FINANCIAL REPORT

2017

UNIVERSITY *of* WASHINGTON

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University Facts

	FISCAL YEAR 2017 Academic Year 2016–2017	FISCAL YEAR 2012 Academic Year 2011–2012	FISCAL YEAR 2007 Academic Year 2006–2007
STUDENTS			
Autumn Enrollment [1]			
Undergraduate	40,832	36,192	31,086
Graduate	13,896	12,574	10,540
Professional	2,081	1,979	1,802
TOTAL	**56,809**	**50,745**	**43,428**
Extension course and conference registrations	82,949	70,823	48,577
Number of Degrees Awarded			
Bachelor's	10,626	9,853	8,306
Master's	4,454	3,635	2,877
Doctoral	766	712	631
Professional	574	565	500
TOTAL	**16,420**	**14,765**	**12,314**
FACULTY [1] (Professorial, Instructional, Research)	4,707	4,280	3,650
FACULTY AND STAFF [2]	31,264	25,523	23,913
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,628,539	$ 1,365,002	$ 995,531
SELECTED REVENUES *(in thousands of dollars)*			
Patient Service and Other Medical-Related Revenues [3]	$ 2,509,177	$ 1,862,557	$ 900,266
Gifts, Grants and Contracts	1,571,890	1,425,659	1,079,926
Tuition and Fees [4]	941,873	681,227	396,895
Auxiliary Enterprises and Other Revenues	659,195	413,528	299,158
Investment Income	443,383	34,123	503,300
State Appropriations (Operating)	341,971	218,343	365,782
SELECTED EXPENSES *(in thousands of dollars)*			
Medical Related [3]	$ 2,260,315	$ 1,709,781	$ 689,435
Instruction, Academic Support and Student Services	1,895,544	1,328,790	1,102,630
Research and Public Service	807,225	817,370	630,460
Institutional Support and Physical Plant	809,910	608,810	505,523
Auxiliary Enterprises	495,375	194,949	142,883
CONSOLIDATED ENDOWMENT FUND [5] *(in thousands of dollars)*	$ 3,144,000	$ 2,111,000	$ 2,098,000
SQUARE FOOTAGE [6] *(in thousands of square feet)*	24,329	21,428	18,676

1 Headcount
2 Full time equivalents
3 Includes Valley Medical Center and Northwest Hospital in 2017 and 2012 only
4 Net of scholarship allowances of $159,166,000 in 2017, $133,243,000 in 2012 and $55,394,000 in 2007
5 Stated at fair value
6 Gross square footage, all campuses

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Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the University of Washington (the University), an agency of the state of Washington, which comprise the statements of net position as of June 30, 2017, and the related statements of revenues, expenses, changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the University of Washington as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

As discussed in note 1 to the financial statements, the financial statements of the University of Washington, an agency of the state of Washington, are intended to present the financial position, the changes in financial position, and where applicable, cash flows of only the respective portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the state of Washington that are attributable to the transactions of the University of Washington and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, the changes in its financial position or, where applicable, its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, on July 1, 2016, the University adopted new accounting guidance requiring governments providing defined benefit pension plans to their employees that are not administered through a trust to record the total pension liability, as well as recognizing most changes in the total pension liability within pension expense. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, on July 1, 2016, the University adopted new accounting guidance which amends requirements for the financial statement presentation of component units of all state and local governments. As a result of this amendment the University now reports Northwest Hospital and Medical Center as a blended component unit, whereas it was presented as a discrete component in previous years. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 11, and the schedules of required supplementary information on pages 43 and 44, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

KPMG LLP

Seattle, Washington
October 20, 2017

Management's Discussion and Analysis

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington (University) for the year ended June 30, 2017. This discussion has been prepared by management, and since it includes highly summarized data, should be read in conjunction with the financial statements and accompanying notes which follow this section.

Financial Highlights for Fiscal Year 2017

The University recorded an increase in net position of $363 million in fiscal year 2017, which is a $450 million improvement compared to the fiscal year 2016 decrease in net position of $87 million. Revenues from patient services and research activities continued to show growth during 2017, and together with mostly unchanged tuition revenues contributed to an overall increase in operating revenues. An increase in operating expenses was more than offset by increases in most nonoperating revenue categories, most notably investment income, which benefited from a recovery in investment market values during the year. The University adjusts the carrying value of investments to market value each year, with the change recorded as investment income or loss.

Key Financial Results for Fiscal Years 2017 and 2016

(in millions)	2017	2016
Total operating revenues	$ 4,893	$ 4,730
Total operating expenses	5,666	5,413
Operating loss	(773)	(683)
State appropriations	342	302
Investment income	443	44
Gifts	166	115
Other nonoperating revenues, net	185	135
Increase (decrease) in net position	363	(87)
Net position, beginning of year	6,053	6,046
Cumulative effect of accounting change	(215)	94
Net position, beginning of year as restated	5,838	6,140
Net position, end of year	**$ 6,201**	**$ 6,053**

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

The University implemented GASB Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"* during fiscal year 2017. This statement changed how the University reports its obligation for retiree benefits associated with the University of Washington Supplemental Retirement Plan (UWSRP). Assets set aside by the University to pay future retiree benefits are not segregated in an irrevocable trust; therefore, the accounting for this single-employer defined-benefit pension plan was not impacted by the prior implementation of GASB Statement No. 68 in fiscal year 2015. Prior to implementing this Statement, the UWSRP pension liability represented the cumulative amounts expensed for the Annual Required Contribution (ARC) less cash payments to retirees, and UWSRP pension expense was equal to the ARC. Under Statement No. 73, the University must record the total actuarially determined UWSRP pension liability, and most changes in the total pension liability will now be reflected in pension expense in the period of the change, while others will be reported as deferred inflows or deferred outflows of resources and amortized to expense over future periods. With the adoption of GASB Statement No. 73, net position was restated at July 1, 2016 by a decrease of $215 million for the difference between the beginning total pension liability and the amount previously reported as the UWSRP pension liability. Fiscal year 2017 financial results reflect application of the accounting changes required by Statement No. 73, but those changes have not been applied to fiscal year 2016 amounts due to the constraints of available information.

The University also implemented GASB Statement No. 80, *"Blending Requirements for Certain Component Units"* during fiscal year 2017. This Statement amends requirements for the financial statement presentation of component units, by adding a requirement to reflect a component unit as blended when it is incorporated as a not-for-profit corporation and the primary government is the corporation's sole corporate member. The University is the sole corporate member of Northwest Hospital and Medical Center (NWH), which was previously reflected as a discretely presented component unit. With the adoption of GASB Statement No. 80, NWH is now being reflected as a blended component unit of the University, and net position was restated at July 1, 2015 by an increase of $94 million. Fiscal years 2016 and 2017 in this management's discussion and analysis both reflect application of the accounting changes required by Statement No. 80.

Economic Factors Affecting the Future

The state of Washington, which provided 7% of the University's total revenues in fiscal year 2017, continues to emerge from the recession with moderate economic growth and commensurate increases in state tax collections. However, additional state tax collections, as well as new revenue, were largely consumed by the state's attempt to meet court-mandated increases to K-12 education funding (McCleary v. Washington). As a result, non-mandatory state programs, including higher education, did not and will not receive significant additional funding for the current 2017-19 biennium.

During the 2013-15 biennium, the University committed to freezing resident undergraduate tuition rates in 2014 and 2015 in exchange for increases in state funding in both years. In the 2015-17 biennium, the state reduced resident undergraduate tuition rates to 5% below the 2015 rates in 2016, and to 15% below the 2015 rates in 2017. The state provided funds to offset the lost tuition revenue in both years. In a change from previous tuition freezes and reductions, the state will now allow a 2.2% increase to resident undergraduate tuition in 2018 and a 2.0% increase in 2019.

The University's fiscal year 2018 general operating appropriation from the state (excluding amounts appropriated for specific purposes) is expected to be approximately $352 million. This

Unaudited – see accompanying notes to financial statements

amount is an increase from $332 million in 2017 and $292 million in 2016. The increase between 2017 and 2018 is largely attributable to targeted investments in compensation, medical education, and science, technology, engineering and math (STEM) enrollments. The significant increase in 2017 was largely attributable to funding intended to offset tuition reductions, but also included targeted investments in medical and computer science education. The University's Board of Regents continues to have broad tuition and fee setting authority for categories other than resident undergraduate tuition.

