



**W** UNIVERSITY *of* WASHINGTON | 2008

# ANNUAL REPORT

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## FACTS

	2007–2008	2002–2003	1997–1998		2007–2008	2002–2003	1997–1998
<b>STUDENTS</b>				<b>RESEARCH FUNDING – ALL SOURCES</b>	\$ 1,040,000	\$ 933,000	\$ 557,000
<b>Autumn Enrollment</b>				<i>(in thousands of dollars)</i>			
Undergraduate	32,263	31,474	27,780	<b>SELECTED REVENUES</b> <i>(in thousands of dollars)</i>			
Graduate	10,573	9,768	8,145	Gifts, Grants, and Contracts	\$ 1,115,974	\$ 975,915	\$ 549,756
Professional	1,803	1,721	1,662	Auxiliary Enterprises <sup>3</sup> and Other Revenues	1,358,109	1,013,253	690,167
<b>TOTAL</b>	<b>44,639</b>	<b>42,963</b>	<b>37,587</b>	State Appropriations (Operating)	388,485	332,518	290,466
Extension <sup>1</sup>	56,097	36,203	28,643	Tuition and Fees <sup>4</sup>	419,690	282,132	217,551
<b>Number of Degrees Awarded</b>				<b>SELECTED EXPENSES</b> <i>(in thousands of dollars)</i>			
Bachelor's	8,306	8,053	7,065	Instruction, Academic Support, and Student Services	\$ 1,122,688	\$ 790,088	\$ 498,272
Master's	2,877	2,735	2,092	Research and Public Service	654,468	526,193	368,399
Doctoral	631	495	478	Auxiliary Enterprises <sup>3</sup>	910,639	686,780	521,032
Professional	500	469	389	Institutional Support and Physical Plant	324,613	254,890	161,715
<b>TOTAL</b>	<b>12,314</b>	<b>11,752</b>	<b>10,024</b>	<b>CONSOLIDATED ENDOWMENT FUNDS</b> <sup>5</sup>	\$ 2,161,000	\$ 1,000,000	\$ 582,000
<b>INSTRUCTIONAL FACULTY</b>	3,820	3,490	3,198	<i>(in thousands of dollars)</i>			
<b>FACULTY AND STAFF</b> <sup>2</sup>	28,776	25,587	21,117	<b>SQUARE FOOTAGE</b> <sup>6</sup> <i>(in thousands of square feet)</i>	19,191	17,100	15,300

<sup>1</sup> Course registrations

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

<sup>3</sup> Includes UW Medical Center

<sup>4</sup> Net of scholarship allowances of \$72,031,000 in 2007-2008 and \$40,481,000 in 2002-2003

<sup>5</sup> Stated at fair value

<sup>6</sup> Gross square footage, all campuses

# PRESIDENT'S MESSAGE



**B**y any measure, this was another successful year for the University of Washington. When I reflect on the academic accomplishments and breakthrough discoveries, I am acutely aware that they would not be possible without the talented people at the University and our dedicated partners in the community. Our students, faculty, researchers and staff achieve at such high levels year after year because, like you and the people in this region, they care deeply about our world and are committed to solving the most pressing challenges of not only today, but also tomorrow.

Today's problems are not easy to fix, the current economic crisis being a prime example. Like other institutions across the country, the UW is feeling the impact of a bad economy. Yet while we face significant economic challenges, we are also focused on the essential role the University plays in solving them. Education and innovation are the key drivers of economic growth. That's what we do. Our state and our region rely on us to provide an educated workforce that can produce new ideas and services that will fuel the economy. Moreover, the problems facing our world — such as crises in the environment, health care, and energy, to name only a few — are not going to wait for the economy to improve. We cannot afford to ignore them. And at the UW, we're not.

With the establishment of the new College of the Environment, our faculty and students will play a growing role in finding solutions to the problems threatening the sustainability of our natural world. Likewise, improving human health continues to be a top priority. As a public research university, we have the responsibility and the capacity to make advancements that help people everywhere lead healthier lives.

**» Now is the time to continue investing in the future and doing what we do best — making discoveries that improve and shape our world.**

MARK A. EMMERT

The UW also remains fully committed to providing global learning and service opportunities for our students. Students benefit from engaging with the world beyond our campuses, as do those communities where they study and work. Within these pages, you will meet two UW seniors who were studying in central China last year when a magnitude 7.9 earthquake struck. They had the option of evacuating, but they stayed and made a difference through their compassion and dedication.

These achievements can only happen with extraordinary support. The success of

Campaign UW: Creating Futures is boosting the University's ability to make a difference today and tomorrow. Nearly 300,000 generous donors made gifts and pledges of \$2.68 billion to support and partner with the UW's people and programs. I am profoundly grateful to these Campaign donors, whose generosity is strengthening every corner of our three campuses.

Public funding for the University is also an essential resource. While our past two biennial budgets were excellent, the widespread economic downturn means we now face serious challenges to state funding. We must work together to use resources effectively and ensure that educating our state's citizens remains a priority.

The UW has made great strides this past year, and it's important that we stay the course. Now is the time to continue investing in the future and doing what we do best — making discoveries that improve and shape our world. Thanks to the foresight and commitment of UW students, faculty, researchers and staff and our business and community partners, this is a promise we will continue to fulfill.

A handwritten signature in blue ink that reads "Mark A. Emmert". The signature is fluid and cursive, written in a professional style.

MARK A. EMMERT ('75)  
PRESIDENT



# › STORIES OF ACHIEVEMENT

3 IMPROVING HEALTH HERE AND AROUND THE GLOBE   4 UNDERSTANDING OUR ENVIRONMENT   5 UNLOCKING THE PROMISE OF TECHNOLOGY  
6 LEADING THE CHARGE FOR A GENERATION OF GLOBAL CITIZENS

# IMPROVING HEALTH HERE AND AROUND THE GLOBE



**W**hether analyzing Puget Sound health trends or providing medical services to people in rural Africa, University of Washington researchers, educators, students and practitioners are advancing understanding of human health and improving the well-being of people everywhere.

Adam Drewnowski grabbed headlines nationwide with his research that found the best predictor of obesity is your ZIP code. Drewnowski, director of the UW Center for Obesity Research, found that in Seattle, obesity rates reached 30 percent in ZIP codes with the lowest property values, but were only around five percent in ZIP codes with the highest property values. "Obesity is an economic issue," Drewnowski says. "Some of the most disadvantaged areas — those hardest hit by low income, low education and low property values — are also the ones most affected by the obesity epidemic." Being able to predict vulnerable neighborhoods can help policymakers use nutrition education and other programs where they are needed most, he says.

Half a world away in Gabon, Africa, Lillian Benjamin ('08), also sees the same undeniable link between economic status and health as she provides nutritional counseling, immunizations, and other health services to

children and pregnant women as part of her Albert Schweitzer Fellowship and UW-based Thomas Francis Jr. Global Health Fellowship. "Two days a week, we visit villages up to 100 kilometers away from the hospital, as well as provide the same services at the hospital. One thing that has drawn me to global health is how small changes such as immunizations, prenatal care, family planning and health education can have a big impact," she says. Benjamin was part of the first class to graduate from the UW's Department of Global Health, earning a master's of Public Health in Global Health concurrently with a master's in International Studies from the Jackson School of International Studies.

» **One thing that has drawn me to global health is how small changes such as immunizations, prenatal care, family planning and health education can have a big impact.**

LILLIAN BENJAMIN ('08)

The UW is a leader in health care issues on a global level. The creation in 2007 of the interdisciplinary Department of Global Health, a joint endeavor of the UW's School of Medicine and School of Public Health and Community

Medicine, further strengthened the UW's position, as did the subsequent establishment of the Institute for Health Metrics and Evaluation, a major independent source of global health information in the world.

As its global health efforts expand, the UW remains firmly committed to improving the health of people in our community, with top health education, services and research. Both the School of Medicine's primary care program and the School of Nursing have held No. 1 spots in *U.S. News & World Report's* annual rankings the past 15 years. The UW Medical Center was ranked tenth nationally in *U.S. News & World Report's* 2008 publication of *America's Best Hospitals*. Last year, UW-managed Harborview Medical Center received the Foster G. McGaw Prize, a national health-care award recognizing excellence in community service. In 2007, Harborview provided nearly \$124 million in charity health care.

## LEARN MORE ON THE WEB

**UW Center for Obesity Research:**  
[depts.washington.edu/uwecor](http://depts.washington.edu/uwecor)

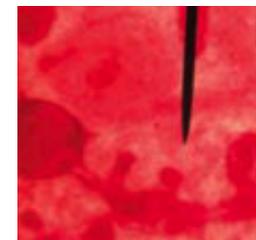
**Department of Global Health:**  
[depts.washington.edu/deptgh](http://depts.washington.edu/deptgh)

**Institute for Health Metrics and Evaluation:** [healthmetricsandevaluation.org](http://healthmetricsandevaluation.org)

**ABOVE:** Lillian Benjamin ('08), part of the first class to graduate from the UW's Department of Global Health, providing health care services in Gabon, Africa

**BELOW TOP:** UW researcher Adam Drewnowski explores how economics relates to obesity

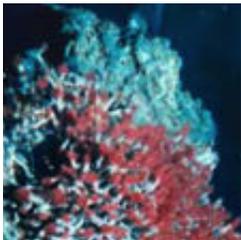
**BELOW BOTTOM:** From the cell level up, UW researchers are involved in every aspect of understanding and improving human health



# UNDERSTANDING OUR ENVIRONMENT



**ABOVE:** Jeff Bowman ('08) and Victoria Campbell ('08) prepare to return to the UW's research ship after collecting ice samples near the Marjorie Glacier as part of last spring's Senior Research Cruise  
**BELOW TOP:** The UW is a leader in the Ocean Observatories Initiative, which will expand knowledge about our oceans  
**BELOW BOTTOM:** Compostable cups are one example of the UW's commitment to sustainability on its campuses



Last spring, 21 University of Washington seniors and their professors set sail on the Thomas G. Thompson research vessel to see for themselves the dynamic and fragile environment of Alaska's Glacier Bay National Park and Preserve. Carmela Llaneta ('08) researched the effects of retreating glaciers on sediment, one of nearly a dozen student projects aimed at better understanding the impact of global warming on this unique environment. "In the classroom, you can learn about sediment and what it's supposed to look like, but actually working in Glacier Bay gave us a real feel for how oceanographers work," Llaneta says.

The oceanography research cruise has been an annual tradition for decades, but until recently, the expeditions did not stray from Puget Sound. "Currently we take students far afield, reflecting the belief that global issues can be addressed through student research," Oceanography Associate Professor Rick Keil says. "In a time when federal funding for national parks is meager, the oceanography students wished to conduct their research in an environment where their findings could have an immediate impact."

This emphasis on understanding the environment beyond the Puget Sound is also reflected

**» The UW is uniquely positioned to be the country's leading university for environmental research and education.**

PROVOST AND EXECUTIVE VICE PRESIDENT PHYLLIS WISE

in a collaborative project aimed at unlocking a wealth of information about global warming, earthquakes, tsunamis and life in the ocean's depths. The UW's Applied Physics Laboratory and the School of Oceanography are major players in the National Science Foundation's (NSF) Ocean Observatories Initiative (OOI), and are responsible for designing and constructing a massive cabled system of networked sensors associated with the Juan de Fuca tectonic plate in the northeast Pacific Ocean.

The NSF approved OOI's preliminary design in December 2007. "Much of this year has been spent gearing up to successfully pass the final design review, a major step for this program," says UW Oceanography Professor John Delaney, director of OOI's cabled network component. He served as the chief scientist of a 2008 summer research expedition that deployed a robotic submarine to create extremely detailed maps of parts of the ocean floor in two key OOI study areas.

While the UW is a leader in ocean-based ecology issues, it is also taking a leadership role on land issues, helping to develop sustainable biofuels from forest byproducts in a partnership launched in 2007 by the College of Engineering, College of Forest Resources and the American Indian Studies Program. The research is made possible in part by a NSF Integrative Graduate Education and Research Training award.

With more than 400 faculty members engaged in understanding the natural environment and with the Board of Regents approving a new College of the Environment in June, the UW is ready to further advance environmental understanding. "The UW is uniquely positioned to be the country's leading university for environmental research and education," UW Provost and Executive Vice President Phyllis Wise says.

