clinical Operations Officer and Vice-President for Medical Affairs for the management of UW Medical Center.

(2) Summary of Significant Accounting Principles

(a) Accounting Standards

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. UW Medical Center's financial statements and note disclosures are based on all applicable Government Accounting Standards Board (GASB) pronouncements and interpretations. UW Medical Center uses proprietary fund accounting.

(b) Basis of Accounting

UW Medical Center'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.

(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. Significant estimates in UW Medical Center's financial statements include patient accounts receivable allowances and third-party payer settlements.

(d) Funds Held by the University of Washington

UW Medical Center operating and capital funds are invested directly with the University. All balances are available on demand and are stated at fair value. In exchange 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 years 2013 and 2012, the rate used was 2%.

Amounts classified as current assets are considered cash and cash equivalents for presentation in the statements of cash flows.

(e) Inventories

Inventories consist primarily of surgical, medical, and pharmaceutical supplies in organized stores at various locations across UW Medical Center. Inventories are recorded at the lower of cost (first-in, first-out (FIFO)) or market.

(f) Capital Assets

Capital assets, defined as purchases with a per item cost of $2,000 or greater and a useful life of at least two years, 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 renovations are capitalized. Maintenance and repairs are expensed. The cost of the capital assets sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded in supplies and other expense in the statements of revenues, expenses and changes in net position.

The provision for depreciation is determined by the straight-line method, which allocates the cost of tangible property ratably over its estimated useful life. The estimated useful lives used by UW Medical Center are as follows:

Land improvements	10 to 25 years
Buildings, renovations and furnishings	10 to 40 years
Fixed equipment	15 to 20 years
Movable equipment	3 to 20 years

Equipment under capital lease is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the statements of revenues, expenses and changes in net position.

Interest is capitalized on construction projects as a cost of the related project beginning with commencement of construction and ceases when the construction period ends and the related asset is placed in service. Interest capitalized during 2013 and 2012 was $0.3 million and $14.1 million, respectively.

(g) Compensated Absences

UW Medical Center employees earn annual leave at rates based on length of service and sick leave at the rate of one day per month. Annual leave balances, which are limited to 240 hours, can be converted to monetary compensation upon employment termination. 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. UW Medical Center recognizes annual and sick leave liabilities when earned. Forfeited balances are recognized at time of forfeiture.

Annual leave accrued at June 30, 2013 and 2012 was $21.5 million and $21.0 million, respectively. Sick leave accrued as of June 30, 2013 and 2012 was $7.5 million and $7.2 million, respectively. Compensated absences are reported within the accrued salaries, wages and employee benefits on the statements of net position.

(h) Payable to Contractual Agencies, Net

UW Medical Center is reimbursed for Medicare inpatient, outpatient, psychiatric, and 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 UW Medical Center until after the cost reports have been audited or otherwise reviewed and settled by Medicare.

Inpatient Medicaid covered services are reimbursed at "full cost" under the public hospital certified public expenditure (CPE) payment method. "Full cost" payments are determined, for interim payment purposes, using the Medicaid ratio of cost to charges ratio based on the Medicaid filed cost report. CPE payments are not considered final until retrospective cost reconciliation is completed, which occurs after Medicare has settled the corresponding cost report year.

The estimated settlement amounts for Medicare cost report and CPE payments that are not considered final are included in payable to contractual agencies, net in the accompanying statement of net position.

(i) Classification of Revenues and Expenses

UW Medical Center's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing healthcare services – UW Medical Center's primary business. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values.

Operating expenses are all expenses, other than financing costs, incurred by UW Medical Center to provide healthcare services to UW Medical Center patients.

Nonoperating revenues and expenses are recorded for certain exchange and nonexchange transactions. This activity includes investment returns, interest expense, intergovernmental transfer expense, strategic funding of UW Physicians Network dba UW Neighborhood Clinics (the Clinics) and UW Medicine/Northwest dba Northwest Hospital & Medical Center (Northwest Hospital) and investment income generated through Seattle Cancer Care Alliance (SCCA).

(j) Net Patient Service Revenues

UW Medical Center has agreements with third-party payers that provide for payments to UW Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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 final settlements are determined. A summary of the payment arrangements with major third-party payers is as follows:

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's). APC payments are prospectively established and may be greater than or less than the primary government's actual charges for its services. The Medicare program utilizes the prospective payment system known as case mix group (CMGs) for rehabilitation services reimbursement. As with MS-DRGs, CMG payments are prospectively established and may be greater than or less than UW Medical Center's actual charges for its services. Geropsychiatric services are also paid prospectively using a federal per diem payment rate adjusted for comorbidity and various adjustment factors. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at approximate cost or hold harmless estimates and settled at prospectively determined rates per discharge. Outpatient services rendered are provided based upon the APC prospective payment system.

Commercial

UW Medical Center also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to UW Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(k) Charity Care

UW Medical Center provides care without charge or at amounts less than established rates to patients who meet certain criteria under its charity care policy. Records are maintained to identify and monitor the level of charity care provided. These records include charges foregone for services and supplies furnished under its charity care policy to the uninsured and the underinsured. Because UW Medical Center does not pursue collection of amounts determined to qualify as charity care, these are not reported as net revenue. The charges associated with charity care and uncompensated care provided by UW Medical Center were approximately $48.9 million and $46.1 million for the years ended June 30, 2013 and 2012, respectively.

UW Medical Center estimates the cost of charity care using its cost to charge ratio of 47.4% and 48.4% for the fiscal years ended June 30, 2013 and 2012, respectively. Applying UW Medical Center's cost to charge ratio of 47.4% to total charity of $48.9 million results in an estimated cost of charity care of $23.2 million for the fiscal year ended June 30, 2013. Applying UW Medical Center's cost to charge ratio of 48.4% to total charity of approximately $46.1 million results in an estimated cost of charity care of $22.3 million for the fiscal year ended June 30, 2012.

(l) Intra-UW Governmental Transfers

When fund transfers occur between UW Medical Center and other UW divisions and economic benefits are neither provided nor received in exchange for the transfer, the transfers are classified as Intra-UW governmental transfers and are reported in nonoperating (expenses)/revenues on the statements of revenues, expenses and changes in net position.

(m) Federal Income Taxes

UW Medical Center, as a division of UW, is not subject to federal income under Section 115 of the Internal Revenue Code, unless unrelated business income tax is generated during the year.

(n) Reclassification

Certain 2012 account balances have been reclassified to conform to the 2013 presentation format.

(o) New Accounting Pronouncements

In December 2010, GASB issued Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus*, which amended the reporting standards for reporting component units in a government's financial statements. This standard was effective for fiscal year 2013. The adoption of GASB 61 did not have a material impact on UW Medical Center's financial statements.

In December 2010, GASB issued Statement No. 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and

Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This standard was effective for fiscal year 2013. The adoption of GASB 62 did not have a material impact on UW Medical Center's financial statements.

In June 2011, GASB issued Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which changes how governments organize their statements of financial position. This standard was effective for fiscal year 2013. The adoption of GASB 63 resulted in the establishment of net position, which was previously entitled net assets. Additionally, UW Medical Center transactions were evaluated against the criteria for Deferred Outflows of Resources and Deferred inflows of Resources; however, no transactions were considered to meet the criteria for reporting under these categories.

In June 2011, GASB issued Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, which specifically identifies transactions qualifying for Deferred Outflows of Resources and Deferred Inflows of Resources reporting, as required in GASB 63. The standard is effective for fiscal year 2014. UW Medical Center is currently analyzing the financial statement impact of this statement in conjunction with the University.

In June 2012, GASB issued Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, which requires governments providing defined-benefit pensions to their employees to recognize their long-term obligation for pension benefits as a liability for the first time, along with the associated assets, which have been set aside to fund the plan. The standard is effective for fiscal year 2015. UW Medical Center is currently analyzing the financial statement impact of this statement in conjunction with the University.

(3) Net Patient Service Revenues

Net 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 final settlements are determined. In 2013 and 2012, net patient service revenue includes approximately $14.6 million and $8.8 million, respectively, relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including disproportionate share reimbursement and the CPE program.

The following are the components of net patient service revenues for the year ended June 30:

		2013	2012
Patient service revenues	$	1,765,565	1,634,785
Less adjustments to patient service revenues:			
Charity		48,925	46,116
Contractual discounts		817,698	734,235
Provision for uncollectible accounts		13,287	11,843
Total adjustments to patient service revenues		879,910	792,194
Net patient service revenues	$	885,655	842,591

UW Medical Center grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix of gross patient charges and receivables from significant third-party payers at June 30, 2013 and 2012 was as follows:

	Patient service charges	Accounts receivable
2013:		
Medicare	32%	28%
Medicaid	15	16
Commercial and other	50	47
Self pay	3	9
Total	100%	100%
2012:		
Medicare	31%	25%
Medicaid	16	15
Commercial and other	50	49
Self pay	3	11
Total	100%	100%

(a) Medicaid Certified Public Expenditure Reimbursement

Public hospitals located in the State of Washington that are not certified as critical access hospitals are reimbursed at the “full cost” of Medicaid 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 claim will be allowed federal match on the amount of the related certified public expenditures. The payment method pays only the federal match portion of the allowable claims. UW Medical Center received $29.6 million and $31.7 million in claims payments under this program for the years ended June 30, 2013 and 2012, respectively.

In addition, UW Medical Center receives the federal match portion of Disproportionate Share (DSH) payments, which are the lesser of qualifying uncompensated care cost or the hospital's specific limit. UW Medical Center received $19.6 million and $19.0 million in DSH funding under this program for the years ended June 30, 2013 and 2012, respectively.

To meet legislative requirements, the Washington State Legislature (the State) includes a "hold harmless" provision for eligible hospital providers under the CPE program. Hospitals eligible for CPE payments 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 received $2.3 million and $4.0 million in state grants for the years ended June 30, 2013 and 2012, respectively. 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 (NPR) for the corresponding cost reporting year. To date, the 2006 CPE program year has had a final settlement.

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, 2013 and 2012, for fiscal years 2006 through 2013, UW Medical Center had an estimated payable for the CPE program of $5.4 million and $8.0 million, respectively, which is included as a liability in payable to contractual agencies in the accompanying statement of net position.

(b) Professional Services Supplemental Payment (PSSP) Program

The professional services supplemental payment (PSSP) program is a program managed by the Washington State Health Care Authority (WSHCA) benefiting certain public hospitals. Under the PSSP program, UW Medical Center, Harborview, 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 the matching federal funds.

UW Medical Center recorded $5.1 million and $7.9 million for the years ended June 30, 2013 and 2012, respectively, in supplemental payments, via Intergovernmental Transfers (IGTs) to DSHS related to professional claims paid in those fiscal years, which is included in nonoperating revenue (expenses) in the statements of revenues, expenses and changes in net position.

DSHS used the hospital supplemental payments and federal match funds to make professional services payments to UW Medicine entities. UW Medical Center received $0.4 million and $0.8 million of supplemental professional service payments for the years ended June 30, 2013 and 2012, respectively. These payments are included in net patient service revenues in the statements of revenues, expenses and changes in net position.

There is no requirement that UWP and CUMG PSSP payments be returned to UW Medical Center and Harborview as a condition for making the IGT's; however, net proceeds from the PSSP program will be used by UW Medicine to support faculty costs thus reducing the amount of faculty support required by the hospitals. UW Medical Center faculty support was reduced by $7.8 million and $11.8 million in fiscal years 2013 and 2012, respectively, as a result of the increased professional fee reimbursement from PSSP in fiscal years 2013 and 2012. This reduction is included as an offset to supplies and other expenses in the statements of revenues, expenses and changes in net position.

(c) Hospital Safety Net Program

The Hospital Safety Net Assessment Act uses federal matching funds to increase hospital payments across the State in order to mitigate significant budget cuts made to hospitals during the 2009 session of the state legislature. The current legislation expired on June 30, 2013.

Under this program, most Washington State hospitals are assessed a fee on all non-Medicare patient days. This fee is collected by the State and the State then uses these funds to obtain new federal Medicaid matching funds. Hospitals receive increased Medicaid rates to cover the assessments they paid and to restore a portion of the cuts enacted during the 2009 legislative session.

UW Medical Center is exempt from the assessment as the hospital is operated by an agency of the state government and also participates in the CPE program.

UW Medical Center received increased reimbursements of $8.0 million and $8.4 million under this program for the years ended June 30, 2013 and 2012, respectively. These payments are included in net patient service revenues in the statements of revenues, expenses and changes in net position.

Under a separate agreement, UW Medical Center agreed to reimburse Northwest Hospital for any shortfall arising as a result of the safety net program. One primary purpose of the agreement was to hold Northwest Hospital harmless for the transition from being a stand-alone hospital to a hospital that is part of a multihospital system. As a result, UW Medical Center recorded approximately $2.1 million and $2.5 million in 2013 and 2012, respectively, of additional reimbursement to Northwest Hospital, which is included as a reduction in net patient service revenue. Additionally, in fiscal year 2012, UW Medical Center also provided additional reimbursement of $1.6 million to Northwest Hospital to restore a portion of cuts enacted in the 2009 legislative session.

In July 2014, the WSHCA submitted a plan amendment to CMS to extend the provisions of the Safety Net Assessment Act to July 2017. The WSHCA has elected to hold all Safety Net assessments and payments pertaining to dates of service after July 1, 2014 until CMS has approved the plan amendment, which will be retroactively applied to July 1, 2014.

(d) Meaningful Use Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments to eligible professionals and hospitals participating in Medicare and Medicaid programs that adopt certified electronic health records (EHRs) but only if the technology is being used in a “meaningful” way that supports the ultimate goals of improving quality, safety, and efficiency of care. “Meaningful use” is defined with specific quality performance metrics for eligible healthcare professionals and hospitals and certain thresholds must be met and maintained to receive payment.

UW Medical Center recorded meaningful use incentives of $3.6 million and $6.6 million for the years ended June 30, 2013 and 2012, respectively, which are included in other operating revenues in the statements of revenues, expenses and changes in net position. UW Medical Center has a related receivable of $1.1 million and $2.6 million as of June 30, 2013 and 2012, respectively, recorded within the other receivables on the statements of net position. These amounts may be subject to future audits.

(4) State Appropriation

An appropriation is made by the State to the University on a biennial basis. UW Medical Center is designated as a division of the major program “hospitals” included within the total appropriation. This appropriation is specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. Due to the nature of the designation, these amounts are included in operating revenues in the accompanying statements of revenues, expenses and changes in net position. UW Medical Center received $6.4 million in each of the fiscal years ended June 30, 2013 and 2012, respectively.

(5) Capital Assets

The activity in UW Medical Center's capital asset and related accumulated depreciation accounts for the years ended June 30, 2013 and 2012 is set forth below (in thousands):

	Balance June 30, 2012	Additions	Transfers	Retirements	Balance June 30, 2013
Capital assets, not being depreciated					
Land	$ 2,631	—	—	—	2,631
Art	1,336	28	—	—	1,364
Construction in process	236,030	68,277	(250,365)	—	53,942
Total capital assets, not being depreciated	239,997	68,305	(250,365)	—	57,937
Capital assets, being depreciated					
Land improvements	9,962	—	27	—	9,989
Buildings, renovations and furnishings	356,602	—	203,052	(546)	559,108
Fixed equipment	93,671	—	7,916	—	101,587
Movable equipment	332,072	78	39,669	(7,865)	363,954
Total capital assets, being depreciated	792,307	78	250,664	(8,411)	1,034,638
Total capital assets at historical cost	1,032,304	68,383	299	(8,411)	1,092,575
Less accumulated depreciation for:					
Land improvements	(2,663)	(330)	(13)	—	(3,006)
Buildings, renovations and furnishings	(193,038)	(19,651)	(268)	391	(212,566)
Fixed equipment	(84,483)	(1,963)	(34)	—	(86,480)
Movable equipment	(271,338)	(29,858)	16	7,565	(293,615)
Total accumulated depreciation	(551,522)	(51,802)	(299)	7,956	(595,667)
Total capital assets, net	$ 480,782	16,581	—	(455)	496,908

	Balance June 30, 2011	Additions	Transfers	Retirements	Balance June 30, 2012
Capital assets, not being depreciated					
Land	$ 2,631	—	—	—	2,631
Art	1,284	52	—	—	1,336
Construction in process	165,747	116,559	(44,572)	(1,704)	236,030
Total capital assets, not being depreciated	169,662	116,611	(44,572)	(1,704)	239,997
Capital assets, being depreciated					
Land improvements	9,972	—	—	(10)	9,962
Buildings, renovations and furnishings	338,215	—	18,403	(16)	356,602
Fixed equipment	89,267	—	4,404	—	93,671
Movable equipment	315,169	—	21,765	(4,862)	332,072
Total capital assets, being depreciated	752,623	—	44,572	(4,888)	792,307
Total capital assets at historical cost	922,285	116,611	—	(6,592)	1,032,304
Less accumulated depreciation for:					
Land improvements	(2,334)	(329)	—	—	(2,663)
Buildings, renovations and furnishings	(179,616)	(13,435)	—	13	(193,038)
Fixed equipment	(82,798)	(1,695)	—	10	(84,483)
Movable equipment	(250,610)	(25,649)	—	4,921	(271,338)
Total accumulated depreciation	(515,358)	(41,108)	—	4,944	(551,522)
Total capital assets, net	$ 406,927	75,503	—	(1,648)	480,782

Capital assets, net include intangible assets, net of accumulated depreciation of $67.4 million and $59.2 million as of June 30, 2013 and 2012, respectively.

(6) Long-Term Debt and Capital Leases

Long-term debt, reported as a part of noncurrent liabilities, consists of the following as of June 30 (in thousands):

		2013	2012
Internal Lending Program Debts:			
Expansion Project, 5.5% interest rate	$	155,920	131,957
All other debts, 3.5% to 5.0% interest rates		61,271	64,687
Capital leases for medical office building and equipment		4,232	4,943
Total long-term debt		221,423	201,587
Less current portion		(9,580)	(8,158)
Total long-term debt, net of current portion	$	211,843	193,429

(a) Long-term Debt Overview

Under the "Debt Management Policy: Statement of Objectives and Policies" UW Medical Center obtains capital financing through the University's Internal Lending Program (ILP). The ILP is an internal financing pool intended to lower the University's overall cost of capital and provide a predictable borrowing rate to borrowers within the University. These loans are funded through the issuance of General Revenue bonds and notes. The ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary.

