2016 BONDHOLDERS REPORT

UNIVERSITY *of* WASHINGTON | TREASURY OFFICE

2016 BONDHOLDERS REPORT

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University of Washington

2016 BONDHOLDERS REPORT

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

As a preface to reviewing the materials, we suggest starting with the University's Financial Report, which highlights the accomplishments, opportunities and challenges facing the University as one of the nation's premier research universities. The enclosed audited financial statements are as of June 30, 2016, the University's fiscal year end.

The Supplemental Report includes additional financial and operating information provided for the benefit of the holders and beneficial owners of the Bonds. This section includes some information that is also included in the University's Financial Report. This information may contain adjustments resulting from changes in methodology or timing. The format of the supplemental information has been updated to provide year-over-year data, consistent with the University's Financial Report.

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2016 FINANCIAL REPORT

UNIVERSITY *of* WASHINGTON

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UNIVERSITY FACTS

	FISCAL YEAR 2016 Academic Year 2015–2016	FISCAL YEAR 2011 Academic Year 2010–2011	FISCAL YEAR 2006 Academic Year 2005–2006
STUDENTS			
Autumn Enrollment [1]			
Undergraduate	40,163	35,615	31,086
Graduate	13,595	12,389	10,540
Professional	2,009	1,936	1,802
TOTAL	**55,767**	**49,940**	**43,428**
Extension course and conference registrations	78,426	64,961	44,823
Number of Degrees Awarded			
Bachelor's	10,589	9,325	8,296
Master's	4,072	3,524	2,866
Doctoral	803	723	631
Professional	518	528	496
TOTAL	**15,982**	**14,100**	**12,289**
FACULTY [1] (Professorial, Instructional, Research)	4,703	4,235	3,650
FACULTY AND STAFF [2]	28,910	25,143	23,935
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,367,366	$ 1,396,435	$ 967,456
SELECTED REVENUES *(in thousands of dollars)*			
Patient Service and Other Medical-Related Revenues [3]	$ 2,408,791	$ 1,362,594	$ 834,638
Gifts, Grants and Contracts	1,409,443	1,401,584	1,094,023
Tuition and Fees [4]	948,751	594,915	358,130
Auxiliary Enterprises and Other Revenues	623,438	393,850	237,808
State Appropriations (Operating)	302,097	296,769	339,117
Investment Income	44,877	394,670	294,305
SELECTED EXPENSES *(in thousands of dollars)*			
Medical Related [3]	$ 2,152,161	$ 1,160,595	$ 654,768
Instruction, Academic Support and Student Services	1,617,202	1,233,770	956,517
Research and Public Service	790,218	821,081	632,007
Institutional Support and Physical Plant	506,015	325,980	260,926
Auxiliary Enterprises	422,474	169,876	125,591
CONSOLIDATED ENDOWMENT FUND [5] *(in thousands of dollars)*	$ 2,968,000	$ 2,168,000	$ 1,700,000
SQUARE FOOTAGE [6] *(in thousands of square feet)*	23,129	21,655	18,097

[1] Headcount
[2] Full time equivalents
[3] Includes Valley Medical Center (2016 only) and Northwest Hospital (2016 and 2011 only)
[4] Net of scholarship allowances of $144,543,000 in 2016, $91,403,000 in 2011 and $53,780,000 in 2006
[5] Stated at fair value
[6] Gross square footage, all campuses

KPMG LLP
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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 and aggregate discretely presented component units 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, 2016 and 2015, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University of Washington as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

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, the changes in financial position, and where applicable, cash flows of only the respective portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the state of Washington that are attributable to the transactions of the University of Washington and its discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2016 and 2015, the changes in its financial position or, where applicable, its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

As discussed in note 1 to the financial statements, on July 1, 2014, the University adopted new accounting guidance requiring governments providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net position liability or net pension asset, as well as recognizing most changes in the net position liability within pension expense. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 12, and the schedules of required supplementary information on pages 50 through 51, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying information under the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Seattle, Washington
October 21, 2016

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, 2016 and 2015, with comparative financial information for 2014. This discussion has been prepared by management, and since it includes highly summarized data, should be read in conjunction with the financial statements and accompanying notes which follow this section.

Financial Highlights for Fiscal Year 2016

The University recorded a decrease in net position of $82 million in fiscal year 2016, compared to an increase in net position of $235 million in 2015. Revenues from tuition and patient services continued to show growth during 2016, and together with modest increases in revenues from research activities contributed to an overall increase in operating revenues. Offsetting this, however, was an increase in operating expenses, and a decrease in nonoperating revenues, primarily investment income, which was impacted by decreased 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.

Key Financial Results for Fiscal Years 2016, 2015 and 2014

(in millions)	2016	2015	2014
Total operating revenues	$ 4,352	$ 4,212	$ 3,914
Total operating expenses	5,034	4,676	4,384
Operating loss	(682)	(464)	(470)
State appropriations	302	255	262
Investment income	45	227	481
Gifts	220	200	191
Other nonoperating revenues, net	33	17	14
Increase (decrease) in net position	(82)	235	478
Net position, beginning of year	6,046	6,643	6,165
Cumulative effect of accounting change	–	(832)	–
Net position, beginning of year as restated	6,046	5,811	6,165
Net position, end of year	**$ 5,964**	**$ 6,046**	**$ 6,643**

Governmental Accounting Standards Board (GASB) principles require that revenues from state appropriations, Pell grants, and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating. As a result, the University will typically reflect an operating loss on its Statements of Revenues, Expenses and Changes in Net Position.

The University implemented GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*" during fiscal year 2015. This Statement changed how the University reports its participation in certain cost sharing, defined-benefit pension plans administered by the state of Washington Department of Retirement Systems (DRS). It requires governments providing defined-benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, which is measured as the total pension liability less the amount of the pension plan's fiduciary net position. This Statement also requires most changes in the net pension liability to be included in pension expense in the period of the change, and others to be reported as deferred outflows of resources or deferred inflows of resources on the Statements of Net Position. Prior to adopting this Statement, the University reported pension expense based on cash contributions paid to the pension plan administrator. With the adoption of GASB Statement No. 68, net position was restated at July 1, 2014 by a decrease of $832 million. Fiscal years 2016 and 2015 financial results reflect application of the accounting changes required by Statement No. 68, but those changes have not been applied to fiscal year 2014 amounts due to the constraints of available information.

Economic Factors Affecting the Future

The state of Washington, which provided 7% of the University's total revenues in fiscal year 2016, continues to emerge from the recession with moderate economic growth and commensurate increases in state tax collections. However, the state continues to face significant budgetary pressure as a result of court-mandated increases to K-12 education funding (McCleary v. Washington). As a result, non-mandatory state programs, including higher education, have an uncertain funding outlook for the 2017-19 biennium.

During the previous biennium (2013-15), the University committed to freezing resident undergraduate tuition rates in fiscal years 2014 and 2015 in exchange for increases in state funding in both years. In 2015-17, the state mandated reductions in resident undergraduate tuition to 5% below 2015 rates in fiscal year 2016, and 15% below 2015 rates in fiscal year 2017. The state provided funds to backfill the lost tuition revenue in both years.

The University's fiscal year 2017 general operating appropriation from the state (excluding amounts appropriated for specific purposes) is approximately $332 million, an increase from $293 million in 2016 and $246 million in 2015. The significant increases in the latter two years are largely attributable to tuition backfill funding, but also include targeted investments in medical and computer science education.

The University's Board of Regents continues to have broad tuition and fee setting authority for categories other than resident undergraduate tuition. State funding for capital appropriations continues to be under pressure, though some state bonding capacity was provided this biennium for critical capital projects.

UW Medicine formed an Accountable Care Network (ACN) in 2014 with other selected healthcare organizations and healthcare professionals in Western Washington to form a care delivery network to assume responsibility for the healthcare of contracted populations of patients in order to improve the healthcare experience for the individual, improve health for the overall population, and provide more affordable care.

- The ACN has contracted with the Washington Health Care Authority (HCA) to participate in its new Puget Sound Accountable Care Program (ACP) as a healthcare benefit option for Public Employees Benefits Board (PEBB) members. The ACP is offered to all PEBB members who reside in Snohomish, King, Kitsap, Pierce, and Thurston Counties, with possible expansion into a number of additional counties planned in 2017. This contract with HCA to cover PEBB members began January 1, 2016.

- A subset of the network members have also agreed to participate with the ACN in a contract with Premera as part of its new Accountable Health System (AHS) product. As an AHS, the UW Medicine ACN will share in accountability for the quality and cost of healthcare for Premera members who select this plan. This product was sold both on and off the Washington Health Exchange in select counties with coverage that began January 1, 2016 and must have 5,000 plan-wide members per product, per region to share in financial savings and risk.
- The UW Medicine ACN also entered into an agreement to provide healthcare services to non-union employees of a large local employer with coverage that began January 1, 2015.

These arrangements provide an opportunity for shared savings between the ACN and the contracted entity based on achieving quality and financial benchmarks. If certain financial benchmarks are not attained, UW Medicine, along with its network members, is at risk for reductions in payment levels from the contracted entity based on the agreement.

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University. Employer pension funding rates for the Public Employees' Retirement System (PERS) pension plans increased 21% during fiscal year 2016, from 9.21% to 11.18% of covered salary, and will be increasing to 12.52% of covered salary during fiscal year 2018. Likewise, the monthly employer base rate paid by the University for employee healthcare increased 27% during fiscal year 2016, from $662 to $840 per active employee, and will be increasing to $888 per active employee during fiscal year 2017. Both rates are likely to continue increasing over the next few years.

Using the Financial Statements

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

- Independent Auditors' Report presents an unmodified opinion prepared by our auditors, KPMG LLP, on the fairness in all material respects of our financial statements.
- Statements of Net Position present the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of the University at a point in time (June 30, 2016 and 2015). Their purpose is to present a financial snapshot of the University. This statement aids the reader in determining the assets available to continue the University's operations, how much the University owes to employees and vendors, whether the University has any deferred outflows or inflows other than assets or liabilities, and a provides a picture of net position and its availability for expenditure by the University.
- Statements of Revenues, Expenses and Changes in Net Position present the total revenues earned and expenses incurred by the University for operating, nonoperating and other related activities, during a period of time (fiscal years ended June 30, 2016 and 2015). Their purpose is to assess the University's operating and nonoperating activities.
- Statements of Cash Flows present cash receipts and payments of the University during a period of time (the fiscal years ended June 30, 2016 and 2015). Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.
- Notes to the Financial Statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

The University has been affiliated with Northwest Hospital & Medical Center (Northwest Hospital) since 2010, and has had a strategic alliance with Valley Medical Center, a Washington public hospital district, since 2011. GASB standards require that these entities be presented as discrete component units of the University; therefore, their financial position at June 30, 2016 and 2015, and the results of their operations for the years ended June 30, 2016 and 2015, are reported in a separate column for financial statement presentation purposes (see Note 1 and Note 18 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).

Financial Health

STATEMENTS OF NET POSITION

A summarized comparison of the University's assets, liabilities, deferrals and net position as of June 30, 2016, 2015 and 2014, follows:

(in millions)	2016	2015	2014
Current assets	$ 1,539	$ 1,402	$ 1,537
Noncurrent assets:			
Capital assets, net	4,353	4,172	4,045
Investments, net of current portion	4,108	4,297	3,959
Other	507	491	358
Total assets	10,507	10,362	9,899
Deferred outflows	179	111	14
Total assets and deferred outflows	10,686	10,473	9,913
Current liabilities	1,060	998	872
Noncurrent liabilities:			
Bonds payable	2,177	1,911	1,966
Other	1,363	1,249	432
Total liabilities	4,600	4,158	3,270
Deferred inflows	122	269	–
Total liabilities and deferred Inflows	4,722	4,427	3,270
Net position	**$ 5,964**	**$ 6,046**	**$ 6,643**

Unaudited – see accompanying notes to financial statements

The University continues to maintain and protect its strong financial foundation. This financial health, as reflected in the Statements of Net Position, results from the prudent utilization of financial resources including careful cost controls, preservation of endowment funds, conservative utilization of debt and adherence to a long-range capital plan for the acquisition, maintenance and replacement of the physical plant.

Current assets include those that may be used to support current operations, and consist primarily of cash, short-term investments and accounts receivable. Current liabilities generally are due and payable over the course of the following fiscal year, and include accounts payable and other accrued liabilities, unearned revenues, and the current portion of long-term debt.

The excess of current assets over current liabilities of $479 million in 2016 and $404 million in 2015 reflects the continuing ability of the University to meet its short-term obligations. Current assets increased $137 million in 2016, partly due to an increase in accounts receivable of $107 million associated with pending sales of investments, and decreased $135 million in 2015, partly due to a decrease in the value of short-term investments of $106 million. Current liabilities increased $62 million in 2016, partly due to an increase in the liability for accrued annual leave of $11 million, together with an accrual for $16 million associated with the University's portion of a settlement against the state of Washington in the Moore vs. HCA litigation. Current liabilities increased $126 million in 2015, primarily due to an increase in accounts payable of $102 million associated with pending purchases of investments.

Noncurrent assets were mostly unchanged in 2016, as an increase in capital assets of $181 million was offset by a decrease in long-term investments as a result of market value changes during the year for the University's investments. Realized and unrealized losses in fiscal year 2016 totaled $54 million, compared to $151 million of net realized and unrealized gains in 2015. Noncurrent assets increased $598 million in 2015, primarily due to an increase in long-term investments.

Deferred outflows of resources and deferred inflows of resources primarily represent pension-related deferrals associated with the implementation of GASB Statement No. 68 in 2015. The increase in deferred outflows in 2016 primarily reflects the University's proportionate share of an increase in the state-wide amounts reported by the DRS due to differences between expected and actual experience related to actuarial assumptions. In 2015, the University recorded $86 million of pension-related deferred outflows for the first time, primarily the deferral of pension contributions paid during the year. Similarly, the decrease in deferred inflows in 2016 reflects the University's proportionate share of a decrease in the state-wide amounts due to differences between projected and actual investment earnings on pension plan assets. These deferred inflows were recorded for the first time in 2015.

Noncurrent liabilities increased $380 million in 2016, primarily due to $328 million of new general revenue and lease revenue bonds issued during the year, and an increase in the University's net pension liability, offset by $112 million of commercial paper debt that was refunded by the new general revenue bonds. The net pension liability was recorded for the first time in 2015 as a result of implementing GASB Statement No.68, and represents the University's proportionate share of the collective amounts reported by the DRS. This noncurrent liability increased $183 million during 2016, reflecting a corresponding increase in the state-wide amounts associated with these cost sharing, defined-benefit pension plans.

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

The University reports its "equity" in four categories:

- Net Investment in Capital Assets – This is the University's total investment in capital assets, net of accumulated depreciation and amortization and outstanding debt obligations related to those capital assets.
- Restricted Net Position:
  - Nonexpendable net position, primarily endowments, represents the historical cost (corpus) of gifts to the University's permanent endowment funds. These are funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditure, but rather for investment purposes only in order to produce income that is to be expended for the purposes specified.
  - Expendable net position consists of resources 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, and includes the net appreciation of permanent endowments.
- Unrestricted Net Position – This is all other funds available to the University for any purpose associated with its mission. Unrestricted net position is not subject to externally imposed stipulations, but often is internally designated for specific purposes.

The University's net position at June 30, 2016, 2015 and 2014 is summarized as follows:

(in millions)	2016	2015	2014
Net investment in capital assets	$ 2,278	$ 2,156	$ 2,018
Restricted:			
Nonexpendable	1,419	1,322	1,257
Expendable	1,591	1,699	1,629
Unrestricted	676	869	1,739
Total net position	**$ 5,964**	**$ 6,046**	**$ 6,643**

Net investment in capital assets increased $122 million, or 6%, in 2016, and $138 million, or 7%, in 2015. This balance increases as debt is paid off, or when the University funds fixed asset purchases without the use of external financing, for example by using internal reserves. This balance decreases as assets are depreciated.

Restricted nonexpendable net position increased $97 million, or 7%, in 2016, and $65 million, or 5%, in 2015. For both years, the increase reflects the receipt of new endowment gifts, offset by a decrease in the fair value of endowment investments.

Restricted expendable net position decreased by $108 million, or 6%, in 2016, and increased $70 million, or 4%, in 2015. This category is primarily affected by new operating and capital gifts, and earnings or losses on restricted investments, including endowments. The change in market value for the Consolidated Endowment Fund was the primary cause for the increase or decrease each year.

Unrestricted net position decreased $193 million, or 22%, in 2016, and decreased by $870 million, or 50%, in 2015. The use of institutional reserves to partly fund select capital maintenance and construction projects contributed approximately $82 million to the 2016 decrease, together with a $51 million decline in the market value for the Diversified Investment Pool. The decrease in 2015 was primarily due to the impact of restating fiscal year 2015 beginning net position as a result of implementing GASB Statement No. 68. In addition, the University began a formal program in 2015 to fund the construction of capital assets using internal reserves by directing that a limited portion of the Invested Funds Pool be available for investment in institutional infrastructure, as opposed to financial assets. As a result, $128 million of construction costs were sourced during 2015 using internal reserves. These amounts were reflected as a reduction of unrestricted net position, and an increase in net investment in capital assets.

Endowment and Other Investments

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

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 individual endowments in the CEF has grown to 4,506, and the market value of the CEF has increased significantly, rising from $1.7 billion at June 30, 2006 to $3.0 billion at June 30, 2016.

The impact to program support has been substantial, with $870 million distributed over the past 10 years touching every part of the University. Programs supported by endowment returns include academic programs, 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.

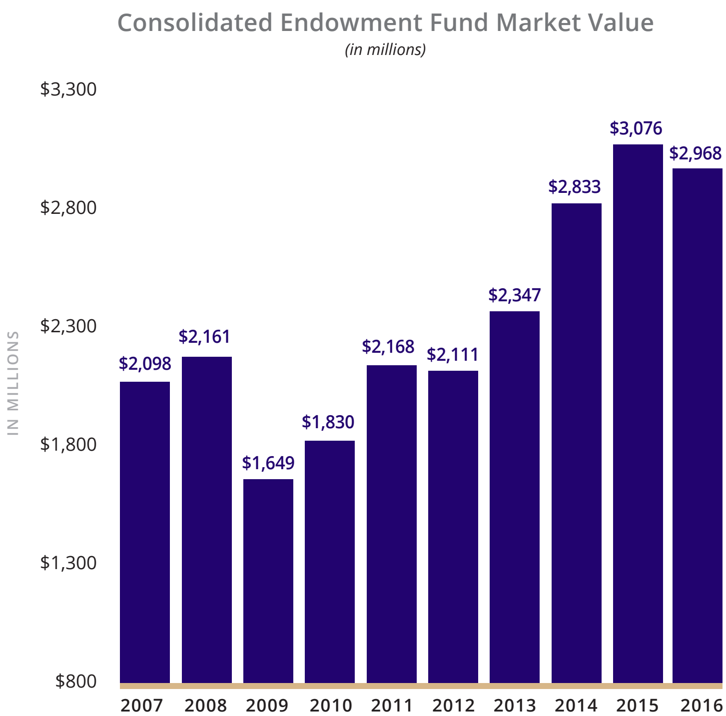
In September of 2015, the Board of Regents approved the establishment of an internal investment management company, known as the University of Washington Investment Management Company (UWINCO). Under the new structure, the UWINCO advisory committee was transitioned to an investment company advisory board (UWINCO Board). This change reflects industry best practices and trends among other peer institutions.

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 UWINCO Board, 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, 2016, 77% of the CEF was invested in Capital Appreciation and 23% in Capital Preservation. Following an expectation that market returns for equities will exceed bonds over the next decade, a medium-term objective is maintained of generally overweighting equity-oriented strategies with a focus on quality companies and downside protection. The University also maintains ample liquidity within Capital Preservation to meet its funding requirements, as well as to take advantage of market dislocations if opportunities arise.

For the fiscal year ended June 30, 2016, the CEF returned -1.6% versus -0.2% for the passive benchmark. The CEF's Emerging Markets Equity, Developed Markets Equity and Fixed Income strategies drove both absolute and relative underperformance. All other CEF strategies had strong relative performance against their benchmarks. Market conditions were exceptionally tough, particularly during late 2015, when a sluggish Chinese economy and falling energy prices weighed heavily on markets. With the exception of the S&P 500, every major equity index had negative returns in fiscal year 2016 and nearly all, including the S&P 500, posted lower returns than fiscal year 2015. This lower return trend is expected to continue, with the negative to low interest rate environment remaining a major driver of investment performance.

Longer-term, the CEF has consistently maintained solid absolute and relative performance. The CEF has outperformed both the passive benchmark, and public university peers with $1 billion to $5 billion of assets, for the 5, 10 and 20-year periods. The 20-year return for the CEF stands at +8.4%.



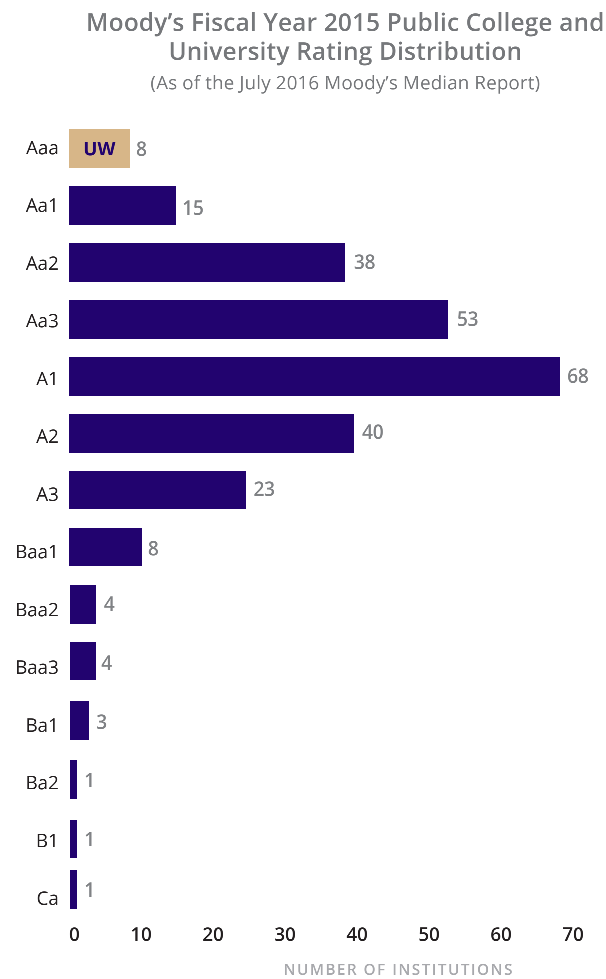
A portion of the University's operating funds, the Diversified Investment Pool, are invested in the CEF. As of June 30, 2016, these funds comprise $731 million of the CEF market value.

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. The University's debt portfolio consists primarily of fixed rate debt in the form of General Revenue Bonds, Lease Revenue Bonds and state issued bonds, as well as variable rate debt such as commercial paper.

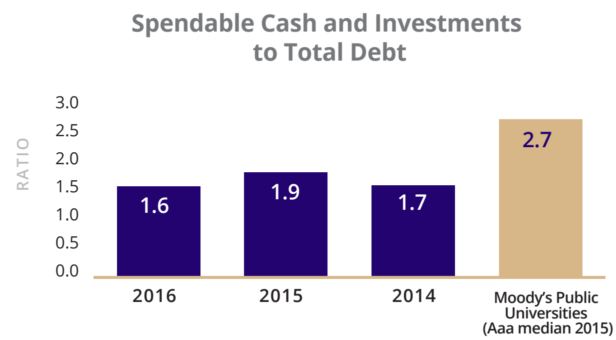
Credit ratings are a reflection of the University's strength. During fiscal year 2016, the University was rated Aaa (Stable) (the highest rating) by Moody's Investors Service and AA+ (Stable) by Standard & Poor's. These strong ratings carry substantial advantages for the University: continued and wider access to capital markets when the University issues debt, lower interest rates on bonds and the ability to negotiate favorable bond terms.

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

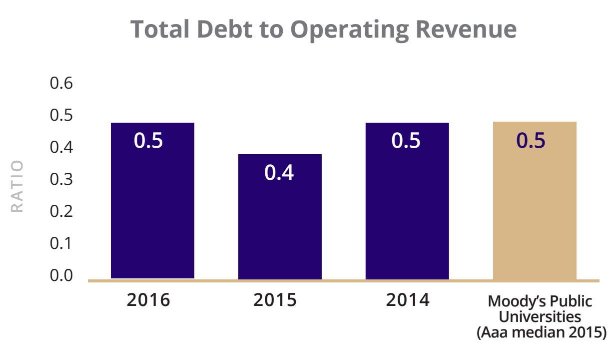


Unaudited – see accompanying notes to financial statements

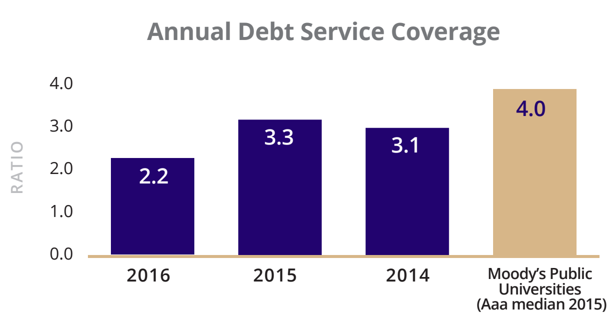
The University uses three debt-related financial ratios as performance benchmarks to evaluate institutional debt capacity and financial health. Spendable Cash and Investments to Total Debt is a measure of all available resources to pay debt, Total Debt to Operating Revenue is a measure of financial leverage, and Annual Debt Service Coverage is a measure of cash flow available to pay debt obligations. Each ratio is defined by Moody's Investors Service, and evaluated relative to the University's debt policy and the appropriate peer group comparison.



This ratio shows that in 2016 the University had sufficient non-restricted cash and investments to pay its outstanding debt 1.6 times.



This ratio shows that in 2016 the University generated enough operating revenue to pay its total outstanding debt twice over.



This ratio shows that in 2016 the net operating income of the University was sufficient to pay the principal and interest payments on its outstanding debt 2.2 times.

In September 2015, the University issued $196 million of General Revenue Bonds with an average coupon of 4.03%. A portion of the proceeds was used to pay off $112 million of commercial paper. The balance was used to fund various projects such as renovation of Denny Hall, construction of Animal Care and Research Facilities, South West Campus Central Utility Plant and other projects.

In October 2015, the University, through Washington Biomedical Research Properties 3.2, issued $132 million in Lease Revenue Bonds with an average coupon of 4.42%. Proceeds were used to fund the design, construction, and equipping of a new biomedical research facility.

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, faculty and staff. Significant capital asset expenditures (greater than $20 million) during fiscal year 2016 included $65 million for the Animal Care and Research Facilities, $38 million for Phase 2 of the UW Medical Center expansion, $37 million for the Molecular Engineering & Sciences Building, $36 million for the renovation of Denny Hall, and $23 million for the South West Campus Central Utility Plant.

Key projects placed in service during 2016 include:

- Maple Hall and Terry Hall - $112 million. These new eight-story residential buildings include five wood-frame stories of housing consisting of two-bedroom suites, all with private bathrooms. The lower two floors of each building will be occupied by Housing and Food Services administration offices, common space for students, and some additional two-bedroom suites. A below-grade parking garage connected to the Lander Hall garage and the Lander Hall loading dock will extend below the new Maple and Terry residence halls. The two new buildings will total approximately 440,000 square feet, with a target bed count of 1,150 beds.
- UW Medical Center Expansion Phase 2 - $121 million. This project included a build-out of three inpatient bed floors, including the addition of intensive care and medical/surgical beds as well as new operating rooms.
- Montlake/Rainier Vista - $24 million. The scope of this project included lowering NE Pacific Place, and construction of the Rainier Vista Land Bridge to span over NE Pacific Place and connect the Montlake Triangle in a seamless pedestrian experience. Also included were landscaping, hard surfacing, lighting and other site improvements.

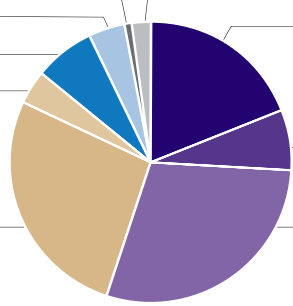
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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, 2016, 2015 and 2014 follows:

(in millions)	2016	2015	2014
Total operating revenues	$ 4,352	$ 4,212	$ 3,914
Total operating expenses	5,034	4,676	4,384
Operating loss	(682)	(464)	(470)
Nonoperating revenues, net of expenses	450	590	859
Other revenues	150	109	89
Increase (decrease) in net position	(82)	235	478
Net position, beginning of year	6,046	6,643	6,165
Cumulative effect of accounting change	–	(832)	–
Net position, beginning of year as restated	6,046	5,811	6,165
Net position, end of year	**$ 5,964**	**$ 6,046**	**$ 6,643**

The University has a diversified revenue base. No single source generated more than 29% of the total fiscal year 2016 revenues of $5.0 billion.

Sources of Funds



The following table summarizes revenues from all sources for the years ended June 30, 2016, 2015 and 2014:

(in millions)	2016	2015	2014
Tuition and fees	$ 949	$ 914	$ 839
Patient services	1,435	1,362	1,207
Grants and contracts	1,348	1,334	1,327
Sales and services of educational departments	225	223	213
Auxiliary enterprises	349	319	261
State funding for operations	302	255	262
Gifts	220	200	191
Investment income	45	227	481
State funding for capital projects	39	21	8
Other	112	136	164
Total revenue - all sources	**$ 5,024**	**$ 4,991**	**$ 4,953**

Grant Revenue

One of the largest sources of revenue (27%) continues to be grants and contracts. Total grants and contracts revenue increased $14 million, or 1%, in 2016, compared to an increase of $7 million, or 1%, in 2015.

While federal revenue saw an increase during fiscal year 2016 from several of the University's top sponsors (National Science Foundation, Department of Defense, Department of Commerce), this increase was offset by a decrease in funding related to a significant federal flow-through relationship. During 2016, University researchers successfully completed the development and implementation of the Ocean Observatories Initiative's Cabled Array, an underwater ocean observatory off the Pacific Northwest coast. In fiscal year 2015, the project generated $24.0 million in revenue, with a decline to $0.8 million as the project came to a close in fiscal year 2016.

Overall, consistent with fiscal year 2015, the slight decrease in federal grant and contract revenues was offset by increases in state and local, and nongovernmental, revenues. State and local revenues increased as a result of a boost in funding from the State Need Grant totaling $4.4 million. Nongovernmental revenue continued its five-year increasing trend, due to the cultivation of relationships with new sponsors and the addition of new grants and contracts related to the portfolios of long-standing sponsor relationships.

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

Unaudited – see accompanying notes to financial statements

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

Facility and administrative expenses necessary to support grants and contracts are reimbursed by sponsors, along with direct costs, by an indirect cost recovery. The current indirect cost recovery rate 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 increased during the last few fiscal years, but is still significantly below historical levels.

Operating Support for Instruction

(in millions)	2016		2015		2014	
State operating appropriations	$ 302	24%	$ 255	22%	$ 262	24%
Operating tuition and fees	661	53%	638	55%	594	54%
Fees for self-sustaining educational programs	288	23%	276	23%	245	22%
Total educational support	**$ 1,251**	**100%**	**$1,169**	**100%**	**$1,101**	**100%**

Noncapital state appropriations are considered nonoperating revenue under GASB principles, and are reflected in the nonoperating section of the Statements of Revenues, Expenses and Changes in Net Position; however, they are used solely for operating purposes.

Total revenue from tuition and fees, net of scholarship allowances, increased to $949 million in fiscal year 2016, from $914 million in 2015 and $839 million in 2014. The 2016 increase was the result of enrollment growth, and moderate tuition and fee rate increases for most student groups. Full-time equivalent (FTE) enrollment in undergraduate tuition- and fee-based programs increased by 1.5% in the resident student category, and by 6.4% in the nonresident student category. FTE enrollment in graduate and professional tuition- and fee-based programs decreased by 1.7% in the resident student category and increased by 5.4% in the nonresident student category. Nonresident undergraduate tuition rates increased in 2016 by 2%, while graduate and professional tuition rate increases were generally in the 2-5% range, with variation by program and student residency. Rates for fee-based programs generally grew by 3-5%, with significant variation by program. These enrollment growth and tuition and fee rate increases were partially offset by a state legislatively mandated reduction in resident undergraduate tuition rates of 5% below the prior year.

Tuition revenue increases were partially offset by an increase in scholarships and fellowships expense, and scholarship allowances of $12 million in 2016, $11 million in 2015, and $2 million in 2014.

Self-sustaining educational programs (fee-supported programs) include the following amounts for each of the fiscal years 2016, 2015 and 2014: UW Educational Outreach (the continuing education branch of the University) $108 million, $97 million and $96 million, respectively, summer quarter tuition $54 million, $59 million and $42 million, respectively, and for Business School and School of Medicine programs $50 million, $47 million and $45 million, respectively.

Patient Services–UW Medicine

The financial statements of the University include the operations of the School of Medicine, three hospitals, associated physician group 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 Note 13) 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 529-bed hospital that provides comprehensive healthcare services to the Puget Sound community and patients from throughout the Pacific Northwest and beyond. UWMC also serves as the major clinical, teaching and research site for students and faculty in the Health Sciences at the University. Over 18,000 patients receive inpatient care at UWMC each year. Specialized inpatient care needs are met by the Cancer Center, the Regional Heart Center, the Neonatal Intensive Care Unit (NICU) and the Organ Transplantation program.

Valley Medical Center (VMC) is a 321-bed acute care hospital and network of clinics that 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 Statements of Net Position and Statements 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 Statements of Net Position and Statements 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 (Neighborhood Clinics) is a network of clinics with 12 neighborhood locations throughout the greater Puget Sound area, providing primary, urgent and selected specialty care with a staff of 99 healthcare providers. The revenues, expenses, assets and liabilities of Neighborhood Clinics are included in the University's financial statements.

UW Physicians (UWP) is the physician practice group for more than 1,800 faculty physicians and 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 the 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 of these activities is reflected in the University's financial statements.

In combination, these organizations (not including VMC and NWH) contributed $1,435 million in patient services revenue in fiscal year 2016, $1,362 million in fiscal year 2015 and $1,207 million in fiscal year 2014. UWMC generated 75% of this revenue in 2016, 76% in 2015 and 77% in 2014. UWMC admissions exceeded 18,000 in 2016, a slight increase from 2015. Average patient length of stay was nearly 7.2 days, up from 7.0 days in 2015. The increase in patient services revenue during 2016 is partly due to higher capacity with the opening of three patient bed floors in the Montlake Tower, as well as strong case volumes in oncology, cardiology and neurosurgery.

Gifts, Endowments and Investment Revenues

Net investment income for the years ended June 30, 2016, 2015 and 2014 consisted of the following:

(in millions)	2016	2015	2014
Interest and dividends	$ 69	$ 66	$ 73
Metropolitan Tract net income	22	16	8
Seattle Cancer Care Alliance increase in equity	19	6	12
Net appreciation (depreciation) of fair value of investments	(54)	151	398
Investment expenses	(11)	(12)	(10)
Net investment income	**$ 45**	**$ 227**	**$ 481**

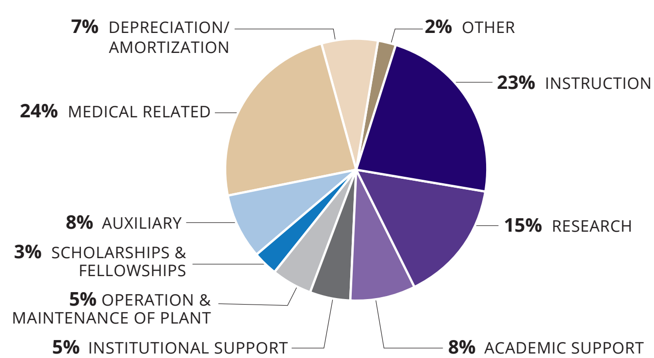
Net appreciation (depreciation) includes both realized and unrealized gains and losses. The unrealized gains, however, are not available until the underlying securities have been sold. Net investment income decreased by $182 million in 2016, compared to a decrease of $254 million in 2015. The change in realized and unrealized gains and losses was the major factor in the decrease for both years.

Donor support increased by $20 million, or 10%, to $220 million in 2016 from $200 million in 2015. 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 38% of total operating expenses. These dollars provided instruction to nearly 56,000 students and funded over 5,000 research awards. Medical-related expenses, such as those related to patient care, also continue to be one of the largest individual components.

Uses of Funds



Unaudited – see accompanying notes to financial statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

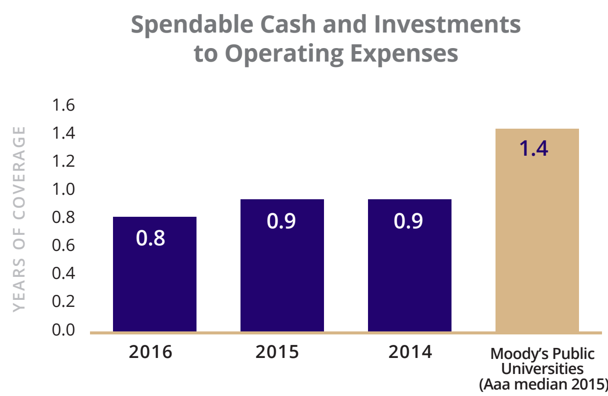
A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2016, 2015 and 2014 follows:

(in millions)	2016	2015	2014
Operating expenses:			
Educational and general instruction	$ 1,172	$ 1,114	$ 1,037
Research	751	730	766
Public service	39	35	42
Academic support	398	337	297
Student services	47	43	43
Institutional support	267	223	224
Operation and maintenance of plant	239	241	201
Scholarships and fellowships	156	147	138
Auxiliary enterprises	422	302	286
Medical-related	1,218	1,193	1,042
Depreciation/amortization	325	311	308
Total operating expenses	**$ 5,034**	**$ 4,676**	**$ 4,384**

Overall, the University's operating expenses increased by $358 million, or 8%, during 2016. Salaries expense increased $171 million, or 8%, due to employee merit increases and a modest increase in FTE's. Expenses associated with employee benefits increased $99 million, or 15%, primarily due to higher costs paid by the University for employee healthcare ($70 million), together with an increase in pension-related expenses as calculated under GASB Statement No. 68 ($19 million).

In 2015, operating expenses increased by $292 million, or 7%, over the prior year. Salaries expense increased $166 million, or 8%, due to merit increases and a small increase in FTE's. Despite an increase in the associated salaries, benefits expense decreased by $12 million, or 2%, due primarily to a reduction in pension expense as calculated under GASB Statement No. 68 when compared to the prior year, before implementation of the new accounting standard. Supplies and materials expense increased $44 million, or 11%, partly due to higher demand for medical supplies required by UWMC to support an increase in volumes related to patient care. Other operating expense increased by $35 million, or 34%, primarily due to increases in rental expense and costs associated with the University's self-insurance program.

The ratio of spendable cash and investments to operating expenses (as defined by Moody's Investors Service) measures the strength of available resources to cover annual operating expenses. This ratio, illustrated in the chart below, shows that in 2016 the University had sufficient available resources to fund operations for a period of 9.6 months.



Operating Loss

The University's operating loss increased to $682 million in 2016, from $464 million in 2015. The 2015 operating loss was a slight decrease from $470 million in 2014. State appropriations are shown as nonoperating revenue, pursuant to GASB standards. If state appropriations were classified as operating revenue, the operating loss would have been $380 million in 2016, $209 million in 2015 and $208 million in 2014. The University continues to rely on nonoperating revenues such as gift revenues and investment income distributions, in addition to state appropriations, to fund its operations.


UNIVERSITY of WASHINGTON
BE BOUNDLESS

STATEMENTS OF NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNITS [1]	
	June 30,		June 30,	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015	2016	2015
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 93,485	$ 82,905	$ 63,998	$ 39,960
INVESTMENTS, CURRENT PORTION (NOTE 6)	700,821	679,505	16,460	24,477
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $58,643 AND $66,902) (NOTE 5)	687,248	596,453	120,361	110,297
OTHER CURRENT ASSETS	57,262	43,459	64,854	63,444
TOTAL CURRENT ASSETS	1,538,816	1,402,322	265,673	238,178
NONCURRENT ASSETS:				
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	59,929	51,647	–	–
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	4,108,149	4,297,157	56,229	66,168
METROPOLITAN TRACT (NOTE 7)	133,525	121,146	–	–
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF $6,209 AND $4,974) (NOTE 4)	71,721	73,384	–	–
DUE FROM DISCRETE COMPONENT UNITS	84,946	93,240	–	–
OTHER NONCURRENT ASSETS	156,726	150,323	129,118	110,753
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF $3,798,831 AND $3,566,289) (NOTE 8)	4,353,141	4,172,378	461,017	467,701
TOTAL NONCURRENT ASSETS	8,968,137	8,959,275	646,364	644,622
TOTAL ASSETS	10,506,953	10,361,597	912,037	882,800
DEFERRED OUTFLOWS OF RESOURCES:				
UNAMORTIZED LOSS ON BOND REFUNDING	23,465	25,813	6,066	6,435
PENSION-RELATED DEFERRED OUTFLOWS (NOTE 15)	155,890	85,602	–	–
TOTAL DEFERRED OUTFLOWS OF RESOURCES	179,355	111,415	6,066	6,435
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 10,686,308**	**$ 10,473,012**	**$ 918,103**	**$ 889,235**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 652,471	$ 626,085	$ 136,970	$ 121,160
UNEARNED REVENUES	173,379	155,114	–	–
OTHER CURRENT LIABILITIES	97,170	92,982	16,932	11,743
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-11)	137,036	124,137	13,619	9,001
TOTAL CURRENT LIABILITIES	1,060,056	998,318	167,521	141,904
NONCURRENT LIABILITIES:				
U.S. GOVERNMENT GRANTS REFUNDABLE	58,754	51,985	–	–
DUE TO PRIMARY GOVERNMENT	–	–	84,946	93,240
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-11)	2,676,019	2,484,522	307,901	320,232
NET PENSION LIABILITY (NOTE 15)	805,174	622,589	–	–
TOTAL NONCURRENT LIABILITIES	3,539,947	3,159,096	392,847	413,472
TOTAL LIABILITIES	4,600,003	4,157,414	560,368	555,376
DEFERRED INFLOWS OF RESOURCES:				
PROPERTY TAXES	–	–	26,744	9,625
PENSION-RELATED DEFERRED INFLOWS (NOTE 15)	122,417	269,135	–	–
TOTAL DEFERRED INFLOWS OF RESOURCES	122,417	269,135	26,744	9,625
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,722,420	4,426,549	587,112	565,001
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	2,277,608	2,156,229	71,275	67,033
RESTRICTED:				
NONEXPENDABLE	1,419,311	1,321,979	1,927	1,943
EXPENDABLE	1,591,440	1,699,135	8,788	8,471
UNRESTRICTED	675,529	869,120	249,001	246,787
TOTAL NET POSITION	5,963,888	6,046,463	330,991	324,234
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 10,686,308**	**$ 10,473,012**	**$ 918,103**	**$ 889,235**

[1] See Note 18

See accompanying notes to 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,	
REVENUES	2016	2015	2016	2015
OPERATING REVENUES:				
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $144,543 AND $142,685)	$ 948,751	$ 914,419	$ –	$ –
NET PATIENT SERVICE REVENUES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $17,219 AND $15,947)	1,434,696	1,362,279	877,461	822,421
FEDERAL GRANTS AND CONTRACTS	990,396	999,189	–	–
STATE AND LOCAL GRANTS AND CONTRACTS	90,213	87,629	–	–
NONGOVERNMENTAL GRANTS AND CONTRACTS	213,834	193,840	–	–
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	224,747	223,494	–	–
AUXILIARY ENTERPRISES:				–
HOUSING AND FOOD SERVICES	114,448	111,531	–	–
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $8,231 AND $6,495)	62,690	67,727	–	–
OTHER AUXILIARY ENTERPRISES	171,712	139,974	–	–
OTHER MEDICAL-RELATED REVENUE	51,001	45,157	45,633	53,165
OTHER OPERATING REVENUE	49,841	66,340	–	–
TOTAL OPERATING REVENUES	**4,352,329**	**4,211,579**	**923,094**	**875,586**
EXPENSES				
OPERATING EXPENSES (NOTE 12):				
SALARIES	2,363,848	2,192,781	422,294	384,254
BENEFITS	749,407	649,923	103,837	99,346
SCHOLARSHIPS AND FELLOWSHIPS	155,449	146,570	–	–
UTILITIES	51,421	60,454	8,673	8,480
SUPPLIES AND MATERIALS	481,428	463,624	138,058	161,694
PURCHASED SERVICES	750,078	707,678	158,279	142,741
DEPRECIATION/AMORTIZATION	324,602	310,960	46,822	49,238
OTHER	157,932	144,087	55,993	20,048
TOTAL OPERATING EXPENSES	**5,034,165**	**4,676,077**	**933,956**	**865,801**
OPERATING INCOME (LOSS)	**(681,836)**	**(464,498)**	**(10,862)**	**9,785**
NONOPERATING REVENUES (EXPENSES)				
STATE APPROPRIATIONS	302,097	255,156	–	–
GIFTS	115,000	115,636	297	342
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $10,871 AND $11,741)	44,877	227,404	7,182	4,385
INTEREST ON CAPITAL ASSET-RELATED DEBT	(72,678)	(79,259)	(22,023)	(23,004)
PELL GRANT REVENUE	47,699	48,471	–	–
PROPERTY TAX REVENUE	–	–	19,902	18,132
OTHER NONOPERATING REVENUES	13,133	22,273	12,475	630
NET NONOPERATING REVENUES	**450,128**	**589,681**	**17,833**	**485**
INCOME (LOSS) BEFORE OTHER REVENUES	**(231,708)**	**125,183**	**6,971**	**10,270**
CAPITAL APPROPRIATIONS	39,221	20,812	–	–
CAPITAL GRANTS, GIFTS AND OTHER	21,645	21,986	(214)	2
GIFTS TO PERMANENT ENDOWMENTS	88,267	67,359	–	167
TOTAL OTHER REVENUES	**149,133**	**110,157**	**(214)**	**169**
INCREASE (DECREASE) IN NET POSITION	**(82,575)**	**235,340**	**6,757**	**10,439**
NET POSITION				
NET POSITION – BEGINNING OF YEAR (NOTE 1)	6,046,463	5,811,123	324,234	313,795
NET POSITION – END OF YEAR	**$ 5,963,888**	**$ 6,046,463**	**$ 330,991**	**$ 324,234**

[1] See Note 18

See accompanying notes to financial statements.

Dollars in thousands

STATEMENTS OF CASH FLOWS

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	2016	2015
STUDENT TUITION AND FEES	$ 913,941	$ 882,465
PATIENT SERVICES	1,449,111	1,328,801
GRANTS AND CONTRACTS	1,317,899	1,291,442
PAYMENTS TO SUPPLIERS	(469,826)	(466,542)
PAYMENTS FOR UTILITIES	(51,952)	(60,056)
PURCHASED SERVICES	(740,575)	(708,302)
OTHER OPERATING DISBURSEMENTS	(153,006)	(139,559)
PAYMENTS TO EMPLOYEES	(2,357,060)	(2,186,431)
PAYMENTS FOR BENEFITS	(683,786)	(588,216)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(155,449)	(146,570)
LOANS ISSUED TO STUDENTS	(14,474)	(24,858)
COLLECTION OF LOANS TO STUDENTS	22,906	23,530
OTHER MEDICAL CENTER RECEIPTS	51,001	45,157
AUXILIARY ENTERPRISE RECEIPTS	347,924	305,523
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	222,515	220,004
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	766,993	714,996
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(757,478)	(712,292)
OTHER RECEIPTS	37,227	91,322
NET CASH USED BY OPERATING ACTIVITIES	**(254,089)**	**(129,586)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	304,786	255,613
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	47,699	48,471
PRIVATE GIFTS	95,519	91,574
PERMANENT ENDOWMENT RECEIPTS	88,267	67,359
DIRECT LENDING RECEIPTS	219,000	239,000
DIRECT LENDING DISBURSEMENTS	(231,295)	(240,607)
TRANSFERS (TO) FROM COMPONENT UNITS	6,143	(100,945)
OTHER	15,387	65,744
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**545,506**	**426,209**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	388,420	450,469
STATE CAPITAL APPROPRIATIONS	41,078	20,928
CAPITAL GRANTS AND GIFTS RECEIVED	20,499	21,651
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(471,545)	(432,885)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(234,825)	(386,874)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(79,780)	(98,911)
OTHER	(7,407)	5,427
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(343,560)**	**(420,195)**

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM INVESTING ACTIVITIES	**2016**	**2015**
PROCEEDS FROM SALES OF INVESTMENTS	8,495,341	6,931,799
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(8,512,358)	(6,874,325)
INVESTMENT INCOME	79,740	69,875
NET CASH PROVIDED BY INVESTING ACTIVITIES	**62,723**	**127,349**
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,580	3,777
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	82,905	79,128
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 93,485**	**$ 82,905**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (681,836)	$ (464,498)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	324,602	310,960
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	10,625	(13,716)
OTHER ASSETS	(17,749)	(39,571)
PENSION-RELATED DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES	(217,007)	264,460
NET PENSION LIABILITY	182,585	(289,763)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	66,750	24,763
UNEARNED REVENUE	18,265	(10,813)
OTHER LONG-TERM LIABILITIES	51,244	89,920
U.S. GOVERNMENTAL GRANTS REFUNDABLE	6,769	(442)
LOANS TO STUDENTS	1,663	(886)
NET CASH USED BY OPERATING ACTIVITIES	**$ (254,089)**	**$ (129,586)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
STOCK GIFTS	$ 19,481	$ 24,062
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	18,932	6,319
NET UNREALIZED GAINS (LOSSES)	(94,881)	79,724
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ (56,468)**	**$ 110,105**

See accompanying notes to financial statements.
Dollars in thousands

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

The University of Washington (University), an agency of the state of Washington, is governed by a 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 (HMC), a component unit of King County, Washington, is a related party to the University, but is not reflected as part of the financial reporting entity (Note 13).

Component units are legally separate organizations for which the University is financially accountable. Financial accountability is demonstrated when one of several conditions exist such as when the University appoints a voting majority of the organization's board, is able to impose its will on the organization, receives specific financial benefit or incurs specific financial burdens from the organization, or the organization is fiscally dependent on the University. These entities may be reported in the financial statements of the University in one of two ways: the component units' amounts may be blended with the amounts reported by the University, 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)

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 $234,798,000 and $204,079,000 in 2016 and 2015, respectively.

UW Medicine Neighborhood Clinics (Neighborhood Clinics)

Neighborhood Clinics was established as a tax-exempt entity for the benefit of UWSOM, UWP and its affiliated medical centers, HMC and UWMC, exclusively for charitable, scientific and educational purposes. Neighborhood Clinics was 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 $15,076,000 and $16,008,000 in 2016 and 2015, respectively.

Real estate financing entities

The entities listed below are nonprofit corporations that were formed to acquire or construct 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.

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

These entities collectively have net capital assets of $277,820,000 and $278,928,000, and long-term debt of $424,766,000 and $281,550,000, in 2016 and 2015, respectively. These amounts are reflected in the University's financial statements.

DISCRETELY PRESENTED COMPONENT UNITS

Northwest Hospital

UW Medicine and Northwest Hospital & Medical Center (NWH), a 281-bed full-service acute care hospital, have been affiliated since January 1, 2010. The University is the sole corporate member of NWH. The audited financial statements of NWH 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 (VMC), have had a strategic alliance since July 1, 2011. Valley Medical Center owns and operates a 321-bed full-service acute care hospital and 45 clinics located throughout southeast King County. The audited financial statements of VMC 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 $126,636,000 and $107,704,000 in Other Assets, together with $18,932,000 and $6,319,000 in Investment Income, for its share of the joint venture in 2016 and 2015, 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 $16,905,000 and $18,852,000 in 2016 and 2015, respectively.

CHANGES IN REPORTING ENTITY

In fiscal year 2016, Washington Biomedical Research Properties 3.2 began operations and commenced construction of facilities that will be utilized by the University to fulfill its mission. Based on its relationship with the University, management has determined that it meets the criteria of a blended component unit for presentation in the University's financial statements. As such, its financial activities are aggregated with those of the University and intra-entity transactions have been eliminated.

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. Significant 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, 2014, the University adopted GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." This Statement requires governments providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, which is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The total pension liability is determined by discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. Prior to adopting this Statement, the University reported pension expense based on cash contributions paid to the pension plan administrator. In addition to the reporting changes described above, implementation of this Statement resulted in the restatement of fiscal year 2015 beginning unrestricted net position, reducing it by $831,426,000. Below is a reconciliation of total net position as previously reported at June 30, 2014, to the restated net position.

(Dollars in thousands)	
NET POSITION AT JUNE 30, 2014, AS PREVIOUSLY REPORTED	$ 6,642,549
ADOPTION OF GASB STATEMENT NO. 68	(831,426)
NET POSITION AT JULY 1, 2014, AS RESTATED	**$ 5,811,123**

On July 1, 2014, the University adopted GASB Statement No. 69, "*Government Combinations and Disposals of Government Operations*." This Statement requires disclosures to be made about government combinations and disposals of government operations, in order to enable financial statement users to evaluate the nature and financial effects of those transactions. There was no impact to the financial statements of the University as a result of implementing this Statement.

On July 1, 2014, the University adopted GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," an amendment of GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*." The purpose of this Statement is to address application of the transition provisions of GASB Statement No. 68, and to clarify guidance regarding contributions made by a state or local government employer, or nonemployer contributing entity, to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Implementation of this Statement impacted the restatement of fiscal year 2015 beginning unrestricted net position required by GASB Statement No. 68, reducing it by $80,926,000.

On July 1, 2015, the University adopted GASB Statement No. 72 "*Fair Value Measurement and Application*". This Statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. There was no impact to the fair value measurements presented in the Statements of Net Position or Statements of Revenues, Expenses and Changes in Net Position of the University as a result of implementing this Statement. University disclosures related to fair value measurement, however, have been updated where necessary (Note 6).

On July 1, 2015, the University adopted the portion of the guidance in GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*" that pertains to amendments to Statement No. 68. There was no impact to the financial statements of the University as a result of implementing this portion of the Statement.

On July 1, 2015, the University adopted Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to the financial statements of the University as a result of implementing this Statement.

On July 1, 2015, the University adopted GASB Statement No. 82, "*Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*". This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance of Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The University either already complies with, or is unaffected by, the topics addressed by this Statement, therefore, there was no impact to the University's financial statements, note disclosures or required supplementary information as a result of implementation.

