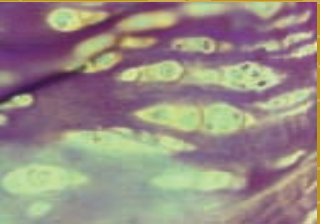




UNIVERSITY OF WASHINGTON

# Annual Report



2000



UNIVERSITY OF WASHINGTON 2000

# Annual Report

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## Message from the President



Last year in this space I spoke of the “Conversation about the Future” that was soon to begin at the University of Washington. The conversation was meant as an opportunity for all of us to think more deeply about our common endeavor and to look together at where we should be headed. The overall context was change: the changing nature of education, the platform for institutional change we have been building at the UW, and especially the enormous changes taking place in the society we serve.

As anticipated, this conversation lasted for much of the 1999–2000 academic year and involved virtually every segment of the University community: faculty, staff, students, administrators, alumni, Regents, and interested friends from throughout the state. It included more than 85 organized events and countless informal conversations. Groups ranging from the Professional Staff Organization to the Board of Regents to the President’s Advisory Committee on Diversity to the Graduate and Professional Student Senate sponsored lectures, panels, and discussions. The Faculty Senate’s series on liberal arts education was especially probing and thought provoking.

Summaries of all these conversations now appear on the Web site [www.washington.edu/change/future/bulletin](http://www.washington.edu/change/future/bulletin). For anyone interested in a snapshot of higher education in this state at the turn of the millennium, I believe this site makes fascinating reading.

The conversation did not, and was not intended to, produce one broad, unified “vision” of the future. Its value was rather to stimulate thought and imagination—to show all of us the exciting “culture of possibilities” (in the words of one faculty member) that can lead us forward.

But if we did not emerge from all this with a roadmap, we did uncover some deep common themes. For me, three seem paramount. First, this is a place of incredible ambition. Students, staff, and faculty all believe that the University of Washington can and should be at the very top in all its endeavors: teaching and learning, research, and contributions to society. Second, all these ambitious people want very much to feel more connected to each other and to the

world beyond the campus. A greater sense of community—and a more diverse community—is very high on the common agenda, and it is seen as a route not merely to *feeling* better but also to *working* better. Finally, the need for more resources was implicit in almost every comment. Ambition alone can take us a certain distance, but not the whole way. To play the vital role *we should* play in the welfare of the state and society, and to make the most of all the talents and energies here, the UW will require a stronger financial base than is currently in sight.

All these themes, and others that appeared in the conversation, will influence both our immediate and our longer-term plans. At the top of the list for the 2000–01 academic year: continuing to transform undergraduate education, enhancing community and campus climate, redoubling our efforts for diversity, and, in this biennial budget year, taking a hard look at the question of resources.

Of all the rewards of the Conversation about the Future, perhaps the greatest for me personally was hearing the voices of our students. Student Regent Chris Knaus and I held meetings with hundreds of students in all the University’s schools and colleges. In addition, the Comparative History of Ideas program offered a quarter-long course called “Rethinking the University,” which culminated in a student-written report and recommendations for change (also available on the Web site). The thoughtfulness and ideas UW students brought to these discussions confirmed my high opinion of our student body.

So in this annual report we present a sampling of student voices. Five stories cannot portray anything like the full range of student experience on our three campuses, but they do convey a flavor of what goes on here and the ways in which the UW is moving into the future. From the evidence of these students, that future will be bright.

**RICHARD L. McCORMICK**



# Student Voices



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## Misty Bentz

*Undergraduate Student, Physics & Astronomy*

Misty Bentz has an interesting schedule. On a given morning you might find her considering stage props for third grade science classes where she teaches astronomy fundamentals—the phases of the moon, seasonal changes and the names of the planets in our solar system. And later that same day, you might find her working at the University of Washington with a research team whose goal is to build a spacecraft powered by solar winds.

The disjunction isn't as great as it might seem at first.

Teaching astronomy to kids is part of Project ASTRO, sponsored in part by NASA and intended to draw young people into a science education track. The spacecraft research at the UW also is sponsored by NASA, and might one day provide a tool today's grade school kids use to investigate the planets they're just now learning about.

"It's an exciting research program," Misty says. "The formal name is the Mini Magnetospheric Plasma Propulsion system—M2P2 for short. In the most simplistic

terms, the idea is that a large bubble with ionized plasma walls held by a magnetic field would act as a kind of sail when acted on by the charged particles in solar winds. The bubble would be quite large—about 30 kilometers in diameter. The solar winds travel at a significant fraction of the speed of light, and since there's no friction in the vacuum of space, the spacecraft could travel at very high speeds.

"My involvement is a lot more down-to-earth. I build circuit boards, clean the vacuum chamber, and calibrate equipment. Still it's exciting to have an opportunity to learn from leaders in this research. Besides, my long-term goal is to be an astronaut. Who knows, I might someday fly in a spacecraft powered by solar winds."

**M**isty is part of a research team that includes two other undergraduates, Luke Winstrom and Ben Warrick, and one graduate student, Tim Ziemba. All of them are taking classes and working toward degrees as well as participating in this front-line research. In her description of her contributions to the program, Misty is being modest, and

under-represents her role. These students are making important contributions and providing fresh eyes and enthusiasm. They add to the vitality of the research program. As in most complex efforts, there's always a certain amount of grunt work to do. And everybody pitches in. It's good for the soul as well as the successful

completion of the work. But everyone also participates in conducting experiments. Two members of the team already have had the opportunity to travel to Huntsville, Alabama, for key tests at the NASA Marshall Space Flight Center facilities there. Our goal, and NASA's, is to build a prototype M2P2 and confirm the practicality of a

spacecraft that could travel at about 400 kilometers a second. That's fairly rapid in terms of what we're accustomed to on earth. For example, something moving at that speed could cover the distance between Seattle and Washington DC in about 10 seconds. An M2P2 craft launched in the next few years could actually

pass other space probes launched years ago, giving scientists more data, faster, about the outer reaches of our solar system.

**DR. ROBERT WINGLEE**  
*Professor, Geophysics Program*

**DR. JOHN SLOUGH**  
*Research Professor, Aeronautics & Astronautics*



# Oona Johnsen

*Undergraduate Student, Landscape Architecture*

Ask Oona Johnsen about the rooftop gardens that her landscape architecture class designed and built in Seattle's Green Lake neighborhood. Chances are she'll talk as much about people as about plants. People, she points out, are what landscape architecture is all about.

The client for the rooftop garden project, Cancer Lifeline, is an organization committed to people. And to life. The Lifeline's main facility, the Dorothy S. O'Brien Center, is open and welcoming to those with cancer, and to co-workers, family, and friends.

"It's a terrific organization," Oona said. "Serious in purpose, but full of ideas and energy."

Each year UW seniors in landscape architecture tackle a community project, often at a school or park. Real-world experience shapes careers; in turn, student work shapes neighborhoods.

UW students translated Cancer Lifeline's requests for a healing garden into three areas. The first, the Celebration Garden named for Jean Eliot Roberts, is a place for

conviviality. It's completely open to the sun and sky and populated with a wide variety of colorful plants.

Next, the Earth/Sky Garden is partly open to the sky and spectacular views, but partly sheltered by an arbor. The team made copper-clad doors to create areas for multiple use.

The Reflection Garden is smaller, a place for contemplation. Quiet shadows and the rich greens of shade-loving plants dominate; a bamboo trellis shields a neighboring building from full view. A tiny fountain bubbles in a basin containing black rocks and green moss.

UW forestry students plan to monitor the use of the rooftop gardens to gauge visitor use and reactions. Should studies conclude that gardens can promote healing, Oona Johnsen won't be surprised. One mission of her profession is to help heal the earth in areas where human activity has caused damage, she says. Maybe gardens, in turn, can help heal us.

This project was blessed from the very beginning. We had wanted a healing garden for a long time, but our budget simply wouldn't allow us to build one. A landscape architect suggested we call the School of Landscape Architecture. Luck was with us. Another student project was cancelled soon after we applied, and our request

moved to the top. The 11 students in the senior class project quickly formed three design teams, one for each garden area, and conducted a series of interviews with the staff. The process was rigorous. The UW advisors expected thoroughly professional results and so did the students. Their dedication and energy were simply amazing.

An example: Because the building wasn't designed for heavy roof loads, the students specified a special lightweight soil mixture. To get it to the roof they enlisted 20 friends for a bucket brigade one weekend. As problems were resolved and barriers fell, gardens flourished. Looking back, it was one of those precious times

when a group of people—in this case, students, advisors and our own staff—shared a passion for a difficult project and, in completing it, gained mutual affection and respect. The result is absolutely priceless. Its impact came home to me powerfully one day soon after the work was completed. One of our clients received some bad news

from his doctor and faced difficult decisions. He gathered his notes and reference books from our library and went up to the gardens to think things through in a nourishing, natural setting. And to be in the company of understanding, loving friends.

BARBARA FREDERICK  
Executive Director, Cancer Lifeline





# Johnny Grady Jr.

*Graduate Student, Aquatic and Fishery Sciences*

Johnny Grady Jr. likes to get right to the heart of the matter. For example, when he decided to pursue an advanced degree he applied to the University of Washington School of Aquatic and Fishery Sciences because the school here is the best of its kind.

And then to learn more about aquatic and land interactions, and stream organic matter dynamics, he selected that subject for his graduate research and began a series of trips to the far reaches of the Green River watershed to obtain samples and record fluxes over time.

Now that he's had a chance to get acquainted with salmon and salmon habitat, he's thinking about pursuing yet another advanced degree—this time, a Master of Public Affairs.