UW Medical Center signed an ILP financing agreement to fund the Montlake Tower expansion project (Expansion Project) in fiscal year 2009. This ILP finance agreement specifies a maximum borrowing of $170.0 million with debt to be repaid over a 25-year period at a 5.5% interest rate.

UW Medical Center borrowed $26.9 million and $25.8 million from the ILP for the Expansion Project in fiscal years 2013 and 2012, respectively. Per the ILP policies and the financing agreement, the loan balance and interest owed are calculated monthly using a 5.5% interest rate. During construction, interest owed is paid monthly; UW Medical Center began repaying loan principal for the loan on January 1, 2012.

All other debts borrowed from ILP have interest rates ranging from 3.5% to 5.0% and have annual maturities of varying amounts between fiscal years 2015 and 2027.

(b) Long-Term Debt Maturities, Excluding Capital Leases

The following schedule shows debt service requirements, excluding capital leases, for the next five years and thereafter, as of June 30, 2013, using the fixed interest rates, for both principal and interest (in thousands):

		Principal	Interest	Total
2014	$	6,850	11,554	18,404
2015		9,051	11,191	20,242
2016		8,285	10,716	19,001
2017		8,563	10,277	18,840
2018		9,002	9,823	18,825
2019–2023		51,997	41,480	93,477
2024–2028		43,233	27,695	70,928
2029–2033		42,609	16,564	59,173
2034–2037		37,601	3,821	41,422
Total payments	$	217,191	143,121	360,312

(c) Capital Leases

In fiscal year 1994, UW Medical Center entered into a capital lease with the UW Alumni Association for the UW Medical Center Roosevelt Clinic land and building. The lease specifies that at the end of the 20-year lease term the building and land will become the property of UW Medical Center.

UW Medical Center has entered into various other lease agreements for certain equipment.

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Future minimum lease payments under these agreements are as follows (in thousands):

Fiscal year ending June 30:		
2014	$	2,812
2015		762
2016		343
2017		343
2018		86
Total minimum lease payments		4,346
Less amount representing interest		(114)
Net		4,232
Less current portion		(2,730)
Present value of capital lease, net of current portion	$	1,502

(d) Changes in Noncurrent Liabilities

Changes in noncurrent liabilities during the fiscal years ended June 30, 2013 and 2012 are summarized below (in thousands):

		Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Due Within One Year
Long-term debt, ILP – Expansion	$	129,332	26,876	(3,632)	152,576	3,344
Long-term debt, ILP – Others		61,273	—	(3,508)	57,765	3,506
Long-term debt, capital leases		2,824	1,487	(2,809)	1,502	2,730
Unearned revenue		—	2,098	—	2,098	—
Total noncurrent liabilities	$	193,429	30,461	(9,949)	213,941	9,580

(Continued)

		Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Due within one year
Long-term debt, ILP – Expansion	$	105,980	23,352	—	129,332	2,625
Long-term debt, ILP – Others		64,687	—	(3,414)	61,273	3,414
Long-term debt, capital leases		4,943	—	(2,119)	2,824	2,119
Total noncurrent liabilities	$	175,610	23,352	(5,533)	193,429	8,158

(7) Risk Management

UW Medical Center is exposed to risk of loss related to professional and general liability, employee medical, dental and pharmaceutical claims, and injuries to employees. UW Medical center participates in risk pools managed by the University to mitigate risk of loss related to these exposures.

(a) Professional and General Liability

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components. UW Medical Center's annual funding to the professional liability program is determined by the University administration using information from an annual actuarial study. The actuary used a discount rate of 5.5% for both 2013 and 2012 in recognition of the expected earnings of the self-insurance fund. In addition to the University, the participants in the professional liability program include UW Medical Center, UWP, CUMG, the Clinics, School of Dentistry, Airlift, Northwest Hospital, and Harborview. The various participants in the program contribute to the self-insurance fund and share in the expenses of the Health Sciences Risk Management Office.

UW Medical Center's contribution to the professional liability program was $3.2 million and $3.0 million in 2013 and 2012, respectively, recorded in the supplies and other on the statements of revenues, expenses and changes in net position.

(b) Employee Medical and Workers' Compensation

The University pools employee benefit costs, including employee medical and workers' compensation, for all University employees. Departments, divisions, agencies, and affiliated organizations with employees covered under University benefit programs are charged a single benefit rate, based on employee salary class.

UW Medical Center, as a division of the University with employees covered under University benefit programs, participates in the benefit pool. See further discussion in note 8.

(8) Benefit Costs

Benefit costs are pooled centrally for all University employees. Annually, the University reviews total employee benefit costs and prepares standard benefit load rates by employment classification.

Departments, divisions, agencies, component units, and related parties of the University that have University employees qualifying for employee benefit coverage are charged a cost allocation using the determined benefit load rate and budgeted salary dollars by employment classification. All funding of obligations are on a pay-as-you-go basis. At the end of the reporting period the cost allocation is compared to actual benefit costs and differences between actual and budgeted costs are included as a component of the benefit load rates charged in the following year. The University retains all outstanding liabilities related to these programs.

Employee benefits covered under the benefit pool include the following:

- Workers' compensation
- Unemployment compensation
- Employee medical, dental and vision
- Retirement and other postretirement benefit plans
- Social security
- Medicare
- Separation leave

During the fiscal years ended June 30, 2013 and 2012, UW Medical Center incurred and paid $109.6 million and $94.4 million to the University for all of the employee benefits listed above, which is recorded as employee benefits on the statements of revenues, expenses and changes in net position.

Retirement and Other Postretirement Benefit Plans

UW Medical Center employees can participate in the following state and University sponsored retirement and other postretirement benefit plans:

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

The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Funding obligations are measured at the University level and the University allocates expense to departments, divisions, agencies, and component units through the benefit load.

Based on the University's benefit load apportionment UW Medical Center incurred and paid \$19.5 million and \$13.3 million in fiscal years 2013 and 2012, respectively, related to annual PERS funding, which is recorded in employee benefits on the statements of revenues, expenses and changes in net position.

University of Washington Retirement Plan (UWRP) – UWRP 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. RCW 28B.10.400 et. Seq. assigns the authority to the University of Washington 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.

Based on the University's benefit load apportionment UW Medical Center incurred and paid \$4.7 million and \$4.4 million in fiscal years 2013 and 2012, respectively, related to annual UWRP funding, which is recorded in employee benefits on the statements of revenues, expenses and changes in net position.

University of Washington Supplemental Retirement Plan (the 401(a) Plan) – The 401(a) Plan provides for a supplemental payment component, which guarantees a minimum retirement benefit based upon a one-time calculation at each eligible participant's retirement date. The University makes direct payment to qualifying retirees when the retirement benefits provided by UWRP do not meet the benefit goals.

The University receives an independent actuarial valuation to determine funding needs for the supplemental payment component of UWRP. The funding obligation is determined at the University level and the University allocates expense to departments, divisions, agencies, and component units through the benefit load.

Based on the University's benefit load apportionment UW Medical Center incurred and paid \$2.3 million and \$1.9 million in fiscal years 2013 and 2012, respectively, related to annual 401(a) Plan funding, which is recorded in employee benefits on the statements of revenues, expenses and changes in net position.

Other Post-Employment Benefits (OPEB) – All University employees, including medical center employees, are eligible for participation in healthcare and life insurance programs administered by the WSHCA. UW Medical Center retirees may elect coverage through state health and life insurance

(Continued)

plans, for which they pay less than the full cost of the benefits based on their age and other demographic factors.

The Office of the State Actuary determines total OPEB obligations at the State level using individual state employee data, including age, retirement eligibility and length of service. Information to support actuarial calculations at the division, department or component unit level is not available. The State is ultimately responsible for the obligation; therefore, the annual required contribution (ARC) is not recorded at the University or its departments, divisions, agencies, or component units.

(9) Related Parties

UW Medical Center is a division of the University of Washington and a member of UW Medicine, a network of healthcare organizations owned or operated by the University of Washington. Other members of UW Medicine include Harborview Medical Center (Harborview), Northwest Hospital and Medical Center (Northwest Hospital), Valley Medical Center (VMC), UW Physicians Network dba UW Medicine Neighborhood Clinics (the Clinics), UW Physicians (UWP), the UW School of Medicine (the School), and Airlift Northwest (ALNW). In addition, UW Medical Center is an equity shareholder in Seattle Cancer Care Alliance (SCCA), a joint venture partnership with Fred Hutchinson Cancer Research Center (FHCRC) and Seattle Children's Hospital (SCH).

UW Medical Center has engaged in a number of transactions with related parties. These transactions are recorded by UW Medical Center as either revenue or expense transactions because economic benefits are either provided or received by UW Medical Center. UW Medical Center records cash transfers between UW Medical Center and related parties that are not the result of economic benefits and are presented as governmental transfers within net position.

(a) University of Washington

University divisions provide various levels of support to UW Medical Center. The following is a summary of services purchased.

UW School of Medicine

UW Medical Center purchases a variety of clinical and administrative services from the School, which includes laboratory services and resident and faculty support. UW Medical Center also transfers a portion of its Medicare reimbursement for medical education to the School in support of teaching costs. The amounts for these services are shown below (see (f)).

Chief Health System Officer/Vice President of Medical Affairs

The office of the Chief Health System Officer/Vice President of Medical Affairs (VPMA) provides services to UW Medical Center such as news and community relations staffing, medical staff oversight, marketing, information systems services, and other administrative services. The amounts for these services are shown below (see (f)).

UW Physicians Network dba UW Neighborhood Clinics

Under an annual agreement with the School, UW Medical Center subsidizes approximately 85% of the Clinic's annual operating loss and capital funding needs. Funding from UW Medical Center to the Clinics was $17.6 million for fiscal year 2013 and $12.5 million for fiscal year 2012, and is recorded as a nonoperating expense in the statements of revenues, expenses and changes in net position. Additional capital funding in the amount of $1.0 million and $7.3 million was made by UW Medical Center to the Clinics for fiscal 2013 and 2012, respectively. The amounts for these subsidies are shown below (see (f)).

University of Washington Consolidated Laundry

UW Medical Center purchases laundry services from University of Washington Consolidated Laundry (the Laundry). Additionally, the Laundry transfers funds to UW Medical Center for the purposes of satisfying debt and capital accumulation requirements and excess funds for investment with the UW Medical Center's funds held by UW. UW Medical Center records these amounts as payables to the Laundry. The amounts for these transactions are shown below (see (f)).

Other Divisions of the University

In addition to the divisions and transactions identified above UW Medical Center purchases general and professional liability insurance, printing, accounting, temporary staffing, and other administrative and operational services from other divisions of the University. The amounts for these transactions are shown below (see (f)).

(b) UW Medicine/Northwest dba Northwest Hospital & Medical Center

Northwest Hospital, a 281-bed full-service acute care hospital, is a discretely presented component unit of the University. Under the University's affiliation agreement with Northwest Hospital, UW Medical Center reallocates funds received under the Washington State safety net program to Northwest Hospital to hold it harmless for the transition from being a stand-alone hospital to a hospital that is part of a multihospital system.

UW Medical Center also committed to funding $9.3 million from fiscal year 2012 to fiscal year 2013 towards the Regional Heart Center's electrophysiology expansion. Investment in this expansion was $8.2 million and $1.2 million in fiscal years 2013 and 2012, respectively, and was recorded in nonoperating other expenses in the statements of revenues, expenses and changes in net assets.

In fiscal year 2012, UW Medical Center entered into an agreement with Northwest Hospital to provide $8.0 million of operational funding to Northwest Hospital for certain development and integration activities, including an additional $1.6 million allocation of the reimbursement received by UW Medicine from the Safety Net Program. UW Medical Center invested in $6.4 million of development and integration activities including $3.3 million for cardiac and orthopedic integration, $1.6 million for integration management support, $0.4 million for IT integration to other revenue, and $1.1 million for primary care development.

The amounts for these transactions are shown below (see (f)).

(c) Seattle Cancer Care Alliance

UW Medical Center is a one-third owner in the Seattle Cancer Care Alliance (SCCA) and accounts for its interest under the equity method of accounting. Nonoperating income of $6.9 million and $5.9 million related to SCCA results was recorded in fiscal year 2013 and 2012, respectively. The following is a summary of the SCCA's financial results for the years ended June 30 (in thousands):

		2013	2012
Assets	$	440,985	415,597
Liabilities	$	157,923	153,585
Unrestricted net assets		280,810	260,154
Temporarily restricted net assets		1,366	972
Permanently restricted		886	886
Total liabilities and net assets	$	440,985	415,597
Revenues	$	393,731	346,578
Expenses		363,819	324,716
Nonoperating income		(23,334)	8,502
Excess of revenues over expenses		6,578	30,364
Net assets released from restriction used for capital acquisitions		85	145
Grant contributions restricted for capital acquisition		740	1,115
Change in net unrealized gains on investments		(285)	(336)
Change in value of unconsolidated subsidiary		13,538	(13,538)
Increase in unrestricted net assets	$	20,656	17,750

SCCA operates a 20-bed unit located within UW Medical Center in which its adult inpatients receive care. The 20-bed unit qualifies as a hospital within a hospital for Medicare Reimbursement purposes. The SCCA provides medical oversight and management of the inpatient unit. Under agreements, UW Medical Center provides and bills for inpatient care services to the SCCA including necessary personnel, equipment, and ancillary services and UW Medical Center purchases administrative and program support services from the SCCA. Payments due to UW Medical Center for services provided to the SCCA inpatients in fiscal years 2013 and 2012 are included in net patient service revenues.

UW Medical Center also provides various services to the SCCA's outpatient facility including certain pharmacy, laboratory, and pathology services as well as billing, purchasing, and other administrative services. Fees for such services and supplies provided by UW Medical Center are included in other revenue.

The amounts for these transactions are shown below (see (f)).

(d) Fred Hutchinson Cancer Research Center

The SCCA partnership agreement provides that UW Medical Center will make various payments to FHCRC related to research and development support, data collection and analysis, physician assistance services, consulting services, and license rights to use the FHCRC name in connection with the inpatient oncology services program. These fees are included in other expenses and are included in the tables below (see (f)).

(e) Harborview Medical Center

UW Medical Center provides services and support to Harborview such as administrative and operational services. Harborview provides UW Medical Center with services and support such as pharmacy refills and lab testing as well as other administrative and operational services. The amounts paid for these services are included in the tables below (see (f)).

(f) Summary of Related-Party Transactions (In Thousands):

Revenue (expense) transactions		**2013**	**2012**
Services and supplies purchased from and funding provided to the University of Washington and Affiliates			
The School	$	(89,696)	(91,532)
VPMA		(8,814)	(7,990)
The Laundry		(4,153)	(4,135)
The Clinics		(18,602)	(19,823)
Northwest Hospital		(8,219)	(7,571)
UWP		(275)	—
SCCA		(12,024)	(11,045)
Other University divisions and departments		(31,051)	(29,544)
Services and supplies purchased from Harborview		(2,127)	(1,881)
Services and supplies purchased from FHCRC		(11,979)	(11,511)
Services and supplies provided to the University of Washington and Affiliates			
The School		4,193	3,037
The Clinics		2,099	1,517
Northwest Hospital		368	43
VMC		278	271
SCCA		48,284	43,371
Services and supplies provided to Harborview		2,601	1,961
Services and supplies provided to SCH		966	732

Related-party receivable and payable amounts are recorded in other assets, accounts payable and accrued expenses, respectively. As of June 30, 2013 and 2012, respectively, UW Medical Center had net amounts (due to) or due from related parties for the various transactions, which are as follows (in thousands):

Net receivable (payable)		2013	2012
University of Washington and Affiliates			
The School	$	(8,029)	(9,561)
VPMA		261	67
The Laundry		(341)	(320)
UWP		255	—
The Clinics		2,569	2,761
SCCA		16,655	13,806
Other University divisions and departments		(8,760)	(8,350)
Northwest Hospital		(3,482)	(22)
VMC		216	63
Harborview		(480)	(808)
SCH		408	255
FHCRC		(2,983)	(2,876)

(10) Commitments and Contingencies

(a) Operating Leases

UW Medical Center leases medical office space and equipment under operating lease arrangements. Total rental expense in fiscal years ended June 30, 2013 and 2012 for all operating leases was $10.9 million and $10.6 million, respectively.

The following schedule shows future minimum lease payments by fiscal years as of June 30, 2013 (in thousands):

Fiscal year(s) ending June 30:		
2014	$	11,373
2015		5,617
2016		5,226
2017		5,211
2018		4,777
2019–2023		10,598
2024–2028		10,349
2029–2033		5,948
2034–2038		5,963
2039–2043		5,979
2044		199
Total	$	71,240

(b) Purchase Commitments

UW Medical Center has current commitments at June 30, 2013 of approximately $51.7 million related to various construction projects, equipment purchases and information technology implementations. UW Medical Center intends to use its funds held by UW and ILP for these commitments.

(c) 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. Management believes that the Medical Center is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. 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.

(d) Litigation

UW Medical Center is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect to UW Medical Center's financial position or results of operations.

(e) Collective Bargaining Agreements

UW Medical Center has a total of approximately 4,569 employees. Of this total, approximately 80% are covered by collective bargaining agreements as of June 30, 2013 and 2012. Nurses are represented by the Washington State Nurses Association and the Service Employees International Union and other healthcare and support workers are represented by the Service Employees International Union and Washington Federation of State Employees. All UW Medical Center collective bargaining agreements expire on June 30, 2015.

(f) Husky Stadium Lease

In fiscal year 2013, UW Medical Center entered into a lease agreement with the University of Washington Department of Intercollegiate Athletics for approximately 30,660 square feet within the Husky Stadium. The space will be used for the UW Medicine Sports Medicine Clinic. The lease term is thirty years beginning September 1, 2013 ending on August 31, 2043. Annual rent expense will be between $0.8 million and $1.2 million. In addition to rent expense, UW Medical Center will pay monthly operating expenses that are assessed annually.