ACCOUNTING STANDARDS IMPACTING THE FUTURE

In June 2015, the GASB issued Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The portion of this guidance pertaining to pension plans not within the scope of Statement No. 68 will be effective for the fiscal year ending June 30, 2017. The guidance is intended to improve the financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, and improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68. The University of Washington Supplemental Retirement Plan (UWSRP, Note 15) does not currently fall within the scope of GASB 68 since the assets set aside to pay retiree benefits have not been segregated and restricted in a trust or equivalent arrangement. Implementing this Statement will require that the University recognize the remaining unamortized pension plan liability for the UWSRP, together with any associated deferred inflows and deferred outflows of resources, and to restate net position for all periods presented.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" (OPEB), which will be effective for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The University's participation in OPEB is described in Note 14, and does not currently impact the University's financial statements. As a result of implementing this Statement, the University will be required to recognize its proportionate share of the state's actuarially determined OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented.

In August 2015, the GASB issued Statement No. 77, "*Tax Abatement Disclosures*", which will be effective for the fiscal year ending June 30, 2017. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues, and in exchange, the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires governments that enter into tax abatement agreements to disclose information about these agreements. VMC, a discretely presented component unit of the University, is the only organization within the University's financial reporting entity that receives tax revenues. VMC does not enter into tax abatement agreements, therefore, implementation of this Statement is not expected to have an impact on the financial statements of the University.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units*", which will be effective for the fiscal year ending June 30, 2017. This Statement amends requirements for the financial statement presentation of component units of all state and local governments. New criteria will require presenting a component unit's balances and activities blended with the primary government, and the elimination of intra-entity transactions, when the component unit is incorporated as a not-for-profit corporation and the primary government is the corporation's sole corporate member. The University is the sole corporate member of NWH, which is currently presented as a discretely presented component unit. Implementation of this Statement will require that the University begin reflecting NWH as a blended component unit, beginning in the fiscal year ending June 30, 2017.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*", which will be effective for the fiscal year ending June 30, 2018. Irrevocable split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Implementation of this Statement will require the University to report its beneficial interest in irrevocable split-interest agreements, including those held by an intermediary such as an outside trust. The University has lead income rights in many outside trusts. This Statement will require that the beneficial interest received be initially recorded at fair value as a deferred inflow of resources, and then revalued at the end of each financial reporting period with the change in fair value recognized as revenue. The University currently reports revenue based on income distributions received.

USE OF ESTIMATES

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

The University estimates the pollution remediation liability (Note 9) by reviewing the current status of known polluted sites and developing estimates of cleanup costs. These estimates are subject to change due to improvements in technology, inflation, changes in the scope of work, and the pursuit of reimbursement from other responsible parties.

Allowances (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 University's share of pension plan assets, liabilities, deferrals and expenses related to the plans administered by the Washington Department of Retirement Systems, and the liability and expense related to the UWSRP (Note 15), are based on actuarial valuations prepared by an external actuary. The results of an actuarial valuation are estimates based on historical data, actuarial assumptions, and the demographics of the employee population.

The self-insurance reserve (Note 16) is estimated through an externally prepared 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 and are reflected on the Statements of Net Position in Other Current Assets. 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.

Capital assets which are financed by capital leases are depreciated in the same manner as other capital assets.

Interest incurred on capital asset-related debt was $85,856,000 and $86,931,000 during 2016 and 2015, respectively. The University capitalized $13,178,000 and $7,672,000 of this cost during 2016 and 2015, respectively.

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

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

Split-Interest Agreements. Under such 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 3.4% to 7.5%.

Compensated Absences. University employees accrue annual leave at rates based on length of service, and for sick leave at the rate of one day per month. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal compensation rate for any balance that exceeds 480 hours, or for any balance upon retirement or death. Annual leave accrued at June 30, 2016 and 2015 was $104,330,000 and $93,328,000, respectively, and is included in Accounts Payable and Accrued Liabilities. Sick leave accrued at June 30, 2016 and 2015 was $42,191,000 and $37,984,000, respectively, and is included in Long-Term Liabilities (Note 9).

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 Services 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. Revenue related to charity care provided to patients is excluded from net patient services revenue.

Third-party payor agreements with Medicare and Medicaid provide for payments at amounts different from established rates and are part of contractual adjustments to net patient services 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.

For more information about Net Patient Services Revenue, see the audited financial statements of the UW Medicine Clinical Enterprise - UW Division, which are contained in the latest Bondholders Report at http://f2.washington.edu/treasury/policies-reports/reports/financing.

Charity Care. Charity care provides patient care without charge or at amounts less than established rates to patients who meet certain criteria under the 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 the charity care policy to the uninsured and the underinsured. Collection of these amounts is not pursued and as such they are not reported as net patient service revenue. The cost of charity provided is calculated based on the aggregate relationship of costs to charges. The estimated cost of charity care provided for fiscal years ended June 30, 2016 and 2015 was $14,690,000 and $11,530,000, 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 when underlying expenditures are made.

Operating Activities. The University's policy for reporting operating activities in the Statements of Revenues, Expenses and Changes in Net Position is to include activities that generally result from exchange transactions. Examples of exchange transactions are payments received for tuition, patient services or grants under which services are performed, as well as payments made for the delivery of goods or services. Certain other significant revenue streams used for operations, such as state appropriations, Pell grants, gifts 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 trusts;

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

Unrestricted net position: Net position not subject to externally-imposed restrictions 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 and certain federal excise taxes.

Reclassifications. Certain amounts in the 2015 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2016 financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:

Cash and Cash Equivalents

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

At June 30, 2016 and 2015, bank balances not covered by FDIC or PDPC protection were $334,000 and $391,000, respectively.

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. These deposits include amounts held for the University's permanent land grant funds, and the University of Washington building fee collected from students. The fair value of these funds approximates the carrying value.

NOTE 4:

Student Loans Receivable

Net student loans of $71,721,000 and $73,384,000 at June 30, 2016 and 2015, respectively, consist of $55,804,000 and $55,537,000 from federal programs, and $15,917,000 and $17,847,000 from University programs, at June 30, 2016 and 2015, respectively. Interest income from student loans for the years ended June 30, 2016 and 2015 was $1,881,000 and $1,690,000, 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, 2016 and 2015 were:

(Dollars in thousands)	**2016**	**2015**
NET PATIENT SERVICES	$ 303,109	$ 325,813
GRANTS AND CONTRACTS	172,429	179,621
INVESTMENTS	137,359	31,392
DUE FROM OTHER AGENCIES	54,819	47,851
SALES AND SERVICES	34,590	32,357
TUITION	16,040	12,094
ROYALTIES	3,234	4,893
STATE APPROPRIATIONS	1,384	5,930
OTHER	22,927	23,404
SUBTOTAL	**745,891**	**663,355**
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(58,643)	(66,902)
TOTAL	**$ 687,248**	**$ 596,453**

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. In 2016, the Board of Regents approved the establishment of the University of Washington Investment Management Company ("UWINCO"), an internal investment management company. The former investment management advisory committee was replaced with an investment management advisory board known as the University of Washington Investment Management Company Board ("UWINCO Board").

The University holds significant amounts of investments that are measured at fair value on a recurring basis. Shown below is a tabular format for disclosing the levels within the fair value hierarchy. The three-tier hierarchy of inputs is summarized as follows:

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date
- Level 2 Inputs – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly
- Level 3 Inputs – Unobservable inputs for an asset or liability

TABLE 1 – INVESTMENTS *(Dollars in thousands)*

		Fair Value Measurement Inputs		
INVESTMENTS BY FAIR VALUE LEVEL	2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 640,448	$ 13,646	$ 626,802	$ –
U.S. GOVERNMENT AGENCY	535,750	–	535,750	–
MORTGAGE BACKED	172,199	–	172,199	–
ASSET BACKED	133,567	–	133,567	–
CORPORATE AND OTHER	141,644	21,243	120,401	–
TOTAL FIXED INCOME SECURITIES	**1,623,608**	**34,889**	**1,588,719**	**–**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	626,622	573,552	52,025	1,045
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	11,291	6,160	–	5,131
REAL ESTATE	3,851	–	–	3,851
OTHER	226	–	–	226
TOTAL EQUITY SECURITIES	**641,990**	**579,712**	**52,025**	**10,253**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**2,265,598**	**$ 614,601**	**$ 1,640,744**	**$ 10,253**
INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)				
GLOBAL EQUITY INVESTMENTS	1,055,272			
ABSOLUTE RETURN STRATEGY FUNDS	463,366			
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	329,719			
REAL ASSETS FUNDS	183,481			
OTHER	106,729			
TOTAL INVESTMENTS MEASURED USING NAV	**2,138,567**			
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	4,404,165			
CASH EQUIVALENTS AT AMORTIZED COST	404,805			
TOTAL INVESTMENTS	**$ 4,808,970**			

TABLE 1 – INVESTMENTS *continued* *(Dollars in thousands)*

		Fair Value Measurement Inputs		
INVESTMENTS BY FAIR VALUE LEVEL	2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 607,182	$ 3,484	$ 603,698	$ –
U.S. GOVERNMENT AGENCY	585,745	–	585,745	–
MORTGAGE BACKED	204,546	–	204,546	–
ASSET BACKED	227,077	–	227,077	–
CORPORATE AND OTHER	103,781	23,211	80,570	–
TOTAL FIXED INCOME SECURITIES	**1,728,331**	**26,695**	**1,701,636**	**–**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	939,403	839,007	99,943	453
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	11,405	6,458	–	4,947
REAL ESTATE	7,829	–	–	7,829
OTHER	514	–	–	514
TOTAL EQUITY SECURITIES	**959,151**	**845,465**	**99,943**	**13,743**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**2,687,482**	**$ 872,160**	**$1,801,579**	**$ 13,743**
INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)				
GLOBAL EQUITY INVESTMENTS	823,675			
ABSOLUTE RETURN STRATEGY FUNDS	510,975			
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	340,231			
REAL ASSETS FUNDS	191,083			
OTHER	137,496			
TOTAL INVESTMENTS MEASURED USING NAV	**2,003,460**			
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	4,690,942			
CASH EQUIVALENTS AT AMORTIZED COST	285,720			
TOTAL INVESTMENTS	**$ 4,976,662**			

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

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

The valuation method for investments measured using NAV per share (or its equivalent) is presented on the following table.

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

2016	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,055,272	$ 23,846	MONTHLY TO ANNUALLY	30-60 DAYS
ABSOLUTE RETURN STRATEGY FUNDS	463,366	15,728	QUARTERLY TO ANNUALLY	30-60 DAYS
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	329,719	204,399	N/A	–
REAL ASSETS FUNDS	183,481	55,503	N/A	–
OTHER	106,729	850	QUARTERLY TO ANNUALLY	30-95 DAYS
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,138,567**			

2015	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 823,675	$ 16,798	MONTHLY TO ANNUALLY	30-60 DAYS
ABSOLUTE RETURN STRATEGY FUNDS	510,975	68,820	QUARTERLY TO ANNUALLY	30-60 DAYS
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	340,231	129,715	N/A	–
REAL ASSETS FUNDS	191,083	90,883	N/A	–
OTHER	137,496	23,685	QUARTERLY TO ANNUALLY	30-95 DAYS
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,003,460**			

1. **Global Equity:** This investment category includes public equity investments in separately managed accounts, long-only comingled funds, unconstrained limited partnerships, and passive market indices. Fair values have been determined using the NAV per share of the investments, except for the separately managed accounts. For 2016 and 2015, approximately 62% of the value of the investments in this category can be redeemed within 60 days, and 94% can be redeemed within one year. The remaining balance of these investments contain restrictions that do not allow for redemption within one year.
2. **Absolute Return:** This category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and/or hedges against market downturns. Fair values have been determined using the NAV per share of the investments. Approximately 89% of the value of the investments in this category can be redeemed within one year. The remaining balance of these investments contain restrictions that do not allow for redemption within one year.
3. **Private equity:** This category includes buyout, venture, and special situations funds. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years.
4. **Real assets:** This category includes real estate, natural resources, and other hard assets. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years.
5. **Other:** This category consists of fixed income and opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. Approximately 45% of the value of the investments in this category can be redeemed or anticipate distribution within one year. The remaining balance of these investments contain restrictions on redemption within one year or will be distributed as underlying investments are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 10 years.

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2016 and 2015, the Invested Funds Pool totaled $1,491,692,000 and $1,526,380,000, respectively. The Invested Funds Pool also owns units in the Consolidated Endowment Fund (CEF) valued at $730,501,000 and $806,198,000 at June 30, 2016 and 2015, respectively. 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% in fiscal years 2016 and 2015. Endowment operating and gift accounts received 3% in fiscal years 2016 and 2015. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

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

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%).

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 $12,170,000 and $2,986,000 at June 30, 2016 and 2015, 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 $107,800,000 and $111,442,000 at June 30, 2016 and 2015, respectively. Income received from these trusts, which is included in Investment Income, was $4,487,000 and $6,162,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of $41,086,000 and $71,485,000 in fiscal years 2016 and 2015, 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 (depreciation) 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, 2016 and 2015 were $(53,795,000) and $151,209,000, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2016 and 2015, the University had outstanding commitments to fund alternative investments of $300,326,000 and $329,901,000, respectively. These commitments are expected to be called over a multi-year time frame. The University believes it has adequate liquidity and funding sources to meet these obligations.

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 and notional amount of investment derivative instruments outstanding at June 30, 2016 and 2015, categorized by type, are as follows:

TABLE 3 – INVESTMENT DERIVATIVES *(Dollars in thousands)*

Notational Amount as of June 30			Fair Value as of June 30			Change in Fair Value		
DESCRIPTION	2016	2015	ASSET CLASSIFICATION	2016	2015	INCOME CLASSIFICATION	2016	2015
FUTURES CONTRACTS	$ 64,428	$100,747	INVESTMENTS	$ 65,218	$ 100,286	INVESTMENT INCOME	$ 790	($ 461)

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, 2016 or 2015. 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 2.77 years and 2.28 years at June 30, 2016 and 2015, 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 is a calculation of the number of years required to recover the true cost of a bond. The duration measures presented in Table 4 below represent a broad average across all fixed income securities held in the CEF, the Invested Funds Pool (IF or operating funds) and debt service reserve funds. The CEF and IF portfolios are managed to have a duration below their policy benchmarks to protect principal and provide liquidity to the overall portfolio.

Duration and credit risk figures at June 30, 2016 and 2015 exclude $13,860,000 and $12,019,000, respectively, of fixed income securities held outside the CEF and the IF. These amounts make up 0.85% and 0.70%, respectively, of the University's fixed income investments, and are not included in the duration figures detailed in Table 4.

The composition of fixed income securities at June 30, 2016 and 2015, along with credit quality and effective duration measures, is summarized as follows:

TABLE 4 – FIXED INCOME: CREDIT QUALITY AND EFFECTIVE DURATION *(Dollars in thousands)*

2016

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	$ 636,485	$ –	$ –	$ –	$ 636,485	3.24
U.S. GOVERNMENT AGENCY	531,795	–	–	–	531,795	2.54
MORTGAGE BACKED	–	94,054	54,797	23,348	172,199	2.20
ASSET BACKED	–	113,715	2,627	17,225	133,567	0.96
CORPORATE AND OTHER	–	111,977	20,225	3,500	135,702	4.04
TOTAL	**$ 1,168,280**	**$ 319,746**	**$ 77,649**	**$ 44,073**	**$ 1,609,748**	**2.77**

2015

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	$ 603,698	$ –	$ –	$ –	$ 603,698	2.00
U.S. GOVERNMENT AGENCY	582,472	–	–	–	582,472	2.72
MORTGAGE BACKED	–	107,070	75,060	22,415	204,545	2.01
ASSET BACKED	–	195,968	6,998	24,111	227,077	1.73
CORPORATE AND OTHER	–	98,320	–	200	98,520	3.25
TOTAL	**$ 1,186,170**	**$ 401,358**	**$ 82,058**	**$ 46,726**	**$ 1,716,312**	**2.28**

* 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, 2016 and 2015 of $1,009,602,000 and $1,195,070,000, respectively.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	2016	2015
EURO (EUR)	$ 123,075	$ 174,487
INDIAN RUPEE (INR)	122,738	112,679
CHINESE RENMINBI (CNY)	109,170	211,184
JAPANESE YEN (JPY)	79,512	110,617
BRAZIL REAL (BRL)	74,582	54,225
HONG KONG DOLLAR (HKD)	58,655	60,046
SOUTH KOREAN WON (KRW)	53,278	56,835
RUSSIAN RUBLE (RUB)	50,132	36,218
BRITISH POUND (GBP)	44,802	54,880
CANADIAN DOLLAR (CAD)	30,634	35,385
SWISS FRANC (CHF)	28,931	39,061
MEXICAN PESO (MXN)	28,693	23,898
TAIWANESE DOLLAR (TWD)	27,573	27,055
PHILIPPINE PESO (PHP)	25,265	29,100
REMAINING CURRENCIES	152,562	169,400
TOTAL	**$ 1,009,602**	**$ 1,195,070**

NOTE 7:

Metropolitan Tract

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 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.

The balances as of June 30, 2016 and 2015 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 $177,659,000 and $166,124,000, respectively, and are net of the outstanding balance of the associated long-term debt.

In March 2015, $8,500,000 of Metropolitan Tract commercial paper was refinanced and replaced by the issuance of University General Revenue and Refunding Bonds, 2015 A&B, as described in the refunding activity section of Note 11. The loan amount as of June 30, 2016 and 2015 was $5,710,000 and $8,535,000, respectively. In addition, $33,400,000 of bond proceeds were loaned to the Metropolitan Tract as part of the Cobb Building lease termination. The loan amount as of June 30, 2016 and 2015 was $32,890,000 and $33,564,000, respectively. Both loans are unsecured, but expected to be repaid through revenues generated by the Metropolitan Tract properties.

OFFICE PROPERTIES

From July 18, 1953 to October 31, 2014, the University leased a significant portion of the 11 acre site to Unico Properties, LLC ("Unico"). Upon expiration of the Unico Lease, the following events occurred:

- The University entered into an agreement with Wright Runstad to undertake activities relating to the redevelopment of the site currently occupied by the Rainier Square ("Predevelopment Agreement"). The agreement commenced on November 1, 2014 and expires upon the completion of certain development milestones. An 80-year ground lease with Wright Runstad will commence upon fulfillment of the terms of the Predevelopment Agreement
- The University terminated the ground lease with Unico for the Cobb Building, and paid a termination price of $33,400,000

- Ownership of the Palomar Garage property transferred to the University as agreed to in the Unico Lease
- In accordance with the Predevelopment Agreement, the University entered into an Interim Agreement for the Rainier Square development site that provides Wright Runstad with significant control over the management and operation of the Rainier Square Building in exchange for a fixed rent schedule for up to seven years
- In connection with the Interim Agreement for the Rainer Square site, the University entered into a property management agreement with Wright Runstad for the Rainier Tower Building
- The University hired Unico Properties, LLC to oversee leasing for all of the office buildings and property management for all of the office buildings except the Rainer Tower

HOTEL

On January 18, 1980, the Board of Regents entered into a lease ("the Hotel Lease") for 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 managed by Fairmont Hotels and Resorts, Inc.

On June 1, 2015, the University consented to the assignment of the Hotel Lease from LHCS Hotel Holding (2002), LLC to IC/RCDP Seattle Hotel, an entity owned by affiliates of Rockwood IX REIT, Inc. and an affiliate of DiNapoli Capital Partners, LLC. The tenant under the Hotel Lease remained the same, and the management of the hotel by Fairmont Hotels and Resorts, Inc. did not change.

NOTE 8:

Capital Assets

Capital asset activity for the two-year period ended June 30, 2016 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2014	Additions/ Transfers	Retirements	Balance at June 30, 2015	Additions/ Transfers	Retirements	Balance at June 30, 2016
LAND	$ 126,795	$ 1,953	$ –	$ 128,748	$ –	$ –	$ 128,748
INFRASTRUCTURE	194,002	11,068	–	205,070	36,738	–	241,808
BUILDINGS	5,244,985	70,936	2,575	5,313,346	307,470	9,142	5,611,674
FURNITURE, FIXTURES AND EQUIPMENT	1,223,811	104,985	84,785	1,244,011	119,989	96,495	1,267,505
LIBRARY MATERIALS	325,663	13,521	1,767	337,417	13,933	1,834	349,516
CAPITALIZED COLLECTIONS	7,093	65	–	7,158	25	–	7,183
INTANGIBLE ASSETS	105,319	25,484	6,946	123,857	16,538	1,240	139,155
CONSTRUCTION IN PROGRESS	121,696	224,043	1,931	343,808	9,057	3,280	349,585
INTANGIBLES IN PROCESS	25,412	17,615	7,775	35,252	22,669	1,123	56,798
TOTAL COST	**7,374,776**	**469,670**	**105,779**	**7,738,667**	**526,419**	**113,114**	**8,151,972**
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION:							
INFRASTRUCTURE	95,351	4,921	–	100,272	6,281	–	106,553
BUILDINGS	1,946,659	175,159	2,106	2,119,712	187,934	6,425	2,301,221
FURNITURE, FIXTURES AND EQUIPMENT	982,794	101,464	71,228	1,013,030	104,453	84,248	1,033,235
LIBRARY MATERIALS	239,087	12,546	1,317	250,316	12,740	1,387	261,669
INTANGIBLE ASSETS	66,089	16,870	–	82,959	13,194	–	96,153
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	**3,329,980**	**310,960**	**74,651**	**3,566,289**	**324,602**	**92,060**	**3,798,831**
CAPITAL ASSETS, NET	**$ 4,044,796**	**$ 158,710**	**$ 31,128**	**$ 4,172,378**	**$ 201,817**	**$ 21,054**	**$ 4,353,141**

NOTE 9:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

Long-term liability activity for the two-year period ended June 30, 2016 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2014	Additions/ Transfers	Reductions	Balance at June 30, 2015	Additions/ Transfers	Reductions	Balance at June 30, 2016	Current Portion 2015	Current Portion 2016
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	$ 165,044	$ 260	$ 15,740	$ 149,564	$ 30,145	$ 52,655	$ 127,054	$ 18,290	$ 17,230
REVENUE BONDS PAYABLE (NOTE 11)	1,764,855	291,750	347,540	1,709,065	327,580	43,700	1,992,945	41,055	47,555
UNAMORTIZED PREMIUM ON BONDS	101,456	39,709	15,978	125,187	28,980	17,025	137,142	13,416	14,974
TOTAL BONDS PAYABLE	**2,031,355**	**331,719**	**379,258**	**1,983,816**	**386,705**	**113,380**	**2,257,141**	**72,761**	**79,759**
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER -CAPITAL ASSET RELATED (NOTE 11)	24,008	7,205	2,975	28,238	1,715	5,306	24,647	5,020	5,721
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	1,822	–	65	1,757	1,000	1,441	1,316	1,546	1,318
CAPITAL LEASE OBLIGATIONS (NOTE 10)	20,457	–	4,641	15,816	–	4,594	11,222	3,479	2,676
TOTAL NOTES PAYABLE AND CAPITAL LEASES	**46,287**	**7,205**	**7,681**	**45,811**	**2,715**	**11,341**	**37,185**	**10,045**	**9,715**
OTHER LONG-TERM LIABILITIES:									
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	36,684	5,614	–	42,298	3,889	7,033	39,154	–	3,517
POLLUTION REMEDIATION LIABILITY (NOTE 1)	22,000	–	–	22,000	–	1,000	21,000	4,000	3,000
UNEARNED REVENUE (NOTE 13)	16,366	11,760	5,500	22,626	43,215	38,231	27,610	8,500	10,400
SICK LEAVE (NOTE 1)	36,174	6,852	5,042	37,984	9,861	5,654	42,191	4,974	5,348
SELF-INSURANCE (NOTE 16)	67,450	29,495	14,744	82,201	24,778	27,826	79,153	20,459	21,285
COMMERCIAL PAPER	–	111,545	–	111,545	–	111,545	–	–	–
UWSRP NET PENSION OBLIGATION (NOTE 15)	198,895	53,057	3,766	248,186	53,057	4,257	296,986	3,398	4,012
OTHER NONCURRENT LIABILITIES	–	12,192	–	12,192	7,443	7,000	12,635	–	–
TOTAL OTHER LONG-TERM LIABILITIES	**377,569**	**230,515**	**29,052**	**579,032**	**142,243**	**202,546**	**518,729**	**41,331**	**47,562**
TOTAL LONG-TERM LIABILITIES	**$ 2,455,211**	**$ 569,439**	**$ 415,991**	**$ 2,608,659**	**$ 531,663**	**$ 327,267**	**$ 2,813,055**	**$ 124,137**	**$ 137,036**

DISCRETE COMPONENT UNITS

Long-term liability activity for the two-year period ended June 30, 2016 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2014	Additions/ Transfers	Reductions	Balance at June 30, 2015	Additions/ Transfers	Reductions	Balance at June 30, 2016	Current Portion 2015	Current Portion 2016
VALLEY MEDICAL CENTER									
LIMITED TAX GENERAL OBLIGATION BONDS	$ 243,503	$ –	$ 6,271	$ 237,232	$ –	$ 6,487	$ 230,745	$ 6,535	$ 6,780
REVENUE BONDS	18,858	–	1,376	17,482	–	1,523	15,959	1,650	1,720
BUILD AMERICA BONDS	61,155	–	–	61,155	–	–	61,155	–	–
NOTES PAYABLE & OTHER	1,407	–	513	894	–	291	603	291	259
TOTAL LONG-TERM LIABILITIES	**$ 324,923**	**$ –**	**$ 8,160**	**$ 316,763**	**$ –**	**$ 8,301**	**$ 308,462**	**$ 8,476**	**$ 8,759**
NORTHWEST HOSPITAL									
REVENUE BONDS	$ 73,400	$ –	$ 73,400	$ –	$ –	$ –	$ –	$ –	$ –
NOTES PAYABLE & CAPITAL LEASES	13,645	–	1,175	12,470	1,520	932	13,058	525	4,860
TOTAL LONG-TERM LIABILITIES	**$ 87,045**	**$ –**	**$ 74,575**	**$ 12,470**	**$ 1,520**	**$ 932**	**$ 13,058**	**$ 525**	**$ 4,860**

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2016, are as follows:

CAPITAL LEASES

Year *(Dollars in thousands)*	**Future Payments**
2017	$ 2,898
2018	1,580
2019	1,494
2020	1,494
2021	1,494
THEREAFTER	3,106
TOTAL MINIMUM LEASE PAYMENTS	12,066
LESS: AMOUNT REPRESENTING INTEREST COSTS	844
PRESENT VALUE OF MINIMUM PAYMENTS	**$ 11,222**

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, 2016 and 2015, the University recorded rent expense of $44,047,000 and $44,736,000, respectively, for these leases. Future lease payments of June 30, 2016 are as follows:

Year *(Dollars in Thousands)*	**Future Payments**
2017	$ 84,387
2018	80,324
2019	77,774
2020	74,483
2021	57,991
2022 - 2026	136,722
2027 - 2031	54,132
2032 - 2036	52,538
2037 - 2041	55,882
2042 - 2046	31,621
2047 - 2051	21,661
2052 - 2056	25,011
2057 - 2061	28,884
2062 - 2066	12,336
TOTAL MINIMUM LEASE PAYMENTS	**$ 793,746**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2016 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 0.61% to 6.40%. Debt service requirements at June 30, 2016 were as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*

	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON GENERAL REVENUE BONDS		NOTES PAYABLE AND OTHER	
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2017	$ 17,230	$ 6,132	$ 47,555	$ 84,791	$ 7,039	$ 859
2018	13,890	5,256	74,585	83,197	4,762	697
2019	13,920	4,520	54,135	80,895	3,261	555
2020	10,385	3,905	55,380	78,735	3,178	425
2021	10,890	3,374	58,650	76,418	3,108	296
2022 - 2026	51,035	8,234	308,220	342,419	3,991	397
2027 - 2031	9,704	424	345,185	269,845	232	96
2032 - 2036	–	–	372,705	195,434	232	96
2037 - 2041	–	–	384,030	103,037	160	77
2042 - 2046	–	–	282,750	16,798	–	–
2047 - 2051	–	–	9,750	589	–	–
TOTAL PAYMENTS	**$ 127,054**	**$ 31,845**	**$1,992,945**	**$1,332,158**	**$ 25,963**	**$ 3,498**

State law requires that the University reimburse the state for debt service payments relating to its portion of the state of Washington General Obligation and Refunding Bonds from Medical Center patient revenues, tuition, timber sales and other revenues.

ISSUANCE ACTIVITY

On September 9, 2015, the University issued $195,510,000 in General Revenue Bonds, 2015 C&D, at a premium of $13,279,000. The proceeds were used to fund various projects such as renovation of Denny Hall, construction of Animal Care and Research Facilities, South West Campus Central Utility Plant, and other projects. In addition, proceeds were used to pay off $111,545,000 in commercial paper. The 2015 C&D bonds have coupon rates ranging from 1.40% to 5.00% with an average coupon rate of 4.03%. The average life of the 2015 C&D General Revenue bonds is 15.60 years with final maturity on December 1, 2045.

On October 7, 2015, the Washington Biomedical Research Properties 3.2 issued $132,070,000 in Lease Revenue Bonds 2015 A&B, at a premium of $10,926,000. The 2015 A&B bonds have coupon rates ranging from 1.49% to 5.00% with an average coupon rate of 4.42%. The average life of the 2015 A&B Lease Revenue Bonds is 15.87 years with final maturity on January 1, 2048.

REFUNDING ACTIVITY

On August 21, 2014, the Washington Biomedical Research Properties II refunded Lease Revenue Bonds totaling $118,915,000 with new bond issuances totaling $115,660,000 and premium of $13,263,000. The refunded bonds had coupon rates ranging from 4.40% to 5.50% with an average interest rate of 5.03%; the new bonds have an average interest rate of 4.48%. The refunding decreased the total debt service payments to be made over the next 12.2 years by $15,026,000 and resulted in a total economic gain of $12,572,000. The average life of the Washington Economic Development Finance Authority Lease Revenue Refunding Bonds, 2014 is 11.95 years with final maturity on June 1, 2038.

On March 4, 2015, the University issued $218,270,000 in General Revenue & Refunding Bonds, 2015 A&B, at a premium of $26,315,000. A portion of the proceeds (new par of $176,090,000 plus premium of $26,396,000) was used to refund existing debt of $190,195,000. The refunded bonds had coupon rates ranging from 4.00% to 5.00% with an average interest rate of 4.98%; the new bonds have an average coupon of 4.22% with an average interest rate of 4.40%. The refunding decreased the total debt service payments to be made over the next 14.92 years by $74,997,000 and resulted in a total economic gain of $38,083,000. The remainder of the proceeds, issued at a slight discount, was used to pay off $42,500,000 in commercial paper. The average life of the 2015 A&B General Revenue bonds is 14.82 years with final maturity on December 1, 2044.

On October 8, 2015, the state of Washington refunded General Obligation Bonds totaling $34,285,000 (UW portion) with new bond issuances totaling $30,145,000 and premium of $4,775,000. The refunded bonds had an average interest rate and coupon rate of 5.00%; the new bonds have an average coupon rate of 5.00%. The refunding decreased the total debt service payments to be made over the next 10 years by $5,621,000 and resulted in a total economic gain of $5,230,000.

COMMERCIAL PAPER PROGRAM

The University has 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, 2016 and 2015, there was $50,000,000 and $161,545,000, respectively, in outstanding commercial paper.

During fiscal year 2015, the University issued $111,545,000 and refunded $42,500,000 of commercial paper debt with General Revenue Bonds, 2015 A&B.

During fiscal year 2016, the University refunded $111,545,000 of commercial paper debt with General Revenue Bonds, 2015 C&D.

SUBSEQUENT DEBT ACTIVITY

On July 14, 2016, the state of Washington refunded General Obligation Bonds totaling $9,800,000 (UW portion) with new bond issuances totaling $9,100,000 and premium of $1,700,000. The refunded bonds had an average interest rate and coupon rate of 5.00%; the new bonds have an average coupon rate of 4.90%. The refunding decreased the total debt service payments to be made over the next seven years by $1,100,000 and resulted in a total economic gain of $961,000.

On July 20, 2016, the University issued of $45,000,000 of commercial paper debt. The proceeds will be used to fund various projects such as Phases 3 and 4a of the Housing Master Plan, Animal Research and Care Facilities and UWMC Expansion Phase 2.

On October 18, 2016, the University sold $205,160,000 in General Revenue & Refunding Bonds, 2016A&B, at a premium of $35,596,000. Part of the proceeds were used to refund existing debt, as well as retire $45,000,000 of commercial paper debt and pay cost of issuance. The amount refunded was $38,220,000; the new par was $35,020,000 (plus premium of $4,989,000). Proceeds are expected to fund various University projects. The closing date is November 9, 2016.

DEFEASED BONDS

The University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The trust account assets and the liability for the defeased bonds are not included in the University's financial statements. As of June 30, 2016 and 2015, $139,038,000 and $252,973,000, respectively, of bonds outstanding are considered defeased.

NOTE 12:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2016 and 2015 are summarized as follows:

OPERATING EXPENSES *(Dollars in thousands)*	**2016**	**2015**
INSTRUCTION	$ 1,171,803	$ 1,113,959
RESEARCH	751,262	729,608
PUBLIC SERVICE	38,956	35,428
ACADEMIC SUPPORT	398,286	336,747
STUDENT SERVICES	47,113	43,101
INSTITUTIONAL SUPPORT	267,070	223,217
OPERATION & MAINTENANCE OF PLANT	238,945	241,719
SCHOLARSHIPS & FELLOWSHIPS	155,449	146,570
AUXILIARY ENTERPRISES	422,474	301,543
MEDICAL-RELATED	1,218,205	1,193,225
DEPRECIATION/AMORTIZATION	324,602	310,960
TOTAL OPERATING EXPENSES	**$ 5,034,165**	**$ 4,676,077**

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, 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 University Registrar. The activities of the Center for Undergraduate Advising, Diversity, and Student Success, and the operations of the Rubenstein Pharmacy in the student health center are also 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, 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 reflected in this manner.

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.

Depreciation/Amortization

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

NOTE 13:

Related Parties

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center located in Seattle, is a component unit of King County, Washington. It has been managed by the University under a management contract between King County and the University since 1967. In February 2016, the University and King County entered into a Hospital Services Agreement. The term of the agreement, including extensions, will expire on December 31, 2045.

Under the agreement, 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. 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 $32,322,000 as of June 30, 2016 and $25,923,000 as of June 30, 2015, as well as HMC investments of $3,256,000 and $3,467,000, current accrued liabilities of $20,394,000 and $19,363,000, and long-term liabilities of $27,610,000 and $22,626,000, as of June 30, 2016 and 2015, respectively.

Under an annual agreement, HMC provides strategic funding to Neighborhood Clinics. Funding from HMC to Neighborhood Clinics was $10,339,000 and $6,400,000 during fiscal years 2016 and 2015, respectively, and is presented as Other Nonoperating Revenue in the Statements of Revenues, Expenses and Changes in Net Position. Additionally, UWMC provided $6,926,000 and $3,444,000 to NWH for strategic funding of operations during fiscal years 2016 and 2015, respectively. These amounts are presented in the Statements of Revenues, Expenses and Changes in Net Position for the University as Other Nonoperating Expense and for NWH as Other Nonoperating Revenue.

UW Medicine information technology operates as a self-sustaining activity of the University (ITS department). The ITS department records enterprise-wide information technology capital assets that are purchased for use by UW Medicine entities. The Unearned Revenue reflected in long-term liabilities (Note 9) of $27,610,000 and $22,626,000 at June 30, 2016 and 2015, respectively, represents HMC's funding of the enterprise-wide information technology capital assets which will be included in the recharge rates of the ITS department over the useful life of the assets.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2016 and 2015, the UWF transferred $113,464,000 and $82,502,000, 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 $3,393,000 and $2,818,000 from the University in support of its operations in fiscal years 2016 and 2015, respectively. These amounts were expensed by the University.

During fiscal year 2015, NWH entered into a long-term financing agreement with the University to obtain funds for the defeasance and advance refunding of Series 2007 Revenue Bonds. Under the terms of this agreement, NWH is required to maintain annual debt service coverage equal to at least 1.25 and days cash on hand equal to at least 50 days. As of June 30, 2016 and 2015, $68,609,000 and $71,306,000, respectively, is payable to the University as a result of this financing agreement. The portion which is due in the next fiscal year is reported by NWH as Other Current Liabilities, and by the University as Other Current Assets, on the Statements of Net Position. The remaining long-term portion is reported on the Statements of Net Position by NWH as Due to Primary Government and by the University as Due from Discrete Component Units.

In addition, as of June 30, 2016 and 2015, respectively, NWH has a payable to the University of $28,894,000 and $29,402,000 for services purchased from the University during the current and prior fiscal years. The current portion of the payable is reported by NWH as Other Current Liabilities, and by the University as Other Current Assets, on the Statements of Net Position as of June 30, 2016 and 2015. The remaining long-term portion is reported on the Statements of Net Position by NWH as Due to Primary Government, and by the University as Due from Discrete Component Units.

NOTE 14:

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 2016 and 2015, 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, 2015 and 2013 was $5.3 billion and $3.7 billion, respectively. The annual required contribution was $498 million and $342 million for the state of Washington for 2015 and 2013, 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 HMC (an unconsolidated related party), was estimated at approximately $997 million and $671 million for 2015 and 2013, respectively. These amounts are not included in the University's financial statements.

The University paid $324 million and $248 million for healthcare expenses in fiscal years 2016 and 2015, respectively, which included its pay-as-you-go portion of the OPEB liability, calculated by the actuary at $7.9 million in both 2016 and 2015.

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

NOTE 15:

Pension Plans

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

PLAN DESCRIPTIONS OF THE DRS PLANS

Public Employees' Retirement System

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

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

Teachers' Retirement System

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

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

Law Enforcement Officers' and Fire Fighters' Retirement System

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

VESTING AND BENEFITS PROVIDED

PERS Plan 1 and TRS Plan 1

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

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional cost-of-living allowance, and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

PERS Plan 2/3 and TRS Plan 2/3

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

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered early retirement. Members are eligible for early retirement with a reduced benefit at age 55 with at least 20 years of service credit. The benefit is reduced by a factor that varies according to age, for each year before age 65. Members who are age 55 with at least 30 years of service credit can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has less, or no, reduction (depending on age) but imposes stricter return-to-work rules

If hired on or after May 1, 2013, members have the option to receive a benefit that is reduced by five percent for each year before age 65.

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost- of-living allowance (based on the Consumer Price Index) capped at three percent annually, and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

LEOFF Plan 2

LEOFF Plan 2 provides retirement, disability and death benefits. Members are vested after completing five years of eligible service. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service, based on the member's 60 highest-paid consecutive service months. Members are eligible for retirement with a full benefit at age 53 with at least five years of service credit. Members who retire prior to age 53 receive reduced benefits. At age 50, members with at least 20 years of service credit can receive a benefit that is reduced by three percent for each year prior to age 53. LEOFF plan 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually, and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

FIDUCIARY NET POSITION

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

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

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

ACTUARIAL ASSUMPTIONS

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The University's 2016 pension liability is based on an OSA valuation performed as of June 30, 2014, with the results rolled forward to the measurement date of June 30, 2015. Likewise, the University's 2015 pension liability is based on the valuation performed as of June 30, 2013, with the results rolled forward to the measurement date of June 30, 2014. The following actuarial assumptions have been applied to all prior periods included in the measurement:

INFLATION	3.0% TOTAL ECONOMIC INFLATION, 3.75% SALARY INFLATION
SALARY INCREASE	EXPECTED TO GROW BY PROMOTIONS AND LONGEVITY IN ADDITION TO SALARY INFLATION ASSUMPTION
INVESTMENT RATE OF RETURN	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries' Retirement Plans Experience Committee (RPEC). As recommended by the RCEP, the OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

The actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of OSA's 2007-2012 Experience Study, which is a comprehensive review and update of prior actuarial assumptions. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

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

The long-term expected rate of return of 7.50% approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short term changes that are not expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement dates of June 30, 2015 and 2014, are summarized in the following table:

	2016 *(Measurement Date 2015)*		**2015** *(Measurement Date 2014)*	
Asset Class	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
FIXED INCOME	20.00%	1.70%	20.00%	0.80%
TANGIBLE ASSETS	5.00%	4.40%	5.00%	4.10%
REAL ESTATE	15.00%	5.80%	15.00%	5.30%
GLOBAL EQUITY	37.00%	6.60%	37.00%	6.05%
PRIVATE EQUITY	23.00%	9.60%	23.00%	9.05%

The inflation components used to create the above table are 2.20% and 2.70% the measurement dates as of June 30, 2015 and 2014 respectively, and represents WSIB's most recent long-term estimate of broad economic inflation.

DISCOUNT RATE

The discount rate used to measure the total pension liabilities as of June 30, 2016 and 2015 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan in which the University participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.50% future investment rate of return on pension plan investments was assumed for the test. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively, as provided for in chapter 41.45 of the RCW).

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

The following table presents the University's net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

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

	2016			2015		
Plan	1 % Decrease	Current Discount Rate	1% Increase	1 % Decrease	Current Discount Rate	1% Increase
PERS 1	$ 530,652	$ 435,853	$ 354,335	$ 514,278	$ 417,231	$ 333,926
PERS 2/3	1,065,241	364,303	(172,379)	843,524	202,225	(287,608)
TRS 1	5,089	4,049	3,154	3,707	2,881	2,172
TRS 2/3	4,100	969	(1,359)	2,191	252	(1,189)
LEOFF 2	2,086	(2,083)	(5,221)	1,217	(2,844)	(5,891)

EMPLOYER CONTRIBUTION RATES

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The contribution rates and required contributions for each DRS plan in which the University participates are shown in the table below.

Description *(Dollars in Thousands)*	PERS 1	PERS 2/3[a]	TRS 1	TRS 2/3[a]	LEOFF 2
2016					
CONTRIBUTION RATE	11.18%	11.18%	13.13%	13.13%	8.59%
CONTRIBUTIONS MADE	$ 47,976	$ 59,820	$ 374	$ 606	$ 376
2015					
CONTRIBUTION RATE	9.21%	9.21%	10.39%	10.39%	8.59%
CONTRIBUTIONS MADE	$ 38,503	$ 45,896	$ 286	$ 307	$ 299

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

UNIVERSITY PROPORTIONATE SHARE

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by the University as of June 30, 2016 was June 30, 2015. Employer contributions received and processed by the DRS during fiscal year ended June 30, 2015 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in their June 30, 2015 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by the University as of June 30, 2015 was June 30, 2014, with employer contributions received and processed by the DRS during fiscal year 2014 used as the basis for determining each employer's proportionate share of the June 30, 2014 collective pension amounts. The University's proportionate share for each DRS plan is shown in the table below.

PROPORTIONATE SHARE *(Dollars in thousands)*

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
YEAR ENDED JUNE 30, 2016	8.33%	10.20%	0.13%	0.12%	0.20%
YEAR ENDED JUNE 30, 2015	8.28%	10.00%	0.10%	0.08%	0.21%

UNIVERSITY AGGREGATED BALANCES

The University's aggregated balances of net pension liabilities and net pension asset as of June 30, 2016 and 2015, respectively are presented in the table below.

(Dollars in Thousands)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	Total
2016						
NET PENSION LIABILITY	$ 435,853	$ 364,303	$ 4,049	$ 969	$ –	$ 805,174
NET PENSION ASSET	$ –	$ –	$ –	$ –	$ 2,083	$ 2,083
2015						
NET PENSION LIABILITY	$ 417,231	$ 202,225	$ 2,881	$ 252	$ –	$ 622,589
NET PENSION ASSET	$ –	$ –	$ –	$ –	$ 2,844	$ 2,844

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

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

PROPORTIONATE SHARE OF PENSION EXPENSE *(Dollars in thousands)*	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
YEAR ENDED JUNE 30, 2016	$ 28,799	$ 45,100	$ 1,248	$ 414	$ (66)	$ 75,495
YEAR ENDED JUNE 30, 2015	$ 23,023	$ 32,567	$ 1,052	$ 237	$ (144)	$ 56,735

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2016						
CHANGE IN ASSUMPTIONS	$ –	$ 587	$ –	$ 1	$ 5	$ 593
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	38,726	–	153	182	39,061
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	6,453	–	564	61	7,078
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [a]	47,976	59,826	374	606	376	109,158
TOTAL	**$ 47,976**	**$ 105,592**	**$ 374**	**$ 1,324**	**$ 624**	**$ 155,890**
2015						
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	$ –	$ 410	$ –	$ 311	$ –	$ 721
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY	38,503	45,486	286	307	299	84,881
TOTAL	**$ 38,503**	**$ 45,896**	**$ 286**	**$ 618**	**$ 299**	**$ 85,602**

[a] Amounts will be recognized as a reduction of the net pension liability as of June 30, 2017

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2016						
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 23,846	$ 97,252	$ 300	$ 376	$ 631	$122,405
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	–	–	–	12	12
TOTAL	**$ 23,846**	**$ 97,252**	**$ 300**	**$ 376**	**$ 643**	**$122,417**
2015						
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 52,172	$ 214,360	$ 505	$ 578	$ 1,505	$269,120
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	–	–	–	15	15
TOTAL	**$ 52,172**	**$ 214,360**	**$ 505**	**$ 578**	**$ 1,520**	**$269,135**

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

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

YEAR	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2017	$ (9,242)	$ (24,475)	$ (116)	$ 26	$ (202)	$ (34,009)
2018	(9,242)	(24,475)	(116)	26	(202)	(34,009)
2019	(9,242)	(24,534)	(116)	26	(202)	(34,068)
2020	3,880	21,998	48	212	154	26,292
2021	–	–	–	52	46	98
THEREAFTER	–	–	–	–	11	11
TOTAL	**$ (23,846)**	**$ (51,486)**	**$ (300)**	**$ 342**	**$ (395)**	**$ (75,685)**

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

University of Washington Retirement Plan (403(B))

Faculty, librarians and professional staff are eligible to participate in the University of Washington Retirement Plan (UWRP), a 403(b) defined-contribution plan 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.

The number of participants in the 403 (b) plan for the years ended June 30, 2016 and 2015 were 15,962 and 15,415, respectively.

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. Employer contributions for the years ended June 30, 2016 and 2015 were $111,015,000 and $105,266,000, respectively.

University of Washington Supplemental Retirement Plan (401(A))

The University of Washington Supplemental Retirement Plan (UWSRP), a 401(a) defined-benefit retirement plan, operates in tandem with the 403(b) plan to supplement the expected defined contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011.

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

(Dollars in thousands)	2015	2013	2011
UAL	$ 373,711	$ 292,535	$ 235,048
NORMAL COST	$ 14,250	$ 9,529	$ 10,774
AMORTIZATION OF UAL, INCLUDING INTEREST	38,807	29,021	19,607
ARC	**$ 53,057**	**$ 38,550**	**$ 30,381**

Actuarial Assumptions *(Dollars in thousands)*	2015	2013	2011
PAYROLL COVERED BY PLAN	$ 1,050,000	$ 1,047,000	$ 1,129,000
RATE OF RETURN ASSUMPTION	4.00%	4.25%	4.25%
SALARY INCREASES FOR YEARS 1 AND 2	3.75%	3.00%	2.00%
SALARY INCREASE FOR THIRD YEAR	3.75%	3.00%	4.00%
SALARY INCREASES THEREAFTER	3.75%	3.00%	4.00%

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

The following table reflects the activity in the UWSRP Net Pension Obligation for the years ended June 30, 2016, 2015 and 2014:

(Dollars in thousands)	2016	2015	2014
BALANCE AT BEGINNING OF FISCAL YEAR	$ 248,186	$ 198,895	$ 163,372
ARC	53,057	53,057	38,550
PAYMENTS TO BENEFICIARIES	(4,257)	(3,766)	(3,027)
BALANCE AT END OF FISCAL YEAR	**$ 296,986**	**$ 248,186**	**$ 198,895**

401(a) Plan Description

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

401(a) Plan Funding

The University received an actuarial valuation of the UWSRP with a valuation date of July 1, 2015. The previous evaluations were performed in 2013 and 2011. The University has set aside $198,831,000 and $188,881,000 as of June 30, 2016 and 2015, 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.

NOTE 16:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2016 and 2015 were $245,773,000 and $157,034,000, respectively. These expenditures will be funded from institutional reserves, debt proceeds and state appropriations.

The University receives and expends substantial amounts under federal and state grants, contracts and programs. This funding is used for research, student aid, Medical Center operations and other programs, and is subject to audit by governmental granting agencies. Certain grant and contract costs billed to the federal government are subject to audit under 2 CFR 200 , "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards." The University is also involved in various other claims and legal actions arising in the ordinary course of business. University management believes that any liabilities arising from these matters will not have a material 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, automobile liability, and information security and privacy protection, 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 undiscounted amounts that will be required for future payments of claims that have been reported, and claims related to events that have occurred but have not yet been reported.