The state has yet to pass a capital budget for the 2017-19 biennium. Therefore, projects that were slated to receive funding for the beginning of 2018 will be delayed until a capital budget is approved. State funding for capital appropriations continues to be constrained, though the University expects to receive some state bonding capacity for critical capital projects once a budget is approved.

The healthcare industry, in general, and the acute care hospital business, in particular, are experiencing significant regulatory uncertainty based, in large part, on legislative efforts to significantly modify or repeal and potentially replace the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 ("Affordable Care Act" or "ACA"). It is difficult to predict the full impact of these actions on the University's future revenues and operations. Changes to the ACA are likely to significantly impact the University.

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

- The ACN has contracted with the Washington Health Care Authority to participate in its Puget Sound Accountable Care Program (ACP) as a healthcare benefit option for Public Employees Benefits Board (PEBB) members. The ACP is offered to all PEBB members who reside in Snohomish, King, Kitsap, Pierce, and Thurston counties.
- A subset of the network members have also agreed to participate with the ACN in a contract with Premera as part of its Accountable Health System (AHS) product. As an AHS, the UW Medicine ACN will share in accountability for the quality and cost of healthcare for Premera members who select this plan. This product was sold both on and off the Washington Health Exchange in select counties with coverage that began January 1, 2016. The AHS must have 5,000 planwide members per product, per region for the UW Medicine ACN to share in financial savings and risk. The ACN was not at risk for the AHS product in 2016 and 2017.
- The UW Medicine ACN also entered into an agreement to provide healthcare services to nonunion employees of a large local employer with coverage that began January 1, 2015.

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

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University. Employer pension funding rates paid by the University for the Public Employees' Retirement System (PERS) pension plans were mostly unchanged in 2017 at 11.2% of covered salary, but will be increasing to 12.5% of covered salary in 2018. The monthly employer base rate paid for employee healthcare, however, increased 5.7% during 2017, from $840 to $888 per active employee, and will be increasing to $913 per active employee during 2018. Both rates are likely to continue increasing.

Using the Financial Statements

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

- Independent Auditors' Report presents an unmodified opinion prepared by our auditors, KPMG LLP, on the fairness in all material respects of our financial statements.
- Statements of Net Position present the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of the University at a point in time (June 30, 2017). Their purpose is to present a financial snapshot of the University. This statement aids the reader in determining the assets available to continue the University's operations, how much the University owes to employees and vendors, whether the University has any deferred outflows or inflows other than assets or liabilities, and provides a picture of net position and its availability for expenditure by the University.
- Statements of Revenues, Expenses and Changes in Net Position present the total revenues earned and expenses incurred by the University for operating, nonoperating and other related activities, during a period of time (the fiscal year ended June 30, 2017). Their purpose is to assess the University's operating and nonoperating activities.
- Statements of Cash Flows present cash receipts and payments of the University during a period of time (the fiscal year ended June 30, 2017). Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.
- Notes to the Financial Statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

The University has had a strategic alliance with Valley Medical Center, a Washington public hospital district, since 2011. GASB standards require that this entity be presented as a discrete component unit of the University; therefore, its financial position at June 30, 2017, and results of operations for the year ended June 30, 2017, are reported in a separate column for financial statement presentation purposes (see Note 1 to the Financial Statements). The analysis that follows includes the consolidated balances of the University and its blended component units, but excludes the financial position and results of operations of Valley Medical Center.

Financial Health

STATEMENTS OF NET POSITION

A summarized comparison of the University's assets, liabilities, deferrals and net position as of June 30, 2017 and 2016 follows:

The University continues to maintain and protect its strong

(in millions)	2017	2016
Current assets	$ 1,427	$ 1,603
Noncurrent assets:		
Capital assets, net	4,737	4,465
Investments, net of current portion	4,721	4,155
Other	455	427
Total assets	11,340	10,650
Deferred outflows	269	185
Total assets and deferred outflows	11,609	10,835
Current liabilities	1,315	1,115
Noncurrent liabilities:		
Bonds payable	2,275	1,911
Other	1,710	1,634
Total liabilities	5,300	4,660
Deferred inflows	108	122
Total liabilities and deferred inflows	5,408	4,782
Net position	**$ 6,201**	**$ 6,053**

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

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

The excess of current assets over current liabilities of $112 million in 2017 and $488 million in 2016 reflects the continuing ability of the University to meet its short-term obligations. Current assets decreased $176 million in 2017, partly due to a $117 million decrease in short-term investments, and a $48 million decrease in cash. Current liabilities increased $200 million during the year, due in part to a $75 million increase in the accrual for investment purchases not yet settled, a $22 million increase in unearned revenues, and a $17 million increase in commercial paper debt.

Noncurrent assets increased $866 million in 2017, driven by an increase in long-term investments of $566 million as a result of strong investment returns during the year on the University's investments, together with an increase in capital assets of $272 million.

Noncurrent liabilities increased $440 million during 2017, primarily due to an increase in the University's pension liabilities. The net pension liability representing the University's proportionate share of the statewide amounts reported by the Department of Retirement Systems (DRS) increased $178 million during the year due to service cost and interest on the unfunded liability. The pension liability associated with the UWSRP increased $142 million, due to the implementation of GASB Statement No. 73 during 2017. Noncurrent liabilities also increased during the year due to an increase in long-term liabilities, primarily associated with the November, 2016 issuance of University General Revenue Bonds (see Note 11).

Deferred outflows of resources and deferred inflows of resources primarily represent pension-related deferrals associated with the implementation of GASB Statement No. 68 in 2015, and GASB Statement No. 73 in 2017. The increase in deferred outflows of $84 million in 2017 primarily reflects the University's proportionate share of an increase in the statewide amounts reported by the DRS due to differences between projected and actual investment earnings on pension plan assets. Deferred inflows were impacted during 2017 by a corresponding reduction in the University's proportionate share of the statewide difference between projected and actual earnings on plan assets (total change for 2017 equaled $199 million). This was offset by an increase of $91 million of deferred inflows recorded for the first time in 2017 due to the implementation of GASB Statement No. 73.

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

The University reports its "equity" in four categories:

- Net Investment in Capital Assets — This is the University's total investment in capital assets, net of accumulated depreciation and amortization and outstanding debt obligations related to those capital assets.
- Restricted Net Position:
  - Nonexpendable net position, primarily endowments, represents gifts to the University's permanent endowment funds. These are funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditure, but rather for investment purposes only in order to produce income that is to be expended for the purposes specified.

  - Expendable net position consists of resources that the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed by donors and/or other external parties, and includes the net appreciation of permanent endowments.

- Unrestricted Net Position – This is all other funds available to the University for any purpose associated with its mission. Unrestricted net position is not subject to externally imposed stipulations, but often is internally designated for specific purposes.

The University's net position at June 30, 2017 and 2016 is summarized as follows:

(in millions)	2017	2016
Net investment in capital assets	$ 2,425	$ 2,308
Restricted:		
Nonexpendable	1,537	1,421
Expendable	1,859	1,592
Unrestricted	380	732
Total net position	**$ 6,201**	**$ 6,053**

Net investment in capital assets increased $117 million, or 5%, in 2017. This balance typically increases as debt is paid off, or when the University funds fixed asset purchases without the use of external financing, for example by using internal reserves. This balance decreases as assets are depreciated. The increase in 2017 reflects greater additions to net capital assets during the year than the associated increase in capital asset-related debt, reflecting continued capital spend on previously approved projects together with a reduced pace for new debt issuances.

Restricted nonexpendable net position increased $116 million, or 8%, in 2017. This primarily reflects the receipt of new endowment gifts during the year, together with an increase in the market value of underwater endowment investments.

Restricted expendable net position increased $267 million, or 17%, in 2017. This category is primarily affected by new operating and capital gifts, and earnings or losses on restricted investments, including endowments. The improvement in market value for the Consolidated Endowment Fund (CEF) was the primary reason for the increase during the year.