## LEARN MORE ON THE WEB

**UW Senior Research Cruise 2008:**  
[courses.washington.edu/ocean444/2008](http://courses.washington.edu/ocean444/2008)

**Ocean Observatories Initiative:**  
[ooi.washington.edu](http://ooi.washington.edu)

**College of the Environment:**  
[coenv.washington.edu](http://coenv.washington.edu)

# UNLOCKING THE PROMISE OF TECHNOLOGY



**Y**oky Matsuoka's neurobotics lab is scattered with a bewildering array of lifelike mechanical hands, fingers and arms that wiggle and move on the very edge of what is currently possible and what might one day be.

Matsuoka, a UW Computer Science & Engineering associate professor, is working with students in mechanical and biological engineering, robotics, neuroscience and art to construct the most anatomically correct prosthetic hand in the world — controlled by thought, through direct connection to the user's brain.

"The only way to get the movement intention and full dexterity is to utilize what already exists in the brain," says Matsuoka, who in 2007 won a MacArthur Foundation "genius grant" and was named one of *Popular Science* magazine's "Brilliant Ten." Her lab has taken the lead in developing a functional, durable neurochip for passing messages from mind to machine. The technology holds incredible promise for stroke victims, people with missing limbs and those with severe spinal cord injuries.

While Matsuoka works to serve those with limited movement, UW computer scientists and electrical engineers are using technology to assist people with other disabilities.

MobileASL and WebAnywhere, separate projects involving Richard Ladner, Boeing Professor in Computer Science & Engineering, are making cell phone communication for the deaf and Internet usage for the blind a reality.

## » WebAnywhere is a way to give blind computer-users the same access other people enjoy.

UW DOCTORAL STUDENT JEFFREY BIGHAM

Ladner first saw the impact of service-oriented technology when his parents, who are deaf, got a surplus teletypewriter and acoustic modem in the 1970s, finally enabling them to use a telephone. This past spring, he and a group of colleagues led by Electrical Engineering Professor Eve Riskin, demonstrated MobileASL, which enables deaf individuals to effectively sign through video over cell phones. WebAnywhere, a free Web-based service that reads text aloud, was developed by doctoral student Jeffrey Bigham under Ladner's supervision. "WebAnywhere is a way to give blind computer-users the same access other people enjoy," Bigham says. WebAnywhere was recently awarded the Microsoft Imagine Cup Accessible Technology Award and the 2008 Mellon Award for Technology Collaboration.

Another group of UW researchers are engaging technology — and the public — to help unravel some long-standing scientific challenges. Computer Science & Engineering researchers, led by Associate Professor Zoran Popović, and a Biochemistry team led by David Baker, developed a Web-based game called "Foldit." Foldit presents protein folding, the process by which DNA proteins fold into extremely complex three-dimensional patterns to determine their function, as an online puzzle that has attracted nearly 60,000 players worldwide. Understanding these patterns may hold keys to curing diseases such as AIDS and Alzheimer's. "Long-term, I'm hoping that we can get a significant fraction of the world's population engaged in solving critical problems in world health," says Baker, winner of the 2008 Raymond & Beverly Sackler International Prize in Biophysics.

## LEARN MORE ON THE WEB

**Neurobotics Laboratory:**  
[neurobotics.cs.washington.edu](http://neurobotics.cs.washington.edu)

**Mobile ASL:** [mobileasl.cs.washington.edu](http://mobileasl.cs.washington.edu)

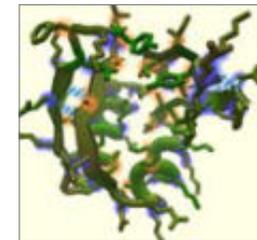
**WebAnywhere:**  
[webanywhere.cs.washington.edu](http://webanywhere.cs.washington.edu)

**Foldit:** <http://fold.it>

**ABOVE:** Yoky Matsuoka, recipient of a 2007 MacArthur Foundation "genius grant"

**BELOW TOP:** Foldit, a Web-based game developed at the UW, enlists people worldwide in solving a daunting scientific challenge

**BELOW BOTTOM:** Boeing Professor in Computer Science & Engineering Richard Ladner works on technology that helps people with disabilities



# LEADING THE CHARGE FOR A GENERATION OF GLOBAL CITIZENS



**ABOVE:** UW senior Steven Margitan stayed in China after an earthquake struck and helped raise money to support children and other quake victims

**OPPOSITE PAGE, ABOVE:** Last summer's earthquake in China, with an epicenter in Sichuan province, killed nearly 70,000 people and left millions homeless

Even before disaster struck, University of Washington students Geoffrey Morgan and Steven Margitan were engaged in helping communities near Sichuan University in Chengdu, China, where they were exchange students with the UW Worldwide program. Morgan, a senior honors student majoring in International Studies and Civil and Environmental Engineering, was helping rebuild a faulty water project, bringing fresh water to many homes for the first time. Margitan, a senior honors student majoring in International Studies, was helping Chinese students with their English.

For Morgan and Margitan, deciding to continue to help the community after a devastating earthquake May 12 was a natural choice. Within hours of the 7.9 magnitude quake, which leveled entire cities and left millions homeless, they were given the option to suspend their studies and evacuate. Both decided to stay and help. "It would have been hard to go home, pack my things and tell my host family 'Thanks and good luck, but I am jumping town,'" Margitan says.

Within two days, as conditions in Chengdu rapidly deteriorated, Morgan and Margitan, along with other UW students and faculty, helped local relief organizations ship three busloads of water to the hardest hit areas. Within one week, they had created an organization, China Earthquake Aid (CEA), to assist local Chinese organizations. CEA's volunteers include Stevan Harrell, a UW anthropology professor who directs the University's Worldwide Sichuan University Exchange Program, as well as students and business people living in Chengdu. The group collected

## »» The UW gives students a lot of opportunities to learn about global issues.

UW SENIOR GEOFFREY MORGAN

more than 5,000 cards and letters from American and Chinese students for children in the earthquake-affected areas. It also created a Web site to collect donations and share progress, and it participated in an airlift of 100 tents to some of the most devastated, remote areas.

As word of the magnitude of the destruction spread across the globe, nearly \$65,000 in aid poured in from UW students, faculty and staff. The Foundation for International Understanding Through Students (FIUTS), a nonprofit organization founded at the University of Washington in 1948, created a disaster relief fund to channel donations to the project. The Chinese Students Association and the Chinese Students and Scholars Association at the UW held a donation drive and a candlelight vigil in Red Square that raised \$5,000 for Morgan and Margitan's group to buy nearly 1,000 Chinese-English dictionaries and hundreds of pounds of school supplies, including crayons, colored pencils and more than 2,000 pencils.

"The support of the University community was incredible," Margitan says. "My inbox was flooded with email from professors and advisors inquiring about the situation and asking if I was okay. So many people, even people I had never met, were eager to help and support our efforts. Seeing this kind of response from the University community meant a lot to me."



» **Much of the ownership, as it should, comes down to the student, but all the opportunities for growth and development are here on campus. The UW has pushed me to expand boundaries, adopt other points of view and grow as a student and global citizen.**

UW SENIOR STEVEN MARGITAN

In September, CEA's efforts were honored with the FIUTS Shigemura Award for International Understanding. For more than 50 years, FIUTS has presented the Shigemura Award annually to an outstanding student, community member or organization that has been instrumental in promoting international understanding in the local community. Margitan and Morgan are now back at the UW completing their studies, but their work with CEA continues, with a shift in focus reflecting China's current needs.

"The main relief effort was originally taking care of physical trauma, but now we're shifting our focus to psychological trauma," Morgan

says. Currently, CEA is focusing on services for children, including collecting letters of support from American children and providing school supplies and books to refill libraries in the disaster zone so children can continue their education. Morgan says it has been his goal to find ways to help people. "That's why I combined my two degrees, Civil and Environmental Engineering and International Studies, so I can work on development projects that help people. The UW gives students a lot of opportunities to learn about global issues," Morgan says.

Margitan agrees: "Much of the ownership, as it should, comes down to the student, but all the opportunities for growth and development are here on campus. The UW has pushed me to expand boundaries, adopt other points of view and grow as a student and global citizen."

**LEARN MORE ON THE WEB**

**China Earthquake Aid:**  
[www.chinaearthquakeaid.org](http://www.chinaearthquakeaid.org)

**Foundation for International Understanding Through Students (FIUTS):**  
[fiuts.washington.edu](http://fiuts.washington.edu)



LEFT: China Earthquake Aid raised money to help those affected by the natural disaster

BELOW LEFT: Senior Geoffrey Morgan plans to work on international development projects after graduating

BELOW RIGHT: Chinese schoolchildren received letters and school supplies





# › FINANCIAL HIGHLIGHTS

9 CAPITAL BUDGET AND CAMPUS CONSTRUCTION   10 FUNDING AND OPERATIONS   11 BUSINESS DIVERSITY PROGRAM MAKES UW PURCHASING MORE ACCESSIBLE  
12 INVESTMENTS   13 A CAMPAIGN THAT IS CHANGING LIVES   14 DEBT FINANCING   15 INTERNAL LENDING PROGRAM PROVIDES GREATER COST STABILITY

# Capital Budget and Campus Construction

The University of Washington's capital projects continue to provide modern facilities for world-class research and teaching. Major construction projects in fiscal year 2008 include the following:

## Warren G. Magnuson Health Sciences Center H-Wing Renovation

Renovation of the 95,000-square-foot original wing provides modern laboratory and office space for School of Medicine departments of Physiology and Biophysics and Biological Structures. This \$40 million renovation was funded from a combination of state, federal facilities grants, and other University sources.

## Savery Hall Renovation

Renovation will preserve the core facility and improve the academic space of this 102,100-square-foot instructional building. Construction of a computer resource center, classrooms and an auditorium for the departments of Economics, Philosophy and Sociology in the College of Arts & Sciences is underway and will be completed by autumn quarter 2009. State funding of \$61.5 million was appropriated for this renovation.

## Clark Hall Renovation

Constructed in 1896, Clark Hall is one of the oldest buildings on the Seattle campus. State funding of \$18 million was appropriated for this 30,500-square-foot renovation, which will be completed in March 2009. It will continue to house instructional

programs for Navy, Army and Air Force students pursuing UW degrees.

## Floyd and Delores Jones Playhouse Renovation

State funding of \$7.6 million provided for the basic renovation of the core facility. Private funding of \$2.3 million was contributed to enhance the project and University funding was approved for the balance of this \$10.7 million project. The construction will be completed for the School of Drama teaching program, offering students an opportunity to stage productions beginning in early 2009.

## UW Tower Capital Projects

University programs have moved into most of the 22-story office building and connected low-rise buildings, which combined have approximately 510,000 square feet of space. The project budget for the interior capital improvements for these offices is \$13 million.

The Tower Data Center project is an interior renovation and utility upgrade. The design phase has been completed for this 30,000-square-foot project in selected areas of the low-rise building C. Construction is expected to be complete by September 2009. State funding of \$20 million was appropriated for the Tower Data Center project and additional funding of \$12 million was provided from debt to be repaid by research revenue.

## West Campus Parking Garage Expansion

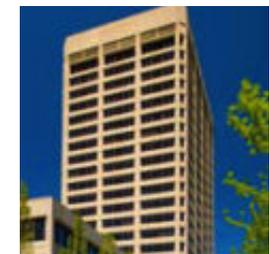
This five-story addition will add parking to the Seattle southwest campus to meet current and future demand due to the construction of additional buildings. The forecast cost of \$17.9 million will be funded from a combination of debt and local sources. Construction is in progress and scheduled for completion in May 2009.