(Continued)

(11) Healthcare Reform

As enacted, the Health Reform Law will change how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital (DSH) payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Further, it provides for a value-based purchasing program, the establishment of accountable care organizations (ACOs) and bundled payment pilot programs, which may create sources of additional revenue. On June 28, 2012, the United States Supreme Court upheld the constitutionality of the individual mandate provisions of the Health Reform Law but struck down the provisions that would have allowed Health and Human Services (HHS) to penalize states that do not implement the Medicaid expansion provisions with the loss of existing federal Medicaid funding. States that choose not to implement the Medicaid expansion will forego funding established by the Health Reform Law to cover most of the expansion costs. The State of Washington has elected to implement Medicaid expansion in order to take advantage of all opportunities associated with healthcare reform. A Health Care Cabinet has been established by the State of Washington and has been tasked with implementing the policies and rules necessary to carry out healthcare reform statewide for all affected state agencies. On October 1st, 2013, the Washington Health Benefit Exchange began open enrollment for Washington State residents through Washington Healthplanfinder. The insurance exchange, coupled with penalties for individuals electing to not obtain health insurance and subsidies for individuals meeting certain income thresholds, will result in reductions in uninsured and underinsured patients and significantly change hospital payor mix. The reduction of uninsured and underinsured patients will also have an impact on Medicare and Medicaid Disproportionate Share (DSH) reimbursement methodologies. UW Medical Center has not yet determined the financial impact that this legislation might cause as further provisions become effective.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

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HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
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Management's Discussion and Analysis (unaudited)

June 30, 2013 and 2012

The following discussion and analysis provides an overview of the financial position and activities of Harborview Medical Center (Harborview), for the years ended June 30, 2013 and 2012. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and accompanying notes that follow this section.

Using the Financial Statements

Harborview's financial statements consist of three statements: statement 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 Harborview, including resources held by Harborview but restricted for specific purposes by contributors, grantors, or enabling legislation.

The balance sheets includes all of Harborview'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 balance sheets also include information to help compute the rate of return on investments, evaluate the capital structure of Harborview, and assess the liquidity and financial flexibility of Harborview.

The statements of revenues, expenses, and changes in net position reports all of the revenues and expenses during the time period indicated. The difference between the sum of assets and the sum of liabilities— net position is one way to measure the financial health of Harborview and if Harborview has been able to recover all its costs through net patient service revenues and other revenue sources.

The statements of cash flows reports the cash provided by Harborview's operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements. These statements provide meaningful information on where Harborview's cash was generated and what it was used for.

Financial Analysis

Net Position

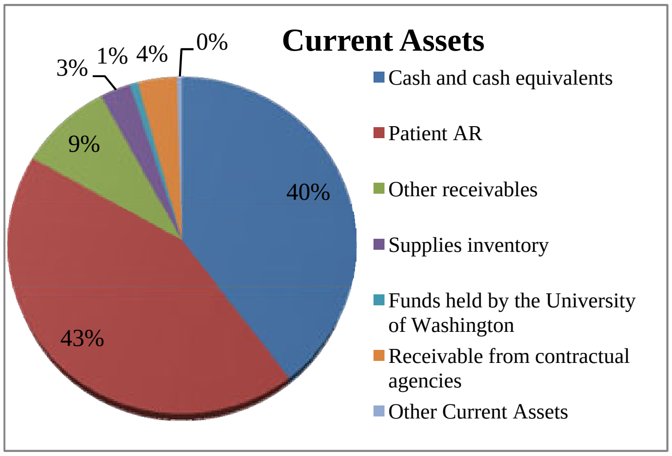
The table to the right is a presentation of certain condensed financial information derived from Harborview's net position as of the fiscal years ended June 30, 2013, 2012 and 2011.

Total assets were $732.3 million at June 30, 2013 compared to $744.3 million at June 30, 2012, a decrease of $12.0 million. Significant events within total assets during fiscal year 2013 included focused reductions in capital spending to ensure continued liquidity despite operating losses during the fiscal year. Overall net position decreased $13.2 million during the same fiscal year primarily as a result of operating losses experienced during the period driven by lower than anticipated inpatient volumes.

(in thousands)		**2013**	**2012**	**2011**
Current assets	$	262,945	248,534	257,395
Noncurrent assets:				
Capital assets, net		354,841	373,406	396,502
Funds held by UW		600	600	600
Assets whose use is limited,		113,880	121,734	98,305
Total assets		732,266	744,274	752,802
Current liabilities		91,614	89,370	104,950
Noncurrent liabilities		18,183	19,201	20,684
Total liabilities		109,797	108,571	125,634
Net position	$	**622,469**	**635,703**	**627,168**

Total assets decreased $8.5 million from June 30, 2011 to June 30, 2012 as a result of improved cash collections on patient accounts receivable and lower capital investments. Net position increased $8.5 million during fiscal year 2012. The increase in 2012 was driven by income from operations.

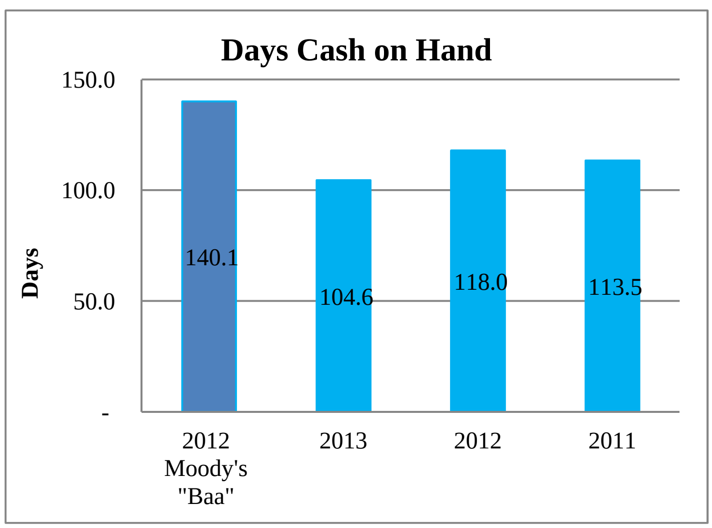
Current Assets



Current Assets consist of cash and cash equivalents, and other assets that are expected to be converted to cash within a year. Total current assets were $262.9 million, $248.5 million, and $257.4 million at fiscal year-end 2013, 2012, 2011, respectively. Fiscal year 2013 composition of current assets is illustrated in the chart to the left.

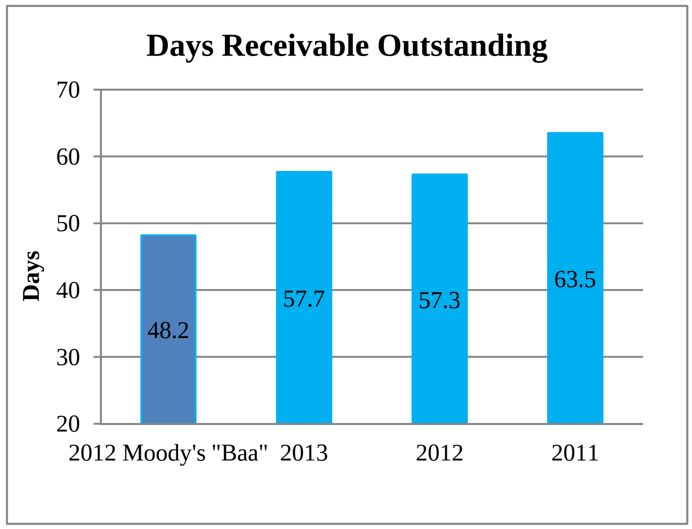
Cash and cash equivalents represent amounts invested in the King County Investment Pool (the KCIP) on behalf of Harborview. All amounts invested in the KCIP are available upon demand and, as such, are considered cash equivalents. Harborview's investment in the KCIP is split between cash and cash equivalents and assets whose use is limited on the balance sheet. Amounts recorded as assets whose use is limited represent board designated funds internally restricted for capital projects. Cash and cash equivalents decreased $4.0 million in 2013 from $108.4 million at June 30, 2012 to $104.4 million at June 30, 2013.

Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on hand, including board designated assets whose use is limited, as of June 30 for fiscal years 2013, 2012 and 2011 are illustrated in the graph to the right.



Harborview's total days cash on hand, including board designated assets whose use is limited, decreased 13.4 days from 118.0 days at June 30, 2012 to 104.6 days at June 30, 2013 and increased 4.5 days from 113.5 days at June 30, 2011 to 118.0 days at June 30, 2012. The decrease in 2013 was driven by growth in operating expenses and loss from operations during the fiscal year. The increase in 2012 was driven by better cash collections related to patient accounts receivable and lower capital investment.

Net accounts receivable was $114.5 million as of June 30, 2013, compared to $110.3 million at June 30, 2012. The increase in net accounts receivable during fiscal year 2013 is due to changes in payor mix and is also representative of the higher level of scrutiny that payers are subjecting claims to that is increasing the time to collect on patient accounts. Examples of this scrutiny include Medicare and Medicaid Recovery Audit Contract (RAC) audits focused on medical necessity and billing practices for services provided to Medicare and Medicaid patients.



Days receivable outstanding illustrates an organization's ability to convert net patient service revenue to cash. Days receivable outstanding as of June 30 for fiscal years 2013, 2012 and 2011 are illustrated in the graph included to the right.

Harborview's total days receivable outstanding increased 0.4 days from 57.3 days at June 30, 2012 to 57.7 days at June 30, 2013 and decreased 6.2 days from 63.5 days at June 30, 2011 to 57.3 days at June 30, 2012. The increase during fiscal year 2013 was driven by higher initial denial rates by payors and increasing work required to get services reimbursed under payor contracts while the decrease during fiscal year 2012 was a result of stabilization of collection activity as a result of patient financial service's increased experience with Harborview's billing system.

As of June 30, 2013 and 2012, 41% and 46% of the gross patient accounts receivable balance is due from commercial payors, 49% and 44% is due from governmental payors Medicare and Medicaid, 10% from patients. Due to a variety of factors, including overall economic conditions, employers and insurers have continued to shift responsibility of payment to patients in the form of increased coinsurance and deductibles. Therefore, the portion of the accounts receivable for which the patient is responsible has increased. Generally speaking, the collection of patient responsibility amounts requires more effort than collection of insurance amounts because patient responsibility balances are typically composed of a high number of smaller dollar accounts.

Other receivables primarily consists of amounts due from the State for grants and other funding programs supporting Harborview operations. Other activity within other receivables includes amounts due from UW Medicine entities. Other receivables increased $5.1 million from $18.2 million at June 30, 2012 to $23.3 million at June 30, 2013. The increase during fiscal year 2013 is a result of accrued State grants and trauma funding.

During fiscal year 2012, other receivables increased $8.8 million. The change is a result of timing of payments and levels of funding from the State for trauma and healthcare related programs.

Supplies Inventory was $7.7 million as of June 30, 2013, compared to $8.3 million at June 30, 2012. The decrease of $0.6 million was the result of general inventory movement and timing of stock reorders.

The balance of supplies inventory did not change between June 30, 2012 and 2011.

Funds held by the University of Washington (the University) represent deposits held with the University for advance funding of capital projects managed by the University.

Receivable from contractual agencies consist of estimated receivables for cost report and CPE settlements. Receivable from contractual agencies increased $8.8 million from $1.1 million as of June 30, 2012 to $9.9 million as of June 30, 2013 as a result of changes in Harborview's reserve methodology and development in open CPE hold harmless estimates.

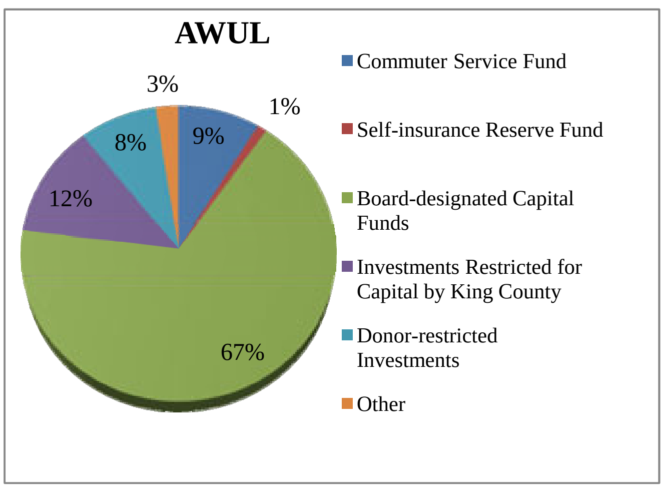
Other current assets include prepaid expenses and interest receivable.

Noncurrent Assets

Capital assets, net of accumulated depreciation, were $354.8 million at fiscal year-end 2013, compared to $373.4 million at fiscal year-end 2012, representing a decrease of $18.6 million. The decrease was primarily due to continued depreciation of depreciable assets offset by moderate capital spending.

Additional discussion regarding capital asset activity during the fiscal years can be found in the notes to the financial statements.

Assets whose use is limited (AWUL) includes board-designated, restricted investments and property held for future development. These investments include cash, long-term investments and certain capital assets. Board-designated cash and investments are used by Harborview to fund strategic initiatives, capital improvements, and to purchase equipment.



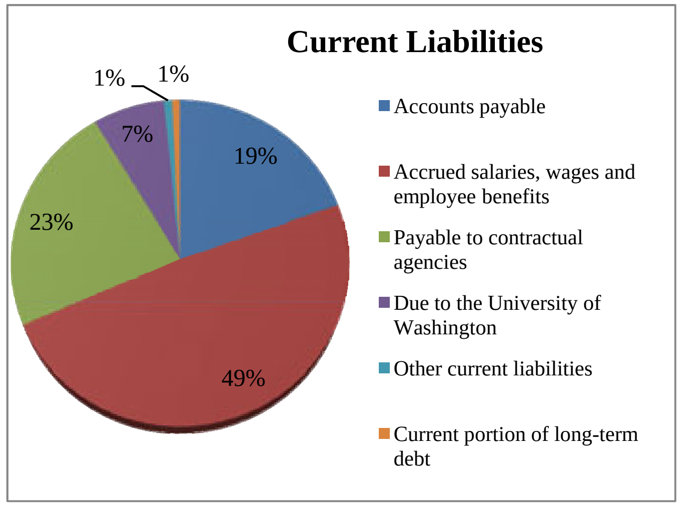
At June 30, 2013, total assets whose use is limited were $113.9 million, compared to $121.7 million at June 30, 2012, a decrease of $7.8 million between years. The decrease was due to funding of strategic initiatives and capital improvements.

Assets whose use is limited increased $23.4 million during fiscal year 2012 due to increases to reserve funds held for capital and equipment repairs and replacement.

Other assets consist of deposits held by the University of Washington.

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within a year. Total current liabilities were $91.6 million at June 30, 2013, compared to $89.4 million at June 30, 2012. Fiscal year 2013 composition of current liabilities is illustrated in the chart to the right.



Accounts payable increased $1.8 million from $16.2 million at June 30, 2012 to $18.0 million at June 30, 2013 and decreased $6.9 million from $23.1 million at June 30, 2011 to $16.2 million at June 30, 2012. Changes in accounts payable and accrued liabilities are primarily driven by timing of payments to vendors and employees. Accounts payable includes amounts accrued for capital related expenditures. Included in accounts payable as of June 30, 2013, 2012 and 2011 were amounts accrued for capital related expenditures of $1.7 million, $2.1 million and $2.8 million, respectively.

Accrued salaries, wages and employee benefits increased $2.1 million from $42.6 million at June 30, 2012 to $44.7 million at June 30, 2013 and decreased $0.1 million from $42.7 million at June 30, 2011 to $42.6 million at June 30, 2012.

Payable to contractual agencies consist of estimated reserves for cost report settlements and amounts due as intergovernmental transfers to the Washington State Department of Social and Health Services. Payable to contractual agencies decreased $0.8 million from $21.8 million at June 30, 2012 to $21.0 million at June 30, 2013 and decreased $6.7 million from $28.5 million at June 30, 2011 to $21.8 million at June 30, 2012. The decrease in fiscal year 2013 was driven by changes in Harborview's reserve methodology, settlement of Medicare and Medicaid CPE reports and development in open Medicare cost report and CPE hold harmless estimates. The decrease during fiscal year 2012 was due to reduced hold harmless settlement estimates associated with the Medicaid Certified Public Expenditure (CPE) program as well as a June repayment of the annual working capital advance from the State.

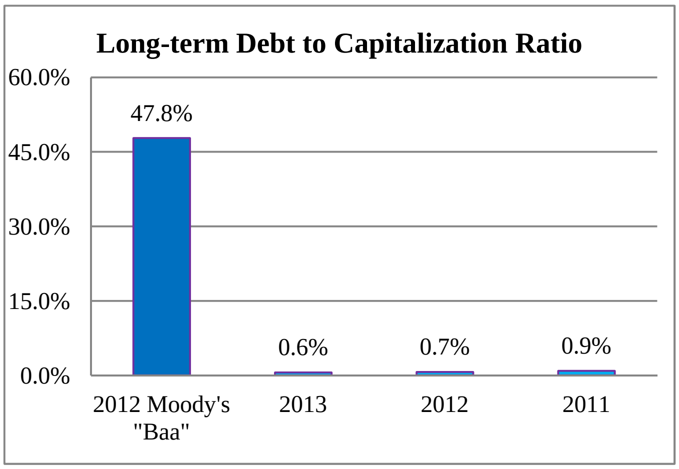
Payable to the University of Washington consists of amounts due for services provided to Harborview through the University and UW Medicine administrative support. Due to the University of Washington decreased $0.9 million from $7.4 million at June 30, 2012 to $6.5 million at June 30, 2013 and $1.7 million from $9.1 million from June 30, 2011 to $7.4 million at June 30, 2012. Decreases in both years were a result of timing in settlement between Harborview and the University of Washington.

Current portion of long-term debt was $0.7 million as of June 30, 2013 and represents upcoming debt payments on various bond issues within the next year. The current portion of long-term debt as of June 30, 2012 was $0.8 million.

Other current liabilities consist of the current portion of long-term unearned rent related to the Pat Steel Building and Ninth & Jefferson Building leases.

Noncurrent Liabilities

Long-term liabilities consist of long-term debt and unearned rent. **Long-term debt** as of the years ended June 30, 2013, 2012, and 2011 consists of bonds issued by King County.