Unrestricted net position decreased by $352 million, or 48%, in 2017 primarily due to the impact of restating fiscal year 2017 beginning net position as a result of implementing GASB Statement No. 73. The change in accounting treatment required by Statement No. 73 reduced unrestricted net position by $215 million, representing the difference between the beginning of year UWSRP total pension liability calculated under Statement No. 73, and the amount previously reported by the University under the prior basis of accounting. In addition, operating losses associated with unrestricted activities were $385 million for the year, together with interest expense on capital asset-related debt of $77 million. These were partly offset by $342 million of state operating appropriations, and $23 million of investment income on unrestricted investments.

Endowment and Other Investments

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

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

The CEF has experienced considerable growth over the past 10 years due to gifts and endowment returns. The number of individual endowments in the CEF has grown significantly, from 2,500 at June 30, 2007 to 4,685 at June 30, 2017. The market value of the CEF has similarly increased from $2.1 billion at June 30, 2007 to $3.1 billion at June 30, 2017.

The impact to program support has been substantial, with $902 million distributed over the past 10 years touching every part of the University. Programs supported by endowment returns include academic programs, scholarships, fellowships, professorships, chairs and research activities. Under the Board of Regents' approved long-term spending policy for the CEF, quarterly distributions to programs are made based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. An additional 1% is distributed to support fundraising and stewardship activities (0.80%) and investment management (0.20%). Similar to program distributions, the fee is based on the endowment's five-year average market value.

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

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

The CEF asset allocation includes two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2017, 78% of the CEF was invested in Capital Appreciation and 22% in Capital Preservation. Following an expectation that market returns for equities will exceed bonds over the next decade, a medium-term objective is maintained of generally overweighting equity-oriented strategies with a focus on quality companies and downside protection. The University also maintains ample liquidity within Capital Preservation to meet its funding requirements, as well as to take advantage of market dislocations if opportunities arise.

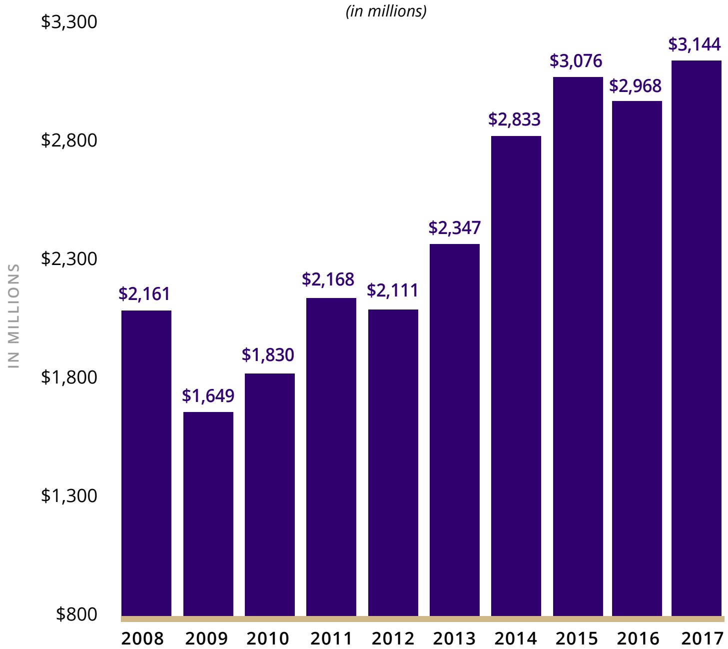
For the fiscal year ending June 30, 2017, the CEF returned +13.6% versus +12.4% for the passive benchmark. Absolute performance was positive across all CEF strategies. After a tough 2016, staying the course in emerging markets paid off, with the CEF's Emerging Markets Equity strategy leading absolute returns this year. The CEF's Capital Preservation portfolio substantially outperformed, while Capital Appreciation slightly underperformed largely due to weak energy markets.

All major equity indexes posted strong gains in 2017, but markets are rotating in favor of non-US equities, especially emerging markets and the Eurozone. Geopolitical risks and policy uncertainty appear to be on the rise. Forecasted returns have been trending down and a lower return, high-risk environment is expected.

Longer-term, the CEF has consistently maintained solid relative performance. The CEF has outperformed both the passive benchmark and public university peers with $1-5 billion for the 5, 10 and 20-year periods. The 20-year return for the CEF stands at +8.0%, although returns have been trending downward with the 10-year return at +4.7%.

Consolidated Endowment Fund Market Value

(in millions)



A portion of the University's operating funds are invested in the CEF. As of June 30, 2017, these funds comprise $615 million of the CEF market value.

Debt and Related Capital Improvements

The University's general revenue borrowing platform, established in 2003, has been used to fund buildings that support the educational, research and service missions of the institution. The University's debt portfolio consists primarily of fixed-rate debt in the form of General Revenue Bonds, Lease Revenue Bonds and state-issued bonds, as well as variable rate debt such as commercial paper.

Credit ratings are a reflection of the University's strength. During fiscal year 2017, the University was rated Aaa (the highest rating) by Moody's Investors Service and AA+ by Standard & Poor's. These strong ratings carry substantial advantages for the University: continued and wider access to capital markets when the University issues debt, lower interest rates on bonds and the ability to negotiate favorable bond terms.

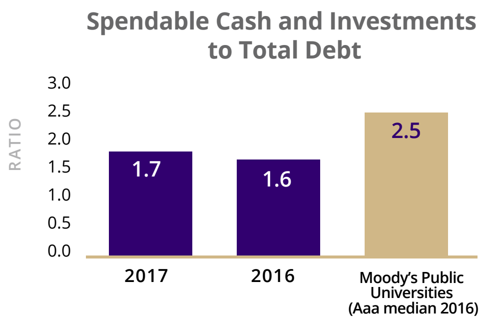
The University takes its role of financial stewardship seriously and works hard to manage its financial resources effectively. Continued high debt ratings are important indicators of the University's success in this area.

Moody's Fiscal Year 2016
Public College and University Rating Distribution

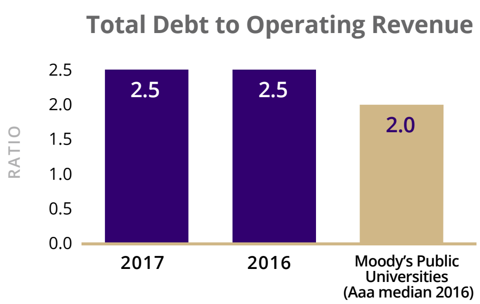
(As of the July 2017 Moody's Median Report)

Unaudited – see accompanying notes to financial statements

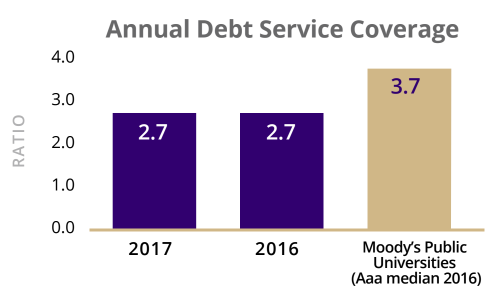
The University uses financial ratios to evaluate institutional health and to inform planning for future debt issuances. Each ratio is defined by Moody's Investors Service, and reflects year-to-year changes at the University as well as how those results trend against other Aaa-rated peer schools. Spendable Cash and Investments to Total Debt is the ratio of all available resources to pay debt, Total Debt to Operating Revenue is a measure of financial leverage, and Annual Debt Service Coverage is a measure of cash flow available to pay debt obligations. Although ratio results are an important aspect of the University's credit rating, many other factors also play a large role such as state demographics, the strength of the University's research enterprise and student demand.



This ratio shows that in 2017 the University had sufficient nonrestricted cash and investments to pay its outstanding debt 1.7 times.



This ratio shows that in 2017 the University generated enough operating revenue (as defined by Moody's) to pay its total outstanding debt 2.5 times.



This ratio shows that in 2017 the operating cash flow of the University (as defined by Moody's) was sufficient to pay the principal and interest payments on its outstanding debt 2.7 times.