“The issues surrounding this resource aren't just about how salmon live, they're also about how people live, and about the public policies they live by.”

Johnny sees one way humans and salmon interact as a tour guide in the Salmon in the Classroom program. It

brings thousands of children, mostly 4th and 5th graders, to the UW campus to observe the completion of one salmon run and to participate in the next.

The children are from public and private school classrooms equipped with special fish tanks designed to mimic conditions in salmon spawning streams. Kids raise the salmon eggs they get from the University and then, when the fry grow big enough, return them to streams.

Grady, who grew up in Georgia, far from the western slopes of the Cascade range, says his work here has given him hundreds of learning opportunities in addition to the scientific analyses associated with his graduate research program. Among those he finds most absorbing are Native American cultural practices, public policy analysis, stream restoration, and natural resource management.

The Salmon in the Classroom program started 20 years ago. I was teaching at Shoreline and had taken my class to visit the old Seattle Aquarium so they could see the salmon return, and the children seemed unusually curious and interested. So I decided to build an aquarium in our classroom. There were challenges, of course. Salmon need

cold water, and that meant a refrigeration system. And we had to install pumps and filters to circulate clean water through the gravel bed to wash continuously over the eggs. But the complexity was a benefit because building and maintaining a system involves chemistry, mechanics, and other knowledge so students with

different aptitudes could find a niche. The program has grown dramatically over the years with some 200 schools in the Lake Washington drainage basin involved and perhaps 750 classrooms from Alaska to California. The program has become a community-wide effort in King County. The University and the student volunteers are important,

certainly. And Seattle Public Utilities administers tax-supported programs. But if you're looking for heroes, go to the classroom teachers. They've added creativity and imagination. Lessons include art, Native American culture, habitat restoration, and hundreds of other subjects and activities. One lesson everyone learns is that the way

to restore salmon runs is to restore natural habitat. That isn't a lesson everyone wants to learn, of course. But it's the one that raising salmon inevitably teaches.

BOB BOYE  
Teacher



## Todd McDevitt

*Graduate Student, Bioengineering*

“Three years ago, some of the work I’m doing today might have seemed like science fiction. And my participation in it would have seemed impossible, even to me.” That’s how Todd McDevitt begins his explanation of his graduate studies in tissue engineering.

Todd is working with a team of a dozen researchers on a new National Institutes of Health grant to find ways to repair heart damage.

“My work focuses on studying cardiac muscle tissue structure,” Todd says. One key question: “What types of spatial cues can we give to heart-muscle cells so they organize themselves into something like the original heart-muscle tissue?”

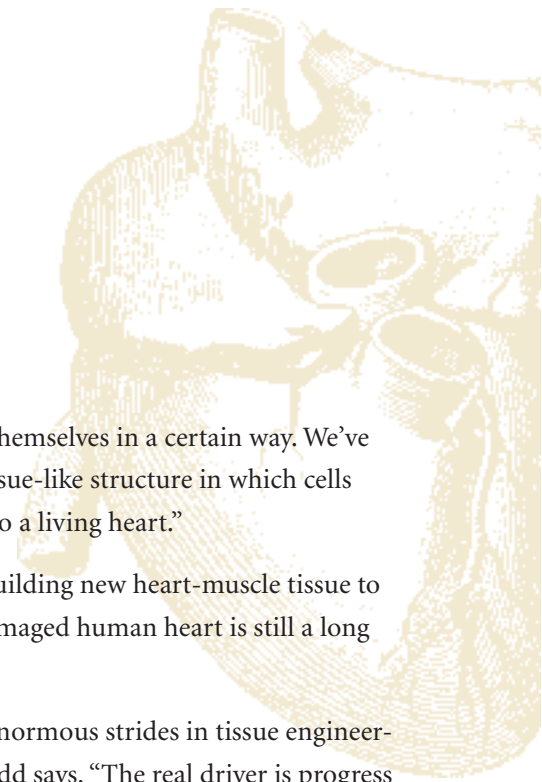
It’s a large question.

“Working with one type of heart muscle cell, we’ve been able to build a two-dimensional structure that morphologically resembles native tissue. We use micro-patterning to construct a protein-based matrix that ‘instructs’

muscle cells to orient themselves in a certain way. We’ve been able to build a tissue-like structure in which cells pulse or ‘beat’ similar to a living heart.”

The ultimate goal of building new heart-muscle tissue to repair and restore a damaged human heart is still a long way off.

“But there have been enormous strides in tissue engineering in recent years,” Todd says. “The real driver is progress across a number of fields—primarily cell biology. New insights in biology produce new ideas in bioengineering. The UW is a recognized leader in this type of collaborative work. There’s a strong faculty here and a wide diversity of disciplines and associated labs. Plus the proximity of the medical school. I feel very, very fortunate to be here and to be involved in the formative years of a rapidly advancing science.”



The University of Washington is unusual among research institutions in that there are really very few barriers to interdepartmental collaboration. I really enjoy the open, collegial spirit that exists here. Pat Statton’s lab, where Todd works and studies, is involved with micro-patterning and

protein fabrication. I’m a pathologist interested in acquired diseases. As it turns out, all those separate disciplines can address a common project in a very effective way. Here’s another example: we’re collaborating with Steve Hauschka, a developmental biologist who understands how skeletal muscles

and heart muscles develop and grow. Todd also is working with Steve, by the way. We have formed a powerful collaboration drawing on Steve’s expertise in developmental biology and to further a therapeutic strategy for damaged hearts. And we’re all collaborating in another way with Tony Blau, a

hematologist who is interested in developing ways to repopulate bone marrow after a bone marrow transplant. As it happens, that work may have application in repopulating the heart with new cells after a heart attack. I am very excited because I believe some of Tony’s techniques can

advance our therapeutic strategies. We’re working on a paper that describes this research and that touches on some of the possibilities. It’s all about increasing the rate of discovery and invention.

CHARLES E. MURRY  
Assistant Professor, Pathology





## Christina Roberts

*Undergraduate Student, Comparative History of Ideas and English*

Christina Roberts is one of those people whose intellect and resolve are so strong she lends courage to others. But it wasn't always that way.

"As a Native American child growing up with a variety of family problems, I considered college an impossible dream. My salvation came with a high school counselor's encouragement for me to apply to the Upward Bound program." Upward Bound is a UW program that gives students the tools to succeed in school and the ability to see college as a possibility.

Christina had planned to work toward a science degree, but after two years "I embraced my true passions of literature and history through English and the Comparative History of Ideas (CHID) program. That program was influential because it pushed me to look outside of my comfort bubble. Doing so wasn't always pleasant, but it has helped me to see and understand other points of view, even if I don't always agree with them."

Looking back now, she says one of her best experiences has been working with Upward Bound, the same program that helped her years ago. "Through my work with Upward Bound, I've been able to help other students find their way, and to find themselves at the University."

She will soon finish undergraduate work with a double degree in English and CHID. Then she'll do graduate work as a McNair Scholar. "I'll have the opportunity to conduct research on Native American women's literature. I now see the completion of a Ph.D. in English as a possibility. One day, I hope to reach out to other students and show them that dreams can become reality."

**T**hat first UW course Christina found so compelling is one we sometimes call Freshman Disorientation because it is intended to challenge comfortable assumptions and opinions. In our Comparative History of Ideas program, the course is a kind of primer for critical thinking. Those who are invigorated by the central challenge of the class

often continue with advanced level courses in the program. I've learned from Christina that she had exactly that experience. The freshman course figuratively knocked her sideways, and she responded to that challenge (and others that followed) in a way that is truly heartwarming to me. I have come to believe that students who come to

us through Upward Bound are living, breathing challenges to a popular assumption that really good students start out that way, and the school system merely moves them higher. I know that just isn't so. Further, I know that students who discover for themselves that they have a thirst for learning—instead of merely having

been told all their lives that they're going to college—can contribute unique insights and broader perspectives to group efforts at thinking through issues. Christina has seized every opportunity we've offered her to develop her intellect, she has shown great determination to succeed, and she has demonstrated a special ability

to help others learn and expand their horizons. Having watched her progress through the program, and seen her at work now in the CHID office, I have no doubt that she can go far, and be a really good academic.