Long-term debt to capitalization is a ratio used to evaluate capital structure of healthcare organizations. The graph to the left shows the long-term debt to capitalization ratio as of June 30 for 2013, 2012 and 2011 including a comparison to the stand-alone hospital median.

Historically, Harborview's significant construction projects have been funded through tax payer supported debt. As a policy, King County carries all tax payer supported debt and proceeds of debt are funded to Harborview through a voluntary non-exchange transaction. Debt carried by Harborview represents debt issued and supported through Harborview revenues. As a result of these policies, Harborview tends to report a lower debt to capitalization ratio than other academic medical centers.

Additional discussion regarding long-term debt activity during the fiscal years can be found in the notes to the financial statements.

Net Position

Harborview reports its net position in four categories:

Net investment in capital assets – Total investment in Harborview property, plant, and equipment net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted for debt service and expendable net position – Resources Harborview is legally or contractually obligated to spend in accordance with restrictions placed by donors and/or external parties that have placed time or purpose restrictions on the use of the asset.

Restricted non-expendable net position - Resources subject to externally imposed restrictions requiring Harborview to maintain in perpetuity.

Unrestricted net position – All other funds available to Harborview that do not meet the definition of restricted or invested in capital net of related debt.

As of June 30, 2013, total net position was $622.5 million compared to $635.7 million at June 30, 2012.

Summary of Revenues, Expenses, and Changes in Net Position

Results of Operations

Harborview reported an operating loss of $8.5 million and decrease in net position of $13.2 million for the fiscal year ended June 30, 2013 compared to operating income of $18.3 million and increase in net position of $8.5 million for the fiscal year ended June 30, 2012. Contributing factors for the lower performance in fiscal year 2013 included the following:

(in thousands)		2013	2012	2011
Total operating revenues	$	788,387	765,800	725,304
Total operating expenses		796,872	747,525	740,199
Operating income (loss)		(8,485)	18,275	(14,895)
Investment income, net		2,737	1,259	2,231
Interest expense		(217)	(224)	(230)
Other, net		(8,345)	(11,638)	(14,030)
Capital contributions and transfers		1,076	863	610
Increase (decrease) in net position		(13,234)	8,535	(26,314)
Net position, beginning of year		635,703	627,168	653,482
Net position, end of year	$	**622,469**	**635,703**	**627,168**

- Declining inpatient admissions as services historically performed in an inpatient setting are transitioned to an outpatient setting.
- Increasing length of stay. The trend in length of stay is partially attributable to the transition of lower acuity inpatient services to an outpatient setting but can also be attributed to greater focus on the qualifying factors for inpatient admission and an increase of patients moved to observation status from the emergency room. Length of stay impacts the loss from operations as significant portions of Harborview services are reimbursed on a diagnosis-related group (DRG) basis. DRG reimbursement is based on the expected length of stay of an average patient for the particular diagnosis-related group and, therefore, increased length of stay results in higher costs but does not lead to incremental net patient service revenue.
- Less favorable payor mix, where services shifted from patients covered under traditional commercial insurance plans to patients eligible for Medicare and Medicaid programs.
- Inflexible labor costs. Due to State employment requirements, primarily all Harborview labor, including patient care staff, are salaried employees limiting Harborview's ability to adjust staffing levels to patient census.
- Continued investment in information technology including implementation of computerized physician order entry and electronic health record systems.

	2013	2012	2011
Available beds	413	413	413
Admissions	17,999	19,094	19,879
Patient days	135,779	134,930	136,619
Average length of stay	7.5	7.1	6.9
Occupancy	90%	89%	91%
Case mix index (CMI)	1.986	1.911	1.826
Surgery cases	15,488	15,175	15,232
Emergency room visits	66,285	62,432	61,307
Primary care clinic visits	82,873	82,850	85,569
Specialty care clinic visits	162,878	162,114	154,474
Full time equivalents (FTEs)	4,763	4,684	4,656
Trauma cases	6,248	5,982	5,965

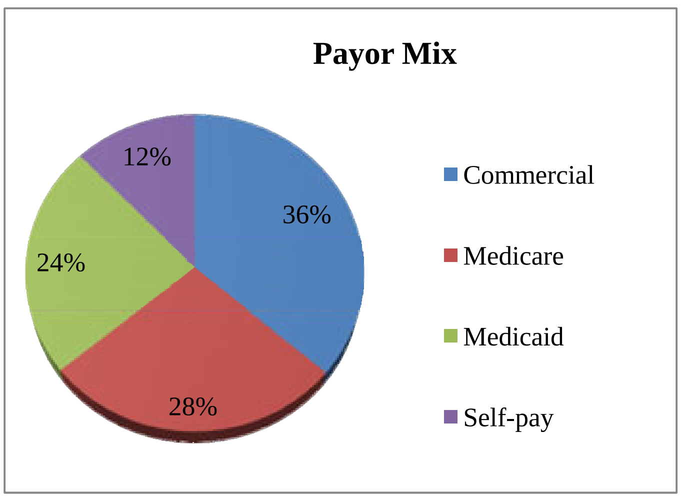
Offsetting these factors were increased high acuity and trauma cases, governmental incentive payments received for implementation of electronic health records and State funding for Harborview's trauma care.

Increased patient volumes and federal and state funding programs, such as electronic health record incentive payments and Hospital Safety Net Assessments, contributed to favorable operating performance in fiscal years 2012 and 2011.

Total Operating Revenues

Total operating revenues consists primarily of net patient service revenues and other operating revenues. Net patient service revenues are recorded based on standard billing rates less contractual adjustments, charity, and a provision for uncollectible accounts. Harborview has agreements with federal and state agencies, and commercial insurers that provide for payments at amounts different from gross charges. Harborview provides care at no charge or reduced charges to patients who qualify under Harborview's charity policy. Harborview also estimates the amount of accounts receivable due from patients that will become uncollectible which is also reported as a reduction of net patient service revenues. The difference between gross charges and the estimated net realizable amounts from payors and patients is recorded as an adjustment to charges. The resulting net patient service revenue is shown in the statements of revenues, expenses, and changes in net position.

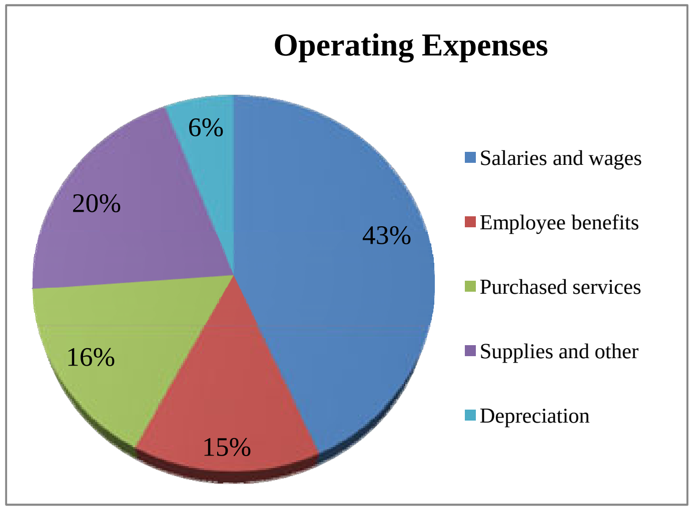
Net patient service revenues comprise of inpatient and outpatient revenue. Outpatient revenue consists of both hospital-based and other clinic network revenue. Other operating revenue comprises hospital-related revenues such as the retail pharmacy, grants and the cafeteria. The composition of services provided to patients (whether governmental or commercial insured or self-pay) is a key factor in Harborview's overall financial operating results. Reimbursement from governmental payors is generally below commercial rates, and reimbursement rules are complex and subject to both interpretation and modification. The chart to the left illustrates payor mix for 2013 based on gross revenues.



For the years ended June 30, 2013, 2012 and 2011, Harborview's total operating revenues were $788.4 million, $765.8 million and $725.3 million, which was composed of $724.3 million, $702.3 million and $670.5 million in net patient service revenues and $64.1 million, $63.5 million and $54.8 million of state appropriations and other operating revenue, respectively. The increase in fiscal year 2013 was driven by an increase in net patient service revenues due to a price increase and increases in high acuity and trauma cases. The increase in fiscal year 2012 was due to an increase in net patient service revenues as a result of a price increase and favorable third party reimbursement settlements and an increase in other operating revenues from increases in patient volumes and receipt of Medicaid electronic health record (EHR) incentive payments.

Total Operating Expenses

Total operating expenses were $796.9 million for the fiscal year 2013 compared to $747.5 million for the fiscal year 2012 and $740.2 million for the fiscal year 2011. The composition of fiscal year 2013 operating expenses is illustrated in the chart to the right.



Salaries and wages increased $11.9 million from $332.9 million in fiscal year 2012 to $344.8 million in fiscal year 2013. The increase in salaries and wages expense was driven by increased full-time equivalent (FTE) employees and wage increases associated with collective bargaining agreements.

Salaries and wages increased $5.3 million from $327.6 million in fiscal year 2011 to $332.9 million in fiscal year 2012. The increase was a result of a slight increase in FTEs and related salary levels.

Employee benefits increased $13.1 million from $102.6 million in fiscal year 2012 to $115.7 million in fiscal year 2013 and decreased $3.1 million from $105.7 million in fiscal year 2011 to $102.6 million in fiscal year 2012. Employee benefit costs are a function of employment and increases in expense between fiscal years 2013 and 2012 were driven by increases in FTE employees, salaries and wages expense and an increase in the fringe benefit rate. The decrease in expense between fiscal years 2012 and 2011 was driven by a decrease in the fringe benefit rate.

Purchased services consists of professional and consulting fees, increased $22.9 million from $105.0 million in fiscal year 2012 to $127.9 million in fiscal year 2013 and increased $4.0 million from $101.0 million in fiscal year 2011 to $105.0 million in fiscal year 2012. The increase in both fiscal years was primarily driven by increased consulting fees for IT work related to CPOE implementation and other planned major projects.

Supplies and other expense includes medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased $0.6 million from $161.7 million in fiscal year 2012 to $162.3 million in fiscal year 2013 and increased $0.6 million from $161.1 million in fiscal year 2011 to $161.7 million in fiscal year 2012.

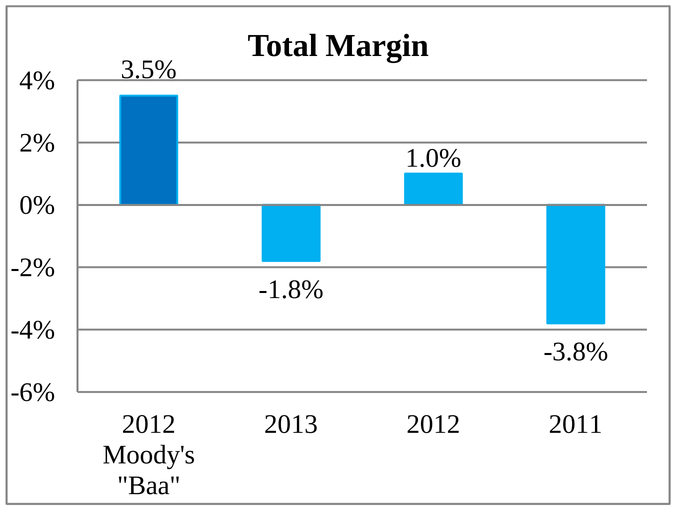
Depreciation expense increased $0.9 million from $45.3 million in fiscal year 2012 to $46.2 million in fiscal year 2013 and increased $0.5 million from $44.8 million in fiscal year 2011 to $45.3 million in fiscal year 2012. The increases between 2013, 2012 and 2011 primarily relates to investment in information technology.

Nonoperating Revenues (Expense)

Nonoperating revenues (expenses) consist primarily of investment income, interest expense, intergovernmental transfer expense, and strategic funding to support related parties. Net nonoperating expenses decreased $4.8 million between fiscal years 2013 and 2012 and decreased $1.4 million between fiscal years 2012 and 2011. In 2013, the decrease in net nonoperating expenses from the prior year was primarily due to reductions in intergovernmental transfers related to Harborview's participation in the State's Professional Services Supplemental Payment (PSSP) program and an increase in investment income. In 2012, the decrease in net nonoperating expenses is attributed to increased Professional Services Supplemental Payment Program IGT expense and the clinics funding offset by the one-time elimination of the equity interest in Airlift recorded in 2011.

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue that has been realized in the form of net income and is a common measure of total hospital profitability. Total margin for the fiscal years 2013, 2012 and 2011 compared to industry median is illustrated in the chart to the right.



Factors Affecting the Future

UW Medicine Strategic Planning

- ***Accountable Care Organization (ACO)***

  UW Medicine continues to work toward developing an integrated network of healthcare practitioners and entities as an accountable care organization (ACO) that improves the health of the population it serves while reducing the overall cost of care. The UW Medicine ACO will include all UW Medicine entities, UW Medicine affiliated entities through inter-affiliate agreements and UW Medicine ACO network organizations established with contracts.

- ***PeaceHealth Strategic Alliance***

  In May 2013, UW Medicine signed a letter of intent with PeaceHealth to create a strategic affiliation. The letter of intent outlines opportunities the organizations could pursue together, including ongoing performance improvement initiatives to reduce costs and clinical programming to increase access to tertiary and quaternary care. The two organizations will remain legally independent and governance will not be affected. The affiliation is expected to be further defined in additional agreements in the fall of 2013.

- ***UW Medicine IT Services***

  In July 2013, UW Medicine created a shared service function for enterprise-wide information technology (IT) services and solutions. This function operates as a division of UW Medicine within the University of Washington. As members of UW Medicine, Harborview and other UW Medicine entities will purchase IT services through the shared service function. As a result of the organizational change Harborview will no longer record IT related capital assets.

UW Medicine Patients Are First

UW Medicine is committed to its mission of improving the health of the public. The Patients Are First program, implemented throughout UW Medicine in 2011, is the organizational framework for delivering consistent service excellence to every patient, every time. Through Patients Are First, UW Medicine creates better leaders, refines metrics to support systems of accountability, and provides staff, managers, physicians, and leaders with the tools, tactics, and reports to achieve its strategic outcomes. UW Medicine relies on the following four "pillars" as the foundation for building its Patients Are First culture:

– Focus on Serving the Patient & Family: serve all patients and family members with compassion, respect, and excellence

– Provide the Highest Quality Care: provide the highest quality, safest and most effective care to every patient, every time

– Become the Employer of Choice: recruit and retain a competent, professional workforce focused on serving our patients and their families

– Practice Fiscal Responsibility: ensure effective financial planning and the economic performance necessary to invest in strategies that improve the health of our patients

Each pillar has several measurable core goals that, when cascaded throughout the entire health system and teamed with other evidence-based leadership tactics, hardwire commitment to Patients Are First.

In support of the initiative, UW Medicine has engaged the Studer Group, LLC, a national expert consultant group on implementing evidence-based practices that improve service, satisfaction, quality, and safety while reducing costs. The current contract with the Studer Group runs through fiscal year 2016.

Regulatory and Legislative Changes

The following regulatory and legislative activity will impact all entities in UW Medicine during fiscal year 2014 and beyond:

- ***International Classification of Diseases (ICD) v10*** – Code of Federal Regulations (45 CFR Part 162) requires healthcare providers to implement ICD-10 no later than October 1, 2014. ICD-10 represents a significant change in the standard healthcare coding system and will impact every system, process and transaction that contains or uses a diagnosis code or inpatient procedure code.
  UW Medicine has been undertaking activities related to the implementation of ICD-10 since the beginning of fiscal year 2013.

- ***Medicare Sequestration*** – On April 1, 2013, a provision of the *Budget Control Act of 2011* requiring mandatory across-the-board reductions in Federal spending commenced (commonly referred to as "sequestration"). The provision included a 2% reduction to Medicare payments made to healthcare providers, including payments made under the meaningful use incentive program. The payment reduction is effective for nine years; however, Congress does have the ability to repeal or amend provisions of the *Budget Control Act*.

- ***WA Medicaid IP & OP Payment System Rebasing*** – The Washington Healthcare Authority (HCA) uses the Outpatient Prospective Payment System (OPPS) and All Patient Diagnosis Related Group (AP-DRG) methodologies for reimbursing outpatient and inpatient Medicaid claims, respectively. In 2013, HCA began a project to implement new payment systems for outpatient and inpatient claims with anticipated go-live in 2014. Under the project, outpatient reimbursement will transition to Enhanced Ambulatory Payment Groups (EAPG) methodology and inpatient reimbursement will transition to All Patient Refined Diagnosis Related Group (APR-DRG) methodology. The EAPG method is a visit-based patient classification system that directs payment to the main significant procedure or treatment provided during a visit, instead of "a la carte" volume-based purchasing and uses packaging and bundling of payment for related services to create incentives to provide services in the most efficient way. The APR-DRG will ensure the state is compliant with ICD-10 requirements, is more granular than AP-DRG and will increase the number of acuity-driven groupings for payment purposes.

- ***Health Insurance Exchange Enrollment*** – In October 2013, the Washington Health Benefit Exchange will begin open enrollment for Washington State residents through Washington Healthplanfinder. It is anticipated that the insurance exchange, coupled with penalties for individuals electing to not obtain health insurance and subsidies for individuals meeting certain income thresholds, will result in reductions in uninsured and underinsured patients and significantly change hospital payor mix. The reduction of uninsured and underinsured patients will also have an impact on Medicare and Medicaid Disproportionate Share (DSH) reimbursement methodologies.