In November 2016, the University issued $205 million of General Revenue Bonds with an average coupon of $4.80%. A portion of the proceeds was used to refund General Revenue Bonds originally issued in 2008. The balance was used to fund various projects including construction of new residential housing, a new Life Sciences building, research facilities, and expansion of the UW Medical Center.

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, faculty and staff. Significant capital asset expenditures (greater than $20 million) during fiscal year 2017 included $58 million for the McCarty Hall demolition and construction, $57 million for the Life Sciences Building, $31 million for Washington Biomedical Research Properties 3.2, and $30 million for the Burke Museum Building.

Key projects placed in service during 2017 include:

- UW Animal Research and Care Facility – $131 million. A two-story research facility constructed below ground level.
- Nano-engineering & Sciences Building – $72 million. Completed buildout of facilities for classrooms and offices for instruction, in addition to providing capacity for future College of Engineering vibration and EMI sensitive programs.
- Workday HR & Payroll System – $61 million. A cloud-based software-as-a-service suite to centralize and standardize human resources and payroll processes across three campuses, the Medical Centers and other off-site facilities.
- Denny Hall Renovation – $50 million. This project included exterior work, masonry repair, and replacement of electrical, lighting, mechanical and communications systems.
- West Campus Utility Plant – $44 million. Supplies chilled water and emergency power to energy-intensive research buildings in the southwestern corner of the University.
- UW Medical Center Expansion Phase 2 – $26 million. This project included a buildout of surgical prep/recovery areas, pharmacy, and laboratory.
- UW Tacoma (UWT) Urban Solutions Center – $25 million. Renovation of the Tacoma Paper & Stationery Building, a 40,000 square foot, four-story historic building located between the existing UWT Science and Dougan Buildings. Creates capacity to dramatically expand programs in engineering, environmental sciences, GIS, general engineering and big data computing.
- UW Police Department (UWPD) – $21 million. Provides a replacement facility for the UWPD, which was formerly located in the Bryants Building.

Unaudited – see accompanying notes to financial statements

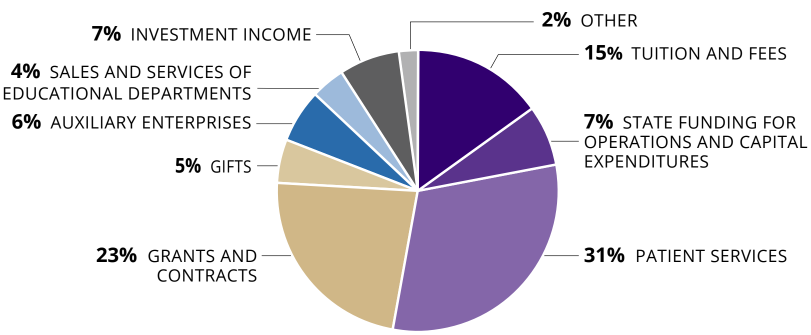
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses and Changes in Net Position present the University's results of operations and nonoperating items that result in the changes in net position for the year. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A condensed comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016 follows:

(in millions)	2017	2016
Total operating revenues	$ 4,893	$ 4,730
Total operating expenses	5,666	5,413
Operating loss	(773)	(683)
Nonoperating revenues, net of expenses	934	447
Other revenues	202	149
Increase (decrease) in net position	363	(87)
Net position, beginning of year	6,053	6,046
Cumulative effect of accounting change	(215)	94
Net position, beginning of year as restated	5,838	6,140
Net position, end of year	**$ 6,201**	**$ 6,053**

The University has a diversified revenue base. No single source generated more than 31% of the total fiscal year 2017 revenues of $6.1 billion.

Sources of Funds



The following table summarizes revenues from all sources for the years ended June 30, 2017 and 2016:

(in millions)	2017	2016
Tuition and fees	$ 942	$ 949
Patient services	1,869	1,788
Grants and contracts	1,422	1,347
Sales and services of educational departments	217	223
Auxiliary enterprises	374	349
State funding for operations	342	302
Gifts	289	221
Investment income	443	44
State funding for capital projects	64	39
Other	145	138
Total revenue - all sources	**$ 6,107**	**$ 5,400**

Grant Revenue

One of the largest sources of revenue (23%) continues to be grants and contracts. Total grant and contract revenue increased $75 million, or 6% in 2017.

Federal revenue increased $35 million or 4%, as several large, long-term projects received supplemental funding during the year from both the Centers for Disease Control and the Office of Naval Research. The University's largest project that was funded by federal revenue during 2017 involved the refurbishing of a 25-year-old research vessel, R/V Thomas G. Thompson. With an original lifespan of 30 years, federal funding will extend the vessel's capability to operate for another 20 to 25 years.

Consistent with 2016, nongovernmental revenue saw a double-digit (12%) increase which was largely attributable to The Bill & Melinda Gates Foundation's continued support of the University's Institute for Health Metrics and Evaluation.

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

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

Facility and administrative expenses necessary to support grants and contracts are reimbursed by sponsors, along with direct costs, by an indirect cost recovery. The current indirect cost recovery rate for research grants is approximately 30 cents on every direct expenditure dollar.

Primary Nongrant Funding Sources

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support its nongrant-funded educational operating expenses. State support for education has increased during the last few fiscal years, but is still significantly below historical levels.

Operating Support for Instruction

(in millions)	2017		2016	
State operating appropriations	$ 342	27%	$ 302	24%
Operating tuition and fees	639	50%	661	53%
Fees for self-sustaining educational programs	303	23%	288	23%
Total educational support	**$ 1,284**	**100%**	**$ 1,251**	**100%**

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

Revenue from tuition and fees decreased slightly to $942 million in fiscal year 2017, from $949 million in 2016. These amounts are net of scholarship allowances of $159 million in 2017, and $145 million in 2016. The stability in tuition revenue between

Unaudited – see accompanying notes to financial statements

2016 and 2017 was due to a combination of factors. In accordance with a state legislative mandate, the operating fee rate (which is the main component of student tuition) for resident undergraduate students decreased by 10.5%. This decrease, however, was offset by a 2% increase in the operating fee rate for nonresident undergraduates, by 0-10% increases in the operating fee rates for graduate and professional student categories, and by 3-5% increases in fee rates for fee-based programs. Increases varied by program. The decrease in the resident undergraduate operating fee rate was also partially offset by enrollment growth. Full-time equivalent (FTE) enrollment in undergraduate tuition- and fee-based programs increased by 2.6% in the resident student category, and by 0.4% in the nonresident student category. FTE enrollment in graduate and professional tuition- and fee-based programs increased by 0.3% in the resident student category and by 2.1% in the nonresident student category.

Fees for self-sustaining educational programs (fee-supported programs) include the following amounts for fiscal years 2017 and 2016: UW Continuum College (the continuing education branch of the University) $113 million and $108 million, respectively, summer quarter tuition $50 million and $54 million, respectively, and for the combination of Business School and School of Medicine programs $50 million and $50 million, respectively.

Patient Services–UW Medicine

The financial statements of the University include the operations of the School of Medicine, three hospitals, associated physician group and clinics, Airlift Northwest, and the University's share of two joint ventures. These entities, together with Harborview Medical Center (not included in the University's financial statements – see Note 13) and shared services providing IT, accounting, finance and revenue cycle services, comprise UW Medicine, an umbrella organization serving to coordinate these activities and promote quality healthcare in the Pacific Northwest and beyond, and to conduct cutting-edge medical research with worldwide benefit.

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

UW Medical Center (UWMC) is a 529-bed hospital that provides comprehensive healthcare services to the Puget Sound community and patients from throughout the Pacific Northwest and beyond. UWMC also serves as the major clinical, teaching and research site for students and faculty in the Health Sciences at the University. Nearly 19,000 patients receive inpatient care at UWMC each year. Specialized inpatient care needs are met by the Cancer Center, the Regional Heart Center, the Neonatal Intensive Care Unit and the Organ Transplantation program.

Valley Medical Center (VMC) is a 321-bed acute care hospital and network of clinics that treats over 18,000 inpatients per year, and is the oldest and largest public district hospital in the state of Washington. VMC joined UW Medicine in July, 2011. VMC's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are presented in a discrete column on the financial statements of the University.