LEFT: Renovation of Clark Hall is scheduled for completion this spring

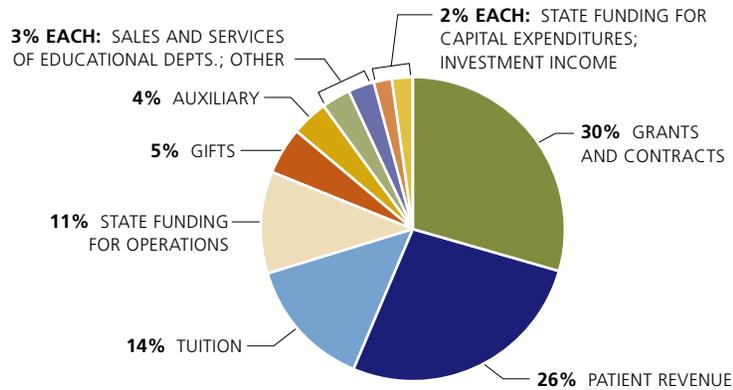
BELOW LEFT: Savery Hall houses the Economics, Philosophy and Sociology departments

BELOW RIGHT: The UW Tower, formerly owned by Safeco Insurance, now houses many UW programs

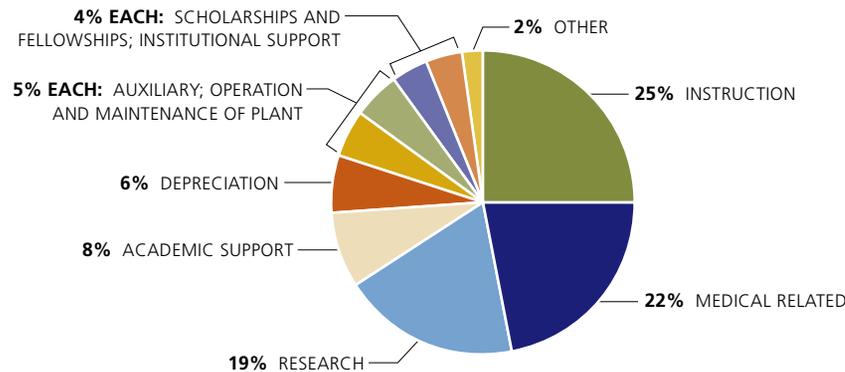


# Funding and Operations

Sources of Funds



Uses of Funds



- The University of Washington has a diversified revenue base. No single source generated more than 30 percent of the total fiscal year 2008 revenues of \$3.5 billion.
- State operating appropriations were \$388 million, or 11 percent of total revenues. The UW relies heavily on such funding for instructional activities.
- Grants and contracts generated \$1.1 billion of current-year revenue (30 percent), a six percent increase over fiscal year 2007. These funds provided the opportunity for graduate and undergraduate students to work with nationally recognized faculty in research as part of their educational experience.
- Income from gifts totaled \$177 million (five percent). This is an increase of \$3 million over the previous year.
- Two primary functions of the University, instruction and research, accounted for 44 percent of total operating expenses. These dollars provided instruction to more than 44,000 students and funded 5,400 research awards.
- The UW provided students with scholarships and fellowships, (including scholarship allowances of \$72 million), totaling \$143 million. This represented four percent of operating expenditures.



## BUSINESS DIVERSITY PROGRAM MAKES UW PURCHASING MORE ACCESSIBLE

Lynn Beck, Business Diversity specialist, and Shaun Spearmon, Business Diversity manager, of the UW's Business Diversity Program

**A** revamped and reorganized University of Washington Business Diversity Program is working to make the University more accessible to Washington state's minority- and women-owned businesses, and raise awareness among units that purchase goods and services for the UW.

The Business Diversity Program resides within Strategy Management, a department of UW Finance and Facilities, and is staffed by a manager and business diversity specialist. This program is advised by a board that includes members from Purchasing Services, Capital Projects Office, e-Commerce, Housing and Food Services, Facilities Services, UW Medical Center, Harborview Medical Center and others.

The Business Diversity Program was created to support both the procurement and contracting needs of the UW as well as promote the vital role diversity plays in Washington. As the state becomes more diverse, support for small, minority- and women-owned businesses is an increasingly important component of the UW's procurement and contracting strategies. The Business Diversity Program serves as a resource to the many schools, colleges and departments on campus that are responsible for making buying decisions.

Through a campus-wide collaboration, the Business Diversity Program has developed numerous outreach opportunities for small businesses to make critical connections with decision-makers throughout the University, an important step

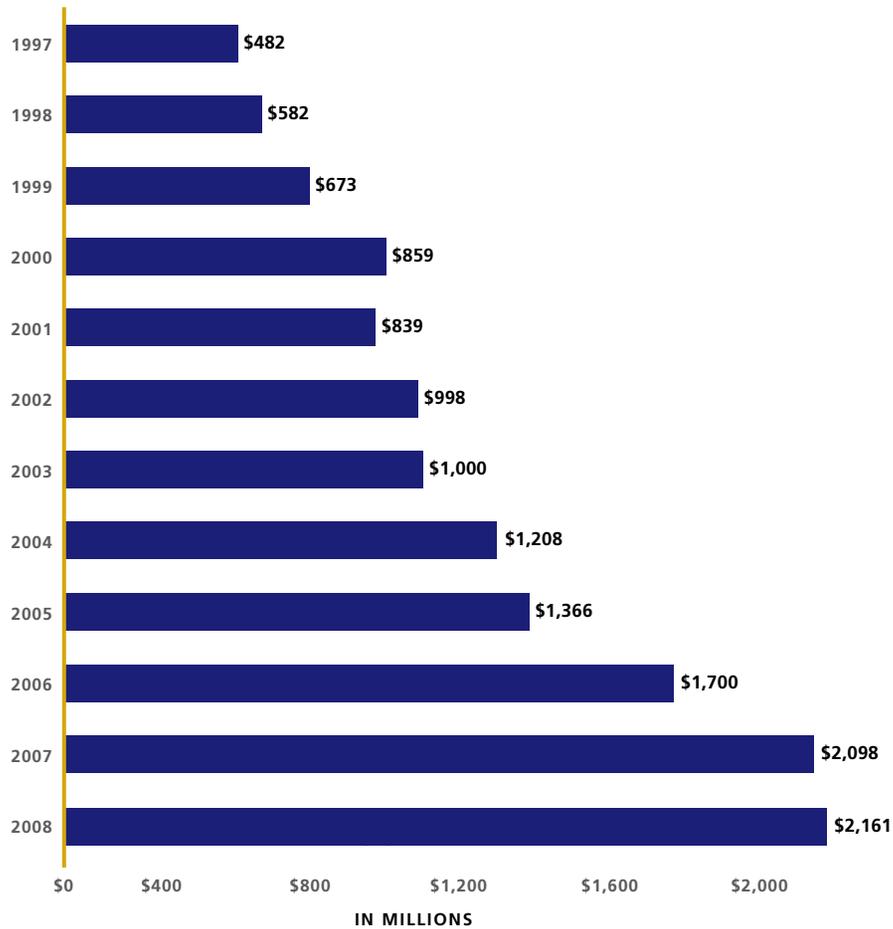
given the decentralized procurement process for small purchases. Workshops have been held for businesses to help familiarize them with how the UW purchases goods and services. The program is also planning events to bring together potential vendors with major campus units that buy goods and services in significant quantity. Resources such as the Diverse Vendor Search Database have been created to make the diverse and local small business community more accessible to the UW staff.

### **LEARN MORE ON THE WEB**

**UW Business Diversity Program:**  
[washington.edu/admin/bdp/index.html](http://washington.edu/admin/bdp/index.html)

# Investments

Growth of Consolidated Endowment Fund: 1997-2008



- 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 operating 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, chairs and research activities.
- 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. On June 30, 2008, the fair market value of the CEF was \$2.2 billion, representing the investments of 2,825 individual endowments.
- During fiscal year 2002, the Board of Regents approved the investment of a portion of the University’s operating funds to establish an endowment. These funds currently comprise \$446 million of the CEF market value.
- Endowed program support over the last 10 years totaled \$562 million. During that period, the average annual total return on the CEF was 9.7 percent.



## A CAMPAIGN THAT IS CHANGING LIVES

UW sophomore Nia Nguyen is able to attend the UW because of a scholarship established during Campaign UW

**A**n unprecedented show of support from nearly 300,000 donors and close to 4,000 volunteers has resulted in the most successful fundraising campaign in the University of Washington's history. Supporters of Campaign UW: Creating Futures, which ended June 30, 2008, are transforming countless lives with their investment of more than \$2.68 billion in the UW.

The eight-year campaign started with an ambitious goal of \$2 billion, the largest Campaign goal for a public institution at the time. Dedicated supporters helped the UW surpass that initial goal in January 2007 and the revised \$2.5 billion target. The result is 179 new endowments for chairs and professorships, 684 new student scholarship and fellowship endowments, nearly \$1.5 billion in program support and more than \$314 million in capital support.

Students like sophomore Nia Nguyen are able to reach their academic goals thanks to new scholarships. "Honestly, I wouldn't be able to attend college without such generous support from the UW," says Nguyen, recipient of a Students First Matching Challenge Endowed Scholarship, created through a Campaign initiative to increase scholarships.

Philanthropic support of Campaign UW is also strengthening the University's faculty. "I can't tell you the number of times that we've been able to recruit, retain, advance, promote and reward faculty because we've been able to obtain a gift that allows us to endow a chair or professorship," UW Provost and Executive Vice President Phyllis Wise says.

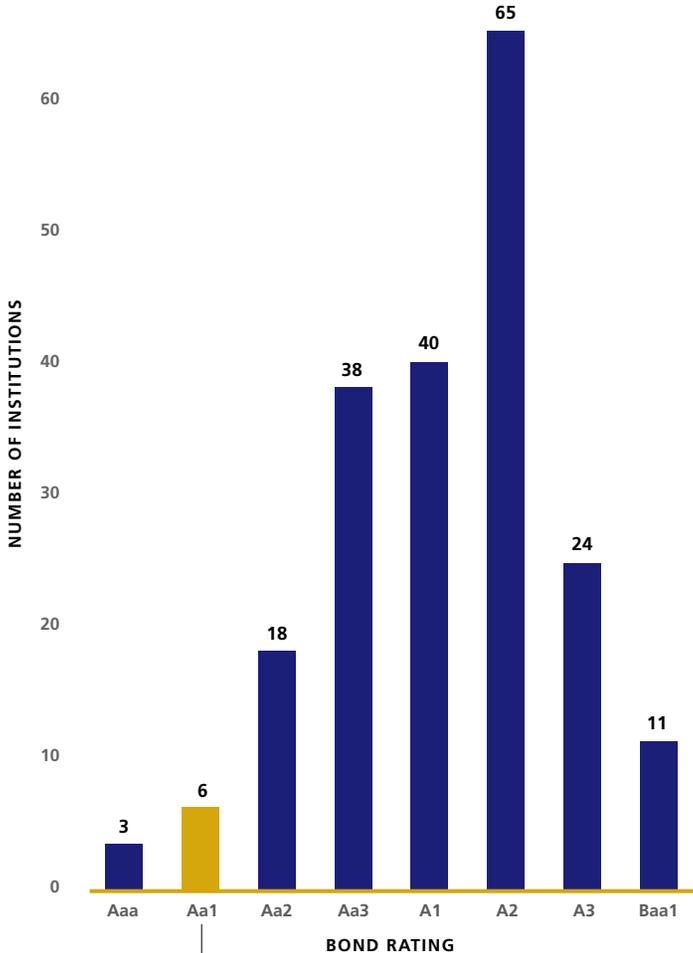
Connie Kravas, vice president of University Advancement, knows that Campaign UW will have a lasting impact. "The University of Washington will be renowned throughout the world as one of the preeminent universities, making a difference not only for the great students who are able to come to the institution, and for what our alumni do with that great education, but for the research and service we provide right here at home and throughout the globe," she says.

### **LEARN MORE ON THE WEB**

**Campaign UW:** [uwfoundation.org](http://uwfoundation.org)

# Debt Financing

Moody's 2008 Public College and University Ratings



The UW had a bond rating of Aa1 in 2008.

- The University's general revenue borrowing platform, established in 2003, has been used to fund research buildings on the Seattle campus and at South Lake Union. Both Moody's and Standard & Poor's have recognized the financial strength of the general revenue platform with their second-highest bond rating, Aa1 from Moody's and AA+ from Standard & Poor's. These ratings put the UW in elite company; only three other public universities have a higher rating and just five others have the same rating.
- Strong ratings carry substantial advantages for the UW: 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 seriously its role of financial stewardship and works hard to manage its financial resources effectively. Continued high debt ratings are important indicators of the University's success in this area.



## INTERNAL LENDING PROGRAM PROVIDES GREATER COST STABILITY

Suzzallo Library and the Broken Obelisk are landmarks on Red Square at the UW's Seattle campus

**T**he UW's Internal Lending Program (ILP) was created in 2008 to provide low-cost capital funding for internal borrowing units at stable and predictable interest rates.

The ILP is an integral part of the Strategic Treasury Management Initiative. Other components of this initiative include managing the University's cash flows and operating balances.

Under the ILP, University borrowers will be able to secure loans for capital projects at a uniform interest rate. This internal rate will be buffered against rate volatility through the use of a rate-stabilization fund.