The self-insurance reserve is estimated through an actuarial calculation and included in Long-Term Liabilities. Changes in the self-insurance reserve for the years ended June 30, 2016, 2015, and 2014 are noted below:

(Dollars in thousands)	2016	2015	2014
RESERVE AT BEGINNING OF FISCAL YEAR	$ 82,201	$ 67,450	$ 79,708
INCURRED CLAIMS AND CHANGES IN ESTIMATES	24,778	29,495	13,917
CLAIM PAYMENTS	(27,826)	(14,744)	(26,175)
RESERVE AT END OF FISCAL YEAR	**$ 79,153**	**$ 82,201**	**$ 67,450**

NOTE 17:

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, 2016**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 1,538,816	$ (30,409)	$ 1,369,221	$ 200,004	$ 65,627	$ 134,377
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	4,614,996	–	4,498,009	116,987	99,473	17,514
CAPITAL ASSETS, NET	4,353,141	–	4,059,598	293,543	15,723	277,820
TOTAL ASSETS	10,506,953	(30,409)	9,926,828	610,534	180,823	429,711
DEFERRED OUTFLOWS OF RESOURCES	179,355	–	179,355	–	–	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 10,686,308**	**$ (30,409)**	**$ 10,106,183**	**$ 610,534**	**$ 180,823**	**$ 429,711**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 1,060,056	$ (6,972)	$ 964,331	$ 102,697	$ 77,832	$ 24,865
TOTAL NONCURRENT LIABILITIES	3,539,947	(9,753)	3,124,372	425,328	–	425,328
TOTAL LIABILITIES	4,600,003	(16,725)	4,088,703	528,025	77,832	450,193
DEFERRED INFLOWS OF RESOURCES	122,417	–	122,417	–	–	–
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,722,420	(16,725)	4,211,120	528,025	77,832	450,193
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,277,608	–	2,277,789	(181)	15,723	(15,904)
RESTRICTED:						
NONEXPENDABLE	1,419,311	–	1,419,311	–	–	–
EXPENDABLE	1,591,440	–	1,591,440	–	–	–
UNRESTRICTED	675,529	(13,684)	606,523	82,690	87,268	(4,578)
TOTAL NET POSITION	5,963,888	(13,684)	5,895,063	82,509	102,991	(20,482)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 10,686,308**	**$ (30,409)**	**$ 10,106,183**	**$ 610,534**	**$ 180,823**	**$ 429,711**

(Dollars in thousands) **Statements of Net Position – June 30, 2015**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 1,402,322	$ (22,327)	$ 1,355,339	$ 69,310	$ 66,437	$ 2,873
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	4,786,897	–	4,675,492	111,405	86,557	24,848
CAPITAL ASSETS, NET	4,172,378	–	3,878,199	294,179	15,251	278,928
TOTAL ASSETS	10,361,597	(22,327)	9,909,030	474,894	168,245	306,649
DEFERRED OUTFLOWS OF RESOURCES	111,415	–	111,415	–	–	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 10,473,012**	**$ (22,327)**	**$ 10,020,445**	**$ 474,894**	**$ 168,245**	**$ 306,649**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 998,318	$ (31,313)	$ 932,905	$ 96,726	$ 66,701	$ 30,025
TOTAL NONCURRENT LIABILITIES	3,159,096	–	2,864,897	294,199	–	294,199
TOTAL LIABILITIES	4,157,414	(31,313)	3,797,802	390,925	66,701	324,224
DEFERRED INFLOWS OF RESOURCES	269,135	–	269,135	–	–	–
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,426,549	(31,313)	4,066,937	390,925	66,701	324,224
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,156,229	–	2,155,933	296	15,251	(14,955)
RESTRICTED:						
NONEXPENDABLE	1,321,979	–	1,321,979	–	–	–
EXPENDABLE	1,699,135	–	1,699,135	–	–	–
UNRESTRICTED	869,120	8,986	776,461	83,673	86,293	(2,620)
TOTAL NET POSITION	6,046,463	8,986	5,953,508	83,969	101,544	(17,575)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 10,473,012**	**$ (22,327)**	**$ 10,020,445**	**$ 474,894**	**$ 168,245**	**$ 306,649**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position – Year ended June 30, 2016**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 948,751	$ –	$ 948,751	$ –	$ –	$ –
PATIENT SERVICES	1,434,696	(20,475)	1,206,817	248,354	248,354	–
GRANT REVENUE	1,294,443	–	1,294,443	–	–	–
OTHER OPERATING REVENUE	674,439	(40,847)	660,223	55,063	1,520	53,543
TOTAL OPERATING REVENUE	**4,352,329**	**(61,322)**	**4,110,234**	**303,417**	**249,874**	**53,543**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	4,709,563	(43,232)	4,434,370	318,425	289,864	28,561
DEPRECIATION / AMORTIZATION	324,602	–	307,928	16,674	1,820	14,854
TOTAL OPERATING EXPENSES	**5,034,165**	**(43,232)**	**4,742,298**	**335,099**	**291,684**	**43,415**
OPERATING INCOME (LOSS)	**(681,836)**	**(18,090)**	**(632,064)**	**(31,682)**	**(41,810)**	**10,128**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	302,097	–	302,097	–	–	–
GIFTS	115,000	–	115,000	–	–	–
INVESTMENT INCOME	44,877	–	43,978	899	899	–
OTHER NONOPERATING REVENUES (EXPENSES)	(11,846)	(4,580)	(36,589)	29,323	42,358	(13,035)
NET NONOPERATING REVENUES (EXPENSES)	**450,128**	**(4,580)**	**424,486**	**30,222**	**43,257**	**(13,035)**
INCOME (LOSS) BEFORE OTHER REVENUES	**(231,708)**	**(22,670)**	**(207,578)**	**(1,460)**	**1,447**	**(2,907)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	60,866	–	60,866	–	–	–
GIFTS TO PERMANENT ENDOWMENTS	88,267	–	88,267	–	–	–
TOTAL OTHER REVENUES	**149,133**	**–**	**149,133**	**–**	**–**	**–**
INCREASE (DECREASE) IN NET POSITION	**(82,575)**	**(22,670)**	**(58,445)**	**(1,460)**	**1,447**	**(2,907)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	6,046,463	8,986	5,953,508	83,969	101,544	(17,575)
NET POSITION – END OF YEAR	**$ 5,963,888**	**$ (13,684)**	**$ 5,895,063**	**$ 82,509**	**$ 102,991**	**$ (20,482)**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position – Year ended June 30, 2015**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 914,419	$ –	$ 914,419	$ –	$ –	$ –
NET PATIENT SERVICE REVENUES	1,362,279	(8,913)	1,151,404	219,788	219,788	–
GRANT REVENUE	1,280,658	–	1,280,658	–	–	–
OTHER OPERATING REVENUE	654,223	(25,677)	642,671	37,229	299	36,930
TOTAL OPERATING REVENUE	**4,211,579**	**(34,590)**	**3,989,152**	**257,017**	**220,087**	**36,930**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	4,365,117	(33,911)	4,134,172	264,856	251,450	13,406
DEPRECIATION / AMORTIZATION	310,960	–	293,441	17,519	1,666	15,853
TOTAL OPERATING EXPENSES	**4,676,077**	**(33,911)**	**4,427,613**	**282,375**	**253,116**	**29,259**
OPERATING INCOME (LOSS)	**(464,498)**	**(679)**	**(438,461)**	**(25,358)**	**(33,029)**	**7,671**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	255,156	–	255,156	–	–	–
GIFTS	115,636	–	115,636	–	–	–
INVESTMENT INCOME (LOSS)	227,404	–	231,471	(4,067)	(4,067)	–
OTHER NONOPERATING REVENUES (EXPENSES)	(8,515)	394	(20,913)	12,004	31,674	(19,670)
NET NONOPERATING REVENUES (EXPENSES)	**589,681**	**394**	**581,350**	**7,937**	**27,607**	**(19,670)**
INCOME (LOSS) BEFORE OTHER REVENUES	**125,183**	**(285)**	**142,889**	**(17,421)**	**(5,422)**	**(11,999)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	42,798	–	42,798	–	–	–
GIFTS TO PERMANENT ENDOWMENTS	67,359	–	67,359	–	–	–
TOTAL OTHER REVENUES	**110,157**	**–**	**110,157**	**–**	**–**	**–**
INCREASE (DECREASE) IN NET POSITION	**235,340**	**(285)**	**253,046**	**(17,421)**	**(5,422)**	**(11,999)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,811,123	9,271	5,700,462	101,390	106,966	(5,576)
NET POSITION – END OF YEAR	**$ 6,046,463**	**$ 8,986**	**$ 5,953,508**	**$ 83,969**	**$ 101,544**	**$ (17,575)**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 CONTINUED

(Dollars in thousands)

Statements of Cash Flows – Year ended June 30, 2016	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (254,089)	$ –	$ (270,971)	$ 16,882	$ 4,432	$ 12,450
NONCAPITAL FINANCING ACTIVITIES	545,506	–	542,546	2,960	2,960	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(343,560)	–	(472,234)	128,674	(102)	128,776
INVESTING ACTIVITIES	62,723	–	216,968	(154,245)	(14,968)	(139,277)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,580**	**–**	**16,309**	**(5,729)**	**(7,678)**	**1,949**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	82,905	(9,728)	73,573	19,060	18,034	1,026
CASH AND CASH EQUIVALENTS – END OF THE YEAR	**$ 93,485**	**$ (9,728)**	**$ 89,882**	**$ 13,331**	**$ 10,356**	**$ 2,975**

(Dollars in thousands)

Statements of Cash Flows – Year ended June 30, 2015	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (129,586)	$ (9,728)	$ (106,453)	$ (13,405)	$ (18,746)	$ 5,341
NONCAPITAL FINANCING ACTIVITIES	426,209	–	403,128	23,081	23,081	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(420,195)	–	(412,579)	(7,616)	(1,612)	(6,004)
INVESTING ACTIVITIES	127,349	–	129,076	(1,727)	(1,727)	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,777**	**(9,728)**	**13,172**	**333**	**996**	**(663)**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	79,128	–	60,401	18,727	17,038	1,689
CASH AND CASH EQUIVALENTS – END OF THE YEAR	**$ 82,905**	**$ (9,728)**	**$ 73,573**	**$ 19,060**	**$ 18,034**	**$ 1,026**

NOTE 18:

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, 2016** Total Discrete Component Units	**June 30, 2016** Northwest Hospital	**June 30, 2016** Valley Medical Center	**June 30, 2015** Total Discrete Component Units	**June 30, 2015** Northwest Hospital	**June 30, 2015** Valley Medical Center
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
TOTAL CURRENT ASSETS	$ 265,673	$ 76,962	$ 188,711	$ 238,178	$ 78,426	$ 159,752
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	185,347	51,315	134,032	176,921	48,895	128,026
CAPITAL ASSETS, NET	461,017	111,815	349,202	467,701	117,735	349,966
TOTAL DEFERRED OUTFLOW OF RESOURCES	6,066	6,066	–	6,435	6,435	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 918,103**	**$ 246,158**	**$ 671,945**	**$ 889,235**	**$ 251,491**	**$ 637,744**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES						
TOTAL CURRENT LIABILITIES	$ 167,521	$ 63,516	$ 104,005	$ 141,904	$ 52,083	$ 89,821
TOTAL NONCURRENT LIABILITIES	392,847	93,144	299,703	413,472	105,185	308,287
TOTAL DEFERRED INFLOWS OF RESOURCES	26,744	–	26,744	9,625	–	9,625
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	587,112	156,660	430,452	565,001	157,268	407,733
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	71,275	30,674	40,601	67,033	33,864	33,169
RESTRICTED:						
NONEXPENDABLE	1,927	1,927	–	1,943	1,943	–
EXPENDABLE	8,788	754	8,034	8,471	459	8,012
UNRESTRICTED	249,001	56,143	192,858	246,787	57,957	188,830
TOTAL NET POSITION	330,991	89,498	241,493	324,234	94,223	230,011
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 918,103**	**$ 246,158**	**$ 671,945**	**$ 889,235**	**$ 251,491**	**$ 637,744**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position**	**Year Ended June 30, 2016** Total Discrete Component Units	**Year Ended June 30, 2016** Northwest Hospital	**Year Ended June 30, 2016** Valley Medical Center	**Year Ended June 30, 2015** Total Discrete Component Units	**Year Ended June 30, 2015** Northwest Hospital	**Year Ended June 30, 2015** Valley Medical Center
REVENUES						
OPERATING REVENUES:						
PATIENT SERVICES	$ 877,461	$ 357,598	$ 519,863	$ 822,421	$ 341,405	$ 481,016
OTHER OPERATING REVENUE	45,633	15,153	30,480	53,165	15,649	37,516
TOTAL OPERATING REVENUE	**923,094**	**372,751**	**550,343**	**875,586**	**357,054**	**518,532**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	887,134	373,426	513,708	816,563	352,124	464,439
DEPRECIATION / AMORTIZATION	46,822	17,495	29,327	49,238	18,027	31,211
TOTAL OPERATING EXPENSES	**933,956**	**390,921**	**543,035**	**865,801**	**370,151**	**495,650**
OPERATING INCOME (LOSS)	**(10,862)**	**(18,170)**	**7,308**	**9,785**	**(13,097)**	**22,882**
NONOPERATING REVENUES (EXPENSES)						
PROPERTY TAX REVENUE	19,902	–	19,902	18,132	–	18,132
INVESTMENT INCOME	7,182	2,516	4,666	4,385	981	3,404
OTHER NONOPERATING EXPENSES	(9,251)	11,143	(20,394)	(22,032)	6,769	(28,801)
NET NONOPERATING REVENUES (EXPENSES)	**17,833**	**13,659**	**4,174**	**485**	**7,750**	**(7,265)**
INCOME (LOSS) BEFORE OTHER REVENUES	**6,971**	**(4,511)**	**11,482**	**10,270**	**(5,347)**	**15,617**
CAPITAL GRANTS, GIFTS AND OTHER	(214)	(214)	–	169	169	–
INCREASE (DECREASE) IN NET POSITION	**6,757**	**(4,725)**	**11,482**	**10,439**	**(5,178)**	**15,617**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	324,234	94,223	230,011	313,795	99,401	214,394
NET POSITION – END OF YEAR	**$ 330,991**	**$ 89,498**	**$ 241,493**	**$ 324,234**	**$ 94,223**	**$ 230,011**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	8.33%	8.28%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 435,853	$ 417,231
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 22,341	$ 25,376
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	1950.91%	1644.20%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	59.10%	61.19%

Schedule of Contributions

PERS 1

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 2,155	$ 2,058
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 2,155	$ 2,059
CONTRIBUTION DEFICIENCY (EXCESS)	$ –	$ (1)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 19,450	$ 22,341
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	11.08%	9.21%

Schedule of Proportionate Share of the Net Pension Liability

TRS 1

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.13%	0.10%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 4,049	$ 2,881
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 423	$ 514
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	957.21%	560.51%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	65.70%	68.77%

Schedule of Contributions

TRS 1

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 38	$ 44
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 38	$ 42
CONTRIBUTION DEFICIENCY (EXCESS)	$ –	$ 2
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 306	$ 423
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	12.42%	10.40%

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	10.20%	10.00%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 364,303	$ 202,225
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 904,661	$ 856,839
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	40.27%	23.60%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	89.20%	93.29%

Schedule of Contributions

PERS 2/3

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 107,424	$ 83,323
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 108,413	$ 83,342
CONTRIBUTION DEFICIENCY (EXCESS)	$ (989)	$ (19)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 967,955	$ 904,661
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	11.10%	9.21%

Schedule of Proportionate Share of the Net Pension Liability

TRS 2/3

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.12%	0.08%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 969	$ 252
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 5,367	$ 3,391
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	18.05%	7.43%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	92.48%	96.81%

Schedule of Contributions

TRS 2/3

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 956	$ 558
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 985	$ 555
CONTRIBUTION DEFICIENCY (EXCESS)	$ (29)	$ 3
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 7,507	$ 5,367
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	12.73%	10.40%

Schedule of Proportionate Share of the Net Pension Liability (Asset)

LEOFF 2

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	0.20%	0.21%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	$ (2,083)	$ (2,844)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 3,534	$ 3,581
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	-58.94%	-79.42%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	111.67%	116.75%

Schedule of Contributions

LEOFF 2

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 384	$ 303
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 384	$ 300
CONTRIBUTION DEFICIENCY (EXCESS)	$ –	$ 3
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 4,474	$ 3,534
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	8.58%	8.57%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

The Office of the State Actuary calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

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The 2016 UW Financial Report and reports from previous years are available at annualreport.uw.edu.

For more information, contact Financial Accounting at 206.221.7845 or accountg@uw.edu

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UNIVERSITY *of* WASHINGTON

SUPPLEMENTAL BONDHOLDER INFORMATION

STUDENTS & ENROLLMENT

	CENSUS DAY AUTUMN QUARTER	
	2015	2016
UNDERGRADUATE		
Freshmen		
Applied	41,257	48,471
Accepted	23,183	23,776
Percent Accepted to Applied	56%	49%
Enrolled	7,943 [1]	7,802
Percent Enrolled to Accepted	34%	33%
Transfers		
Applied	9,819	9,619
Accepted	4,747	5,164
Percent Accepted to Applied	48%	54%
Enrolled	3,123	3,207
Percent Enrolled to Accepted	66%	62%
Total Undergraduate FTE		
Bothell	4,402	4,804
Seattle	29,888	29,873
Tacoma	3,685	3,996
Total All Campuses	37,975	38,673
Totals Undergraduate Headcount		
Bothell	4,698	5,113
Seattle	31,525	31,418
Tacoma	3,940	4,301
Total All Campuses	40,163	40,832
Additional Enrollment Statistics		
Percent Non-resident Students [2]	32%	27%
Percent Retention (Freshman to Sophomore)	92%	92%
Mean GPA	3.70	3.70
Median GPA	3.78	3.79
Percent of Class Reporting GPA Data	100%	100%
Mean Combined SAT Scores	1210	1200
Median Combined SAT Scores	1230	1220
Percent of Class Reporting SAT Data	81%	78%
GRADUATE		
Applied	32,248	32,562
Accepted	9,693	9,703
Percent Accepted to Applied	30%	30%
Enrolled	4,717	4,693
Percent Enrolled to Accepted	49%	48%
Graduate FTE	14,154	14,401
Graduate Headcount	13,595	13,896

(1) Restated to include only first time, first year freshmen
(2) Includes Graduate and Undergraduate Students

Unless otherwise noted all figures include Seattle, Tacoma and Bothell campuses

STUDENTS & ENROLLMENT CONTINUED

	CENSUS DAY AUTUMN QUARTER	
	2015	2016
PROFESSIONAL		
Law		
Applied	2,877	2,517
Accepted	775	677
Enrolled	170	156
Law Headcount	474	482
Pharmacy		
Applied	399	401
Accepted	131	131
Enrolled	92	106
Pharmacy Headcount	378	386
Dentistry		
Applied	1,022	1,096
Accepted	94	92
Enrolled	63	63
Dental Headcount	260	261
Medicine		
Applied	8,090	8,777
Accepted	291	326
Enrolled	245	270
Medicine Headcount	897	952
Total Professional FTE	3,834	3,900
Total Professional Headcount	2,009	2,081
Tuition and Fees (full academic year)		
Undergraduate Resident	$ 11,839 (1)	$ 10,752 (2)
Undergraduate Non-Resident	$ 34,143	$ 34,791
Graduate Resident	$ 16,665	$ 16,653
Graduate Non-Resident	$ 28,908	$ 28,896
Business Masters Resident	$ 31,200	$ 32,394
Business Masters Non-Resident	$ 45,450	$ 47,214
Law Resident	$ 31,962	$ 32,721
Law Non-Resident	$ 44,124	$ 44,112
Pharmacy Resident	$ 28,362	$ 29,577
Pharmacy Non-Resident	$ 50,286	$ 50,274
Medical Resident	$ 33,759	$ 34,728
Medical Non-Resident	$ 64,194	$ 64,182
Dentistry Resident	$ 43,494	$ 46,875
Dentistry Non-Resident	$ 66,483	$ 71,703
University FTE		
Undergraduate	37,975	38,673
Graduate	14,154	14,401
Professional	3,834	3,900
Total University FTE	55,963	56,973
University Headcount		
Undergraduate	40,163	40,832
Graduate	13,595	13,896
Professional	2,009	2,081
Total University Headcount	55,767	56,809

(1) Revision of previously reported total
(2) The University reduced resident undergraduate tuition as part of an agreement with the Legislature that resulted in increased State appropriations

Unless otherwise noted all figures include Seattle, Tacoma and Bothell campuses

FACULTY & OTHER DATA

	AUTUMN QUARTER	
	2015	2016
FACULTY DATA		
Number of faculty [1]	4,703	4,707
Tenure rate (%)	36%	36%
Percent holding terminal degree (Ph.D., MD, DDS)	93%	93%
HOUSING AND DINING		
Room and Board [2]	$ 10,576	$ 11,036
Autumn Opening Occupancy	7,010	7,024
Occupancy [3]	112%	113%

(1) Faculty headcount reflects core faculty comprised of professional, instructional, and research categories. Headcount associated with temporary faculty categories is excluded

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

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

MEDICAL CENTERS [1]

	Year Ending June 30,	
	2015	2016
UWMC, NORTHWEST AND VALLEY FINANCIAL INFORMATION [2]		
UWMC		
Total Operating Revenue	$ 1,083,584	$ 1,135,626
Net Income	$ 26,745	$ (27,679)
Valley		
Total Operating Revenue	$ 518,532	$ 550,343
Net Income	$ 15,617	$ 11,481
Northwest		
Total Operating Revenue	$ 357,054	$ 372,751
Net Income	$ (5,283)	$ (4,511)
Combined		
Total Operating Revenue	$ 1,959,170	$ 2,058,720
Net Income	$ 37,079	$ (20,709)
UWMC, NORTHWEST AND VALLEY PATIENT ACTIVITY STATISTICS		
UWMC		
Admissions	18,092	18,362
Outpatient Visits	302,038	320,037
Emergency Visits	26,465	26,555
Valley		
Discharges	17,174	17,518
Outpatient Visits	471,780	499,814
Emergency Visits	81,250	83,067
Northwest		
Admissions	9,934	10,060
Outpatient Visits	195,031	197,132
Emergency Visits	36,159	35,068
Combined		
Admissions	45,200	45,940
Outpatient Visits	968,849	1,016,983
Emergency Visits	143,874	144,690
MEDICARE/MEDICAID PAYMENT		
Percent of Total Clinical Revenue [3]	40%	40%

(1) Medical Centers include University of Washington Medical Center (UWMC), Northwest Hospital and Medical Center (Northwest) and Valley Medical Center (Valley)
(2) Only UWMC revenues are included in General Revenues for the University
(3) Percent of total clinical revenue. Medicare and Medicaid payments as a percentage of total clinical revenue. Includes Northwest and Valley

ENDOWMENT RESOURCES

PORTFOLIO	Year Ending June 30, 2015	2016
Endowment Market Value ($000)	**$ 3,076,226**	**$ 2,968,013**
Portfolio Breakdown		
Total Equity	**84.0%**	**87.0%**
Domestic	18.0%	16.0%
International	37.0%	42.0%
Absolute Return	18.0%	17.0%
Private Equity	7.0%	8.0%
Venture Capital	4.0%	4.0%
Real Assets	**6.0%**	**6.0%**
Domestic	10.0%	7.0%
International	0.0%	0.0%
Total Fixed Income	**10.0%**	**7.0%**
Cash	**0.0%**	**0.0%**
Total	**100.0%**	**100.0%**

RETURN & SPENDING	2015	2016
Annualized Rates of Return (1)		
One	6.8%	-1.6%
Three	11.9%	6.7%
Five	10.0%	6.5%
Endowment Return & Spending (2)		
Total Annual Return on Endowment ($000)	$ 194,974 (3)	$ (54,776)
Amount Distributed ($000)	$ 131,598 (3)	$ 141,099
Actual Annual Spending Rate	4.65%	4.60%

EXTERNALLY MANAGED FUNDS	2015	2016
Total Annuity and Life Income Funds	$ 83,043	$ 75,647
Externally Managed Endowments	$ 111,442	$ 107,180

INVESTMENT POLICY CHANGE

In September of 2015 the UW Board of Regents approved the creation of the University of Washington Investment Management Company (UWINCO), an internal investment management company. This results in the advisory committee becoming an advisory board (UWINCO Board).

(1) Net of manager fees
(2) Under the spending policy, distributions to endowed programs are 4% of the average market value of the CEF for the previous five years. There is an additional 1% administrative fee bringing the total annual distribution to 5%. Total distribution shown
(3) Revision of previously reported total

OPERATING FUNDS

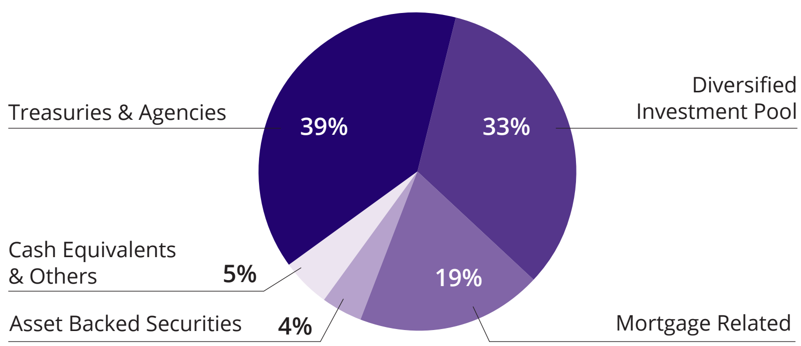
ALLOCATION BY POOL

For the quarter ending June 30, 2016
(in millions)

	Fund Allocation		Range	DURATION IN YEARS Actual	Maximum
Cash Pool	$ 569	24%	10% - 40%	0.8	3.0
Liquidity Pool	$ 923	39%	25% - 60%	3.5	5.0
Diversified Investment Pool (1)	$ 731	31%	15% - 45%	n/a	n/a
Invested Funds Excluding Capital Assets Pool	**$ 2,222**	**95%**	n/a	n/a	n/a
Capital Assets Pool (2)	$ 123	5%	0% - 15%	n/a	n/a
Total Operating Funds	**$ 2,345**	**100%**	n/a	n/a	n/a

OPERATING FUNDS – MIX OF INVESTMENTS

(Excluding the Capital Assets Pool)
For the quarter ending June 30, 2016



(1) Diversified Investment Pool consists of units in the University's endowment, which are included in the endowment's market value
(2) Capital Assets Pool consists of internally financed projects

Note: Numbers may not sum due to rounding

FUTURE DEBT SERVICE

as of June 30, 2016

	FISCAL YEAR ($000)					
	2017	2018	2019	2020	2021	2022-2051
TOTAL GENERAL REVENUE DEBT SERVICE						
State General Obligation Bonds	$ 23,362	$ 19,146	$ 18,440	$ 14,290	$ 14,264	$ 69,397
State Certificates of Participation	$ 3,497	$ 3,270	$ 3,126	$ 2,955	$ 2,756	$ 2,163
Revenue Bonds						
General Revenue Bonds (1)	$111,852	$112,707	$110,363	$110,155	$111,074	$ 2,264,117
Lease Revenue Bonds (2)	$ 32,192	$ 56,571	$ 33,088	$ 32,204	$ 32,042	$ 483,199
Subtotal	$170,903	$191,694	$165,018	$159,604	$160,135	$ 2,818,876
Interest on Commercial Paper (3)	$ 271	$ –	$ –	$ –	$ –	$ –
Equipment Leases & Others (4)	$ 5,982	$ 3,769	$ 2,183	$ 2,141	$ 2,142	$ 6,223
Total General Revenue Debt Service	$177,157	$195,463	$167,201	$161,745	$162,277	$ 2,825,099
AFFILIATED ENTITIES						
Total Affiliated Entities (5)	$ 4,668	$ 709	$ 709	$ 709	$ 709	$ 7,855
Total Debt Service All Obligations (6)	$181,825	$196,172	$167,909	$162,454	$162,986	$ 2,832,954

(1) General Revenue Bonds Series 2007, 2008, 2009, 2009B, 2010A&B, 2011, 2012AB&C, 2013, 2015ABC&D (includes debt service associated with Metropolitan Tract)
(2) Series 2010B WBRP, 2013 WEDFA, 2014 WEDFA, and 2015 WBRP
(3) Reflects interest to be paid on outstanding commercial paper through 1/17/2017. The University has authority to issue up to $250 million in commercial paper
(4) Includes capital leases other than leases included as a Lease Revenue obligation
(5) Includes Northwest debt service
(6) May not match most recent official statement future debt table due to timing differences

Note: Numbers may not sum due to rounding

OFFICIAL STATEMENT DISCLOSURES

OS DISCLOSURE OBLIGATIONS	LOCATION IN BONDHOLDERS REPORT
The audited financial statements of the University for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board.	Tab 2 (UW Financial Report)
The amount of University revenue and other debt outstanding in that fiscal year.	Tab 2 (UW Financial Report - SRECNP) Tab 2 (UW Financial Report - SNP)
Student enrollment information for that fiscal year, of the type provided in the table entitled “Student and Enrollment” under the heading “UNIVERSITY OF WASHINGTON—Admissions, Student Enrollment and Faculty Information” and distribution of undergraduate enrollment among University campuses.	Tab 3 (Supplemental Bondholder Information)
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 (Supplemental Bondholder Information)
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 (Supplemental Bondholder Information)
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 percentage of grant and contract revenues from federal sources.	Tab 2 (UW Financial Report - SRECNP)
Information regarding the amount or percentage of revenues from Medicare or Medicaid payments in that fiscal year.	Tab 3 (Supplemental Bondholder Information)
Operating expenses by type of expenditure in that fiscal year.	Tab 2 (UW Financial Report - MD&A)
Expenditures of State capital and operating appropriations to the University for such fiscal year, of the type provided in the table entitled “Expenditures of State Appropriations to the University by Type” under the heading “UNIVERSITY OF WASHINGTON—Other University Financial Information—State Funding.”	Tab 2 (UW Financial Report - SRECNP)
UW Medical Center, Northwest and Valley financial information and patient activity statistics for such fiscal year, generally of the type provided in the tables under the heading “UW Medicine.”	Tab 3 (Supplemental Bondholder Information)
Value of investments, including operating fund investments (currently referred to as “Invested Funds”) and the Consolidated Endowment Fund (“CEF”), for that fiscal year.	Tab 3 (Supplemental Bondholder Information)
A narrative description of any material changes to the University’s investment policy or CEF distribution policy during the preceding fiscal year.	Tab 3 (Supplemental Bondholder Information)
Gift revenue for that fiscal year.	Tab 2 (UW Financial Report - SRECNP)
University revenue by source for that fiscal year, of the type provided in the chart “University Total Revenue by Source, Fiscal Year 2016” under the heading “UNIVERSITY OF WASHINGTON—Other University Financial Information—University Total Revenue by Source.”	Tab 2 (UW Financial Report - MD&A)
Total University expenditures by category for that fiscal year, of the type presented under the heading “UNIVERSITY OF WASHINGTON—Other University Financial Information—University Operating Expenditures.”	Tab 2 (UW Financial Report - MD&A)
University total net assets and unrestricted net assets, of the type presented under the heading “UNIVERSITY OF WASHINGTON—Other University Financial Information—University Net Assets.”	Tab 2 (UW Financial Report - 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 “OTHER UNIVERSITY INFORMATION—Pension Plans.”	Tab 2 (UW Financial Report - Note 15)
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 “OTHER UNIVERSITY INFORMATION—Other Post-Employment Retirement Benefits (“OPEB”).”	Tab 2 (UW Financial Report - Note 14)
Amount of the University’s self-insurance reserve, of the type presented under the heading “OTHER UNIVERSITY INFORMATION—Risk Management.”	Tab 2 (UW Financial Report - Note 16)

SUPPLEMENTAL FINANCIAL REPORTS

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

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

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 Commuter Services (Unit or CS), a department of the University of Washington, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

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 financial position of the University of Washington Commuter Services as of June 30, 2016 and 2015, 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.

Emphasis of Matters

As discussed in note 1, 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, 2016 and 2015, the changes in its financial position or its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1, on July 1, 2014, the Unit adopted new accounting guidance requiring governments providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, as well as recognizing most changes in the net pension liability within pension expense. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplemental Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 9, and the schedules of required supplementary information on pages 30 through 32, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
December 16, 2016

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) as of and for the years ended June 30, 2016, 2015 and 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements present only the University of Washington Commuter Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Using the Financial Statements

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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources. The following summary statements of net position show CS's total assets, total deferred outflows of resources, total liabilities, total deferred inflows of resources, and net position as of June 30, 2016, 2015 and 2014:

Statements of Net Position Summary

		2016	2015	2014
Current assets	$	9,822,943	4,736,773	4,194,862
Noncurrent assets:				
Capital assets, net		49,486,919	45,544,554	48,989,956
Other noncurrent assets		6,920,440	14,257,092	11,839,214
Total assets		66,230,302	64,538,419	65,024,032
Pension deferred outflows of resources		537,000	263,995	—
Total assets and deferred outflows of resources	$	66,767,302	64,802,414	65,024,032
Current liabilities	$	1,711,724	1,797,271	1,814,978
Noncurrent liabilities		10,608,056	14,206,468	13,205,602
Total liabilities		12,319,780	16,003,739	15,020,580

Statements of Net Position Summary

		2016	2015	2014
Pension deferred inflows of resources	$	335,000	677,575	—
Net position		54,112,522	48,121,100	50,003,452
Total liabilities, deferred inflows of resources, and net position	$	66,767,302	64,802,414	65,024,032

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

- Current assets consist of cash, accounts receivable, current portion of internal note receivable, and prepaid expenses. Current assets were $8.1 million, $2.9 million, and $2.4 million greater than current liabilities at the end of fiscal years 2016, 2015, and 2014, respectively. The 2016 increase of $5.1 million, or 107%, was caused by an increase in cash resulting from increased Parking and citation revenue and the gain on the transfer of two garages from Housing and Food Services. The 2015 increase of $542 thousand, or 13%, was caused by a slight increase in parking volume and an increase in accounts receivable primarily due to payment in transit from Commute Options – Active Transportation for the Burke Gilman Trail.
- Noncurrent assets consist of due to University, internal note receivable, intangible assets, capital assets, and advances to University of Washington (the University) for capital projects. Noncurrent assets decreased by $3.4 million, or 6%, in 2016 and $1.0 million, or 2%, in 2015, respectively. The 2016 decrease was primarily due to $3.3 million prepayment on the internal note receivable and $3.3 million decrease in advances to the University for capital projects. The 2015 decrease was primarily because of a new internal note receivable of $6.6 million offset by $3.9 million decrease in advances to the University for capital projects. Additionally, an increase of $1.2 million of capital asset additions offset by $2.2 million of depreciation and $2.5 million of adjustments to construction in progress related to the transfer out of the Burke Gilman Trail project to Commute Options – Active Transportation due to the timing of projects compared to 2014.
- Deferred outflows were $537 thousand and $264 thousand at the end of the years 2016 and 2015, respectively, or a 103% and 100% increase, as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2015.
- Noncurrent liabilities decreased by $3.6 million, or 25%, in fiscal year 2016. The decrease was primarily due to a $3.8 million transfer of Internal Lending Program (ILP) debt from Commuter Services to the University for the University's acquisition of the Transportation Services office building offset by a $600 thousand increase in net pension liability. Noncurrent liabilities increased by $1.0 million or 8% in fiscal year 2015. The 2015 increase was due to $1.6 million for the net pension liability for GASB 68 implementation offset by the $602,000 moving into the current portion of ILP payable due to a 2016 principal payment.
- Deferred inflows were $335 thousand and $678 thousand, respectively, for 2016 and 2015 as a result of implementing GASB 68 in 2015.

- The change in net position measures whether the overall financial condition has improved or deteriorated during the year. Total net position increased by $6.0 million and decreased by $1.9 million, respectively, or 12% and (4%), during fiscal years 2016 and 2015. The 2016 increase is mostly due to the transfer of debt from Commuter Services to the University for the University's acquisition of the Transportation Services office building and the gain on the transfer of two garages from Housing and Food Services. The 2015 decrease is mostly due to adjustments to construction in progress related to the transfer out of the Burke Gilman Trail project to Commute Options – Active Transportation in 2015.

Net Position

The following table is a summary of the net position for CS at June 30, 2016, 2015, and 2014:

Net Position Summary

		2016	2015	2014
Net investment in capital assets	$	40,621,215	32,060,848	35,207,103
Unrestricted		13,491,307	16,060,252	14,796,349
Total net position	$	54,112,522	48,121,100	50,003,452

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 net position is often internally designated for specific purposes.

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

- Net investment in capital assets increased by $8.6 million, or 27%, in fiscal year 2016 to $40.6 million and decreased by $3.1 million, or 9%, in fiscal year 2015 to a total of $32.1 million. The 2016 balance increased primarily due to two garage additions offset by a transfer of debt to the University for the Transportation Services office building acquisition. The 2015 balance decreased as the Unit's payable to ILP was paid down offset by increases in depreciation and adjustments for construction in progress.
- Unrestricted net position decreased by $2.6 million, or 16%, in fiscal year 2016 and increased by $1.3 million, or 9%, in fiscal year 2015. The decrease in 2016 was caused primarily by $3.3 million prepayment on the internal note receivable and the 2015 increase was caused by the increase in operating revenue due to a slight increase in parking volume and a decrease in operating expenses.
- Implementation of GASB 68 in 2015 resulted in the restatement of beginning fiscal year 2015 unrestricted net position reducing it by $2.1 million.

(Continued)

Capital Improvements and Related Debt

- In fiscal year 2016, capital additions were $10.8 million, which primarily included $6.1 million for two garages from Housing and Food Services and three parking lots E1, E12 and E18 for $3.3 million. In fiscal 2015, capital additions were $1.2 million, which included $2.1 million for Plant Services South parking lot offset by the refund of $1.1 million for the E12 Parking Study as actual costs were under budget.
- Total debt decreased from $13.2 million of outstanding principal due at the end of fiscal year 2015 to $8.9 million at the end of fiscal year 2016 as a result of the transfer of debt to the University for the acquisition of the Transportation Services office building for $3.8 million and scheduled principal payments. Additional information on CS' capital assets can be found in note 5 of the notes to the financial statements. Total debt decreased from $13.8 million of outstanding principal due at the end of fiscal year 2014 to $13.2 million at the end of fiscal year 2015 as a result of scheduled principal payments. Additional information on CS' debt can be found in note 7 of the notes to the financial statements.

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, 2016, 2015 and 2014.

Revenues, Expenses, and Changes in Net Position Summary

		2016	2015	2014
Operating revenues	$	14,372,952	13,156,056	12,338,660
Operating expenses		(12,794,482)	(11,941,223)	(12,613,132)
Operating income (loss)		1,578,470	1,214,833	(274,472)
Nonoperating revenues (expenses)		3,729,229	(151,112)	(363,130)
Other revenues and (transfers)		683,723	(810,091)	1,769,775
Increase in net position		5,991,422	253,630	1,132,173
Net position, beginning of year, as originally presented		48,121,100	50,003,452	48,871,279
Effect of accounting and reporting entity changes		—	(2,135,982)	—
Net position, end of year	$	54,112,522	48,121,100	50,003,452

Revenues from All Sources

The following table summarizes revenues from all sources for the years ended June 30, 2016, 2015 and 2014:

Summary Revenues from All Sources

		2016	2015	2014
Parking revenue	$	12,204,590	11,221,627	10,406,575
Fine revenue		1,120,875	869,448	814,225
Reimbursement for football-related expenses		138,304	149,028	166,464
Revenue from Triangle Garage		909,183	915,953	951,396
Interest income		446,291	476,640	289,534
Capital contribution		1,827,234	—	2,584,000
Transfer of ILP Debt to the University		3,798,490	—	—
Due from University		—	60,512	—
Total revenue – all sources	$	20,444,967	13,693,208	15,212,194

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 $983 thousand, or 9%, in 2016 primarily due to an increase in volume and an increase in rates for students, faculty, and staff. Parking revenue increased by $815 thousand, or 8%, in 2015 primarily due to an increase in volume.
- Fine revenue increased $251 thousand, or 29%, and $55 thousand, or 7%, in 2016 and 2015, respectively, as a result of an increase in the number of citations issued and collected.
- Interest income in 2016 decreased $30 thousand, or (6%), and was materially unchanged. In 2015, interest income increased $187 thousand or 65% due to an increase in the average cash balance and the addition of a new note receivable. A portion of 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. The 2015 note receivable is with Commute Options – Active Transportation for the construction of the Burke Gilman Trail project.
- The 2016 capital contribution of $1.8 million net resulted from the transfer of the Terry/Maple and Lander garages from Housing and Food Services to Commuter Services offset by the transfer of the Transportation Services office building to the University.

  The transfer of debt to the University of $3.8 million in fiscal year 2016 was for the acquisition of the Transportation Services office building.

(Continued)

Expenses and Expense Transfers

The following table summarizes expenses and expense transfers for the years ended June 30, 2016, 2015 and 2014:

Summary Expenses and Expense Transfers

	2016	2015	2014
Salaries and wages	$ 2,928,057	2,613,117	2,606,907
Employee benefits	975,954	630,535	807,154
Temporary services	259,887	234,886	61,386
Maintenance	963,694	1,806,857	3,150,651
Printing	92,425	90,407	63,613
Outside services	843,592	343,441	243,543
Utilities	357,200	326,392	267,973
Data processing	206,723	179,665	224,030
Motorpool	132,800	122,129	129,032
Garage rental	42,302	35,488	35,248
Insurance	26,301	23,435	23,401
Supplies and materials	559,521	437,602	416,660
Telephone	77,715	58,631	56,687
Campus services	1,600,641	1,511,221	1,443,423
Miscellaneous	106,139	285,859	95,144
University overhead	1,143,405	1,064,797	991,250
Depreciation	2,478,126	2,176,761	1,997,030
Interest	515,552	627,752	652,664
Total expenses	13,310,034	12,568,975	13,265,796
Transfer to the University for UPASS	1,120,875	869,448	814,225
Loss on disposal of equipment	22,636	1,155	—
Total expense transfers	1,143,511	870,603	814,225
Total expenses and expense transfers	$ 14,453,545	13,439,578	14,080,021

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

- CS's expenses increased by $741 thousand, or 6%, and decreased by $697 thousand, or 5%, respectively, in fiscal years 2016 and 2015. The increase in 2016 is primarily due to the increase in headcount in addition to increases in wage and benefit rates by $660 thousand. The 2015 decrease is primarily due to a $1.3 million decrease in maintenance expense offset by increases in temporary services, miscellaneous, and depreciation expenses discussed below.
- CS's temporary services expense increased $25 thousand, or 11%, and $174 thousand, or 283%, respectively, in fiscal years 2016 and 2015. The increase in 2015 was due to a significant number of retirements and the addition of a second maintenance shift.
- CS's maintenance expense decreased by $843 thousand, or 47%, and $1.3 million, or 43%, respectively, in fiscal years 2016 and 2015. The primary decrease in 2016 and 2015 was the result of less work performed on painting and paving garages and parking lots.
- CS's outside services expense increased by $500 thousand, or 146%, and $100 thousand, or 41%, respectively, in fiscal years 2016 and 2015. The increase in 2016 and 2015 is the result of an increase in the use of an outside contractor for a new parking gate access system.
- CS's miscellaneous expense decreased by $180 thousand or 63% and increased $191 thousand or 200%, respectively, in fiscal years 2016 and 2015. The decrease in 2016 and the increase in 2015 were due to consulting services for a condition assessment of parking lots and garages in 2015.
- CS's depreciation expense increased by $301 thousand, or 14%, and $180 thousand, or 9%, respectively, in fiscal years 2016 and 2015, due to various capital asset additions in the fiscal year.
- CS's transfer to the University for UPASS increased by $251 thousand, or 29%, and $55 thousand, or 7%, in fiscal 2016 and 2015, respectively. The fine revenue in 2016 and 2015 was used to support the UPASS program. 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.

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

Statements of Net Position

June 30, 2016 and 2015

Assets and Deferred Outflows of Resources		**2016**	**2015**
Current assets:			
Cash in the University of Washington Invested Funds Pool (note 2)	$	9,581,745	3,985,880
Internal note receivable, current portion (note 4)		56,371	107,266
Accounts receivable		143,761	609,562
Prepaid expenses		41,066	34,065
Total current assets		9,822,943	4,736,773
Noncurrent assets:			
Due (to) from University		(3,000)	11,331
Internal note receivable, net of current portion (note 4)		3,261,620	6,629,581
Advances to University for capital projects		3,316,422	7,616,180
Intangible Assets		345,398	—
Capital assets (less accumulated depreciation of $42,397,535 and $41,638,806, respectively) (note 5)		49,486,919	45,544,554
Total noncurrent assets		56,407,359	59,801,646
Total assets		66,230,302	64,538,419
Pension deferred outflows of resources (note 9)		537,000	263,995
Total assets and deferred outflows of resources	$	66,767,302	64,802,414
Liabilities, Deferred Inflows of Resources, and Net Position			
Current liabilities:			
Accounts payable	$	590,366	575,866
Accrued salaries and vacation payable		383,680	403,827
Unearned revenue		241,030	215,327
Internal lending program payable, current portion (note 7)		496,648	602,251
Total current liabilities		1,711,724	1,797,271
Noncurrent liabilities:			
Internal lending program payable, net of current portion (note 7)		8,369,056	12,603,351
Net Pension Liability (note 9)		2,239,000	1,603,117
Total noncurrent liabilities		10,608,056	14,206,468
Total liabilities		12,319,780	16,003,739
Pension deferred inflows of resources (note 9)		335,000	677,575
Net position:			
Net investment in capital assets		40,621,215	32,060,848
Unrestricted		13,491,307	16,060,252
Total net position		54,112,522	48,121,100
Total liabilities, deferred inflows of resources, and net position	$	66,767,302	64,802,414

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, 2016 and 2015

	2016	2015
Operating revenues:		
Parking revenue	$ 12,204,590	11,221,627
Fine revenue	1,120,875	869,448
Reimbursement for football-related expenses	138,304	149,028
Revenue from Triangle Garage	909,183	915,953
Total operating revenues	14,372,952	13,156,056
Operating expenses:		
Salaries and wages	2,928,057	2,613,117
Employee benefits	975,954	630,535
Temporary services	259,887	234,886
Maintenance	963,694	1,806,857
Printing	92,425	90,407
Outside services	843,592	343,441
Utilities	357,200	326,392
Data processing	206,723	179,665
Motorpool	132,800	122,129
Garage rental	42,302	35,488
Insurance	26,301	23,435
Supplies and materials	559,521	437,602
Telephone	77,715	58,631
Campus services	1,600,641	1,511,222
Miscellaneous	106,139	285,858
University overhead	1,143,405	1,064,797
Depreciation	2,478,126	2,176,761
Total operating expenses	12,794,482	11,941,223
Operating income	1,578,470	1,214,833
Nonoperating revenues (expenses):		
Interest income	446,291	476,640
Interest expense	(515,552)	(627,752)
Loss on disposal of equipment	(22,636)	(1,155)
Total net nonoperating expenses	(91,897)	(152,267)
Income before other revenues and transfers	1,486,573	1,062,566
Other revenues and (transfers):		
Transfer to the University for UPASS (note 8)	(1,120,875)	(869,448)
Due from University	—	60,512
Transfer of ILP Debt to the University (note 7)	3,798,490	—
Capital contribution	1,827,234	—
Total other revenues and (transfers)	4,504,849	(808,936)
Increase in net position	5,991,422	253,630
Net position:		
Net position at beginning of year, as restated (note 1(b))	48,121,100	47,867,470
Net position at end of year	$ 54,112,522	48,121,100

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, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Receipts from parking fees and fines	$	13,816,969	11,979,096
Receipts from reimbursement for football-related expenses		138,304	149,028
Receipts from Triangle Garage		909,183	915,953
Payments to suppliers		(5,261,442)	(5,515,300)
Payments to employees		(2,948,204)	(2,614,163)
Payments for benefits		(941,320)	(761,150)
Payments to the University for overhead		(1,143,405)	(1,064,797)
Net cash provided by operating activities		4,570,085	3,088,667
Cash flows from noncapital financing activities:			
Transfer to the University for UPASS		(1,120,875)	(869,448)
Other Transfers from the University		—	60,512
Net cash used in noncapital financing activities		(1,120,875)	(808,936)
Cash flows from capital and related financing activities:			
Payment from (to) University for capital assets		2,660,355	(1,298,085)
Principal paid on bonds payable		(541,408)	(577,251)
Interest paid		(515,552)	(627,752)
Net cash provided by (used in) capital and related financing activities		1,603,395	(2,503,088)
Cash flows from investing activities:			
Principal received on note receivable – internal		96,969	51,756
Interest income		446,291	476,640
Net cash provided by investing activities		543,260	528,396
Net increase in cash and cash equivalents		5,595,865	305,039
Cash and cash equivalents at beginning of year		3,985,880	3,680,841
Cash and cash equivalents at end of year	$	9,581,745	3,985,880
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	1,578,470	1,214,833
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense		2,478,126	2,176,761
Changes in assets and liabilities:			
Increase (decrease) in net pension liability		635,883	(738,887)
(Decrease) increase in pension-related deferred outflows/inflows of resources		(615,580)	619,603
Increase (decrease) in due from University		14,331	(11,331)
Increase (decrease) in accounts receivable		465,801	(134,250)
(Decrease) increase in prepaid expenses		(7,002)	4,645
Increase (decrease) in accounts payable		14,500	(63,932)
Decrease in accrued salaries and vacation payables		(20,147)	(1,046)
Increase in unearned revenue		25,703	22,271
Net cash provided by operating activities	$	4,570,085	3,088,667
Noncash capital and related financing activities:			
Transfer of ILP debt to University	$	3,798,490	—

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) 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 present only the University of Washington Commuter Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. 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 statements of revenues, expenses, and changes in net position.

On July 1, 2014, CS adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement 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 Department of Retirement Systems (DRS), this statement required the University to recognize its proportionate share of the statewide net pension liability for each of the plans in which it participates. 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. Implementation of this standard resulted in the restatement of beginning fiscal year 2015 unrestricted net position reducing it by $2,135,982. The Unit's proportionate share of the state's collective pension amounts are disclosed in note 9.

With the adoption of GASB Statement No. 68, net position was restated at July 1, 2014. Below is a reconciliation of the total net position as previously reported at June 30, 2014, to the restated net position:

Net position at June 30, 2014, as previously reported	$	50,003,452
Effect of accounting change		(2,135,982)
Net position at July 1, 2014, as restated	$	47,867,470

(c) Internal Note Receivable

Internal Note Receivable represents the amount owed by Commute Options – Active Transportation for the construction of the Burke Gilman Trail project. An Internal Note Receivable requires a signed agreement. The agreement is signed by the borrowing unit Assistant Director, the Administrative Services Group Assistant Director, and the Director of Transportation Services.

(d) 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. The intangible asset is the cost of new parking software, which is expected to have a useful life of 10 years.

(e) 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 for capital expenditures or be refunded if not used in the future.

(f) 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.

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.

(g) 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, 2016 and 2015, unearned revenues were $241,030 and $215,327, respectively.

(h) 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 2016 and 2015, and accordingly, the financial statements do not include a provision for federal income taxes.

(i) 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 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.

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

Pooled Investments held on behalf of Commuter Services by the University of Washington are recorded at Commuter Service’s share of the carrying value of the University of Washington Cash and Liquidity Pools. These funds are available on demand without prior notice or penalty. The Cash and Liquidity Pools were invested as follows at June 30:

	2016	2015
Cash and cash equivalents	6.4 %	10.0 %
Treasuries and agencies	73.0	67.0
Mortgage related securities	8.6	9.0
Asset-backed debt securities	7.0	12.0
Corporate and other fixed income	5.0	2.0
Total	100.0 %	100.0 %

(3) Concentrations

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

(4) Internal Note Receivable

The Internal Note Receivable from Commute Options – Active Transportation for the construction of the Burke Gilman Trail project bears an interest rate of 4.75% with interest and principal payments due at the end of each month over a 30-year period. The outstanding balance as of June 30, 2016 and 2015 was

(Continued)

$3,317,991 and $6,736,847, respectively, of which $56,371 and $107,266 was the current portion. The total interest income earned on the note in 2016 and 2015 was $287,901 and $160,720, respectively.

(5) Capital Assets

Capitalized asset activity for the years ended June 30, 2016 and 2015 is summarized as follows:

		Balance at June 30, 2015	Additions/ (Transfers)	Retirements/ Adjustments	Balance at June 30, 2016
Buildings	$	85,198,611	10,120,673	(5,754,934)	89,564,350
Furniture, fixtures, and equipment		1,243,219	696,828	(253,702)	1,686,345
Construction in progress*		741,531	—	(107,772)	633,759
Total		87,183,361	10,817,501	(6,116,408)	91,884,454
Less accumulated depreciation:					
Buildings		40,697,623	2,272,159	(1,488,332)	41,481,450
Furniture, fixtures, and equipment		941,184	205,967	(231,066)	916,085
Total accumulated depreciation		41,638,807	2,478,126	(1,719,398)	42,397,535
Capital assets, net	$	45,544,554	8,339,375	(4,397,010)	49,486,919

* Nondepreciable

	Balance at June 30, 2014	Additions/ (Transfers)	Retirements/ Adjustments	Balance at June 30, 2015
Buildings	$ 85,198,611	—	—	85,198,611
Furniture, fixtures, and equipment	1,286,667	241,765	(285,213)	1,243,219
Construction in progress*	2,250,781	950,872	(2,460,122)	741,531
Total	88,736,059	1,192,637	(2,745,335)	87,183,361
Less accumulated depreciation:				
Buildings	38,597,495	2,100,128	—	40,697,623
Furniture, fixtures, and equipment	1,148,608	76,634	(284,058)	941,184
Total accumulated depreciation	39,746,103	2,176,762	(284,058)	41,638,807
Capital assets, net	$ 48,989,956	(984,125)	(2,461,277)	45,544,554

* Nondepreciable

(6) 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 years ended June 30, 2016 and 2015, CS recorded rent expense of $42,302 and $35,488, respectively. Future lease payments under these leases as of June 30, 2016 are as follows:

	Dollars
Years ending June 30:	
2017	$ 42,034
2018	42,034
2019	42,034
2020	3,903
2021	3,902
Total minimum lease payment	$ 133,907

(7) 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 at 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 February 1, 2016, CS transferred to the University the office space located in the West Campus parking garage. In compensation for this office space, the University assumed responsibility for the remaining debt on this space for the amount of $3,798,490.

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:			
2017	$	496,648	388,796
2018		519,464	365,980
2019		543,328	342,116
2020		568,289	317,156
2021		594,396	291,049
Thereafter		6,143,579	1,235,127
	$	8,865,704	2,940,224

ILP activity for the years ended June 30, 2016 and 2015 is summarized as follows:

		Balance as of June 30, 2015	Additions	Reductions	Balance as of June 30, 2016
Internal lending program payable	$	13,205,602	—	(4,339,898)	8,865,704

		Balance as of June 30, 2014	Additions	Reductions	Balance as of June 30, 2015
Internal lending program payable	$	13,782,853	—	(577,251)	13,205,602

(8) 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
- Commuter Services is covered by the University's liability self-insurance program and is allocated a portion of the program's costs annually. Commuter Services retains $0 per claim for automobile liability and $100,000 of indemnity costs only per claim for general liability coverage.
- Additionally, transfers to and from the University are made at the discretion of the University and Commuter Services.

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.

The University also offers several contributory pension plans administered by the Washington State Department of Retirement Systems: the Public Employees' Retirement System plan, the Teachers' Retirement System plan, and the Law Enforcement Officers' and Fire Fighters' Retirement System plan, which are defined benefit retirement plans. Additionally, the University offers the University of Washington Retirement plan, a defined contribution plan, and the University of Washington Supplemental Retirement plan, a defined benefit retirement plan.

(9) Pension Plan

(a) Pension Plans

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

(b) Plan Descriptions of the DRS Plans

(i) Public Employees' Retirement System

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

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

(c) Vesting and Benefits Provided

(i) PERS Plan 1

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

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional cost-of living allowance (COLA), and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

(ii) PERS Plan 2/3

PERS Plan 2/3 provides retirement, disability and death benefits. PERS Plan 2 members are vested after completion of five years of eligible service. PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service or after five years of service if 12 months are earned after age 44.

Retirement benefits are determined as two percent of the member's AFC times the member's years of service for Plan 2, and one percent of AFC times the member's years of service for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered early retirement. Members are eligible for early retirement with a reduced benefit at age 55 with at least 20 years of service credit. The benefit is reduced by a factor that varies according to age, for each year before age 65. Members who are age 55 with at least 30 years of service credit can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has less, or no, reduction (depending on age) but imposes stricter return-to-work rules

If hired on or after May 1, 2013, members have the option to receive a benefit that is reduced by 5% for each year before age 65.

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the Consumer Price Index) capped at three percent annually, and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

(d) Fiduciary Net Position

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

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

DRS publishes an annual report for retirement plans, which is available at:

http://www.drs.wa.gov/administration/annualreport/.

(e) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). Commuter Services' 2016 pension liability is based on an OSA valuation performed as of June 30, 2014, with the results rolled forward to the measurement date of June 30, 2015. Likewise, Commuter Services' 2015 pension liability is based on the valuation performed as of June 30, 2013, with the results rolled forward to the measurement date of June 30, 2014. The following actuarial assumptions have been applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries' Retirement Plans Experience Committee (RPEC). And, as recommended by the RCEP, the OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

The actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of OSA's 2007-2012 Experience Study, which is a comprehensive review and update of prior actuarial assumptions. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

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

The long-term expected rate of return of 7.50% approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

(Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement dates of June 30, 2015 and 2014, are summarized in the following table:

	2015		2014	
	Target allocation	**% Long-term expected real rate of return arithmetic**	**Target allocation**	**% Long-term expected real rate of return arithmetic**
Asset class:				
Fixed income	20.00%	1.70%	20.00%	0.80%
Tangible assets	5.00	4.40	5.00	4.10
Real estate	15.00	5.80	15.00	5.30
Global equity	37.00	6.60	37.00	6.05
Private equity	23.00	9.60	23.00	9.05

The inflation components used to create the above table are 2.20% and 2.70% for the measurement dates as of June 30, 2015 and 2014, respectively, and represents WSIB's most recent long-term estimate of broad economic inflation.

(f) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2016 and 2015 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan in which the Commuter Services participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.50% future investment rate of return on pension plan investments was assumed for the test. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively, as provided for in Chapter 41.45 of the RCW).

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

The following table presents the Commuter Services' net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)
(Dollars in thousands)

	2016			2015		
	1% Decrease	**Current discount rate**	**1% Increase**	**1% Decrease**	**Current discount rate**	**1% Increase**
Plan:						
PERS 1	$ 1,509	1,240	1,008	1,347	1,093	875
PERS 2/3	2,920	999	(473)	2,129	510	(726)

(h) Employer Contribution Rates

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The contribution rates and required contributions for each DRS plan in which Commuter Services participates are shown in the table below.

Description	**PERS Plan 1**	**PERS Plan 2 /3**[i]
	(Dollars in thousands)	
Contributions as June 30, 2016:		
Contribution Rate	11.18%	11.18%
Contributions made	$ 158	174
Contributions as June 30, 2015:		
Contribution Rate	9.21%	9.21%
Contributions made	$ 127	143

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

(i) Commuter Services Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by Commuter Services as of June 30, 2016 was June 30, 2015. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2015 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in their June 30, 2015 Schedules of Employer and nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by the Commuter Services as of June 30, 2015 was June 30, 2014, with employer contributions received and processed by the DRS during fiscal year 2014 used as the basis for determining each employer's proportionate share of the June 30, 2014 collective pension amounts. Commuter Services' proportionate share for each DRS plan is shown in the table below.