Northwest Hospital & Medical Center is a full-service medical facility with 281 beds, and treats approximately 10,000 inpatients per year. NWH joined UW Medicine in January, 2010. Specialized patient needs are met by the Stroke Center, Multiple Sclerosis Center, and other inpatient and outpatient services to the surrounding community.

UW Neighborhood Clinics is a network of clinics with 12 neighborhood locations throughout the greater Puget Sound area, providing primary, urgent and selected specialty care with a staff of 120 healthcare providers.

UW Physicians is the physician practice group for more than 2,200 faculty physicians and healthcare providers associated with UW Medicine.

Airlift Northwest is the preeminent provider of air medical transport services in the Pacific Northwest.

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

In combination, these organizations (not including VMC) contributed $1,869 million in patient services revenue in fiscal year 2017 and $1,788 million in fiscal year 2016. UWMC generated 60% of this revenue in both 2017 and 2016. UWMC admissions were 18,964 in 2017, a 3% increase from 2016. Average patient length of stay was 7.0 days, down slightly from 7.2 days in 2016. The increase in patient services revenue during 2017 was primarily due to strong case volumes in surgeries, cardiology, and radiation oncology.

Gifts, Endowments and Investment Revenues

Net investment income for the years ended June 30, 2017 and 2016 consisted of the following:

(in millions)	2017	2016
Interest and dividends	$ 78	$ 68
Metropolitan Tract net income	23	22
Seattle Cancer Care Alliance increase in equity	15	19
Net appreciation (depreciation) of fair value of investments	337	(54)
Investment expenses	(10)	(11)
Net investment income	**$ 443**	**$ 44**

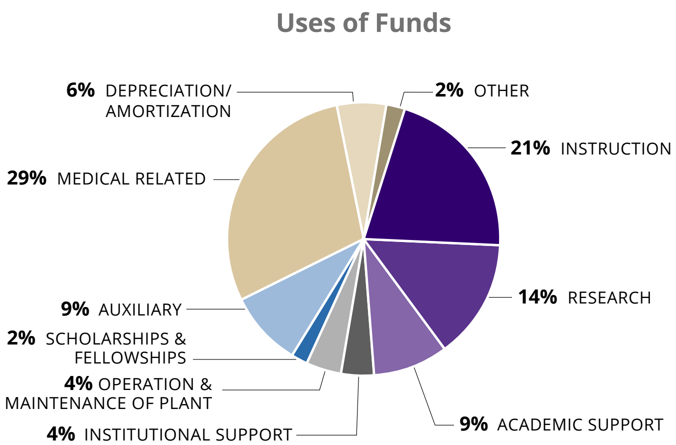
Net appreciation (depreciation) includes both realized and unrealized gains and losses. The unrealized gains, however, are not available until the underlying securities have been sold. Net investment income increased by $399 million in 2017, primarily due to the change in realized and unrealized gains and losses during the year.

Unaudited – see accompanying notes to financial statements

Donor support increased by $68 million, or 31%, to $289 million in 2017 from $221 million in 2016. Gifts are a key and necessary source of support for a variety of purposes including capital improvements, scholarships, research, and endowments for various academic and research positions.

Expenses

Two primary functions of the University, instruction and research, comprised 35% of total operating expenses. These dollars provided instruction to nearly 57,000 students and funded over 5,100 research awards. Medical-related expenses, such as those related to patient care, also continue to be one of the largest individual components.

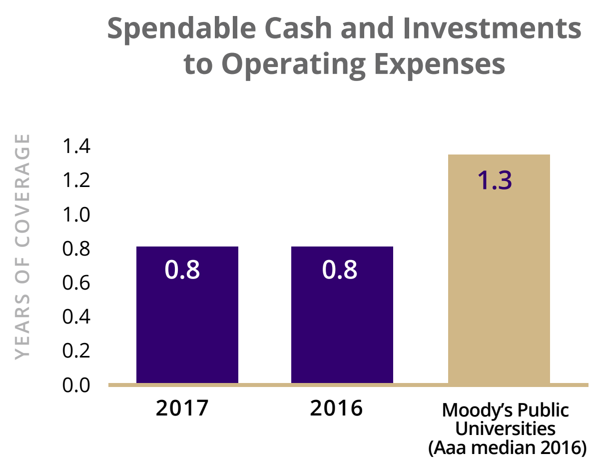


A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2017 and 2016 follows:

(in millions)	2017	2016
Operating expenses:		
Educational and general instruction	$ 1,204	$ 1,172
Research	768	751
Public service	39	39
Academic support	507	398
Student services	49	47
Institutional support	240	267
Operation and maintenance of plant	206	239
Scholarships and fellowships	137	156
Auxiliary enterprises	495	422
Medical-related	1,658	1,580
Depreciation/amortization	363	342
Total operating expenses	**$ 5,666**	**$ 5,413**

Overall, the University's operating expenses increased by $253 million, or 5%, during 2017. Salaries expense increased $129 million, or 5%, due to employee merit increases and a modest increase in FTE's. Expenses associated with employee benefits increased $76 million, or 10%, primarily due to higher costs paid by the University for employee healthcare, and increased costs commensurate with higher salaries expense. A roughly $34 million increase in pension costs associated with the University's proportionate share of the statewide defined-benefit plans was offset by a $30 million reduction in pension expense associated with the UWSRP as a result of implementing GASB Statement No. 73. Amounts paid for supplies and materials increased $29 million, or 5%, partly associated with medical supplies used by the University's clinical operations, as well as costs associated with refurbishing the R/V Thompson research vessel (reimbursed by federal grant revenue). Depreciation and amortization expenses increased $21 million, or 6%, during 2017 due to the additional capital assets placed in service by the University during the year.

The ratio of spendable cash and investments to operating expenses (as defined by Moody's Investors Service) measures the strength of available resources to cover annual operating expenses. This ratio, illustrated in the chart below, shows that in 2017 the University had sufficient available resources to fund operations for a period of 9.6 months.



Operating Loss

The University's operating loss increased to $773 million in 2017, from $683 million in 2016. State appropriations are shown as nonoperating revenue, pursuant to GASB standards. If state appropriations were classified as operating revenue, the operating loss would have been $431 million in 2017, and $381 million in 2016. The University continues to rely on nonoperating revenues such as gift revenues and investment income distributions, in addition to state appropriations, to fund its operations.

Unaudited – see accompanying notes to financial statements

Statements of Net Position

	UNIVERSITY OF WASHINGTON June 30, 2017	DISCRETE COMPONENT UNIT June 30, 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 64,035	$ 74,826
INVESTMENTS, CURRENT PORTION (NOTE 6)	585,419	21,920
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $70,099) (NOTE 5)	721,730	76,948
OTHER CURRENT ASSETS	55,799	46,614
TOTAL CURRENT ASSETS	1,426,983	220,308
NONCURRENT ASSETS:		
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	66,409	–
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	4,721,417	2,052
METROPOLITAN TRACT (NOTE 7)	146,258	–
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF $4,817) (NOTE 4)	69,381	–
OTHER NONCURRENT ASSETS	172,537	96,821
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF $4,285,757) (NOTE 8)	4,737,034	363,610
TOTAL NONCURRENT ASSETS	9,913,036	462,483
TOTAL ASSETS	11,340,019	682,791
DEFERRED OUTFLOWS OF RESOURCES:		
UNAMORTIZED LOSS ON BOND REFUNDING	30,457	13,242
PENSION-RELATED DEFERRED OUTFLOWS (NOTE 15)	238,184	–
TOTAL DEFERRED OUTFLOWS OF RESOURCES	268,641	13,242
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 11,608,660**	**$ 696,033**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 833,564	$ 119,601
UNEARNED REVENUES	195,852	–
OTHER CURRENT LIABILITIES	127,581	–
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-11)	157,803	9,054
TOTAL CURRENT LIABILITIES	1,314,800	128,655
NONCURRENT LIABILITIES:		
U.S. GOVERNMENT GRANTS REFUNDABLE	49,909	–
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-11)	2,512,279	305,100
PENSION LIABILITIES (NOTE 15)	1,422,411	–
TOTAL NONCURRENT LIABILITIES	3,984,599	305,100
TOTAL LIABILITIES	5,299,399	433,755
DEFERRED INFLOWS OF RESOURCES:		
PROPERTY TAXES	–	42,717
PENSION-RELATED DEFERRED INFLOWS (NOTE 15)	108,155	–
TOTAL DEFERRED INFLOWS OF RESOURCES	108,155	42,717
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	5,407,554	476,472
NET POSITION		
NET INVESTMENT IN CAPITAL ASSETS	2,424,447	62,018
RESTRICTED:		
NONEXPENDABLE	1,537,473	–
EXPENDABLE	1,859,136	8,041
UNRESTRICTED	380,050	149,502
TOTAL NET POSITION	6,201,106	219,561
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 11,608,660**	**$ 696,033**

See accompanying notes to financial statements.