The ILP separates the issuance of external debt from specific capital projects by providing just-in-time short-term funding for individual projects. The main vehicle for short-term funding will be

through the use of the University's commercial paper program, which was implemented in 2006. Outstanding commercial paper will be periodically redeemed with the proceeds from the issuance of long-term General Revenue Bonds.

By pooling University revenues, only issuing debt when needed, and creating a fund to maintain rate stability, the University is able to provide more stability and lower costs of capital.



# › FINANCIAL STATEMENTS

AND REQUIRED SUPPLEMENTAL INFORMATION

**17** MANAGEMENT'S DISCUSSION AND ANALYSIS   **23** INDEPENDENT AUDITORS' REPORT   **24** BALANCE SHEETS  
**25** STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS   **26** STATEMENTS OF CASH FLOWS   **27** NOTES TO FINANCIAL STATEMENTS

# Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington ("University") for the years ended June 30, 2008 and 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section.

## Using the Financial Statements

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

## Financial Health

### BALANCE SHEETS

The Balance Sheets present the financial condition of the University at the end of the last two fiscal years and report all assets and liabilities of the University. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2008, 2007, and 2006, follows:

(in millions)	2008	2007	2006
<b>Current assets</b>	\$ 1,404	\$ 1,188	\$ 937
<b>Noncurrent assets:</b>			
Capital assets, net	2,714	2,609	2,374
Other	3,309	3,303	2,886
<b>Total assets</b>	<b>7,427</b>	<b>7,100</b>	<b>6,197</b>
<b>Current liabilities</b>	1,189	994	859
<b>Noncurrent liabilities</b>	1,101	1,132	960
<b>Total liabilities</b>	<b>2,290</b>	<b>2,126</b>	<b>1,819</b>
<b>Net assets</b>	<b>\$ 5,137</b>	<b>\$ 4,974</b>	<b>\$ 4,378</b>

The excess of current assets over current liabilities of \$215 million in 2008 reflects the continuing ability of the University to meet its short-term obligations. Current assets consist primarily of cash, short-term investments, collateral from securities lending and accounts receivable. Total current assets increased by \$216 million, to \$1.4 billion at June 30, 2008. The June 30, 2007 balance of \$1.2 billion was an increase of \$251 million from 2006. The current asset balance fluctuates primarily due to changes in the securities lending collateral and short-term investments. The short-term portion of the University's investment portfolio can fluctuate based upon changes in investment mix and the expected short-term needs for University funds.

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

The University reports its "equity" in four categories:

- Invested in Capital Assets (net of related debt) – This is the University's total investment in property, plant, equipment and infrastructure, net of accumulated depreciation and outstanding debt obligations related to those capital assets;

- Restricted Net Assets:

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

The University's net assets at June 30, 2008, 2007, and 2006 are summarized as follows:

(in millions)	2008	2007	2006
<b>Invested in capital assets, net of related debt</b>	\$ 1,831	\$ 1,745	\$ 1,658
<b>Restricted:</b>			
Nonexpendable	903	812	723
Expendable	1,396	1,465	1,142
<b>Unrestricted</b>	<b>1,007</b>	<b>952</b>	<b>855</b>
<b>Total net assets</b>	<b>\$ 5,137</b>	<b>\$ 4,974</b>	<b>\$ 4,378</b>

Net investment in capital assets increased \$86 million, or 5% in 2008 and \$87 million, or 5% in 2007.

This balance increases as debt is paid off or when the University purchases fixed assets without financing. This balance decreases as assets are depreciated.

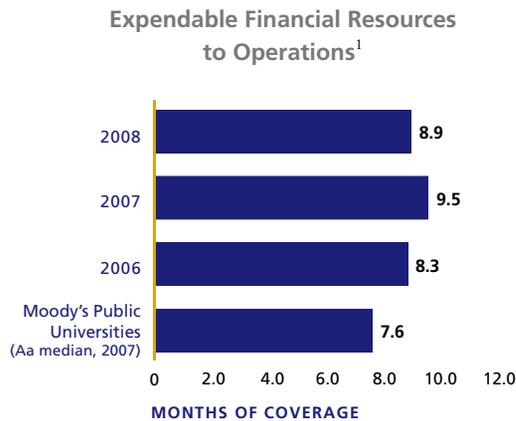
Restricted nonexpendable net assets grew \$91 million, or 11% in 2008, and \$89 million, or 12%, in 2007 as a result of new endowment gifts.

Restricted expendable net assets decreased \$69 million, or 5%, in 2008, and grew \$323 million, or 28%, in 2007. This category is affected primarily by new operating and capital gifts, and earnings on restricted investments, including endowments.

# Management's Discussion and Analysis (continued)

Unrestricted Net Assets in 2008 increased by \$55 million, or 6% over 2007. The Unrestricted Net Asset growth in 2007 was \$97 million, or 11%. The increase in both years was driven by increases in tuition revenues and patient service margins, offset by capital expenditures. The 2007 increase also benefited from a strong investment return.

The ratio of expendable financial resources to operations (as defined by Moody's) measures the strength of Net Assets. This ratio, illustrated in the chart below, shows that the University had enough expendable resources from various sources to fund operations for a period that exceeded eight months in each of the last three years.



## Endowment and Other Investments

The Consolidated Endowment Fund (CEF) returned 1.9%, ending the year at \$2.2 billion, compared to a return of 23.3% in the prior year.

Over the past 10 years, the CEF averaged a 9.7% annual return, a performance that ranks in the top half of the 50 largest college and university endowments as measured by Cambridge Associates.

The Invested Funds (IF), or operating monies of the University, returned 7.0% for fiscal year 2008 and 5.4% in 2007, ending the 2008 fiscal year with a market value of \$869 million.

## Capital Improvements and Related Debt

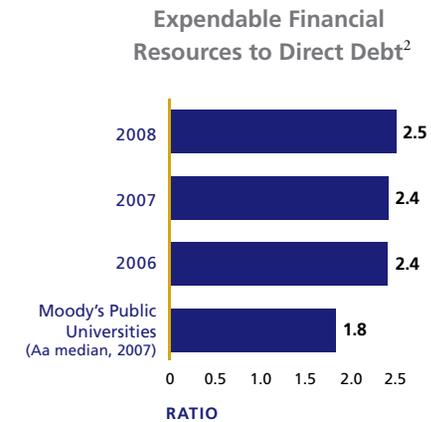
In 2008, capital expenditures included \$65 million to complete the construction of a medical research facility started in 2006, and \$24 million to finish the seismic bracing, infrastructure upgrades and renovation at the Health Science Center. Additional expenditures in 2008 included \$20 million for renovation of Clark Hall, Savery Hall, and the Floyd and Delores Jones Playhouse, as part of the Restore the Core plan.

The medical research facility was funded by proceeds from debt issued in a prior year. State funding and University sources funded the Health Science Center improvements, and the Restore the Core plan was supported by state appropriations.

In 2007, capital expenditures included \$130 million for the purchase of an administrative building (the UW Tower), which will centralize related offices and reduce the use of rented facilities, and \$61 million to continue the construction by a component unit of a medical research facility started in 2006. Additional expenditures in 2007 were \$19 million for renovation of the Architecture Hall and \$19 million for the renovation of Guggenheim Hall.

In 2007, total long-term debt for financing capital assets increased by \$176 million to \$1 billion. The largest debt issuance was \$130 million for the purchase of the administrative building (the UW Tower) noted previously. Bonds with a par value of \$59.9 million were issued in 2007 by Washington Biomedical Research Properties II, a component unit, to complete the financing for the construction of the medical research facility previously mentioned. The \$88 million increase in capital asset-related long-term debt in 2006 was primarily due to the initial financing for the medical research building.

The constant trend in the expendable financial resources to debt ratio (as defined by Moody's) shows that the University has sufficient expendable resources to pay its long-term debt obligations 2½ times over.



## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses, and Changes in Net Assets present the University's results of operations and nonoperating items that result in the changes in Net

<sup>1</sup> The sum of Unrestricted Net Assets and Restricted Expendable Net Assets, divided by Total Operating Expenses (Operating Expenses plus interest expense). The result is multiplied by 12 to arrive at months of coverage.

<sup>2</sup> The sum of Unrestricted Net Assets and Restricted Expendable Net Assets, divided by total capital leases, bonds and notes payable outstanding.

Assets for the year. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A condensed comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2008, 2007, and 2006 follows:

(in millions)	2008	2007	2006
Total operating revenues	\$ 2,750	\$ 2,590	\$ 2,420
Operating expenses	3,284	3,071	2,895
Operating loss	(534)	(481)	(475)
Nonoperating revenues, net of expenses	503	907	679
Other revenue	194	170	151
Increase in net assets	163	596	355
<b>Net assets, beginning of year</b>	<b>4,974</b>	<b>4,378</b>	<b>4,023</b>
<b>Net assets, end of year</b>	<b>\$ 5,137</b>	<b>\$ 4,974</b>	<b>\$ 4,378</b>

The University has a diversified revenue base. The following table summarizes revenues from all sources for the years ended June 30, 2008, 2007, and 2006:

(in millions)	2008	2007	2006
Tuition and fees	\$ 420	\$ 397	\$ 358
Patient services	924	857	797
Grants and contracts	1,063	1,001	998
Sales and services of educational departments	111	119	96
Auxiliary Enterprises	146	137	123
State funding for operations	388	366	339
Gifts	177	174	210
Investment income	77	503	294
State funding for capital projects	71	74	37
Other	112	86	56
<b>Total revenue – all sources</b>	<b>\$ 3,489</b>	<b>\$ 3,714</b>	<b>\$ 3,308</b>

### Grant Revenue

The largest source of revenues continues to be from grants and contracts. This revenue increased \$62 million, or 6%, in 2008, compared to an essentially flat trend in 2007 from 2006. The University had a 2% increase in the dollar amount of research awards in the year ended June 30, 2008.

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 to the University's operating margin as a result of this direct expense reimbursement process.

Facility and administrative expenses necessary to support grants and contracts are reimbursed by an indirect cost recovery. The current federal indirect cost recovery is approximately 30 cents for every direct expenditure dollar on these grants and contracts.

Obtaining federal funding for research has become much more competitive; however, the University's global initiative, particularly international health-related grants, continues to grow.

### Primary Non-Grant Funding Sources

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support its non-grant funded educational operating expenses. Tuition and fees, net of scholarship allowances, has continued to grow, increasing 11% from \$358 million in 2006 to \$397 million in 2007, and 6% to \$420 million in 2008. The increases were primarily due to 7% increases in average tuition rates in both years.

The impact of the tuition increase was partially offset by the increase in scholarships (including scholarship allowances) of \$16 million in 2008. The University has flexibility in its ability to set non-undergraduate resident

tuition rates, which helps to compensate for shortfalls in state funding. Course fees related to UW Educational Outreach, the continuing education branch of the University, amounted to \$47 million in 2008, \$43 million in 2007, and \$33 million in 2006.

State appropriations are considered nonoperating revenue under GASB Statement No. 35 standards and are reflected in the nonoperating section of the income statement; however, they are used solely for operating purposes. Included in the 2007 state appropriations amount is a one-time, \$9.5 million appropriation related to a health insurance premium rebate for union employees.

### Patient Services

Revenues from patient services increased \$67 million, or 8%, from \$857 million in 2007 to \$924 million in 2008. In 2007, patient revenues increased \$60 million, which was an increase of 8% over the previous year. The increase is due to both volume and price increases.

### Gifts, Endowments and Investment Income

Investment income and gifts continue to provide the University with an added margin of excellence and the flexibility to respond to special opportunities.

Net investment returns for the years ended June 30, 2008, 2007, and 2006 consisted of the following components:

(in millions)	2008	2007	2006
Interest and dividends	\$ 77	\$ 100	\$ 68
Metropolitan Tract operating income	6	12	6
Net appreciation of fair value of investments	3	399	228
Investment expenses	(9)	(8)	(8)
<b>Net investment income</b>	<b>\$ 77</b>	<b>\$ 503</b>	<b>\$ 294</b>

## Management's Discussion and Analysis (continued)

Net appreciation includes both realized and unrealized gains and losses; however, the unrealized gains are not expendable until the underlying securities have been sold. Net investment income decreased by \$426 million, or 85%, in 2008, and increased \$209 million, or 71% in 2007. The change in unrealized gains was the major factor in the change in Net Assets for both 2008 and 2007. The sharp decline in University investment performance in 2008 was related to market declines through the end of the fiscal year.