	Proportionate Share	
	PERS 1	PERS 2/3
Plan:		
Year ended June 30, 2015	0.02%	0.03%
Year ended June 30, 2016	0.02	0.03

(j) Commuter Services Aggregated Balances

Commuter Services' aggregated balances of net pension liabilities and net pension asset as of June 30, 2016 and 2015, respectively, are presented in the table below.

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
June 30 , 2016:				
Net pension liability	$	1,240	999	2,239
June 30 , 2015:				
Net pension liability	$	1,093	510	1,603

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

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

	Proportionate share of pension expense		
Description	**PERS plan 1**	**PERS plan 2 /3**	**Total**
		(Dollars in thousands)	
As of June 30, 2016	$ 205	146	351
As of June 30, 2015	71	80	151

	Deferred Outflows of Resources		
Description	**PERS 1**	**PERS 2/3**	**Total**
		(Dollars in thousands)	
June 30, 2016:			
Change in assumptions	$ —	2	2
Difference between expected and actual experience	—	106	106
Change in CS's proportionate share	—	97	97
CS contributions subsequent to the measurement date of the collective net pension liability[a]	158	174	332
Total	$ 158	379	537
June 30, 2015:			
Change in CS's proportionate share	$ —	(6)	(6)
CS contributions subsequent to the measurement date of the collective net pension liability	127	143	270
Total	$ 127	137	264

a. Amounts will be recognized as a reduction of the net pension liability as of June 30, 2017

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

Notes to Financial Statements

June 30, 2016 and 2015

Deferred Inflows of Resources

Description		PERS 1	PERS 2 /3	Total
			(Dollars in thousands)	
June 30, 2016:				
Difference between projected and actual earnings on plan investments, net	$	68	267	335
Total	$	68	267	335
June 30, 2015:				
Difference between projected and actual earnings on plan investments, net	$	137	541	678
Total	$	137	541	678

Description		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
Deferred outflows of resources related to CS contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2017	$	158	174	332
Deferred outflows of resources related to CS contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2016	$	127	143	270

Amounts reported as deferred outflows of resources, as of June 30, 2016, exclusive of contributions made after the measurement date, and deferred inflows of resources will be recognized in pension expense as follows:

Year		Amortization of deferred inflows and deferred outflows of resources		
		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
2017	$	(26)	(44)	(70)
2018		(26)	(44)	(70)
2019		(26)	(44)	(70)
2020		10	70	80
Total	$	(68)	(62)	(130)

(l) University of Washington Retirement Plan (403(b))

Faculty, librarians and professional staff are eligible to participate in the University of Washington Retirement Plan, a 403(b) defined-contribution plan administered by the University. CS has staff participating in these plans.

(i) 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.

(ii) 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.

(m) University of Washington Supplemental Retirement Plan (401(a))

The University of Washington Supplemental Retirement Plan (UWSRP), a 401(a) defined benefit retirement plan, operates in tandem with the 403(b) plan to supplement the expected defined contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011. The University is ultimately responsible for the payment of the obligation; therefore, the annual required contribution (ARC) is not recorded on the Unit's financial statements. CS has staff participating in this plan.

(10) 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 payment of the obligation; therefore, the annual required contribution (ARC) is not recorded on the Unit's financial statements.

(11) 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.

(12) Subsequent Events

The interest rate changed from 4.75% to 4.50% effective July 1, 2016 for the ILP.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions for PERS, SERS, TRS, LEOFF and WSPRS:

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

Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

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

PERS 1

(Dollar amounts in thousands)

		2016	2015
Commuter Services' proportion of the net pension liability		0.02%	0.02%
Commuter Services' proportionate share of the net pension liability	$	1,240	1,093
Commuter Services' covered-employee payroll		64	66
Commuter Services' proportionate share of the net pension liability as a percentage of covered-employee payroll		1,951.91%	1,644.20%
Plan fiduciary net position as a percentage of the total pension liability		59.10%	61.19%

See accompanying notes to schedules of required supplementary information.

(Continued)

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

Required Supplementary Information

June 30, 2016 and 2015

Unaudited – see accompanying independent auditors' report

Schedule of Contributions
(as of current fiscal year end)

PERS 1

(Dollar amounts in thousands)

		2016	2015
Contractually required contribution	$	7	6
Contributions in relation to the contractually required contribution		7	6
Contribution deficiency (excess)		—	—
Commuter Services' covered-employee payroll		64	64
Contributions as a percentage of covered-employee payroll		11.08%	9.21%

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

PERS 2/3

(Dollar amounts in thousands)

		2016	2015
Commuter Services' proportion of the net pension liability		0.03%	0.03%
Commuter Services' proportionate share of the net pension liability	$	999	510
Commuter Services' covered-employee payroll		2,480	2,162
Commuter Services' proportionate share of the net pension liability as a percentage of covered-employee payroll		40.28%	23.59%
Plan fiduciary net position as a percentage of the total pension liability		89.20%	93.29%

See accompanying notes to schedules of required supplementary information.

(Continued)

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

Required Supplementary Information

June 30, 2016 and 2015

Unaudited – see accompanying independent auditors' report

Schedule of Contributions
(as of current fiscal year end)

PERS 2/3

(Dollar amounts in thousands)

		2016	2015
Contractually required contribution	$	313	228
Contributions in relation to the contractually required contribution		316	228
Contribution deficiency (excess)		(3)	—
Commuter Services' covered-employee payroll		2,817	2,480
Contributions as a percentage of covered-employee payroll		11.10%	9.21%

See accompanying notes to schedules of required supplementary information.

KPMG

HARBORVIEW MEDICAL CENTER

(A Component Unit of King County)

(Operated by the University of Washington)

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Table of Contents

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, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Harborview Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 financial position of the business-type activities of Harborview Medical Center as of June 30, 2016 and 2015, and the respective changes in net position and 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 and 13 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 U.S. generally accepted accounting principles, 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 14, 2016

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, 2016 and 2015. 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.

Harborview is owned by King County, governed by a county-appointed board of trustees and managed by the University of Washington (the University) through a Hospital Services Agreement. Harborview is part of UW Medicine, which also includes: University of Washington Medical Center (UW Medical Center), Northwest Hospital & Medical Center (Northwest Hospital), Valley Medical Center (VMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), the UW School of Medicine (the School), and Airlift Northwest (Airlift).

Using the Financial Statements

Harborview'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 Harborview, including resources held by Harborview, but restricted for specific purposes by contributors, grantors, or enabling legislation.

The statements of net position 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 statements of net position 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. Net position, the difference between the sum of assets and the sum of liabilities, is one way to measure the financial health of Harborview and whether the organization 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 and funding to affiliates. These statements provide meaningful information on where Harborview's cash was generated and what it was used for.

Results of Operations for Fiscal Year 2016

Harborview reported operating income of $49.3 million and an increase in net position of $21.4 million for the year ended June 30, 2016 compared to operating income of $61.2 million and increase in net position of $35.2 million for the year ended June 30, 2015. The positive net income in 2016 can primarily be attributed to higher inpatient acuity, trauma volume and increased outpatient volumes in the operating room, specialty clinics, and pharmacy. Other factors contributing to the positive financial results in both fiscal years 2016 and 2015 includes a focus on expenses and successful process improvement initiatives in the areas of revenue cycle and supply chain management.

For the year ended June 30, 2015, Harborview reported operating income of $61.2 million and increase in net position of $35.2 million compared to the reported operating loss of $0.8 million and a decrease in net position of $6.8 million for the year ended June 30, 2014. The positive net income in 2015 can primarily be attributed to higher volume of inpatient surgical cases, outpatient pharmacy revenue, higher acuity, and additional reimbursement that resulted from previously uninsured patients being eligible for Medicaid under Medicaid expansion.

		2016	2015	2014
			(In thousands)	
Total operating revenues	$	964,313	929,889	814,652
Total operating expenses		915,047	868,697	815,436
Income (loss) from operations		49,266	61,192	(784)
Investment income, net		2,715	1,823	2,670
Other, net		(35,029)	(26,509)	(9,016)
Nonoperating expenses		(32,314)	(24,686)	(6,346)
Income (loss) before capital contributions and other		16,952	36,506	(7,130)
Other changes in net position		4,451	(1,257)	328
Increase (decrease) in net position		21,403	35,249	(6,802)
Net position, beginning of year		650,916	615,667	622,469
Net position, end of year	$	672,319	650,916	615,667

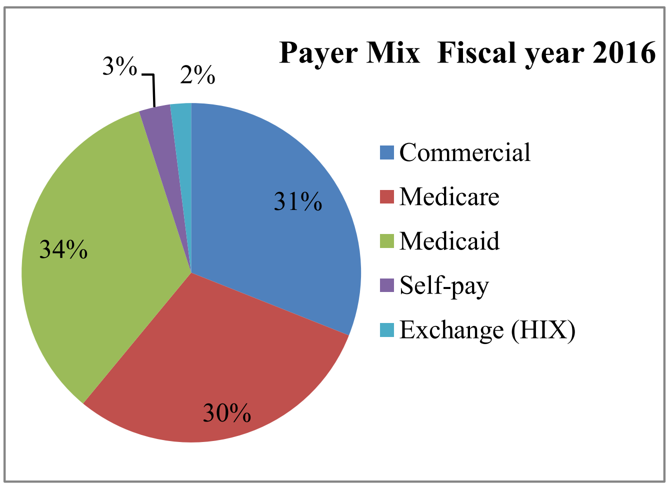
The following table presents Harborview's key performance indicators for June 30, 2016, 2015, and 2014:

	2016	2015	2014
Available beds	413	413	413
Admissions	16,969	17,362	17,176
Patient days	144,140	138,214	132,284
Average length of stay	8.5	8.0	7.7
Occupancy	96%	92%	88%
Case mix index (CMI)	2.228	2.150	2.100
Surgery cases	16,291	16,280	15,938
Emergency room visits	59,776	62,217	64,512
Primary care clinic visits	84,374	81,968	83,148
Specialty care clinic visits	168,061	165,647	164,201
Full-time equivalents (FTEs)	4,401	4,476	4,475
Trauma cases	6,412	6,190	5,888

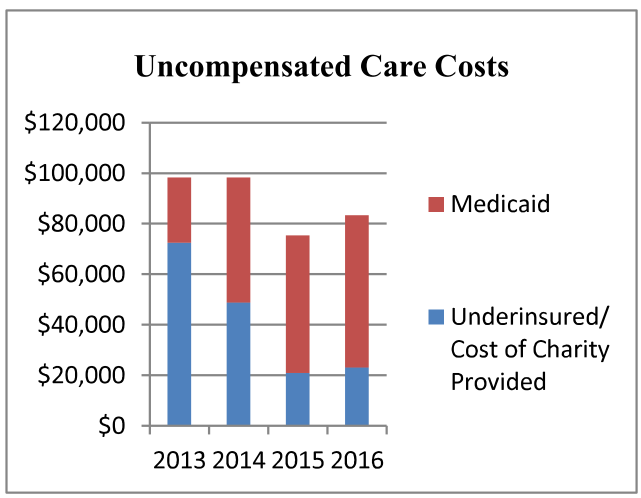
Total Operating Revenues

Total operating revenues consists primarily of net patient service revenues, state appropriations, 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 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 comprise both inpatient and outpatient revenue. Outpatient revenue consists of both hospital-based and other clinic revenue. Other operating revenues comprise hospital-related revenues such as grant, contract pharmacy revenue, as well as parking and cafeteria revenues.



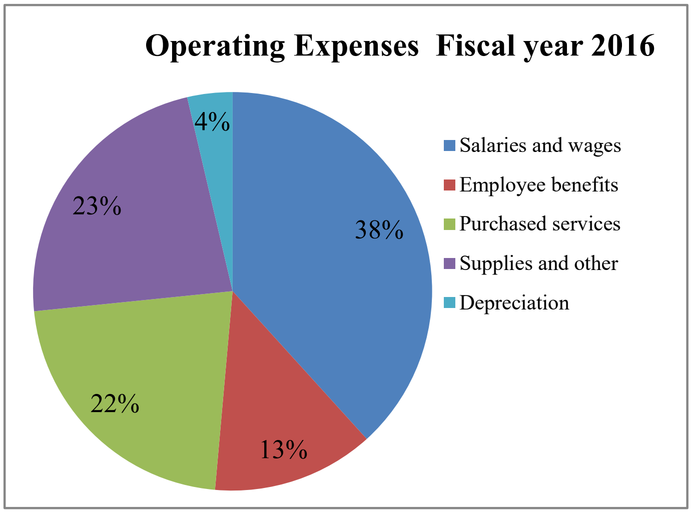
Harborview's payer mix is a key factor in the overall financial operating results. The chart to the left illustrates payer mix for 2016. For the years ended June 30, 2016 and 2015, Medicaid revenue represented 34% and 33%, Commercial revenue represented 31% and 33%, and Exchange revenue represented 2% and 1%, respectively. Medicare and self-pay revenue represented 30% and 3%, respectively, for both fiscal years.



As a result of the Affordable Care Act, Harborview experienced a decrease in uninsured patients after January 1, 2014 as many patients who were previously self-pay now qualify for Medicaid coverage. However, Harborview has seen a corresponding increase in uncompensated costs related to providing care to Medicaid patients. The table to the right shows the shift in uncompensated care costs from charity care to Medicaid.

Reimbursement from governmental payers is generally below commercial rates and reimbursement rules are complex and subject to both interpretation and settlements. Harborview has higher government revenues which are subject to settlements as a result of Medicaid being the largest payer.

For the years ended June 30, 2016, 2015, and 2014, Harborview's total operating revenues were $964.3 million, $929.9 million, and $814.7 million, which was composed of $887.5 million, $858.8 million, and $747.9 million in net patient service revenues and $76.8 million, $71.0 million, and $66.8 million of other operating revenues, respectively. The increase in operating revenues for fiscal year 2016 was driven by higher case acuity, and an increase in contract pharmacy and safety net revenue. The increase in fiscal year 2015 was driven by an increase in net patient service revenues as a result of higher case acuity, greater volumes, and favorable payer mix.



Total Operating Expenses

Total operating expenses were $915.0 million for fiscal year 2016 compared to $868.7 million for fiscal year 2015 and $815.4 million for fiscal year 2014. The composition of fiscal year 2016 operating expenses is illustrated in the chart to the left.

Salaries and wages increased $6.6 million from $343.5 million in fiscal year 2015 to $350.1 million in fiscal year 2016. The increase in salaries and wages in the current year is primarily attributed to patient care labor associated with higher than anticipated occupancy and employee merit increases.

Salaries and wages increased $16.4 million from $327.1 million in fiscal year 2014 to $343.5 million in fiscal year 2015. The increase in salaries and wages in fiscal year 2015 is primarily attributed to patient care labor associated with higher than anticipated occupancy, employee merit increases, and compensated absence accruals.

Employee benefits increased $19.1 million from $101.1 million in fiscal year 2015 to $120.2 million in fiscal year 2016 and decreased $2.1 million from $103.2 million in fiscal year 2014 to $101.1 million in fiscal year 2015. In 2016, the State of Washington (the State) increased the funding of employee healthcare and pension costs, which caused the University to increase the benefit load rate for classified employees and professional staff by 16.6% and 9.1%, respectively. Employee benefit expense decreased in fiscal year 2015 as a result of an overall decrease in the University benefit load rate.

Purchased services, which consist of professional and consulting fees, increased $25.6 million from $175.7 million in fiscal year 2015 to $201.3 million in fiscal year 2016, and increased $7.1 million from $168.6 million in fiscal year 2014 to $175.7 million in fiscal year 2015. In 2016, UW Medicine adopted a purchase service model for shared services such as accounting, payroll, supply chain, and other shared service departments. The increase in purchased services between fiscal year 2016 and 2015 is attributed to the allocation of these shared service costs to Harborview which are recorded in purchased services. The increase in purchased services between fiscal year 2015 and 2014 was attributed to an increase in the allocation of IT expenses to Harborview as a result of an increase in salaries and wages at UW Medicine ITS.

Supplies and other expense include medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased $1.4 million from $208.5 million in fiscal year 2015 to

$209.9 million in fiscal year 2016 and increased $34.9 million from $173.6 million in fiscal year 2014 to $208.5 million in fiscal year 2015. The increase in supplies and other between 2016 and 2015 is a result of higher medical supplies expense offset by favorable other expenses, including a reduction in rental expense at the Ninth & Jefferson building.

The increase in supplies and other between 2015 and 2014 was due to Harborview dispensing a new and specialized pharmaceutical drug for the treatment of hepatitis C in their outpatient pharmacy.

Depreciation expense decreased $6.4 million from $39.9 million in fiscal year 2015 to $33.5 million in fiscal year 2016 and decreased $3.1 million from $43.0 million in fiscal year 2014 to $39.9 million in fiscal year 2015. The decrease in fiscal years 2016 and 2015 was attributed to capital spending reductions and previously recorded IT assets recorded on Harborview’s statements of net position becoming fully depreciated.

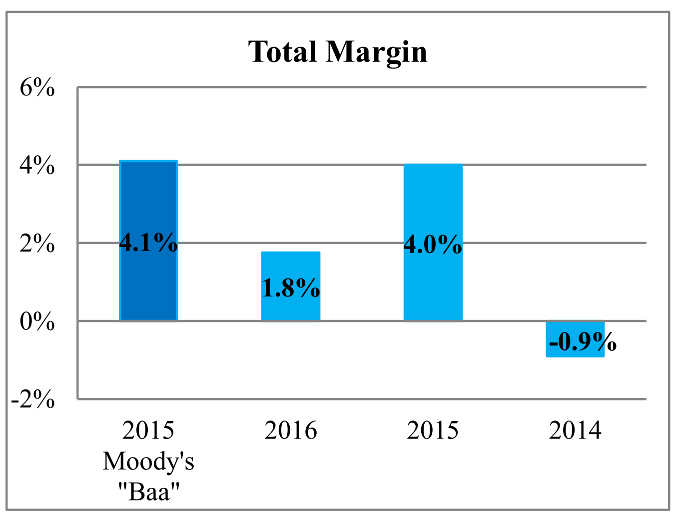
Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, net, interest expense, donations, intergovernmental transfer expense, strategic funding to UW Medicine entities, and mission support to King County. In 2016, net nonoperating expenses increased $7.6 million from $24.7 million for the year ended June 30, 2015 to $32.3 million at June 30, 2016. In 2016, nonoperating expenses increased as a result of strategic funding to affiliates, primarily UWNC and a $5.0 million mission support expense to King County as a result of new provision in the hospital services agreement.

Net nonoperating expense increased $18.3 million from $6.4 million at June 30, 2014 to $24.7 million at June 30, 2015. The increase in net nonoperating expenses was primarily due to intergovernmental transfers related to Harborview’s participation in Washington State Provider Access Payment (PAP) program and increased strategic funding to affiliates.

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 (loss) and is a common measure of total hospital profitability. Total margin for the fiscal years 2016, 2015, and 2014 compared to industry median is illustrated in the chart to the right.



Financial Analysis

Net Position

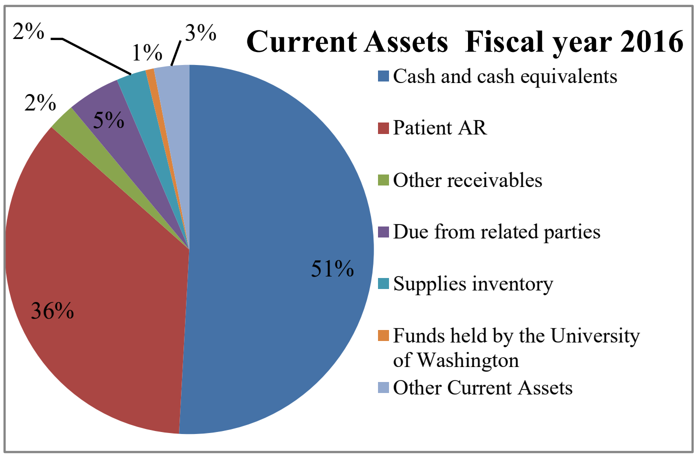
The table below is a presentation of certain condensed financial information derived from Harborview's net position as of the fiscal years ended June 30, 2016, 2015, and 2014:

		2016	2015	2014
			(In thousands)	
Current assets	$	408,516	376,705	285,596
Noncurrent assets:				
Capital assets, net		300,364	307,259	331,359
Funds held by the University of Washington		600	600	600
Assets whose use is limited		107,462	121,677	113,103
Other assets		17,208	14,025	10,865
Total assets		834,150	820,266	741,523
Current liabilities		148,880	154,851	108,860
Noncurrent liabilities		12,951	14,499	16,996
Total liabilities		161,831	169,350	125,856
Net position		672,319	650,916	615,667
Total liabilities and net position	$	834,150	820,266	741,523

Total assets were $834.2 million at June 30, 2016 compared to $820.3 million at June 30, 2015, an increase of $13.9 million. Significant events within total assets during fiscal year 2016 include an increase in cash and cash equivalents due to positive cash flows from operating activities and patient accounts receivable, offset by a decrease in capital assets, and assets whose use is limited.

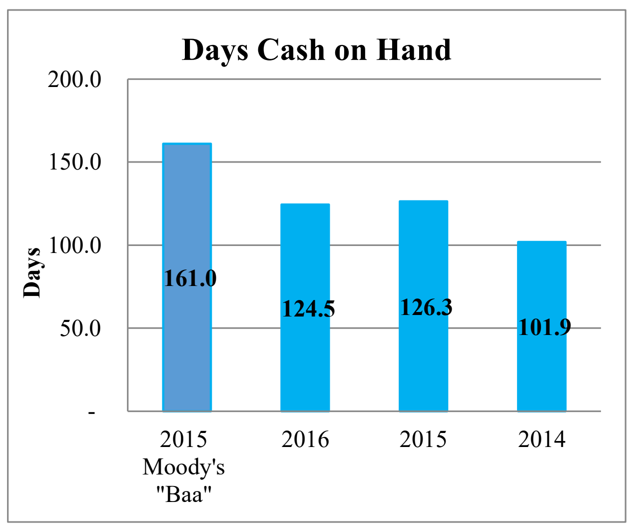
Total assets were $820.3 million at June 30, 2015 compared to $741.5 million at June 30, 2014, an increase of $78.8 million. Significant events within total assets during fiscal year 2015 included an increase in cash and cash equivalents due to positive cash flows from operating activities.

Current Assets



Current assets consist of cash and cash equivalents, patient accounts receivable, and other current assets that are expected to be converted to cash within a year. Total current assets were $408.5 million, $376.7 million, and $285.6 million at fiscal years 2016, 2015, and 2014, respectively. Fiscal year 2016 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 (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 in the statements of net position. Cash and cash equivalents increased $27.3 million in 2016 from $180.5 million at June 30, 2015 to $207.8 million at June 30, 2016 and $54.8 million in 2015 from $125.7 million at June 30, 2014 to $180.5 million at June 30, 2015.



Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on hand, include board- and management-designated assets, as of June 30, 2016, 2015, and 2014 and comparison to Moody's rating are illustrated in the graph to the right.

Harborview's total days cash on hand decreased 1.8 days from 126.3 days at June 30, 2015 to 124.5 days at June 30, 2016 and increased 24.4 days from 101.9 days at June 30, 2014 to 126.3 days at June 30, 2015. The decrease of 1.8 days between 2016 and 2015 is due to increases in operating expenses and repayments of a CPE hold harmless estimate to the State.

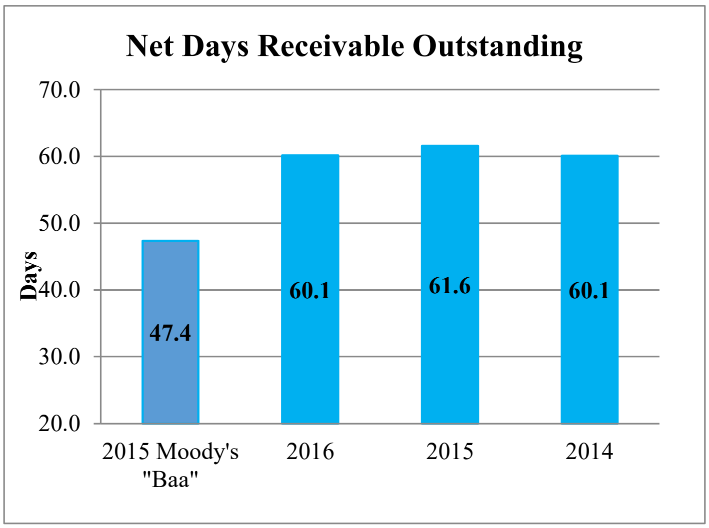
The increase in 2015 was driven by Medicaid expansion and positive cash flow from operating activities. In addition, days cash on hand increased due to receipt of CPE funds that will be settled and paid to the State in subsequent years.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Net patient accounts receivable was $145.8 million as of June 30, 2016 compared to $144.9 million at June 30, 2015 and $123.2 million at June 30, 2014. Net patient accounts receivable increased $0.9 million and $21.7 million in fiscal year 2016 and 2015, respectively. In 2016, Harborview net patient accounts receivable increased as a result of delay in administrative days payments from payers. In June 2015, Harborview experienced high revenue month, which accounted for the increase in net patient accounts receivable.



Days receivable outstanding indicates an organization's ability to convert net patient service revenue to cash. Days receivable outstanding as of June 30, 2016, 2015, and 2014 and comparison to Moody's rating are provided in the graph included to the left.

Harborview's net days receivable outstanding decreased 1.5 days from 61.6 days at June 30, 2015 to 60.1 days at June 30, 2016 and increased 1.5 days from 60.1 days at June 30, 2014 to 61.6 days at June 30, 2015. Net days receivable outstanding improved in 2016 as a result of Medicaid and Medicaid managed care plans paying more quickly than in fiscal year 2015. The increase in net days receivable outstanding during fiscal year 2015 is driven in part by the reduction of charity write-offs and the shift to managed care Medicaid payer plans, which has historically paid slower.

As of June 30, 2016 and 2015, 34% and 39% of the gross patient accounts receivable balance is due from commercial payers, 60% and 56% is due from governmental payers Medicare and Medicaid, 3% and 3% is due from self-pay patients, and 3% and 2% from the Washington Health Benefit Exchange, respectively.

Due from related parties consists of amounts due for services provided by Harborview to UW Medicine entities, including the School. Due from related parties increased $3.0 million from $15.9 million at June 30, 2015 to $18.9 million at June 30, 2016 and increased $10.7 million from $5.2 million at June 30, 2014 to $15.9 million at June 30, 2015. The increase in 2016 relates to the timing of payments between Harborview and other UW Medicine entities. In 2015, the increase in due from related parties is the result of Provider Access Payment funding to the School which reduced the faculty funding requirement from Harborview.

Noncurrent Assets

Capital assets net of accumulated depreciation, decreased $6.9 million during fiscal year 2016 from $307.3 million at June 30, 2015 to $300.4 million at June 30, 2016 and decreased $24.1 million during fiscal year 2015 from $331.4 million at June 30, 2014 to $307.3 million at June 30, 2015. The decrease in both years 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, management-designated, and restricted investments. These investments include cash, long-term investments, and property held for future use and are used by Harborview to fund strategic initiatives, capital improvements, and to purchase equipment.

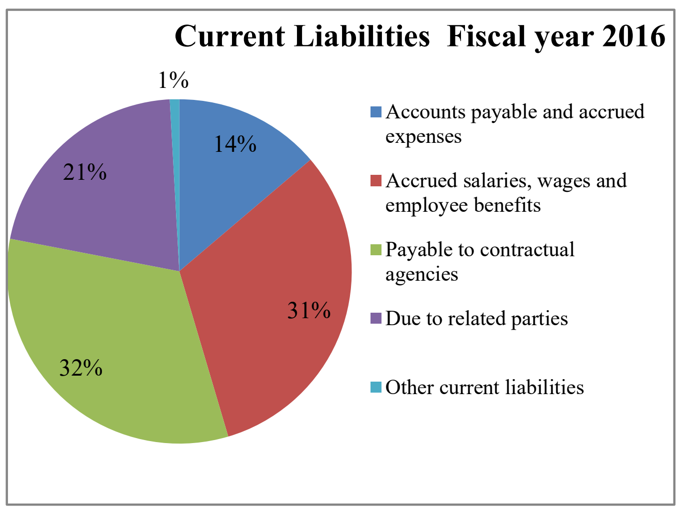
At June 30, 2016, total assets whose use is limited was $107.5 million, compared to $121.7 million at June 30, 2015, a decrease of $14.2 million between years. The decrease in AWUL is due to an $11.2 million repayment of CPE hold harmless to the State in 2016. At June 30, 2015, assets whose use is limited is $121.7 million, compared to $113.1 million at June 30, 2014, an increase of $8.6 million, which was attributed to reduced capital expenditures and an increase in the funds set aside for the CPE hold harmless repayment to the State.

Other assets consist of long-term prepaid expenses. The long-term prepaid expense reflected in other assets of $17.2 million, $14.0 million, and $10.9 million at June 30, 2016, 2015, and 2014, respectively, entitles Harborview access to the enterprise-wide IT software and services. The increase in the balance is a result of new IT capital projects.

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 $148.9 million, $154.9 million, and $108.9 million at June 30, 2016, 2015, and 2014, respectively. Fiscal year 2016 composition of current liabilities is illustrated in the chart below.

Accounts payable and accrued expenses decreased $10.4 million from $30.9 million at June 30, 2015 to $20.5 million at June 30, 2016 and increased $11.1 million from $19.8 million at June 30, 2014 to $30.9 million at June 30, 2015. Changes in accounts payable and accrued expenses are primarily driven by timing of payments to vendors.



Accrued salaries, wages, and employee benefits decreased $0.6 million from $47.8 million at June 30, 2015 to $47.2 million at June 30, 2016 and increased $5.6 million from $42.2 million at June 30, 2014 to $47.8 million at June 30, 2015. Changes in accrued salaries, wages, and employee benefits are primarily driven by the number of employees, employee merit increases, and compensated absences accrual.

Payable to contractual agencies consists of estimated reserves for Medicare cost reports and Medicaid CPE settlements. Payable to contractual agencies increased $0.1 million from $48.4 million at June 30, 2015 to $48.5 million at June 30, 2016 and increased $22.1 million from $26.4 million at June 30, 2014 to $48.5 million at June 30, 2015. The increase in fiscal year 2016 and 2015 was driven by the development in open Medicare cost reports and Medicaid CPE hold harmless estimates.

Due to related parties consists of amounts due for services provided to Harborview from UW Medicine shared services, information technology support, the School, and strategic funding to affiliates. Amounts due to related parties increased $5.1 million from $26.3 million at June 30, 2015 to $31.4 million at June 30, 2016 and increased $7.3 million from $19.0 million at June 30, 2014 to $26.3 million at June 30, 2015. In 2016, as a result of a new provision in the hospital services agreement, Harborview recorded a payable to King County in the amount of $5.0 million related to mission support expense. The increase in 2015 was a result of timing in payments between Harborview, the University, and Northwest Hospital.

Factors Affecting the Future

UW Medicine Accountable Care Network

In 2014, UW Medicine formed an Accountable Care Network (ACN) with other selected healthcare organizations and healthcare professionals in Western Washington to form a care delivery network to assume responsibility for the healthcare of contracted populations of patients to achieve the Triple Aim: improved healthcare experience for the individual, improved health of the population, and more affordable care.

- The ACN has contracted with the Washington Health Care Authority (HCA) to participate in its new Puget Sound Accountable Care Program (ACP) as a healthcare benefit option for Public Employees Benefits Board (PEBB) members. The ACP is offered to all PEBB members who reside in Snohomish, King, Kitsap, Pierce, and Thurston Counties, with possible expansion into a number of additional counties planned in 2017. This contract with HCA to cover PEBB members began January 1, 2016.
- A subset of the network members have also agreed to participate with the ACN in a contract with Premera as part of its new Accountable Health System (AHS) product. As an AHS, the UW Medicine ACN will share in accountability for the quality and cost of healthcare for Premera members who select this plan. This product was sold both on and off the Washington Health Exchange in select counties with coverage that began January 1, 2016 and must have 5,000 planwide members per product, per region to share in financial savings and risk.
- The UW Medicine ACN also entered into an agreement to provide healthcare services to Nonunion employees of a large local employer with coverage that began January 1, 2015.

These arrangements provide an opportunity for shared savings between the ACN and the contracted entity based on achieving quality and financial benchmarks. If certain financial benchmarks are not attained, UW Medicine, along with its network members, are at risk for reductions in payment levels from the contracted entity based on the agreement.

Employee Costs

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University and Harborview. Employer pension funding rates for the Public Employees' Retirement System (PERS) pension plans increased 19.0% during fiscal year 2016, from 9.2% to 11.0% of covered salary, and will be increasing to 11.18% of covered salary for fiscal year 2017. Likewise, the monthly employer base rate paid by the University and Harborview for employee healthcare increased 27.0% during fiscal year 2016, from $662 to $840 per active employee, and will be increasing to $888 per active employee during fiscal year 2017. Both rates are likely to continue increasing over the next few years.

Government Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions* which requires governments providing defined benefit pensions to their employees to recognize the net pension liability for pension benefits on their statements of net position. Net pension liability is measured as total pension liability, less the amount of the plan's fiduciary net position. GASB Statement No. 68 is applicable to the University as well as to the UW Medicine entities that are part of the financial reporting entity of the University. Management evaluated the requirements of this statement and determined that the GASB Statement No. 68 is not applicable to Harborview as Harborview is not part of the University's financial reporting entity and Harborview does not directly fund the employer contribution to the Department of Retirement System. Harborview funds its share of contribution expense through the University benefit load rate, Harborview does not record a net pension liability on its financial statements. The portion of the University's net pension liability at June 30, 2016 that relates to University employees deployed at Harborview is approximately $233.0 million.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Statements of Net Position

June 30, 2016 and 2015

(Dollar amounts in thousands)

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	207,818	180,469
Funds held by the University of Washington		2,949	3,577
Patient accounts receivable, less allowance for uncollectible accounts of $33,897 in 2016 and $30,777 in 2015		145,818	144,875
Other receivables		9,829	12,459
Due from related parties		18,876	15,928
Supplies inventory		10,625	8,604
Other current assets		12,601	10,793
Total current assets		408,516	376,705
Noncurrent assets:			
Capital assets, net of accumulated depreciation		300,364	307,259
Fund held by the University of Washington		600	600
Assets whose use is limited		107,462	121,677
Other assets		17,208	14,025
Total noncurrent assets		425,634	443,561
Total assets	$	834,150	820,266
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	20,482	30,857
Accrued salaries, wages, and employee benefits		47,163	47,754
Due to related parties		31,350	26,277
Payable to contractual agencies		48,544	48,454
Current portion of unearned rent		686	704
Current portion of long-term debt		655	805
Total current liabilities		148,880	154,851
Noncurrent liabilities:			
Unearned rent and other		12,828	13,698
Long-term debt, net of current portion		123	801
Total liabilities		161,831	169,350
Net position:			
Net investment in capital assets		299,586	305,653
Expendable, restricted		10,150	9,983
Nonexpendable, restricted		2,534	2,527
Unrestricted		360,049	332,753
Total net position		672,319	650,916
Total liabilities and net position	$	834,150	820,266

See accompanying notes to basic 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, 2016 and 2015

(Dollar amounts in thousands)

		2016	2015
Operating revenues:			
Net patient service revenues (net of provision for uncollectible accounts of $28,494 in 2016 and $26,741 in 2015)	$	887,533	858,845
Other operating revenues		76,780	71,044
Total operating revenues		964,313	929,889
Operating expenses:			
Salaries and wages		350,126	343,507
Employee benefits		120,227	101,072
Purchased services		201,313	175,669
Supplies and other		209,860	208,523
Depreciation		33,521	39,926
Total operating expenses		915,047	868,697
Income from operations		49,266	61,192
Nonoperating revenues (expenses):			
Investment income, net		2,715	1,823
Interest expense		(56)	(212)
Donations		1,723	979
Funding to affiliates		(30,676)	(26,473)
Funding to King County		(5,000)	—
Other, net		(1,020)	(803)
Nonoperating expenses		(32,314)	(24,686)
Income before capital contributions, additions to permanent endowments, and other		16,952	36,506
Capital contributions, additions to permanent endowments, and other:			
Additions to permanent endowments		8	—
Other transfers		4,443	(1,257)
Total capital contributions, additions to permanent endowments, and other		4,451	(1,257)
Increase in net position		21,403	35,249
Net position – beginning of year		650,916	615,667
Net position – end of year	$	672,319	650,916

See accompanying notes to basic 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, 2016 and 2015

(Dollar amounts in thousands)

		2016	2015
Cash flows from operating activities:			
Cash received for patient service revenues and other	$	886,680	859,394
Cash received for other services		80,037	71,010
Cash paid to employees		(466,574)	(439,031)
Cash paid to suppliers and others		(434,003)	(393,673)
Net cash provided by operating activities		66,140	97,700
Cash flows from noncapital financing activities:			
Donations and other income received		1,723	979
Funding to affiliates		(29,733)	(18,313)
Additions to permanent endowments		8	—
Other		(692)	(798)
Net cash used in noncapital financing activities		(28,694)	(18,132)
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(810)	(1,460)
Cash paid for interest		(61)	(215)
Capital expenditures		(26,229)	(15,082)
Net cash used in capital and related financing activities		(27,100)	(16,757)
Cash flows from investing activities:			
Net decrease (increase) in assets whose use is limited		14,683	(9,657)
Investment income, net		2,320	1,649
Net cash provided by (used in) investing activities		17,003	(8,008)
Increase in cash and cash equivalents		27,349	54,803
Cash and cash equivalents, beginning of year		180,469	125,666
Cash and cash equivalents, end of year	$	207,818	180,469
Reconciliation of income from operations to net cash provided by operating activities:			
Income from operations	$	49,266	61,192
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation		33,521	39,926
Provision for uncollectible accounts		28,494	26,741
Net increase in current and other assets		(36,140)	(66,207)
Net (decrease) increase in current liabilities, except current portion of long-term debt		(8,113)	37,019
Decrease in unearned rent		(888)	(971)
Net cash provided by operating activities	$	66,140	97,700
Supplemental disclosures of cash flow information:			
Increase in accounts payable for capital assets	$	738	762
Donation gift in kind		3	245
Loss on disposal of capital assets		(341)	(18)

See accompanying notes to basic 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, Washington (the County). Harborview is managed and operated by UW Medicine under a Hospital Services Agreement between the County and the Board of Regents of the University of Washington (the University), in accordance with policies established by the Harborview Board of Trustees (the Trustees). Harborview is a Level 1 adult and pediatric trauma medical center that serves a four state region with centers of emphasis for areas of care.

The first management contract for the University to operate and manage Harborview was effective on July 1, 1967, and was revised and extended several times. In January 2016, the County Council approved a new Hospital Services Agreement effective February 25, 2016. The Agreement has a ten-year term, and may be renewed by the parties for two successive ten-year terms.

The Agreement recognizes the shared goal of UW Medicine and the County to provide the Harborview mission population with access to primary, secondary, tertiary, and quaternary services and UW Medicine's mission to improve the health of the public through its clinical, research, and teaching activities.

The general conditions within the Hospital Services Agreement provide that the County retains title to all real and personal properties acquired for the County with Harborview capital or operating funds. However, Harborview retains the rights of ownership to these real and personal properties and records these assets on its books. 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. The Trustees agree to adopt operational standards of patient care as developed and recommended by UW Medicine. All such standards must comply with the requirements of applicable agencies such as The Joint Commission.

One significant provision under the new Agreement requires that for each year of the Agreement, the Trustees will allocate and disburse to the County \$5.0 million from Harborview revenues or reserves to support Mission Population programs and services that are currently being provided by the County. The annual allocation and disbursement may be reduced by an amount agreed to by the parties based upon reductions in costs incurred by the County or new funding sources that would not otherwise be received by the County.

UW Medicine staffs, manages, and provides all medical, dental, and other professional services to Harborview patients through University employees and University School of Medicine faculty. UW Medicine conducts research and teaching activities at Harborview, consistent with University policies. The University retains authority over all personnel and employment matters involving University employees who work at Harborview. UW Medicine continues to be responsible for management of the facilities, and development of the six-year Capital Improvement Plan for review and approval by the Trustees and King County. UW Medicine 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 obligations and provide services to address the community's needs as identified in Harborview's mission statement.

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.

Harborview is owned by the County, governed by a county-appointed board of trustees and managed by the University of Washington. Harborview is an entity of UW Medicine which also includes: UW Medical Center, Northwest Hospital & Medical Center (Northwest Hospital), Valley Medical Center (VMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), the UW School of Medicine (the School), and Airlift Northwest (Airlift).

(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 securities, Corporate bonds, and repurchase agreements 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 was invested as follows at June 30:

	2016
Cash and cash equivalents	9.0%
U.S. Treasuries and agencies	68.6
Washington State Local Government Investment Pool	8.4
Corporate and other fixed income	14.0
Total	100.0%

Concentrations of credit risk consist of pooled investments held on behalf of the Harborview at the County.

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. 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 has cash equivalents of $207.8 million and $180.5 million as of June 30, 2016 and 2015, respectively.

(e) Assets Whose Use is Limited

Assets whose use is limited include board and management designated unrestricted assets set aside for future capital and program purposes over which the Trustees and management 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 the King County Investment Pool, managed for Harborview by the County, and are carried at fair market value. Harborview has assets whose use is limited of $107.5 million and $121.7 million as of June 30, 2016 and 2015, respectively.

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 2016 and 2015.

For the year ended June 30, 2016 and 2015, supplies and other expense includes approximately $0 and $9.2 million for the write-off of certain capital assets and restricted investments for which management determined carrying amounts were not recoverable.

(h) Other Assets

UW Medicine ITS (a department of the University) records enterprise-wide information technology (IT) capital assets that are purchased for use by UW Medicine entities. Harborview provides advance funding to UW Medicine ITS, which entitles Harborview access to the enterprise-wide IT software and services. The prepaid portion of this funding is reported within other current assets and other assets in the statements of net position. At June 30, 2016 and 2015, $10.4 million and $8.6 million, respectively, is recorded in other current assets and $17.2 and $14.0 million is recorded in other assets, respectively.

(i) Compensated Absences

University employed staff at Harborview 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.

Annual leave accrued at June 30, 2016 and 2015 is $23.3 million and $23.8 million, respectively. Sick leave accrued as of June 30, 2016 and 2015 is $3.5 million and $4.6 million, respectively. Compensated absences are reported within the accrued salaries, wages, and employee benefits in the statements of net position.

(j) 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.

Public hospitals located in the state of Washington designated by the Washington State legislature are reimbursed at the "full cost" of Medicaid inpatient covered services under the public hospital Certified Public Expenditures (CPE) payment method. See note 3(a) for discussion regarding this program.

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

(k) 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 patients.

Nonoperating revenues and expenses are recorded for certain exchange and nonexchange transactions. This activity includes investment income, net, interest expense, intergovernmental transfer expense, funding to King County and strategic funding to affiliates of UW Medicine.

(l) 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 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). 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 (CMG) 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. Psychiatric 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. See note 3(a) for discussion surrounding the Medicaid certified public expenditure program.

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.

Exchange (HIX)

Washington State health exchange (HIX) entered into agreements with certain commercial insurance plans to provide patients access to healthcare services. The basis for payment to Harborview under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(m) Accountable Care Network

UW Medicine has formed an accountable care network (ACN) with other healthcare organizations and healthcare professionals to share financial and clinical responsibility for the healthcare of particular populations of patients. Harborview, as part of UW Medicine is a network member of the UW Medicine ACN and as such shares in any risk contract surplus or deficits based on agreed-upon contractual terms. Since its inception, the ACN has entered into various contracts, which include provisions for shared risk as well as shared savings based on achieving certain quality and financial benchmarks. Harborview, as part of UW Medicine and the other network members share in the financial risk or savings. At June 30, 2016 and 2015, Harborview has recorded a liability of $667,000 and $109,000, respectively for its portion of the estimated liability related to these risk-sharing arrangements, which is reflected in due to related parties in the accompanying statements of net position.

(n) 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 patient service revenue. The charges associated with charity care provided by the Hospital are approximately $63.5 million and $60.0 million, respectively, for the years ended June 30, 2016 and 2015.

Harborview estimates the cost of charity care using its Medicaid cost to charge ratio of 41% for the fiscal years ended June 30, 2016 and 2015. Applying Harborview's Medicaid cost to charge ratio of 41% to total charity of $63.5 million results in an estimated cost of charity care and uncompensated care of $26.0 million for the fiscal year ended June 30, 2016. Applying Harborview's Medicaid cost to charge ratio of 41.0% to total charity of $60.0 million results in an estimated cost of charity care and uncompensated care of $24.6 million for the fiscal year ended June 30, 2015.

(o) 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.

(p) Recently Adopted and New Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is effective for the fiscal year beginning July 1, 2014. It requires governments providing defined benefit pensions to their employees to recognize the net pension liability for pension benefits on their statements of net position. Net position liability is measured as total pension liability, less the amount of the plan's fiduciary net position. Management evaluated the impact of this statement and determined that it is not applicable to Harborview as Harborview does not directly fund the employer contribution to the Department of Retirement System (DRS), which is funded by the University. Harborview is not part of the financial reporting entity of the University, thus, Harborview does not record a net pension liability on its financial statements.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which is effective for the fiscal year ending June 30, 2016. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement establishes a three level hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. As Harborview is part of an investment pool, this standard does not apply to its financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The guidance for plans not within No. 68's scope will be effective for the fiscal year ending June 30, 2017. This statement is intended to improve financial reporting of governments whose employees are provided pensions that are not within the scope of No. 68 and improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68. Harborview is currently analyzing the impact of this statement.

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for the fiscal year ending June 30, 2018. This statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. This statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. Harborview is currently analyzing the impact of this statement.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is effective for the fiscal year ending June 30, 2016. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to the financial statements of Harborview as a result of implementing this statement.

(q) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(3) Net Patient Service Revenues

Net patient service 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 2016 and 2015, net patient service revenue includes approximately $7.2 million and $7.8 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):

		2016	2015
Gross patient service revenues	$	2,226,302	2,099,327
Less adjustments to patient service revenues:			
Charity care		(63,479)	(59,964)
Contractual discounts		(1,246,796)	(1,153,777)
Provision for uncollectible accounts		(28,494)	(26,741)
Total adjustments to patient service revenues		(1,338,769)	(1,240,482)
Net patient service revenues	$	887,533	858,845

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, 2016 and 2015 is as follows:

	Patient service charges	Accounts receivable
2016:		
Medicare	30%	22%
Medicaid	34	38
Commercial and other	31	34
Self-pay	3	3
Exchange (HIX)	2	3
Total	100%	100%
2015:		
Medicare	30%	25%
Medicaid	33	31
Commercial and other	33	39
Self-pay	3	3
Exchange (HIX)	1	2
Total	100%	100%

(a) Medicaid Certified Public Expenditure Reimbursement

Public hospitals located in the state of Washington designated by the Washington State legislature are reimbursed at the “full cost” of Medicaid inpatient covered services under the public hospital CPE payment method.

“Full cost” payments are determined using the respective hospital’s Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital and the State claims federal match on the amount of the related certified public expenditures. Per the Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. Harborview received $58.5 million and $71.1 million in claims payments under this program for the years ended June 30, 2016 and 2015, 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 $40.0 million and $40.9 million in DSH funding under this program for the years ended June 30, 2016 and 2015, respectively.

(Continued)

Since the inception of the program, the Washington State Legislature (the State) has provided, through an annual budget proviso, a "hold harmless" provision for hospitals participating in the CPE program. Through this proviso, hospitals participating in the CPE program will receive no less in combined state and federal payments than they would have received under the previous payment methodology. In addition, the hold harmless provision ensures that participating hospitals receive DSH payments as specified in the legislation.

In the event of a shortfall between CPE program payments and the amount determined under the hold harmless provision, the difference is paid to the hospitals as a grant from state-only funds. Harborview received $14.7 million and $13.5 million in state grants for the years ended June 30, 2016 and 2015, 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, the 2007 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.

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, 2016 and 2015, net patient service revenue includes approximately $2.7 million and $(0.3) million, respectively, of increases (decreases) relating to the prior year's estimate and settlements.

As of June 30, 2016, for fiscal years 2008–2016, Harborview has an estimated payable of $44.2 million for the CPE program, which is included in payable to contractual agencies in the statements of net position. As of June 30, 2015, Harborview had an estimated payable of $42.1 million for the CPE program, which is included in payable to contractual agencies in the statements of net position.

(b) Professional Services Supplemental Payment (PSSP) and Provider Access Payment (PAP) Program

The professional services supplemental payment (PSSP) and provider access payment (PAP) program are programs managed by the Washington State Health Care Authority (WSHCA) benefiting certain public hospitals. CMS approved the PAP program in August 2014 for services on and after July 1, 2014.

Under the program, UW Medical Center, Harborview, VMC, 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.

Harborview recorded $11.9 million for the years ended June 30, 2016 and 2015 in intergovernmental transfers (IGT) to WSHCA related to professional claims paid in those fiscal years, which is recorded as a nonoperating expense in the statements of revenue, expenses, and changes in net position.

WSHCA uses the federal match funds to make professional services supplemental payments to UW Medicine entities for PSSP and through the Medicaid managed care plans for PAP. Harborview recognized $5.9 million and $2.0 million in supplemental payments for the years ended June 30, 2016 and 2015, 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 and PAP payments be returned to Harborview and UW Medical Center as a condition for making the IGT's. PSSP and PAP funds are combined with other revenues used by the School for the central support of faculty costs. Thus, the School requires less funding from Harborview and UW Medical Center. The faculty support was reduced by $25.7 million and $20.7 million in fiscal years 2016 and 2015, respectively. This reduction is included as an offset to purchased services in the statements of revenue, expenses, and changes in net position.

(c) Hospital Safety Net Program

The Hospital Safety Net Assessment Act (HSNA) uses local funds obtained through an assessment levied on Prospective Payment System (PPS) hospitals and federal matching funds to increase Medicaid payments to hospitals. Under this program, PPS program hospitals are assessed a fee on all non-Medicare patient days. Under the original HSNA program, HSNA funds were used to prevent the significant budget cuts proposed during the 2009 session of the state legislature. The original legislation expired on June 30, 2013.

In its 2013 session, the Washington State legislature passed a new assessment program that was similar to the original program as it uses federal matching funds to increase Medicaid hospital payments. Under the new HSNA program, PPS hospitals receive supplemental Medicaid payments, Critical Access Hospitals receive disproportionate share payments, and CPE hospitals receive state grants. The safety net assessment was subject to approval by the Center for Medicare and Medicaid Services before it took effect. CMS approved this program in 2014. The program has an expiration date of June 30, 2017.

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 recognized grant funding of $10.3 million and $7.6 million for the years ended June 30, 2016 and 2015, respectively, which is recorded in other operating revenues in the statements of revenues, expenses, and changes in net position.

(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, provided 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 recognized meaningful use incentives of $6.0 million for the years ended June 30, 2016 and 2015, which are included in other operating revenues in the statements of revenue, expenses, and changes in net position.

(e) Other Federal and State Funding

As a regional trauma center, Harborview is eligible for additional State funding in both 2016 and 2015 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 $7.5 million and $8.5 million for the years ended June 30, 2016 and 2015, respectively. In addition to the funding received through the Trauma Enhancement program, Harborview received State sponsored trauma grants in the amount of $1.5 million and $1.7 million for the years ended June 30, 2016 and 2015, 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, specifically designated by the state for training of future healthcare professionals and to upgrade the skills of current practitioners. Harborview is designated as a division of the major program "hospitals" included within the total appropriation. Due to the nature of the designation, these amounts are included in other operating revenues in the accompanying statements of revenues, expenses, and changes in net position. Harborview recognized $6.3 million and $6.2 million for the years ended June 30, 2016 and 2015, respectively.

(Continued)

(5) Capital Assets

The activity in Harborview's capital asset and related accumulated depreciation accounts for the years ended June 30, 2016 and 2015 is set forth below (in thousands):

		Balance June 30, 2015	Additions	Transfers	Retirements	Balance June 30, 2016
Capital assets, not being depreciated:						
Land	$	1,586	846	—	—	2,432
Construction in process		12,653	17,189	(17,258)	—	12,584
Total capital assets, not being depreciated		14,239	18,035	(17,258)	—	15,016
Capital assets, being depreciated:						
Land improvements		5,584	—	14	—	5,598
Buildings, renovations, and furnishings		413,590	—	6,110	—	419,700
Fixed equipment		143,893	—	86	(166)	143,813
Movable equipment		284,282	8,932	10,103	(8,864)	294,453
Leasehold improvements		9,555	—	945	—	10,500
Total capital assets, being depreciated		856,904	8,932	17,258	(9,030)	874,064
Total capital assets at historical cost		871,143	26,967	—	(9,030)	889,080
Less accumulated depreciation for:						
Land improvements		(2,628)	(313)	—	—	(2,941)
Buildings, renovations, and furnishings		(188,400)	(13,577)	—	—	(201,977)
Fixed equipment		(124,727)	(4,898)	—	163	(129,462)
Movable equipment		(243,963)	(14,139)	—	8,526	(249,576)
Leasehold improvements		(4,166)	(594)	—	—	(4,760)
Total accumulated depreciation		(563,884)	(33,521)	—	8,689	(588,716)
Total capital assets, net	$	307,259	(6,554)	—	(341)	300,364

	Balance June 30, 2014	Additions	Transfers	Retirements	Balance June 30, 2015
Capital assets, not being depreciated:					
Land	$ 1,586	—	—	—	1,586
Construction in process	14,860	7,440	(9,647)	—	12,653
Total capital assets, not being depreciated	16,446	7,440	(9,647)	—	14,239
Capital assets, being depreciated:					
Land improvements	5,519	—	65	—	5,584
Buildings, renovations, and furnishings	407,089	—	6,501	—	413,590
Fixed equipment	143,351	—	542	—	143,893
Movable equipment	274,538	8,404	2,539	(1,199)	284,282
Leasehold improvements	9,555	—	—	—	9,555
Total capital assets, being depreciated	840,052	8,404	9,647	(1,199)	856,904
Total capital assets at historical cost	856,498	15,844	—	(1,199)	871,143
Less accumulated depreciation for:					
Land improvements	(2,312)	(316)	—	—	(2,628)
Buildings, renovations, and	—	—	—	—	—
furnishings	(174,899)	(13,501)	—	—	(188,400)
Fixed equipment	(119,588)	(5,139)	—	—	(124,727)
Movable equipment	(224,725)	(20,419)	—	1,181	(243,963)
Leasehold improvements	(3,615)	(551)	—	—	(4,166)
Total accumulated depreciation	(525,139)	(39,926)	—	1,181	(563,884)
Total capital assets, net	$ 331,359	(24,082)	—	(18)	307,259

Capital assets, net, include intangible assets, net of accumulated depreciation of $0.4 million and $0.7 million as of June 30, 2016 and 2015, 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):

		2016	2015
Board-designated assets:			
Pooled investments managed by King County	$	66,178	80,851
Receivables and other		188	191
Property held for future use, at cost, less accumulated depreciation		2,718	2,718
Total board-designated assets		69,084	83,760
Management-designated assets		25,784	25,574
Restricted cash and investments:			
Investments restricted for capital by King County		4,737	5,590
Investments restricted by donor		7,857	6,753
Total restricted assets		12,594	12,343
Total assets whose use is limited	$	107,462	121,677

(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):

		2016	2015
Commuter service fund	$	13,266	12,148
Self-insurance fund		1,198	1,188
Walter Scott Brown property		2,718	2,718
Equipment fund		1,525	8,365
Building repair and replacement fund		22,712	25,645
Planned capital and program reserves		27,665	33,696
Total	$	69,084	83,760

(c) Investments Restricted for Capital and by Donor

Investments restricted for capital is comprised of investments held in the King County Investment Pool, managed for Harborview by the County and are $4.7 million and $5.6 million for the years ended June 30, 2016 and 2015, respectively. These investments represent unspent bond proceeds, required capital funding, and accumulated interest earnings. Use of 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 $7.9 million and $6.8 million as of June 30, 2016 and 2015, 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 collateralized mortgaged obligations, and are carried at market value.