**JAMES D. CLOWES**  
Associate Director, Comparative History of Ideas



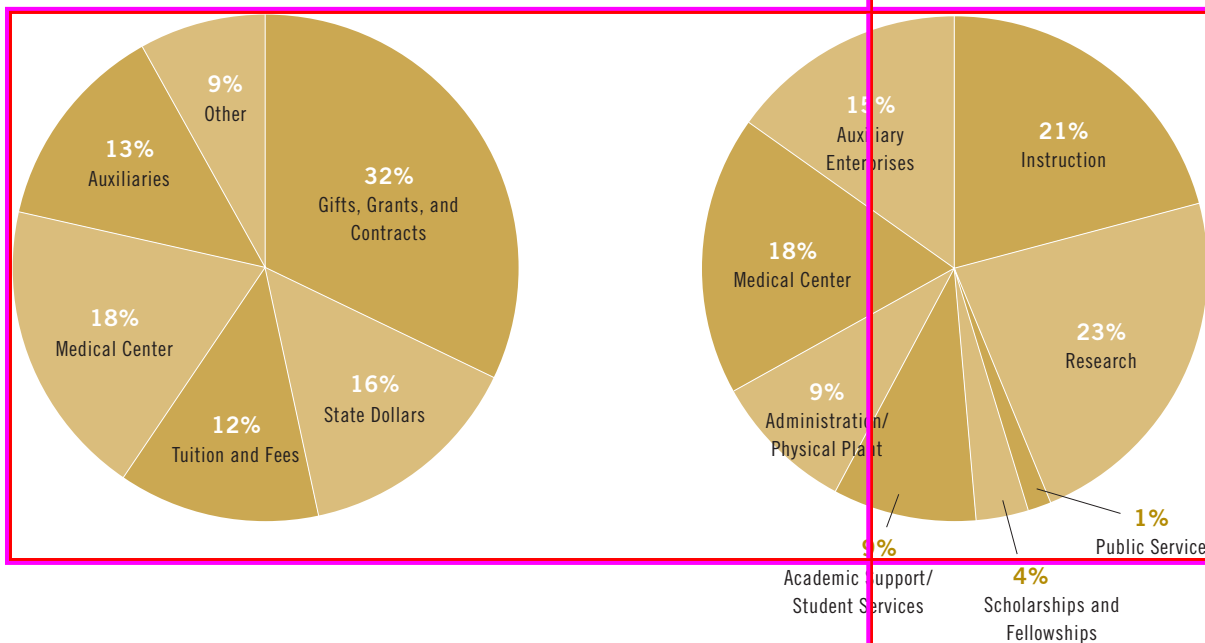
# Financial Highlights

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# Current Operations

- The University has a diversified revenue base. No single source generated more than 32 percent of the total fiscal year 2000 operating revenues of \$2.0 billion.
- State tax appropriated dollars (16 percent) and student tuition and fees (12 percent) were key sources of funds, providing \$569 million in 2000, primarily for instructional activities.
- Grants and contracts (30 percent) generated \$603 million of current-year revenue, a 6 percent increase over 1999. These funds provided the opportunity for graduate and undergraduate students to work with nationally recognized faculty in research as part of their educational experience.
- Operating income from gifts totaled \$40 million (2 percent). This private support gave the University an added margin of excellence and the flexibility to respond to special opportunities.
- Approximately 44 percent of total expenditures supported two primary functions of the University: instruction and research (see figure 2). These dollars provided instruction to more than 18,000 students and funded 4,700 research awards.
- The University provided students with scholarships and fellowships that totaled over \$80 million (4 percent of expenditures).

**FIGURE 1**  
**SOURCES OF UW FUNDS**  
Current funds for fiscal year 2000



## SAVING STUDENTS TIME

How does a student take care of tuition and financial aid, check class schedules, and make graduation preparations in the most computer savvy part of the country? Electronically, of course. Using an Internet portal called “MyUW,” students can interact with the financial aid, student accounts, scheduling and registrar’s offices. Many of these important activities once meant spending hours in line.

As a leader in computing and communications, the UW has streamlined many of the basic business transactions that students have with the University. Students are more productive. Staff time and money are saved. Consider the example of Hsun Wen Chang. Hsun has student loans and other financial aid to help with her tuition. As a sophomore, she is a pre-major in business and wants to make certain that the classes she is taking will apply toward her graduation requirements. In one session on MyUW, Hsun can see that her financial aid has been deposited to her bank account, her tuition payment was made electronically, and also that she needs an additional science course to graduate. If she needs any forms, she can also print them from her terminal at home or anywhere on campus.

Streamlining these basic services is also very productive for the staff of the registrar and student services offices. Hsun knows this first hand, as a part time worker in Student Accounts. She and the staff can now spend quality time with students who have more complicated requests. And it saves thousands of dollars in postage every quarter. “I like the convenience of MyUW,” says Hsun. I can access email, and take care of my financial transactions without standing in lines. That leaves me more time to study and work as a math tutor for high school students—that’s what I really enjoy.”



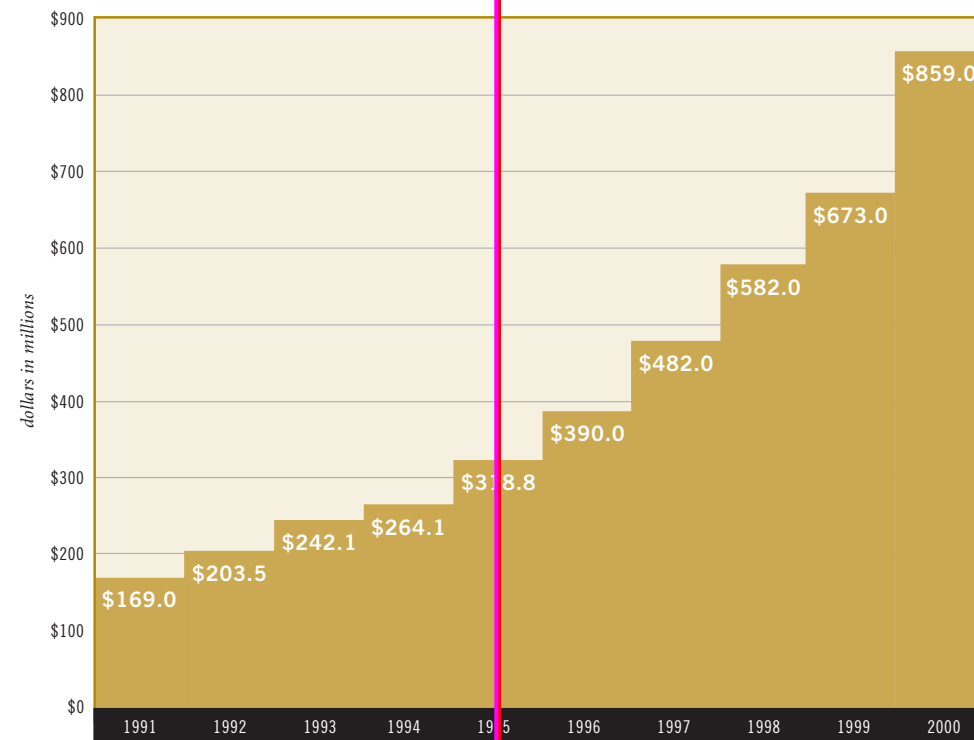
# Investments

- Investment returns provide an important source of revenue for the University’s programs. Among the funds invested by the University are endowments, life income trusts and annuities, outright gifts, reserve balances, and cash.
- Endowed gifts provide permanent capital and an ongoing stream of current earnings to the University. Programs supported by the endowment include undergraduate scholarships, graduate fellowships, professorships and chairs, and research activities.
- Most endowments are commingled in the Consolidated Endowment Fund (CEF), a balanced investment fund. As in a mutual fund, each individual endowment maintains a separate identity and owns units in the fund. On

June 30, 2000, the fair market value of the CEF was \$859 million, representing the investments of 1,516 individual endowments.

- Endowed program support over the last five years totaled \$103.3 million. During that period, the average annual total return on the CEF was 19.8 percent.
- Non-endowed gifts, reserve balances, and cash are commingled for investment purposes although accounted for separately. The fair market value of these investments at the end of the fiscal year was \$865 million. The total return has averaged 9.8 percent annually over the last five years.

## GROWTH OF CONSOLIDATED ENDOWMENT FUND: 1991–2000



## THE SCIENTIST IN THE CRIB

“Babies and young children are like scientists,” says Professor Pat Kuhl. “They think, draw conclusions, make predictions, look for explanations, and even do experiments. They have a lot to teach us about what it means to be human.”

A faculty member in the College of Arts and Sciences, Kuhl specializes in how language and speech develop in infants, and how language is processed by the brain. She gained national fame a few years ago when her work on “parentese”—the exaggerated speech adults use when talking to infants—captured public attention. She has recently co-authored a book called *The Scientist in the Crib: Minds, Brains, and How Children Learn*.

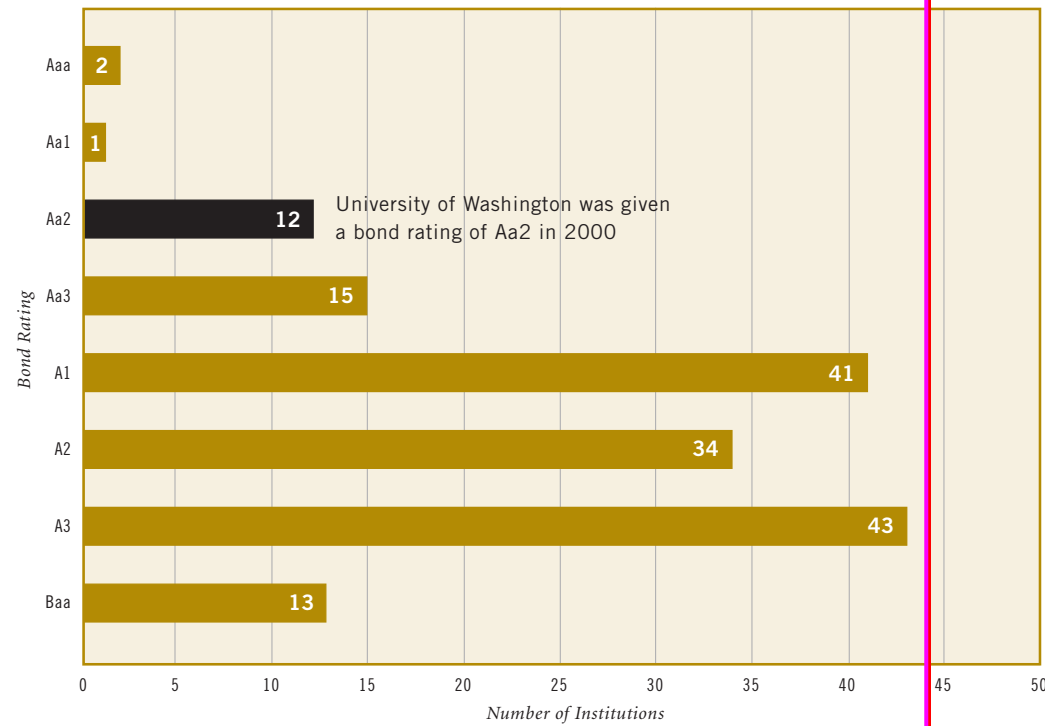
Studying subjects who can’t speak poses unique challenges. Kuhl and her collaborators had to find ways to measure what happens in babies’ brains when they hear speech—including different languages. Funds generated by an endowed professorship enabled Kuhl to buy specialized equipment and to support student researchers in her lab. The professorship, named for UW President Emeritus William Gerberding and his wife Ruth, helps to keep Kuhl at the leading edge of her field. The Gerberding Professorship also kept her at the UW when other universities tried to recruit her.