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Harborview Medical Center:

We have audited the accompanying financial statements of the business-type activities of Harborview Medical Center, a discretely presented component unit of King County, which comprise of the statement of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities of Harborview Medical Center as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 1 and 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
October 25, 2013

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Statement of Net Position

June 30, 2013 and 2012

(Dollar amounts in thousands)

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	104,356	108,356
Funds held by the University of Washington		1,976	906
Patient accounts receivable, less allowance for uncollectible accounts of $36,323 in 2013 and $25,925 in 2012		114,527	110,290
Other receivables		23,323	18,233
Supplies inventory		7,711	8,271
Receivable from contractual agencies		9,850	1,104
Other current assets		1,202	1,374
Total current assets		262,945	248,534
Noncurrent assets:			
Capital assets, net of accumulated depreciation		354,841	373,406
Fund held by the University of Washington		600	600
Assets whose use is limited		113,880	121,734
Total noncurrent assets		469,321	495,740
Total assets	$	732,266	744,274
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	17,996	16,150
Accrued salaries, wages and employee benefits		44,729	42,597
Payable to the University of Washington		6,464	7,354
Payable to contractual agencies		21,016	21,781
Other current liabilities		704	704
Current portion of long-term debt		705	784
Total current liabilities		91,614	89,370
Noncurrent liabilities:			
Unearned rent and other		15,086	15,387
Long-term debt, net of current portion		3,097	3,814
Total liabilities		109,797	108,571
Net position:			
Net investment in capital assets		351,039	368,808
Expendable, restricted		20,450	20,194
Nonexpendable, restricted		3,547	3,448
Unrestricted		247,433	243,253
Total net position		622,469	635,703
Total liabilities and net position	$	732,266	744,274

See accompanying notes to financial statements.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(Dollar amounts in thousands)

		2013	2012
Operating revenues:			
Net patient service revenues (net of provision for uncollectible accounts of $46,135 in 2013 and $51,324 in 2012)	$	724,298	702,330
State appropriation		6,022	6,024
Other operating revenues		58,067	57,446
Total operating revenues		788,387	765,800
Operating expenses:			
Salaries and wages		344,778	332,915
Employee benefits		115,666	102,644
Purchased services		127,927	104,965
Supplies and other expenses		162,320	161,690
Depreciation		46,181	45,311
Total operating expenses		796,872	747,525
(Loss) income from operations		(8,485)	18,275
Nonoperating revenues (expenses):			
Interest income, net		3,333	1,496
Interest expense		(217)	(224)
Donations and other income		2,419	3,103
Nonoperating expenditures		(10,764)	(14,741)
Unrealized loss on investments, net		(596)	(237)
Nonoperating expenses		(5,825)	(10,603)
(Loss) income before capital contributions and additions to permanent endowments		(14,310)	7,672
Capital contributions and additions to permanent endowments:			
Capital contributions		968	76
Additions to permanent endowments		108	787
Total capital contributions and additions to permanent endowments		1,076	863
(Decrease) increase in net position		(13,234)	8,535
Net position – beginning of year		635,703	627,168
Net position – end of year	$	622,469	635,703

See accompanying notes to financial statements.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollar amounts in thousands)

		2013	2012
Cash flows from operating activities:			
Cash received for patient service revenues and other	$	720,061	708,684
Cash received for other services		49,915	53,409
Cash paid to employees		(458,312)	(435,643)
Cash paid to suppliers and others		(289,987)	(283,431)
Net cash provided by operating activities		21,677	43,019
Cash flows from noncapital financing activities:			
Donations and other income received		2,419	3,103
Nonoperating expenditures		(10,434)	(14,614)
Additions to permanent endowments		108	787
Other		(9)	(5)
Net cash used in noncapital financing activities		(7,916)	(10,729)
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(784)	(868)
Cash paid for interest		(220)	(227)
Capital expenditures		(28,316)	(21,669)
Capital contributions		968	76
Net cash used in capital and related financing activities		(28,352)	(22,688)
Cash flows from investing activities:			
Net decrease (increase) in assets whose use is limited		7,258	(23,666)
Investment income, net		3,333	1,496
Net cash provided by (used in) investing activities		10,591	(22,170)
Decrease in cash and cash equivalents		(4,000)	(12,568)
Cash and cash equivalents, beginning of year		108,356	120,924
Cash and cash equivalents, end of year	$	104,356	108,356
Reconciliation of (loss) income from operations to net cash provided by operating activities:			
(Loss) income from operations	$	(8,485)	18,275
Adjustments to reconcile (loss) income from operations to net cash provided by operating activities:			
Depreciation		46,181	45,311
Net increase in current assets, except cash and cash equivalents		(18,411)	(2,603)
Net increase (decrease) in current liabilities, except current portion of long-term debt		2,693	(17,272)
Decrease in unearned revenue and unearned rent		(301)	(692)
Net cash provided by operating activities	$	21,677	43,019
Supplemental disclosures of cash flow information:			
Decrease in capital assets included in accounts payable	$	(370)	(673)
Donation gift in kind		5,974	4,527
Loss on disposal of capital assets		330	127

See accompanying notes to financial statements.

(1) Organization

Harborview Medical Center (Harborview) is a 413 licensed bed hospital operating in Seattle, Washington with extensive ambulatory services and is a discretely presented component unit of King County (the County). Harborview is managed by the University of Washington (the University) under a management contract between the Board of Trustees (the Trustees) and the Board of Regents of the University in accordance with policies established by the Trustees as provided for in the management contract. The first management contract originated on July 1, 1967, and has been revised and extended several times. The latest contract version extends through June 30, 2015. The management contract recognizes the Trustees' desire to maintain Harborview as a means of meeting the County government's desire to provide the community with a resource for health services and the University's desire that Harborview be maintained as a continuing resource for education, training, and research. The Trustee's members during fiscal year 2013 were:

The general conditions within the management contract specify that the County will retain title to all real and personal properties acquired for the County with Medical Center capital or operating funds. However, Harborview retains the rights of ownership to these real and personal properties and records these assets on their books. The Trustees determine major institutional policies and retain control of programs and fiscal matters. The County retains ultimate control over capital programs and capital budgets for buildings and renovations. The Trustees agree to secure the University's recommendations on any changes to the above. The Trustees are accountable to the public and the County government for all financial aspects of Harborview's operation and agree to maintain a fiscal policy that keeps the essential operating program and expenditures within the limits of the operating income. In maintaining a balanced budget fiscal policy, the Trustees agree to adopt standards of patient care developed in cooperation with the University. The University provides for the rendering of medical, dental, and other professional services in Harborview and professional and hospital services by University personnel and overall management services. A special account is maintained with the University to receive reimbursement payments from Harborview's operating account and to pay for the costs of all services and expenditures provided by the University.

The Trustees and the University establish and maintain operational standards for all teaching and patient care designed to meet the requirements of such approval agencies as The Joint Commission. The Trustees control the use of all physical facilities and establish overall space use policies and guidelines in support of Harborview's programs. The University manages Harborview so as to retain its institutional identity in a manner which, to the extent of the funds available to Harborview, will achieve the aims of the Trustees to meet their community obligation and provide services to address the community's needs, as identified in Harborview's mission statement. Additionally, the management contract requires the University "to provide hospital services, including management under the direction of a hospital administrator for the hospital, to provide for the rendering of medical services in connection with the hospital and to provide for the conduct of teaching and research activities by the University in connection with the hospital."

(2) Summary of Significant Accounting Policies

(a) Accounting Standards

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. Harborview's financial statements and note disclosures are based on all applicable Government Accounting Standards Board (GASB) pronouncements and interpretations. Harborview uses proprietary fund accounting.

(b) Basis of Accounting

Harborview'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.

(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. Significant estimates in Harborview's financial statements include patient accounts receivable allowances, receivable from contractual agencies, payable to contractual agencies and the fair value of investments.

(d) Cash and Cash Equivalents

Cash and cash equivalents primarily comprise investments held in an external investment pool managed for Harborview by the County. These investments consist of pooled investment funds of money markets, U.S. agency securities, U.S. agency mortgage-backed securities, U.S. treasury, U.S. municipal and collaterized mortgaged obligations, and are carried at fair value.

The King County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC). All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

The King County Investment Pool allocates participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period.

(Continued)

Income is calculated based on: (1) realized investment gains and losses; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon investment fee.

Harborview has unrestricted access to these investments at its discretion and without limitation, and as such, these investments are considered cash equivalents. Harborview had cash equivalents of $104.4 million and $108.4 million as of June 30, 2013 and 2012, respectively.

(e) Assets Whose Use is Limited

Assets whose use is limited include designated unrestricted assets set aside by the Trustees for future capital and program purposes over which the Trustees retain control and may at their own discretion subsequently use for other purposes; investments restricted for use by creditors, grantors, or contributors external to Harborview; and investments restricted for capital purchases representing unspent bond proceeds, required capital funding by Harborview, and interest earnings thereon by the County. Investments are held in an external investment pool, managed for Harborview by the County, and are carried at fair market value.

Disclosure requirements related to investment risk, credit risk, interest rate risk, foreign currency risk, and deposit risk are applicable to the primary government which, as it relates to Harborview, is the County.

(f) Inventories

Inventories consist primarily of surgical, medical, and pharmaceutical supplies in organized stores at various locations across the Harborview. Inventories are recorded at the lower of cost (first-in, first-out (FIFO)) or market.

(g) Capital Assets

Capital assets, defined as purchases with a per item cost of $2,000 or greater and a useful life of at least two years, are stated at cost at acquisition or if acquired by gift, at fair market value at the date of the gift. Additions, replacements, major repairs, and renovations are capitalized. Maintenance and repairs are expensed. The cost of the capital assets sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

The provision for depreciation is determined by the straight-line method, which allocates the cost of tangible property ratably over its estimated useful life. The estimated useful lives used by Harborview are as follows:

Land improvements	25 years
Buildings, renovations, and furnishings	5 – 50 years
Fixed equipment	5 – 25 years
Movable equipment	3 – 20 years
Leasehold improvements	The shorter of the lease term or useful life

Interest is capitalized on construction projects as a cost of the related project beginning with commencement of construction and ceases when the construction period ends and the related asset is placed in service. No interest was capitalized during 2013 and 2012.

(h) Compensated Absences

Harborview employees earn annual leave at rates based on length of service and sick leave at the rate of one day per month. Annual leave balances, which are limited to 240 hours, can be converted to monetary compensation upon employment termination. 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. Harborview recognizes annual and sick leave liabilities when earned. Forfeited balances are recognized at time of forfeiture.

Annual leave accrued at June 30, 2013 and 2012 was $21.9 million and $20.4 million, respectively. Sick leave accrued as of June 30, 2013 and 2012 was $1.8 million and $2.3 million, respectively. Compensated absences are reported within the accrued salaries, wages and employee benefits of the statement of net position.

(i) Receivable from/Payable to Contractual Agencies

Harborview is reimbursed for Medicare inpatient, outpatient, psychiatric, and 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 Harborview until after the cost reports have been audited or otherwise reviewed and settled by Medicare.

Inpatient Medicaid covered services are reimbursed at "full cost" under the public hospital certified public expenditure (CPE) payment method. "Full cost" payments are determined, for interim payment purposes, using the Medicaid ratio of cost to charges ratio based on the Medicaid filed cost report. CPE payments are not considered final until retrospective cost reconciliation is completed, which occurs after Medicare has settled the corresponding cost report year.

The estimated settlement amounts for Medicare cost report and CPE payments that are not considered final are included in receivable from/payable to contractual agencies in the accompanying statement of net position.

(j) Classification of Revenues and Expenses

Harborview's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing healthcare services – Harborview's primary business. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values.

Operating expenses are all expenses, other than financing costs, incurred by Harborview to provide healthcare services to Medical Center patients.

Nonoperating revenues and expenses are recorded for certain exchange and nonexchange transactions. This activity includes investment returns, interest expense, intergovernmental transfer expense, and strategic funding of the UW Physicians Network dba UW Neighborhood Clinics (the Clinics).

(k) Net Patient Service Revenues

Harborview has agreements with third-party payers that provide for payments to Harborview at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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 final settlements are determined. A summary of the payment arrangements with major third-party payors is as follows:

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 (APCs). APC payments are prospectively established and may be greater than or less than the primary government's actual charges for its services. The Medicare program utilizes the prospective payment system known as case mix group (CMGs) for rehabilitation services reimbursement. As with MS-DRGs, CMG payments are prospectively established and may be greater than or less than Harborview's actual charges for its services. Geropsychiatric services are also paid prospectively using a federal per diem payment rate adjusted for comorbidity and various adjustment factors. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are provided at prospectively determined rates per discharge. Outpatient services rendered are provided based upon the APC prospective payment system.

Commercial

Harborview also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to Harborview under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(l) Charity Care

Harborview provides care without charge or at amounts less than established rates to patients who meet certain criteria under its charity care policy. Harborview maintains records to identify and monitor the level of charity care it provides. These records include charges foregone for services and supplies furnished under its charity care policy to the uninsured and the underinsured. Because Harborview does not pursue collection of amounts determined to qualify as charity care, these are not reported as net revenue. The charges associated with charity care and uncompensated care provided by the Hospital were approximately $219.1 million and $210.1 million, respectively, for the years ended June 30, 2013 and 2012.

Harborview estimates the cost of charity care using its Medicaid cost to charge ratio of 43.4 percent and 45.4 percent for the fiscal years ended June 30, 2013 and 2012, respectively. Applying Harborview's Medicaid cost to charge ratio of 43.4 percent to total charity of $219.1 million results in an estimated cost of charity care and uncompensated care of $95.1 million for the fiscal year ended June 30, 2013. Applying Harborview's Medicaid cost to charge ratio of 45.4 percent to total charity of $210.1 million results in an estimated cost of charity care and uncompensated care of $95.4 million for the fiscal year ended June 30, 2012.

(m) Federal Income Taxes

Harborview, as a component of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code, except for unrelated business income tax.

(n) Reclassifications

Certain 2012 account balances have been reclassified to conform to the 2013 presentation format.

(o) New Accounting Pronouncements

In December 2010, GASB issued Statement No. 61 (GASB 61), The Financial Reporting Entity: Omnibus, which amended the reporting standards for reporting component units in a government's financial statements. This standard was effective for fiscal year 2013. The adoption of GASB 61 did not have a material impact on Harborview's financial statements.

In December 2010, GASB issued Statement No. 62 (GASB 62), Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. That statement supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting and Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This standard was effective for fiscal year 2013. The adoption of GASB 62 did not have a material impact on Harborview's financial statements.

In June 2011, GASB issued Statement No. 63 (GASB 63), Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which changes how governments organize their statements of financial position. This standard was effective for fiscal year 2013. The adoption of GASB 63 resulted in the establishment of net position, which was previously entitled net assets. Additionally, Harborview transactions were evaluated against the criteria for Deferred Outflows of Resources and Deferred inflows of Resources; however, no transactions were considered to meet the criteria for reporting under these categories.

In June 2011, GASB issued Statement No. 65 (GASB 65), Items Previously Reported as Assets and Liabilities, which specifically identifies transactions qualifying for Deferred Outflows of Resources and Deferred Inflows of Resources reporting, as required in GASB 63. This standard is effective for fiscal year 2014. Harborview is currently analyzing the financial statement impact of this statement in conjunction with the University.

In June 2012, GASB issued Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions, which requires governments providing defined benefit pensions to their employees to recognize their long-term obligation for pension benefits as a liability for the first time, along with the associated assets which have been set aside to fund the plan. The standard is effective for fiscal year 2015. Harborview is currently analyzing the financial statement impact of this statement in conjunction with the University.

(3) Net Patient Service Revenues

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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. In 2013 and 2012, net patient service revenue includes approximately \$7.7 million and \$11.5 million of revenue, respectively, relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including DSH reimbursement and the CPE Program.

The following are the components of net patient service revenues for the year ended June 30 (in thousands):

		2013	2012
Patient service revenues	$	1,785,910	1,640,219
Less adjustments to patient service revenues			
Charity		(219,080)	(210,090)
Contractual discounts		(796,397)	(676,475)
Provision for uncollectible accounts		(46,135)	(51,324)
Total adjustments to patient service revenues		(1,061,612)	(937,889)
Net patient service revenues	$	724,298	702,330

Harborview grants credit without collateral to its patients, most of whom are local residents and insured under third-party payer agreements. The mix of gross patient charges and receivables from significant third-party payers for the years ended June 30, 2013 and 2012 was as follows:

	Patient service charges	Accounts receivable
2013:		
Medicare	28%	26%
Medicaid	24%	23%
Commercial and other	36%	41%
Self pay	12%	10%
Total	100%	100%
2012:		
Medicare	27%	22%
Medicaid	22%	22%
Commercial and other	39%	46%
Self pay	12%	10%
Total	100%	100%

(Continued)

(a) Medicaid Certified Public Expenditure Reimbursement

Public hospitals located in the State of Washington that are not certified as critical access hospitals are reimbursed at the "full cost" of Medicaid 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 claim will be allowed federal match on the amount of the related certified public expenditures. The payment method pays only the federal match portion of the allowable claims. Harborview received $66.8 million and $60.2 million in claims payments under this program for the years ended June 30, 2013 and 2012, respectively.

In addition, Harborview receives the federal match portion of Disproportionate Share (DSH) payments, which are the lesser of qualifying uncompensated care cost or the hospital's specific limit. Harborview received $44.6 million and $48.3 million in DSH funding under this program for the years ended June 30, 2013 and 2012, respectively.

To meet legislative requirements, the Washington State Legislature (the State) includes a "hold harmless" provision for eligible hospital providers under the CPE program. Hospitals eligible for CPE payments 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. Harborview received $7.0 million and $3.4 million in state grants for the years ended June 30, 2013 and 2012, respectively. 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 Harborview's Medicare Cost Report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete, after Harborview receives its Medicare Notice of Program Reimbursements (NPR) for the corresponding cost reporting year. To date, no CPE program year has had a final settlement.

Interim state grant payments are retrospectively reconciled to "hold harmless" after actual claims are re-priced using the applicable methods. This process takes place approximately 6 months after the end of the fiscal year and results in either a payable to, or receivable from, the state Medicaid Program. Harborview has estimated the expected final settlement amounts based on the difference between CPE payments received and the estimated hold harmless amount. For the years ended June 30, 2013 and 2012, net patient service revenue includes approximately ($2.4) million and $8.6 million, respectively, of additional revenue (expense) relating to the prior year's estimate.

As of June 30, 2013, Harborview had an estimated payable of $14.6 million and an estimated receivable of $8.7 million for the CPE program, which is included in payable to contractual agencies and receivable from contractual agencies, respectively. As of June 30, 2012, Harborview had an estimated payable of $6.0 million for the CPE program, which is included in payable to contractual agencies in the accompanying statement of net position.

(b) Professional Services Supplemental Payment (PSSP) Program

The professional services supplemental payment (PSSP) program is a program managed by the Washington State Health Care Authority benefiting certain public hospitals. Under the program, Harborview, UW Medical Center, UW Physicians (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. Harborview and UW Medical Center provide the nonfederal share of the supplemental payments that will be used to obtain the matching federal funds.