Dollars in thousands

Statements of Revenues, Expenses and Changes in Net Position

	UNIVERSITY OF WASHINGTON Year ended June 30, 2017	DISCRETE COMPONENT UNIT Year ended June 30, 2017
REVENUES		
OPERATING REVENUES:		
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $159,166)	$ 941,873	$ –
NET PATIENT SERVICE REVENUES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $27,286)	1,869,238	544,674
FEDERAL GRANTS AND CONTRACTS	1,025,318	–
STATE AND LOCAL GRANTS AND CONTRACTS	93,662	–
NONGOVERNMENTAL GRANTS AND CONTRACTS	240,305	–
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	217,421	–
AUXILIARY ENTERPRISES:		
HOUSING AND FOOD SERVICES	123,647	–
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $7,504)	69,608	–
OTHER AUXILIARY ENTERPRISES	180,868	–
OTHER MEDICAL-RELATED REVENUE	63,897	31,368
OTHER OPERATING REVENUE	67,651	–
TOTAL OPERATING REVENUES	**4,893,488**	**576,042**
EXPENSES		
OPERATING EXPENSES (NOTE 12):		
SALARIES	2,656,462	294,462
BENEFITS	862,800	79,722
SCHOLARSHIPS AND FELLOWSHIPS	136,871	–
UTILITIES	63,746	5,156
SUPPLIES AND MATERIALS	574,806	76,435
PURCHASED SERVICES	828,415	83,556
DEPRECIATION/AMORTIZATION	363,028	31,561
OTHER	180,301	31,048
TOTAL OPERATING EXPENSES	**5,666,429**	**601,940**
OPERATING LOSS	**(772,941)**	**(25,898)**
NONOPERATING REVENUES (EXPENSES)		
STATE APPROPRIATIONS	341,971	–
GIFTS	166,491	–
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $10,384)	443,383	1,549
INTEREST ON CAPITAL ASSET-RELATED DEBT	(77,386)	(17,711)
PELL GRANT REVENUE	46,114	–
PROPERTY TAX REVENUE	–	21,488
OTHER NONOPERATING REVENUES (EXPENSES)	12,963	(1,360)
NET NONOPERATING REVENUES	**933,536**	**3,966**
INCOME (LOSS) BEFORE OTHER REVENUES	**160,595**	**(21,932)**
CAPITAL APPROPRIATIONS	64,166	–
CAPITAL GRANTS, GIFTS AND OTHER	52,897	–
GIFTS TO PERMANENT ENDOWMENTS	85,449	–
TOTAL OTHER REVENUES	**202,512**	**–**
INCREASE (DECREASE) IN NET POSITION	**363,107**	**(21,932)**
NET POSITION		
NET POSITION – BEGINNING OF YEAR (NOTE 1)	5,837,999	241,493
NET POSITION – END OF YEAR	**$ 6,201,106**	**$ 219,561**

See accompanying notes to financial statements.

Dollars in thousands

Statement of Cash Flows

	UNIVERSITY OF WASHINGTON Year Ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES	
STUDENT TUITION AND FEES	$ 916,171
PATIENT SERVICES	1,879,942
GRANTS AND CONTRACTS	1,361,909
PAYMENTS TO SUPPLIERS	(530,626)
PAYMENTS FOR UTILITIES	(59,670)
PURCHASED SERVICES	(798,295)
OTHER OPERATING DISBURSEMENTS	(216,221)
PAYMENTS TO EMPLOYEES	(2,649,967)
PAYMENTS FOR BENEFITS	(799,877)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(136,871)
LOANS ISSUED TO STUDENTS	(29,108)
COLLECTION OF LOANS TO STUDENTS	22,604
OTHER MEDICAL CENTER RECEIPTS	63,897
AUXILIARY ENTERPRISE RECEIPTS	378,287
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	199,716
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	830,208
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(829,534)
OTHER RECEIPTS	93,455
NET CASH USED BY OPERATING ACTIVITIES	**(303,980)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
STATE APPROPRIATIONS	343,355
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	46,114
PRIVATE GIFTS	126,304
PERMANENT ENDOWMENT RECEIPTS	85,449
DIRECT LENDING RECEIPTS	234,100
DIRECT LENDING DISBURSEMENTS	(245,016)
OTHER	13,122
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**603,428**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
PROCEEDS FROM CAPITAL DEBT	272,489
STATE CAPITAL APPROPRIATIONS	58,648
CAPITAL GRANTS AND GIFTS RECEIVED	51,488
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(628,080)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(143,416)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(90,943)
OTHER	(5,562)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(485,376)**

	Year Ended June 30, 2017
CASH FLOWS FROM INVESTING ACTIVITIES	
PROCEEDS FROM SALES OF INVESTMENTS	9,810,736
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(9,764,100)
INVESTMENT INCOME	91,116
NET CASH PROVIDED BY INVESTING ACTIVITIES	**137,752**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(48,176)**
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	112,211
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 64,035**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
OPERATING LOSS	$ (772,941)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
DEPRECIATION/AMORTIZATION EXPENSE	363,028
CHANGES IN ASSETS AND LIABILITIES:	
RECEIVABLES	(24,875)
OTHER ASSETS	(13,579)
PENSION RELATED DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES	(96,556)
PENSION LIABILITIES	104,864
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	91,584
UNEARNED REVENUE	22,151
OTHER LONG-TERM LIABILITIES	28,849
U.S. GOVERNMENTAL GRANTS REFUNDABLE	(8,845)
LOANS TO STUDENTS	2,340
NET CASH USED BY OPERATING ACTIVITIES	**$ (303,980)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
STOCK GIFTS	$ 40,188
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	15,181
NET UNREALIZED GAINS	289,568
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ 344,937**

See accompanying notes to financial statements.
Dollars in thousands

Notes to Financial Statements

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

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

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

Harborview Medical Center (HMC), a component unit of King County, Washington, is a related party to the University, but is not reflected as part of the financial reporting entity (Note 13).

Component units are legally separate organizations for which the University is financially accountable. Financial accountability is demonstrated when one of several conditions exist such as when the University appoints a voting majority of the organization's board, is able to impose its will on the organization, receives specific financial benefit or incurs specific financial burdens from the organization, or the organization is fiscally dependent on the University. These entities may be reported in the financial statements of the University in one of two ways: the component units' amounts may be blended with the amounts reported by the University, or they may be shown in a separate column, depending on the application of the criteria of Governmental Accounting Standards Board (GASB) code section 2600, *"Reporting Entity and Component Unit Presentation and Disclosure"*. All component units of the University meet the criteria for blending except Valley Medical Center. It is reported discretely, since it has a separate board of directors, it does not provide services exclusively to the University, and it is not a nonprofit corporation with the University being the sole corporate member.

CHANGES IN REPORTING ENTITY

In fiscal year 2017, the University implemented GASB Statement No. 80, *"Blending Requirements for Certain Component Units"*. Northwest Hospital & Medical Center, previously presented as a discrete component unit, meets the revised criteria for blending in the University's financial statements since it is a nonprofit corporation and the University is the sole corporate member. As such, its financial activities have been aggregated with those of the University, and intra-entity transactions have been eliminated.

BLENDED COMPONENT UNITS

The following entities are presented as blended component units of the University. Financial information for these affiliated organizations is available from their respective administrative offices.

MEDICAL ENTITIES

Northwest Hospital

UW Medicine and Northwest Hospital & Medical Center (NWH), a 281-bed full-service acute care hospital, have been affiliated since January 1, 2010. The University is the sole corporate member of NWH. NWH had operating revenues of $358,580,000 in 2017.