“You have to speculate to move forward,” says Kuhl. “Research is like any other long-term investment: you need to be able to do things that are high risk and don’t have a guaranteed payoff. Grants don’t let you do that, but this endowed professorship does.”

# Debt Financing

- The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively. Improved debt ratings over the previous year are important indicators of the University's success in this area.
- The improved ratings carry substantial advantages for the UW: continued and better access to capital markets when the University issues debt, lower interest rates on bonds, and the ability to negotiate favorable bond terms.
- After being upgraded in 1997 and 1998 by Standard and Poors and Moody's Investor Service, the University was upgraded again in May 2000 by Moody's. By these actions the nation's premier financial credit rating agencies have recognized and rewarded the University's strong stewardship of financial resources and prudent use of debt to finance capital projects.

## MOODY'S 2000 PUBLIC COLLEGE AND UNIVERSITY RATINGS



## FROM NAVAL HOUSING TO FAMILY HOUSING

The University has been operating family student housing at Sand Point since the early 1950s. The apartments were originally built as temporary housing for Naval personnel during World War II. In recent years, as the aging military buildings reached the end of their useful life, the University considered cost-effective ways to renovate the site to meet student needs. When the Navy closed the Sand Point Naval Air Station in 1997 and conveyed an adjacent 2-acre parcel of land to the University, it was time to act.

The University partnered with a local developer and non-profit organization to construct and operate the housing. By using the University's tax-exempt status, the team was able to finance the renovation at a much lower cost than if it were done as a purely private development. This lower cost of borrowing will be passed on to UW students in the form of below-market rents.

Construction on the 399-unit project will begin in late summer of 2000 and will be open to student families the following year.

By partnering with a private developer, the University was able to finance this housing project creatively, preserve University debt capacity, and meet the goal of available, affordable student housing.

# Capital Budget and Campus Construction

In recent years, the state of Washington and University resources have provided significant capital funding to modernize and expand University of Washington facilities. During 1999 –2000 several major projects were under construction.

## UW Tacoma Campus

Phase 1 construction of a new classroom and studio facility was completed. Phase 2a construction, including renovation of the historic Dougan Building to house classrooms and offices and construction of the Science and classroom buildings, is scheduled for completion in fall, 2001.

## Hec Edmondson Pavillion

Work continued to complete the interior structural improvements which will allow unobstructed viewing by about 10,000 spectators.

## Suzzallo Library

Construction was started on seismic and safety renovations and replacement of mechanical and electrical systems in this campus landmark building. The library will remain open for the two-year span of the project.

## UW Medical Center Pacific Tower

This renovation of about 70,000 square feet in the 1950s vintage portion of the University of Washington Medical Center is nearly complete. It will provide in-patient and clinical space along with new mechanical and electrical infrastructure.

## Intercollegiate Athletics Indoor Practice Facility

Construction is scheduled to begin in 2000 on this 95,000-square-foot facility. It will provide practice space for ICA sports such as football, baseball, men's and women's soccer, and track, as well as for recreational use by students, faculty, and staff.

## UW Bothell Campus

Phase 1 of the Bothell campus construction was also completed. Framed by 100-foot fir trees and overlooking a reconstructed wetland preserved for study, the campus is shared with Cascadia Community College. It consists of new academic buildings and a facility for the library, student services, and other offices. It is the first project in Washington to house community and four-year colleges on a shared campus.



## MARY GATES HALL

Dedicated in May 2000, Mary Gates Hall is the new academic home for undergraduate students. It offers classrooms, advising offices, and state-of-the-art networked computer resources. A drop-in computer lab with 200 workstations on the first floor buzzes with activity as students work on course assignments and access email and internet resources through their "MyUW" accounts. Five classrooms with networked computers for students, specially designed for computer-based instruction, experimental education, and student collaboration, are also distributed among the four floors.

The building's major tenant is the multifaceted Office of Undergraduate Education. Its mission is to cultivate excellence in undergraduate teaching and learning. Included in its offerings are the Undergraduate Advising Center, the Center for Career Services, and the Undergraduate Research Program. The centers provide in-depth counseling and career planning for undergraduate students. The research program connects students interested in research with the UW's leading-edge researchers in many academic disciplines.

The University Honors Program has a seminar room, library and computer lab on the second floor. And the Carlson Center for Leadership and Public Service, a provider of internships and community service-based learning, also calls the building home. Named in honor of the late Mary Gates, a UW Regent for 18 years, the building is a renovation and expansion of the former Physics Building.



# Financial Health and Flexibility

Prudent stewardship of financial resources is a high priority for the University of Washington and is crucial to meeting the institution’s future financial demands. The results are a strong balance sheet and healthy operating ratios compared to the institution’s peers, as shown in the charts at right. It is also reflected in recent credit rating upgrades, which help the University borrow money at cost-effective interest rates for important capital projects on campus.

### Primary Reserve Ratio

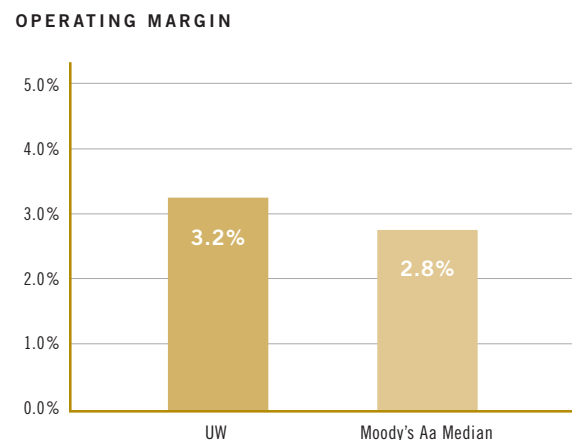
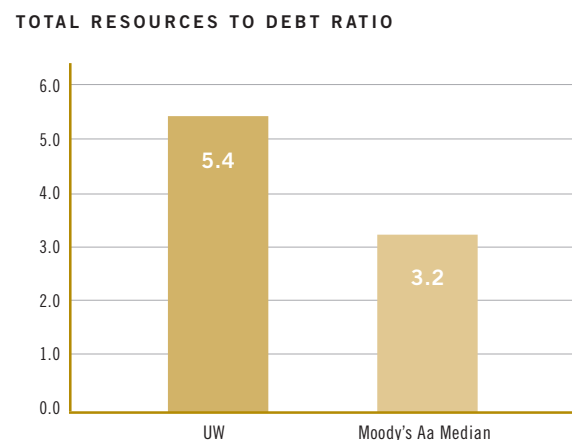
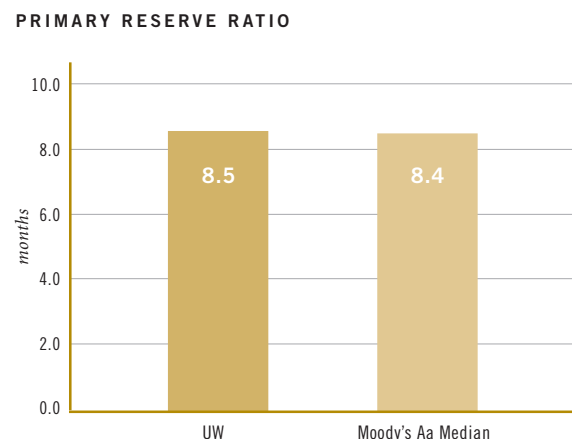
This ratio measures the University’s overall financial strength. Today the University has enough expendable resources from various sources to fund operations for more than eight months. This matches the median for public universities with strong “Aa” credit ratings.