(7) Unearned Rent and Other

Changes in unearned rent and other during the fiscal years ended June 30, 2016 and 2015 are summarized below (in thousands):

		Beginning balance	Increases	Decreases	Ending balance	Due within one year
Fiscal year ending:						
June 30, 2016	$	14,402	—	(888)	13,514	686
June 30, 2015		15,373	—	(971)	14,402	704

(8) Risk Management

Harborview is exposed to risk of loss related to professional and general liability, property loss, 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% for both 2016 and 2015 in recognition of the expected earnings of the self-insurance fund and other factors. In addition to the University, the participants in the professional liability program include Harborview, UWP, CUMG, UWNC, 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 $3.4 million in 2016 and 2015, recorded in supplies and other expense on the statements of revenues, expenses, and changes in net position.

(9) Benefit Costs

Harborview personnel are employees of the University. 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. These benefit costs cover employee healthcare costs, workers' compensation, employment taxes, and retirement plans. Departments, divisions, agencies, component units, and affiliated 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.

Retirement and Other Postretirement Benefit Plans

All employees of the University 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, Harborview incurred and paid $28.9 million and $25.7 million in fiscal years 2016 and 2015, 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, Harborview incurred and paid \$4.6 million and \$4.7 million in fiscal years 2016 and 2015, 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. This plan is closed to new participants.

Based on the University's benefit load apportionment, Harborview incurred and paid \$0.7 million and \$0.8 million in fiscal years 2016 and 2015, 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 Postemployment Benefits (OPEB) – All University employees, including medical center employees, are eligible for participation in healthcare 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.

(Continued)

(10) Related Parties

Harborview has engaged in a number of transactions with related parties. When economic benefits are either provided or received by Harborview, these transactions are recorded as operating revenues or expenses, respectively, by Harborview. Harborview records cash transfers between Harborview and related parties that are not the result of economic benefits as nonoperating expenses within the statements of revenues, expenses, and changes in 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 (d)).

UW Medicine Central Budget Costs

UW Medicine provides services to Harborview such as executive compensation, advancement, compliance, telemedicine, community relations staffing, medical staff oversight, marketing, and other administrative services related to UW Medicine. The amounts paid by Harborview for these services are shown below (see (d)).

UW Physicians Network dba UW Neighborhood Clinics

Under an annual agreement between the involved UW Medicine entities, Harborview provided strategic support of approximately 26.6% and 20% of the UWNC's annual operating loss for fiscal years 2016 and 2015, respectively and 20% of capital funding needs. Funding from Harborview to UWNC was \$10.7 million and \$6.4 million for fiscal years 2016 and 2015, respectively, and is recorded as funding to affiliates in the statements of revenues, expenses, and changes in net position.

UW Medicine Shared Services

UW Medicine Shared Services comprises a number of functions within the University, established for the purpose of providing scalable administrative and information technology support services for UW Medicine. These functions include UW Medicine IT Services, Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, UW Medicine Contracting, and UW Consolidated Laundry as well as a number of other functions. The amounts for these transactions are shown below (see (d)).

Other Divisions of the University

In addition to the divisions and transactions identified above, Harborview purchases information technology services, general and professional liability insurance, printing, accounting, temporary staffing, and other administrative and operational services. The amounts for these transactions are shown below (see (d)).

(b) UW Medicine/Northwest dba Northwest Hospital and Medical Center

Harborview provided strategic support to Northwest Hospital for operating purposes. Funding from Harborview to Northwest Hospital was \$8.0 million and \$8.2 million for the year ended June 30, 2016 and 2015, respectively and is recorded as funding to affiliates in the statements of revenues, expenses, and changes in net position. At June 30, 2015, Harborview had payable to Northwest in the amount of \$7.1 million recorded in the statements of net position.

(c) 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. Harborview has agreed to provide space and services on behalf of the County for certain grants and contracts, for which Harborview receives rental income and grant revenue from the County. Additional detail describing Harborview's position within the County is provided in note 1.

Under the Hospital Services Agreement, the Harborview Board designates \$5.0 million annually from Harborview's revenues and reserves for the support of County programs. The annual allocation may be reduce through joint efforts by UW Medicine and the County to obtain permanent reductions in cost or new sources of revenues to the County. At June 30, 2016, Harborview recorded a nonoperating expense of \$5.0 million related to King County mission support on the statements of revenues, expenses, and changes in net position and a payable to King County, which is recorded in accounts payable and accrued expenses in the statements of net position.

(d) Summary of Related-Party Transactions for the years ended June 30 (in thousands):

Revenue (expense) transactions		2016	2015
Services and supplies purchased from the University and its departments and affiliates:			
UW Medicine Shared Services	$	(96,508)	(71,274)
The School		(46,133)	(54,390)
Central Costs		(11,518)	(9,888)
UW Medical Center		(2,507)	(2,696)
UWP		(1,646)	(1,156)
Other University divisions and departments		(11,284)	(11,957)
Services provided to the University and its departments and affiliates:			
The School		7,754	8,103
UW Medicine Shared Services		4,784	3,215
UW Medical Center		2,275	2,423
UW Neighborhood Clinics		1,059	796
Services provided to King County		960	708

Harborview had net amounts (due to) due from related parties for various transactions, which are included in funds held by the University, patient accounts receivable, other receivables, other current assets, accrued salaries, wages and employee benefits, payable to the University, and long-term debt in the accompanying statements of net position. The net amounts (due to) due from related parties as of June 30, 2016 and 2015 are as follows (in thousands):

Net receivable (payable)		2016	2015
The University and its departments and affiliates:			
The School	$	6,998	1,728
UW Medicine Shared Services		(8,841)	(6,351)
UWP		1,589	1,553
UW Medical Center		1,205	937
Airlift		2,666	2,200
UW Medicine Central Budget		(902)	(205)
Other University divisions and departments		(30,041)	(26,007)
UW Neighborhood Clinics		(590)	596
King County		(2,868)	1,659
Northwest Hospital		64	(7,090)

(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, 2016 and 2015 for all operating leases was $14.4 million and $17.4 million, respectively, which is recorded in supplies and other expenses in the statement of revenues, expenses, and change in net position.

The following schedule shows future minimum lease payments by fiscal year as of June 30, 2016 (in thousands):

2017	$	542
2018		194
2019		47
2020		—
2021		—
Thereafter		—
	$	783

(b) Purchase Commitments

Harborview has current commitments at June 30, 2016 of $35.9 million related to various construction projects, and equipment purchases. 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 4,401 employees. Of this total, approximately 77.8% and 78.2% are covered by collective bargaining agreements as of June 30, 2016 and 2015, respectively. Nurses are represented by the Service Employees International Union (SEIU) and other healthcare and support workers are represented by the SEIU and Washington Federation of State Employees (WFSE). All collective bargaining agreements expire on June 30, 2017.

(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 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 (LTGO) debt. The Agreement requires the Trustees to budget funds, annually, to cover the outstanding debt associated with PSB. As the financial obligations of the LTGO debt remain the responsibility of the County, Harborview accounts for these payments as rental expense. Rental expense was approximately $2.8 million for the years ended June 30, 2016 and 2015, respectively.

(g) Ninth and Jefferson Building

The Ninth & Jefferson Building is a 14-story medical office building with approximately 440,000 square feet, and underground parking. The building is primarily occupied by Harborview.

In 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. 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 Agreement requires the Trustees to budget funds, annually, to cover the monthly rent and outstanding debt associated with the Ninth and Jefferson building. As the financial obligations of the lease and outstanding debt remain the responsibility of the County, Harborview accounts for these rental payments as rental expense. In December 2015, the County refunded a portion of the NJB debt for the purpose of realizing debt service savings which reduced rent payments in 2016. Lease expense was approximately $10.4 million and $12.7 million for the years ended June 30, 2016 and 2015, respectively. If Harborview continues to occupy this space, annual lease expense will not differ significantly from the amount recognized in 2016.

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES

(A Department of University of Washington)

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES

(A Department of University of Washington)

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 Housing and Food Services, a department of the University of Washington, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

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 financial position of the University of Washington Housing and Food Services as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1, the financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2016 and 2015, the changes in its financial position or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1, on July 1, 2014, the University of Washington Housing and Food Services adopted new accounting guidance requiring governments providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, as well as recognizing most changes in the net pension liability within pension expense. Our opinion is not modified with respect to this matter.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 9, and the schedules of required supplementary information on pages 31 and 32, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
October 28, 2016

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 Housing and Food Services (HFS) as of and for the years ended June 30, 2016, 2015 and 2014. This discussion has been prepared by HFS management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Overview of the Financial Statements

The financial statements of HFS include the statements of net position; the statements of revenue, expenses, and changes in net position; the statements of cash flows; and notes to financial statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for state and local governments.

The statements of net position presents the financial condition of HFS and reports all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. A summarized comparison of HFS's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position is as follows as of June 30, 2016, 2015 and 2014:

Statements of Net Position

	2016	2015	2014
Assets:			
Current assets	$ 77,188,429	72,063,586	61,174,943
Noncurrent assets	451,532,466	448,333,392	377,232,789
Total assets	528,720,895	520,396,978	438,407,732
Deferred outflows	2,490,375	1,265,667	—
Total assets and deferred inflows	$ 531,211,270	521,662,645	438,407,732
Liabilities:			
Current liabilities	$ 36,179,002	30,666,617	25,111,478
Noncurrent liabilities	486,840,082	480,221,949	400,924,272
Total Liabilities	523,019,084	510,888,566	426,035,750
Deferred inflows	1,635,039	3,323,211	—

		2016	2015	2014
Net position:				
Net investment in capital assets	$	(31,105,557)	(27,484,410)	(19,719,120)
Unrestricted		37,662,704	34,935,278	32,091,102
Total net position		6,557,147	7,450,868	12,371,982
Total liabilities, deferred inflows of resources, and net position	$	531,211,270	521,662,645	438,407,732

Current assets consist primarily of cash, accounts receivable, inventory, prepaid expenses, and receivables from other University departments. Current assets were $41.0 million and $41.4 million more than current liabilities at June 30, 2016 and 2015, respectively. Total current assets increased from $72.1 million at June 30, 2015 to a total of $77.2 million at June 30, 2016. The increase was caused by an increase in cash due to an overall increase in residence hall room rents, conference services, and related food services. Current assets increased from $61.2 million at June 30, 2014 to $72.1 million at June 30, 2015 for similar reasons.

Noncurrent assets consist of capital assets of land, buildings, building improvements, equipment, construction in process, due from University Transportation Services, and prepayment of the payroll modernization project. Noncurrent assets were $3.2 million more at June 30, 2016, than at June 30, 2015, mainly due to the amount owed by Transportation Services under the Master Plan garage construction agreement. Noncurrent assets were $71.1 million more at June 30, 2015 than at June 30, 2014, mainly due to the construction of additional housing under the 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 18.0% to a total of $36.2 million at June 30, 2016, from $30.7 million at June 30, 2015, due to increases in due to University departments (Transportation Services), accounts payable and short-term portion of Internal Lending Program (ILP) debt, all related to the overall increase associated with the new residential housing. Current liabilities increased by 22.1% to a total of $30.7 million at June 30, 2015 from $25.1 million at June 30, 2014, due to similar reasons.

Noncurrent liabilities consist of the long-term portion of ILP debt and net pension liability. Total long-term debt increased by 0.7% to a total of $476.1 million at June 30, 2016, from $472.6 million at June 30, 2015, and increased $71.7 million from June 30, 2014 to June 30, 2015, due primarily to additional debt incurred to finance the Housing Master Plan (the Master Plan). Net pension liability increased from $7.7 million at June 30, 2015 to $10.8 million at June 30, 2016, and decreased $3.1 million from June 30, 2014 to June 30, 2015, primarily impacted by investment returns in both years.

The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the past year. Total net position was lower by 12.0% to a total of $6.6 million at June 30, 2016 and decreased by 39.8% to a total of $7.5 million at June 30, 2015. Although the continued strong demand for campus housing resulted in a positive net operating income, HFS had higher debt interest payments, increased building depreciation and the implementation in 2015 of Governmental Accounting Standards Board

(GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which resulted in the recording of pension liabilities.

Statements of Revenue, Expenses, and Changes in Net Position

The changes in total net position, as presented on the statements of net position, are detailed in the activity presented in the statements of revenue, expenses, and changes in net position. This statement presents HFS's results of operations. In accordance with GASB reporting principles, revenue and expenses are classified as operating, nonoperating, or other.

In general, operating revenue is revenue received for providing housing, food service, and related services to the students and conference guests. Operating revenue is also received in the form of educational sponsorship, and as vending commissions. Operating expenses are those expenses paid to provide the services and resources, mainly salaries and benefits, cost of food, building depreciation, and administrative overhead.

Nonoperating revenue is that received for which goods and services were not provided. Under GASB reporting principles, investment income and expenses are classified as nonoperating activities. Also included as nonoperating are energy rebates, salary mitigation from the University, and loss on building disposal under the Master Plan.

The following is a condensed view of the statements of revenue, expenses, and changes in net position for the fiscal years ended June 30, 2016, 2015 and 2014:

		2016	2015	2014
Operating revenue	$	121,375,651	108,966,444	100,298,527
Operating expenses		(98,218,640)	(87,025,494)	(87,285,766)
Net operating income		23,157,011	21,940,950	13,012,761
Net nonoperating expense		(21,198,035)	(17,089,340)	(21,946,780)
Capital asset contribution		(2,852,697)	—	(2,584,000)
Change in net position		(893,721)	4,851,610	(11,518,019)
Net position, beginning of year		7,450,868	12,371,982	23,890,001
Effect of accounting and reporting entity changes		—	(9,772,724)	—
Net position, end of year	$	6,557,147	7,450,868	12,371,982

(Continued)

Revenue from all Sources

The following table summarizes revenue from all sources for the years ended June 30, 2016, 2015 and 2014:

Revenues from all sources summary

	2016	2015	2014
Residence halls and single-student apartment rent	$ 62,991,783	56,305,353	52,313,110
Residence halls and retail food services	42,935,073	39,740,009	36,832,222
Conferences and guest rent	6,159,709	4,947,456	3,600,051
Leases	3,587,121	2,621,369	2,813,768
Family housing rent	2,181,081	2,291,191	2,061,616
Forfeitures and miscellaneous fees	1,355,780	1,058,495	789,700
Educational sponsorship	949,000	857,000	806,611
Vending machines	660,162	646,003	625,143
Laundry	431,064	397,967	377,228
Microfridge commission	8,054	7,531	6,693
Energy rebates and refunds	1,009,650	1,729,868	1,472,952
Investment income	1,340,128	1,256,635	1,002,179
Other	116,824	94,070	72,385
Total revenue – all sources	$ 123,725,429	111,952,947	102,773,658

The largest revenue source is residence hall and single-student room rent and food services, which comprised 85.6% of total revenue in 2016, versus 85.8% in 2015. Residence hall and single-student rent increased by 11.9%, or $6.7 million, food services increased by 8.0% or $3.2 million, and conference services also increased by 24.5% or $1.2 million over the prior year. The new residential buildings brought in a net increase of 400 beds from prior year at a higher room rate. The number of conference groups on campus continued to grow.

In 2015, residence hall and single-student rent increased by 7.6%, or $4.0 million and conference services increased by 37.4% or $1.3 million over the prior year. Aside from a 3.6% rent increase, the new residential buildings brought in a net increase of 207 bends from prior year. Similar to 2016, conference groups coming to campus continued to grow.

Nonoperating revenue decreased in 2016, as energy rebates and refunds decreased by 41.6% due to a one-time soil remediation reimbursement received in fiscal year 2015 from Exxon offset slightly by a transfer for minimum wage mitigation from the University. Nonoperating revenue increased in 2015, primarily due to a 25.4% increase in investment income from increased cash and a 17.4% increase in energy rebates and refunds from the one-time soil remediation reimbursement received from Exxon.

Expenses and Expense Transfers

The following table summarizes expenses and expense transfers for the years ended June 30, 2016, 2015 and 2014:

Expenses and expense transfers summary

		2016	2015	2014
Salaries and related benefits	$	29,916,642	25,704,043	24,274,588
Depreciation		20,103,177	16,137,829	16,074,790
Cost of food and merchandise		16,583,415	15,633,022	14,362,105
Indirect expenses		6,939,511	6,416,787	6,407,093
Utilities		6,998,727	6,474,086	6,587,079
Non capitalized equipment		5,316,676	5,061,325	8,500,845
Contract services		5,037,449	4,617,115	4,004,652
Supplies		3,126,689	2,938,944	2,921,768
Repairs and maintenance		2,645,639	2,345,640	2,454,095
Institutional overhead		1,338,635	1,351,618	1,349,043
Interest expense on capital asset-related debt		21,693,412	19,276,208	16,761,966
Loss on capital asset disposals and transfers		1,095,711	3,176	6,512,296
Financing cost		758,690	796,459	1,147,649
Capital asset contribution to other University department		2,852,697	—	2,584,000
Other		212,080	345,085	349,708
Total expenses and expense transfers	$	124,619,150	107,101,337	114,291,677

Salaries and benefits expense increased by 16.4%, or $4.2 million over the prior year mainly due to labor rate increases and to expanded housing and food operation with Maple and Terry halls for a full academic year in fiscal year 2016. Student and hourly staff minimum wage also increased from $10.10 to $11.00 per hour effective April 1, 2015 and another increase to $13.00 per hour on January 1, 2016. In 2015, salaries and benefits expense increased by $5.9%, or $1.4 million, over the prior year due mainly to rate increases and to increased housing and food operation with Lander Hall and Local Point food service operation for a full year in fiscal 2015.

Cost of food and merchandise increased by 6.1%, or $1.0 million, over the prior year in relation to an increase in residence hall and retail food services revenue of a comparable 8.0%. Cost of food was 38.6% of total food service revenue for fiscal year 2016 and 39.3% for fiscal year 2015. In 2015, cost of food and merchandise increased by 8.8%, or $1.3 million, over the prior year due to an increase in residence hall and retail food services revenue of a comparable 7.9%.

Nonoperating expenses increased in 2016 primarily due to a 12.5%, or $2.4 million, increase in interest expense as a result of increased debt service payments and a loss on disposal of the McCarty residence hall demolished under the Master plan of $1.1 million. Nonoperating expenses decreased in 2015 primarily due to the fact that there were no disposals of capital assets in 2015 as there were in 2014, which attributed to a decreased of

(Continued)

$6.5 million. This decrease was partially offset by a 15%, or $2.5 million, increase in interest expense due to increased debt service payments.

Economic Factors and Significant Events

System Wide Considerations

Effective January 1, 2016, the University of Washington increased the minimum wage for hourly students and staff from $11.00 to $13.00. This increase was required per the City of Seattle's $15.00 minimum wage requirement phase-in timeline. Wages will be further increased to $15.00 per hour effective, January 1, 2017.

Due to the timing of the University's decision to comply with the City's minimum wage requirements, HFS was not able to include the anticipated wage increase in the 2015-16 housing rate calculation. In an effort to bridge the increase in the cost of labor, the Provost has provided HFS with bridge funding totaling $538,177 for 2015-16.

Housing Operation

Autumn quarter 2016 will open at 111.0% occupancy of as-built capacity including 762 in expanded capacity spaces and approximately 79 students in temporary lounge space. There are 78 students projected to be on the wait list. Privately managed off-campus facilities coordinated through UW Real Estate are showing similar strength in demand.

Updates to the Housing Master Plan

HFS developed a Housing Master Plan to develop residence halls and single-student apartments in four phases. The development of these residence halls creates a richer on-campus community, alleviating the currently overcrowded conditions within student housing, and provide additional bed capacity (surge space) to support replacement of existing residence halls. This additional capacity permits HFS to replace existing facilities while continuing to meet current housing demand. As of June 30, 2016 and 2015, costs incurred related to the Housing Master Plan are approximately $464.0 million and $434.0 million, respectively. These costs were recorded in construction in process and completed building costs at June 30, 2016 and 2015. Total projected cost of the Housing Master Plan is $730.0 million, which will mainly be funded by borrowing under the ILP (see note 5). The Board of Regents has approved borrowing under the ILP of up to $761.0 million for all the four phases of the Housing Master Plan as of June 30, 2016.

Phase 1, which consisted of four new buildings, was completed as of September 2012. Phase 2, which consisted of two properties, was completed in January 2014.

Phase 3, which consisted of two halls, Maple and new Terry, was completed in July 2015 and opened to students the following autumn quarter. The completion of Phase 3 marks the end of the west campus development phase of the Housing Master Plan. As a result of this phase, net bed space has increased by approximately 400.

The final phase of the Housing Master Plan will take place on north campus and be divided into two parts – Phase 4a and 4b. Phase 4a was approved by the Board of Regents in January 2016 with a total project budget of $240.0 million. This phase includes the demolition of McCarty Hall and the development of three new halls, Madrona, Willow and new McCarty, surrounding Denny Field. The halls are planned to open to students in Autumn of 2018 with system net bed space increasing by approximately 1,050.

Phase 4b is currently in the early planning stages. The site, architect, and $10.0 million pre-construction budget was approved by the Board of Regents in July 2016. This phase will include the demolition of Haggett Hall as well as the construction of two new halls, Oak and new Haggett. It is planned that these halls will open to students in Autumn 2019 and Autumn 2020, increasing system net beds by 300.

Debt service is being paid to the ILP for all Phase 1, 2 and 3 buildings. Debt service on Phase 4a is scheduled to begin in October 2018. The debt service ratio for fiscal year 2016 is 1.48.

In July 2015, Treasury announced that it would be refinancing all non-ILP debt with interest rates above 4.75% into the ILP program, effective November 2015 resulting in $158,000 savings. Debt service for Phase 3 began in Autumn 2015.

Residence Hall Dining Operation

Local Point dining hall operated at full student capacity in 2015-16, exceeding their prior year revenue total by $1.2 million. This is due to the completion of Phase 3 of the Housing Master Plan which brought 1,100 additional students to west campus. The impact of closing McCarty Hall and removing 700 beds from north campus did not have the severe financial impact that was anticipated. Creative promotions by UW Dining kept students engaged in the dining program throughout the year.

Due to increasing labor costs associated with minimum wage, residential food unit net operating income contributions are $600,000 less than prior year.

Retail & Remote Dining Operation

The first Starbucks Licensed Store under the University sponsorship agreement is located in the Husky Union Building (HUB) and opened in Autumn 2015. Suzzallo Library in Red Square, current home of Suzzallo Espresso & Market will be the site of the second Starbucks Licensed Store which is tentatively scheduled to open in Autumn 2017. Construction is scheduled to begin in late spring 2017. The addition of the Licensed Store in the HUB required an initial capital outlay of $432,300 in fiscal year 2014-15 and $427,200 in fiscal year 2015-16. The Suzzallo location is estimated to cost $2.5 million. Over the course of the ten year sponsorship agreement, the University will be opening an additional three Licensed Stores across the UW system. HFS received Starbucks and Coca-Cola sponsorship funds totaling $949,000 in fiscal year 2015-16.

Due to increasing labor costs associated with minimum wage, retail and remote food unit net operating income contributions were $314,000 less than prior year.

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

Statements of Net Position

June 30, 2016 and 2015

Assets and Deferred Outflow of Resources	**2016**	**2015**
Current assets:		
Cash in the University of Washington Invested Funds Pool	$ 70,705,428	63,483,695
Accounts receivable, net	1,276,722	1,404,583
Prepaid expense	305,296	281,312
Inventory	932,899	887,725
Due from other University departments	3,968,084	6,006,271
Total current assets	77,188,429	72,063,586
Noncurrent assets:		
Prepaid expense (note 1)	2,037,193	2,037,193
Due from other University departments	3,241,140	—
Capital assets, less accumulated depreciation (note 3)	446,254,133	446,296,199
Total noncurrent assets	451,532,466	448,333,392
Total assets	528,720,895	520,396,978
Pension deferred outflow of resources (note 6)	2,490,375	1,265,667
Total assets and deferred outflow of resources	$ 531,211,270	521,662,645
Liabilities, Deferred Inflow of Resources and Net Position		
Current liabilities:		
Accounts payable	$ 5,602,847	4,662,276
Accrued interest	1,880,396	1,499,656
Other accrued expenses	2,471,746	2,197,088
Unearned revenue	6,263,975	5,598,957
Deposits	4,121,490	4,065,730
Due to other University departments	3,764,858	1,649,203
Internal lending program payable, current portion (notes 2 and 5)	11,718,690	10,653,707
Lease payable, current portion (notes 2 and 4)	355,000	340,000
Total current liabilities	36,179,002	30,666,617
Noncurrent liabilities:		
Internal lending program payable, less current portion (notes 2 and 5)	473,993,924	470,130,353
Net pension liability (note 6)	10,766,158	7,656,596
Lease payable, less current portion (note 4)	2,080,000	2,435,000
Total noncurrent liabilities	486,840,082	480,221,949
Total liabilities	523,019,084	510,888,566
Pension deferred inflow of resources (note 6)	1,635,039	3,323,211
Net position:		
Net investment in capital assets	(31,105,557)	(27,484,410)
Unrestricted	37,662,704	34,935,278
Total net position	6,557,147	7,450,868
Total liabilities, deferred inflow of resources and net position	$ 531,211,270	521,662,645

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Residence halls and single-student apartment rent	$ 62,991,783	56,305,353
Residence halls and retail food services	42,935,073	39,740,009
Conferences and guest rent	6,159,709	4,947,456
Leases	3,587,121	2,621,369
Family housing rent	2,181,081	2,291,191
Forfeitures and miscellaneous fees	1,355,780	1,058,495
Educational sponsorship	949,000	857,000
Vending machines	660,162	646,003
Laundry	431,064	397,967
Microfridge commission	8,054	7,531
Other	116,824	94,070
Total operating revenues	121,375,651	108,966,444
Operating expenses:		
Salaries and related benefits	29,916,642	25,704,043
Depreciation	20,103,177	16,137,829
Cost of food and merchandise	16,583,415	15,633,022
Indirect expenses	6,939,511	6,416,787
Utilities	6,998,727	6,474,086
Noncapitalized equipment	5,316,676	5,061,325
Contract services	5,037,449	4,617,115
Supplies	3,126,689	2,938,944
Repairs and maintenance	2,645,639	2,345,640
Institutional overhead	1,338,635	1,351,618
Other	212,080	345,085
Total operating expenses	98,218,640	87,025,494
Net operating income	23,157,011	21,940,950
Nonoperating revenue (expense):		
Energy rebates	366,481	1,315,276
Investment income	1,340,128	1,256,635
Salary mitigation and utilities refund	643,169	414,592
Interest expense on capital asset-related debt	(21,693,412)	(19,276,208)
Financing cost	(758,690)	(796,459)
Loss on capital asset disposals and transfers	(1,095,711)	(3,176)
Total nonoperating expense	(21,198,035)	(17,089,340)
Capital asset contribution to other University department	(2,852,697)	—
Change in net position	(893,721)	4,851,610
Net position, beginning of year	7,450,868	2,599,258
Net position, end of year	$ 6,557,147	7,450,868

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Cash received from student housing fees	$	63,378,796	56,996,958
Cash received from residence hall food services		42,842,215	39,813,608
Cash received from conference services		6,877,797	4,907,056
Cash received from leases		2,621,369	2,639,851
Cash received from facility rentals		1,103,803	2,202,637
Cash received from vending commissions		661,483	648,710
Cash received from educational sponsorship		949,000	857,000
Cash received from others		111,183	93,654
Cash received for interfund and debit card activities		87,200	119,580
Cash paid to suppliers		(40,030,656)	(38,425,353)
Cash paid for employee salaries, wages, and benefits		(26,987,298)	(24,435,013)
Cash paid for indirect expenses		(8,377,020)	(7,716,572)
Net cash flows provided by operating activities		43,237,872	37,702,116
Cash flows from capital and related financing activities:			
Purchases of capital assets		(18,755,732)	(79,604,170)
Borrowing on internal lending program		15,593,975	82,839,526
Interest paid on capital debt		(22,498,129)	(22,597,474)
Principal payments on capital debt		(10,937,691)	(8,379,662)
Financing cost paid on capital debt		(758,690)	(796,459)
Net cash flows used in capital and related financing activities		(37,356,267)	(28,538,239)
Cash flow from investing activity:			
Interest received		1,340,128	1,274,719
Net change in cash and cash equivalents		7,221,733	10,438,596
Cash and cash equivalents, beginning of year		63,483,695	53,045,099
Cash and cash equivalents, end of year	$	70,705,428	63,483,695
Reconciliation of operating income to net cash flows from operating activities:			
Operating income	$	23,157,011	21,940,950
Adjustments to reconcile operating income to net cash flows provided by operating activities:			
Depreciation		20,103,177	16,137,829
Change in operating assets and liabilities:			
Accounts receivable		127,861	(133,211)
Prepaid expenses and other		(23,984)	(2,051,012)
Inventory		(45,174)	90,363
Due to/from other University departments		134,917	(368,618)
Accounts payable		(1,408,054)	1,620,879
Unearned revenue		665,018	321,945
Accrued expenses		274,658	58,010
Deposits		55,760	143,565
Pension deferred resources and liability		196,682	(58,584)
Net cash flows provided by operating activities	$	43,237,872	37,702,116
Supplemental disclosures for cash flow information:			
Capitalized interest	$	1,117,624	3,373,960
Amortization of deferred premium on refunded bonds		66,480	66,480
Capital asset contribution to other University department		2,852,697	—
Loss on disposal of capital asset		1,046,518	—
Capital assets in accounts payable and due to other University departments		4,981,867	—

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

The University of Washington Housing and Food Services (HFS) operates food services, residence halls, and apartment complexes both on and off the University of Washington (the University) campus. The operations of HFS as an auxiliary enterprise support the University's mission by providing safe, convenient, and affordable housing as well as programs that promote personal and academic development. In addition, HFS provides conference facilities and catering services to a variety of organizations. The University provides some administrative services to HFS.

(b) Basis of Accounting

The financial statements have been prepared in accordance with generally accepted 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. All internal activities have been eliminated. The financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

On July 1, 2014, HFS adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement 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 Department of Retirement Systems (DRS), this Statement requires the University to recognize its proportionate share of the state-wide net pension liability for each of the plans in which it participates. HFS recorded their proportionate share of the net pension liability in its 2016 and 2015 financial statements, which had a material impact to its financial statements. 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. In addition to the reporting changes described above, implementation of this Statement resulted in the restatement of fiscal year 2015 beginning unrestricted net position, reducing it by $9,772,724. See note 6 for further discussion on the adoption of this standard.

With the adoption of GASB Statement No. 68, net position was restated at July 1, 2014. Below is a reconciliation of total net position as previously reported at June 30, 2014, to the restated net position:

Net position at June 30, 2014, as previously reported	$	12,371,982
Adoption of GASB No. 68		(9,772,724)
Net position at July 1, 2014, as restated	$	2,599,258

(c) Cash in the University Invested Funds Pool

Pooled Investments held on behalf of HFS by the University of Washington are recorded at HFS's share of the carrying value of the University of Washington Cash and Liquidity Pools. These funds are available on demand without prior notice or penalty. The Cash and Liquidity Pools were invested as follows at June 30:

	2016	2015
Cash and cash equivalents	6.4%	10.0%
Treasuries and agencies	73.0	67.0
Mortgage related securities	8.6	9.0
Asset-backed debt securities	7.0	12.0
Corporate and other fixed income	5.0	2.0
Total	100.0%	100.0%

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

(d) Accounts Receivable

HFS has established an allowance for doubtful accounts to allow for those receivables, which are estimated to be uncollectible. The allowance is based on historical collection 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 $60,327 and $67,640 at June 30, 2016 and 2015, respectively.

(e) Inventory

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

(f) Prepaid Expense

Prepaid expense, current, consists primarily of building insurance amortized over one year. Prepaid expense, noncurrent, represents implementation cost for the Human Resource and Payroll modernization project to be allocated to campus beginning July 1, 2017 that was prepaid by HFS to avail itself of the reduced cost versus incurring interest if paid over the long-term period.

(g) Due From Other University Departments

Due from other University departments, current, consist mainly of lease revenue (see note 4) of $3,587,121 and $2,621,369 accrued as of fiscal year 2016 and 2015 respectively. An amount related to construction rebates and funds held by other University department of $2,530,862 in fiscal year 2015 was all used to fund construction in fiscal year 2016.

Due from other University department, noncurrent, resulted from an agreement with the University Transportation Services to build extra parking stalls at the Terry/Maple Hall to be liquidated in year 2020 under the Master Plan for north campus housing. The amount owed by Transportation Services is $3,241,140 for fiscal year 2016.

(h) Capital Assets

Buildings, building improvements, and equipment are stated at cost. Additions, replacements, major repairs, and renovations are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, and 4 to 13 years for equipment. Expenditures for noncapitalized equipment and repairs that represent normal replacement of such equipment and routine maintenance of the buildings are expensed as incurred, as are furniture, fixtures, or equipment for newly constructed buildings that individually do not meet the criteria described below. Building and improvements are capitalized if they result in additional asset services (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.

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 $1.1 million and $3.4 million during 2016 and 2015, respectively.

(i) Unearned Revenue

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

(j) Deposits

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

(k) Net Position

Net position consists of the following components:

Net investment in capital assets **–** 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, 2016 and 2015 is due to the inclusion of existing debt on the old Mercer, Lander, Terry and McCarty Halls, all of which were demolished as of fiscal year 2016 and prior years, 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."

(l) Operating and Nonoperating Revenue and Expenses

In general, operating revenue is revenue received for providing housing, dining, and related services to the customers of HFS, 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.

Nonoperating revenue is recognized for receipts under the energy rebate program applied from the Master Plan constructions as well as investment income and other revenue sources that are not associated with HFS's primary operations. Nonoperating expense includes interest expense, loss on disposal of building asset, and financing cost incurred in borrowing for the construction of buildings under the Master Plan.

(m) Institutional Overhead

The University allocates certain general and administrative charges to those departments for which services are performed. This institutional overhead charge, which is based on a percent of division revenue, amounted to $1,338,635 and $1,351,618 during the years ended June 30, 2016 and 2015, respectively.

(n) Indirect Expenses

Administrative expenses such as salaries and benefits, contract services, and supplies are reported as indirect expense. These allocations to HFS amounted to $6,939,511 and $6,416,787 for the years ended June 30, 2016 and 2015, respectively.

(o) Capital Asset Contribution to Other University Department

During fiscal year 2016, HFS made a capital asset contribution by transferring a parking garage located in Terry/Maple Hall to Transportation Services as mitigation for the lost parking lots for the new construction. The net book value of the capital asset contribution amounted to $2,852,697.

(p) Income Taxes

As a part of the University, the operations of HFS are exempt from federal income taxes, except to the extent of unrelated business income. HFS did not incur unrelated business income tax during 2016 and 2015, and accordingly, the financial statements do not include a provision for federal income taxes.

(q) Use of Estimates

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

(2) Noncurrent Liabilities

Noncurrent liability activity for the years ended June 30, 2016 and 2015 is summarized as follows:

	Balance at June 30, 2014	Additions	Reductions	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016
Noncurrent liabilities:							
ILP payable	$ 406,066,925	82,839,526	(8,122,391)	480,784,060	15,593,975	(10,665,421)	485,712,614
Net pension liability	10,768,232	—	(3,111,636)	7,656,596	3,109,562	—	10,766,158
Lease payable	3,100,000	—	(325,000)	2,775,000	—	(340,000)	2,435,000
Total noncurrent liabilities	419,935,157	$ 82,839,526	(11,559,027)	491,215,656	18,703,537	(11,005,421)	498,913,772
Current portion	(8,242,653)			(10,993,707)			(12,073,690)
Noncurrent portion	$ 411,692,504			480,221,949			486,840,082

(3) Capital Assets

Capital asset activity for the years ended June 30, 2016 and 2015 is summarized as follows:

	Balance at June 30, 2014	Additions/ transfers	Retirements/ transfers	Balance at June 30, 2015	Additions/ transfers	Retirements/ transfers	Balance at June 30, 2016
Capital assets, not being depreciated:							
Land	$ 6,775,215	—	—	6,775,215	—	—	6,775,215
Construction in progress	24,872,830	84,690,995	(484,423)	109,079,402	26,412,103	(112,937,048)	22,554,457
Total capital assets not being depreciated	31,648,045	84,690,995	(484,423)	115,854,617	26,412,103	(112,937,048)	29,329,672
Capital assets, being depreciated:							
Building and building improvements	419,916,767	484,423	—	420,401,190	112,937,048	(12,175,088)	521,163,150
Equipment	5,631,108	513,420	(85,171)	6,059,357	838,556	(607,847)	6,290,066
Total capital assets being depreciated	425,547,875	997,843	(85,171)	426,460,547	113,775,604	(12,782,935)	527,453,216
Less accumulated depreciation:							
Building and building improvements	76,139,825	15,489,260	—	91,629,085	19,510,173	(5,034,733)	106,104,525
Equipment	3,823,306	648,569	(81,995)	4,389,880	593,004	(558,654)	4,424,230
Total accumulated depreciation	79,963,131	16,137,829	(81,995)	96,018,965	20,103,177	(5,593,387)	110,528,755
Capital assets, net	$ 377,232,789	69,551,009	(487,599)	446,296,199	120,084,530	(120,126,596)	446,254,133

(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 food services at the HUB. The University has agreed to make certain payments (considered lease payments) as required by the CoPs and HFS has agreed to reimburse the University for these payments.

At June 30, 2016 and 2015, the total principal amount of obligation under this agreement was $2,435,000 and $2,775,000, respectively. It is expected to be repaid in installments of approximately $480,000 (including imputed interest of approximately 5%) per year through 2022. Following is a summary of minimum payments under this agreement (principal and interest) for the years ending June 30:

	Principal	Interest	Total
2017	$ 355,000	126,284	481,284
2018	375,000	108,534	483,534
2019	395,000	89,315	484,315
2020	415,000	68,775	483,775
2021	435,000	46,988	481,988
2022	460,000	24,150	484,150
	$ 2,435,000	464,046	2,899,046

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 (the Apartments) and refunded the CDP bonds with loan proceeds from the Internal Lending Program (ILP). In accordance with the ILP financing agreement, HFS will be obligated to pay debt service on this loan only in the event that funds from the Apartments are insufficient. The Apartments have been self-sustaining in past years. The Apartments are owned by the University and are managed by University of Washington Real Estate (UWRE) with an outside property manager. As of June 30, 2016 and 2015, the outstanding debt under this agreement was $59,441,015 and $62,397,460, respectively.

The University receives an annual payment from the Apartments, which it designates to HFS. Revenue from these properties was $3,587,121 and $2,621,369 for the years ended June 30, 2016 and 2015, respectively.

As of July 1, 2016 Nordheim Court will be restructured to be the direct responsibility of the University of Washington Department of Housing and Foods Services (HFS). This was a mission-based decision made by HFS in order to offer university programs to the residents of Nordheim Court that could not be administered by a third-party property manager.

(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 HFS’s 1996 junior lien revenue bonds with a premium. HFS is obligated to the ILP in the amount of $12,495,000 and $14,229,167 as of June 30, 2016 and 2015, respectively. The final payment is due in the fiscal year ending 2022. The average interest rate is 3.75%. The balance of the premium was $317,120 and $369,980 as of June 30, 2016 and 2015, respectively.

In December 2008, HFS 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 interest rate is 4.75% and adjusted to 4.5% effective July 2016. HFS is obligated to the ILP in the amount of $5,247,390 and $5,434,064 as of June 30, 2016 and 2015, 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. HFS is obligated to the ILP in the amount of $7,740,746 and $8,118,212 as of June 30, 2016 and 2015, respectively. The final payment is due in the fiscal year ending 2032. The interest rate was adjusted in November 2015 from 5.43% to 4.75% and again adjusted to 4.5% effective July 2016. The balance of the premium was $81,739 and $95,359 as of June 30, 2016 and 2015, respectively.

In March 2012, the University issued General Revenue & Refunding Bonds, 2012A & B. A portion of the proceeds was used to fully refund the 2002 and 2004 Housing and Dining Revenue & Refunding Bonds. The amount refunded was $15,595,000 with no gain or loss. HFS is obligated to the ILP in the amount of $10,341,398 and $11,209,943 as of June 30, 2016 and 2015, respectively. The final payments are due in the fiscal years ending 2022 and 2029. The interest rate was adjusted in November 2015 from 5.43% to 4.75% and again adjusted to 4.5% effective July 2016 for the GRB 2012A. The interest rate for GRB 2012B remained at 4.06%.

From May 2009 through January 2016, the Board of Regents approved borrowing for HFS under the ILP of up to $760.8 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, 2016 and 2015 has amounted to approximately $468 million and $452 million, respectively, and HFS has made principal payments beginning October 2011 for Phases 1 through 3. Principal payments for Phase 4 is projected to begin January 2019. HFS is obligated to the ILP in the amount of $449,489,221 and $441,327,335 as of June 30, 2016 and 2015, respectively. The final payments are due between the fiscal years ending 2042 and 2049. The interest rate is 4.75% and adjusted to 4.5% effective July 2016.

The ILP agreements require HFS 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, 2016 and 2015, HFS 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. This reflects the adjusted rate of 4.5% effective July 2016:

	Principal	Interest	Total
2017	$ 11,718,690	21,233,524	32,952,214
2018	12,282,208	20,601,835	32,884,043
2019	12,916,755	20,290,264	33,207,019
2020	13,595,931	19,938,676	33,534,607
2021	14,233,492	19,305,930	33,539,422
2022–2026	68,849,298	87,149,238	155,998,536
2027–2031	80,617,751	70,501,263	151,119,014
2032–2036	93,963,837	50,901,263	144,865,100
2037–2041	115,876,468	27,524,114	143,400,582
2042–2052	61,259,325	4,410,731	65,670,056
	485,313,755	$ 341,856,838	827,170,593
Add unamortized premium	398,859		
	$ 485,712,614		

(6) Pension Plan

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

Plan Descriptions of the DRS Plans

Public Employees' Retirement System

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

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

Vesting and Benefits Provided

PERS Plan 1

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

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional cost-of living allowance (COLA), and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

PERS Plan 2/3

PERSPlan 2/3 provides retirement, disability and death benefits. PERS Plan 2 members are vested after completion of five years of eligible service. PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service, or after five years of service if 12 months are earned after age 44.

Retirement benefits are determined as two percent of the member's AFC times the member's years of service for Plan 2, and one percent of AFC times the member's years of service for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered early retirement. Members are eligible for early retirement with a reduced benefit at age 55 with at least 20 years of service credit. The benefit is reduced by a factor that varies according to age, for each year before age 65. Members who are age 55 with at least 30 years of service credit can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has less, or no, reduction (depending on age) but imposes stricter return-to-work rules

If hired on or after May 1, 2013, members have the option to receive a benefit that is reduced by 5% for each year before age 65.

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the Consumer Price Index) capped at three percent annually, and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

Fiduciary Net Position

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

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

DRS publishes an annual report for retirement plans, which is available at:

http://www.drs.wa.gov/administration/annualreport/.

Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the eWashington State Office of the State Actuary (OSA). The University's 2016 pension liability is based on an OSA valuation performed as of June 30, 2014, with the results rolled forward to the measurement date of June 30, 2015. Likewise, the University's 2015 pension liability is based on the valuation performed as of June 30, 2013, with the results rolled forward to the measurement date of June 30, 2014. The following actuarial assumptions have been applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries' Retirement Plans Experience Committee (RPEC). And, as recommended by the RCEP, the OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

The actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of OSA's 2007-2012 Experience Study, which is a comprehensive review and update of prior actuarial assumptions. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

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

The long-term expected rate of return of 7.50% approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short term changes that are not expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement dates of June 30, 2015 and 2014, are summarized in the following table:

	2015		2014	
	Target allocation	**% Long-term expected real rate of return arithmetic**	**Target allocation**	**% Long-term expected real rate of return arithmetic**
Asset class:				
Fixed income	20.00%	1.70%	20.00%	0.80%
Tangible assets	5.00	4.40	5.00	4.10
Real estate	15.00	5.80	15.00	5.30
Global equity	37.00	6.60	37.00	6.05
Private equity	23.00	9.60	23.00	9.05

The inflation components used to create the above table are 2.20% and 2.70% for the measurement dates as of June 30, 2015 and 2014, respectively, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2016 and 2015 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan in which the HFS participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.50% future investment rate of return on pension plan investments was assumed for the test. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively, as provided for in Chapter 41.45 of the RCW).

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

The following table presents the HFS's net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)
(Dollars in thousands)

	2016			2015		
	1% Decrease	Current discount rate	1% Increase	1% Decrease	Current discount rate	1% Increase
Plan:						
PERS 1	$ 7,107	5,838	4,746	6,319	5,126	4,103
PERS 2/3	14,411	4,928	(2,332)	10,555	2,531	(3,599)

Employer Contribution Rates

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The contribution rates and required contributions for each DRS plan in which HFS participates are shown in the table below.

Description		PERS Plan 1	PERS Plan 2 /3[i]
		(Dollars in thousands)	
Contributions as June 30, 2016:			
Contribution rate		11.18%	11.18%
Contributions made	$	639	807
Contributions as June 30, 2015:			
Contribution rate		9.21%	9.21%
Contributions made	$	505	603

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

HFS Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by the University as of June 30, 2016 was June 30, 2015. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2015 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in their June 30, 2015 Schedules of Employer and nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by the University as of June 30, 2015 was June 30, 2014, with employer contributions received and processed by the DRS during fiscal year 2014 used as the basis for determining each employer's proportionate share of the June 30, 2014 collective pension amounts. The University's proportionate share for each DRS plan is shown in the table below.

	Proportionate share PERS 1	Proportionate share PERS 2/3
Year ended June 30, 2016	0.11160	0.13793
Year ended June 30, 2015	0.10176	0.12518

HFS Aggregated Balances

HFS's aggregated balances of net pension liabilities and net pension asset as of June 30, 2016 and 2015, respectively are presented in the table below.

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
June 30, 2016:				
Net pension liability	$	5,838	4,928	10,766
Net pension asset		—	—	—
June 30, 2015:				
Net pension liability	$	5,126	2,531	7,657
Net pension asset		—	—	—

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

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

		Proportionate share of pension expense		
Description		PERS plan 1	PERS plan 2 /3	Total
			(Dollars in thousands)	
As of June 30, 2016	$	895	747	1,642
As of June 30, 2015		598	451	1,049

Deferred outflows of resources

Description		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
June 30, 2016:				
Change in assumptions	$	—	8	8
Difference between expected and actual experience		—	524	524
Change in HFS's proportionate share		—	513	513
HFS's contributions subsequent to the measurement date of the collective net pension liability[a]		639	806	1,445
Total	$	639	1,851	2,490
June 30, 2015:				
Change in HFS's proportionate share	$	—	158	158
HFS's contributions subsequent to the measurement date of the collective net pension liability		505	603	1,108
Total	$	505	761	1,266

a. Recognized as a reduction of the net pension liability as of June 30, 2016

Deferred inflows of resources

Description		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
June 30, 2016:				
Difference between projected and actual earnings on plan investments, net	$	319	1,316	1,635
Change in HFS's proportionate share		—	—	—
Total	$	319	1,316	1,635
June 30, 2015:				
Difference between projected and actual earnings on plan investments, net	$	641	2,682	3,323
Change in HFS's proportionate share		—	—	—
Total	$	641	2,682	3,323

Description		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
Deferred outflows of resources related to HFS's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2017	$	639	806	1,445
Deferred outflows of resources related to HFS's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2016		505	603	1,108

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

Year		Amortization of deferred inflows and deferred outflows of resources PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
2017	$	(124)	(194)	(318)
2018		(124)	(194)	(318)
2019		(123)	(217)	(340)
2020		52	335	387
2021		—	—	—
Thereafter		—	—	—
Total	$	(319)	(270)	(589)

University of Washington Retirement Plan (403(b))

Faculty, librarians and professional staff are eligible to participate in the University of Washington Retirement Plan, a 403(b) defined-contribution plan administered by the University. HFS participates in this plan.

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.

University of Washington Supplemental Retirement Plan (401(b))

The University of Washington Supplemental Retirement Plan (UWSRP), a 401(a) defined-benefit retirement plan, operates in tandem with the 403(b) plan to supplement the expected defined contribution retirement savings accumulated under the UWRP. HFS also participates in this plan. The UWSRP was closed to new participants effective March 1, 2011. The University is ultimately responsible for the payment of the obligation; therefore, the annual required contribution (ARC) is not recorded in HFS’s financial statements.

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.

(7) 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) Subsequent Events

The interest rate changed from 4.75% to 4.50% effective July 1, 2016 for the ILP.

UNIVERSITY OF WASHINGTON

HOUSING AND FOOD SERVICES

(A Department of University of Washington)

Schedules of Required Supplementary Information (Unaudited)

June 30, 2016

SCHEDULE OF HFS SHARE OF THE NET PENSION LIABILITY

(as of measurement date, the prior fiscal year end)

PERS 1

(Dollar amounts in thousands)

		2016	2015
Housing and Food Services' proportion of the net pension liability		0.11%	0.10%
Housing and Food Services' proportionate share of the net pension liability	$	5,838	5,126
Housing and Food Services' covered-employee payroll		299	312
Housing and Food Services' proportionate share of the net pension liability as a percentage of covered-employee payroll		1,950.91%	1,644.20%
Plan fiduciary net position as a percentage of the total pension liability		59.10	61.19

SCHEDULE OF CONTRIBUTIONS

(as of current fiscal year end)

PERS 1

(Dollar amounts in thousands)

		2016	2015
Contractually required contribution	$	29	28
Contributions in relation to the contractually required contribution		29	28
Contribution deficiency (excess)		—	—
Housing and Food Services' covered-employee payroll		259	299
Contributions as a percentage of covered-employee payroll		11.08%	9.21%

See accompanying independent auditors' report.

UNIVERSITY OF WASHINGTON

HOUSING AND FOOD SERVICES

(A Department of University of Washington)

Schedules of Required Supplementary Information (Unaudited)

June 30, 2016

SCHEDULE OF HFS SHARE OF THE NET PENSION LIABILITY

(as of measurement date, the prior fiscal year end)

PERS 2/3

(Dollar amounts in thousands)

		2016	2015
Housing and Food Services' proportion of the net pension liability		0.14%	0.13%
Housing and Food Services' proportionate share of the net pension liability	$	4,928	2,531
Housing and Food Services' covered-employee payroll		12,239	10,721
Housing and Food Services' proportionate share of the net pension liability as a percentage of covered-employee payroll		40.27%	23.60%
Plan fiduciary net position as a percentage of the total pension liability		89.20%	93.29%

SCHEDULE OF CONTRIBUTIONS

(as of current fiscal year end)

PERS 2/3

(Dollar amounts in thousands)

		2016	2015
Contractually required contribution	$	1,448	1,127
Contributions in relation to the contractually required contribution		1,462	1,127
Contribution deficiency (excess)		(14)	—
Housing and Food Services' covered-employee payroll		13,051	12,239
Contributions as a percentage of covered-employee payroll		11.10%	9.21%

See accompanying independent auditors' report

UNIVERSITY OF WASHINGTON

HOUSING AND FOOD SERVICES

(A Department of University of Washington)

Schedules of Required Supplementary Information (Unaudited)

June 30, 2016

Notes to Schedules of Required Supplementary Information (Unaudited) for the Year Ended June 30, 2016

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

Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

See accompanying independent auditors' report.

KPMG

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Financial Statements and Schedules

June 30, 2016 and 2015

(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), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

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 financial position of the University of Washington Department of Intercollegiate Athletics as of June 30, 2016 and 2015, 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.

KPMG

Emphasis of Matters

As discussed in note 1 to the financial statements, on July 1, 2014, the Department adopted new accounting guidance requiring governments providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, as well as recognizing most changes in the net pension liability within pension expense. Our opinion is not modified with respect to this matter.