The Association of University Physicians dba UW Physicians (UWP)

UWP was established as a tax-exempt entity for the exclusive benefit of the University of Washington School of Medicine (UWSOM). UWP employs UWSOM faculty and bills and collects for their clinical services as an agent for UWSOM. UWP had operating revenues of $262,682,000 in 2017.

UW Medicine Neighborhood Clinics (Neighborhood Clinics)

Neighborhood Clinics was established as a tax-exempt entity for the benefit of UWSOM, UWP and its affiliated medical centers, HMC and UWMC, exclusively for charitable, scientific and educational purposes. Neighborhood Clinics was organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of $29,332,000 in 2017.

REAL ESTATE ENTITIES

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

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

These entities collectively had net capital assets of $294,448,000, and long-term debt of $410,374,000, in 2017. These amounts are reflected in the University's financial statements.

DISCRETELY PRESENTED COMPONENT UNIT

Valley Medical Center

UW Medicine and Public Hospital District No. 1 of King County, a Washington public hospital district dba Valley Medical Center (VMC), have had a strategic alliance since July 1, 2011. VMC owns and operates a 321-bed full-service acute care hospital and 45 clinics located throughout southeast King County. The audited financial statements of VMC are available by contacting VMC at 400 S. 43rd Street, Renton, Washington 98055 or online at the following address: valleymed.org/about-us/financial-information.

JOINT VENTURES

The University, together with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center, established the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA has a one-third interest. The University accounts for its interest in the SCCA under the equity method and has recorded $141,817,000 in Other Assets, together with $15,181,000 in Investment Income, for its share of the joint venture in 2017.

The University and Seattle Children's Hospital established Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care, charitable, educational, and scientific missions. CUMG employs UWSOM faculty physicians, and bills and collects for their services as an agent for UWSOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (Note 5) includes amounts due from CUMG of $16,182,000 in 2017.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with GASB Statement No. 34, *"Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments,"* as amended by GASB Statement No. 35, *"Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities."* The University is reporting as a special-purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the University presents Management's Discussion and Analysis, Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statement 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, revenue is recognized when earned, and expense is recorded when an obligation has been incurred. Significant intra-entity transactions have been eliminated. The University reports capital assets net of accumulated depreciation/amortization (as applicable), and reports depreciation/amortization expense in the Statements of Revenues, Expenses and Changes in Net Position.

On July 1, 2016, the University adopted those portions of GASB Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"* pertaining to pension plans not within the scope of Statement No. 68. The University of Washington Supplemental Retirement Plan (UWSRP, Note 15) does not fall within the scope of Statement No. 68 since the assets set aside to pay retiree benefits have not been segregated and restricted in a trust or equivalent arrangement. As a result of implementing this Statement, the University has recognized the total pension liability for this plan, and has restated July 1, 2016 Net Position for the difference between the beginning total pension liability and the amount previously reported as the UWSRP pension liability. Prior to implementing this Statement, the UWSRP pension liability represented the cumulative amounts expensed for the Annual Required Contribution (ARC) less cash payments to retirees, and UWSRP pension expense was equal to the ARC. Under Statement No. 73, the University must record the total actuarially determined UWSRP pension liability, and most changes in the total pension liability will now be reflected in pension expense in the period of the change, while others will be reported as deferred inflows or deferred outflows of resources, and amortized to expense over future periods. The University's Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows present only one fiscal year, since the change in accounting treatment required by Statement No. 73 is not able to be applied to the prior fiscal year due to the constraints of available information.

On July 1, 2016, the University adopted GASB Statement No. 80, *"Blending Requirements for Certain Component Units".* This Statement amends requirements for the financial statement presentation of component units of all state and local governments. The new criteria require presenting a component unit's balances and activities blended with the primary government, and the elimination of intra-entity transactions, when the component unit is incorporated as a not-for-profit corporation and the primary government is the corporation's sole corporate member. The University is the sole corporate member of NWH, which was previously reflected as a discretely presented component unit. As a result of implementing this Statement, NWH is now being reflected as a blended component unit, and the July 1, 2016 net position has been restated to reflect this change.

With the adoption of GASB Statements No. 73 and No. 80, net position was restated at July 1, 2016. Below is a reconciliation of total net position as previously reported at June 30, 2016, to the restated net position.

(Dollars in thousands)

NET POSITION AT JUNE 30, 2016, AS PREVIOUSLY REPORTED	$ 5,963,888
ADOPTION OF GASB STATEMENT NO. 73	(215,387)
ADOPTION OF GASB STATEMENT NO. 80	89,498
NET POSITION AT JULY 1, 2016, AS RESTATED	**$ 5,837,999**

ACCOUNTING STANDARDS IMPACTING THE FUTURE

In June 2015, the GASB issued Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* (OPEB), which will be effective for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers. The University's participation in OPEB is described in Note 14, and based on the requirements of GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,"* OPEB does not currently impact the University's financial statements. As a result of implementing Statement No. 75, the University will be required to recognize its proportionate share of the state's actuarially determined OPEB liability, deferred inflows and deferred outflows of resources, and benefit expense. The July 2017 actuarial valuation prepared in accordance with GASB Statement No. 45 reports an actuarial accrued liability for the state of Washington of $5,500,000,000, and estimates the University's proportionate share of that liability to be $1,200,000,000. The plan has no accumulated assets; therefore, the impact to the University's financial statements from implementation will require recognition of the University's proportionate share of the statewide OPEB liability as calculated under the requirements of GASB 75, with a corresponding restatement of net position as of June 30, 2017.

In March 2016, the GASB issued Statement No. 81, *"Irrevocable Split-Interest Agreements,"* which will be effective for the fiscal year ending June 30, 2018. Irrevocable split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Implementation of this Statement will require the University to report its beneficial interest in irrevocable split-interest agreements, including those held by an intermediary such as an outside trust. The University has lead income rights in many outside trusts. This Statement will require that the beneficial interest received be initially recorded at fair value as a deferred inflow of resources, and then revalued at the end of each financial reporting period with the change in fair value recognized as revenue. The University currently reports revenue based on income distributions received. As a result of implementing this statement, the University expects to recognize additional assets of approximately $100,000,000, deferred inflows of resources of $150,000,000, and a reduction of net position of $50,000,000.

In November 2016, the GASB issued Statement No. 83, *"Certain Asset Retirement Obligations,"* which will be effective for the fiscal year ending June 30, 2019. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments that have legal obligations to perform future tangible asset retirement activities will need to recognize a liability and offsetting deferred outflow of resources when incurred and reasonably estimable. The basis of the estimate is the current value of the future outlays expected to be incurred, and is to be adjusted annually for inflation and any changes of relevant factors. The deferral is to be recognized as expense in a systematic and rational manner over the life of the tangible capital asset. The liability is derecognized as retirement costs are paid. Required disclosures include information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The University's 2015 Decommissioning Funding Plan, prepared in accordance with Washington Administrative Code 246-235-075, has estimated disposal and clean-up costs related to several Cyclotrons used in research and medical services of approximately $100,000,000 and discussions are underway to determine the applicability of this standard to University X-ray and MRI machines.

In January 2017, the GASB issued Statement No. 84, *"Fiduciary Activities,"* which will be effective for the fiscal year ending June 30, 2020. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Custodial assets held for three months or less are exempt from the reporting requirements. The University will be required to report fiduciary activities that do not meet the exception criteria, primarily consisting of funds invested by other agencies and organizations in the Consolidated Endowment Fund.

In March 2017, the GASB issued Statement No. 85, *"Omnibus 2017,"* which will be effective for the fiscal year ending June 30, 2018. This Statement addresses practice issues that were identified during implementation and application of certain other GASB Statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The guidance related to component units, fair value measurement and goodwill does not apply to the University. The guidance related to OPEB will be considered in the context of implementing GASB Statement No. 75.

In June 2017, the GASB issued Statement No. 87, *"Leases,"* which will be effective for the fiscal year ending June 30, 2021. This Statement changes the current classification of lease arrangements as either operating or capital leases, and establishes a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. This Statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessees will be required to recognize a lease liability and an intangible right-to-use lease asset, and lessors will be required to recognize a lease receivable and a deferred inflow of resources. The University is currently analyzing the impact from implementation of this Statement.