### Total Resources to Debt Ratio

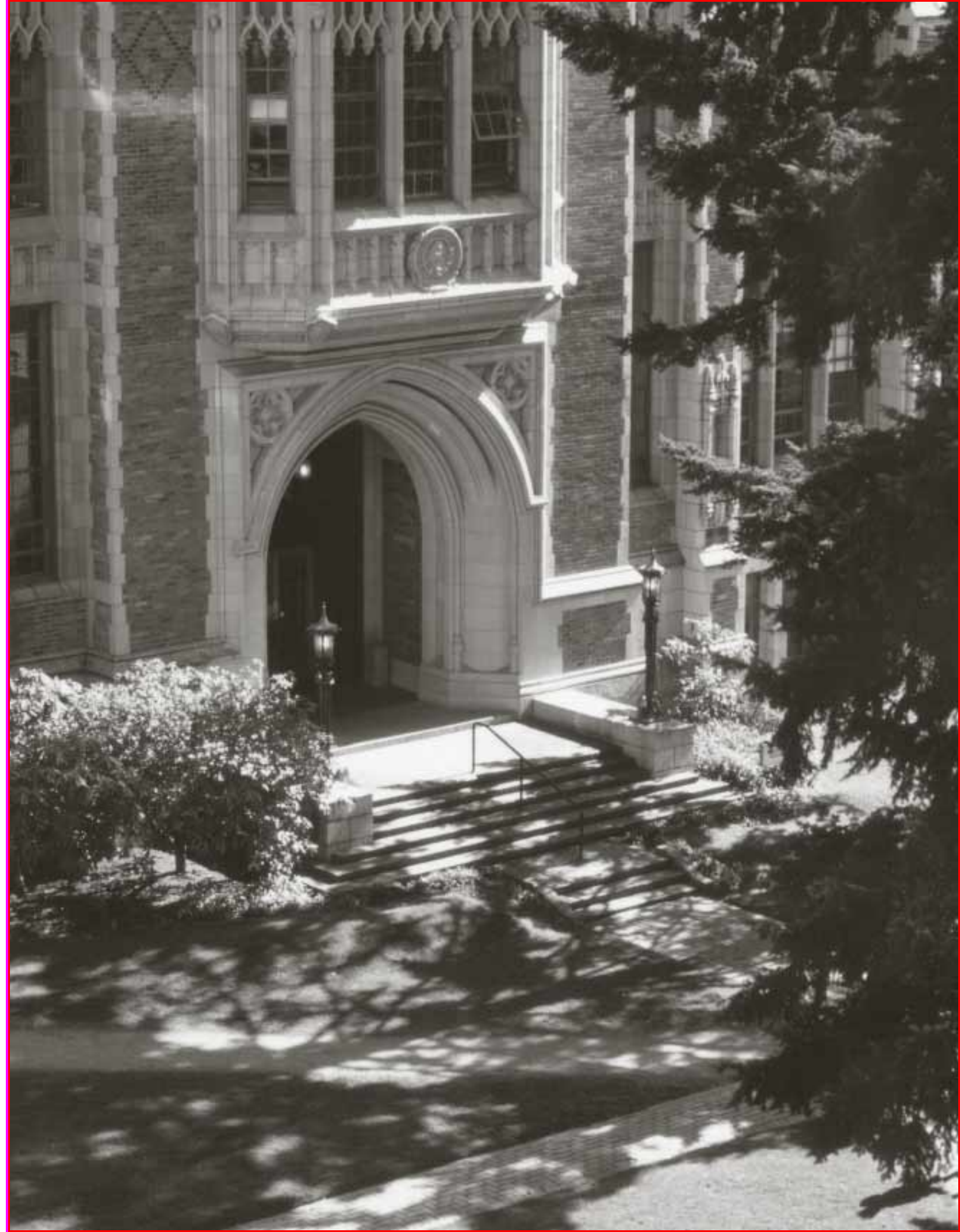
The University has been prudent in using debt to finance capital projects. This is reflected in the University’s ratio of available financial resources to current outstanding debt obligations compared to the median for other public universities.

### Operating Margin

This ratio measures how much operating revenues exceed expenses expressed as a percentage of total revenues of the University. In the difficult funding environment over the last several years the University’s operating margin has narrowed, but remains strong in comparison to other public universities.



*Median data as of 1999 represents most recent information provided by Moody's Investors Service.*



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## INDEPENDENT AUDITORS' REPORT

The Board of Regents  
University of Washington:

We have audited the accompanying balance sheet of the University of Washington as of June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Washington Medical Center, which statements reflect 14% of current unrestricted fund assets, 15% of investment in plant fund assets and 26% of current unrestricted fund revenues. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Washington Medical Center, is based solely on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington as of June 30, 2000, and the changes in fund balances and the current funds revenues, expenditures and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

Seattle, Washington  
November 3, 2000



## UNIVERSITY OF WASHINGTON

**BALANCE SHEET**

June 30, 2000, with comparative totals for 1999

	CURRENT FUNDS		Loan Funds	Endowment and Similar Funds	Annuity and Life Income Funds	PLANT FUNDS			June 30, 2000	June 30, 1999
	Unrestricted	Restricted				Unexpended	Retirement of Indebtedness	Investment In Plant		
<b>ASSETS</b>										
CASH	\$ 22,014					7,735	1		29,750	27,569
FUNDS ON DEPOSIT WITH STATE TREASURER	270			20,931		23,507	4,911		49,619	34,139
COLLATERAL FROM SECURITIES LENDING	91,480	60,013	2,042	97,452	1	41,875	1,951		294,814	168,300
INVESTMENTS	529,176	250,654	8,371	913,993	68,588	171,678	12,573		1,955,033	1,705,190
METROPOLITAN TRACT				99,839					99,839	95,657
ACCOUNTS RECEIVABLE (NET OF \$58,141 ALLOWANCE)	156,410	98,775	1,125	11,832		2,057	300		270,499	265,147
STUDENT LOANS (NET OF \$7,361 ALLOWANCE)			57,027						57,027	54,626
STORES AND OTHER INVENTORIES	20,092								20,092	16,586
DEFERRED EXPENSES AND OTHER ASSETS	23,991					192	3,351		27,534	13,825
DUE FROM OTHER FUNDS	16,766	887		805					18,458	2,190
LAND, BUILDINGS, AND IMPROVEMENTS								1,977,956	1,977,956	1,804,337
EQUIPMENT								637,040	637,040	600,773
LIBRARY BOOKS								166,220	166,220	154,337
<b>TOTAL ASSETS</b>	<b>\$ 860,199</b>	<b>410,329</b>	<b>68,565</b>	<b>1,144,852</b>	<b>68,589</b>	<b>247,044</b>	<b>23,087</b>	<b>2,781,216</b>	<b>5,603,881</b>	<b>4,942,676</b>
<b>LIABILITIES AND FUND BALANCES</b>										
ACCOUNTS PAYABLE	\$ 152,779	13,631		9,773	3	24,357			200,543	191,388
ACCRUED LIABILITIES	75,452	32,281					6,502		114,235	107,766
PAYABLES – SECURITIES LENDING TRANSACTIONS	91,480	60,013	2,042	97,452	1	41,875	1,951		294,814	168,300
DUE TO OTHER FUNDS	887	17,326			245				18,458	2,190
FUNDS HELD FOR OTHERS		3,873							3,873	2,959
DEFERRED REVENUES	46,835								46,835	45,992
ANNUITIES PAYABLE					3,140				3,140	2,829
OBLIGATIONS UNDER CAPITAL LEASES						11,275		24,161	35,436	16,111
BONDS AND NOTES PAYABLE	1,375	1,400			158	15,602	7,510	308,448	334,493	298,847
SELF-INSURANCE RESERVE	31,704								31,704	32,096
<b>FUND BALANCES:</b>										
UNRESTRICTED – GENERAL	243,491								243,491	221,328
UNRESTRICTED – DESIGNATED	216,196								216,196	209,393
RESTRICTED		281,805				153,935	7,124		442,864	426,641
U.S. GOVERNMENT GRANTS REFUNDABLE			43,811						43,811	42,133
UNIVERSITY LOAN FUNDS – RESTRICTED			22,712						22,712	22,013
ENDOWMENT				679,346					679,346	541,445
QUASI-ENDOWMENT – RESTRICTED				358,281					358,281	294,858
ANNUITY					4,052				4,052	2,893
LIFE INCOME					60,990				60,990	55,622
NET INVESTMENT IN PLANT								2,448,607	2,448,607	2,257,872
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 860,199</b>	<b>410,329</b>	<b>68,565</b>	<b>1,144,852</b>	<b>68,589</b>	<b>247,044</b>	<b>23,087</b>	<b>2,781,216</b>	<b>5,603,881</b>	<b>4,942,676</b>