Harborview recorded $6.8 million and $10.7 million for the years ended June 30, 2013 and 2012, respectively in supplemental payments, via Intergovernmental Transfers (IGT) to DSHS related to professional claims paid in those fiscal years, which is included in nonoperating revenue (expenses) in the statement of revenue, expenses, and changes in net position.

DSHS used the hospital supplemental payments and federal match funds to make professional services payments to UW Medicine entities. Harborview received $2.0 million and $3.1 million in supplemental payments for the years ended June 30, 2013 and 2012, respectively. These payments are included in net patient service revenues in the statements of revenue, expenses, and changes in net position.

There is no requirement that UWP and CUMG PSSP payments be returned to Harborview and UW Medical Center as a condition for making the IGT's; however, net proceeds from the program will be used by UW Medicine to support faculty costs thus reducing the amount of faculty support required by the hospitals. Harborview faculty support was reduced by $9.5 million and $13.7 million in fiscal years 2013 and 2012, respectively, as a result of the increased professional fee reimbursement to UWP arising from PSSP in fiscal year 2013. This reduction is included as an offset to supplies and other expenses in the statements of revenue, expenses, and changes in net position.

In July 2014, the Washington State Health Care Authority (WSHCA) submitted a plan amendment to the Center for Medicare and Medicaid Services (CMS) to expand the program to Medicaid managed care services. Due to proposed changes in the program the WSHCA has elected to hold all PSSP assessments and payments pertaining to dates of service after July 1, 2014 until CMS has approved the plan amendment which will be retroactively applied to July 1, 2014.

(c) Hospital Safety Net Program

The Hospital Safety Net Assessment Act uses federal matching funds to increase hospital payments across the State in order to mitigate significant budget cuts made to hospitals during the 2009 session of the state legislature. The current legislation expired on June 30, 2013.

Under this program, most Washington State hospitals are assessed a fee on all non-Medicare patient days. This fee is collected by the State and the State then uses these funds to obtain new federal Medicaid matching funds. Hospitals receive increased Medicaid rates to cover the assessments they paid and to restore a portion of the cuts enacted during the 2009 legislative session.

Harborview is exempt from the assessment as the hospital is operated by an agency of the state government and also participates in the CPE program.

Harborview received increased reimbursements of $11.7 and $10.4 million under this program for the years ended June 30, 2013 and 2012, respectively. These payments are included in net patient service revenues in the statements of revenue, expenses, and changes in net position.

In July 2014, the WSHCA submitted a plan amendment to CMS to extend the provisions of the Safety Net Assessment Act to July 2017. The WSHCA has elected to hold all Safety Net assessments and payments pertaining to dates of service after July 1, 2014 until CMS has approved the plan amendment which will be retroactively applied to July 1, 2014.

(d) Meaningful Use Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments to eligible professionals and hospitals participating in Medicare and Medicaid programs that adopt certified electronic health records (EHRs) but only if the technology is being used in a “meaningful” way that supports the ultimate goals of improving quality, safety, and efficiency of care. “Meaningful use” is defined with specific quality performance metrics for eligible healthcare professionals and hospitals and certain thresholds must be met and maintained to receive payment.

Harborview recorded meaningful use incentives of $4.9 million and $9.0 million for the years ended June 30, 2013 and 2012, which are included in other operating revenues in the statements of revenue, expenses, and changes in net position. Harborview has a related receivable of $1.0 million and $2.6 million as of June 30, 2013 and 2012, respectively, recorded within the other receivables on the statements of net position. These amounts may be subject to future audits.

(e) Other Federal and State Funding

As a regional trauma center Harborview was eligible for additional State funding in both 2013 and 2012 through the Trauma Enhancement program. Participating hospitals receive a pro-rata share of the pool appropriated for this program based on their portion of total inpatient and outpatient Medicaid claims submitted. Harborview received $9.4 million for each of the years ended June 30, 2013 and 2012. In addition to the funding received through the Trauma Enhancement program Harborview received State sponsored trauma grants in the amount of $1.5 and $2.0 million for the years ended June 30, 2013 and 2012, respectively. Funds from both programs are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

(4) State Appropriation

An appropriation is made by the State to the University on a biennial basis. Harborview is designated as a division of the major program "hospitals" included within the total appropriation. This appropriation is specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. Due to the nature of the designation, these amounts are included in operating revenues in the accompanying statements of revenues, expenses, and changes in net position. Harborview received $6.0 million in each of the fiscal years ended June 30, 2013 and 2012, respectively.

(5) Capital Assets

The activity in Harborview's capital asset and related accumulated depreciation accounts for the years ended June 30, 2013 and 2012 is set forth below (in thousands):

		Balance June 30, 2012	Additions	Transfers	Retirements	Balance June 30, 2013
Capital assets, not being depreciated						
Land	$	1,586	—	—	—	1,586
Construction in process		8,746	12,467	(7,869)	—	13,344
Total capital assets, not being depreciated		10,332	12,467	(7,869)	—	14,930
Capital assets, being depreciated						
Land improvements		5,083	—	255	—	5,338
Buildings, renovations and furnishings		394,126	—	6,573	—	400,699
Fixed equipment		143,115	—	33	(43)	143,105
Movable equipment		253,280	15,479	960	(3,804)	265,915
Leasehold improvements		9,108	—	48	—	9,156
Total capital assets, being depreciated		804,712	15,479	7,869	(3,847)	824,213
Total capital assets at historical cost		815,044	27,946	—	(3,847)	839,143
Less accumulated depreciation for:						
Land improvements		(1,682)	(315)	—	—	(1,997)
Buildings, renovations and furnishings		(147,956)	(13,566)	—	—	(161,522)
Fixed equipment		(108,396)	(5,756)	—	—	(114,152)
Movable equipment		(181,223)	(25,940)	—	3,517	(203,646)
Leasehold improvements		(2,381)	(604)	—	—	(2,985)
Total accumulated depreciation		(441,638)	(46,181)	—	3,517	(484,302)
Total capital assets, net	$	373,406	(18,235)	—	(330)	354,841

	Balance June 30, 2011	Additions	Transfers	Retirements	Balance June 30, 2012
Capital assets, not being depreciated					
Land	$ 1,586	—	—	—	1,586
Construction in process	7,860	11,257	(10,371)	—	8,746
Total capital assets, not being depreciated	9,446	11,257	(10,371)	—	10,332
Capital assets, being depreciated					
Land improvements	5,029	—	54	—	5,083
Buildings, renovations and furnishings	391,951	—	2,175	—	394,126
Fixed equipment	142,904	—	148	63	143,115
Movable equipment	238,653	11,085	7,977	(4,435)	253,280
Leasehold improvements	9,098	—	17	(7)	9,108
Total capital assets, being depreciated	787,635	11,085	10,371	(4,379)	804,712
Total capital assets at historical cost	797,081	22,342	—	(4,379)	815,044
Less accumulated depreciation for:					
Land improvements	(1,368)	(314)	—	—	(1,682)
Buildings, renovations and furnishings	(134,357)	(13,599)	—	—	(147,956)
Fixed equipment	(102,357)	(5,984)	—	(55)	(108,396)
Movable equipment	(160,728)	(24,795)	—	4,300	(181,223)
Leasehold improvements	(1,769)	(619)	—	7	(2,381)
Total accumulated depreciation	(400,579)	(45,311)	—	4,252	(441,638)
Total capital assets, net	$ 396,502	(22,969)	—	(127)	373,406

Capital assets, net include intangible assets, net of accumulated depreciation of $11.9 million and $9.6 million as of June 30, 2013 and 2012, respectively.

(6) Board-Designated and Restricted Assets

(a) Assets Whose Use is Limited

Assets whose use is limited consist of the following, as of June 30 (in thousands):

		2013	2012
Board-designated assets:			
Pooled investments managed by King County	$	87,518	93,761
Receivables and other		181	180
Property held for future use, at cost, less accumulated depreciation		2,718	2,718
Total board-designated assets		90,417	96,659
Restricted cash and investments:			
Investments restricted for capital by King County		14,037	14,126
Investments restricted by donor		9,426	10,949
Total restricted assets		23,463	25,075
Total assets whose use is limited	$	113,880	121,734

(b) Board-Designated Assets

Certain assets listed above have been designated by the Trustees for specific purposes. These assets comprise cash, cash equivalents, and other. The assets by designated purpose are as follows as of June 30 (in thousands):

		2013	2012
Commuter service fund	$	9,886	8,452
Self-insurance fund		1,164	1,157
Walter Scott Brown property		2,718	2,718
Equipment fund		28,686	33,794
Building repair and replacement fund		18,276	21,012
Capital program reserves		29,687	29,526
Total	$	90,417	96,659

(c) Investments Restricted for Capital and by Donor

Investments restricted for capital comprise investments held in an external investment pool, managed for Harborview by the County and are $14.0 million and $14.1 million for the years ended June 30, 2013 and 2012, respectively. These investments represent unspent bond proceeds, required capital funding, and accumulated interest earnings. Access to these investments is restricted by the County for designated capital projects.

Investments restricted by donor represent assets whose use is restricted by grantors, or contributors external to Harborview and are $9.4 million and $10.9 million as of June 30, 2013 and 2012, respectively. These investments consist of pooled investment funds of money markets, U.S. agency securities, U.S. agency mortgage-backed securities, U.S. treasury, U.S. municipal and collaterized mortgaged obligations, and are carried at market value.

(7) Noncurrent Liabilities

Long-term debt, reported as part of noncurrent liabilities, consists of the following as of June 30 (in thousands):

		2013	2012
2006A Limited Tax General Obligation Refunding Bonds of King County, 5.0%; annual principal payments ranging from $540 to $695 through 2017, including premium of $13 as of June 30, 2013	$	2,592	3,147
2010A Limited Tax General Obligation Refunding Bonds of King County, 3.0% to 5.0%, annual principal payment ranging from $125 to $170 through 2021		1,210	1,335
2009D Limited Tax General Obligation Refunding Bonds of King County, 3.0%; annual principal payments ranging from $114 to $119 through 2012		—	116
Total long-term debt		3,802	4,598
Less current portion		(705)	(784)
Total long-term debt, net of current portion	$	3,097	3,814

(a) Long-term Debt Overview

King County issues debt on behalf of Harborview to meet operating and capital needs. The County carries the debt and is responsible for meeting the associated debt covenant requirements. Harborview carries its obligation to the County as long-term debt on its balance sheet and makes payments to the County to cover debt service costs. The following is a summary of current outstanding obligations issued on behalf of Harborview.

Series 2006 Bond Issue

The 2006A Limited Tax General Obligation (LTGO) Refunding Bonds were issued on December 14, 2006 for the purpose of advance refunding and defeasing the Limited Tax General Obligation Refunding Bonds, 1996A and 1997G. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. The bonds were deemed defeased upon deposit with the escrow agent.

Series 2010 Bond Issue

The 2010A Limited Tax General Obligation (LTGO) Refunding Bonds were issued on October 18, 2010 for the purpose of advance refunding and defeasing the Limited Tax General Obligation Refunding Bonds, 2001. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. The bonds were deemed defeased upon deposit with the escrow agent.

Series 2009 Bond Issue

The 2009D Limited Tax General Obligation (LTGO) Refunding Bonds were issued on December 10, 2009 for the purpose of advance refunding and defeasing the Limited Tax General Obligation Refunding Bonds, 1999 Series A. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. The bonds were deemed defeased upon deposit with the escrow agent.

(b) Long-Term Debt Maturities

The following schedule shows debt service requirements for the next five years and thereafter, as of June 30, 2013, using the fixed interest rates, for both principal and interest (in thousands):

		Principal	Interest	Total
2014	$	705	166	871
2015		755	136	891
2016		805	98	903
2017		840	65	905
2018		150	26	176
2019 - 2021		490	40	530
Total Payments		3,745	531	4,276
Less current portion		(705)	(166)	(871)
Add unamortized premiums and loss on refunding, net		57	—	57
Long-term debt, net of current portions	$	3,097	365	3,462

(c) Changes in Noncurrent Liabilities

Changes in noncurrent liabilities during the fiscal years ended June 30, 2013 and 2012 are summarized below (in thousands):

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Due Within One Year
Long-term liability to King County related to:					
2009D LTGO Bonds	116	—	(116)	—	—
2006A LTGO Bonds	3,147	—	(555)	2,592	575
2010A LTGO Bonds	1,335	—	(125)	1,210	130
Unearned rent and other	16,091	407	(708)	15,790	704
Total noncurrent liabilities	$ 20,689	407	(1,504)	19,592	1,409

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Due Within One Year
Long-term liability to King County related to:					
2001 LTGO Bonds	$ 120	—	(120)	—	—
2009D LTGO Bonds	222	—	(106)	116	116
2006A LTGO Bonds	3,672	—	(525)	3,147	543
2010A LTGO Bonds	1,460	—	(125)	1,335	125
Unearned rent and other	16,783	12	(704)	16,091	704
Total noncurrent liabilities	$ 22,257	12	(1,580)	20,689	1,488

(8) Risk Management

Harborview is exposed to risk of loss related to professional and general liability, employee medical, dental and pharmaceutical claims, and injuries to employees. Harborview participates in risk pools managed by the University to mitigate risk of loss related to these exposures.

(a) Professional and General Liability

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components. Harborview's annual funding to the professional liability program is determined by the University administration using information from an annual actuarial study. The actuary used a discount rate of 5.5 percent for both 2013 and 2012 in recognition of the expected earnings of the self-insurance fund. In addition to the University, the participants in the professional liability program include Harborview, UWP, CUMG, the Clinics, School of Dentistry, Airlift, Northwest Hospital, and UW Medical Center. The various participants in the program contribute to the self-insurance fund and share in the expenses of the Health Sciences Risk Management Office.

Harborview's contribution to the professional liability program was $2.9 million and $2.7 million in 2013 and 2012, respectively, recorded in the supplies and other on the statements of revenues, expenses, and changes in net position.

(b) Employee Medical and Workers' Compensation

The University pools employee benefit costs, including employee medical and workers' compensation, for all University employees. Departments, divisions and affiliated organizations with employees covered under University benefit programs are charged a single benefit rate, based on employee salary class.

Harborview, as an affiliated organization with employees covered under University benefit programs, participates in the benefit pool. See further discussion in footnote 9.

(9) Benefit costs

Benefit costs are pooled centrally for all University employees. Annually the University reviews total employee benefit costs and prepares standard benefit load rates by employment classification. Departments, divisions, agencies, component units and related parties of the University that have University employees qualifying for employee benefit coverage are charged a cost allocation using the determined benefit load rate and budgeted salary dollars by employment classification. All funding of obligations are on a pay-as-you-go basis. At the end of the reporting period the cost allocation is compared to actual benefit costs and differences between actual and budgeted costs are included as a component of the benefit load rates charged in the following year. The University retains all outstanding liabilities related to these programs.

Employee benefits covered under the benefit pool include the following:

- Workers' compensation
- Unemployment compensation
- Employee medical, dental and vision
- Retirement and other postretirement benefit plans
- Social security
- Medicare
- Separation leave

During the fiscal years ended June 30, 2013 and 2012, Harborview incurred and paid \$115.7 million and \$102.6 million to the University for all of the employee benefits listed above, which is recorded as employee benefits on the statements of revenues, expenses, and changes in net position.

Retirement and Other Postretirement Benefit Plans

Harborview employees can participate in the following state and University sponsored retirement and other postretirement benefit plans:

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

The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Funding obligations are measured at the University level and the University allocates expense to departments, divisions, agencies and component units through the benefit load.

Based on the University's benefit load apportionment Harborview incurred and paid \$20.2 million and \$14.3 million in fiscal years 2013 and 2012, respectively, related to annual PERS funding, which is recorded in employee benefits on the statements of revenues, expenses, and changes in net position.

University of Washington Retirement Plan (UWRP) – UWRP 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. RCW 28B.10.400 et. Seq. assigns the authority to the University of Washington Board of Regents to establish and amend benefit provisions.

Funding is determined by employee age and ranges from 5 percent to 10 percent 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.

Based on the University's benefit load apportionment Harborview incurred and paid $5.5 million and $5.3 million in fiscal years 2013 and 2012, respectively, related to annual UWRP funding, which is recorded in employee benefits on the statements of revenues, expenses, and changes in net position.

University of Washington Supplemental Retirement Plan (the 401(a) Plan) – The 401(a) Plan provides for a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each eligible participant's retirement date. The University makes direct payment to qualifying retirees when the retirement benefits provided by UWRP do not meet the benefit goals.

The University receives an independent actuarial valuation to determine funding needs for the supplemental payment component of UWRP. The funding obligation is determined at the University level and the University allocates expense to departments, divisions, agencies and component units through the benefit load.

Based on the University's benefit load apportionment Harborview incurred and paid $2.6 million and $2.2 million in fiscal years 2013 and 2012, respectively, related to annual 401(a) Plan funding, which is recorded in employee benefits on the statements of revenues, expenses, and changes in net position.

Other Post-Employment Benefits – All University employees, including medical center employees, are eligible for participation in health care and life insurance programs administered by the WSHCA. Harborview retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits based on their age and other demographic factors.

The Office of the State Actuary determines total OPEB obligations at the State level using individual state employee data, including age, retirement eligibility and length of service. Information to support actuarial calculations at the division, department or component unit level is not available. The State is ultimately responsible for the obligation; therefore, the annual required contribution (ARC) is not recorded at the University or its departments, divisions, agencies or component units.

(10) Related Parties

Harborview is a discretely presented component unit of King County and a member of UW Medicine, a network of healthcare organizations owned or operated by the University of Washington. Other members of UW Medicine include UW Medical Center, Northwest Hospital and Medical Center (Northwest Hospital), Valley Medical Center (VMC), UW Physicians Network dba UW Medicine Neighborhood Clinics (the Clinics), UW Physicians (UWP), the UW School of Medicine (the School) and Airlift Northwest (ALNW).

Harborview has engaged in a number of transactions with related parties. These transactions are recorded by Harborview as either revenue or expense transactions because economic benefits are either provided or received by Harborview. Harborview records cash transfers between Harborview and related parties that are not the result of economic benefits and are presented as governmental transfers within net position.