The University continues to receive strong support from its donors with total revenue of \$177 million from donors in fiscal year 2008. Gifts are used to support a variety of purposes, including capital improvements, scholarships, research, and endowments for various academic and research chairs.

### Expenses

A comparative summary of the University's expenses by functional classification for the years ended June 30, 2008, 2007, and 2006 is as follows:

(in millions)	2008	2007	2006
<b>Operating expenses:</b>			
Instruction	\$ 824	\$ 783	\$ 717
Research	623	596	599
Public Service	31	35	33
Academic support	265	220	211
Student services	34	31	28
Institutional support	156	140	109
Operation and maintenance of plant	169	175	152
Scholarships and fellowships	71	69	60
Auxiliary enterprises	162	143	126
Medical related	749	689	655
Depreciation	200	190	205
<b>Total operating expenses</b>	<b>\$ 3,284</b>	<b>\$ 3,071</b>	<b>\$ 2,895</b>

In 2008, the University's operating expenses increased \$213 million or 7%, over 2006. Instruction costs grew \$41 million, or 5%, reflecting salary and other cost increases as well as a 3% increase in regular student enrollments and a 15% increase in extension enrollments. Research expenditures, representing sponsored research, increased \$27 million, or 5%, from the prior year, consistent with the 6% increase in grant and contract revenue.

Academic Support grew \$45 million, or 20%, in such areas as the School of Medicine, and the School of Public Health. Institutional Support expenditures increased \$16 million in 2008 from 2007, an increase of 11%. This included an increase in information management technology. The Auxiliary Enterprise growth in expenses of \$19 million, or 13%, was due in part to Intercollegiate Athletics, reflecting a revenue increase, and other enterprise accounts across the University. Medical related expenses grew \$60 million, or 9%, mirroring the 8% increase in patient service revenue.

Of the \$213 million increase in operating expenses in 2008, \$112 million, or 53% of the increase, was due to increases in salaries and benefits, compared to a \$101 million increase in salaries and benefits in the prior year. Salary rate increases ranging from 2% to 4.5% increased salary costs, and increased premiums for health care and retirement resulted in higher benefit expense.

In 2007, the University's operating expenses increased \$176 million, or 6%, over 2006. Instruction increased \$66 million, or 9%, reflecting salary rate increases of 1.6% to 3% as well as other instructional cost increases.

Institutional Support expenses in 2007 increased \$31 million over the prior year. The growth resulted from an increase in purchased services and a general increase in salaries, benefits, supplies, and other expenses. Operation and Maintenance of Plant expenses rose \$23 million in 2007. The primary causes for the increase were higher electricity, fuel costs and rental expenses. Operating expenses of the newly acquired UW Tower and increased purchases of non-capital equipment also contributed to the change.

### Operating Loss

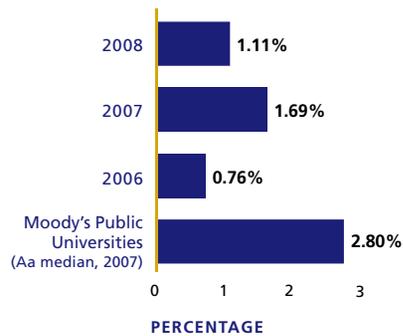
The University's operating loss increased to \$534 million in 2008 from \$481 million in 2007 and \$475 million in 2006. GASB standards require that state appropriations, which are used solely for operations, be classified as nonoperating, thus creating the significant loss. If state appropriations were classified as operating, the operating loss would be as follows for 2008, 2007, and 2006, respectively: \$146 million, \$115 million, and \$136 million. The University continues to rely upon nonoperating revenues in addition to state appropriations to fund its operations, including non-capital gift revenues and investment income distributions.

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

The 2008 operating margin declined to 1.09% from 1.69% in 2007. The 2007 margin was a significant increase over 2006.

Operating margin calculations include an estimated return on the University's investments rather than actual investment income. Therefore, increases or decreases in investment performance in a given year will not necessarily increase or decrease the operating margin.

### Operating Margin Percentage<sup>3</sup>



### Economic Factors Expected to Affect the Future

Funding for the University's operations comes primarily from the following general sources: grants and contracts, patient services, state appropriations, tuition and fees, gifts, and investment income.

Federal support for research may be negatively impacted by economic circumstances; however, the University is attempting to maintain its current share of the research budget.

While net income from patient services increased this year, costs for hospitals continue to increase, and pressure from insurers on revenue increases is expected to continue.

The state of Washington is experiencing an extremely challenging financial situation. The biennial budget deficit for the two-year period beginning July 1, 2009, is estimated at over \$5 billion. This will undoubtedly put pressure on the University's allocation of state dollars, which is used for instruction and academic support

purposes. However, the ability to increase tuition rates, along with continued strong demand for services, offsets some of that pressure.

Recent changes in domestic and foreign economies may adversely affect the University's donor support.

Since June 30, 2008, major U.S. and foreign stock indices have declined significantly. The University is monitoring investment market conditions and the impact such declines are having on its investment portfolios. As of the date of this report, the extreme volatility in the global capital markets continues. The Consolidated Endowment Fund and Invested Funds were down through the first quarter of Fiscal Year 2009 and further declines are expected in the second quarter.

<sup>3</sup> Operating loss, (including interest expense, operating appropriations, an assumed 5% spending rate on investments, and non-permanent endowment gifts), divided by operating revenues (less scholarship expenses, and including operating appropriations, an assumed 5% return on investments, and non-permanent endowment gifts).





## Independent Auditors' Report

The Board of Regents  
University of Washington:

We have audited the accompanying financial statements of the University of Washington ("University"), an agency of the state of Washington, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents on page 16. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the University of Washington, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the activities of the state of Washington that is attributable to the transactions of the University of Washington. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2008 and 2007, the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 17 through 21 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

Seattle, Washington  
December 16, 2008

# Balance Sheets

ASSETS	June 30,	
	2008	2007
<b>CURRENT ASSETS</b>		
CASH AND CASH EQUIVALENTS (NOTE 2)	\$ 16,707	\$ 34,458
COLLATERAL FROM SECURITIES LENDING (NOTE 6)	628,279	396,657
SHORT-TERM INVESTMENTS (NOTE 6)	302,692	291,631
ACCOUNTS RECEIVABLE (NET OF \$88,120 AND \$80,471 ALLOWANCE) (NOTE 5)	422,364	429,193
INVENTORIES	29,205	26,860
OTHER ASSETS	5,230	9,134
TOTAL CURRENT ASSETS	1,404,477	1,187,933
<b>NONCURRENT ASSETS</b>		
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	66,146	55,616
LONG-TERM INVESTMENTS (NOTE 6)	2,999,205	3,007,948
METROPOLITAN TRACT (NOTE 7)	119,640	120,990
STUDENT LOANS RECEIVABLE (NET OF \$8,861 AND \$8,402 ALLOWANCE) (NOTE 4)	66,526	64,400
OTHER ASSETS	57,087	53,807
CAPITAL ASSETS (NET OF \$2,207,659 AND \$2,051,038 ACCUMULATED DEPRECIATION) (NOTE 8)	2,714,429	2,609,095
TOTAL NONCURRENT ASSETS	6,023,033	5,911,856
<b>TOTAL ASSETS</b>	<b>\$ 7,427,510</b>	<b>\$ 7,099,789</b>

LIABILITIES	June 30,	
	2008	2007
<b>CURRENT LIABILITIES</b>		
ACCOUNTS PAYABLE	\$ 115,652	\$ 115,871
ACCRUED LIABILITIES	203,401	262,023
PAYABLES: SECURITIES LENDING TRANSACTIONS	628,279	396,657
DEFERRED REVENUE	160,635	113,728
FUNDS HELD FOR OTHERS	16,336	37,302
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-12)	64,713	68,053
TOTAL CURRENT LIABILITIES	1,189,016	993,634
<b>NONCURRENT LIABILITIES</b>		
DEFERRED REVENUE	3,888	4,078
U.S. GOVERNMENT GRANTS REFUNDABLE	51,252	49,831
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-12)	1,046,044	1,078,281
TOTAL NONCURRENT LIABILITIES	1,101,184	1,132,190
TOTAL LIABILITIES	2,290,200	2,125,824

## NET ASSETS

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	1,831,290	1,745,223
RESTRICTED:		
NONEXPENDABLE	902,635	811,856
EXPENDABLE	1,395,775	1,465,035
UNRESTRICTED	1,007,610	951,851
TOTAL NET ASSETS	5,137,310	4,973,965
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,427,510</b>	<b>\$ 7,099,789</b>

Dollars in thousands

See accompanying notes to financial statements.

# Statements of Revenues, Expenses, and Changes in Net Assets

REVENUES	June 30,	
	2008	2007
<b>OPERATING REVENUES</b>		
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF \$69,027 AND \$55,394)	\$ 419,690	\$ 396,895
PATIENT SERVICES (NET OF CHARITY CARE OF \$30,582 AND \$27,451)	923,869	857,101
FEDERAL GRANTS AND CONTRACTS	852,562	829,405
STATE AND LOCAL GRANTS AND CONTRACTS	56,045	46,548
NONGOVERNMENTAL GRANTS AND CONTRACTS	140,986	118,088
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	110,873	119,006
AUXILIARY ENTERPRISES:		
HOUSING AND FOOD SERVICES	51,556	50,021
PARKING SERVICES	8,397	9,976
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCES OF \$3,004 AND \$2,833)	42,407	34,128
OTHER AUXILIARY ENTERPRISES	43,595	42,519
OTHER MEDICAL CENTER REVENUE	44,346	43,165
OTHER OPERATING REVENUE	55,687	43,508
<b>TOTAL OPERATING REVENUES</b>	<b>2,750,013</b>	<b>2,590,360</b>

## EXPENSES

OPERATING EXPENSES (NOTE 13)		
SALARIES	1,622,349	1,532,664
BENEFITS	464,461	442,338
SCHOLARSHIPS AND FELLOWSHIPS	71,087	68,664
UTILITIES	53,433	58,027
SUPPLIES AND MATERIALS	323,700	296,727
PURCHASED SERVICES	435,140	384,983
DEPRECIATION	200,287	189,821
OTHER	113,325	97,707
<b>TOTAL OPERATING EXPENSES</b>	<b>3,283,782</b>	<b>3,070,931</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(533,769)</b>	<b>(480,571)</b>

NONOPERATING REVENUES (EXPENSES)	June 30,	
	2008	2007
STATE APPROPRIATIONS	388,485	365,782
GIFTS	66,381	85,885
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF \$8,888 AND \$8,412)	77,379	503,300
INTEREST ON CAPITAL ASSET-RELATED DEBT	(41,653)	(40,005)
OTHER NONOPERATING REVENUES (EXPENSES)	12,233	(8,039)
<b>NET NONOPERATING REVENUES</b>	<b>502,825</b>	<b>906,923</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES</b>	<b>(30,944)</b>	<b>426,352</b>
CAPITAL APPROPRIATIONS	71,218	74,000
CAPITAL GRANTS AND GIFTS	18,880	25,933
GIFTS TO PERMANENT ENDOWMENTS	104,191	69,210
<b>TOTAL OTHER REVENUES</b>	<b>194,289</b>	<b>169,143</b>
<b>INCREASE IN NET ASSETS</b>	<b>163,345</b>	<b>595,495</b>

## NET ASSETS

NET ASSETS – BEGINNING OF YEAR	4,973,965	4,378,470
<b>NET ASSETS – END OF YEAR</b>	<b>\$ 5,137,310</b>	<b>\$ 4,973,965</b>

Dollars in thousands  
See accompanying notes to financial statements.