See accompanying Notes to the Financial Statements

Dollars in thousands

UNIVERSITY OF WASHINGTON

**STATEMENT OF CHANGES IN FUND BALANCES**

For the year ended June 30, 2000, with comparative totals for 1999

	CURRENT FUNDS		Loan Funds	Endowment and Similar Funds	Annuity and Life Income Funds	PLANT FUNDS			June 30, 2000	June 30, 1999
	Unrestricted	Restricted				Unexpended	Retirement of Indebtedness	Investment in Plant		
<b>REVENUES AND OTHER ADDITIONS</b>										
UNRESTRICTED CURRENT FUND REVENUES	\$ 1,421,414								1,421,414	1,327,229
TUITION AND FEES			5,880			3,211	3,211		12,302	11,314
STATE APPROPRIATIONS						77,283			77,283	75,418
GIFTS, GRANTS, AND CONTRACTS		687,950	1,452	53,541	9,591	3,485		355	756,374	693,422
INVESTMENT INCOME		26,336	2,151	4,310	2,521	9,120	14,168		58,606	56,927
NET APPRECIATION IN FAIR VALUE OF INVESTMENTS				142,678	(79)				142,599	61,960
ANNUITY AND LIFE INCOME MATURITIES				813					813	1,169
EXPENDED FOR PLANT FACILITIES (\$80,009 FROM CURRENT FUNDS)								209,385	209,385	212,725
RETIREMENT OF INDEBTEDNESS								17,242	17,242	14,211
PROCEEDS FROM PROPERTY SALES AND STATE TIMBER SALES							280		280	1,833
OTHER						1			1	175
<b>TOTAL REVENUES AND OTHER ADDITIONS</b>	<b>1,421,414</b>	<b>714,286</b>	<b>9,483</b>	<b>201,342</b>	<b>12,033</b>	<b>93,100</b>	<b>17,659</b>	<b>226,982</b>	<b>2,696,299</b>	<b>2,456,383</b>
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>										
EDUCATIONAL AND GENERAL	737,361	563,598							1,300,959	1,218,153
AUXILIARY ENTERPRISES	281,090	2,475							283,565	256,787
MEDICAL CENTER	337,239	550							337,789	317,731
INDIRECT COST RECOVERED		119,088							119,088	108,745
LOAN CANCELLATIONS AND WRITE-OFFS			452						452	898
ADMINISTRATIVE AND COLLECTION COSTS			328						328	162
ACTUARIAL ADJUSTMENT FOR ANNUITIES					311				311	283
DISTRIBUTION TO LIFE BENEFICIARIES					4,105				4,105	3,288
ANNUITY AND LIFE INCOME MATURITIES					813				813	1,169
RETIREMENT OF INDEBTEDNESS							17,242		17,242	14,211
INTEREST OF INDEBTEDNESS							19,595		19,595	14,905
EXPENDED FOR PLANT FACILITIES						129,376			129,376	146,817
RETIREMENT OF CAPITAL ASSETS								36,247	36,247	34,847
LOSS ON REFINANCING										250
OTHER					277				277	329
<b>TOTAL EXPENDITURES AND OTHER DEDUCTIONS</b>	<b>1,355,690</b>	<b>685,711</b>	<b>780</b>		<b>5,506</b>	<b>129,376</b>	<b>36,837</b>	<b>36,247</b>	<b>2,250,147</b>	<b>2,118,575</b>
<b>TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS)</b>										
MANDATORY:										
PRINCIPAL AND INTEREST	(28,451)	(816)				(4,586)	33,853			
LOAN FUND MATCHING GRANT	(215)		215							
NONMANDATORY	(8,092)	(25,783)	(6,541)	(18)		50,616	(10,182)			
<b>TOTAL TRANSFERS</b>	<b>(36,758)</b>	<b>(26,599)</b>	<b>(6,326)</b>	<b>(18)</b>		<b>46,030</b>	<b>23,671</b>			
NET INCREASE FOR THE YEAR	28,966	1,976	2,377	201,324	6,527	9,754	4,493	190,735	446,152	337,808
FUND BALANCES AT BEGINNING OF YEAR	430,721	279,829	64,146	836,303	58,515	144,181	2,631	2,257,872	4,074,198	3,736,390
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 459,687</b>	<b>281,805</b>	<b>66,523</b>	<b>1,037,627</b>	<b>65,042</b>	<b>153,935</b>	<b>7,124</b>	<b>2,448,607</b>	<b>4,520,350</b>	<b>4,074,198</b>

See accompanying Notes to the Financial Statements

Dollars in thousands

## UNIVERSITY OF WASHINGTON

**STATEMENT OF CURRENT FUNDS REVENUES,  
EXPENDITURES AND OTHER CHANGES**

For the year ended June 30, 2000, with comparative totals for 1999

	UNRESTRICTED		RESTRICTED	June 30, 2000	June 30, 1999
	General	Designated			
<b>REVENUES</b>					
TUITION AND FEES	\$ 184,484	57,265	5,146	246,895	228,754
STATE APPROPRIATIONS	322,079			322,079	301,812
GOVERNMENT GRANTS AND CONTRACTS		107,676	410,467	518,143	480,139
PRIVATE GIFTS, GRANTS, AND CONTRACTS	652	13,408	111,342	125,402	130,085
INVESTMENT INCOME:					
ENDOWMENT			12,631	12,631	9,527
TRUST INCOME			1,184	1,184	1,143
OTHER	16,958	14,876	9,989	41,823	33,401
NET APPRECIATION IN FAIR VALUE OF INVESTMENTS	(2,211)	23,604		21,393	22,559
ANNUITY AND LIFE INCOME MATURITIES					36
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	7,853	54,048	408	62,309	65,181
SALES AND SERVICES OF AUXILIARY ENTERPRISES	253,034			253,034	238,441
SALES AND SERVICES OF MEDICAL CENTER	355,271			355,271	326,796
OTHER	2,656	9,761	15,456	27,873	22,682
<b>TOTAL REVENUES</b>	<b>1,140,776</b>	<b>280,638</b>	<b>566,623</b>	<b>1,988,037</b>	<b>1,860,556</b>
<b>EXPENDITURES AND MANDATORY TRANSFERS</b>					
EDUCATIONAL AND GENERAL:					
INSTRUCTION	277,548	99,632	39,179	416,359	401,658
RESEARCH	8,739	33,983	403,194	445,916	401,120
PUBLIC SERVICE	574	3,124	6,426	10,124	14,514
ACADEMIC SUPPORT	88,370	26,291	44,696	159,357	146,793
STUDENT SERVICES	13,434	7,026	141	20,601	19,422
INSTITUTIONAL SUPPORT	43,285	41,701	4,807	89,793	86,769
OPERATION AND MAINTENANCE OF PLANT	50,989	27,263	242	78,494	70,487
SCHOLARSHIPS AND FELLOWSHIPS	15,402		64,913	80,315	77,390
EDUCATIONAL AND GENERAL EXPENDITURES	498,341	239,020	563,598	1,300,959	1,218,153
MANDATORY TRANSFERS FOR:					
LOAN FUND MATCHING GRANT	215			215	281
PRINCIPAL AND INTEREST	8,399	8,500	816	17,715	12,547
EDUCATIONAL AND GENERAL TRANSFERS	8,614	8,500	816	17,930	12,828
TOTAL EDUCATIONAL AND GENERAL	506,955	247,520	564,414	1,318,889	1,230,981
AUXILIARY ENTERPRISES:					
EXPENDITURES	281,090		2,475	283,565	256,787
MANDATORY TRANSFERS FOR PRINCIPAL AND INTEREST	3,895			3,895	3,218
TOTAL AUXILIARY ENTERPRISES	284,985		2,475	287,460	260,005
MEDICAL CENTER:					
EXPENDITURES	337,239		550	337,789	317,731
MANDATORY TRANSFERS FOR PRINCIPAL AND INTEREST	7,657			7,657	7,461
TOTAL MEDICAL CENTER	344,896		550	345,446	325,192
<b>TOTAL EXPENDITURES AND MANDATORY TRANSFERS</b>	<b>1,136,836</b>	<b>247,520</b>	<b>567,439</b>	<b>1,951,795</b>	<b>1,816,178</b>
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)</b>					
EXCESS OF RESTRICTED RECEIPTS OVER EXPENDITURES			28,575	28,575	32,386
NONMANDATORY TRANSFERS (TO) OTHER FUNDS	18,223	(26,315)	(25,783)	(33,875)	(36,233)
<b>NET INCREASE IN FUND BALANCES FROM CURRENT YEAR ACTIVITY</b>	<b>\$ 22,163</b>	<b>6,803</b>	<b>1,976</b>	<b>30,942</b>	<b>40,531</b>

See accompanying Notes to the Financial Statements

Dollars in thousands



**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 ten-member Board of Regents, appointed by the Governor and confirmed by the state senate.

The financial statements include individual schools, colleges, and departments, the University of Washington Medical Center, the Associated Students of the University of Washington, 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.

The University of Washington Alumni Association, University of Washington Physicians, and University of Washington Physicians Network are included in the reporting entity as blended component units. These legally separate entities are included in the University's financial reporting entity because of the nature of their relationship to the University. Financial information for these affiliated organizations may be obtained from their respective administrative offices.

**Basis of Accounting**

The financial statements of the University have been prepared on the accrual basis. Depreciation is recorded only on Metro Tract real estate held for investment. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

The University maintains its accounts in accordance with the principles of fund accounting in order to ensure observance

of limitations and restrictions placed on the use of various resources. These resources are classified for accounting and reporting purposes into funds that are used for specified activities or objectives. Separate accounts are maintained for each fund. However, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups.

Within each fund group, fund balances restricted by outside sources are indicated and are distinguished from unrestricted funds that have been internally designated. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds, in contrast to unrestricted funds, which may be used in achieving any purpose of the University. Current Restricted Funds are reported as revenues and expenditures when expended for current operating purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and other assets is accounted for in the fund owning such assets, except for income derived from investments of Endowment and Similar Funds, which is accounted for in the fund to which it is restricted.

**Fund Classification**

*Current Unrestricted Funds* account for all resources available for current operations that have not been restricted as to use by outside entities. Current operations include the University's educational and general-purpose expenditures, the Medical Center, and self-sustaining auxiliary enterprises.

Current Unrestricted Funds are classified as either general or designated. The purpose of this classification procedure is to separate state appropriation revenues from certain locally generated revenues. Designated funds include certain departmental fees and indirect cost revenues, as well as related expenditures. General funds include

the Medical Center, auxiliary enterprises, and other unrestricted revenues and expenditures not classified as designated.

*Current Restricted Funds* account for resources made available to the University for operating purposes that have been restricted by outside entities. These resources generally are in the form of grants, contracts, and gifts received by the University in support of research, educational, and public service activities.

*Loan Funds* account for resources, primarily from the Federal government, which provide loans to students.

*Endowment and Similar Funds* are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income be utilized. Also included are quasi-endowments established by the Board of Regents from current funds and expendable at the Board's direction consistent with the funds' restricted purposes.

*Annuity and Life Income Funds* account for funds received by the University subject to obligations to pay stipulated amounts periodically to the donors or to other beneficiaries. Payments terminate at the time specified in the agreement. Upon termination, principal balances are moved to the appropriate fund group.

*Plant Funds* account for the resources invested in and available for University land, buildings, and equipment and debt retirement.