As discussed in note 1, the financial statements of the University of Washington Department of Intercollegiate Athletics are intended to present the financial position, the changes in financial position and cash flows of only that portion of the University of Washington that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the University of Washington as of June 30, 2016 and 2015, the changes in its financial position or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 12, and the schedules of required supplementary information on pages 34 through 36, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on pages 37 and 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Seattle, Washington
November 30, 2016

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) as of and for the years ended June 30, 2016, 2015, and 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements present only the University of Washington Department of Intercollegiate Athletics and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Using the Financial Statements

ICA's financial statements include the statements of net position, statements of 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 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 two years and report the various categories of all assets and liabilities. The following statements of net position summary shows ICA's total assets, total pension deferred outflows of resources, total liabilities, total pension deferred inflows of resources, and net position as of June 30, 2016, 2015 and 2014:

Statements of net position summary

	2016	2015	2014
		(In thousands)	
Current assets	$ 14,322	17,642	19,071
Noncurrent assets:			
Capital assets, net	348,384	364,066	378,330
Other	80,743	88,766	82,614
Total assets	443,449	470,474	480,015
Pension deferred outflows of resources	974	727	—
Total assets and pension deferred outflows of resources	$ 444,423	471,201	480,015

Statements of net position summary

		2016	2015	2014
			(In thousands)	
Current liabilities	$	29,513	37,608	34,413
Noncurrent liabilities		266,260	262,491	268,765
Total liabilities		295,773	300,099	303,178
Pension deferred inflows of resources		715	1,606	—
Net position		147,935	169,496	176,837
Total liabilities, pension deferred inflows of resources, and net position	$	444,423	471,201	480,015

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 $15.2 million less than current liabilities at the end of 2016. The negative working capital is due to unearned income of $17.4 million largely related to ticket sales for the 2016 football season, which will be recorded as revenue in 2017. Current assets were $20 million less than current liabilities at the end of 2015. The negative working capital is due to unearned income of $17.8 million largely related to ticket sales for the 2015 football season, which has been recorded as revenue in 2016. Increases and decreases in current assets occur due to the timing of payments and receipts from operations.
- Noncurrent assets consist primarily of long-term investments, endowments, and capital assets. Noncurrent assets were $23.7 million and $8.1 million less at the end of 2016 and 2015, respectively, due to an increase in accumulated depreciation on capital assets. As of June 30, 2016, there was $16.1 million of noncurrent assets in long-term investment funds in which these investments can be used to meet ICA's long-term obligations.
- Pension deferred outflows were $974 thousand in 2016 and $727 thousand in 2015 as a result of implementing GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*.
- Current liabilities decreased by $8.1 million during 2016 to a total of $29.5 million largely due to deferred compensation payments made to contract staff. Current liabilities increased by $3.2 million during 2015 to a total of $37.6 million. This change comprised primarily increases in accounts payable due to the timing of payments near year-end and increases in accrued salary and vacation payable as well as the current portion due for debt obligations.
- Noncurrent liabilities increased by $3.8 million and decreased by $6.3 million in 2016 and 2015, respectively. The increase in 2016 is due to an accrual of $7.3 million expense associated with Pac-12 Multimedia Rights Management Fees, as required by the Addendum to the 2015 Multimedia Rights Agreement, executed in October 2016. The decrease in 2015 was because of principal payments due to the Internal Lending Program (ILP) of the University of Washington (University).

- Pension deferred inflows were $715 thousand in 2016 and $1.6 million in 2015 as a result of implementing GASB 68.
- 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 decreased by $21.6 million and $2.9 million during 2016 and 2015, respectively due to the combination of a decrease in gate revenue and related contributions, a lower return on market value of long-term investments and endowments, in 2016, an expense of Pac-12 multimedia rights management fees, and in 2015, the implementation of GASB statement No. 68, *Accounting and Financial Reporting for Pensions*, which resulted in recording pension liabilities for the first time.

ICA's Net Position or "Equity"

The following table is a summary of the net position or "equity" for ICA at June 30, 2016, 2015 and 2014:

	2016	2015	2014
		(In thousands)	
Net investment in capital assets	$ 89,441	99,679	104,976
Restricted:			
Nonexpendable	52,928	47,586	43,832
Expendable	11,019	12,885	15,897
Unrestricted	(5,453)	9,346	12,132
Total net position	$ 147,935	169,496	176,837

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

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

- Net investment in capital assets decreased by $10.2 million in 2016 to a total of $89.4 million. Net investment in capital assets decreased by $5.3 million in 2015 to a total of $99.7 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 $5.3 million and $3.8 million in 2016 and 2015, respectively. The increases in 2016 and 2015 were mainly due to an increase in contributed endowments of $7.5 million and $3.4 million to ICA, respectively.
- Restricted expendable net position decreased by $1.9 million in 2016 and $3.0 million in 2016 and 2015, respectively. The decreases in 2016 and 2015 were mainly due to contributions received offset by expenditures for the Husky Stadium renovation project made in accordance with the donors' stipulations.
- Unrestricted net position decreased by $14.8 million and $2.8 million in 2016 and 2015, respectively. In fiscal year 2016, ICA recorded a $7.3 million expense related to Pac-12 multimedia rights management fees in addition to the $5.1 million loss on investments. On July 1, 2014, ICA adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of this standard resulted in the restatement of beginning fiscal year 2015 unrestricted net position reducing it by $4.4 million. This was partially offset by the recording of financing cost expenses for the ILP debt for Husky Stadium and Husky Ballpark in fiscal year 2015.

Endowments and Other Investments

- The fair market value of ICA's endowments was $63.5 million and $59.9 million at June 30, 2016 and 2015, respectively. The increases in 2016 and 2015 are due to additional endowment contributions of $7.5 million and $3.4 million, respectively.
- ICA had $16.1 million and $27.6 million of long-term investments, not including endowments, in the Consolidated Endowment Fund (CEF) at June 30, 2016 and 2015, respectively. In fiscal year 2016, ICA withdrew $10.0 million from the CEF to fund the operating cash deficit and also had a market related loss on investments.
- Short-term investments in the Invested Funds Pool used as operating funds for ICA yielded returns of 2.0% in both 2016 and 2015.

Capital Improvements and Related Debt

- In 2016 and 2015, there was a net decrease of $15.7 million and $14.3 million in capital assets, primarily related to the depreciation of capital assets exceeding the acquisition of capital assets, respectively.
- Total noncurrent liabilities at the end of 2016 and 2015 was $266.3 million and $262.5 million, respectively. The increase in 2016 was primarily due the addition of the Pac-12 multimedia rights management fees payable. The decrease in 2015 was due the settlement of the payable to the University for construction in progress and retainage for Husky Stadium.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present how ICA's operating and nonoperating items resulted in changes in net position. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The following summary shows the revenues, expenses, and changes in net position for the years ended June 30, 2016, 2015 and 2014:

Revenues, expenses, and changes in net position summary

	2016	2015	2014
		(In thousands)	
Operating revenues	$ 79,180	79,818	70,777
Operating expenses	(120,091)	(110,127)	(112,180)
Operating loss	(40,911)	(30,309)	(41,403)
Nonoperating revenues, net	10,381	17,233	25,386
Other revenues	8,969	10,167	16,826
(Decrease) increase in net position	(21,561)	(2,909)	809
Net position, beginning of year	169,496	176,837	176,028
Effect of accounting change	—	(4,432)	—
Net position, end of year	$ 147,935	169,496	176,837

Revenues from All Sources

The following table summarizes revenues from all sources for the years ended June 30, 2016, 2015 and 2014:

Revenues from all sources summary

		2016	2015	2014
			(In thousands)	
Gate ticket sales	$	25,899	25,422	28,830
NCAA/conference distributions		31,554	35,762	24,935
Sponsorships		13,935	11,993	10,668
Concessions/souvenirs/parking/boat moorage		3,344	3,296	3,408
Other operating revenue		4,446	3,345	2,935
Contributions (noncapital)		23,187	22,778	24,031
Investment income, net		2,802	1,914	1,918
(Loss) gain on investments		(5,140)	2,704	8,274
University funded tuition waivers		1,986	3,895	3,550
Capital gifts		1,513	6,763	11,092
Settlement agreement		—	1,250	—
Amortization on debt refinance gain		—	—	86
Endowment gifts		7,457	3,404	5,733
Total revenue – all sources	$	110,983	122,526	125,460

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

- Gate ticket sales continue to be a large source of revenue for ICA. Gate ticket sales increased by $477 thousand in 2016 from 2015 due to an increase in Football and Men's Basketball season ticket sales. Gate ticket sales decreased by $3.4 million in 2015 from 2014, due to a decrease in Football and Men's Basketball season ticket sales in 2015 from 2014.
- NCAA/Conference distributions decreased by $4.2 million in 2016 mainly due to a decrease in Pac-12 TV shares of $5.8 million. Conference postseason/regular season shares increased $1.3 million from 2015. In addition, $2.0 million was paid out related to the Pac-12 Network in 2016, which is a $303 thousand increase from 2015. NCAA/Conference distributions increased by $10.8 million in 2015 from 2014. The increase in 2015 was mainly due to a multimedia rights agreement payment from the Pac-12 Conference of $7.3 million. Conference postseason/regular season shares increased $3.1 million from 2014. In addition, $1.7 million was paid out related to the Pac-12 Network in 2015, which was a $527 thousand increase from 2014.

- Sponsorship revenue increased by $1.9 million in 2016 from 2015 due to the field naming rights agreement with Alaska Airlines and $950 thousand additional in donated advertising. Sponsorship revenue increased by $1.3 million in 2015 from 2014. The increase in 2015 was mainly due to an increase in donated advertising related to the new radio contract with KOMO radio.
- Other operating revenue increased by $1.1 million in 2016 from 2015 due to a settlement from Sound Transit for the Link light rail station at Husky Stadium. Other operating revenue increased $410 thousand from 2014 to 2015 mostly due to increased revenue from fundraising from the sport teams.
- Contributions related to noncapital gifts increased by $409 thousand in 2016 from 2015 due to higher seat related contributions associated with the earlier sale of Men's Basketball season tickets. Contributions related to noncapital gifts decreased by $1.3 million in 2015 from 2014. The majority of the decrease was due to lower seat related contributions due to lower football and men's basketball season ticket sales.
- Investment income increased by $888 thousand in 2016. 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 $873 thousand and $250 thousand in 2016 and 2015, respectively, mainly due to an increase in the balance held in the CEF during these periods.
  - Short-term investments received 2.0% distributions in both 2016 and 2015. Since the returns were the same for each year, the change in the average investment balances accounted for any change in investment income.
- In 2016 and 2015, there was a decrease in gain on investments of $7.8 million and $5.6 million due to the decreased value of long-term investments and endowment funds, respectively.
- University funded tuition waivers decreased by $1.9 million in 2016. Previous financial projections suggested ICA could withstand funding 50% of waivers. University funded tuition waivers decreased by $345 thousand in 2015 due to the impact of decreasing tuition rates for in-state students.
- Capital gifts were $1.5 million in 2016 and $6.8 million in 2015, respectively. The decrease in both years was due to a decrease in the remaining pledges due for the stadium.
- In 2015, there was a settlement agreement reached with a former coach, which resulted in $1.3 million in settlement agreement revenue.
- Endowment gifts increased by $4.1 million in 2016 to a total of $7.5 million. Endowment gifts decreased by $2.3 million in 2015 to a total of $3.4 million.

Expenses and Losses

The following table summarizes expenses and losses for the years ended June 30, 2016, 2015 and 2014:

Expenses and losses summary

	2016	2015	2014
		(In thousands)	
Salaries and wages	$ 29,459	29,089	26,786
Payroll taxes and employee benefits	7,611	6,585	7,155
Athletic student aid	13,026	11,959	11,806
Guarantees paid to visiting teams	2,113	2,113	1,593
Team travel	5,077	6,008	5,595
Day of game	7,536	6,749	7,156
Direct facilities, maintenance, and utilities	3,786	4,039	4,455
Advertising	2,680	1,728	531
Uniforms and supplies	6,211	6,205	6,046
Training table	2,861	2,558	1,643
Department relations	469	774	887
Banquets and special events	466	639	566
Depreciation	17,570	17,270	17,598
Noncapitalized equipment and repairs	1,695	2,546	8,485
Institutional overhead	1,859	1,748	2,454
Pac-12 Management Fee	7,300	—	—
Other operating expenses	10,371	10,116	9,424
Total operating expenses	120,090	110,126	112,180
Financing costs	—	2,566	—
Loss on disposal of capital assets	71	34	5
Interest expense	12,383	12,709	12,467
Total nonoperating expenses and losses	12,454	15,309	12,472
Total	$ 132,544	125,435	124,652

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

- Salaries and wages increased by $370 thousand in 2016 from 2015 due to severance payments made to former staff and merit increases for professional and classified staff. Salaries and wages increased by $2.3 million in 2015 from 2014 due to an increase in fixed extra guaranteed compensation per employment contracts.
- Payroll taxes and employee benefits increased by $1.0 million in 2016 from 2015 primarily due to the payout of deferred compensation to contract staff. Since payroll taxes and employee benefits are a percentage of salaries and wages, the changes detailed above in salaries and wages for 2016 directly impact the changes in payroll taxes and employee benefits. Payroll taxes and employee benefits decreased by $570 thousand in 2015 from 2014 since the impact from increases in salaries and wages was more than offset by decreases in the percentages charged. The percentages charged to ICA on professional and contract staff salaries went from 30.9% in 2014 to 27.7% in 2015 to 30.5% in 2016. The percentages for classified staff salaries went from 35.3% in 2014 to 33.8% in 2015 to 39.4% in 2016. The smaller amount spent on classified staff salaries compared to professional and contract staff salaries only has 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 15.2% in 2014 to 17.0% in 2015 to 18.8% in 2016.
- Athletic student aid increased by $1.1 million in 2016 from 2015 due to a higher proportion of out of state students and an increase in summer school attendance. Athletic student aid increased by $153 thousand in 2015 from 2014 due to rate increases for out of state tuition and increases for room and board. In-state tuition rates were reduced by 5% in 2016 and kept at the same level in 2015 and 2014. Out-of-state tuition increased by 2% in 2016 and 5% in 2015.
- Guarantees paid to visiting teams fluctuate due to the difference in the nonconference football game schedule.
- Team travel decreased by $931 thousand in 2016 from 2015 due to an increase in NCAA reimbursement of travel costs as well as cost-saving measures taken in airfare and meal purchases. Team travel increased by $413 thousand in 2015 from 2014, due to increase costs for airfare and meals in 2015.
- Day of game increased by $787 thousand in 2016 from 2015 due to having a weekday football game, which increases fan bus transportation costs as an additional bus transportation vendor is required for weekday games, and hosting the Pac-12 Track & Field Championships. Day of game decreased by $407 thousand in 2015 from 2014 mostly due to not having a weekday football game.
- Advertising increased by $952 thousand in 2016 and $1.2 million in 2015 due to increases in value of the radio contract. The radio contract with IMG changed from KJR to KOMO in 2015.
- Training table increased by $303 thousand in 2016 and by $915 thousand in 2015 due mostly to deregulation of NCAA food policies. This change allowed more opportunities for university to provide meals and snacks for student athletes.

(Continued)

- Noncapitalized equipment and repairs decreased by $851 thousand and $5.9 million in 2016 and 2015, respectively, primarily due to not having additional equipment and maintenance costs related to the Husky Stadium renovation and Husky Ballpark projects. In 2016, there were less noncapitalized projects than in 2015.
- In 2016, ICA recorded an $7.3 million expense for Pac-12 management fee expenses related to a multimedia rights agreement.
- Other expenses increased $255 thousand in 2016 from 2015 and $692 thousand in 2015 from 2014, respectively, due to additional costs for the Pac-12 Conference Office assessment.
- Financing costs were $74 in 2016 and $2.6 million in 2015, respectively. The financing costs for the Husky Stadium renovation were fully recognized in 2015 and a small addition of financing costs for the Husky Ballpark project was recognized in 2016.

Operating Loss

There was an operating loss of approximately $40.9 million and $30.3 million in 2016 and 2015, respectively. There were not sufficient nonoperating revenues from contributions, investment income, and University funded tuition waivers to cover the operating losses for 2016 and 2015.

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 22 Intercollegiate Athletic programs. Additionally, 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, 2016 and 2015

Assets and Deferred Outflows of Resources		2016	2015
Current assets:			
Cash in the University of Washington Invested Funds Pool (note 2)	$	5,259,499	8,736,190
Accounts receivable		7,685,489	7,648,464
Prepaid expenses		1,376,904	1,257,251
Total current assets		14,321,892	17,641,905
Noncurrent assets:			
Investments:			
University of Washington Consolidated Endowment Fund (note 3)		16,136,373	27,602,270
Endowments (note 3)		63,486,687	59,889,483
Advances to University for capital projects		1,119,171	1,274,955
Capital assets, net (note 4)		348,384,377	364,065,727
Total noncurrent assets		429,126,608	452,832,435
Total assets		443,448,500	470,474,340
Pension deferred outflows of resources (note 8)		974,000	726,871
Total assets and deferred outflows of resources		444,422,500	471,201,211
Liabilities, Deferred Inflows of Resources, and Net Position			
Current liabilities:			
Accounts payable		1,585,715	5,660,647
Accrued salaries and vacation payable		4,570,236	7,505,571
Admission taxes payable		1,006,086	988,756
Accrued interest payable		144,598	1,377
Unearned income		17,442,125	17,794,055
Capitalized equipment lease payable, current portion (note 6)		1,455,512	1,475,797
Internal lending program payable, current portion (note 5)		3,308,198	4,181,483
Total current liabilities		29,512,470	37,607,686
Noncurrent liabilities:			
Capitalized equipment lease payable, net of current portion (note 6)		5,658,252	7,113,764
Internal lending program payable, net of current portion (note 5)		248,521,539	251,615,939
Net pension liability (note 8)		4,780,000	3,761,644
Pac-12 Management Fee Payable		7,300,000	—
Total noncurrent liabilities		266,259,791	262,491,347
Total liabilities		295,772,261	300,099,033
Pension deferred inflows of resources (note 8)		715,000	1,606,167
Net position:			
Net investment in capital assets		89,440,876	99,678,744
Restricted:			
Nonexpendable (note 3)		52,927,941	47,586,520
Expendable:			
Expendable endowment principal (note 3)		995,099	1,062,325
Expendable endowment gains		9,563,647	11,240,638
Other expendable		460,309	582,137
Unrestricted		(5,452,633)	9,345,647
Total net position		147,935,239	169,496,011
Total liabilities, deferred inflows of resources, and net position	$	444,422,500	471,201,211

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, 2016 and 2015

	2016	2015
Operating revenue:		
Gate ticket sales	$ 25,899,191	25,422,152
NCAA/conference distributions	31,554,435	35,761,948
Sponsorships	13,934,982	11,993,208
Concessions, souvenirs, parking, and boat moorage	3,344,261	3,295,618
Trademarks and licensing	725,565	713,588
Facility income	1,954,689	1,771,156
Other	1,766,316	860,145
Total operating revenue	79,179,439	79,817,815
Operating expenses:		
Salaries and wages	29,459,271	29,088,904
Payroll taxes and employee benefits	7,610,727	6,584,886
Athletic student aid	13,026,272	11,959,293
Guarantees paid to visiting teams	2,112,940	2,113,355
Team travel	5,076,549	6,008,183
Day of game expenses	7,536,286	6,749,070
Direct facilities, maintenance, and utilities	3,786,253	4,039,305
Advertising	2,680,090	1,728,355
Uniforms and supplies	6,211,463	6,204,882
Training table	2,861,425	2,558,318
Department relations	469,388	773,928
Banquets and special events	465,936	638,761
Depreciation	17,570,036	17,270,117
Noncapitalized equipment and repairs	1,695,413	2,545,820
Institutional overhead	1,858,774	1,747,945
Medical expenses	1,154,558	1,312,222
Fund-raising, marketing, and promotions	359,879	415,488
Recruiting	480,826	449,753
Equipment	456	3,845
Pac-12 Management Fee	7,300,000	—
Other	8,374,208	7,934,182
Total operating expenses	120,090,750	110,126,612
Operating loss	(40,911,311)	(30,308,797)
Nonoperating revenues (expenses):		
Contributions	23,186,969	22,777,825
Investment expense on Invested Funds	(94,981)	(110,683)
Investment income on Consolidated Endowment Fund (CEF)	2,896,718	2,024,433
(Loss) gain on investments	(5,140,339)	2,704,298
Loss on disposal of capital assets	(70,555)	(34,046)
University funded tuition waivers	1,986,414	3,895,000
Settlement agreement	—	1,250,000
Financing Cost on Stadium and Ballpark	(74)	(2,565,509)
Interest expense	(12,382,682)	(12,708,645)
Total nonoperating revenues	10,381,470	17,232,673
Loss before other revenues	(30,529,841)	(13,076,124)
Other revenues:		
Capital gifts	1,512,508	6,762,971
Gifts to permanent endowments	7,456,561	3,404,439
Total other revenues	8,969,069	10,167,410
Decrease in net position	(21,560,772)	(2,908,714)
Net position:		
Net position at beginning of year, as restated (note1(b))	169,496,011	172,404,725
Net position at end of year	$ 147,935,239	169,496,011

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Cash Flows

Years ended June 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Gate ticket sales	$	25,837,851	24,430,570
NCAA/conference distributions		31,040,356	36,624,498
Sponsorships		8,532,083	7,571,283
Concessions and souvenirs		3,318,369	3,316,675
Trademarks and licensing		747,551	752,512
Facility income		1,747,210	1,721,865
Other		1,803,692	917,840
Payments to suppliers		(43,283,831)	(39,780,312)
Payments to employees		(32,454,119)	(27,599,729)
Payments for benefits		(8,366,811)	(6,923,213)
Payments for scholarships		(13,055,217)	(11,961,836)
Net cash used in operating activities		(24,132,866)	(10,929,847)
Cash flows from noncapital financing activities:			
Contributions, excluding permanent endowments and capital		23,186,969	22,777,825
Contributions to permanent endowments		7,456,561	3,404,439
Settlement agreement		468,750	781,250
University funded tuition waivers		1,986,414	3,895,000
Net cash provided by noncapital financing activities		33,098,694	30,858,514
Cash flows from capital and related financing activities:			
Capital gifts received		1,512,508	6,762,971
Proceeds from Internal Lending Program		7,512	4,176,075
Acquisition and construction of capital assets		(1,803,457)	(11,047,673)
Financing cost paid on capital debt		(74)	(2,565,509)
Principal paid on capital debt		(5,450,995)	(4,767,981)
Interest paid on capital debt		(12,239,461)	(12,707,284)
Net cash used in capital and related financing activities		(17,973,967)	(20,149,401)
Cash flows from investing activities:			
Purchases of investments		(7,891,465)	(3,816,314)
Sale of investments		10,619,819	—
Investment income		2,803,094	1,912,392
Net cash provided by (used in) investing activities		5,531,448	(1,903,922)
Net decrease in cash and cash equivalents		(3,476,691)	(2,124,656)
Cash and cash equivalents at beginning of year		8,736,190	10,860,846
Cash and cash equivalents at end of year	$	5,259,499	8,736,190
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(40,911,311)	(30,308,797)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		17,570,036	17,270,117
Pac-12 management fee payable increase		7,300,000	—
Other changes in assets and liabilities:			
Increase in accounts receivable		(507,132)	(261,006)
(Increase) decrease in prepaid expenses		(119,653)	35,445
(Decrease) increase in accounts payable		(4,966,098)	3,173,822
Decrease in unearned income		(351,930)	(1,074,073)
(Decrease) increase in accrued salaries and vacation payable		(2,935,335)	1,486,387
Increase (decrease) in pension liability		771,227	(1,397,377)
Increase in admissions taxes payable		17,330	145,635
Net cash used in operating activities	$	(24,132,866)	(10,929,847)
Supplemental disclosure of noncash activities:			
Donated supplies	$	2,700,000	2,623,669
Pac-12 Management Fee and Interest		7,444,598	—

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 present only the University of Washington ICA and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. 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.

On July 1, 2014, ICA adopted GASB Statement No. 68*, Accounting and Financial Reporting for Pensions*. This Statement 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 Department of Retirement Systems (DRS), this statement will require the University to recognize its proportionate share of the statewide net pension liability or net pension asset for each of the plans in which it participates. 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. Implementation of this standard resulted in the restatement of beginning fiscal year 2015 unrestricted net position reducing it by $4,432,149. The Department's proportionate share of the state's collective pension amounts are disclosed in note 8.

(Continued)

With the adoption of GASB Statement No. 68, net position was restated at July 1, 2014. Below is a reconciliation of the total net position as previously reported at June 30, 2014, to the restated net position.

Net position at June 30, 2014, as previously reported	$	176,836,874
Effect of accounting change		(4,432,149)
Net position at July 1, 2014, as restated	$	172,404,725

(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 statements of net position. 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) *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, 2016 and 2015 are unearned. The Department's share of such receipts is recognized as income in the period in which the games are played, less any amount owed to visiting teams. At June 30, 2016 and 2015, unearned income consist of the following:

		2016	2015
Advance sales of football tickets	$	15,769,650	16,431,360
Advance sales for men's and women's basketball		1,006,994	296,390
Other unearned income		665,481	1,066,305
	$	17,442,125	17,794,055

(f) *Operating Activities*

The Department defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Certain other revenues used for operations, such as contributions, University funded tuition waivers and investment income, are recorded as nonoperating revenues.

(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 $5.4 million and $4.3 million in sponsorship revenue for these transactions in the years ended June 30, 2016 and 2015, 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, 2016 and 2015.

(j) Use of Estimates

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

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

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

Pooled Investments held on behalf of ICA by the University of Washington are recorded at ICA's share of the carrying value of the University of Washington Cash and Liquidity Pools. The Cash and Liquidity Pools were invested as follows at June 30:

	2016	2015
Cash and cash equivalents	6.4%	10.0%
Treasuries and agencies	73.0	67.0
Mortgage related securities	8.6	9.0
Asset-backed debt securities	7.0	12.0
Corporate and other fixed income	5.0	2.0
Total	100.0%	100.0%

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

(3) Investments

The Department purchases or sells units in the University's Consolidated Endowment Fund (CEF) on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed by the University based on the number of units held. The Department records its permanent endowments at fair value. Net appreciation/depreciation in the fair value is recorded as gain or loss on investments in the statements of revenue, expenses, and changes in net assets. For the investment portion of the CEF funds, the principal balance can be withdrawn at the end of each quarter. The Department earned investment income on these investment funds based on the performance of the University's CEF funds net of investment management and University administrative fees. The total return on the investments portion of the CEF funds for the years ended June 30, 2016 and 2015 was approximately – 1.6% and 6.8%, respectively. During fiscal year 2011, the Board of Regents adopted a long-term spending policy for the CEF replacing the interim spending policy, which was effective in fiscal year 2010. Under the current 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 current policy became 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 2.7% and 2.8% of the CEF balance as of June 30, 2016 and 2015, respectively.

At June 30, 2016 and 2015, the fund balance of the Endowment and Expendable Endowment funds stated at fair value comprised the following:

	2016	2015
Expendable endowments:		
Graham*	$ 402,717	429,923
Spence*	592,382	632,402
Endowments (including expendable gains)	62,491,588	58,827,158
Total	$ 63,486,687	59,889,483

* Expenditure of principal is permitted under certain circumstances.

The Department received $7,456,561 and $3,404,439 in endowment gifts in 2016 and 2015, respectively, which is invested in the CEF.

(4) Capital Assets

Capitalized asset activity for the years ended June 30, 2016 and 2015 is summarized as follows:

	Balance at June 30, 2015	Additions/ (transfers)	Retirements	Balance at June 30, 2016
Buildings	$ 449,735,331	1,925,896	—	451,661,227
Furniture, fixtures, and equipment	14,031,250	1,254,349	(867,929)	14,417,670
Construction in progress*	1,695,602	(1,221,004)	—	474,598
Total	465,462,183	1,959,241	(867,929)	466,553,495
Less accumulated depreciation:				
Buildings	91,810,818	14,797,584	—	106,608,402
Furniture, fixtures and equipment	9,585,638	2,772,452	(797,374)	11,560,716
Total accumulated depreciation	101,396,456	17,570,036	(797,374)	118,169,118
Capital assets, net	$ 364,065,727	(15,610,795)	(70,555)	348,384,377

* Nondepreciable

	Balance at June 30, 2014	Additions/ (transfers)	Retirements	Balance at June 30, 2015
Buildings	$ 447,756,688	1,978,643	—	449,735,331
Furniture, fixtures, and equipment	13,338,433	969,804	(276,987)	14,031,250
Construction in progress*	1,604,339	91,263	—	1,695,602
Total	462,699,460	3,039,710	(276,987)	465,462,183
Less accumulated depreciation:				
Buildings	77,120,405	14,690,413	—	91,810,818
Furniture, fixtures and equipment	7,248,875	2,579,704	(242,941)	9,585,638
Total accumulated depreciation	84,369,280	17,270,117	(242,941)	101,396,456
Capital assets, net	$ 378,330,180	(14,230,407)	(34,046)	364,065,727

* Nondepreciable

(5) 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. Any amounts drawn from the ILP greater than $261.5 million will be funded by the Department. At the end of June 2016, ICA has a remaining principal balance of $251.8 million payable to the ILP relating to the construction of the Husky Stadium renovation and Husky Ballpark.

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

Under the terms of the ILP, rate adjustments will apply to all outstanding debt obligations, including debt issued prior to the ILP implementation. The ILP lending rate will be reviewed annually, and a preliminary indication of a rate adjustment will be announced to ILP participants 12 months in advance of the effective date. 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:			
2017	$	3,308,198	11,317,652
2018		4,055,285	11,098,922
2019		4,321,143	10,912,581
2020		4,519,655	10,714,069
2021		4,727,287	10,506,435
Thereafter		230,898,169	141,786,714
	$	251,829,737	196,336,373

Internal Lending Program activity for the years ended June 30, 2016 and 2015 is summarized as follows:

Balance as of June 30, 2015	$	255,797,422
Additions		7,512
Reductions		(3,975,197)
Balance as of June 30, 2016	$	251,829,737

Balance as of June 30, 2014	$	254,940,379
Additions		4,176,075
Reductions		(3,319,032)
Balance as of June 30, 2015	$	255,797,422

(6) Capital Lease

Future minimum lease payments under capital lease and the present value of the net minimum lease payments as of June 30, 2016 are as follows:

		Future payments
Years ending June 30:		
2017	$	1,605,808
2018		1,077,449
2019		997,934
2020		997,934
2021		997,934
Thereafter		1,995,866
Total minimum lease payments		7,672,925
Less amount representing interest cost		559,161
Present value of minimum payments	$	7,113,764

Equipment under capital lease are as follows:

		Balance at June 30, 2015	Additions	Retirements	Balance at June 30, 2016
Equipment	$	7,674,654	—	(9,317)	7,665,337
Total		7,674,654	—	(9,317)	7,665,337
Less accumulated depreciation:					
Equipment		5,398,657	1,978,895	(3,106)	7,374,446
Total accumulated depreciation		5,398,657	1,978,895	(3,106)	7,374,446
Leased capital assets, net	$	2,275,997	(1,978,895)	(6,211)	290,891

		Balance at June 30, 2014	Additions	Retirements	Balance at June 30, 2015
Equipment	$	7,674,654	—	—	7,674,654
Total		7,674,654	—	—	7,674,654
Less accumulated depreciation:					
Equipment		3,418,209	1,980,448	—	5,398,657
Total accumulated depreciation		3,418,209	1,980,448	—	5,398,657
Leased capital assets, net	$	4,256,445	(1,980,448)	—	2,275,997

(7) 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 2016 and 2015 was $1,858,774 and $1,747,945, respectively.

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.

(8) Pension Plans

(a) Pension Plans

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

(b) Plan Descriptions of the DRS Plans

Public Employees' Retirement System

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

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

(c) Vesting and Benefits Provided

PERS Plan 1

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

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional cost-of living allowance (COLA), and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

PERS Plan 2/3

PERS Plan 2/3 provides retirement, disability and death benefits. PERS Plan 2 members are vested after completion of five years of eligible service. PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service, or after five years of service if 12 months are earned after age 44.

Retirement benefits are determined as two percent of the member’s AFC times the member’s years of service for Plan 2, and one percent of AFC times the member’s years of service for Plan 3. The AFC is the monthly average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered early retirement. Members are eligible for early retirement with a reduced benefit at age 55 with at least 20 years of service credit. The benefit is reduced by a factor that varies according to age, for each year before age 65. Members who are age 55 with at least 30 years of service credit can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has less, or no, reduction (depending on age) but imposes stricter return-to-work rules

If hired on or after May 1, 2013, members have the option to receive a benefit that is reduced by 5% for each year before age 65.

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the Consumer Price Index) capped at three percent annually, and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

(d) *Fiduciary Net Position*

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

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

DRS publishes an annual report for retirement plans, which is available at:

http://www.drs.wa.gov/administration/annual-report/.

(e) *Actuarial Assumptions*

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). ICA's 2016 pension liability is based on an OSA valuation performed as of June 30, 2014, with the results rolled forward to the measurement date of June 30, 2015. Likewise, ICA's 2015 pension liability is based on the valuation performed as of June 30, 2013, with results rolled forward to the measurement date of June 30, 2014. The following actuarial assumptions have been applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries' Retirement Plans Experience Committee (RPEC). And, as recommended by the RCEP, the OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of OSA's 2007-2012 Experience Study, which is a comprehensive review and update of prior actuarial assumptions. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

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

The long-term expected rate of return of 7.50% approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement dates of June 30, 2015 and 2014, are summarized in the following table:

	2015		2014	
	Target allocation	% Long-term expected real rate of return arithmetic	Target allocation	% Long-term expected real rate of return arithmetic
Asset class:				
Fixed income	20.00%	1.70%	20.00%	0.80%
Tangible assets	5.00	4.40	5.00	4.10
Real estate	15.00	5.80	15.00	5.30
Global equity	37.00	6.60	37.00	6.05
Private equity	23.00	9.60	23.00	9.05

The inflation components used to create the above table are 2.20% and 2.70% for the measurement dates as of June 30, 2015 and 2014, respectively, and represents WSIB's most recent long-term estimate of broad economic inflation.

(f) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2016 and 2015 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan in which ICA participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.50% future investment rate of return on pension plan investments was assumed for the test. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively, as provided for in Chapter 41.45 of the RCW).

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

The following table presents the ICA's net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)
(Dollars in thousands)

		2016			2015	
	1% Decrease	Current discount rate	1% Increase	1% Decrease	Current discount rate	1% Increase
Plan:						
PERS 1	$ 3,220	2,645	2,150	3,139	2,547	2,038
PERS 2/3	6,243	2,135	(1,010)	5,067	1,215	(1,728)

(h) Employer Contribution Rates

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The contribution rates and required contributions for each DRS plan in which ICA participates are shown in the table below.

Description		PERS Plan 1	PERS Plan 2 /3[i]
		(Dollars in thousands)	
Contributions as June 30, 2016:			
Contribution Rate		11.18%	11.18%
Contributions made	$	264	327
Contributions as June 30, 2015:			
Contribution Rate		9.21%	9.21%
Contributions made	$	231	263

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

(i) ICA Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by ICA as of June 30, 2016 was June 30, 2015. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2015 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in their June 30, 2015 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by ICA as of June 30, 2015 was June 30, 2014, with employer contributions received and processed by DRS during fiscal year 2014 used as the basis for determining each employer's proportionate share of the June 30, 2014 collective pension amounts. ICA's proportionate share for each DRS plan is shown in the table below.

	Proportionate Share	
	PERS 1	PERS 2/3
Plan:		
Year ended June 30, 2015	0.051%	0.060%
Year ended June 30, 2016	0.051	0.060

(j) ICA Aggregated Balances

ICA's aggregated balances of net pension liabilities and net pension asset as of June 30, 2016 and 2015, respectively, are presented in the table below.

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
June 30 , 2016:				
Net pension liability	$	2,645	2,135	4,780
June 30 , 2015:				
Net pension liability		2,547	1,215	3,762

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

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

		Proportionate share of pension expense		
Description		PERS plan 1	PERS plan 2 /3	Total
			(Dollars in thousands)	
As of June 30, 2016	$	155	316	471
As of June 30, 2015		441	262	703

Description		PERS 1	PERS 2/3	Total
		Deferred Outflows of Resources		
			(Dollars in thousands)	
June 30, 2016:				
Change in assumptions	$	—	3	3
Difference between expected and actual experience		—	227	227
Change in ICA's proportionate share		—	153	153
ICA contributions subsequent to the measurement date of the collective net pension liability[a]		264	327	591
Total	$	264	710	974
June 30, 2015:				
Change in ICA's proportionate share	$	—	233	233
ICA contributions subsequent to the measurement date of the collective net pension liability		231	263	494
Total	$	231	496	727

a. Amounts will be recognized as a reduction of the net position liability as of June 30, 2017

Deferred Inflows of Resources

Description		PERS 1	PERS 2 /3	Total
			(Dollars in thousands)	
June 30, 2016:				
Difference between projected and actual earnings on plan investments, net	$	145	570	715
Total	$	145	570	715
June 30, 2015:				
Difference between projected and actual earnings on plan investments, net	$	318	1,288	1,606
Total	$	318	1,288	1,606

Description		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
Deferred outflows of resources related to ICA’s contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2017	$	264	327	591
Deferred outflows of resources related to ICA’s contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2016	$	231	263	494

Amounts reported as deferred outflows of resources, as of June 30, 2016, exclusive of contributions made after the measurement date, and deferred inflows of resources will be recognized in pension expense as follows:

Year		Amortization of deferred inflows and deferred outflows of resources: PERS Plan 1	PERS Plan 2/3	Total
		(Dollars in thousands)		
2017	$	(56)	(92)	(148)
2018		(56)	(92)	(148)
2019		(56)	(126)	(182)
2020		23	123	146
Total	$	(145)	(187)	(332)

(l) University of Washington Retirement Plan (403b)

Faculty, librarians and professional staff are eligible to participate in the University of Washington Retirement Plan, a 403(b) defined-contribution plan administered by the University. The Department has staff participating in these plans.

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

(m) University of Washington Supplemental Retirement Plan (401a)

The University of Washington Supplemental Retirement Plan (UWSRP), a 401(a) defined-benefit retirement plan, operates in tandem with the 403(b) plan to supplement the expected defined contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011. The Department has staff participating in this plan.

(9) 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.

(10) Subsequent Events

The interest rate changed from 4.75% to 4.50% effective July 1, 2016 for the ILP.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2016

Unaudited – see accompanying independent auditors' report

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

PERS 1

(Dollar amounts in thousands)

		2015	2016
Intercollegiate Athletics' proportion of the net pension liability		0.051%	0.051%
Intercollegiate Athletics' proportionate share of the net pension liability	$	2,547	2,645
Intercollegiate Athletics' covered-employee payroll		155	136
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll		1,644.30%	1,950.99%
Plan fiduciary net position as a percentage of the total pension liability		61.19%	59.10%

Schedule of Contributions (as of current fiscal year end)

PERS 1

(Dollar amounts in thousands)

		2015	2016
Contractually required contribution	$	12	12
Contributions in relation to the contractually required contribution		12	12
Contribution deficiency (excess)		—	—
Intercollegiate Athletics' covered-employee payroll		136	107
Contributions as a percentage of covered-employee payroll		9.21%	11.08%

See accompanying notes to schedules of required supplementary information.

(Continued)

Schedule 1

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2016

Unaudited – see accompanying independent auditors' report

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

PERS 2/3

(Dollar amounts in thousands)

		2015	2016
Intercollegiate Athletics' proportion of the net pension liability		0.060%	0.060%
Intercollegiate Athletics' proportionate share of the net pension liability	$	1,215	2,135
Intercollegiate Athletics' covered-employee payroll		5,147	5,302
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll		23.60%	40.27%
Plan fiduciary net position as a percentage of the total pension liability		93.29%	89.20%

Schedule of Contributions (as of current fiscal year end)

PERS 2/3

(Dollar amounts in thousands)

		2015	2016
Contractually required contribution	$	488	588
Contributions in relation to the contractually required contribution		488	593
Contribution deficiency (excess)		—	(5)
Intercollegiate Athletics' covered-employee payroll		5,302	5,295
Contributions as a percentage of covered-employee payroll		9.21%	11.10%

See accompanying notes to schedules of required supplementary information.

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Notes to Schedules of Required Supplementary Information (Unaudited) for the Year Ended June 30, 2016

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

Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

Schedule 2

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating and Other Revenue by Specific Function

Year ended June 30, 2016

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Administration and other	Total
Gate ticket sales revenue:							
Ticket sales for home events	$ 22,487,650	2,664,698	218,342	240,622	670,098	—	26,281,410
Admission taxes	(1,071,165)	(126,792)	(10,441)	(11,481)	(31,951)	—	(1,251,830)
Ticket-processing fees	277,894	44,342	3,233	4,041	22,101	—	351,611
	21,694,379	2,582,248	211,134	233,182	660,248	—	25,381,191
University's share of gate revenue for away games	350,000	150,000	—	13,760	4,240	—	518,000
Total gate ticket sales revenue	22,044,379	2,732,248	211,134	246,942	664,488	—	25,899,191
NCAA/conference distributions:							
PAC-12 television share	16,156,559	2,688,275	—	—	—	—	18,844,834
PAC-12 rose/other bowl shares	6,651,209	—	—	—	—	—	6,651,209
Bowl Participation	867,000	—	—	—	—	—	867,000
NCAA MBB tournament	—	1,163,833	—	—	—	—	1,163,833
Football Pac-12 Championship Game	231,083	—	—	—	—	—	231,083
MBB PAC-12 tournament	—	(27,499)	—	—	—	—	(27,499)
Pac-12 Network Share	1,683,213	297,037	—	—	—	—	1,980,250
Other	—	—	—	—	—	1,843,725	1,843,725
Total NCAA/conference distributions	25,589,064	4,121,646	—	—	—	1,843,725	31,554,435
Royalties, advertisements, and sponsorships:							
Sponsorships	5,000	—	10,000	36,161	79,931	8,423,800	8,554,892
Donated advertising	—	—	—	—	—	2,680,090	2,680,090
Trademarks and licensing	—	—	—	—	—	725,565	725,565
Donated supplies	878,200	176,000	168,000	574,540	750,260	153,000	2,700,000
Total royalties, advertisements, and sponsorships	883,200	176,000	178,000	610,701	830,191	11,982,455	14,660,547
Contributions	17,334,735	3,299,147	102,620	665,334	633,577	1,151,556	23,186,969
Capital gifts	—	—	—	—	—	1,512,508	1,512,508
Gifts to permanent endowments	—	—	—	—	—	7,456,561	7,456,561
Loss on investments	—	—	—	—	—	(5,140,339)	(5,140,339)
Investment income, net	—	—	—	—	—	2,801,737	2,801,737
University funded tuition waivers	—	—	—	—	—	1,986,414	1,986,414
Concessions, souvenirs, parking, and boat moorage	2,536,600	123,160	25,600	14,961	34,930	609,010	3,344,261
Facility income	—	—	—	—	—	1,954,689	1,954,689
Other	58,098	—	—	320,507	324,923	1,062,788	1,766,316
Total revenue	$ 68,446,076	10,452,201	517,354	1,858,445	2,488,109	27,221,104	110,983,289

See accompanying independent auditors' report.

Schedule 3

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating Expenses and Other Deductions by Specific Function

Year ended June 30, 2016

	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	$ 8,519,083	2,118,817	1,064,797	2,217,726	3,076,873	155,430	10,442,996	1,857,291	6,258	29,459,271
Payroll taxes and employee benefits	1,849,116	1,086,744	294,816	614,503	833,399	23,355	2,282,409	623,565	2,820	7,610,727
Athletic student aid	3,854,883	556,227	470,468	2,427,573	4,545,138	—	974,124	—	197,859	13,026,272
Guarantees paid to visiting teams	1,450,000	538,912	55,000	11,260	57,768	—	—	—	—	2,112,940
Team travel	929,080	423,554	239,118	787,411	1,249,964	1,237,590	141,831	—	68,001	5,076,549
Day of game expenses	1,644,386	322,111	199,575	210,739	316,008	71,265	637,355	776,980	3,357,867	7,536,286
Direct facilities, maintenance, and utilities	139,097	—	—	46,167	70,729	—	2,601,424	928,836	—	3,786,253
Donated advertising	—	—	—	—	—	—	2,680,090	—	—	2,680,090
Uniforms and supplies	1,183,173	79,482	42,104	396,818	547,035	113,975	877,051	255,031	16,794	3,511,463
Donated supplies	878,200	176,000	168,000	574,540	750,260	—	153,000	—	—	2,700,000
Institutional overhead	—	—	—	—	—	—	1,858,774	—	—	1,858,774
Medical expenses	24,225	4,929	—	24,900	30,610	—	1,059,067	—	10,827	1,154,558
Fund-raising, marketing, and promotions	—	—	—	—	13,255	—	346,624	—	—	359,879
Recruiting	—	—	—	—	—	—	—	—	480,826	480,826
Equipment	—	—	—	—	—	—	—	456	—	456
Training table	1,016,892	40,799	19,496	171,737	252,835	57,670	199,743	—	1,102,253	2,861,425
Department relations	52,735	1,331	3,959	42,969	46,737	369	34,657	267	286,364	469,388
Banquets and special events	21,902	9,020	1,664	65,819	51,892	—	151,650	—	163,989	465,936
Depreciation	—	—	—	—	—	—	17,570,036	—	—	17,570,036
Noncapitalized equipment and repairs	—	—	—	—	—	—	—	1,695,413	—	1,695,413
Pac-12 Management Fee	—	—	—	—	—	—	7,300,000	—	—	7,300,000
Other	594,145	165,764	174,694	585,340	497,442	144,037	4,981,826	71,441	1,159,519	8,374,208
Total operating expenses	22,156,917	5,523,690	2,733,691	8,177,502	12,339,945	1,803,691	54,292,657	6,209,280	6,853,377	120,090,750
Other deductions:										
Loss on disposal of capital assets	—	—	—	—	—	—	—	70,555	—	70,555
Financing Cost	—	—	—	—	—	—	74	—	—	74
Interest expense	—	—	—	—	—	—	12,382,682	—	—	12,382,682
Total other deductions	—	—	—	—	—	—	12,382,756	70,555	—	12,453,311
Total operating expenses and other deductions	$ 22,156,917	5,523,690	2,733,691	8,177,502	12,339,945	1,803,691	66,675,413	6,279,835	6,853,377	132,544,061

See accompanying independent auditors' report.

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

FINANCIAL REPORT

JUNE 30, 2016

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 statement of assets, liabilities, and net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year 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 audit. We conducted our audit 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 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 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 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 the University of Washington Metropolitan Tract as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The details of property on page 17 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Peterson Sullivan LLP

October 4, 2016

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENT OF ASSETS, LIABILITIES, AND NET POSITION

June 30, 2016
(Amounts in thousands)

ASSETS		
Current Assets		
Cash held in trust	$	5,392
Funds held by the University		33,459
Security deposits - residential		52
Due from Fairmont Olympic Hotel		232
Accounts receivable, net of allowance of $51		832
Other current assets		361
Total current assets		40,328
Property, net		132,023
Straight-Line Rent Adjustment		6,491
Total assets	$	178,842
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	$	2,444
Leasehold excise tax payable		1,615
Security deposits - residential		52
Unearned rent revenue		1,149
Current portion of long-term debt		3,596
Total current liabilities		8,856
Security Deposits - commercial		1,534
Long-Term Debt, net of discount and current portion		34,927
Total liabilities		45,317
NET POSITION		
Invested in Capital Assets, net of related debt		93,500
Unrestricted		40,025
Total net position		133,525
Total liabilities and net position	$	178,842

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2016
(Amounts in thousands)

Operating Revenues		
Office rent	$	42,947
Retail rent		4,946
Fairmont Olympic Hotel rent		4,903
Residential rent		2,969
Parking		3,690
Rainier Square rent		739
Other rent		545
Other income		70
Total operating revenues		60,809
Operating Expenses		
Property operating expenses		12,481
General and administrative		6,771
Taxes		6,613
Property management		1,830
Total operating expenses		27,695
Operating income before depreciation and amortization		33,114
Depreciation		11,535
Amortization		75
Net operating income		**21,504**
Other Revenues (Expenses)		
Rainier Square extension payment		500
Interest income		516
Interest expense		(1,014)
Total other revenues		2
Net income		**21,506**
Transfers		
Transfers from UW Real Estate Office		873
Distribution to University Building Fund		(10,000)
Total transfers		(9,127)
Change in net position		12,379
Total Net Position, beginning of year		121,146
Total Net Position, end of year	$	133,525

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016
(Amounts in thousands)

Cash Flows From Operating Activities		
Cash received from tenants	$	58,194
Payments made to vendors		(18,192)
Payments made to employees		(3,155)
Payments for leasehold excise taxes		(7,065)
Net cash flows from operating activities		29,782
Cash Flows From Capital and Related Financing Activities		
Improvements made to long-lived assets		(13,706)
Repayments to University Treasury Department		(3,576)
Interest expense		(1,014)
Cash received from property manager		500
Net cash flows from capital and related financing activities		(17,796)
Cash Flows From Noncapital Financing Activities		
Funds received from UW Real Estate Office		873
Distribution to University Building Fund		(10,000)
Net cash flows from noncapital financing activities		(9,127)
Cash Flows From Investing Activity		
Interest received		516
Net change in cash		**3,375**
Cash, beginning of year		35,476
Cash, end of year	$	38,851

Cash in the statement of cash flows is reported in the statement of assets, liabilities, and net position as follows:

Cash held in trust	$	5,392
Funds held by the University		33,459
Total	$	38,851

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENT OF CASH FLOWS
(Continued)

For the Year Ended June 30, 2016
(Amounts in thousands)

Reconciliation of Net Operating Income to Net		
Cash Flows From Operating Activities		
Net operating income	$	21,504
Adjustments to reconcile net operating income to net		
cash flows from operating activities		
Depreciation		11,535
Amortization		75
Changes in operating assets and liabilities		
Accounts receivable		176
Due from Fairmont Olympic Hotel		558
Straight-line rent adjustment		(3,190)
Other assets		(41)
Leasehold excise tax payable		(452)
Unearned rent revenue		(159)
Other current liabilities		(507)
Security deposits payable		283
Net cash flows from operating activities	$	29,782

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 five office buildings, an apartment building, a hotel ground lease, and a development agreement for the site of a current retail property. 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.

Office Properties

On November 1, 2014, the University assumed full control of the Rainier Tower, Financial Center, IBM Building, Skinner Building, and Puget Sound Plaza. The buildings include approximately 1.6 million square feet of office space and 100,000 square feet of retail space located at street level. The Financial Center and IBM Buildings have underground parking garages and the Puget Sound Plaza is connected to a multi-level parking structure also owned by the University.

The University entered into a property management agreement with Unico Properties LLC ("Unico") to manage all of the office buildings except the Rainier Tower. Wright Runstad Limited Partnership, an entity controlled by Wright Runstad, was contracted to manage the Rainer Tower due to its adjacency to the Rainier Square Site.

The University contracted with Unico to perform leasing services for all of the office properties on the Metropolitan Tract.

Cobb Building

The University terminated a ground lease with Unico effective November 1, 2014, and took full ownership of the Cobb Building. The Cobb Building is a 91-unit apartment building that was converted from medical and office space to luxury apartments in 2004. The University paid a termination price of $33.4 million to Unico. Management of the property is performed by Unico, who subcontracts with Blanton Turner, a residential property manager.

Development Site

The Rainier Square Building is a three-story building with 112,000 square feet of retail space. The property has historically underperformed and in the early 2000s, it was deemed a development site. In May 2014, the University entered into an agreement with Wright Runstad to undertake activities relating to the redevelopment of the Rainier Square Site ("the Predevelopment Agreement"). The Predevelopment Agreement commenced on November 1, 2014, and expired upon the completion of certain development milestones. Wright Runstad intends to construct a hotel and an office tower on the site. Two 80-year ground leases with Wright Runstad would commence upon fulfillment of the terms of the Predevelopment Agreement.

In accordance with the Predevelopment Agreement, the University entered into an Interim Agreement for the Rainier Square Site that provides Wright Runstad with significant control over the management and operation of the Rainer Square Building in exchange for a fixed rent schedule for up to seven years.

On August 10, 2016, the City of Seattle issued a Master Use Permit ("MUP") to Wright Runstad approving the development plans for the Rainer Square Site. Wright Runstad intends to commence demolition of the Rainer Square Building in June 2017 and complete construction of the new Rainier Square building between late 2019 and early 2020.

Hotel

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 managed by Fairmont Hotels and Resorts, Inc. on September 18, 2007, Legacy REIT, a publicly traded Canadian real estate investment trust and parent company of LHCS Hotel Holding (2002), LLC, was purchased by Cadbridge Investors, LP, a limited partnership majority owned by Cadim (a division of the Caisse de depot et placement du Quebec). The tenant under the Hotel Lease remained the same, and the management of the hotel by Fairmont Hotels and Resorts, Inc. did not change. On June 1, 2015, the University consented to the assignment of the Hotel Lease from LHCS Hotel Holding (2002), LLC to IC/RCDP Seattle Hotel, an entity owned by affiliates of Rockwood IX REIT, Inc. and an affiliate of DiNapoli Capital Partners, LLC.

On June 30, 2016, hotel ownership completed a full renovation of all 450 rooms in the hotel. The project cost $25 million and also included replacement of windows, hallway refurbishment, and exterior repairs.

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 position 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:

- Office, retail, and residential revenues are recognized (on a straight-line basis) each month based on tenant leases in place.

- Hotel Rent comprises minimum monthly payments as calculated under the Hotel Lease, in addition to a percentage of tenant revenues as calculated at the end of the year. The management of the Metropolitan Tract estimates and accrues the percentage rent for the period from January to June of 2016. There have been no significant adjustments from the estimated amount recognized and actual amounts calculated at the end of each lease year.

- Parking revenues are recognized based on tenant leases in place or as spaces are occupied.

- Rainier Square rent revenues are recognized on a monthly basis as outlined by the Interim Agreement.

- Direct operating expenses related to the properties, including utilities, repairs and maintenance, and security and janitorial costs, are reported as property operating expenses.

- Expenses incurred in the management of the property, including contractual payments, are reported as property management.

- All other indirect expenses not related to the direct operating or property management are recorded as general and administrative.

- Non-operating revenue and expenses are activities that are not related to rental activities, including interest income and interest expense.

Cash Held in Trust

Cash held in trust represents operating cash held in financial institutions for various properties on behalf of the University. Cash balances held in the trust and other cash balances may exceed federally insured limits during the year.

Funds Held by the University

Funds held by the University are funds invested in pooled investments with the University. The University combines most short-term available cash balances from various departments into the invested funds pool, which is primarily composed of U.S. government and agency securities, mortgage rated investments, and asset-backed securities, as well as units in the Consolidated Endowment Fund ("CEF"), which is a diversified investment fund. The underlying investments in CEF include emerging market equity securities, developed market equity securities and fixed income securities.

The University annually allocates investment earnings to the departments with qualifying funds in the invested funds pool based on relative amount invested at a rate determined and approved by the University. For the year ended June 30, 2016, the rate determined by the University was 2.0%. Principal amounts invested in the pooled invested are guaranteed by the University.

Security Deposits – Residential

Security deposits – residential consists of amounts collected by the University from residential tenants in the Cobb Building as security in the event of a lease default. These deposits are required to be retained and segregated from the University's operating cash. There are no such requirements for security deposits received by commercial tenants.

Accounts Receivable

Accounts receivables are due from tenants for rent and other reimbursements. The University considers all accounts greater than 90 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is generally written off against the allowance. These receivables are generally unsecured and do not bear interest. At June 30, 2016, the balance of allowance for uncollectible accounts amounted to $51 thousand.