(a) University of Washington

University divisions provide various levels of support to Harborview. The following is a summary of services purchased.

UW School of Medicine

Harborview purchases a variety of clinical and administrative services from the school. For example, Harborview purchases laboratory services from the school and Harborview pays a portion of residents and faculty salaries for clinical and administrative support at Harborview. Harborview also transfers a portion of its Medicare reimbursement for medical education to the school in support of teaching costs. The amounts paid for these services are shown below (see (c)).

Chief Health System Officer/Vice President of Medical Affairs

The office of the Chief Health System Officer/Vice President of Medical Affairs (VPMA) provides services to Harborview such as news and community relations staffing, medical staff oversight, marketing, information systems and other administrative services. The amounts paid by Harborview for these services are shown below (see (c)).

University of Washington Consolidated Laundry

The University of Washington Consolidated Laundry (the Laundry) provides laundry services to Harborview, UW Medical Center, the Veteran's Administration, Swedish Edmonds, Skagit Valley Hospital, UW, Northwest Hospital, and the Clinics.

Harborview purchases laundry services from the Laundry and the amounts purchased are shown below (see (c)).

UW Physicians Network dba UW Neighborhood Clinics

Under an annual agreement with the School, Harborview subsidizes approximately 15 percent of the Clinic's annual operating loss and capital funding needs. Funding from Harborview to the Clinics was $3.0 million and $2.2 million for fiscal years 2013 and 2012, respectively, and is recorded as a nonoperating expense in the statements of revenues, expenses, and changes in net position.

The amounts for these subsidies are shown below. Also included are payments made to the Clinics for specific services provided to Harborview. The amounts for these transactions are shown below (see (c)).

Other Divisions of the University

In addition to the divisions and transactions identified above, Harborview purchases general and professional liability insurance, printing, accounting, temporary staffing, and other administrative and operational services. The amounts for these transactions are shown below (see (c)).

(b) King County

The County holds all investment funds on behalf of Harborview. The County also processes all payments to vendors outside of the University Divisions. Additional detail describing Harborview's position within the County is provided in note 1.

Harborview has agreed to provide space and services on behalf of the County for certain grants and contracts, for which they receive rental income and grant revenue from the County. Additionally, Harborview has long-term debt contracts with the County in the form of General Obligation Bonds. The terms of these agreements are described in more detail in note 7.

(c) Summary of Related-Party Transactions (in thousands):

Revenue (expense) transactions		2013	2012
Services and supplies purchased from and funding provided to the University of Washington and Affiliates			
The School	$	(49,467)	(40,169)
VPMA		(8,577)	(7,383)
The Laundry		(3,161)	(3,194)
The Clinics		(3,010)	(2,274)
UWP		(266)	(13)
UW Medical Center		(2,601)	(1,961)
Other University divisions and departments		(1,895)	(2,256)
Services provided to the University of Washington and Affiliates			
The School		7,011	6,741
The Clinics		—	111
SCCA		639	670
UW Medical Center		2,127	1,881
ALNW		125	125
Other University divisions and departments		27	9
Services provided to King County		11,581	10,543

Harborview had net amounts (due to) due from related parties for various transactions which are included in funds held by UW, patient accounts receivable, other receivables, other current assets, accrued salaries, wages and employee benefits, payable to UW, and long-term debt in the accompanying statement of net position. The net amounts (due to) due from related parties as of June 30, 2013 and 2012, respectively are as follows (in thousands):

Net receivable (payable)		2013	2012
University of Washington and Affiliates			
The School	$	535	(2,705)
VPMA		—	59
The Laundry		(251)	(246)
The Clinics		274	(77)
SCCA		38	94
UWP		235	43
UW Medical Center		480	552
ALNW		1,906	1,937
Northwest Hospital		175	44
VMC		21	54
Other University divisions and departments		(24,313)	(26,844)
King County		109	(1,472)

(11) Commitments and Contingencies

(a) Operating Leases

Harborview leases certain medical office space and equipment under operating lease arrangements. Total rental expense in years ended June 30, 2013 and 2012 for all operating leases was $17.9 million and $18.8 million, respectively.

The following schedule shows future minimum lease payments by fiscal year as of June 30, 2013 (in thousands):

2014	$	2,066
2015		1,502
2016		1,401
2017		699
2018		603
Thereafter		1,385
	$	7,656

(b) Purchase Commitments

Harborview has current commitments at June 30, 2013 of $19.8 million related to various construction projects, equipment purchases and information technology implementations. Harborview intends to use its unrestricted funds for these commitments.

(c) 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. Management believes that Harborview is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. 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.

(d) Litigation

Harborview is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect to Harborview's future financial position or results of operations.

(e) Collective Bargaining Agreements

Harborview has a total of approximately 4,763 employees. Of this total, approximately 74 percent are covered by collective bargaining agreements as of June 30, 2013 and 2012. Nurses are represented by the Service Employees International Union and other healthcare and support workers are represented by the Service Employees International Union and Washington Federation of State Employees. All Harborview collective bargaining agreements expire on June 30, 2015.

(f) Patricia Bracelin Steel Building

The Patricia Bracelin Steel building (PSB) is a five-story building containing 156,800 square feet of office space with related parking. The building is primarily occupied by Harborview. Prior to December 2012 the County leased PSB from Broadway Office Properties (BOP) and instructed Harborview, through County Ordinance, to budget funds, annually, to make rental payments under the lease. The lease agreement with BOP provided the County an option to terminate the lease agreement and purchase the building for total outstanding principal on monthly rent payments beginning on or after December 1, 2012.

In December 2012, the County exercised its option to purchase the building from BOP. To fund the purchase of the building the County issued Limited Tax General Obligation debt. The County has instructed Harborview to budget funds, annually, to make payments due under the Limited Tax General Obligation debt. As the financial obligations of the Limited Tax General Obligation debt remain the responsibility of the County, Harborview accounts for the debt payments as rental expense. Lease payments were approximately $3.4 and $4.3 million for the years ended June 30, 2013 and 2012, respectively.

(g) Ninth and Jefferson Building

The Ninth & Jefferson Building, a 14-story medical office building with approximately 440,000 square feet, including 13,300 square feet of retail space, and five levels of underground parking, is located at 908 Jefferson Street in Seattle. The building was completed in January 2010 and several Medical Center departments now occupy the building.

On September 28, 2006, the Trustees passed a resolution in support of the Ninth & Jefferson Building under the 63-20 financing model. The building owner and lessor is Ninth & Jefferson Building Properties; however, the land upon which the building is constructed is owned by the County and leased to Ninth & Jefferson Building Properties under a ground lease, dated November 1, 2006. The County has entered into a lease with Ninth & Jefferson Building Properties for the building with a 30-year term. The lease qualifies for capital lease treatment and as such, the building asset and related lease obligation are recorded by the County based upon the terms of the agreement.

The County Council has directed the Trustees to budget funds, annually, to make the rental payments due under the lease. As the financial obligations of the lease remain the responsibility of the County, Harborview accounts for these rental payments as rental expense. Lease expense was approximately $12.7 million for the years ended June 30, 2013 and 2012. If Harborview continues to occupy this space, annual lease expense will not differ significantly from the amount recognized in 2013.

(12) Healthcare Reform

As enacted, the Health Reform Law will change how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital (DSH) payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Further, it provides for a value-based purchasing program, the establishment of accountable care organizations (ACOs) and bundled payment pilot programs, which may create sources of additional revenue. On June 28, 2012, the United States Supreme Court upheld the constitutionality of the individual mandate provisions of the Health Reform Law but struck down the provisions that would have allowed Health and Human Services (HHS) to penalize states that do not implement the Medicaid expansion provisions with the loss of existing federal Medicaid funding. States that choose not to implement the Medicaid expansion will forego funding established by the Health Reform Law to cover most of the expansion costs. The State of Washington has elected to implement Medicaid expansion in order to take advantage of all opportunities associated with healthcare reform. A Healthcare Cabinet has been established by the State of Washington and has been tasked with implementing the policies and rules necessary to carry out healthcare reform statewide for all affected state agencies. On October 1st, 2013, the Washington Health Benefit Exchange began open enrollment for Washington State residents through Washington Healthplanfinder. The insurance exchange, coupled with penalties for individuals electing to not obtain health insurance and subsidies for individuals meeting certain income thresholds, will result in reductions in uninsured and underinsured patients and significantly change hospital payor mix. The reduction of uninsured and underinsured patients will also have an impact on Medicare and Medicaid Disproportionate Share (DSH) reimbursement methodologies. Harborview has not yet determined the financial impact that this legislation might cause as further provisions become effective.

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

FINANCIAL REPORT

JUNE 30, 2013

C O N T E N T S

petersonsullivan LLP
Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
University of Washington
Seattle, Washington

We have audited the accompanying financial statements of the University of Washington Metropolitan Tract, which comprise the statements of assets, liabilities, and net position as of June 30, 2013 and 2012, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes assessing the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Correction of Error

As described in Note 13 to the financial statements, certain errors resulting in understatement of amounts previously reported for accumulated depreciation as of June 30, 2012, were discovered by management of the University of Washington Metropolitan Tract during the current year. Accordingly, amounts reported for accumulated depreciation have been increased by a restatement in the 2012 financial statements now presented, and an adjustment has been made to reduce net position as of July 1, 2011, to correct the error. The error correction also reduced the net position as of June 30, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the University of Washington Metropolitan Tract. The detail of property on page 20 is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The details of property on page 20 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Peterson Sullivan LLP

September 27, 2013

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington's ("the University") investment in the University of Washington Metropolitan Tract ("Metropolitan Tract") for the fiscal years ended June 30, 2013 and 2012. The Metropolitan Tract is a portfolio of real estate assets located in downtown Seattle on approximately 11 acres of land. The Metropolitan Tract improvements consist of approximately 1.5 million square feet of office space, 200,000 square feet of retail space, 92 residential apartments, nearly 2,000 parking stalls, and a 450-room luxury hotel. This discussion has been prepared by the University's Real Estate Office ("management") and should be read in conjunction with the financial statements and accompanying notes which follow this section.

Overview of the Financial Statements

The University's financial report of the Metropolitan Tract includes three financial statements: the Statements of Assets, Liabilities, and Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows.

The Statements of Assets, Liabilities, and Net Position (Balance Sheets) present the financial condition of the Metropolitan Tract at the end of the last two fiscal years and report all assets and liabilities. The Statement of Revenues, Expenses, and Changes in Net Position represents the operating performance of the Metropolitan Tract for the last two fiscal years and the resulting impact on the net position.

A summarized comparison of the Metropolitan Tract's assets, liabilities, and net position as of June 30, 2013 and 2012, is as follows:

Statements of Assets, Liabilities, and Net Position

	2013	2012	% Change
ASSETS:			
Cash	$ 17,954,358	$ 12,940,916	38.7%
Other Current Assets	3,056,288	2,939,684	4.0 %
Total Current Assets	21,010,646	15,880,600	32.3%
Property	246,114,965	241,373,085	2.0%
Less Accumulated Depreciation and Amortization	(146,349,891)	(137,614,376)	6.3%
Other Assets	4,451,617	3,837,262	16.0 %
Total Long-Term Assets	104,216,691	107,595,971	(3.1)%
TOTAL ASSETS	$125,227,337	$123,476,571	1.4 %
LIABILITIES:			
Current Liabilities	$ 12,766,156	$ 11,644,150	9.6%
NET POSITION			
Invested in capital assets	99,765,074	103,758,709	(3.8)%
Unrestricted	12,696,107	8,073,712	57.3 %
Total Net Position	112,461,181	111,832,421	0.6 %
TOTAL LIABILITIES AND NET ASSETS	$ 125,227,337	$ 123,476,571	1.4 %

Current assets consist primarily of cash and a receivable balance due from Unico. Total current assets increased by 32.3% to $21.0 million at June 30, 2013. The University's cash position increased during the current fiscal year as cash generated from operating activities exceeded investment in capital and tenant improvements and the annual distribution to the University.

The University records other assets, which consist of deferred rent receivable and capitalized software costs. Deferred rent receivable results from the straight-line recognition of revenue on the Rainier Tower Sublease. Total deferred rent and other non-current assets as of June 30, 2013 and 2012, were $2,354,877 and $2,460,247, respectively.

Net property decreased by 4.0% or $4.0 million as depreciation outpaced net capital and tenant improvement investment of $4.7 million.

The difference between total assets and total liabilities – net position, or "equity" – is one indicator of the current financial condition of the Metropolitan Tract. As of June 30, 2013, assets exceeded liabilities by $112.5 million, a $.6 million increase compared to June 30, 2012. The largest portion of net position is held in the investment of property and buildings. Total property assets decreased as depreciation exceeded funds reinvested into the properties. Cash balances increased $5 million due to income provided from operations offset by the annual distribution to the University Building Fund of $8 million. Current liabilities increased by 9.3% due to the timing of payables.

As part of the Unico lease, Unico prepares a rolling five-year capital improvement budget which is a continuation of a program initiated in 2000. The budget includes both capital projects intended to enhance the value or increase the useful life of the property as well as tenant improvements made either to accommodate needs of a specific tenant or to improve space to attract new tenants. Capital projects by Unico conducted on the Metropolitan Tract during the current year totaled $2.5 million. In addition, the University funded tenant improvements related to leasing on the Metropolitan Tract of $2.2 million.

In 2004, the University obtained a variable rate credit line in the amount of $25 million. This credit line enables the University to continue to make planned capital improvements to the Metropolitan Tract buildings if cash flow is insufficient, and it provides financial flexibility to meet unanticipated capital repairs. The credit line, which had an initial termination date of June 30, 2009, was amended and extended in June 2011, 2012, and 2013. The most recent amendment reduced the credit line to $8.5 million. The current credit line expires on June 30, 2014. As of June 30, 2013 and 2012, the outstanding balance on the line of credit was $8.5 million. As of June 30, 2013, the effective interest rate on the line of credit was approximately 1.70%, which is based on six-month LIBOR plus 125 basis points.

A summarized comparison of the Metropolitan Tract's revenues, expenses, and changes in net position for the years ended June 30, 2013 and 2012, is as follows:

Statements of Revenues, Expenses, and Changes in Net Position

	2013	2012	% Change
Operating Revenues			
Total operating revenues	$ 30,671,094	$ 29,725,979	3.2%
Operating Expenses			
Total operating expenses	14,340,828	13,871,025	3.4%
Operating income before depreciation	16,330,266	15,854,954	3.0 %
Depreciation and amortization	8,810,981	8,736,171	0.9 %
Net operating income	7,519,285	7,118,783	5.6 %
Other revenues and expenses	105,845	(9,496)	
Transfers from UW Real Estate Office	1,003,630		
Distribution to University Building Fund	(8,000,000)	(8,000,000)	
Changes in net position	628,760	(890,713)	
Total Net Position			
Beginning of year	111,832,421	112,723,134	
End of year	$ 112,461,181	$ 111,832,421	

Operating revenues increased by 3.2% to $30.7 million for the fiscal year ended June 30, 2013, compared to $29.7 million for the prior year. Percentage rent from office and retail space in the Unico lease increased to $15.8 million in 2013 compared to $15.3 million in 2012. Hotel rental income (not including expense reimbursements) to the Metropolitan Tract increased from $3.4 million in 2012 to $3.6 million in 2013; an increase of 6%.

Operating expenses increased by 3.4% as a result of increased leasehold excise taxes and higher operating expenses for the Rainier Tower sublease.

Depreciation and amortization expenses increased by .9% to $8.8 million for the fiscal year ended June 30, 2013, compared to $8.7 million for the prior period. The increase resulted from continued investment into the fixed asset infrastructure of the Metropolitan Tract.

Other revenues and expenses, which primarily include interest income and expense, increased from $9,496 of expense in 2012 to $105,845 of income in 2013. The fluctuation resulted from an increase in interest income earned on cash funds invested by the University of Washington. Cash funds increased due to the timing of rent receipts combined with reduced expenses for building and tenant improvements.

Transfers from the UW Real Estate Office represent additional sources of revenue from the UW Real Estate Office for commissions and asset management fees. These funds are transferred to the Metropolitan Tract to cover a portion of the UW Real Estate Office expenses.

As in past years, $8.0 million was distributed to the Facilities Bond Retirement Account.

Summary

The Metropolitan Tract is a significant and valuable real property asset in downtown Seattle. The location and prominence of its buildings will provide long-term benefits to the University, provided that prudent management is undertaken by the leaseholders and appropriate investments are made in its maintenance, repair, and refurbishment. Challenges related to the age of the buildings and maintaining stable occupancy are being met through sustained focus on attracting and retaining quality tenants, continued implementation of the on-going capital improvement program, and repositioning opportunities that give life to old buildings such as the Cobb Building renovation – strategies that will result in a secure and productive investment for the University.