**Other Accounting Policies**

*Investments.* Investments other than real estate or miscellaneous investments are stated at fair value. Real estate or miscellaneous investments are stated at cost or, in the case of gifts, at quoted fair values at the date of donation. Interests in limited partnerships are valued based upon the valuations determined by the general partners of the respective partnerships. Securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an

industry standard pricing service. Securities for which no sale was reported as of the close of the last day of business of the fiscal year are valued at the quoted market price of a dealer who regularly trades in the security being valued.

*Securities Lending Transactions.* Cash collateral received from borrowers through securities lending transactions is recorded as both an asset and an offsetting liability.

*Inventories.* Inventories are carried at the lower of cost or market value. Consumable inventories, consisting of expendable materials and supplies held for consumption, are generally valued using the weighted average method. Merchandise inventories are generally valued using the first-in, first-out method.

*Investment in Plant.* Land, buildings, equipment, and library books 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 recorded as additions. Depreciation of plant assets is not recorded.

*Deferred Revenues.* Deferred revenues occur when unrestricted funds have been collected in advance of an event, such as advance ticket sales and 2000 summer quarter tuition.

*Tuition and Fees.* A portion of tuition and fees is required by law to fund student aid (recorded in the Current Restricted and Loan Funds) and physical plant facilities (recorded in the Plant Funds). The remaining portion of tuition and fees is reported in the Current Unrestricted Fund.

*State Appropriations.* The State of Washington appropriates funds to the University on both an annual and biennial basis. Appropriations are recognized as revenue when the related expenditures are made. These revenues are reported in the Current Unrestricted Fund when used to support general operations and in the Unexpended Plant Fund when used for capital projects.

*Compensated Absences.* University employees accrue annual leave at rates based on length of service and accrue sick leave at

the rate of one day per month. Compensated absences accrued as of June 30, 2000, were \$33,656,000 for annual leave and \$9,830,000 for sick leave.

*Tax Exemption.* The University is a tax exempt organization under the provisions of Section 115 of the Internal Revenue Code and is exempt from federal income taxes on related income.

*Total Columns.* Total columns on the Financial Statements are presented only to facilitate financial analysis. The prior year summarized information has been derived from the University's 1999 Financial Statements and should be read in conjunction with those statements.

**NOTE 2****CASH**

Cash includes bank demand deposits, cash held by fiscal agents, \$7,735,000 cash held with escrow agents, and petty cash. All cash, except for cash held at the University, is covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). At June 30, 2000, bank balances of \$1,711,000 were insured by the FDIC and balances of \$21,830,000 were collateralized under the PDPC.

**NOTE 3****FUNDS ON DEPOSIT WITH THE STATE TREASURER**

State law requires the University to deposit certain funds with the state treasurer, who holds and invests the funds. The deposits include: amounts held for the University's permanent land grant funds in the Endowment and Similar Funds, the University of Washington building fee in the Unexpended Plant Fund, and certain General Obligation bonds reserve funds in the Retirement of Indebtedness Fund. The fair value of these funds approximates the carrying value.

**NOTE 4****STUDENT LOANS**

Net student loans at June 30, 2000, consist of \$48,053,000 from federal programs and \$8,974,000 from University programs. Interest income from student loans for the year ended June 30, 2000, was \$1,486,000. Student loans are made primarily to individuals who reside in the state of Washington. The loans are unsecured and are expected to be repaid from earnings of individual borrowers.

**NOTE 5****ACCOUNTS RECEIVABLE**

These receivables primarily consist of patient fees receivable, state and federal grants and contracts receivable, tuition receivables, and receivables arising from the sale of investments.

**NOTE 6****INVESTMENTS****Investments – General**

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy and approves the appointment of investment managers. The Board of Regents' policies are carried out by the Treasurer, Board of Regents. Investment performance is reviewed monthly.

Categorized investments are insured, registered, or held by the University's custodial bank as an agent for the University. Investments that are not categorized include lent securities, mutual funds, venture capital, private equity arbitrage, bankruptcy, mortgages, real estate, and miscellaneous investments.

The University's investments include certain derivative instruments and structured notes that derive their value from a security, asset, or index. Such investments are governed by the University's Investment Policies and Guidelines, which effectively constrain their use by establishing (a) duration

TABLE 1

UNIVERSITY INVESTMENTS AND COLLATERAL FROM SECURITIES LENDING	
Investment Type	Carrying Value
CASH EQUIVALENTS	\$ 63,560
DOMESTIC FIXED INCOME	435,440
DOMESTIC FIXED INCOME – LOANED	327,760
FOREIGN FIXED INCOME	50,288
FOREIGN FIXED INCOME – LOANED	31,530
DOMESTIC EQUITY	651,609
DOMESTIC EQUITY – LOANED	35,222
FOREIGN EQUITY	127,699
FOREIGN EQUITY – LOANED	24,407
VENTURE CAPITAL	108,502
PRIVATE EQUITY	55,298
BANKRUPTCY	33,866
MORTGAGES	2,409
REAL ESTATE	6,395
MISCELLANEOUS	1,048
TOTAL INVESTMENTS	1,955,033
SHORT TERM COLLATERAL FROM SECURITIES LENDING	294,814
<b>TOTAL INVESTMENTS AND COLLATERAL</b>	<b>\$ 2,249,847</b>
	<i>Dollars in thousands</i>

parameters which limit price sensitivity to interest rate fluctuations (market risk), (b) minimum quality ratings at both the security and portfolio level, and (c) a market index as a performance benchmark.

The University's investment portfolio includes certain foreign denominated securities. To reduce the exposure to foreign currency fluctuations inherent in such investments, the University enters into foreign currency forward contracts, futures contracts, and options. Under the University's Investment Policies and Guidelines, such instruments are not permitted for speculative use or to create leverage. The guidelines also specify counterparty exposure limits and credit screens to reduce credit risk.

At June 30, 2000, the University had net outstanding forward commitments to sell foreign currency with a total fair value of \$70,089,000 which equals 3.6% of the total portfolio. Unrealized and realized gains or losses are reported in the Statement of Changes in Fund Balances and are netted with the hedged securities in Table 1.

#### Investment Pools

The University combines most short-term, available cash balances from various departments into the Invested Funds pool. At June 30, 2000, the Invested Funds pool totaled \$865,425,000. By University policy, departments participating in the Invested Funds pool receive one of three rates of return based on the realized yield of the portfolio. Endowment fund holdings received 7% for fiscal year 2000. Operating and plant fund balances of self-sustaining units received 6.3%. Other fund balances received 3.0%. The difference between the actual earnings of the Invested Funds pool and the stated rates is used to support activities benefiting all University departments.

The composition of the carrying amounts of investments by type at June 30, 2000, is listed in Table 1.

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the year ended June 30, 2000, the University realized a net gain of \$93,923,000 from the

sale of investments in the three major funds. The calculation of realized gains 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 sold in the current year includes the net appreciation (depreciation) of these investments reported in the prior year. The net appreciation in the fair value of investments during the year ended June 30, 2000, was \$163,992,000.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments subscribe to or dispose of 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. The CEF income distribution is 5% of the average fair value of the CEF for the previous three years and cannot exceed the previous year's level by more than 5%.

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 approximately \$57,000,000 at June 30, 2000. Income received from these trusts was \$1,255,000 for the year ended June 30, 2000.

#### Securities Lending

The University's investment policies permit it to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The University's custodian lends securities of the type on loan at year end for collateral in the form of cash or other securities. U.S. securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest. At year-end, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers

exceed the amounts the borrowers owe the University. The contract with the custodian requires it to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the University for income distributions by the securities' issuers while the securities are on loan.

Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is ten days. Cash collateral is invested in a short term investment pool which had an average weighted maturity of 30 days as of June 30, 2000. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loans made by other entities that use the custodian's pool, which the University cannot determine. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

Securities on loan at June 30, 2000, totaled \$418,919,000 and are listed by investment type in Table 1. The securities lending program resulted in net revenues of \$773,000 for the year ended June 30, 2000.

#### NOTE 7

##### METROPOLITAN TRACT

The Metropolitan Tract, ten acres in downtown Seattle, is developed and managed by UNICO Properties, Inc. (UNICO) and a joint venture partnership of Four Seasons Hotels, Ltd. and The Urban Investment and Development Company in accordance with leases with the University. The UNICO lease provides that the University reimburse UNICO from Tract rental income for its advances for approved additions and modernization.

The balance at June 30, 2000, represents operating assets, net of liabilities; and land, buildings, and improvements stated at appraised value as of November 1, 1954, plus all subsequent capital additions and improvements at cost, less buildings retired or demolished and accumulated depreciation of \$66,531,000.

#### NOTE 8

##### LEASES

##### Capital Leases

The University has certain lease agreements in effect that are considered capital leases. As of June 30, 2000, the University had recorded buildings in the amount of \$13,616,000, and equipment in the amount of \$15,000,000, related to capitalized leases. Future minimum lease payments under capital leases, as of June 30, 2000, are as follows:

Year	Dollars in thousands
2001	\$ 6,046
2002	5,539
2003	5,308
2004	4,619
2005	4,097
THEREAFTER	23,528
TOTAL MINIMUM LEASE PAYMENTS	49,137
LESS AMOUNT REPRESENTING INTEREST	(13,701)
<b>OBLIGATIONS UNDER CAPITAL LEASES</b>	<b>\$ 35,436</b>

##### Operating Leases

The University has certain lease agreements in effect that are considered operating leases, primarily for leased building space. During the year ended June 30, 2000, the University recorded expenses of \$15,280,000 for these leases.