# Statements of Cash Flows

CASH FLOWS FROM OPERATING ACTIVITIES	June 30,	
	2008	2007
STUDENT TUITION AND FEES	\$ 396,343	\$ 377,105
PATIENT SERVICES	927,573	796,444
GRANTS AND CONTRACTS	1,070,683	977,996
PAYMENTS TO SUPPLIERS	(343,495)	(293,280)
PAYMENTS FOR UTILITIES	(57,900)	(56,440)
PURCHASED SERVICES	(446,773)	(382,589)
OTHER OPERATING DISBURSEMENTS	(107,769)	(97,676)
PAYMENTS TO EMPLOYEES	(1,617,317)	(1,527,916)
PAYMENTS FOR BENEFITS	(451,454)	(424,267)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(71,087)	(68,664)
LOANS ISSUED TO STUDENTS	(24,860)	(27,990)
COLLECTION OF LOANS TO STUDENTS	24,154	26,046
OTHER MEDICAL CENTER RECEIPTS	44,346	43,165
AUXILIARY ENTERPRISE RECEIPTS	168,151	138,493
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	108,148	117,768
OTHER RECEIPTS	42,612	39,276
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(338,645)</b>	<b>(362,529)</b>

## CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

STATE APPROPRIATIONS	396,697	357,420
GIFTS, EXCLUDING PERMANENT ENDOWMENT AND CAPITAL	45,179	85,885
ADDITIONS TO PERMANENT ENDOWMENTS	104,191	69,210
DIRECT LENDING RECEIPTS	162,103	150,585
DIRECT LENDING DISBURSEMENTS	(161,561)	(142,431)
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	495,651	498,933
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(517,164)	(473,881)
OTHER	12,701	(8,850)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>537,797</b>	<b>536,871</b>

Dollars in thousands

See accompanying notes to financial statements.

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	June 30,	
	2008	2007
PROCEEDS FROM CAPITAL DEBT	234,282	214,784
CAPITAL APPROPRIATIONS	70,237	71,963
CAPITAL GRANTS AND GIFTS RECEIVED	13,393	25,933
PURCHASES OF CAPITAL ASSETS	(292,305)	(414,998)
PRINCIPAL PAID ON CAPITAL DEBT AND LEASES	(281,773)	(39,192)
INTEREST PAID ON CAPITAL DEBT AND LEASES	(46,737)	(47,538)
OTHER	(9,174)	5,403
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(312,077)</b>	<b>(183,645)</b>

## CASH FLOWS FROM INVESTING ACTIVITIES

PROCEEDS FROM SALES OF INVESTMENTS	3,077,404	3,256,662
PURCHASES OF INVESTMENTS	(3,056,907)	(3,343,042)
INVESTMENT INCOME	74,677	104,088
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>95,174</b>	<b>17,708</b>

## NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,751)	8,405
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	34,458	26,053
<b>CASH AND CASH EQUIVALENTS – END OF THE YEAR</b>	<b>\$ 16,707</b>	<b>\$ 34,458</b>

## RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	\$ (533,769)	\$ (480,571)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	200,287	189,821
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	(12,783)	(55,598)
INVENTORIES	(2,345)	(143)
OTHER ASSETS	626	(9,610)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	(25,230)	21,939
DEFERRED REVENUE	46,717	(7,521)
OTHER LONG-TERM LIABILITIES	(11,443)	(18,902)
U.S. GOVERNMENTAL GRANTS REFUNDABLE	1,421	439
LOANS TO STUDENTS	(2,126)	(2,383)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (338,645)</b>	<b>\$ (362,529)</b>

# 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, 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.

The University of Washington Alumni Association, University of Washington Physicians, University of Washington Physicians Network, Community Development Properties C-D, Educational Research Properties, Radford Court Properties, Twenty-Fifth Avenue Properties, TSB Properties, and Washington Biomedical Research Properties I and II 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 in accordance with 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 University is reporting as a special purpose government engaged in business type activities (BTA). In accordance with BTA reporting, the University presents management’s discussion and analysis, balance sheets, statements of revenues, expenses, and changes in net assets, statements of cash flows, and notes to the financial statements. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated. The University has elected not to apply any FASB pronouncements after November 30, 1989. The University reports capital assets net of accumulated depreciation (as applicable), and reports depreciation expense in the Statements of Revenues, Expenses, and Changes in Net Assets.

On July 1, 2006, the University adopted GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, which includes provisions for disclosure of pledged revenues. Disclosure of the University’s pledged revenues is included in Note 12.

On July 1, 2007, the University adopted GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, effective for the year ending June 30, 2008. This pronouncement requires the recognition and disclosure of the accumulated obligation for retiree health care and life insurance costs (Note 15).

On July 1, 2007, the University adopted GASB Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations”. This pronouncement includes provisions for recognition and disclosure of estimated costs for cleanup of pollution that the University may have an obligation to remediate. Pursuant to this accounting pronouncement, the University has recorded liabilities totaling \$6 million primarily for the remediation and management of contamination of several adjoining parcels at the Tacoma campus. The University has filed a feasibility plan that the Washington State Department of Ecology is reviewing. The University has also identified a number of small sites for which it may have pollution remediation liabilities that are not significant.

On July 1, 2007, the University adopted GASB Statement No. 50, “Pension Disclosure — an amendment of GASB Statements No. 25 and No. 26.” This pronouncement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The University had no additional disclosures resulting from this new pronouncement.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles involves management estimates that affect the reported amounts of assets and liabilities and revenues and expenses during the 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 pollution remediation liability is estimated by reviewing the current status of known polluted sites. This estimate is subject to change due to improvements in technology, inflation, changes in the scope of work and the pursuit of reimbursement from other responsible parties.

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

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

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

#### OTHER ACCOUNTING POLICIES

**Investments.** Investments, other than real estate and miscellaneous investments, are stated at fair value. Real estate and miscellaneous investments are stated at cost or, in the case of gifts, at fair values at the date of donation. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations from national securities exchanges. The alternative investments, which are not readily marketable, are carried at the estimated fair values provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

## Notes to Financial Statements (continued)

Investments under long-term strategies are considered non-current. Short-term investments consist primarily of cash equivalents and fixed income vehicles with maturities of less than one year.

**Securities Lending Transactions.** Cash collateral received from borrowers through securities lending transactions is recorded as an asset with 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.

**Capital Assets.** 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 capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, 15 years for library books, and five to seven years for equipment.

Capitalized construction-related interest was \$6,256,000 and \$2,808,000 during 2008 and 2007, respectively. These amounts are net of interest earned of \$5,105,000 and \$4,493,000, respectively.

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

**Deferred Giving – Split Interest Agreements.** Under these agreements, donors make initial gifts to trusts or directly to the University. The University has beneficial interests, but is not necessarily the sole beneficiary. The University records an asset related to these agreements at fair market value at year end. The University also records a liability related to the split-interest agreements equal to the present value of expected future distributions; the discount rates applied range from 4.6% to 7.5%.

**Compensated Absences.** University employees accrue annual leave at rates based on length of service and sick leave at the rate of one day per month. Annual leave accrued as of June 30, 2008 and 2007 of \$63,680,000 and of \$67,219,000,

respectively, was included in accrued liabilities. Sick leave accrued as of June 30, 2008 and 2007 was \$25,965,000 and \$28,073,000, respectively.

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

**State Appropriations.** The state of Washington appropriates funds to the University on both annual and biennial bases. These revenues are reported as nonoperating revenues in the Statements of Revenues, Expenses, and Changes in Net Assets. The University of Washington Medical Center received \$8,296,000 and \$10,859,000 in operating state appropriations in 2008 and 2007, respectively. These amounts are included in other Medical Center revenue in the Statements of Revenues, Expenses, and Changes in Net Assets.

**Operating Activities.** The University's policy for reporting operating activities in the Statements of Revenues, Expenses, and Changes in Net Assets is to include activities that generally result from exchange transactions. Examples of exchange transactions are payments received for tuition, patient services, or grants under which services are performed, as well as payments made for the delivery of goods or services. Certain other significant revenue streams used for operations, such as state appropriations, gifts and investment income are recorded as nonoperating revenues, as prescribed by GASB Statement No. 35.

**Net Assets.** The University's net assets are classified as follows:

*Invested in capital assets, net of related debt:* The University's investments in capital assets, less accumulated depreciation, net of outstanding debt obligations related to capital assets;

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

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

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

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

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### NOTE 2:

#### Cash and Cash Equivalents

Cash includes cash on hand, petty cash, and bank deposits. Most cash, except for cash held at the University, is covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). At June 30, 2008 and 2007, bank balances of \$1,427,000 and \$1,345,000, respectively, were insured by the FDIC and balances of \$31,411,000 and \$29,946,000, respectively, were collateralized under the PDPC.

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### NOTE 3:

#### Deposit with State of Washington

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

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### NOTE 4:

#### Student Loans Receivable

Net student loans of \$66,526,000 and \$64,400,000 at June 30, 2008 and 2007, respectively, consist of \$51,252,000 and \$49,831,000 from federal programs and \$15,274,000 and \$14,569,000 from University programs. Interest income from student loans for the years ended June 30, 2008 and 2007 was \$1,148,000 and \$942,000, respectively. Loans are made primarily to students who reside in the state of Washington. The loans are unsecured.

## NOTE 5:

## Accounts Receivable

The major components of accounts receivable as of June 30, 2008 and 2007 were:

<i>(Dollars in thousands)</i>	2008	2007
PATIENT SERVICES	\$ 235,863	\$ 234,511
GRANTS AND CONTRACTS	138,202	140,147
PENDING INVESTMENT SALES	6,133	18,515
SALES AND SERVICES	12,525	9,800
TUITION	26,991	18,887
STATE APPROPRIATIONS	7,362	14,593
OTHER	83,408	73,211
	510,484	509,664
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(88,120)	(80,471)
TOTAL	\$ 422,364	\$ 429,193

## 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, which is carried out by the Chief Investment Officer. The University of Washington Investment Committee (UWINCO), comprising Board members and investment professionals, advises on matters relating to the management of the University's investment portfolios.

The composition of the carrying amounts of investments by type at June 30, 2008 and 2007 are listed in Table 1.

**TABLE 1 – UNIVERSITY INVESTMENTS AND COLLATERAL FROM SECURITIES LENDING** *(Dollars in thousands)*

Investment Type	Carrying Value	
	June 30, 2008	June 30, 2007
CASH EQUIVALENTS	\$ 163,725	\$ 234,184
CASH EQUIVALENTS-LOANED	77,383	–
DOMESTIC FIXED INCOME	475,958	633,653
DOMESTIC FIXED INCOME-LOANED	465,144	289,793
FOREIGN FIXED INCOME	34,117	126,720
DOMESTIC EQUITY	561,295	581,928
DOMESTIC EQUITY-LOANED	59,491	74,626
FOREIGN EQUITY	171,330	484,540
FOREIGN EQUITY-LOANED	24,024	28,802
NON-MARKETABLE ALTERNATIVES	758,043	509,590
MARKETABLE ALTERNATIVES	497,332	323,931
REAL ESTATE	8,313	6,039
MISCELLANEOUS	5,742	5,773
TOTAL INVESTMENTS	3,301,897	3,299,579
COLLATERAL FROM SECURITIES LENDING – CASH	628,279	396,657
TOTAL INVESTMENTS AND COLLATERAL	\$ 3,930,176	\$ 3,696,236

## INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2008, the Invested Funds Pool totaled \$868,552,000 compared to \$796,069,000 at June 30, 2007. The fund also owns units in the Consolidated Endowment Fund valued at \$445,985,000 on June 30, 2008 and \$414,271,000 on June 30, 2007. 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 4.25% in both fiscal years 2008 and 2007. Base rate accounts received 1% and gift accounts received 3% in both fiscal years 2008 and 2007. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments subscribe to or 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. The CEF annual income distribution is 5% of the average fair market value of the CEF for the previous three years. RCW 24.44.050 of the Washington State Code allows for the spending of appreciation in the CEF.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Assets category. Of the total \$1,280,085,000 and \$1,209,499,000 permanent endowment funds (at fair value) as of June 30, 2008 and 2007, the aggregate amount of the deficiencies for all endowments where the fair value of the assets is less than the original gifts is \$3,256,000 and \$0 at June 30, 2008 and 2007, 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 \$53,219,000 at June 30, 2008 compared to \$58,915,000 at June 30, 2007. Income received from these trusts was \$1,997,000 for the year ended June 30, 2008, and \$2,194,000 for the year ended June 30, 2007.

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. During the fiscal years ended June 30, 2008 and 2007, the University realized net gains of \$156,467,000 and \$172,697,000, respectively, from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year, include the net appreciation of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the years ended June 30, 2008 and 2007 was \$2,702,000 and \$399,212,000, respectively.

## FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2008, the University had outstanding commitments to fund alternative investments of \$312,223,000.

## SECURITIES LENDING

The University's investment policies permit it to lend its securities to broker dealers and other entities. The University's custodian lends securities for collateral in the form of cash or other securities, with the simultaneous agreement to return

## Notes to Financial Statements (continued)

the collateral for the same securities in the future. U.S. securities are loaned and secured by collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned and secured by collateral valued at 105% of the fair value of the securities plus any accrued interest.