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENTS OF ASSETS, LIABILITIES, AND NET POSITION

June 30, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash held in trust	$ 576,435	$ 676,233
Funds held by the University	17,377,923	12,264,683
Due from Unico Properties LLC	2,255,856	2,172,350
Due from Fairmont Olympic Hotel	629,562	606,055
Other current assets	170,870	161,279
Total current assets	21,010,646	15,880,600
Property, net	99,765,074	103,758,709
Deferred costs, net	2,096,740	1,377,015
Deferred rent	2,103,325	2,133,229
Other assets	251,552	327,018
Total assets	$ 125,227,337	$ 123,476,571

LIABILITIES		
Current Liabilities		
Due to Unico Properties LLC	$ 2,335,382	$ 1,426,585
Leasehold excise tax payable	1,253,570	1,055,530
Line of credit	8,500,000	8,500,000
Deferred revenue	372,326	472,040
Deposits payable	147,836	147,836
Other current liabilities	157,042	42,159
Total current liabilities	12,766,156	11,644,150
NET POSITION		
Invested in capital assets	99,765,074	103,758,709
Unrestricted	12,696,107	8,073,712
Total net position	112,461,181	111,832,421
Total liabilities and net position	$ 125,227,337	$ 123,476,571

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Unico leases	$ 17,328,028	$ 16,673,608
Fairmont Olympic Hotel	4,374,923	4,140,901
Rainier Tower Sublease	8,625,702	8,569,029
Other operating revenue	342,441	342,441
Total operating revenues	30,671,094	29,725,979
Operating Expenses		
Leasehold excise taxes	2,747,687	2,567,920
Rainier Tower Sublease rent	6,988,923	6,815,849
UW Real Estate expenses	3,116,901	2,882,375
Real estate related costs	1,487,317	1,604,881
Total operating expenses	14,340,828	13,871,025
Operating income before depreciation and amortization	16,330,266	15,854,954
Depreciation	8,735,515	8,660,705
Amortization	75,466	75,466
Net operating income	7,519,285	7,118,783
Other Revenues (Expenses)		
Interest income	268,618	160,897
Loan maintenance fee	(2,602)	(11,163)
Interest expense	(160,171)	(159,230)
Total other revenues (expenses)	105,845	(9,496)
Net income	**7,625,130**	**7,109,287**
Transfers		
Transfers from UW Real Estate Office	1,003,630	
Distribution to University Building Fund	(8,000,000)	(8,000,000)
Total transfers	(6,996,370)	(8,000,000)
Change in net position	628,760	(890,713)
Total net position, beginning of year	111,832,421	112,723,134
Total net position, end of year	$ 112,461,181	$ 111,832,421

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Cash received from tenants and others	$ 30,494,270	$ 32,017,678
Payments made to vendors	(8,747,911)	(8,059,032)
Payments made to employees	(2,550,865)	(2,414,977)
Payments for leasehold excise taxes	(2,549,647)	(2,752,480)
Net cash flows from operating activities	16,645,847	18,791,189
Cash Flows From Capital and Related Financing Activities		
Improvements made to long-lived assets	(4,741,880)	(3,879,902)
Interest expense	(160,171)	(159,230)
Loan maintenance fee	(2,602)	(11,163)
Net cash flows from capital and related financing activities	(4,904,653)	(4,050,295)
Cash Flows From Noncapital Financing Activities		
Funds received from UW Real Estate Office	1,003,630	
Distribution to University Building Fund	(8,000,000)	(8,000,000)
Net cash flows from noncapital financing activities	(6,996,370)	(8,000,000)
Cash Flow From Investing Activity		
Interest received	268,618	160,897
Net change in cash	**5,013,442**	**6,901,791**
Cash, beginning of year	12,940,916	6,039,125
Cash, end of year	$ 17,954,358	$ 12,940,916

Cash in the statements of cash flows is reported in the statements of assets, liabilities, and net position as follows:

	2013	2012
Cash held in trust	$ 576,435	$ 676,233
Funds held by the University	17,377,923	12,264,683
Total	$ 17,954,358	$ 12,940,916

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENTS OF CASH FLOWS
(Continued)

For the Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of Net Operating Income to Net		
Cash Flows From Operating Activities		
Net operating income	$ 7,519,285	$ 7,118,783
Adjustments to reconcile net operating income to net		
cash flows from operating activities		
Depreciation	8,735,515	8,660,705
Amortization	75,466	75,466
Changes in operating assets and liabilities		
Due from Unico Properties LLC	(83,506)	2,401,344
Due from Fairmont Olympic Hotel	(23,507)	(319,033)
Deferred costs	(719,724)	286,574
Deferred rent	29,904	(46,929)
Other assets	(9,591)	(20,218)
Due to Unico Properties LLC	908,797	540,938
Leasehold excise tax payable	198,040	(184,559)
Deferred revenue	(99,714)	254,029
Other current liabilities	114,882	24,089
Net cash flows from operating activities	$ 16,645,847	$ 18,791,189

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 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 Metropolitan Tract has been leased by the University to entities responsible for developing and operating the property.

On July 18, 1953, the University leased a significant portion of the office, retail, and parking facilities to Unico Properties LLC (formerly known as Unico Properties, Inc.) ("Unico"). The lease expires on October 31, 2014 ("the Unico Lease"). In 2004, the Unico Lease was amended to exclude the Cobb Building, and a new lease for that building was signed with Unico. In 1995, the University assumed a sublease for a portion of Rainier Tower, one of the Unico-controlled buildings on the Metropolitan Tract, and directly controls approximately 380,000 square feet of office space referred to as the Rainier Tower Sublease.

In May 2011, the Unico Lease was further amended to enact the following changes:

- As of January 1, 2012, the University possesses full authority over the approval of terms of tenant lease agreements (including any tenant improvement agreements) for leases entered into by Unico.

- The University receives 75% of rent earned under the Unico Lease monthly starting July 1, 2011. The remaining 25% is received quarterly.

- As of May 2011, Unico was released from its non-competition agreement in downtown Seattle as defined by the original Unico Lease.

On January 18, 1980, the Board of Regents entered into a lease ("the Hotel Lease") with the Olympic Hotel property, which expires in 2040. The hotel was operated as the Four Seasons Olympic Hotel until July 31, 2003. On August 1, 2003, the remaining lease term was assigned to LHCS Hotel Holding (2002), LLC. The hotel was renamed the Fairmont Olympic Hotel and is now managed by Fairmont Hotels 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 consisting of Cadim (a division of the Caisse de depot et placement du Quebec) and Westmont Hospitality Group. The tenant under the Hotel Lease remains the same, and the management of the hotel by Fairmont Hotels and Resorts , Inc. did not change. The Hotel Lease contains a termination clause that allows the tenant to terminate the lease in 2020, 2025, 2030, or 2035, if notification is provided 36 months prior to termination.

The Metropolitan Tract is managed by the University under the authority of state law, which contains certain restrictions on the disposal of property and use of income. These restrictions include a prohibition on the sale of land and a limitation that lease terms extend no more than 80 years.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

These financial statements present only a selected portion of the activities of the University. As such, they are not intended to and do not present either the financial position, results of operations, or changes in net assets of the University. The financial statements have been prepared in accordance with governmental accounting principles generally accepted in the United States. 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:

- All revenues from real estate rentals are reported as operating revenues and recognized as earned in accordance with the lease agreements.

- Rent abatements represent annual rent reductions allowed to Unico to compensate for improvements made in prior years.

- Land and buildings are recorded at appraised value as of November 1, 1954, with subsequent additions at cost.

- Expenses from employee wages and benefits, materials and supplies, and other miscellaneous expenses are reported as operating expenses.

Cash Held in Trust

Cash held in trust represents operating cash for the Rainier Tower Sublease held in a financial institution. Cash balances held in this trust and other cash balances may exceed federally insured limits during the year.

Due from Unico Properties, LLC

As discussed in Note 1, the University leases a portion of the Metropolitan Tract to Unico. Unico pays 75% of the percentage rent due each month and the remaining 25% is due at the end of the quarter. The balance due from Unico properties was $2,255,856 and $2,172,350 as of June 30, 2013 and 2012, respectively. The receivable balances represent 25% of the percentage rent earned for the periods from April 1 to May 31 and 100% of the percentage rent earned for June at each year end.

Due from Fairmont Olympic Hotel

This amount represents a receivable from the Fairmont Olympic Hotel for leasehold improvement taxes payable to the state of Washington and the percentage rent due for January to June. A corresponding payable for the leasehold improvement taxes is included in leasehold excise tax payable.

Property and Depreciation

Property is recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	50 - 60 years
Modernizations	20 years
Tenant alterations	The lease term

The modernizations and tenant alterations include construction in progress costs at year end.

The University 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 as of June 30, 2013 and 2012.

Due to Unico Properties, LLC

Unico Properties, LLC manages the capital improvements and tenant improvements and invoices Metropolitan Tract. The liability to Unico Properties, LLC was $2,335,382 and $1,426,585 as of June 30, 2013 and 2012, respectively.

Leasehold Excise Tax Payable

Leasehold excise tax is payable on a quarterly basis to the State of Washington Department of Revenue. The liability was $1,253,570 and $1,055,530, representing taxes collected on rent during January to June of 2013 and 2012, respectively.

Deferred Costs

Costs incurred in connection with obtaining new subleases and leases commencing after November 1, 2014 in the Rainier Tower are deferred and amortized over the terms of the agreements. Accumulated amortization totaled $4,292,382 and $3,994,133 at June 30, 2013 and 2012, respectively.

Deferred Rent

For Rainier Tower subleases (subleases entered into within the premises under the Rainier Tower Sublease) that contain fixed escalations of the minimum annual lease payment during the original term of the lease, rental income is recognized on the straight-line basis over the lease term, including the construction period. The difference between rental income and the amount currently receivable is recorded as deferred rent.

Deferred Revenue

Tenant rent payments made in advance are deferred until the period to which the payments relate. At June 30, 2013 and 2012, all amounts were associated with the Rainier Tower Sublease.

Fair Value of Financial Instruments

Due to their short-term nature, the fair values of cash, receivables, funds held by or due to the University, and other payables (including the line of credit) approximate carrying value.

Transfer from UW Real Estate Office

This represents funds that were transferred from the UW Real Estate Office to the Metropolitan Tract.

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 requires management to make certain 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 income and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain items previously reported in the financial statements have been reclassified to conform to the current financial statement presentation.

Subsequent Events

Management of the University has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report. The University exercised its option to terminate its lease with Unico for the Cobb Building (and take possession of certain leasehold improvements), on September 20, 2013, as discussed in Note 8.

Note 3. Funds Held By to 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 comprised of various U.S. government securities, corporate stocks, money market funds, foreign government bonds, and tax-exempt bonds. For purposes of the statements of cash flows, all funds held by the University are considered cash equivalents.

The University annually allocates investment earnings to the departments based on relative amounts invested at rates determined and approved by the University. For the years ended June 30, 2013 and 2012, the rate determined by the University was 2.0%. Principal amounts invested in the pooled investments are guaranteed by the University.

Note 4. Property

Property and its activity for the years ended June 30, 2013 and 2012, is summarized as follows:

	Balance at June 30, 2011 (as restated)	Additions	Balance at June 30, 2012 (as restated)	Additions	Balance at June 30, 2013
Property, not being depreciated:					
Land	$ 9,974,594	$ -	$ 9,974,594	$ -	$ 9,974,594
Property, being depreciated:					
Land improvements	793,423		793,423		793,423
Buildings	95,503,891		95,503,891		95,503,891
Tenant alterations	48,403,249	2,250,051	50,653,300	2,227,497	52,880,797
Modernizations	82,818,026	1,629,851	84,447,877	2,514,383	86,962,260
Total property being depreciated	227,518,589	3,879,902	231,398,491	4,741,880	236,140,371
Less accumulated depreciation:					
Land improvements	793,423		793,423		793,423
Buildings	65,610,096	1,438,865	67,048,961	1,438,873	68,487,834
Tenant alterations	29,299,478	3,584,574	32,884,052	3,574,502	36,458,554
Modernizations	33,250,674	3,637,266	36,887,940	3,722,140	40,610,080
Total accumulated depreciation	128,953,671	8,660,705	137,614,376	8,735,515	146,349,891
Property, net	$ 108,539,512	$ (4,780,803)	$ 103,758,709	$ (3,993,635)	$ 99,765,074

There were no disposals of property in 2013 or 2012.

Note 5. Line of Credit

In July 2004, the University obtained a variable rate revolving credit line of $25 million for the Metropolitan Tract. The line of credit is secured by future revenues of the Metropolitan Tract. In June 2013, the University amended the credit line agreement which included a one-year extension through June 30, 2014, an interest rate of LIBOR plus 125 basis points, and a reduction in the available credit to $8.5 million.

The balance unpaid on the line of credit as of June 30, 2013 and 2012, was $8.5 million (consisting of three separate tranches). The interest incurred on the line of credit during the years ended June 30, 2013 and 2012, was $160,171 and $159,230, respectively. As of June 30, 2013, no amounts were available on the credit line. The applicable effective average interest rate as of June 30, 2013 and 2012, was 1.70% and 2.01%, respectively.

Note 6. Lease Agreements

Minimum future rental income under noncancelable lease agreements with Unico and the Fairmont Olympic Hotel are as follows for the years ending June 30:

2014	$ 2,414,000
2015	1,747,333
2016	1,414,000
2017	1,414,000
2018	1,414,000
Thereafter	31,654,000
	$ 40,057,333

A significant portion of annual rental income consists of rents based on a percentage of Unico's revenues. Total rent revenues recognized in 2013 and 2012 from Unico were $17,298,125 and $16,673,608, respectively.

The base rental income on the Fairmont Olympic Hotel is subject to change on an annual basis, as set forth in the lease. At the end of each lease year, the annual rent is adjusted for a percentage of revenues, not below an annual minimum of $1,260,000.

Note 7. Commitments to Unico for Rainier Tower Sublease

In 1995, the University assumed a sublease for a portion of Rainier Tower, one of the Unico-controlled buildings on the Metropolitan Tract, and directly controls approximately 380,000 square feet of office space referred to as the Rainier Tower Sublease. Kidder Mathews, an independent third party, managed the space until July 2011. Effective July 2011, the University replaced Kidder Mathews with Unico to manage the space. The agreement with Unico expires on October 31, 2014.

Total future minimum obligations due to Unico related to the Rainier Tower Sublease are as follows for the years ending June 30:

2014	$ 5,112,763
2015	1,662,800
	$ 6,775,563

Rent expense related to the Rainier Tower Sublease was $4,988,381 for each of the years ended June 30, 2013 and 2012.

The minimum future lease payments to be received related to the subleasing of the Rainier Tower space are as follows for the years ending June 30:

2014	$ 7,814,199
2015	8,245,732
2016	7,839,736
2017	7,507,255
2018	6,681,611
Thereafter	14,401,650
	$ 52,490,183

Note 8. Cobb Building

In July 2004, the University amended the existing Unico Lease (see Note 1) to exclude the Cobb Building. At the same time, the University entered into a new 45 year lease with Unico ("the Cobb Lease"). The Cobb Lease provided for Unico to implement a $38.5 million redevelopment and conversion of the Cobb Building from obsolete medical office space to 92 rental residential units. In accordance with the new lease agreement, the University invested a total of approximately $7.9 million in the development. The University receives annual ground rent of $154,000, receives no other rent, and has no additional obligation or liability for development costs or on-going operating expenses. The Cobb Lease also includes lease buyout rights in 2014, 2024, and 2034. Unico possesses the right to require the University to buy the property in 2014, 2024, or 2034 if the University does not exercise the buyout option first. On September 20, 2013, the University exercised its option to terminate its lease with Unico for the Cobb Building (and take possession of certain leasehold improvements) in 2014. The payment amount has not been determined as of the date of this report.

Note 9. Future Capital Expenditures

In 2012, the Board of Regents approved future capital improvement expenditures related to the Metropolitan Tract of approximately $4.4 million and tenant improvements of approximately $3.6 million for the calendar year ending December 31, 2013. These expenditures were approved to maintain the competitiveness of the properties within the Metropolitan Tract. As of June 30, 2013, a total of approximately $1,500,000 and $1,680,000 was expended for the capital improvements and the tenant improvements, respectively.

Note 10. Palomar Garage

In 1964, Unico purchased the property adjacent to the Cobb Building on the west side of the block. The acquisition of the property and the subsequent construction of the Palomar Garage structure were agreed to between Unico and the University upon the condition that the property would be conveyed to the University at no cost upon the expiration of the master lease. The garage is operated by Unico and is not considered part of the Unico Lease.

Note 11. Related Party Transaction

Unico leased office space on the Metropolitan Tract to University departments during fiscal years 2013 and 2012. The total rent-related amounts paid to Unico by University departments were $1,659,232 and $1,367,515 for the years ended June 30, 2013 and 2012, respectively. The leases with University departments expire at various dates up through 2020.

Note 12. Restatement

During the year ended June 30, 2013, management discovered an error in accumulated depreciation that was recorded years ago. The accompanying June 30, 2012, financial statements have been restated to correctly report the accumulated depreciation balance. The effect of this restatement was to increase the accumulated depreciation balance and reduce the net position by $2,378,320 at July 1, 2011. The error correction also reduced the net position previously stated at June 30, 2012, by the same amount. The restatement had no effect on net operating income or the change in net position for the years ended June 30, 2013 or 2012.

S U P P L E M E N T A R Y   I N F O R M A T I O N

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

DETAILS OF PROPERTY

June 30, 2013

(With Comparative Totals for 2012)

	Cobb Building	Cobb Re-Development	Skinner Building	Puget Sound Plaza	IBM Building	Rainier Tower	Financial Center	Olympic Hotel	Olympic Garage	2013 Total	2012 Total (as restated)
Buildings, tenant alterations, and modernizations											
Buildings	$ 751,994	$ -	$ 2,037,004	$ 9,113,065	$ 8,412,874	$ 42,878,840	$ 16,983,859	$ 12,535,102	$ 2,791,153	$ 95,503,891	$ 95,503,891
Tenant alterations			7,735,464	8,955,159	7,225,836	17,996,969	10,967,369			52,880,797	50,653,300
Modernizations	2,035,975	7,916,494	18,074,237	15,329,228	13,388,946	17,118,732	13,098,648			86,962,260	84,447,877
	2,787,969	7,916,494	27,846,705	33,397,452	29,027,656	77,994,541	41,049,876	12,535,102	2,791,153	235,346,948	230,605,068
Less accumulated depreciation and amortization											
Buildings	751,994		2,037,004	8,062,546	8,342,767	26,084,632	11,464,104	9,465,354	2,279,433	68,487,834	67,048,961
Tenant alterations			4,896,121	6,512,091	5,925,563	12,366,807	6,757,972			36,458,554	32,884,052
Modernizations	1,640,396	1,517,646	8,591,363	8,353,959	6,440,408	7,859,306	6,207,002			40,610,080	36,887,940
	2,392,390	1,517,646	15,524,488	22,928,596	20,708,738	46,310,745	24,429,078	9,465,354	2,279,433	145,556,468	136,820,953
Net investment	$ 395,579	$ 6,398,848	$ 12,322,217	$ 10,468,856	$ 8,318,918	$ 31,683,796	$ 16,620,798	$ 3,069,748	$ 511,720	89,790,480	93,784,115
Land										9,974,594	9,974,594
Land improvements										793,423	793,423
Less accumulated depreciation										(793,423)	(793,423)
Net land and land improvements										9,974,594	9,974,594
Net investment including land and land improvements										$ 99,765,074	$ 103,758,709