Future lease payments under these leases as of June 30, 2000, are as follows:

Year	Dollars in thousands
2001	\$ 14,719
2002	12,029
2003	8,722
2004	6,630
2005	4,751
THEREAFTER	28,428
<b>TOTAL MINIMUM LEASE PAYMENTS</b>	<b>\$ 75,279</b>

#### NOTE 9

##### BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2000, consist of State of Washington General Obligation and Refunding Bonds, University Revenue and Facilities Bonds, and other notes as shown in Table 2.

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

The University has pledged the net revenues from the Housing and Dining Systems, the Intercollegiate Athletics Department, the Parking System, Medical Center patient revenues, and a portion of special student fees to retire the related revenue and facilities bonds.

Obligations outstanding at June 30, 2000, mature in the following fiscal years:

Year	Dollars in thousands
2001	\$ 15,677
2002	15,854
2003	13,455
2004	13,281
2005	13,190
THEREAFTER	263,036
	<b>\$ 334,493</b>

In prior years certain Housing and Dining System Revenue Bonds and Intercollegiate Athletics Revenue Bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the defeased bonds are not included in these financial statements. At June 30, 2000, \$45,346,000 of these defeased bonds were outstanding.



TABLE 2

BONDS AND NOTES PAYABLE			
Bonds Payable	Interest Rate	Fiscal Year Maturity Date	Amount Outstanding
<b>STATE GENERAL OBLIGATION AND REFUNDING BONDS (SERIES/ISSUED):</b>			
R-1998B/1998	3.95-4.00%	2001-2002	\$ 4,740
R-1992A/1991	6.00-6.75%	2001-2010	33,901
A-1992/1992, B-1992/1992, R-98A/1998, R-99/1999	3.50-6.40%	2001-2017	43,025
R-1993A, B & B-1/1992	4.50-5.75%	2001-2011	5,879
B-1993/1993	4.75-5.50%	2001-2018	7,535
A-1994/1993	4.10-7.00%	2001-2019	32,270
C-1998/1998	4.50-6.00%	2001-2024	18,215
E-1997/1997	4.80-6.00%	2001-2022	950
R-1994A, C & M/1993	4.40-7.00%	2001-2003	1,190
R-1995A & B/1995	5.25-6.50%	2001-2012	23,887
B-1999/1999	4.25-5.00%	2001-2024	33,685
A-2000/2000	4.40-5.63%	2011-2025	50,550
<b>TOTAL STATE GENERAL OBLIGATION AND REFUNDING BONDS</b>			<b>255,827</b>
<b>REVENUE AND FACILITIES BONDS (SERIES/ISSUED):</b>			
HOUSING & DINING/1991, '94, '96	4.00-7.00%	2001-2022	40,460
STUDENT FACILITIES CONSTRUCTION/1972, '94	4.75-6.00%	2001-2005	3,455
INTERCOLLEGIATE ATHLETICS/1993	4.75-5.30%	2001-2004	3,040
PARKING SYSTEM/1995	5.45-6.13%	2001-2015	4,775
ALUMNI ASSOCIATION/1994	5.10-6.40%	2001-2015	20,340
<b>TOTAL REVENUE AND FACILITIES BONDS</b>			<b>72,070</b>
<b>TOTAL BONDS PAYABLE</b>			<b>327,897</b>
<b>NOTES PAYABLE:</b>			
SEAFIRST BANK NOTE	8.47%	2001-2009	3,663
OTHER LOANS	VARIOUS	VARIOUS	2,933
<b>TOTAL NOTES PAYABLE</b>			<b>6,596</b>
<b>TOTAL BONDS AND NOTES PAYABLE</b>			<b>\$ 334,493</b>

Dollars in thousands

**NOTE 10  
PENSION PLANS**

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

**Public Employees Retirement System**

*Plan Description.* The University of Washington contributes to PERS, a cost-sharing multiple-employer defined benefit pension plan administered by the State of

Washington Department of Retirement Systems. PERS Plan 1 provides retirement and disability benefits, and minimum benefit increases beginning at age 66, to eligible non-academic plan members hired prior to October 1, 1977. PERS Plan 2 provides retirement and disability benefits, and a cost-of-living allowance, to eligible non-academic plan members hired on or after October 1, 1977. The authority to establish and amend benefit provisions resides with the legislature. The Washington State Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Department of Retirement

Systems, P.O. Box 48386, Olympia, Washington 98504-8386.

*Funding Policy.* The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 employees at June 30, 2000, was 1.54%. The contribution rate for the University at June 30, 2000, for both PERS Plans 1 and 2 was 3.81%.

The University's contributions to PERS for the years ending June 30, 2000, 1999, and

1998 were \$21,864,000, \$33,402,000, and \$32,167,000 respectively, equal to the required contributions for each year.

**University of Washington Retirement Plan**

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

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

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

*Funding Policy.* Employee contribution rates, based on age, are 5%, 7.5%, or 10% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employee and employer contributions for the year ended June 30, 2000, were each \$31,617,000.

The supplemental payment component of the University of Washington Retirement Plan is financed on a pay-as-you-go basis. Annual payments are not significant.

**NOTE 11  
COMMITMENTS AND CONTINGENCIES**

Authorized expenditures for construction projects unexpended as of June 30, 2000, were \$485,825,000. These expenditures will be funded primarily from State appropriations.

Substantial amounts are received and expended by the University under federal and state grants and contracts. This funding relates to research, student aid, Medical Center operations, and other programs, and is subject to audit by governmental granting agencies. Certain grant and contract costs billed to the federal government are subject to audit under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. University management believes that any liabilities arising from subsequent audits will not have a material effect on the University's financial statements.

The Office of the United States Attorney for the Western District of Washington has commenced an investigation of the University of Washington Physicians (an affiliated organization) under the laws and regulations relating to physician billing for services provided to beneficiaries of federally-funded health care programs. As part of this investigation, the government has asked for a broad range of information from UWP and related institutions, including the University of Washington Medical Center. The University and its

counsel believe it is too early to provide any meaningful assessment of the risk, if any, associated with this investigation to the University.

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 involving self-sustaining units, bond-financed buildings, and where otherwise required by contract; otherwise, the risk of property loss is retained, unfunded. For professional, general, employment, and automobile liability, the University maintains a program of self-insurance reserves and excess insurance coverage.

The self-insurance reserve represents the estimated ultimate cost of settling claims relating to events that have occurred on or before the balance sheet date. The reserve includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The self-insurance reserve is estimated through an actuarial calculation using individual case-basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the self-insurance reserve is adequate. Changes in the self-insurance reserve for the years ended June 30, 1999 and 2000, are noted below.

	1999	2000
RESERVE AT BEGINNING OF FISCAL YEAR	\$ 32,453	\$ 32,096
INCURRED CLAIMS AND CHANGES IN ESTIMATES	5,905	7,225
CLAIM PAYMENTS	(6,262)	(7,617)
<b>RESERVE AT END OF FISCAL YEAR</b>	<b>\$ 32,096</b>	<b>\$ 31,704</b>

Dollars in thousands



## Board of Regents

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*as of June 30, 2000*

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# Facts

<b>STUDENTS</b>	<b>1999–2000</b>	<b>1994–1995</b>	<b>1989–1990</b>
<b>Autumn Enrollment</b>			
Undergraduate	28,125	25,890	24,442
Graduate	8,606	7,967	7,483
Professional	1,709	1,312	1,313
<b>TOTAL</b>	<b>38,440</b>	<b>35,169</b>	<b>33,238</b>
Extension <sup>1</sup>	26,277	23,661	21,317
<b>Number of Degrees Awarded</b>			
Bachelor's	6,923	6,564	5,387
Master's	2,151	1,936	2,106
Doctoral	486	482	457
Professional	428	371	389
<b>TOTAL</b>	<b>9,988</b>	<b>9,353</b>	<b>8,339</b>
<b>INSTRUCTIONAL FACULTY</b>	3,271	3,053	3,200
<b>FACULTY AND STAFF</b> <sup>2</sup>	22,646	20,871	18,775
<b>RESEARCH FUNDING – ALL SOURCES</b> <i>(in thousands of dollars)</i>	\$ 652,000	\$ 477,000	\$ 346,000
<b>CURRENT FUNDS REVENUES</b> <i>(in thousands of dollars)</i>			
Gifts, Grants, and Contracts	\$ 643,545	\$ 478,028	\$ 326,220
Auxiliary Enterprises <sup>3</sup> and Other Revenues	775,518	513,036	296,032
State Appropriations	322,079	257,176	241,084
Tuition and Fees	246,895	176,861	110,759
<b>CURRENT FUNDS EXPENDITURES</b> <i>(in thousands of dollars)</i>			
Instruction, Academic Support, and Student Services	\$ 596,317	\$ 443,634	\$ 372,581
Research and Public Service	456,040	328,509	212,176
Auxiliary Enterprises <sup>3</sup>	621,354	385,719	201,005
Student Aid	80,530	59,805	37,723
Administration and Physical Plant	197,554	175,802	119,649
<b>ENDOWMENT FUNDS</b> <sup>4</sup> <i>(in thousands of dollars)</i>	\$ 859,000	\$ 319,000	\$ 143,000
<b>SQUARE FOOTAGE</b> <sup>5</sup> <i>(in thousands of square feet)</i>	15,800	14,500	13,200

<sup>1</sup> Course registrations

<sup>2</sup> Full-time equivalents

<sup>3</sup> Includes UWMC

<sup>4</sup> Stated at fair value

<sup>5</sup> Gross square footage, all campuses