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 105 days. Cash collateral is invested in a short-term investment pool which had an average weighted maturity of 42 days as of June 30, 2008. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loaned by other entities that use the custodian's pool. The University cannot determine the maturities of these loaned securities. The University cannot sell or pledge non-cash collateral unless the borrower defaults. Non-cash collateral at June 30, 2008 and 2007 was \$13,615,000 and \$5,692,000, respectively.

Securities on loan at June 30, 2008 and 2007, totaled \$626,042,000 and \$393,221,000, respectively, and are listed by investment type in Table 1. The securities lending program

resulted in net revenues of \$3,011,000 for the year ended June 30, 2008, and \$629,000 for the year ended June 30, 2007.

Due to market conditions, the University terminated this program in September, 2008.

### INTEREST RATE RISK

The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed-income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on Macaulay duration. Macaulay duration is the basic calculation developed for a portfolio of bonds assembled to fund a fixed liability. Macaulay duration is calculated as follows: sum of discounted time-weighted cash flows divided by the bond price.

Modified duration is calculated using the following formula: Macaulay duration divided by (1 + yield-to-maturity divided by the number of coupon payments per year).

As of June 30, 2008 and 2007, modified duration of the University's investments for which duration is measured is as follows:

At June 30, 2008 and 2007, \$181,391,000 and \$478,379,000, respectively, of additional domestic fixed-income securities (including loaned) and \$3,786,000 and \$98,759,000, respectively, of additional foreign fixed-income securities, which in total make up 5.6% and 17.5%, respectively, of the University's investments, are not included in the duration figures above. These investments, which are managed by the University or by the University's affiliates, are not invested under the same investment strategy or with the same custodian as those detailed in Table 2.

### CREDIT RISK

The University Investment Policies limit fixed-income exposure to investment-grade assets. The Investment Policy for the operating fund's cash pool requires each manager to maintain an average AA rating as issued by a nationally recognized rating organization. The operating fund's liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 50% 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.

### FOREIGN CURRENCY RISK

The University's Investment Policies permit investments in international equity and other asset classes which can include foreign currency exposure.

The University's investment strategy within the Invested Funds Pool is to hedge exposure to foreign currency. Within this pool, the University enters into foreign currency forward contracts, futures contracts, and options to hedge the foreign currency exposure.

At June 30, 2008 and 2007, the University had net outstanding forward commitments to sell foreign currency with a total fair value of \$19,056,000 and \$9,335,000, respectively, which equals 0.58% and 0.30% of the total portfolio.

Table 3 details the market value of foreign denominated securities by currency type in the Consolidated Endowment Fund at June 30, 2008 and 2007.

**TABLE 2 – INVESTMENTS MANAGED BY THE UNIVERSITY** (Dollars in thousands; modified duration in years)

Asset Category	Duration as of June 30, 2008				Duration as of June 30, 2007			
	Consolidated Endowment Fund		Invested Funds		Consolidated Endowment Fund		Invested Funds	
	Asset Value	Duration	Asset Value	Duration	Asset Value	Duration	Asset Value	Duration
<b>DOMESTIC FIXED INCOME</b>								
ASSET BACKED SECURITIES	\$ 4,151	2.74	\$ 39,457	1.40	\$ 4,280	1.95	\$ 55,968	0.86
CASH EQUIVALENTS	20,996	0.04	135,280	0.01	40,702	–	54,035	0.04
CORPORATE BONDS	17,585	8.28	7,288	1.95	9,534	5.25	8,943	1.64
GOVERNMENT & AGENCIES	53,175	4.39	468,864	3.11	43,362	6.78	192,095	3.32
MORTGAGE RELATED	37,087	4.71	216,936	2.95	29,867	3.70	240,465	2.81
SUBTOTAL	132,994	4.26	867,825	2.50	127,745	3.62	551,506	2.50
<b>FOREIGN FIXED INCOME</b>								
INTERNATIONAL	82	–	–	–	–	–	–	–
INTERNATIONAL FIXED	29,522	4.05	727	3.03	27,256	4.67	705	3.06
SUBTOTAL	29,604	4.04	727	3.03	27,256	4.67	705	3.06
<b>TOTAL</b>	<b>\$ 162,598</b>	<b>4.22</b>	<b>\$ 868,552</b>	<b>2.50</b>	<b>\$ 155,001</b>	<b>3.81</b>	<b>\$ 552,211</b>	<b>2.50</b>

**TABLE 3 – INVESTMENTS IN FOREIGN CURRENCY**

Foreign Currency <i>(Dollars in thousands)</i>	June 30, 2008	
	Market Value	Percentage
EURO	\$ 149,730	30%
JAPAN – YEN	58,160	12%
BRITISH – POUND	49,498	10%
CHINA – RENMINBI	32,173	6%
CANADIAN – DOLLAR	30,936	6%
RUSSIA – ROUBLE	25,986	5%
INDIAN – RUPEE	22,274	5%
BRAZIL – REAL	19,799	4%
NEW TAIWANESE – DOLLAR	14,849	3%
OTHER (LESS THAN 3% EACH)	96,520	19%
<b>TOTAL</b>	<b>\$ 499,925</b>	<b>100%</b>
	<b>June 30, 2007</b>	
EURO	\$ 280,762	29%
JAPAN – YEN	135,921	14%
BRITISH – POUND	77,162	8%
CHINA – RENMINBI	73,377	8%
CANADIAN – DOLLAR	47,221	5%
KOREAN – WON	42,311	4%
NEW TAIWANESE – DOLLAR	31,165	3%
HONG KONG – DOLLAR	27,818	3%
INDIAN – RUPEE	26,677	3%
OTHER (LESS THAN 3% EACH)	227,170	23%
<b>TOTAL</b>	<b>\$ 969,584</b>	<b>100%</b>

**NOTE 7:**

### Metropolitan Tract

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

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

the Fairmont Olympic Hotel and is now managed by Fairmont Hotels & Resorts.

The balances as of June 30, 2008 and June 30, 2007, 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 additions and improvements at cost, less retirements and accumulated depreciation of \$109,406,000 and \$101,667,000, respectively, net of the outstanding balance of the line of credit described below.

In July 2004, the University obtained a 10-year term, variable rate revolving credit line for the Metropolitan Tract of up to \$25,000,000 for capital repairs and improvements. The credit line is secured by future revenues of the Metropolitan Tract. As of June 30, 2008 and 2007, \$8,500,000 and \$2,500,000, respectively, was outstanding on the credit line.

## Notes to Financial Statements (continued)

### NOTE 8:

#### Capital Assets

Capital asset activity for the two-year period ended June 30, 2008 is summarized as follows:

<i>(Dollars in thousands)</i>	Balance at June 30, 2006	Additions/ Transfers	Retirements	Balance at June 30, 2007	Additions/ Transfers	Retirements	Balance at June 30, 2008
LAND*	\$ 62,332	\$ 43,948	\$ –	\$ 106,280	\$ –	\$ –	\$ 106,280
INFRASTRUCTURE	173,162	325	–	173,487	–	–	173,487
BUILDINGS	2,835,840	163,572	–	2,999,412	250,220	1,468	3,248,164
FURNITURE, FIXTURES, AND EQUIPMENT	879,951	110,840	58,204	932,587	94,458	44,680	982,365
LIBRARY MATERIALS	232,402	16,141	1,241	247,302	14,845	1,320	260,827
CAPITALIZED COLLECTIONS	5,513	–	–	5,513	6	2	5,517
CONSTRUCTION IN PROGRESS*	100,166	95,386	–	195,552	(50,104)	–	145,448
<b>TOTAL</b>	<b>4,289,366</b>	<b>430,212</b>	<b>59,445</b>	<b>4,660,133</b>	<b>309,425</b>	<b>47,470</b>	<b>4,922,088</b>
<b>LESS ACCUMULATED DEPRECIATION</b>							
INFRASTRUCTURE	61,898	4,009	–	65,907	3,887	–	69,794
BUILDINGS	1,002,398	94,332	–	1,096,730	98,738	1,418	1,194,050
FURNITURE, FIXTURES, AND EQUIPMENT	702,436	80,260	53,273	729,423	85,916	41,377	773,962
LIBRARY MATERIALS	148,571	11,220	813	158,978	11,746	871	169,853
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>1,915,303</b>	<b>189,821</b>	<b>54,086</b>	<b>2,051,038</b>	<b>200,287</b>	<b>43,666</b>	<b>2,207,659</b>
<b>CAPITAL ASSETS, NET</b>	<b>\$ 2,374,063</b>	<b>\$ 240,391</b>	<b>\$ 5,359</b>	<b>\$ 2,609,095</b>	<b>\$ 109,138</b>	<b>\$ 3,804</b>	<b>\$ 2,714,429</b>

\*Non-depreciable

### NOTE 9:

#### Long-Term Liabilities:

Long-term liability activity for the two-year period ended June 30, 2008 is summarized as follows:

<i>(Dollars in thousands)</i>	Balance at June 30, 2006	Additions	Reductions	Balance at June 30, 2007	Additions	Reductions	Balance at June 30, 2008	Current Portion 2007	Current Portion 2008
<b>LEASES AND BONDS PAYABLE:</b>									
CAPITAL LEASE OBLIGATIONS (NOTE 10)	\$ 31,607	\$ 13,690	\$ 10,103	\$ 35,194	\$ –	\$ 10,712	\$ 24,482	\$ 10,696	\$ 11,027
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	281,354	4,480	17,610	268,224	–	13,820	254,404	13,820	14,418
REVENUE BONDS PAYABLE (NOTE 11)	490,495	59,955	8,830	541,620	229,380	118,200	652,800	26,660	16,195
<b>TOTAL LEASES AND BONDS PAYABLE</b>	<b>803,456</b>	<b>78,125</b>	<b>36,543</b>	<b>845,038</b>	<b>229,380</b>	<b>142,732</b>	<b>931,686</b>	<b>51,176</b>	<b>41,640</b>
<b>OTHER LIABILITIES:</b>									
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED	37,990	136,659	2,649	172,000	4,902	139,041	37,861	3,588	5,822
NOTES PAYABLE & OTHER – NON-CAPITAL ASSET RELATED	2,518	566	1,377	1,707	468	2	2,173	2	1,317
CHARITABLE AND DEFERRED GIFT ANNUITY LIABILITY	41,932	9,024	6,088	44,868	1,360	8,148	38,080	5,666	7,118
POLLUTION REMEDIATION LIABILITY	–	–	–	–	6,000	–	6,000	–	–
SICK LEAVE	24,841	4,189	957	28,073	–	2,108	25,965	942	1,533
SELF-INSURANCE (NOTE 17)	34,028	13,148	7,043	40,133	13,286	5,904	47,515	5,804	6,474
NET PENSION OBLIGATION (NOTE 16)	7,609	7,743	837	14,515	7,743	781	21,477	875	809
<b>TOTAL OTHER LIABILITIES</b>	<b>148,918</b>	<b>171,329</b>	<b>18,951</b>	<b>301,296</b>	<b>33,759</b>	<b>155,984</b>	<b>179,071</b>	<b>16,877</b>	<b>23,073</b>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 952,374</b>	<b>\$ 249,454</b>	<b>\$ 55,494</b>	<b>\$ 1,146,334</b>	<b>\$ 263,139</b>	<b>\$ 298,716</b>	<b>\$ 1,110,757</b>	<b>\$ 68,053</b>	<b>\$ 64,713</b>

## NOTE 10:

## Leases

## CAPITAL LEASES

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2008, are as follows:

Year	(Dollars in thousands)	Principal
2009		\$ 11,762
2010		6,803
2011		4,240
2012		1,740
2013		1,085
2014 - 2018		266
<b>TOTAL MINIMUM LEASE PAYMENTS</b>		<b>25,896</b>
LESS: AMOUNT REPRESENTING INTEREST COSTS		(1,414)
<b>PRESENT VALUE OF MINIMUM PAYMENTS</b>		<b>\$ 24,482</b>

## OPERATING LEASES

The University has certain lease agreements in effect that are considered operating leases, primarily for leased building space. During the years ended June 30, 2008 and 2007, the University recorded expenses of \$35,399,000 and \$35,471,000, respectively, for these leases. Future lease payments under these leases as of June 30, 2008, are as follows:

Year	(Dollars in thousands)
2009	\$ 27,017
2010	21,691
2011	18,865
2012	16,985
2013	13,248
2014-2018	36,265
2019-2023	17,104
2024-2028	4,824
2029-2051	28
<b>TOTAL MINIMUM LEASE PAYMENTS</b>	<b>\$156,027</b>

Buildings and Equipment under Capital Lease were as follows:

(Dollars in thousands)	Balance at June 30, 2006	Additions	Retirements	Balance at June 30, 2007	Additions	Retirements	Balance at June 30, 2008
EQUIPMENT	\$ 51,183	\$ 13,690	\$ 1,406	\$ 63,467	\$ -	\$ -	\$ 63,467
REAL ESTATE	9,987	-	-	9,987	-	-	9,987
<b>TOTAL</b>	<b>61,170</b>	<b>13,690</b>	<b>1,406</b>	<b>73,454</b>	<b>-</b>	<b>-</b>	<b>73,454</b>
LESS ACCUMULATED DEPRECIATION							
EQUIPMENT	32,740	12,693	1,125	44,308	12,863	-	57,171
REAL ESTATE	5,992	999	-	6,991	999	-	7,990
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>38,732</b>	<b>13,692</b>	<b>1,125</b>	<b>51,299</b>	<b>13,862</b>	<b>-</b>	<b>65,161</b>
<b>LEASED CAPITAL ASSETS, NET</b>	<b>\$ 22,438</b>	<b>(\$ 2)</b>	<b>\$ 281</b>	<b>\$ 22,155</b>	<b>(\$13,862)</b>	<b>\$ -</b>	<b>\$ 8,293</b>

## NOTE 11:

## Bonds and Notes Payable

The bonds and notes payable at June 30, 2008, consist of State of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 2.5% to 7.38%. Future debt service requirements at June 30, 2008 were as follows:

BONDS AND NOTES PAYABLE (Dollars in thousands)						
Year	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON REVENUE BONDS		NOTES PAYABLE AND OTHER	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 14,418	\$ 12,773	\$ 16,195	\$ 32,616	\$ 7,139	\$ 1,626
2010	11,719	12,093	17,335	31,577	2,873	1,504
2011	12,528	11,469	18,500	30,719	3,493	1,376
2012	13,535	10,788	19,440	29,866	2,911	1,247
2013	14,515	10,041	20,720	28,952	2,979	1,110
2014 - 2018	83,255	37,969	107,770	129,084	9,918	4,042
2019 - 2023	63,595	18,538	127,425	103,810	9,481	1,460
2024 - 2028	39,044	4,225	81,375	79,089	1,240	159
2029 - 2033	1,795	58	68,205	54,754		
2034 - 2038			175,835	32,847		
<b>TOTAL</b>	<b>\$ 254,404</b>	<b>\$ 117,954</b>	<b>\$ 652,800</b>	<b>\$ 553,314</b>	<b>\$ 40,034</b>	<b>\$ 12,524</b>

## Notes to Financial Statements (continued)

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

### REFUNDING ACTIVITY

On May 6, 2008, the University of Washington refunded Revenue Bonds totaling \$91,540,000 with new bond issuances totaling \$90,975,000. The refunded bonds had average interest rates ranging from 3.768% to 5.036%; the new bonds have average interest rates of 4.523%. The refunding decreased the total debt service payments to be made over the next 29.5 years by \$1,138,689 and resulted in a total economic gain of \$471,063.

### INTEREST RATE SWAP AGREEMENT

In October 2004, the University issued General Revenue Bonds in the amount of \$60,720,000 to fund construction of two research buildings. In connection with this issuance of the Series 2004A and the Series 2004B variable-rate bonds, the University entered into an interest rate swap agreement with a notional amount of \$60,720,000. The intention of the swap was to effectively change the variable rate debt to a synthetic fixed rate of 3.27% as of the closing date of the bonds.

Beginning in December of 2007, the notional amount of the swap and the principal amount of the associated debt declined over time.

The estimated fair value of the interest rate swap was an asset of \$3,211,000 as of June 30, 2007.

In May 2008, the underlying bonds were refinanced, and the University paid \$1,628,000 to terminate the swap.

### COMMERCIAL PAPER PROGRAM

In July 2006, the Board of Regents authorized a commercial paper program with a borrowing limit of \$250 million, payable from University General Revenues. This short term borrowing program is primarily used to fund capital expenditures. As of June 30, 2008, there was \$3 million in outstanding commercial paper.

#### NOTE 12:

### Pledged Revenues

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

<i>(Dollars in thousands)</i>	Total Future Revenues Pledged*	Description of Debt	Purpose of Debt	Term of Commitment	Proportion of Debt Service to Pledged Revenues (current year)
Housing and Dining Revenues, net of operating expenses	\$48,940	Housing and Dining Bonds, issued in 2002 and 2004	Construction and renovation of student housing	2032	18.4%
Student Housing gross rent from Component Unit Entities, net of permitted operating expenses	\$162,168	Student Housing Revenue Bonds (Component Unit Entities), issued in 1996, 2000, and 2002	Construction and renovation of student housing	2033	79.7%
Student Facilities Fees and earnings on invested fees	\$75,258	Student Facilities Revenue Bonds, issued in 2000 and Student Facilities Refunding Revenue Bonds issued in 2005	Construction of student recreational sports facilities	2030	22.0%
Parking Revenues from the University Parking System, net of operating expenses — reported as Auxiliary Revenues.	\$29,446	University of Washington Parking System and Refunding Bonds, issued in 2004	Construction of improvements and additions to the University's parking system	2030	15.2%

\* Total future principal and interest payments on the debt

#### NOTE 13:

### Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2008 and 2007 are summarized as follows:

<i>(Dollars in thousands)</i>	2008	2007
<b>Operating Expenses</b>		
<b>EDUCATIONAL AND GENERAL</b>		
INSTRUCTION	\$ 823,734	\$ 783,272
RESEARCH	622,913	595,622
PUBLIC SERVICE	31,555	34,838
ACADEMIC SUPPORT	265,183	219,646
STUDENT SERVICES	33,771	31,048
INSTITUTIONAL SUPPORT	155,877	140,431
OPERATION AND MAINTENANCE OF PLANT	168,736	175,271
SCHOLARSHIPS AND FELLOWSHIPS	71,087	68,664
AUXILIARY ENTERPRISES	161,807	142,883
MEDICAL RELATED	748,832	689,435
DEPRECIATION	200,287	189,821
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 3,283,782</b>	<b>\$ 3,070,931</b>

#### NOTE 14:

### Related Parties

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center in Seattle, is a component unit of King County, Washington. It has been managed by the University under a management contract between King County and the University since 1967. The current management contract will be in force through June 30, 2010, but it can be extended until June 30, 2015, if neither party gives notice of intent not to renew it.

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

HMC revenues and expenses are not recognized in the University's financial statements. The University's financial statements do, however, include accounts receivable from HMC of \$20,522,000 in 2008 and \$22,082,000 in 2007, as well as HMC investments of \$2,717,000 and \$2,744,000, respectively, and accrued liabilities to HMC of \$15,369,000 and \$14,748,000, respectively.

The University of Washington Foundation (UWF) is a non-profit organization that performs fundraising activities on

behalf of the University of Washington. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2008 and 2007, the UWF transferred \$61,758,000 and \$46,921,000, 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.

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NOTE 15:

### Other Post Employment Benefits (OPEB)

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

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

The health care premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of retirees. An additional factor in determining 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 2008 this amount was \$164 per retiree eligible for parts A and B of Medicare. This is also passed through to state agencies via active employee rates charged to the agency.

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

### ACTUARIAL STUDY

An actuarial study performed by the Washington Office of the State Actuary calculated that the total OPEB obligation of the state of Washington at July 1, 2007 was \$3.8 billion and that the 2008 annual cost was \$314 million. 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, including its unconsolidated affiliates, was approximately \$600 million at June 30, 2007. This amount is not included in the University's financial statements.

The University paid \$227 million for health care expenses in 2008, which included its pay-as-you-go portion of the OPEB liability, calculated by the Actuary at \$6.2 million.

The state Actuary's report is available at: [osa.leg.wa.gov/Actuarial\\_Services/OPEB/PDF\\_Docs/2007\\_OPEB\\_Report.pdf](http://osa.leg.wa.gov/Actuarial_Services/OPEB/PDF_Docs/2007_OPEB_Report.pdf)

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NOTE 16:

### Pension Plans

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

### PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

**Funding Policy:** The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method, and may vary over time. The contribution rate for Plan 2 employees at June 30, 2008 and 2007 was 4.15% and 3.5%, respectively. Plan 3 members can choose contributions ranging from 5% to 15% of salary, based on the age of the member. The defined contribution benefit for Plan 3 will depend on the member's contributions, the investment earnings on those contributions, and if an annuity is taken, the age at which the member receives payment. The contribution rate for the University at June 30, 2008 and 2007, for each of PERS Plans 1, 2, and 3 was 6.13% and 5.46%, for the respective years.

# Notes to Financial Statements (continued)

The University's contributions to PERS for the years ended June 30, 2008, 2007, and 2006 were \$45,351,000, \$30,996,000, and \$16,006,000, respectively, which were equal to the annual 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 28B.10.400 et. seq. assigns the authority to the University of Washington Board of Regents to establish and amend benefit provisions.

The Plan has a supplemental payment component 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, 2008 were each \$69,015,000 compared to \$63,362,000 each for the year ended June 30, 2007. The supplemental component of the UWWRP is financed on a pay-as-you-go basis.

**Supplemental Component:** The University received an actuarial evaluation of the supplemental component of the UWWRP with a valuation date of July 1, 2007. The previous evaluation was performed in 2004. The unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2007 and 2004 was \$64,215,000 and \$32,454,000, respectively,

and is amortized over a period ending January 1, 2024. The Annual Required Contribution (ARC) of \$7,743,000 consists of amortization of the UAL, including interest expense (\$4,374,000) and normal cost (current cost) (\$3,369,000). The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 5% and projected salary increases of 4%. Approximately \$771,000,000 and \$640,000,000 of the UW's payroll was covered under this plan during 2007 and 2004, respectively. The following table reflects the activity in the Net Pension Obligation for the years ended June 30, 2008, 2007, and 2006:

<i>(Dollars in thousands)</i>	2008	2007	2006
BALANCE AT BEGINNING OF FISCAL YEAR	\$ 14,515	\$ 7,609	\$ 5,159
ANNUAL REQUIRED CONTRIBUTION	7,743	7,743	3,363
PAYMENTS TO BENEFICIARIES	(781)	(837)	(913)
<b>BALANCE AT END OF FISCAL YEAR</b>	<b>\$ 21,477</b>	<b>\$ 14,515</b>	<b>\$ 7,609</b>

## NOTE 17:

### Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2008, were \$76,594,000. These expenditures will be funded from local funds and state appropriations.

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

The University is exposed to risk of loss related to tort liability, injuries to employees, and loss of property. The University purchases insurance protection for workers' compensation as well as marine, aviation, and certain other risks. The University also purchases insurance protection for loss of property at self-sustaining units, bond-financed buildings, and where otherwise required by contract; otherwise, the risk of property loss is retained, unfunded. For professional, general, employment, and automobile liability, the University maintains a program of self-insurance reserves and excess insurance coverage. The self-insurance reserve represents the estimated ultimate cost of settling claims resulting from events that have occurred on or before the balance sheet date. The reserve includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred, but have not

been reported. The reserve is discounted at 4.25% in the year ended June 30, 2008.

The self-insurance reserve is estimated through an actuarial calculation. Changes in the self-insurance reserve for the years ended June 30, 2008, 2007, and 2006 are as follows:

<i>(Dollars in thousands)</i>	2008	2007	2006
RESERVE AT BEGINNING OF FISCAL YEAR	\$ 40,133	\$ 34,028	\$ 29,213
INCURRED CLAIMS AND CHANGES IN ESTIMATES	13,286	13,148	9,379
CLAIM PAYMENTS	(5,904)	(7,043)	(4,564)
<b>RESERVE AT END OF FISCAL YEAR</b>	<b>\$ 47,515</b>	<b>\$ 40,133</b>	<b>\$ 34,028</b>

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This publication was prepared by  
UW External Affairs and Financial Management.  
Published December 2008.

The 2008 UW Annual Report and reports from prior years are  
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### EDITORIAL

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### DESIGN, PRODUCTION AND PRINT COORDINATION

UW Creative Communications, UW Marketing

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 Printed on paper containing 30% post-consumer fiber

<sup>1</sup> As of June 30, 2008