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 2016. However, at June 30, 2016, the Fairmont Olympic Hotel had not met the revenue threshold for percentage rent, therefore no percentage rent receivable was recorded at June 30, 2016. A corresponding payable for the leasehold improvement taxes is included in leasehold excise tax payable.

Straight-Line Rent Adjustment

Many commercial and residential leases contain fixed escalations of the minimum annual lease payment during the original term of the lease. Therefore, rental income is recognized on the straight-line basis over the lease term. The difference between rental income recognized and the amount currently receivable is recorded as a straight-line rent adjustment.

Property and Depreciation

Land and buildings are recorded at the appraised values as of November 1, 1954, with subsequent additions at cost, when the assets are placed in service. Tenant and building improvements that have not yet been placed in service as of year-end are recorded as construction in progress and are expected to be completed within the next year. 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 improvements	The lease term

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 during the year ended June 30, 2016.

Leasehold Excise Tax Payable

Leasehold excise tax is payable on a quarterly basis to the State of Washington. The current liability represents taxes collected on contract rent, as defined by the Washington State Department of Revenue, during April to June of 2016.

Net Position

The University's net position is presented as net investment in capital assets, with the remainder considered unrestricted net position. Capital assets consist of land, building, building improvements, furniture, fixtures and equipment, and construction in progress. The related debt is debt issued to support the acquisition and construction of capital assets and is subtracted from the capital asset balance to arrive at the net investment in capital assets. Unrestricted assets include assets that have no restrictions placed on them, as well as assets that have been internally restricted, if any.

Unearned Rent Revenue

Tenant rent payments received in advance are deferred until the period to which the payments relate.

Fair Value of Financial Instruments

The Metropolitan Tract's financial instruments consist primarily of cash held in trust, funds held by the University, receivables, payables, and long-term debt. The carrying amounts of cash held in trust, funds held by the University, receivables, and payables approximate their respective estimated fair value due to their short-term nature. The carrying amount of the long-term debt approximates the fair value because the interest rate on these loans does not vary materially from the market rate for similar debt instruments.

Transfer from UW Real Estate Office

This represents funds that were transferred from the UW Real Estate Office to the Metropolitan Tract.

Distribution to University Building Fund

During the year ended June 30, 2016, $10 million was distributed from the Metropolitan Tract to the University Building Fund. The distribution is determined annually based on cash available after consideration of future operating and capital expenses, and adequate reserves.

Property Management Fees

Property management fees represent costs paid to Unico, Wright Runstad, and Blanton Turner for services rendered on the properties. The fees are based on a percentage of tenant rent recognized at each property. Total fees paid to Unico and Wright Runstad were $421 thousand and $245 thousand, respectively, for the year ended June 30, 2016. Blanton Turner serves as a sub-contractor to Unico for the Cobb Building under the University's property management agreement with Unico. The majority of these expenses are included in property management expenses on the statement of revenues, expenses, and changes in net position. Of the total expenses paid to Unico, $104 thousand relates to asset management and is included in general and administrative expenses on the statement of revenues, expenses, and changes in net position.

Lease Commissions

Lease commissions are costs paid to commercial real estate brokers that facilitate the execution of tenant leases. These commissions are expensed as incurred and are included with general and administrative expenses on the statement of revenues, expenses, and changes in net position.

Income Taxes

As part of the University, the Metropolitan Tract is exempt from federal income taxes, unless it earns unrelated business income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Subsequent Events

Management of the University has evaluated subsequent events through the date these financial statements were available to be issued, which was October 4, 2016.

Note 3. Property

Property activity for the year ended June 30, 2016, is summarized as follows (amounts in thousands):

	Balance at June 30, 2015	Additions	Transfers	Balance at June 30, 2016
Property, not being depreciated:				
Land	$ 9,974	$ -	$ -	$ 9,974
Construction in progress	4,389	12,739	(13,204)	3,924
Total property not being depreciated	14,363	12,739	(13,204)	13,898
Property, being depreciated:				
Land improvements	793			793
Buildings	95,504			95,504
Tenant improvements	61,021	92	8,761	69,874
Modernizations	124,185	863	4,443	129,491
Furniture, fixtures, and equipment	110	12		122
Total property being depreciated	281,613	967	13,204	295,784
Less accumulated depreciation:				
Land improvements	793			793
Buildings	71,156	1,299		72,455
Tenant improvements	44,743	4,471		49,214
Modernizations	49,423	5,750		55,173
Furniture, fixtures, and equipment	9	15		24
Total accumulated depreciation	166,124	11,535		177,659
Property, net	$ 129,852	$ 2,171	$ -	$ 132,023

There were no significant disposals of property in fiscal year 2016.

Note 4. Long-Term Debt

The Metropolitan Tract has a long-term loan from the University that was financed through the issuance of taxable serial bonds. The loan balance as of June 30, 2016, was $5.7 million. The debt has an effective interest rate of 0.86% and a maturity date of December 2017 ($2.8 million is due in the year ending June 30, 2017, and $2.9 million is due during the year ending June 30, 2018). The University has also issued general revenue bonds, and the Metropolitan Tract received $33.4 million in financing from the University's Treasury Department through the issuance of these bonds. The balance of this loan as of June 30, 2016, was $33 million. The effective interest rate over the 30-year term of the loan is 3.49% and the loan matures in December 2044. Both loans are unsecured, but are expected to be repaid through revenues generated by the Metropolitan Tract properties.

Long-term liability activity for the year ended June 30, 2016, is summarized as follows (amounts in thousands):

	Balance at June 30, 2015	Additions	Reduction	Balance at June 30, 2016
Long-term debt	$ 42,099	$ -	$ (3,576)	$ 38,523
Less: current portion	(3,580)			(3,596)
Non-current portion	$ 38,519			$ 34,927

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

	Principal	Interest	Total
2017	$ 3,596	$ 1,079	$ 4,675
2018	3,626	1,052	4,678
2019	766	1,030	1,796
2020	781	1,017	1,798
2021	796	1,002	1,798
2022-2026	4,278	4,707	8,985
2027-2031	4,984	4,002	8,986
2032-2036	5,911	3,087	8,998
2037-2041	7,090	1,916	9,006
2042-2045	6,695	508	7,203
	$ 38,523	$ 19,400	$ 57,923

Note 5. Future Minimum Rent

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 $1.26 million.

Minimum future rental income under the Hotel Lease is as follows for the years ending June 30 (amounts in thousands):

2017	$	1,260
2018		1,260
2019		1,260
2020		1,260
2021		1,260
Thereafter		23,100
	$	29,400

Minimum future rental income under the Interim Agreement for the Rainier Square property are as follows for the years ending June 30 (amounts in thousands):

2017	$	859
2018		704
2019		549
2020		497
2021		166
	$	2,775

Minimum future rental income under non-cancelable lease agreements with various commercial (office and retail) and residential tenants are as follows for the years ending June 30 (amounts in thousands):

2017	$	49,151
2018		41,012
2019		29,079
2020		24,558
2021		18,128
Thereafter		60,567
	$	222,495

Note 6. Rainier Tower Sublease

In 1995, the University assumed a sublease for a portion of the Rainier Tower Building, one of the Unico-controlled buildings on the Metropolitan Tract, and directly controlled approximately 380,000 square feet of office space referred to as the Rainier Tower Sublease ("the Sublease"). As of October 31, 2014, the University directly controls the entire Rainier Tower Building; however, the Sublease agreements with the tenants remain in place until October 31, 2017. Unico managed the Sublease until October 31, 2014, when responsibilities were transferred to Wright Runstad.

Note 7. Related Party Transactions

The University rents office space in the Metropolitan Tract and the leases expire at various dates through 2020. The amount paid for the period ended June 30, 2016, was $2.7 million.

Note 8. Rainier Square Redevelopment

As described in Note 1, the terms of the Predevelopment Agreement with WRC Fourth Avenue LLC ("WRC"), an entity controlled by Wright Runstad, required WRC to place $2.5 million into escrow. Release of the funds in escrow depends on the performance of certain development milestones carried out between WRC and the City of Seattle ("the City"). As of June 30, 2016, $1 million remained in escrow. The remaining funds were released subsequent to WRC's receipt of a MUP on August 10, 2016. WRC extended the termination date of the Rainer Square agreement to June 30, 2018, and paid the University $500 thousand in June 2016, which is recorded as non-operating income.

SUPPLEMENTARY INFORMATION

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

DETAILS OF PROPERTY
June 30, 2016
(Amounts in thousands)

	Cobb Building	Skinner Building	Puget Sound Plaza	IBM Building	Rainier Tower *	Financial Center	Olympic Hotel	Olympic Garage	Total
Buildings, tenant improvements, and modernizations									
Buildings	$ 752	$ 2,037	$ 9,113	$ 8,413	$ 42,879	$ 16,984	$ 12,535	$ 2,791	$ 95,504
Tenant improvements		8,117	13,832	10,973	24,657	12,295			69,874
Modernizations	43,268	18,533	18,058	14,096	19,833	15,703			129,491
Construction in progress	59	809	1,950	273	314	519			3,924
Furniture, fixtures, and equipment	12	3	11	29	22	45			122
	44,091	29,499	42,964	33,784	87,705	45,546	12,535	2,791	298,915
Less accumulated depreciation and amortization									
Buildings	752	2,037	8,518	8,413	28,228	12,313	9,775	2,419	72,455
Tenant improvements		6,258	8,710	7,903	16,848	9,495			49,214
Modernizations	6,611	11,185	10,424	8,355	10,433	8,165			55,173
Furniture, fixtures, and equipment		1	2	6	3	12			24
	7,363	19,481	27,654	24,677	55,512	29,985	9,775	2,419	176,866
Net investment	$ 36,728	$ 10,018	$ 15,310	$ 9,107	$ 32,193	$ 15,561	$ 2,760	$ 372	122,049
Land									9,974
Land improvements									793
Less accumulated depreciation									(793)
Net land and land improvements									9,974
Net investment including land and land improvements									$ 132,023

* Includes Rainier Square

STUDENT SERVICES AND FACILITIES FEES –
SEATTLE CAMPUS

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

FINANCIAL REPORT

JUNE 30, 2016

CONTENTS

petersonsullivan LLP
Certified Public Accountants
& Advisors

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 Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2016 and 2015, 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 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 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.

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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 Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2016 and 2015, on the cash basis of accounting described in Note 1.

Basis of Accounting

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

Peterson Sullivan LLP

November 30, 2016

STUDENT SERVICES AND FACILITIES FEES – SEATTLE CAMPUS
ADMINISTERED BY
THE DIVISION OF STUDENT LIFE
OF THE UNIVERSITY OF WASHINGTON

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

For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Receipts		
Student services and facilities fees - Seattle campus	$ 28,287,449	$ 28,793,470
Interest income	483,861	443,550
Total cash receipts	28,771,310	29,237,020
Debt Service		
Principal - ILP - IMA Bonds	(1,638,333)	(1,559,167)
Principal - ILP - Student Facilities Renovation	(2,095,416)	(1,806,248)
Interest - ILP - IMA Bonds	(1,782,021)	(1,859,979)
Interest - ILP - Student Facilities Renovation	(5,344,231)	(6,040,509)
Total debt service payments	(10,860,001)	(11,265,903)
Cash receipts available after debt service	17,911,309	17,971,117
Other Cash Disbursements		
Hall Health Center	6,643,106	6,487,060
Recreational Sports Operations	2,363,685	2,183,171
Student Parent Resource Center	1,400,000	1,503,500
Associated Students of the University of Washington	1,025,885	917,602
Student Activities and Union Facilities	1,009,244	879,795
Ethnic Cultural Center and Theatre Complex	1,000,574	833,200
Student Counseling Center	723,304	546,246
Graduate and Professional Student Senate	481,234	405,060
Campus Sustainability Fund	380,096	370,000
Student Publications	308,267	306,930
Q-Center	319,843	269,622
Student Legal Services	200,134	183,984
Classroom Support Services	198,512	131,904
D-Center	70,976	37,500
Peer Health Education Group	60,815	37,048
Services and Activities Committee Operations	28,000	33,464
Total other cash disbursements	16,213,675	15,126,086
Cash receipts in excess of other cash disbursements	1,697,634	2,845,031
Transfers:		
Transfer to Student Publications		(615,000)
Return of unspent funds	24,606	387,812
Total Transfers	24,606	(227,188)
Change in cash balances	**1,722,240**	**2,617,843**
Cash Balance, beginning of year	23,372,447	20,754,604
Cash Balance, end of year	$ 25,094,687	$ 23,372,447

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 a variety of programs, services, facilities, and operations supporting the student experience on campus, including, but not limited to, housing, food services, recreational sports programs, student government, the Husky Union Building, student conduct, counseling, health & wellness, disability resources, career services, student publications, fraternity and sorority life, the Q-Center, the D-Center, student veterans, ceremonies, and the University's police department. Student Life administers the allocation and expenditure of certain fees collected from students on the Seattle campus called "Student Services and Facilities Fees." Student Services and Facilities Fees are a portion of the total fees collected from students. Student Services and Facilities Fees include Services and Activities Fees, Intramural Bond Fees, and Student Facilities Renovation Fees.

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

As a part of the University, Student Services and Facilities Fee activity is exempt from income taxes and no tax return is filed. Student Services and Facilities Fee activity receives administrative support from the University without charge.

These financial statements only present a selected portion of the activities of the University. As such, they are not intended and do not present either the financial position, results of operations, or changes in net position of the University.

Financial Statement Presentation

These financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. 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. Funds held by the University are funds invested in pooled investments with the University. The University combines most short-term available cash balances from various departments into the invested funds pool, which is primarily composed of U.S. government and agency securities, mortgage-rated investments, and asset-backed securities, as well as units in the Consolidated Endowment Fund ("CEF"), which is a diversified investment fund. The underlying investments in CEF include emerging market equity securities, developed market equity securities, and fixed income securities.

The University annually allocates investment earnings to the departments with qualifying funds in the invested funds pool based on relative amount invested at a rate determined and approved by the University. For the years ended June 30, 2016 and 2015, the rate determined by the University was 2.0%. Principal amounts invested in the invested funds pool are guaranteed by the University.

Transfers

In June 2014, the SAF Committee signed a memorandum of understanding with Student Publications to allocate $615,000 of Student Services and Facilities Fees in order to fund a majority of Student Publications' historical operating deficit. Accordingly, during the year ended June 30, 2015, $615,000 was transferred to Student Publications. The amount is to be repaid over a period of time to be determined by Student Publications' ability to repay the debt (not to exceed thirty years). During the years ended June 30, 2016 and 2015, no repayments were made.

During the years ended June 30, 2016 and 2015, $24,606 and $387,812, respectively, in unspent innovation funds from various units were returned to Student Services and Facilities Fees.

Note 2. Uncollected Fees and Future Disbursements

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

Student Life had Student Services and Facilities Fees that were uncollected (and are, therefore, receivable) of $952,908 and $1,127,172 at June 30, 2016 and 2015, respectively.

In June 2016, the Board of Regents accepted proposed disbursements for the year ending June 30, 2017, totaling $18,037,525.

Note 3. Internal Lending Program – IMA Bonds

Student Services and Facilities Fees are used to make debt service payments on the Series 2005 Revenue Bonds issued by the University. The debt is managed by the University's Internal Lending Program.

At June 30, 2016, the principal amount of the debt outstanding was $34,002,083. The interest rate is reviewed each year and is subject to adjustment by the Board of Regents, and as such, in May 2016, was adjusted from 4.75% to 4.50%, effective July 1, 2016. The final loan payment is due in June 2030.

Borrowings are being repaid by the IMA Bond Fees, which are included in the student services and facilities fees cash receipts at both June 30, 2016 and 2015.

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
2017	$ 1,718,333	$ 1,700,104	$ 3,418,437
2018	1,807,500	1,614,188	3,421,688
2019	1,897,500	1,523,813	3,421,313
2020	1,992,083	1,428,938	3,421,021
2021	2,091,667	1,329,333	3,421,000
2022 - 2026	12,136,667	4,969,354	17,106,021
2027 - 2030	12,358,333	1,615,729	13,974,062
	$ 34,002,083	$ 14,181,459	$ 48,183,542

Note 4. Internal Lending Program – Student Facilities Renovation

Student Services and Facilities Fees has borrowings available from the University's Internal Lending Program of $126,000,000, $8,000,000, and $16,000,000 for the renovation of the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively. At June 30, 2016, the principal amount of the debt outstanding on these borrowings was $91,093,069, $6,600,273, and $13,682,890 for the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively (total of $111,376,232). The interest rate is reviewed each year and is subject to adjustment by the Board of Regents, and as such, in May 2016, was adjusted from 4.75% to 4.50%, effective July 1, 2016. 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 the Student Facilities Renovation Fees, which are included in the student services and facilities fees cash receipts at both June 30, 2016 and 2015.

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
2017	$ 2,274,926	$ 4,988,742	$ 7,263,668
2018	2,386,885	4,860,729	7,247,614
2019	2,496,538	4,751,075	7,247,613
2020	2,611,229	4,636,385	7,247,614
2021	2,731,188	4,516,426	7,247,614
2022 - 2026	15,657,322	20,580,746	36,238,068
2027 - 2031	19,599,771	16,638,298	36,238,069
2032 - 2036	24,534,911	11,703,157	36,238,068
2037 - 2041	30,712,699	5,525,369	36,238,068
2042 - 2043	8,370,763	250,844	8,621,607
	$ 111,376,232	$ 78,451,771	$ 189,828,003

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

2015	2.6 to 1
2016	2.6 to 1

Note 5. Subsequent Events

Student Services and Facilities Fees has evaluated subsequent events through the date these financial statements were available to be issued, which was November 30, 2016.

UNIVERSITY OF WASHINGTON

Supplementary Information

June 30, 2016 and 2015

(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 and aggregate discretely presented component units of the University of Washington (the University), an agency of the state of Washington, as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon dated October 21, 2016, which contained unmodified opinions on those financial statements that collectively comprise the University's basic financial statements. Our audit was performed for the purpose of forming opinions on the financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 21, 2016.

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 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Board of Regents and management of the University of Washington and rating agencies and bondholders who have previously received the financial statements of the University of Washington as of and for the years ended June 30, 2016 and 2015, and our unmodified opinions thereon, for use in evaluating those financial statements, and is not intended to be, and should not be used for any other purpose.

KPMG LLP

November 16, 2016

UNIVERSITY OF WASHINGTON

Reconciliation of Total University Revenue to General Revenue

Years ended June 30, 2016 and 2015

(Dollars in thousands)

		2016	2015
General revenue:			
Total revenue	$	5,024,269	4,982,564
Less:			
State appropriations		302,097	255,156
Grant and contract direct costs		1,093,865	1,082,452
Gifts		115,000	115,636
Revenues of component units		276,946	211,174
Student activities fees and U-Pass fees		43,134	44,080
Student technology fees, student building fees, and student loan funds		79,066	76,297
Trust and endowment income, net unrealized (losses) gains on noninvested funds investments, Metropolitan Tract net operating income, component unit investment income, and other restricted investment income		(19,050)	187,599
Capital appropriations		39,221	20,812
Capital grants, gifts and other		21,645	21,986
Other nonoperating revenues		13,133	9,042
Gifts to permanent endowments		88,267	67,359
Total general revenue	$	2,970,945	2,890,971
General revenue components:			
Student tuition and fees (less student activities fees, U-Pass fees, technology fees, building fees, and loan funds)	$	837,677	804,391
Grant and contract indirect costs		248,276	246,677
Invested funds distribution and net invested funds unrealized gains and losses (note 2)		63,927	39,805
Sales and services of educational departments		224,747	223,494
Auxiliary systems and patient services		1,547,997	1,505,444
Other operating revenues		48,321	71,160
Total general revenue	$	2,970,945	2,890,971

See accompanying notes to supplementary information.

UNIVERSITY OF WASHINGTON

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

June 30, 2016 and 2015

(Dollars in thousands)

		2016	2015
Total University unrestricted net position per financial statements	$	675,529	869,120
Less:			
Student and activities fees		24,015	21,655
Net position (deficit) of component units:			
Association of University Physicians		87,762	84,987
UW Neighborhood Clinics		(494)	10,276
Real estate entities		(4,578)	(2,620)
Total to be excluded, net		106,705	114,298
General net position	$	568,824	754,822

See accompanying notes to supplementary information.

UNIVERSITY OF WASHINGTON

Notes to Supplementary Information

June 30, 2016 and 2015

(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. General Revenues, as defined in the bond agreements, are revenues pledged to bondholders under the University's General Revenue Bond platform. The supplementary information included herein reconciles total University revenue to General Revenue pledged to bondholders. For example, the following items are restricted and, therefore, excluded from General Revenues:

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

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

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

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

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

(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.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Financial Statements

June 30, 2016

(With Independent Auditors' Report Thereon)

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Table of Contents

KPMG

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 UW Medicine Clinical Enterprise – UW Division (the Group), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

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 audit. We conducted our audit 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.

Emphasis of Matter

As discussed in note 1, the financial statements of the Group, divisions, departments and component units of the University of Washington (the University), are intended to present the net position, the changes in net position, and the cash flows of only that portion of the business-type activities of the University that are attributable to the transactions of the Group. They do not purport to, and do not, present fairly the net position of the University as of June 30, 2016, the change in its net position, or its cash flows for the year ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 2 to the financial statements, on July 1, 2014, the Group adopted new accounting guidance requiring governments providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, as well as recognizing most changes in the net pension liability within pension expense. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Group as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flow thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 through 13, and the schedules of required supplementary information on page 55, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Group's basic financial statements. The combining financial statements included on pages 52 – 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relates 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The combining financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Seattle, Washington
October 19, 2016

The following discussion and analysis provide an overview of the financial position and activities of the UW Medicine Clinical Enterprise - UW Division (the Group), for the years ended June 30, 2016 and 2015. 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 audited financial statements and accompanying notes that follow this section.

The Group consists of divisions, departments, and component units of the University of Washington (the University) and includes: University of Washington Medical Center (UW Medical Center), UW Medicine/Northwest dba Northwest Hospital & Medical Center (Northwest Hospital), UW Physicians Network dba UW Neighborhood Clinics (Neighborhood Clinics), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift) and shared service departments that support the entire UW Medicine enterprise. Also part of UW Medicine, but not included in these financial statements are Harborview Medical Center (Harborview) as operated and managed by the University under the Hospital Services Agreement between King County and the University, Public Hospital District No. 1 of King County, Washington dba Valley Medical Center (VMC), and the University of Washington School of the Medicine (School).

Using the Financial Statements

The Group's financial statements consist of three statements: statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows. These financial statements and related notes provide information about the activities of the Group, including resources held by the Group but restricted for specific purposes by contributors, grantors, or enabling legislation.

The statement of net position includes all of the Group'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 the Group, and assess the liquidity and financial flexibility of the organization.

The statement 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 the Group and whether the organization has been able to recover all costs through net patient service revenue and other revenue sources.

The statement of cash flows reports the cash provided by the Group's operating activities, as well as other cash sources such as investment income, cash payments for capital additions and improvements, and payments for debt service, interest payments funding to affiliates. The statement provides meaningful information on how the Group's cash was generated and what it was used for.

(Dollars in thousands)

Financial Highlights for Fiscal Year 2016

The Group reported a loss from operations of $51,130 and a decrease in net position of $34,095 for the year ended June 30, 2016 compared to operating income of $27,598 and an increase in net position of $30,008 for the year ended June 30, 2015. The decrease in operating income is a result of higher expenses associated with the opening of three patient floors at the UW Medical Center Montlake Tower, EPIC billing system implementation at Northwest Hospital and two new Neighborhood Clinics, and an increase in FTEs which led to an increase in salaries and benefits expense.

		2016	2015
Total operating revenues	$	1,886,206	1,765,866
Total operating expenses		1,937,336	1,738,268
(Loss) income from operations		(51,130)	27,598
Investment income, net		7,190	6,162
Interest expense		(15,905)	(15,892)
Other, net		28,701	11,726
Nonoperating revenues		19,986	1,996
(Loss) income before capital contributions and other		(31,144)	29,594
Capital contributions and transfers		(2,951)	414
(Decrease) increase in net position		(34,095)	30,008
Net position, beginning of year		595,996	823,099
Cumulative effect of accounting change		—	(257,111)
Net position, beginning of year, as adjusted		595,996	565,988
Net position, end of year	$	561,901	595,996

(Dollars in thousands)

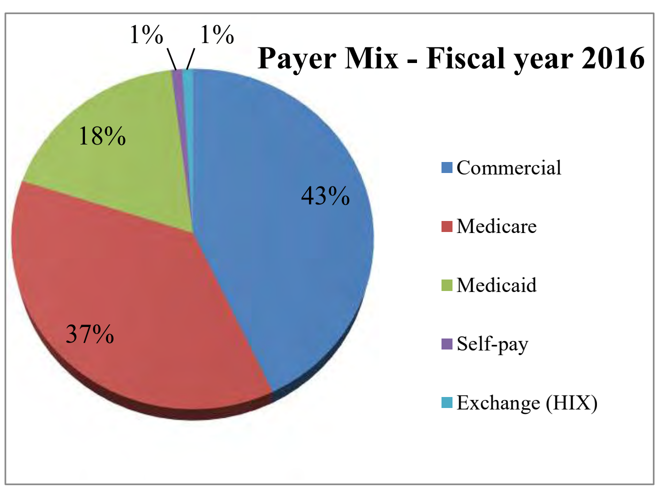
The following chart represents the key statistics of the Group:

	2016	2015
Available Beds	810	713
Admissions	28,422	28,026
Patient days	181,021	173,382
Average length of stay	6.37	6.19
Case mix index (CMI) - UW Medical Center	2.242	2.126
Case mix index (CMI) - Northwest Hospital	1.502	1.455
Surgery cases	25,802	24,894
Emergency room visits	61,623	62,624
Primary & Urgent care clinic visits	380,627	345,877
Specialty care clinic visits	437,341	421,584
Full-time equivalents (FTEs)	8,595	7,983
Births	4,044	4,343
Solid Organ Transplants	326	321
RVU Volume - UWP	6,534,336	6,037,203
Flights	3,379	3,168

Total Operating Revenues

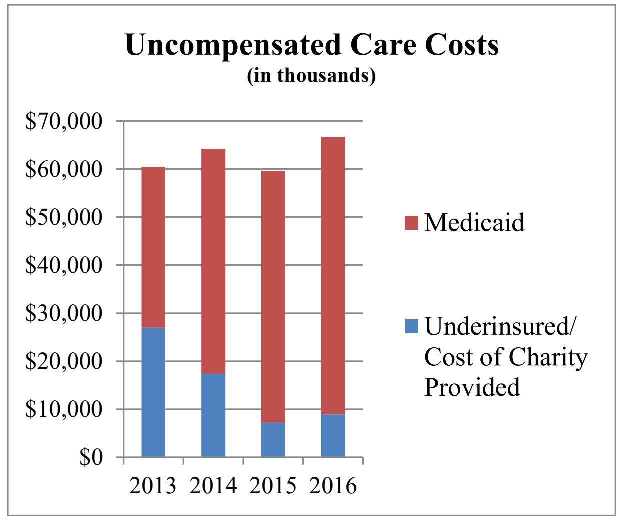
Total operating revenues consists primarily of net patient service revenues, UWP billing revenues, net and other revenues. Net patient service revenues are recorded based on standard billing rates less contractual adjustments, charity, and a provision for uncollectible accounts. The Group has agreements with federal and state agencies, and commercial insurers that provide for payments at amounts different from gross charges. The Group provides care at no charge or reduced charges to patients who qualify under the Group's charity policy. The Group also estimates the amount of patient responsibility accounts receivable that will become uncollectible, which is reported as a reduction of net patient service revenue. 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 total inpatient, outpatient and flight revenue. Outpatient revenue consists of hospital-based and ambulatory revenue. UWP billing revenues, net consist of professional fee revenue as UWP is entitled to revenue that is limited to its operating expenses based on the operating agreement between the University and UWP. Other revenue comprises revenues such as contract pharmacy, parking and cafeteria sales.



The Group's payer mix is a key factor in the overall financial operating performance. The chart to the right illustrates payer mix for 2016. For the years ended

June 30, 2016 and 2015, commercial revenue represented 43% and 43%, Medicare revenue represented 37% and 37%, Medicaid revenue represented 18% and 18%, and self-pay revenue represented 1% and 1%, and exchange revenue represented 1% and 1%, respectively.

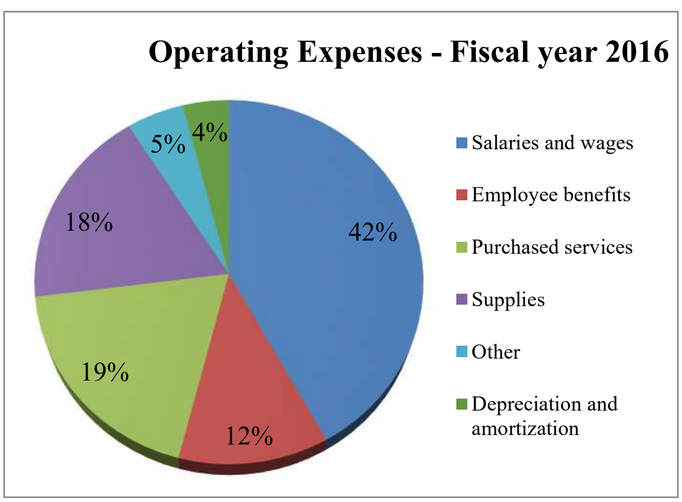


As a result of the Affordable Care Act, the Group experienced a decrease in uninsured patients after January 1, 2014 as many patients who were previously self-pay now qualify for Medicaid coverage. However, the Group has seen a corresponding increase in uncompensated care costs related to providing care to Medicaid patients as illustrated in the table to the right.

Reimbursement from governmental payers is generally below commercial rates and reimbursement rules are complex and subject to both interpretation and settlements.

For the years ended June 30, 2016 and 2015, the Group's total operating revenues were $1,886,206 and $1,765,866 comprised of $1,483,561 and $1,420,584 in net patient service revenues, $230,641 and $201,253 in UWP billing revenues, net, and $172,004 and $144,029 in other revenues, respectively. The increase in operating revenues between fiscal years 2016 and 2015 was driven by greater volumes and case acuity which increased net patient service revenue, an increase in relative value units (RVUs) which increased UWP billing revenues, net, as well as contract pharmacy revenues, which positively impacted other revenues.

Total Operating Expenses



Total operating expenses were $1,937,336 for the fiscal year 2016 compared to $1,738,268 for the fiscal year 2015. The composition of fiscal year 2016 operating expenses is illustrated in the chart to the left.

Salaries and wages expense increased $87,298 from $721,875 in fiscal year 2015 to $809,173 in fiscal year 2016. The increase in salaries and wages expense in fiscal year 2016 was primarily driven by an increase in FTEs and employee merit increases.

Employee benefits expense increased $53,181 from $175,874 in fiscal year 2015 to $229,055 in fiscal year 2016. Employee benefit expense increased as a result of an increase in FTE's and a higher benefit load rate. In 2016, the State of Washington (the State) increased the funding of employee healthcare and pension costs which caused the University to increase the benefit load rate for classified employees and professional staff by 16.6% and 9.1%, respectively for the University employees within the Group.

Purchased services expense consisting of professional, consulting fees, and School faculty funding, increased $21,541 from $346,953 in fiscal year 2015 to $368,494 in fiscal year 2016. The increase in purchased services expense between fiscal year 2016 and 2015 is attributed to an increase in the School faculty funding expense and physician fees paid to physicians providing services to the Group but not employed by the Group.

Supplies expense includes medical and surgical supplies, pharmaceutical supplies, and non-medical supplies. In total, these expenses increased $32,371 from $313,927 in fiscal year 2015 to $346,298 in fiscal year 2016. The increase was driven by higher costs for pharmaceuticals, prosthesis, surgical supplies, and other expenses as a result of the higher acuity and length of stay.

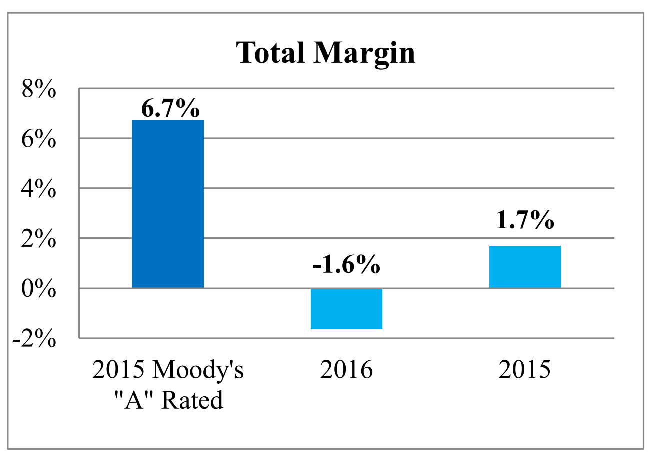
Depreciation expense increased $3,772 from $83,004 in fiscal year 2015 to $86,776 in fiscal year 2016. The increase in depreciation expense is driven by the capitalization of the Montlake Tower construction and costs related to the implementation of Epic billing system at Northwest Hospital during 2016.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, interest expense, intergovernmental transfer expenses and strategic funding to and from other UW Medicine entities. In 2016, net nonoperating revenues increased $17,990 from $1,996 in fiscal year 2015 to $19,986 in fiscal year 2016. The increase in net nonoperating revenues is attributable to an increase in equity earnings from Seattle Cancer Care Alliance (SCCA) and strategic funding from other UW Medicine entities.

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 (loss before capital contributions and other transfers) and is a common measure of total hospital profitability. Total margin for the fiscal years 2016 and 2015 compared to Moody's median is illustrated in the chart to the right.



(Dollars in thousands)

Financial Analysis

Statements of Net Position

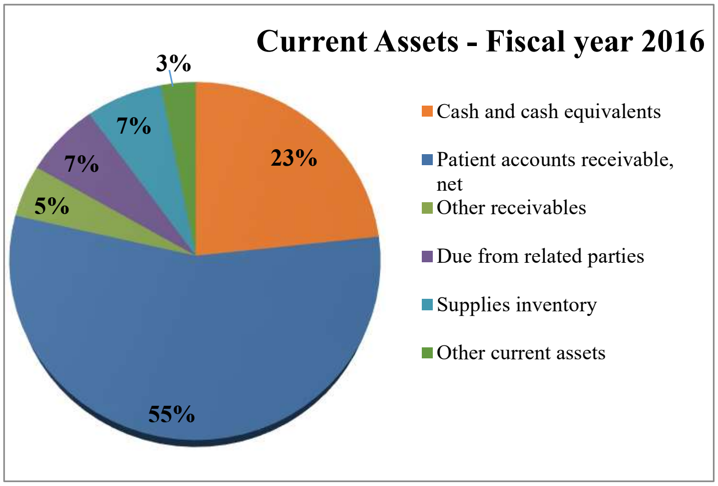
The table below is a presentation of certain condensed financial information derived from the Group's statements of net position as of June 30, 2016 and 2015:

		2016	2015
Current assets	$	367,143	384,988
Noncurrent assets:			
Capital assets, at cost, net of accumulated depreciation		742,593	719,032
Funds held by the University of Washington		243,917	235,614
Investments, net of current portion		142,913	127,819
Investment in Seattle Cancer Care Alliance		126,636	107,704
Other assets		10,692	12,105
Total assets		1,633,894	1,587,262
Deferred outflow of resources		66,826	37,130
Total assets and deferred outflow of resources		1,700,720	1,624,392
Current liabilities		406,813	345,474
Noncurrent liabilities		417,518	399,945
Net pension liability		272,867	197,060
Total liabilities		1,097,198	942,479
Deferred inflow of resources		41,621	85,917
Net position		561,901	595,996
Total liabilities and net position	$	1,700,720	1,624,392

Total assets and deferred outflow of resources are $1,700,720 at June 30, 2016 compared to $1,624,392 at June 30, 2015, an increase of $76,328. Significant events occurring within total assets during fiscal year 2016 include an increase in capital assets as a result of the Montlake Tower construction and IT projects, an increase in the investment in Seattle Cancer Care Alliance as a result of our proportionate share of their earnings, and an increase in deferred outflow of resources driven by change in actuarial assumptions related to net pension liability.

Current Assets

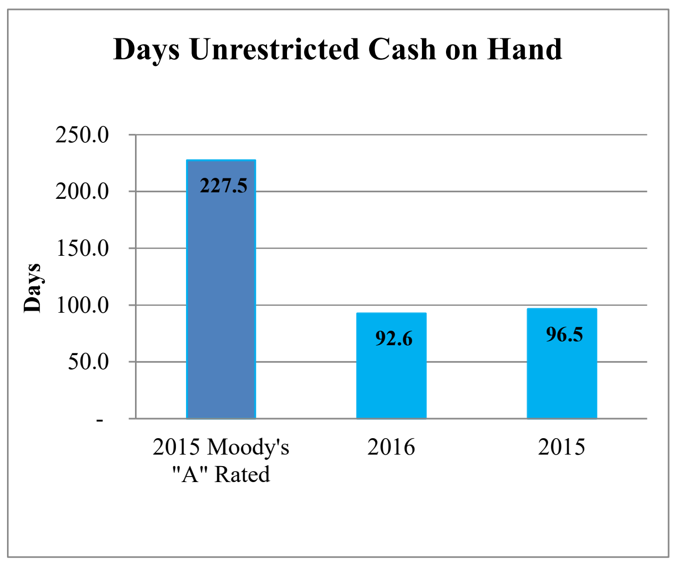
Current assets consist of cash and cash equivalents, and other current assets that are expected to be converted to cash within a year. Current assets also include net patient accounts receivable valued at the estimated net realizable amount due from patients and insurers.



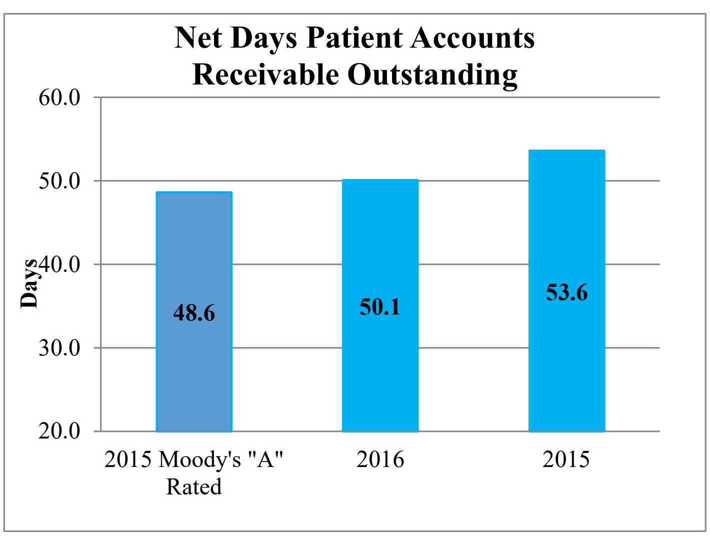
Fiscal year 2016 composition of current assets is illustrated in the chart to the left.

Cash and Cash Equivalents represent cash and short-term investments, as well as funds held by the University on behalf of the Group that are considered cash equivalents. Cash and cash equivalents increased $7,277 from $78,215 at June 30, 2015 to $85,492 at June 30, 2016. The increases in cash and cash equivalents are primarily due to cash provided by operating activities during the respective period.

Days unrestricted cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days unrestricted cash on hand (including noncurrent funds) as of June 30 for fiscal years 2016 and 2015 as compared to Moody's median rating are illustrated in the chart to the right.



The Group's total days unrestricted cash on hand, decreased from 96.5 days at June 30, 2015 to 92.6 days at June 30, 2016. The decrease in 2016 was driven by the Group's higher operating expenses as a result of opening new patient floors at the UW Medical Center Montlake Tower and two new primary care clinics opened by the Neighborhood Clinics.



Net patient accounts receivable was $203,187 as of June 30, 2016, compared to $208,501 as of June 30, 2015. The decrease of $5,314 was driven by a focus on billing and collection activities within the Group.

Net days patient accounts receivable outstanding illustrates an organization's ability to convert net patient service revenue to cash. Net days patient accounts receivable outstanding as of June 30 for fiscal years 2016 and 2015 as compared to Moody's median rating are illustrated in the chart above.

The Group's total net days patient accounts receivable outstanding decreased 3.5 days from 53.6 days at June 30, 2015 to 50.1 days at June 30, 2016. The decrease during fiscal year 2016 was driven by focus on revenue cycle initiatives that improved billing and collection activities.

As of June 30, 2016 and 2015, 42% and 42% of the gross patient accounts receivable balance is due from commercial payers, 51% and 50% is due from governmental payers Medicare and Medicaid, and 5% and 6% from self-pay patients and 2% and 2% from exchange payers, respectively.

Other receivables consist of amounts due from external parties for supplies and services. Other receivables decreased $16,172 from $33,496 at June 30, 2015 to $17,324 at June 30, 2016. In fiscal year 2016, the decrease in other receivables was driven by improved timing for payments by SCCA to the Group as a result of supplies and services provided by the Group.

Due from related parties consists of amounts due for services provided to Harborview, VMC, and the School. Due from related parties decreased $5,159 from $29,758 at June 30, 2015 to $24,599 at June 30, 2016. The decrease in 2016 relates to the timing of payments between the Group, Harborview and the School.

Noncurrent Assets

Capital assets, at cost, net of accumulated depreciation increased $23,561 during fiscal year 2016 from $719,032 at June 30, 2015 to $742,593 at June 30, 2016. The increase in fiscal year 2016 was due to continued construction of the Montlake Tower, for which a portion of the construction went into service in 2016, and information technology projects such as the Epic billing system implementation at Northwest Hospital.

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

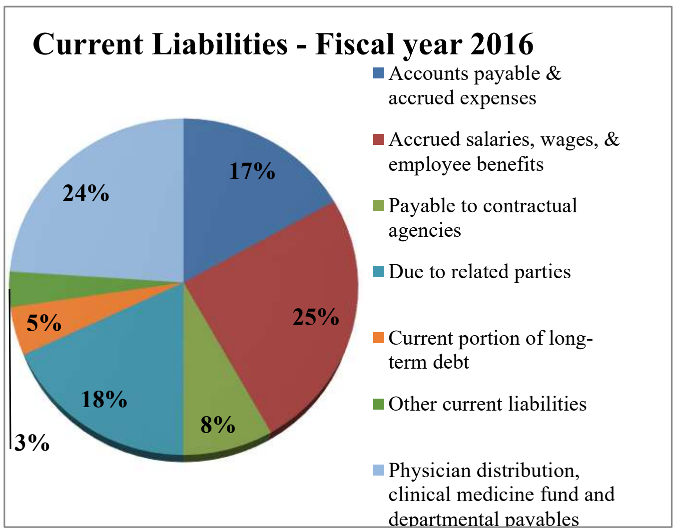
Funds held by the University represent funds invested with the University. Through the University's investment program, the Group receives a rate of return representative of a portion of fund performance. For fiscal year 2016 and 2015, the program generated a rate of return of 2% on the Group's assets. Noncurrent funds held by the University increased by $8,303 in fiscal year 2016 as a result of cash generated from operations.

Investments, net of current portion represents investments held by the Group for capital improvements and replacements, restricted for certain other purposes and investments held for the benefit of the School. Investments, net of current portion increased $15,094 from $127,819 at June 30, 2015 to $142,913 at June 30, 2016. In 2016, the increase in investments was driven by an increase in receipts of patient collections offset by a decrease in distributions to the School.

Investment in SCCA represents UW Medical Center's interest in SCCA, in which UW Medical Center is a 33.3% owner. UW Medical Center accounts for its interest in the SCCA using the equity method of accounting. Investment in SCCA increased $18,932 from $107,704 at June 30, 2015 to $126,636 at June 30, 2016. Changes in the investment value reflect UW Medical Center's proportionate interest in the change in net assets of SCCA. The increase in 2016 was attributable to SCCA's positive results in operational and investment performance.

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 $406,813 at June 30, 2016 compared to $345,474 at June 30, 2015. Fiscal year 2016 composition of current liabilities is illustrated in the chart to the left.



Accounts payable and accrued expenses decreased $2,192 from $70,885 at June 30, 2015 to $68,693 at June 30, 2016. Changes in accounts payable and accrued expenses are primarily driven by timing of payments to vendors.

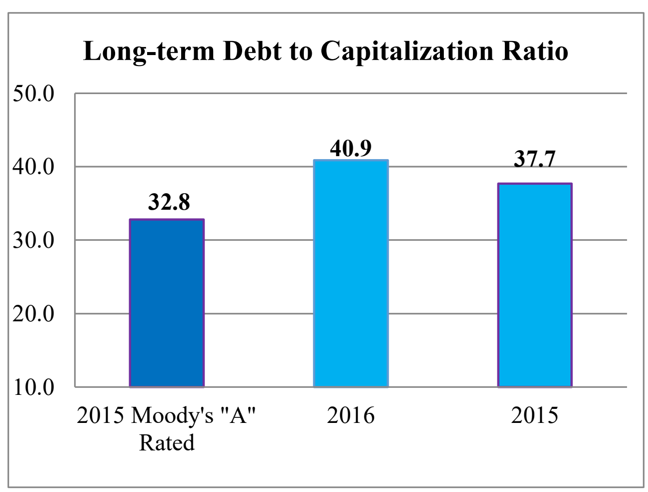
Accrued salaries, wages, and employee benefits increased $13,161 from $88,404 at June 30, 2015 to $101,565 at June 30, 2016. Changes in accrued salaries, wages, and employee benefits are primarily driven by the number of employees, employee merit increases, and an increase in the University benefit load rate as a result of increases in healthcare and pension costs.

Due to related parties consists of amounts due for services provided to the Group by the School, the University, and other affiliates. Due to related parties increased $36,472 from $36,737 at June 30, 2015 to $73,209 at June 30, 2016. The increase in 2016 was driven by timing of payments between related parties.

Physician distribution, clinical medicine fund and departmental payables consist of receipts collected by UWP that are allocated and distributed to the physicians and the clinical medicine fund and departmental payables for the benefit of the School. The payable increased $5,255 from $92,161 at June 30, 2016 to $97,416 at June 30, 2016. The increase in the payables relates to lower distributions made to the School in comparison to net cash collections received.

Noncurrent Liabilities

Noncurrent liabilities consist primarily of the noncurrent portion of long-term debt, net pension liability and other noncurrent liabilities.



Long-term debt increased $20,355 from $346,551 at June 30, 2015 to $366,906 at June 30, 2016. The increase in long-term debt was driven by the construction of the Montlake Tower which was financed through the University's Internal Lending Program (ILP). The increase in long-term debt is offset by the Group's principal payments made in accordance with debt repayment schedules.

Long-term debt to capitalization is a ratio used to assess the capital structure of healthcare organizations. The chart above shows the long-term debt to capitalization ratio as of June 30 for 2016 and 2015 as compared to Moody's median rating.

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

Net Pension Liability

The University has a financial responsibility for pension benefits associated with the PERS defined-benefit plans (as described in note 10(b)), which includes those University employees deployed within the Group. Net pension liability and the respective deferred outflow and inflow of resources are determined by the State of Washington's Department of Retirement Systems (DRS) actuarial report. Net pension liability, deferred outflow and deferred inflow of resources are allocated to the Group based on its proportionate share of employer contributions for the fiscal year. At June 30, 2016 and 2015, respectively, net pension liability of $272,867 and $197,060, deferred outflow of resources of $60,760 and $30,695 and deferred inflow of resources of $41,621 and $85,917 were recorded on the statement of net position. Additional discussion regarding net pension liability can be found in the notes to the financial statements.

Factors Affecting the Future

UW Medicine Accountable Care Network

In 2014, UW Medicine formed an Accountable Care Network (ACN) with other selected healthcare organizations and healthcare professionals in Western Washington to form a care delivery network to assume responsibility for the healthcare of contracted populations of patients to achieve the Triple Aim: improved healthcare experience for the individual, improved health of the population, and more affordable care.

- The ACN has contracted with the Washington Health Care Authority (HCA) to participate in its new Puget Sound Accountable Care Program (ACP) as a healthcare benefit option for Public Employees Benefits Board (PEBB) members. The ACP is offered to all PEBB members who reside in Snohomish, King, Kitsap, Pierce, and Thurston Counties, with possible expansion into a number of additional counties planned in 2017. This contract with HCA to cover PEBB members began January 1, 2016.
- A subset of the network members have also agreed to participate with the ACN in a contract with Premera as part of its new Accountable Health System (AHS) product. As an AHS, the UW Medicine ACN will share in accountability for the quality and cost of healthcare for Premera members who select this plan. This product was sold both on and off the Washington Health Exchange in select counties with coverage that began January 1, 2016 and must have 5,000 plan-wide members per product, per region to share in financial savings and risk.
- The UW Medicine ACN also entered into an agreement to provide health care services to non-union employees of a large local employer with coverage that began January 1, 2015.

These arrangements provide an opportunity for shared savings between the ACN and the contracted entity based on achieving quality and financial benchmarks. If certain financial benchmarks are not attained, UW Medicine, along with its network members, is at risk for reductions in payment levels from the contracted entity based on the agreement.

Employee Costs

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University and the Group as a result of University employees deployed at certain entities within the Group. Employer pension funding rates for the PERS pension plans increased 19.0% during fiscal year 2016, from 9.21% to 11.18% of covered salary, and will be increasing to 12.52% of covered salary for fiscal year 2017. Likewise, the monthly employer base rate paid by the University and the Group for employee healthcare increased 27% during fiscal year 2016, from \$662 to \$840 per active employee, and will be increasing to \$888 per active employee during fiscal year 2017. Both rates are likely to continue increasing over the next few years.

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 \$210,400, which was primarily funded through borrowings from the University ILP. 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 inpatient floors including the addition of intensive care and medical/surgical beds as well as additional operating rooms. The estimated cost of phase two was initially projected and approved at \$186,300. New projection costs of phase two is \$198,000. As part of the approval, the Board of Regents authorized funding from the University ILP up to \$136,100, with the remaining \$50,200 of anticipated cost to be funded through hospital operations and/or cash reserves. The project has been separated into phases that give management the flexibility to evaluate each phase prior to commencing in order to mitigate overruns. Construction on the remaining phase two project began in 2016 and is expected to be completed by April 2018.

In fiscal year 2016, project costs associated with phase two of the Montlake Tower project were \$43,500, which includes equipment and construction. Several components of the Montlake Tower expansion project became operational in fiscal year 2016, including the opening of three inpatient floors that increase the number of available beds and new operating rooms. The next phase of the project includes build out of the patient preparation, hold, and recovery areas, and the addition of four operating rooms.

UW MEDICINE CLINICAL ENTERPRISE - UW DIVISION

Statement of Net Position

June 30, 2016

(In thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	34,636
Funds held by the University of Washington		50,078
Short-term investments		778
Patient accounts receivable, less allowance for uncollectible accounts of $20,464		203,187
Other receivables		17,324
Due from related parties		24,599
Supplies inventory		25,106
Restricted investments		1,290
Other current assets		10,145
Total current assets		367,143
Noncurrent assets:		
Capital assets, at cost, net of accumulated depreciation		742,593
Funds held by the University of Washington		243,917
Investments		142,913
Donor restricted assets		3,941
Investment in Seattle Cancer Care Alliance		126,636
Other assets		6,751
Total noncurrent assets		1,266,751
Total assets		1,633,894
Deferred outflow of resources:		
Deferred outflow of resources related to pension		60,760
Deferred loss on refinancing		6,066
Total assets and deferred outflow of resources	$	1,700,720
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$	68,693
Accrued salaries, wages, and employee benefits		101,565
Payable to contractual agencies		33,259
Due to related parties		73,209
Current portion of long-term debt		18,816
Other current liabilities		13,855
Physician distribution, clinical medicine fund and departmental payables		97,416
Total current liabilities		406,813
Noncurrent liabilities:		
Long-term debt, net of current portion		366,906
Net pension liability		272,867
Due to related parties - long-term		19,453
Other non-current liabilities		31,159
Total liabilities		1,097,198
Deferred inflow of resources:		
Difference between projected and actual earnings on pension plan investments, net		41,621
Net position:		
Net investment in capital assets		354,334
Nonexpendable, restricted		1,927
Expendable, restricted		2,772
Unrestricted		202,868
Total net position		561,901
Total liabilities, deferred inflow of resources, and net position	$	1,700,720

See accompanying notes to financial statements.

UW MEDICINE CLINICAL ENTERPRISE - UW DIVISON

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2016

(In thousands)

Operating revenues:		
Net patient service revenues (net of provision for uncollectible accounts of $23,535)	$	1,483,561
UWP billing revenues, net		230,641
Other revenue		172,004
Total operating revenues		1,886,206
Operating expenses:		
Salaries and wages		809,173
Employee benefits		229,055
Purchased services		368,494
Supplies		346,298
Other		97,540
Depreciation		86,776
Total operating expenses		1,937,336
Loss from operations		(51,130)
Nonoperating revenues (expenses):		
Investment income		7,190
Interest expense		(15,905)
Funding to affiliates		(11,575)
Funding from affiliates		20,503
Other, net		19,773
Nonoperating revenues		19,986
Loss before capital contributions and transfers		(31,144)
Capital contributions and other transfers		(2,951)
Decrease in net position		(34,095)
Net position - beginning of year		595,996
Net position – end of year	$	561,901

See accompanying notes to financial statements.

UW MEDICINE CLINICAL ENTERPRISE - UW DIVISION

Statement of Cash Flows

Year ended June 30, 2016

(In thousands)

Cash flows from operating activities:		
Cash received for patient care	$	1,486,617
Cash received for UWP billing revenues		232,037
Cash received for other services		188,853
Cash paid to employees		(1,026,277)
Cash paid to suppliers and others		(775,588)
Net cash provided by operating activities		105,642
Cash flows from noncapital financing activities:		
Funding from affiliates		15,816
Additions to CMF and departmental payables		2,960
Other, net		385
Net cash provided by noncapital financing activities		19,161
Cash flows from capital and related financing activities:		
Proceeds from borrowings		39,756
Purchases of capital assets		(115,834)
Principal payments on long-term debt		(12,602)
Interest payments on long-term debt, net of amounts capitalized		(15,367)
Capital contributions		1,239
Funding from affiliates for capital purchases		386
Net cash used in capital and related financing activities		(102,422)
Cash flows from investing activities:		
Proceeds from investments		52,120
Purchases of Investments		(68,270)
Change in funds held by the University and donor restricted assets		(8,278)
Investment income		9,272
Distributions from joint ventures		354
Net cash used in investing activities		(14,802)
Increase in cash and cash equivalents		7,579
Cash and cash equivalents, beginning of year		77,135
Cash and cash equivalents, end of year	$	84,714
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$	(51,130)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation		86,776
Provision for uncollectible accounts		23,535
Loss on disposal of capital assets		605
Investment income		(899)
Net increase/(decrease) in operating activities:		
Patient accounts receivable		(18,221)
Other receivables		15,979
Other current assets and other assets		(1,618)
Pension related deferred inflows, deferred outflows, and net pension liability		3,165
Accounts payable and accrued expenses		2,957
Accrued salaries, wages, and employee benefits		8,786
Due to related parties		29,106
Payable to contractual agencies and other current liabilities		1,675
Physician distribution payable		2,295
Noncurrent liabilities		2,631
Net cash provided by operating activities	$	105,642
Supplemental disclosure of noncash investing, capital, and financing activities:		
Change in capital assets included in accounts payable	$	(5,149)
Capital contributions		13
Other transfers		4,375

See accompanying notes to financial statements.

(1) Organization

The UW Medicine Clinical Enterprise – UW Division (the Group) is comprised of UW Medicine clinical entities which are divisions, departments and component units of the University of Washington (a agency of the State of Washington) (the University). The Group includes the University of Washington Medical Center (UW Medical Center), UW Medicine/Northwest dba Northwest Hospital & Medical Center (Northwest Hospital), UW Physicians Network dba UW Neighborhood Clinics (Neighborhood Clinics), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift) and UW Medicine Shared Services.

UW Medicine is governed and administered as an enterprise of the University whose mission is to improve the health of the public. UW Medicine also strives to facilitate the education of physicians and other health care providers, support research activities in collaboration with the University School of Medicine (the School) and render other services designed to achieve the "Triple Aim" which is to improved healthcare experience for the individual, improved health of the population, and more affordable care.

The UW Medicine Board consists of community leaders appointed by the University of Washington Board of Regents. The UW Medicine Board advises and assists the chief executive officer and the dean of the School of Medicine in strategic planning and oversight of programs across the entities including Harborview Medical Center, the School, UW Medical Center, the Neighborhood Clinics, UWP, Northwest Hospital, Valley Medical Center and Airlift, collectively, UW Medicine.

Harborview Medical Center (Harborview), a component unit of King County, Washington and a related party to the University, and is not reflected as part of the Group financial reporting entity.

Valley Medical Center (VMC), a Washington public hospital district, is a discretely presented component unit of the University, and is not reflected as part of the Group financial reporting entity.

The School is a public medical school affiliated with the University, but is not reflected as part of the Group financial reporting entity.

UW Medical Center

UW Medical Center is a 529 licensed-bed hospital and is a division of 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. UW Medical Center is under the direction of the Executive Director, who is accountable to the Board and UW Medicine's Chief Health System Officer for the management of UW Medical Center.

Northwest Hospital

Northwest Hospital is a Washington not-for-profit corporation, incorporated in 1949 whose sole corporate member is the University. Northwest Hospital is a 281-licensed bed, full-service medical facility primarily serving the healthcare needs of the residents of the King and Snohomish counties in Washington. Authority for specified governance functions of Northwest Hospital has been delegated to Northwest Hospital's Board of Trustees (the Board). Northwest Hospital is under the direction of the Executive Director, who is accountable to the Board and UW Medicine's Chief Health System Officer for the management of Northwest Hospital.

UWP

UWP, a Washington not-for-profit corporation and component unit of the University, was formed on August 30, 1983, for the exclusive benefit of the School. UWP employs the School faculty and bills and collects for their clinical services as an agent for the School. All revenues after payment of operating expenses and physician salaries are held for the benefit of the School under the Operating Agreement between UWP and the University (see Note 8).

Airlift

Airlift provides rapid emergency air transport services through one owned and eleven leased aircraft to critically ill or injured patients throughout Washington, Alaska, Montana, and Idaho. Airlift has been a division of the University since 2010. Airlift is under the direction of the Executive Director, who is accountable to the Board and UW Medicine's Chief Health System Officer for the management of Airlift.

Neighborhood Clinics

The Neighborhood Clinics, a Washington not-for-profit corporation and component unit of the University was formed in 1996. The Neighborhood Clinics were established for the benefit of the School, UWP, and its affiliated medical centers, exclusively for charitable, scientific, and educational purposes. The Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting to enhance the academic environment of the School by providing additional sites of primary care practice and training for faculty, residents, and students.

UW Medicine Shared Services

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

(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. The Group's financial statements and note disclosures are based on all applicable Government Accounting Standards Board (GASB) pronouncements and interpretations. The Group uses proprietary fund accounting.

(b) Basis of Accounting

The Group's financial statements have been prepared using the accrual basis of accounting with the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

(Dollars in thousands)

(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 the Group's financial statements include patient accounts receivable allowances and third-party payer settlements.

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less at the date of purchase, excluding amounts whose use is limited by board designation. As of June 30, 2016 approximately $22,448 was held in cash and $12,188 was held in cash equivalents. Cash deposits of up to $250 are fully insured by the Federal Depository Insurance Corporation (FDIC).

(e) Funds Held by the University of Washington

Operating and capital funds for certain entities within the Group 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 year 2016, the rate used was 2%.

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

Pooled investments held on behalf of the Group by the University are recorded at the Group's share of the carrying value of the University Cash and Liquidity Pools. The Cash and Liquidity Pools were invested as follows at June 30:

	2016
Cash and cash equivalents	6.4 %
Treasuries and agencies	73.0
Mortgage related securities	8.6
Asset-backed debt securities	7.0
Corporate and other fixed income	5.0
Total	100.0 %

Concentrations of credit risk consist of pooled investments held on behalf of the Group at the University.

(f) Investments

The Group holds investments in the form of equity securities, fixed-income securities, government obligations, and alternative investments. Fair value is determined based on quoted market prices. Alternative investments are reported at cost. Investment income, including realized and unrealized gains or losses, is reported as nonoperating revenue or expense. For UWP, investment income (including realized and unrealized gains and losses on investments) is a component of revenues as presented in note 2(r).

(g) Inventories

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

(h) Capital Assets

Capital assets, are stated at cost at acquisition or if acquired by gift, at fair value at the date of the gift. Additions, replacements, major repairs, and 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 other expense in the statement of revenues, expenses, and changes in net position.

Depreciation is calculated using the straight-line method over its estimated useful lives of the assets, generally 5 to 25 years for land improvements, 10 to 40 years for buildings, renovations, and furnishings, 5 to 25 years for fixed equipment, 3 to 20 years for movable equipment, and 3 to 5 years for software.

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 in the statement 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 2016 was $2,300 and is recorded in capital assets.

(i) UW Medicine IT Services

Harborview provides advance funding to UW Medicine IT Services which entitles Harborview access to the enterprise-wide IT software and services. UW Medicine ITS records the funding as unearned revenue. The unearned revenue is reported within other current liabilities and other noncurrent liabilities on the statement of net position. At June 30, 2016, $10,400 is recorded in other current liabilities and $17,209 is recorded in other non-current liabilities.

(j) Compensated Absences

Compensated absences represent the liability for employees with accumulated leave balances earned through various leave programs. These amounts would be payable if an employee terminated employment. Employees earn leave at varying rates depending upon their years of service and the leave plan in which they participate. Annual and sick leave accrued at June 30, 2016 is $53,499. Compensated absences are reported within the accrued salaries, wages, and employee benefits on the statement of net position.

(k) Aviation Expenses

Airlift contracts with two independent vendors to meet certain aviation service needs, including aircraft, pilots, flight planning, and maintenance. Flight costs include monthly fixed fees and variable fees based on hours flown and are expensed as incurred. Aviation expenses are reported in purchased services within the statement of revenues, expenses and changes in net position.

(l) Payable to Contractual Agencies

The Group 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 the Group until after the cost reports have been audited or otherwise reviewed and settled by Medicare.

The estimated settlement amounts for Medicare cost reports and Certified Public Expenditures (CPE) payments that are not considered final are included in other receivables and payable to contractual agencies in the accompanying statement of net position.

(m) Classification of Revenues and Expenses

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

Operating expenses include all expenses, other than financing costs, incurred by the Group to provide healthcare services to the Group's patients.

Nonoperating revenues and expenses are recorded for certain exchange and nonexchange transactions. This includes investment income, donation income, interest expense, intergovernmental transfer expense, strategic funding to and from affiliates of UW Medicine, and equity earnings generated through investment in the Seattle Cancer Care Alliance (SCCA).

(n) Net Patient Service Revenues

The Group has agreements with third-party payers that provide for payments to the Group at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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 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 the Group'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

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

Exchange (HIX)

Washington State health exchange entered into agreements with certain commercial insurance plans to provide patients access to healthcare services. The basis for payment to the Group under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(o) Accountable Care Network

UW Medicine has formed an accountable care network (ACN) with other health care organizations and healthcare professionals to share financial and clinical responsibility for the healthcare of particular populations of patients. The Group, as part of UW Medicine is a network member of the UW Medicine ACN and as such shares in any risk contract surplus or deficit based on agreed upon contractual terms. Since its inception, the ACN has entered into various contracts which include provisions for shared risk as well as shared savings based on achieving certain quality and financial benchmarks. The Group, as part of UW Medicine and the other network members share in the financial risk or savings. At June 30, 2016, the Group has recorded a liability of $2,571 for its portion of the estimated liability related to these risk-sharing arrangements. The liability is reflected in due to related parties in the accompanying statement of net position.

(Dollars in thousands)

(p) Charity Care

The Group 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 the Group does not pursue collection of amounts determined to qualify as charity care, these are not reported as net patient service revenue. The cost of charity provided is calculated based on the Group's aggregate relationship of costs to charges. The estimated cost of charity care provided for fiscal year ended June 30, 2016 was $17,216.

(q) UWP Accounting for Billing and Collection Services

As billing agent, UWP bills and collects patient accounts for the benefit of the School. Amounts billed are reflected as part of revenues processed and amounts due to the Clinical Medicine Fund (CMF) and departments. As described in note 2(r), UWP's revenue, by agreement, is limited to operating expenses incurred. Accounts receivable from patients, net of allowances for discounts, contractual adjustments and collection losses, are assets of the School.

The following represents the estimated net patient accounts receivable for which UWP will pursue collection on behalf of the School as of June 30, and which are not reflected in the accompanying financial statements:

		2016
Accounts receivable (net of credit balances of $2,323)	$	79,720
Estimated allowances for discounts, contractual adjustments, and collection losses		(46,838)
	$	32,882

The amounts above exclude receivables related to services performed by certain nonmember physicians that are billed and collected by UWP as a billing agent. Cash collected on these accounts is remitted monthly to affiliates, net of billing service fees.

(r) UWP Billing Activity

As discussed in note 2(q), UWP acts as a billing agent for the School and as such collects cash for the benefit of the School. UWP's revenue, by agreement, is limited to the operating expenses incurred. A reconciliation of the net billing activity processed for the benefit of the School and investment income to revenue recognized by UWP is as follows:

(Dollars in thousands)

		2016
Net billings processed on behalf of the School:		
Professional fee revenue, net	$	291,301
Professional services supplemental payment (PSSP) and Provider access payment (PAP) program		38,674
Meaningful use incentive payments		9,068
Billing reimbursement		2,412
		341,455
Investment income		899
Total net billings processed and investment income		342,354
Less:		
Amounts paid or due to affiliates		(3,167)
Amounts due to Clinical Medicine Fund and departments		(108,546)
UWP Billing Revenues, net	$	230,641

(s) Federal Income Taxes

UW Medical Center, Airlift, and UW Medicine Shared Services are divisions and/or departments of the University, and are not subject to federal income tax under Section 115 of the Internal Revenue Code (IRC), except for unrelated business income tax. There are no significant tax obligations at June 30, 2016.

Northwest Hospital, UWP, and Neighborhood Clinics are exempt from federal income tax under section 501(c)(3) of the IRC, except for unrelated business income tax. There are no significant tax obligations at June 30, 2016.

(t) New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72 *Fair Value Measurement and Application*, which is effective for the fiscal year ending June 30, 2016. This statement provides guidance for determining the fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about fair value measurements, the level of fair value hierarchy and valuation techniques. The Group adopted this standard during the fiscal year ending June 30, 2016.

In June 2015, the GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68. The guidance for plans not within the scope of Statement No. 68 will be effective for the fiscal year ending June 30, 2017. This statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of No. 68 and improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of statements No. 67 and 68. The Group is currently analyzing the impact of this statement.

(Dollars in thousands)

In June 2015, the GASB issued Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), which is effective for the fiscal year ending June 30, 2018. This statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. This statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The Group is currently analyzing the impact of this statement.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which is effective for the fiscal year ending June 30, 2016. The objective of this statement is to identify the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to the financial statements of the Group as a result of implementing this statement.

(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 2016, net patient service revenue includes approximately $5,373 relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including disproportionate share reimbursement and the CPE program at UW Medical Center and Northwest Hospital.

The following are the components of net patient service revenues for the year ended June 30, 2016:

Patient service revenues	$	3,658,837
Less adjustments to patient service revenues:		
Contractual discounts		(2,117,985)
Charity care		(33,756)
Provision for uncollectible accounts		(23,535)
Total adjustments to patient service revenues		(2,175,276)
Net patient service revenues	$	1,483,561

(Dollars in thousands)

The Group grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix of gross patient charges and gross receivables from significant third-party payers at June 30, 2016 was as follows:

	Patient service charges	Accounts receivable
Medicare	37%	31%
Medicaid	18%	20%
Commercial and other	43%	42%
Exchange (HIX)	1%	2%
Self-pay	1%	5%
Total	100%	100%

(a) Medicaid Certified Public Expenditure (CPE) Reimbursement

UW Medical Center is reimbursed at the "full cost" of Medicaid inpatient covered services under the public hospital CPE payment method. "Full cost" payments are determined using the respective hospital's Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital and the State claims federal match on the amount of the related certified public expenditures. According to the Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. UW Medical Center received \$23,450 in claims payments under this program for the year ended June 30, 2016.

In addition, UW Medical Center receives the federal match portion of Disproportionate Share (DSH) payments, which is the lesser of qualifying uncompensated care cost or the hospital's specific limit. UW Medical Center received \$24,363 in DSH funding under this program for the year ended June 30, 2016.

Since the inception of the program, the Washington State Legislature (the State) has provided, through an annual budget proviso, a "hold harmless" provision for hospitals participating in the CPE program. Through this proviso, hospitals participating in the CPE program, will receive no less in combined state and federal payments than they would have received under the previous payment methodology. In addition, the hold harmless provision ensures that participating hospitals receive DSH payments as specified in the legislation.

In the event of a shortfall between CPE program payments and the amount determined under the hold harmless provision, the difference is paid to the hospitals as a grant from state only funds. UW Medical Center received \$0 in state grants for the year ended June 30, 2016. Claims payments, DSH payments, and state grant funds are included in net patient service revenues in the statement 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, only the 2007 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, 2016, for fiscal years 2008 through 2016, UW Medical Center has an estimated payable for the CPE program of $22,100, which is recorded as a payable to contractual agencies in the accompanying statement of net position.

(b) Professional Services Supplemental Payment (PSSP) Program and Provider Access Payment (PAP)

The professional services supplemental payment (PSSP) and provider access payment (PAP) are programs managed by the Washington State Healthcare Authority (HCA) benefiting certain public hospitals. Under the program, UW Medical Center, Harborview, Northwest Hospital, VMC, 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, Harborview and VMC provide the nonfederal share of the supplemental payments that are used to obtain matching federal funds.

UW Medical Center recorded $9,682 for the year ended June 30, 2016, in intergovernmental transfers (IGTs) to HCA related to professional claims paid in those fiscal years. This is included in funding to affiliates in the statement of revenues, expenses, and changes in net position.

HCA used the federal match funds to make professional services supplemental payments for PSSP and through Medicaid managed care plans for PAP to UW Medicine entities. UW Medical Center and Northwest Hospital recognized $5,923 in supplemental payments for the year ended June 30, 2016. The supplemental payments are recorded in net patient service revenues in the statement of revenues, expenses, and changes in net position. UWP recognized $38,674 in supplemental payments for the year ended June 30, 2016 for the benefit of the School and are reflected as part of revenues processed and amounts due to the Clinical Medicine Fund (CMF) as shown in note 2(r).

PSSP and PAP funds received through the CMF are combined with other revenues used by the School for the central support of faculty costs. As a result, the School requires less funding from UW Medical Center. The faculty support was reduced by $21,010 in fiscal year 2016. This reduction is included as an offset to purchased services in the statement of revenues, expenses, and changes in net position.

(c) Hospital Safety Net Program

The Hospital Safety Net Assessment Act (HSNA) uses local funds obtained through an assessment levied on Prospective Payment System (PPS) hospitals and federal matching funds to increase Medicaid payments to hospitals. Under this program, PPS program hospitals are assessed a fee on all non-Medicare patient days. Under the original HSNA program, HSNA funds were used to prevent the significant budget cuts proposed during the 2009 session of the state legislature. The original legislation expired on June 30, 2013.

In its 2013 session, the Washington State legislature passed a new assessment program that was similar to the original program in that the State will use federal matching funds to increase Medicaid hospital payments. Under the new HSNA program, PPS hospitals receive supplemental Medicaid payments, Critical Access Hospitals receive disproportionate share payments, and CPE hospitals receive state grants. The safety net assessment was subject to approval by the Center for Medicare and Medicaid Services before it took effect. CMS approved this program in 2014. The program has an expiration date of June 30, 2017.

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 recognized grant funding of $4,455 for the year ended June 30, 2016, which is recorded in other revenue in the statement of revenues, expenses, and changes in net position.

During the year ended June 30, 2016, Northwest Hospital recorded $6,121 related to assessment fee expense that is recorded in other expense on the statement of revenue, expenses, and changes in net position. At June 30, 2016, Northwest Hospital recorded a payable relating to the safety net assessment of $1,517.

Northwest Hospital recognized increased reimbursements of $7,502 under this program for the year ended June 30, 2016 which are included in net patient service revenue in the statement of revenue, expenses, and changes in net position. At June 30, 2016, Northwest Hospital recorded a receivable relating to increased reimbursements of $1,053.

(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. Certain thresholds must be met and maintained to receive payment. These amounts may be subject to future audits.

The Group recognized meaningful use of $6,914 for the year ended June 30, 2016 which is included in other revenues in the statement of revenues, expenses, and changes in net position. UWP recognized $9,068 in supplemental payments for the year ended June 30, 2016 for the benefit of the School, which is reflected as part of revenues processed and amounts due to the CMF as shown in note 2(r).

(Dollars in thousands)

(4) State Appropriation

An appropriation is made by the State to the University on a biennial basis, specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. UW Medical Center is designated as a division of the major program "hospitals" included within the total appropriation. Due to the nature of the designation, these amounts are included in other revenue in the accompanying statement of revenues, expenses, and changes in net position. UW Medical Center recognized $6,854 for the fiscal year ended June 30, 2016.

(5) Capital Assets

The activity in the Group's capital asset and related accumulated depreciation accounts for the year ended June 30, 2016 are set forth below:

		June 30, 2015	Additions	Transfers	Retirements	June 30, 2016
Capital assets, not being depreciated:						
Land	$	13,766	—	—	—	13,766
Art		1,420	12	—	—	1,432
Construction in process		138,034	107,050	(183,481)	(378)	61,225
Total capital assets, not being depreciated		153,220	107,062	(183,481)	(378)	76,423
Capital assets, being depreciated:						
Land improvements		16,173	—	58	—	16,231
Buildings, renovations, and furnishings		748,144	843	129,606	(20)	878,573
Fixed equipment		158,707	336	9,233	—	168,276
Movable equipment		613,357	2,576	44,663	(5,989)	654,607
Total capital assets, being depreciated		1,536,381	3,755	183,560	(6,009)	1,717,687
Total capital assets at historical cost		1,689,601	110,817	79	(6,387)	1,794,110
Less accumulated depreciation for:						
Land improvements		(8,743)	(616)	—	—	(9,359)
Buildings, renovations, and furnishings		(350,905)	(30,991)	313	7	(381,576)
Fixed equipment		(131,533)	(3,800)	245	—	(135,088)
Movable equipment		(479,389)	(51,369)	(511)	5,775	(525,494)
Total accumulated depreciation		(970,570)	(86,776)	47	5,782	(1,051,517)
Total capital assets, net	$	719,031	24,041	126	(605)	742,593

(Dollars in thousands)

Capital assets, net include intangible assets, net of accumulated amortization of $33,344 as of June 30, 2016.

(6) Investments

The majority of the Group's investments correspond to assets designated by the Board for future capital improvements and replacements, assets designated for restricted purposes, and investments held for the benefit of the School.

The respective boards of the Group are responsible for the management of investments by establishing investment policies that are carried out by external investment managers approved by the boards.

There are many factors that can affect the value of investments. Some, such as custodial risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to factors such as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

The composition of the carrying amounts of investments, by type, at June 30, 2016 is as follows:

		2016
Nonalternative investments, at fair value:		
Money market	$	2,740
Mutual funds		104,357
Corporate bonds		6,042
US governmental agency securities		4,054
US Treasury securities		3,765
Other		1,290
Total nonalternative investments		122,248
Alternative investments, at cost:		
Limited liability partnership		7,193
Limited liability corporation		1,200
Common commingled trust funds		14,340
Total alternative investments		22,733
Total investments	$	144,981

Alternative investments, which are reported at cost, have estimated fair value of approximately $23,424 as of June 30, 2016, respectively, based on investees' reported net position value.

(a) Credit Risk

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

(Dollars in thousands)

Investments subject to credit risk (as determined through a nationally recognized rating agency – Standard & Poor's) are presented in the table below:

Investments	U.S. Government	Investment Grade*	Not Investment Grade	Not Rated	Total	Duration (In Years)
U.S. Treasury notes	$ 3,765	$ -	$ -	$ -	$ 3,765	7.46
Domestic corporate bonds	—	3,931	264	1,847	6,042	6.33
Other agency securities	—	112	—	3,942	4,054	2.70
Total	**$ 3,765**	**$ 4,043**	**$ 264**	**$ 5,789**	**$ 13,861**	**5.50**

*Investment grade securities are those that are rated BBB and higher by Standard and Poor's.

Investments in securities of the following issuers represent 5% or more of the Group's total investments, at carrying value, at June 30, 2016. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

	2016	
	Carrying value	**Percentage of total investments**
Marathon-London International Investment Trust I	$ 9,176	6%

(b) *Interest Rate Risk*

The Group manages interest rate risk through construction of a broadly diversified portfolio that seeks to assume only the interest rate risk necessary to achieve the long-term goals in terms of investment returns. The Group does not make "tactical calls" with respect to the direction of interest rates. Therefore, the duration of the Group's holdings is a by-product of risk/return targets, rather than the inverse.

(c) *Fair Value Hierarchy*

The following table sets forth, by level, within the fair value hierarchy, the Group's investments carried at fair value as of June 30, 2016:

	Level I	Level 2	Level 3	Total
Money market mutual funds	$ 2,740	-	-	2,740
Mutual Funds	104,357	-	-	104,357
Corporate bonds	-	6,042	-	6,042
Other US governmental agency securities	-	4,054	-	4,054
US Treasury securities	3,765	-	-	3,765
Other	1,290	-	-	1,290
Total Investments at Fair Value	$ 112,152	10,096	-	122,248

(Dollars in thousands)

(d) Investment Income

Net appreciation in the fair value of nonalternative investments includes both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held longer than the current reporting period and are sold in the current period include the net appreciation of these investments reported in the prior periods. UWP investment income is recorded in UWP billing revenues, net as presented in note 2(r), however, the composition of UWP's investment income is presented below. Investment income comprises the following at June 30:

		2016
Dividend and interest income	$	9,080
Net realized (losses) gains		(2,450)
Net unrealized gains (losses)		1,459
Total investment income	$	8,089

(7) Long-Term Debt and Capital Leases

Long-term debt, reported as a part of noncurrent liabilities, consists of the following as of June 30, 2016:

UW Medical Center Internal Lending Program Debt:		
Expansion Project, 4.75% interest rate, through 2046	$	255,966
All other debts, 3.5% to 5.0% interest rates		47,690
Northwest Hospital note payable to the University, at 4.75% annual debt service including interest of $5,928 through 2032, secured by an interest in Northwest Hospital's gross receivables and certain property and equipment		68,608
Northwest Hospital note payable at 4.65%, monthly installments including interest of $59 through July 2032; secured by a medical office building		8,017
Northwest Hospital note payable at 4.60%, monthly installments including interest of $30 through July 2016 and final payment of approximately $3,929 due August 2016 secured by a medical office building		3,928
Capital leases for medical office building and equipment		1,513
Total long-term debt		385,722
Less current portion		(18,816)
Total long-term debt, net of current portion	$	366,906

(a) Long-term Debt Overview

UW Medical Center

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 for 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. Effective, April 1, 2015, the University Board of Regents reduced the ILP fixed interest rate 75 basis points from 5.5% to 4.75% and effective July 1, 2016, the ILP interest rate was reduced 25 basis points to 4.50%.

UW Medical Center signed an ILP financing agreement to fund the Montlake Tower expansion project (Expansion Project) in fiscal year 2009. As part of this financing agreement with the ILP, UW Medical Center has agreed to maintain a debt service coverage ratio of 1.25 and days cash on hand of 75 days. Management believes it was in compliance with these financial ratios at June 30, 2016.

All other debts borrowed from ILP have interest rates ranging from 3.5% to 5.5% and have annual maturities between fiscal years 2016 and 2028.

Northwest Hospital

In 2015, the University provided Northwest Hospital funds that were combined with the balance of Northwest Hospital's bond indenture trust funds and deposited into an irrevocable escrow account held by the Washington Healthcare Facilities Authority (WHCFA) bond trustee. The funds deposited were sufficient to prepay amounts due to the WHCFA to legally defease and advance refund the Series 2007 Revenue Bonds.

Northwest Hospital entered into a financing agreement with the University to obtain funds for the defeasance and advance refunding of the Series 2007 Revenue Bonds. The total amount financed was $71,306. Under the terms of this agreement, Northwest Hospital shall maintain annual debt service coverage equal to at least 1.25 and days cash on hand equal to at least 50 days. Management believes it was in compliance with these financial ratios at June 30, 2016.

As a result of the above transaction, Northwest Hospital incurred a $6,435 loss on refinancing, which was recorded as a deferred outflow of resources on the statement of position in 2015. The loss will be amortized to interest expense using the effective interest method over the remaining term of the note. The unamortized loss on refinancing at June 30, 2016 is $6,066.

(b) Long-Term Debt Maturities

The following schedule shows debt service requirements, for the next five years and thereafter, as of June 30, 2016, using the interest rates, for both principal and interest:

		Principal	Interest	Total
2017	$	18,816	17,323	36,139
2018		14,947	16,538	31,485
2019		15,496	15,834	31,330
2020		16,186	15,100	31,286
2021		16,748	14,335	31,083
2022–2026		86,728	59,275	146,003
2027–2031		81,358	40,148	121,506
2032–2036		75,779	21,653	97,432
2037–2041		29,468	9,725	39,193
Thereafter		30,196	3,581	33,777
Total payments	$	385,722	213,512	599,234

(c) Changes in Long-term Debt and Capital Leases

Changes in long-term debt and capital leases during the fiscal year ended June 30, 2016 are summarized below (in thousands):

		Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Due within one year
UW Medical Center ILP Debt:						
Expansion Project	$	221,737	38,312	(4,083)	255,966	6,180
All other debts		52,246	—	(4,556)	47,690	4,622
Note payable–University		71,306	—	(2,698)	68,608	2,816
Other note payables		12,446	—	(501)	11,945	4,272
Capital leases		757	1,520	(764)	1,513	926
Total noncurrent liabilities	$	358,492	39,832	(12,602)	385,722	18,816

(8) Physician Distributions, Clinical Medicine Fund, and Departmental Payables

Receipts collected by UWP are allocated and distributed in accordance with UWP's Income Distribution Plan. Allocations and distributions are calculated pursuant to the plan and the physicians' distributions, CMF, and departmental payables are recorded in the amounts due to the respective payable accounts.

(Dollars in thousands)

The payables are comprised of the following at June 30:

		2016
Physician Distributions	$	18,694
Clinical Medicine Fund payable		33,151
Departmental payables		45,571
Total physician distribution, clinical medicine fund and departmental payables	$	97,416

(9) Risk Management

The Group is exposed to risk of loss related to professional and general liability, property loss and injuries to employees. UW Medical Center and Airlift participates in risk pools managed by the University to mitigate risk of loss related to these exposures. The other members of the Group mitigate risk of loss through a combination of participating in the risk pool managed by the University and commercial insurance products. All of the entities participate in the professional liability program managed by the University.

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components. The Group'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 2016 in recognition of the expected earnings of the self-insurance fund and other factors. In addition to the University, the participants in the professional liability program include the Group, Children's University Medical Group (CUMG), School of Dentistry, the School, 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.

The Group's contribution to the professional liability program was $10,843 in fiscal year 2016 and recorded in other expense on the statement of revenues, expenses, and changes in net position.

(10) Benefit Costs

Benefit costs are pooled centrally for all University employees, which for the Group includes University employees deployed at UW Medical Center, Airlift, and UW Medicine Shared Services. Annually, the University reviews total employee benefit costs and prepares standard benefit load rates by employment classification. These benefit costs cover employee healthcare expense, worker's compensation, employment taxes and retirement plans. 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.

(a) Retirement and Other Postretirement Benefit Plans

University employees can participate in the following state and University sponsored retirement and other postretirement benefit plans:

University of Washington Retirement Plan (UWRP) (the 403(b)) – 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. Revised Code of Washington (RCW) 28B.10.400 et. seq. assigns the authority to the University 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, the Group incurred and paid $9,156 in fiscal year 2016 related to annual UWRP funding, which is recorded in employee benefits expense on the statement 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. This plan is closed to new participants.

Based on the University's benefit load apportionment, the Group incurred and paid $1,496 in fiscal year 2016, related to annual 401(a) Plan funding, which is recorded in employee benefits expense on the statement of revenues, expenses, and changes in net position.

Other Post-Employment Benefits (OPEB) – All University employees are eligible for participation in healthcare and life insurance programs administered by the HCA. University 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.

(b) Public Employee's Retirement System Pension Plans

The University offers several contributory pension plans administered by the Washington State Department of Retirement Systems (DRS). The Group has employees in the Public Employee's Retirement System plan which is a defined-benefit retirement plan.

Plan Descriptions of the DRS Plans

***Public Employees' Retirement System* (PERS)**

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

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

Vesting and Benefits Provided

PERS Plan 1

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

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional cost-of living allowance (COLA), and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

PERS Plan 2/3

PERS Plan 2/3 provides retirement, disability and death benefits. PERS Plan 2 members are vested after completion of five years of eligible service. PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service or after five years of service if 12 months are earned after age 44.

Retirement benefits are determined as two percent of the member's AFC times the member's years of service for Plan 2, and one percent of AFC times the member's years of service for Plan 3. The

AFC is the monthly average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered early retirement. Members are eligible for early retirement with a reduced benefit at age 55 with at least 20 years of service credit. The benefit is reduced by a factor that varies according to age, for each year before age 65. Members who are age 55 with at least 30 years of service credit can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has less, or no, reduction (depending on age) but imposes stricter return-to-work rules

If hired on or after May 1, 2013, members have the option to receive a benefit that is reduced by 5% for each year before age 65.

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index) capped at three percent annually, and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

Fiduciary Net Position

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

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

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

(Dollars in thousands)

Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The Group's 2016 pension liability is based on an OSA valuation performed as of June 30, 2014, with the results roll forward to the measurement date of June 30, 2015. The following actuarial assumptions have been applied to all prior periods included in the measurement:

Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption
Investment rate of return	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries' Retirement Plans Experience Committee (RPEC). And, as recommended by the RCEP, the OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2014 valuation was based on the results of OSA's 2007-2012 Experience Study, which is a comprehensive review and update of prior actuarial assumptions. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

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

The long-term expected rate of return of 7.50% approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short term changes that are not expected over the entire 50-year measurement period.

(Dollars in thousands)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement dates of June 30, 2015 are summarized in the following table:

	2015	
	Target allocation	**% Long-term expected real rate of return arithmetic**
Asset class:		
Fixed income	20.00%	1.70%
Tangible assets	5.00	4.40
Real estate	15.00	5.80
Global equity	37.00	6.60
Private equity	23.00	9.60

The inflation components used to create the above table are 2.20% for the measurement date as of June 30, 2015 and represent WSIB's most recent long-term estimate of broad economic inflation.

Discount Rate

The discount rate used to measure the total University employee pension liabilities as of June 30, 2016 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which the Group participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.50% future investment rate of return on pension plan investments was assumed for the test. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 as provided for in Chapter 41.45 of the RCW).

(Dollars in thousands)

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

The following table presents the Group's net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)

	2016		
	1% Decrease	Current discount rate	1% Increase
Plan:			
PERS 1	$ 179,102	147,106	119,592
PERS 2/3	367,731	125,761	(59,508)

Employer Contribution Rates

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The contribution rates and required contributions for each PERS plan in which the University participates are shown in the table below.

Description	PERS Plan 1	PERS Plan 2 /3[1]
Contributions as June 30, 2016:		
Contribution Rate	11.18%	11.18%
Contributions made	$ 16,157	20,642

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

The Group's Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by the Group as of June 30, 2016 was June 30, 2015. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2015 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in their June 30, 2015 Schedules of Employer and Nonemployer Allocations. The Group's proportionate share for each DRS plan for the year ended June 30, 2016 is shown in the table below.

Proportionate Share	
PERS 1	PERS 2/3
2.81%	3.52%

(Dollars in thousands)

The Group Aggregated Balances

The Group's aggregated balances of net pension liabilities as of June 30, 2016 are presented in the table below.

Plan		PERS 1	PERS 2/3	Total
Net pension liability	$	147,106	125,761	272,867

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

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

		Proportionate share of pension expense		
Description		PERS plan 1	PERS plan 2 /3	Total
As of June 30, 2016	$	20,127	18,118	38,245

		Deferred Outflows of Resources		
Description		PERS 1	PERS 2/3	Total
June 30, 2016:				
Change in assumptions	$	—	203	203
Difference between expected and actual experience		—	13,368	13,368
Change in the Group's proportionate share		—	10,390	10,390
The Group's contributions subsequent to the measurement date of the collective net pension liability[a]		16,157	20,642	36,799
Total	$	16,157	44,603	60,760

a. Recognized as a reduction of the net pension liability as of June 30, 2016

(Dollars in thousands)

Deferred Inflows of Resources

Description		PERS 1	PERS 2 /3	Total
June 30, 2016:				
Difference between projected and actual earnings on plan investments, net	$	8,049	33,572	41,621
Change in the Group's proportionate share		—	—	—
Total	$	8,049	33,572	41,621

Description		PERS Plan 1	PERS Plan 2/3	Total
Deferred outflows of resources related to the Group contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2017	$	16,157	20,642	36,799
Deferred outflows of resources related to the Group contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2016	$	12,940	15,652	28,592

		Amortization of deferred inflows and deferred outflows of resources		
Year		PERS Plan 1	PERS Plan 2/3	Total
2016	$	(3,119)	(5,900)	(9,019)
2017		(3,119)	(5,900)	(9,019)
2018		(3,119)	(5,900)	(9,019)
2019		1,309	10,258	11,567
2020		—	—	—
Thereafter		—	—	—
Total	$	(8,048)	(7,442)	(15,490)

(11) Other Retirement Plans

(a) Northwest Hospital Retirement Plans

401(k) Profit Sharing Plan

All employees of Northwest Hospital are covered by the Northwest Hospital & Medical Center 401(k) Profit Sharing Plan (the 401(k) Plan), a defined-contribution plan. Northwest Hospital, as Plan Sponsor, contributes based on a defined formula, with participants immediately vesting in all employer and employee contributions. Employee contribution rates can vary from 1% to 80% of gross compensation, as defined by the Plan, subject to certain limitations under the Internal Revenue Code. The 401(k) Plan provides for employer matching contributions for each participant who makes 401(k) tax-deferred contributions to this Plan and for each highly compensated employee of Northwest Hospital who makes salary reduction contributions to the 403(b) salary reduction contributions plan sponsored by Northwest Hospital. Northwest Hospital's employee and employer contributions to the 401(k) Plan during the fiscal year ended June 30, 2016 are approximately $8,189 and $4,440, respectively.

403(b) Retirement Plan

Highly compensated employees who are not employed by a taxable affiliate of Northwest Hospital and who are not participating in the 401(k) Plan are eligible to participate in the Northwest Hospital & Medical Center 403(b) Retirement Plan (the 403(b) Plan). The 403(b) Plan is a defined-contribution plan, which includes a qualified cash or deferred arrangement. Employee contribution rates can vary from 1% to 80% of gross compensation, as defined by the Plan, subject to certain limitations under the IRC. The Plan does not provide employer contributions. The employee contributions to the 403(b) Plan during the fiscal year ended June 30, 2016 are approximately $2,159.

(b) UWP Pension Plan

UWP has a mandatory, noncontributory defined-contribution pension plan, The Association of University Physicians Pension Plan (the Plan). The Plan covers all employees meeting service requirements and employed on a regular, permanent basis. The Association contributes an amount equal to 9% of eligible compensation for each participant under age 50 and 10% for each participant age 50 and older. Eligible compensation includes the Association annual salary, plus amounts paid under the Income Distribution Plan, bonuses, and administrative overtime pay.

On termination of service due to death, disability, or retirement, a participant or beneficiary may elect to receive either a lump-sum distribution or an annuity to be paid in monthly installments over a fixed reasonable period of time, not exceeding life expectancy of the participant or designated beneficiary. For termination of service due to other reasons, a participant may elect the value of the vested interest in his or her account as a lump-sum distribution.

If a participant reaches normal retirement age (65), dies or becomes disabled while employed by the UWP, vesting is 100%. Additionally, under circumstances, individuals who transfer employment at UWP to employment by the University also are immediately vested. In the event of termination of employment for reasons other than retirement, death, disability or University transfer, participants shall be entitled to benefits, which starts with 25% vested after two years of service, 50% vested after three years of service, 75% vested after four years of service and 100% vested after five years of service.

Total pension expense was approximately $13,638, net of forfeitures of $284 in fiscal year 2016 and is recorded in benefits expense within the statement of revenues, expenses, and changes in net position. The Association had no liability outstanding for pension contributions at June 30, 2016.

(c) Neighborhood Clinics 401(k) Retirement Plan

The Neighborhood Clinics offer a 401(k) plan covering substantially all employees meeting certain age and service requirements, administered by the clinics. The Neighborhood Clinics make annual contributions of 6% of compensation, which starts with 25% vested after two years of service, 50% vested after three years of service, 75% vested after four years of service, and 100% vested after five years of service. Employer contributions were approximately $942 for the year ended June 30, 2016 and forfeitures were approximately $94. In addition, the 401(k) plan includes an employee self-elected deferral plan.

(12) Related Parties

The Group has engaged in a number of transactions with related parties. These transactions are recorded by the Group as either revenue or expense transactions because economic benefits are either provided or received by the Group. The Group records cash transfers from related parties that are not the result of economic benefits and are presented as nonoperating revenue on the statements of revenues, expenses, and changes in net position.

(a) University of Washington

University divisions provide various levels of support to the Group. The following is a summary of services purchased.

The School

The Group purchases a variety of clinical and administrative services from the School, which includes laboratory services and resident and faculty support. The Group 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 (h)).

UW Medicine Central Costs

UW Medicine Central Costs represents services provided to the Group such as executive leadership, advancement, compliance, telemedicine, community relations staffing, medical staff oversight, marketing, and other administrative services related to UW Medicine. The amounts paid by the Group for these services are shown below (see (h)).

Other Divisions of the University

In addition to the divisions and transactions identified above, the Group purchases information technology services, general and professional liability insurance, printing, internal audit, accounting, temporary staffing, and other administrative and operational services from other divisions of the University. The amounts for these transactions are shown below (see (h)).

(b) UW Neighborhood Clinics

Under an annual agreement, the UW Medicine hospitals provided strategic funding to the Neighborhood Clinics for operations and capital purposes. For the year ended June 30, 2016, total funding from the UW Medicine hospitals to the Neighborhood Clinics was $43,726. Approximately $31,398 was provided from entities within the Group and was eliminated from these financial statements. The remaining portion is recorded as funding from affiliates in the statement of revenues, expenses, and changes in net position.

(Dollars in thousands)

(c) *Northwest Hospital*

For the year ended June 30, 2016, Harborview and UW Medical Center provided strategic funding to Northwest Hospital in the amount of $14,965. Funding from UW Medical Center is eliminated within these financial statements. The remaining portion of strategic funding is recorded as funding from affiliates in the statement of revenues, expenses, and changes in net position.

(d) *Seattle Cancer Care Alliance*

UW Medical Center is a one-third owner in the SCCA and accounts for its interest under the equity method of accounting. Equity earnings from SCCA of $18,932 was recorded in fiscal year 2016 and is included in other nonoperating revenues in the statements of revenues, expenses, and changes in net position. The following is a summary of the SCCA's financial results for the year ended June 30, 2016:

Assets	$	556,565
Liabilities	$	163,085
Unrestricted net assets		388,045
Temporarily restricted net assets		2,239
Permanently restricted		3,196
Total liabilities and net assets	$	556,565
Revenues	$	525,214
Expenses		473,690
Nonoperating expense		3,497
Excess of revenues over expenses		55,021
Other changes in unrestricted net assets		—
Increase in unrestricted net assets	$	55,021

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. 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 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 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 (h)).

(e) Fred Hutchinson Cancer Research Center (Fred Hutch)

The SCCA partnership agreement provides that UW Medical Center will make various payments to Fred Hutch related to research and development support, data collection and analysis, physician assistance services, consulting services, and license rights to use the Fred Hutch name in connection with the inpatient oncology services program. These fees are included in the tables below (see (h)).

(f) Children's University Medical Group

UWP provides various administrative services to Children's University Medical Group (CUMG), and billing support services when CUMG physicians provide clinical care to patients in UW Medicine facilities. CUMG also reimburses UWP for its share of legal services provided through the centralized legal office for support of the nonprofit entities UWP, Northwest Hospital, the Neighborhood Clinics and CUMG. UWP bills CUMG for these services on a monthly basis. Likewise, CUMG provides billing support services to UWP for UWP physicians providing clinical care to patients at the Seattle Children's Hospital.

(g) Northwest Hospital

At June 30, 2016, Northwest Hospital has a payable of $29,232 to the University. Of this total, $24,453 pertains to goods and services received from the University prior to June 30, 2015. This portion is subject to repayment in annual installments over future years, with the first installment of $5,000 made during the year ended June 30, 2016. On the statement of net position, the current portion of $5,000 is included in due to related parties and the remaining $19,453 is included in due to related parties – long term.

(Dollars in thousands)

(h) Summary of Related-Party Transactions

The following table summarizes the related party revenue and expense transactions for the year ended June 30, 2016:

Revenue (expense) transactions		
Services and supplies purchased from the University and its departments and affiliates:		
The School	$	(128,521)
UW Medicine Central Costs		(15,978)
Other University departments		(62,937)
Services and supplies purchased from Harborview		(9,024)
Services and supplies purchased from VMC		(733)
Services and supplies purchased from SCCA		(11,934)
Services and supplies purchased from Fred Hutch		(15,423)
Services and supplies provided to the University and its departments and affiliates:		
The School	$	7,380
Other University departments		2,318
Services and supplies provided to Harborview		94,632
Services and supplies provided to SCCA		61,580
Services and supplies provided to VMC		2,996
Services and supplies provided to CUMG		2,477

Related party receivable and payable amounts are recorded in due from and due to related parties on the statement of net position. As of June 30, 2016, the Group had net amounts due from or (due to) related parties, other receivables, and accounts payable and accrued expenses for certain significant transactions, which are as follows:

Net receivable (payable)		
University of Washington and its departments and affiliates:		
The School	$	(16,974)
UW Medicine Central Costs		(2,295)
Other University departments		(49,717)
SCCA		2,838
Harborview		3,975
VMC		875
Fred Hutch		(3,710)

(Dollars in thousands)

(13) Commitments and Contingencies

(a) Operating Leases

The Group leases medical office space, aircraft hangar space, and equipment under operating lease arrangements. Total rental expense for fiscal year ended June 30, 2016 for all operating leases was $47,342, which is recorded in other expense.

The following schedule shows future minimum lease payments for the Group by fiscal years as of June 30:

2017		37,654
2018		35,358
2019		31,901
2020		30,871
2021		23,357
2022–2026		48,523
2027–2031		9,967
2032–2036		5,779
2037–2041		5,979
Thereafter		2,591
Total	$	231,980

Airlift has entered into contractual arrangements for fixed-wing and rotary-wing aviation services covering eight primary and three back-up aircraft. The fixed-wing contract expires on April 30, 2022 and the rotary wing contract expires on September 30, 2020, both of which are included in the future minimum lease payments table above.

(b) Purchase Commitments

The Group has current commitments at June 30, 2016 of approximately $33,880 related to various construction projects and other.

(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 Group 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

Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Group's financial statements.

(e) Collective Bargaining Agreements

UW Medical Center has a total of approximately 4,368 employees. Of this total, approximately 80% are covered by collective bargaining agreements as of June 30, 2016. Nurses are represented by Washington State Nurses Association (WSNA) and the Service Employees International Union (SEIU) and other healthcare and support workers are represented by the SEIU and Washington Federation of State Employees (WSFE). Current contracts pertaining to these collective bargaining units expire on June 30, 2017.

Northwest Hospital employs approximately 1,930 full‑ time equivalent employees at June 30, 2016. At a given time, approximately 60-70% of the employees are covered under collective bargaining agreements. Nurses are represented by WSNA and other healthcare and support workers are represented by SEIU. The current collective bargaining agreement with SEIU expires on June 30, 2019. The WSNA agreement expired May 15, 2016 and is currently in negotiations.

UWP employs approximately 270 full-time equivalent administrative employees at June 30, 2016. Of this total, approximately, 60% are covered under a collective bargaining agreement represented by the Service Employees International Union (SEIU). The current agreement expires on June 30, 2018. UWP also employs approximately 1,950 faculty physicians and other healthcare professionals who provide clinical services to patients. The majority of these healthcare professionals are also employed by the School.

UW MEDICINE CLINICAL ENTERPRISE - UW DIVISION

Schedules of Required Supplementary Information

June 30, 2016

The Schedules of Required Supplementary Information below reflect information for UW Medicine Clinical Enterprise - UW Division.

Schedule of the UW Medicine Clinical Enterprise - UW Division (the Group) Proportionate Share of the Net Pension Liability
PERS 1 Pension Plan

(Dollar amounts in thousands)

The Group's proportion of the net pension liability		2.81%
The Group's proportionate share of the net pension liability	$	147,106
The Group's covered-employee payroll		7,540
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		1951%
Plan fiduciary net position as a percentage of the total pension liability		59.10%

Schedule of the Group's Contributions
PERS 1 Pension Plan

(Dollar amounts in thousands)

Contractually required contribution	$	727
Contributions in relation to the contractually required contribution		727
Contribution deficiency (excess)		—
The Group's covered-employee payroll		6,564
Contributions as a percentage of covered-employee payroll		11.08%

Schedule of the Group's Proportionate Share of the Net Pension Liability
PERS 2/3 Pension Plan

(Dollar amounts in thousands)

The Group's proportion of the net pension liability		3.52%
The Group's proportionate share of the net pension liability	$	125,761
The Group's covered-employee payroll		312,289
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		40.00%
Plan fiduciary net position as a percentage of the total pension liability		89.20%

Schedule of the University's Contributions
PERS 2/3 Pension Plan

(Dollar amounts in thousands)

Contractually required contribution	$	37,083
Contributions in relation to the contractually required contribution		37,424
Contribution deficiency (excess)		(341)
University's covered-employee payroll		334,138
Contributions as a percentage of covered-employee payroll		11.10%

Notes to required supplementary information for the year ended June 30, 2016

Changes of Benefit Terms : Amounts reported in 2016 reflect no change in benefit terms.

UW MEDICINE CLINICAL ENTERPRISE - UW DIVISION

Combining Statement of Net Position

June 30, 2016

(In thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared Services	Eliminating Entries	Combined
Current assets:								
Cash and cash equivalents	$ —	18,726	8,805	1,776	5,329	—	—	34,636
Funds held by the University of Washington	24,973	—	—	—	20,316	4,789	—	50,078
Short-term investments	—	86	692	—	—	—	—	778
Patient accounts receivable, net	148,159	41,336	—	2,470	11,222	—	—	203,187
Other receivables	8,785	5,836	305	172	1,148	1,078	—	17,324
Due from related parties	17,374	343	2,950	6,455	233	29,170	(31,926)	24,599
Supplies inventory	19,100	4,821	—	571	29	585	—	25,106
Restricted investments	—	1,290	—	—	—	—	—	1,290
Other current assets	13,089	4,524	434	93	643	3,309	(11,947)	10,145
Total current assets	231,480	76,962	13,186	11,537	38,920	38,931	(43,873)	367,143
Noncurrent assets:								
Capital assets, at cost, net of accumulated depreciation	548,405	111,815	2,537	13,186	4,384	62,266	—	742,593
Funds held by the University of Washington	243,917	—	—	—	—	1,529	(1,529)	243,917
Investments, net of current portion	—	43,633	99,280	—	—	—	—	142,913
Donor restricted assets	2,014	1,927	—	—	—	—	—	3,941
Investment in Seattle Cancer Care Alliance	126,636	—	—	—	—	—	—	126,636
Other assets	21,566	5,755	—	193	—	—	(20,763)	6,751
Total noncurrent assets	942,538	163,130	101,817	13,379	4,384	63,795	(22,292)	1,266,751
Total assets	1,174,018	240,092	115,003	24,916	43,304	102,726	(66,165)	1,633,894
Deferred outflow of resources:								
Deferred outflows of resources related to pension	48,500	—	—	—	1,078	11,182	—	60,760
Deferred loss on refinancing	—	6,066	—	—	—	—	—	6,066
Total assets and deferred outflow of resources	$ 1,222,518	246,158	115,003	24,916	44,382	113,908	(66,165)	1,700,720
Current liabilities:								
Accounts payable and accrued expenses	$ 40,573	17,201	1,868	718	1,353	6,980	—	68,693
Accrued salaries, wages, and employee benefits	51,808	23,662	5,310	1,482	1,841	17,462	—	101,565
Payable to contractual agencies	33,259	—	—	—	—	—	—	33,259
Due to related parties	58,453	9,779	7,526	7,139	2,211	21,556	(33,455)	73,209
Current portion of long-term debt	11,140	7,676	—	—	—	—	—	18,816
Other current liabilities	1,229	586	336	347	947	22,263	(11,853)	13,855
Physician distribution, clinical medicine fund and departmental payables	—	—	97,416	—	—	—	—	97,416
Total current liabilities	196,462	58,904	112,456	9,686	6,352	68,261	(45,308)	406,813
Noncurrent liabilities:								
Long-term debt, net of current portion	292,940	73,966	—		—	—	—	366,906
Net pension liability	232,512	—	—		6,730	33,625	—	272,867
Due to related parties - long-term	—	19,453	—		—	—	—	19,453
Other non-current liabilities	4,644	4,337	2,547	2,538	169	37,781	(20,857)	31,159
Total liabilities	726,558	156,660	115,003	12,224	13,251	139,667	(66,165)	1,097,198
Deferred inflow of resources:								
Difference between projected and actual earnings on pension plan investments, net	35,513	—	—	—	996	5,112	—	41,621
Net position:								
Net investment in capital assets	244,325	30,173	—	13,186	4,384	62,266	—	354,334
Nonexpendable, restricted		1,927	—	—		—	—	1,927
Expendable, restricted	2,018	754	—	—		—	—	2,772
Unrestricted	214,104	56,644	—	(494)	25,751	(93,137)	—	202,868
Total net position	460,447	89,498	—	12,692	30,135	(30,871)	—	561,901
Total liabilities, deferred inflow of resources, and net position	$ 1,222,518	246,158	115,003	24,916	44,382	113,908	(66,165)	1,700,720

UW MEDICINE CLINICAL ENTERPRISE - UW Division

Combining Statement of Revenues, Expenses and Changes in Net Position

June 30, 2016

(In thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared Services	Eliminating Entries	Combined
Operating revenues:								
Net patient service revenues	$ 1,078,041	357,598	—	—	47,922	—	—	1,483,561
UWP billing revenues, net	—	—	234,739	—	—	—	(4,098)	230,641
Other revenue	57,585	15,153	—	14,825	1,023	239,560	(156,142)	172,004
Total operating revenues	1,135,626	372,751	234,739	14,825	48,945	239,560	(160,240)	1,886,206
Operating expenses:								
Salaries and wages	359,300	162,155	155,274	17,994	11,148	103,302	—	809,173
Employee benefits	117,688	36,976	27,265	6,224	3,584	37,318	—	229,055
Purchased services	306,712	81,841	25,223	18,703	22,342	65,644	(151,971)	368,494
Supplies	263,070	64,836	1,201	4,879	2,312	13,082	(3,082)	346,298
Other	28,297	27,618	25,468	7,354	2,637	11,353	(5,187)	97,540
Depreciation	51,582	17,495	308	1,512	664	15,215	—	86,776
Total operating expenses	1,126,649	390,921	234,739	56,666	42,687	245,914	(160,240)	1,937,336
Income (loss) from operations	8,977	(18,170)	—	(41,841)	6,258	(6,354)	—	(51,130)
Nonoperating revenues (expenses):								
Investment income	4,264	2,516	—	—	368	42	—	7,190
Interest expense	(11,601)	(4,304)	—	—	—	—	—	(15,905)
Funding to affiliates	(48,193)	(1,734)	—	(1,369)	—	—	39,721	(11,575)
Funding from affiliates	—	16,884	—	41,244	—	—	(37,625)	20,503
Other, net	18,874	297	—	255	347	—	—	19,773
Nonoperating revenues (expenses)	(36,656)	13,659	—	40,130	715	42	2,096	19,986
(Loss) before capital contributions and transfers	(27,679)	(4,511)	—	(1,711)	6,973	(6,312)	2,096	(31,144)
Capital contributions and other transfers	6,080	(214)	—	2,482	—	(9,203)	(2,096)	(2,951)
(Decrease)/Increase in net position	(21,599)	(4,725)	—	771	6,973	(15,515)	—	(34,095)
Net position - beginning of the year	482,046	94,223	—	11,921	23,162	(15,356)	—	595,996
Net position – end of year	$ 460,447	89,498	—	12,692	30,135	(30,871)	—	561,901