USE OF ESTIMATES

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

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

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

The University's share of pension plan assets, liabilities, deferrals and expenses, are based on actuarial valuations prepared by an external actuary. The results of an actuarial valuation are estimates based on historical data, actuarial assumptions, and the demographics of the employee population.

The self-insurance reserve (Note 16) is estimated through an externally prepared actuarial calculation using individual case-basis valuations and statistical analyses. Considerable variability is inherent in such estimates.

OTHER ACCOUNTING POLICIES

Investments. Investments are generally carried at fair value. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations from major securities exchanges. Alternative investments, which are not readily marketable, are carried at the estimated fair values provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Investments under long-term strategies are considered noncurrent. Short-term investments consist primarily of cash equivalents and fixed income vehicles which management has identified as available to meet the day-to-day obligations of the University.

Inventories. Inventories are carried at the lower of cost or market value and are reflected on the Statements of Net Position in Other Current Assets. Consumable inventories, consisting of expendable materials and supplies, are generally valued using the weighted-average method. Merchandise inventories are generally valued using the first-in, first-out method.

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

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

Interest incurred on capital asset-related debt was $90,080,000 in 2017. The University capitalized $12,694,000 of this cost in 2017.

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

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

Single Employer Pension Plan (UW Supplemental Retirement Plan). The total pension liability is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. The discount rate used is the yield or index rate for 20 year tax-exempt general obligation municipal bonds with average credit rating AA/Aa or higher rating. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. The measurement date for the UW Supplemental Retirement Plan is June 30, 2017.

Split-Interest Agreements. Under such agreements, donors/beneficiaries receive income for their lifetime or for a stated term, with the University receiving the remaining principal. The University records an asset related to these agreements at fair market value at year-end. The University also records a liability related to the split-interest agreements equal to the present value of expected future distributions; the discount rates applied range from 3.4% to 7.5%.

Compensated Absences. University employees accrue annual leave at rates based on length of service, and for sick leave at the rate of one day per month. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal compensation rate for any balance that exceeds 480 hours, or for any balance upon retirement or death. Annual leave accrued at June 30, 2017 was $118,917,000, and is included in Accounts Payable and Accrued Liabilities. Sick leave accrued at June 30, 2017 was $46,771,000, and is included in Long-Term Liabilities (Note 9).

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

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

Third-party payor agreements with Medicare and Medicaid provide for payments at amounts different from established rates and are part of contractual adjustments to net patient service revenue. Medicare reimbursements are based on a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The estimated final settlements for open years are based on preliminary cost findings after giving consideration to interim payments that have been received on behalf of patients covered under these programs.

For more information about Net Patient Service Revenue, see the audited financial statements of the UW Medicine Clinical Enterprise – UW Division, which are contained in the latest Bondholders Report at http://finance.uw.edu/treasury/bondholders/other-investor-material.

Charity Care. Charity care provides patient care without charge to patients who meet certain criteria under the charity care policy. Records are maintained to identify and monitor the level of charity care provided. These records include charges foregone for services and supplies furnished under the charity care policy to the uninsured and the underinsured. Collection of these amounts is not pursued and as such they are not reported as net patient service revenue. The cost of charity care provided is calculated based on the aggregate relationship of costs to charges. The estimated cost of charity care provided during 2017 was $21,346,000.

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

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

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

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

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

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

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

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

NOTE 2:

Cash and Cash Equivalents

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

NOTE 3:

Deposit with State of Washington

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

NOTE 4:

Student Loans Receivable

Net student loans of $69,381,000 at June 30, 2017 consist of $53,281,000 from federal programs, and $16,100,000 from University programs. Interest income from student loans for the year ended June 30, 2017 was $1,606,000. These unsecured loans are made primarily to students who reside in the state of Washington.

NOTE 5:

Accounts Receivable

The major components of accounts receivable as of June 30, 2017 were:

(Dollars in thousands)	**2017**
NET PATIENT SERVICES	$ 351,566
GRANTS AND CONTRACTS	182,191
INVESTMENTS	95,232
DUE FROM OTHER AGENCIES	78,207
SALES AND SERVICES	52,294
TUITION	13,451
STATE APPROPRIATIONS	5,517
ROYALTIES	5,021
OTHER	8,350
SUBTOTAL	**791,829**
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(70,099)
TOTAL	**$ 721,730**

NOTE 6:

Investments

INVESTMENTS – GENERAL

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

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

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

TABLE 1 – INVESTMENTS *(Dollars in thousands)*

		Fair Value Measurement Inputs		
INVESTMENTS BY FAIR VALUE LEVEL	2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 777,094	$ 3,059	$ 774,035	$ –
U.S. GOVERNMENT AGENCY	573,706	9,497	564,209	–
MORTGAGE BACKED	205,503	–	205,503	–
ASSET BACKED	141,845	–	141,845	–
CORPORATE AND OTHER	249,196	16,856	232,340	–
TOTAL FIXED INCOME SECURITIES	**1,947,344**	**29,412**	**1,917,932**	**–**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	740,427	711,755	28,672	–
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	1,340	–	–	1,340
REAL ESTATE	9,396	–	–	9,396
OTHER	2,754	1,482	–	1,272
TOTAL EQUITY SECURITIES	**753,917**	**713,237**	**28,672**	**12,008**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**2,701,261**	**$ 742,649**	**$ 1,946,604**	**$ 12,008**
INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)				
GLOBAL EQUITY INVESTMENTS	1,272,046			
ABSOLUTE RETURN STRATEGY FUNDS	465,553			
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	339,876			
REAL ASSETS FUNDS	183,070			
OTHER	69,630			
TOTAL INVESTMENTS MEASURED USING NAV	**2,330,175**			
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	5,031,436			
CASH EQUIVALENTS AT AMORTIZED COST	275,400			
TOTAL INVESTMENTS	**$ 5,306,836**			

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

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

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

2017	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,272,046	$ 22,308	MONTHLY TO ANNUALLY	15-180 DAYS
ABSOLUTE RETURN STRATEGY FUNDS	465,553	45,490	QUARTERLY TO ANNUALLY	30-90 DAYS
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	339,876	241,330	N/A	–
REAL ASSETS FUNDS	183,070	68,452	N/A	–
OTHER	69,630	8,011	QUARTERLY TO ANNUALLY	30-95 DAYS
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,330,175**			

1. **Global Equity:** This investment category includes public equity investments in separately managed accounts, long-only comingled funds, unconstrained limited partnerships, and passive market indices. Fair values have been determined using the NAV per share of the investments. For 2017, approximately 75% of the value of the investments in this category can be redeemed within 90 days, and 92% can be redeemed within one year.
2. **Absolute Return:** This category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and/or hedges against market downturns. Fair values have been determined using the NAV per share of the investments. Approximately 91% of the value of the investments in this category can be redeemed within one year.
3. **Private equity:** This category includes buyout, venture, and special situations funds. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. These investments can never be redeemed with the funds, with the exception of one investment. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the majority of underlying assets of the funds will be liquidated over the next 7 to 10 years.
4. **Real assets:** This category includes real estate, natural resources, and other hard assets. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the majority of underlying assets of the funds will be liquidated over the next 7 to 10 years.
5. **Other:** This category consists of fixed income and opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. Approximately 81% of the value of the investments in this category can be redeemed or anticipate distribution within one year. The remaining balance of these investments contain restrictions on redemption within one year or will be distributed as underlying investments are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 10 years.

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2017, the Invested Funds Pool totaled $1,658,957,000. The Invested Funds Pool also owns units in the Consolidated Endowment Fund (CEF) valued at $614,540,000 at June 30, 2017. 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 1% in fiscal year 2017. University Advancement received 3% of the average balances in endowment operating and gift accounts in fiscal year 2017. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

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

Under the CEF spending policy approved by the Board of Regents, quarterly distributions to programs are based on an annual percentage rate of 4.0%, applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1.0% supporting campus-wide fundraising and stewardship activities (0.80%) and offsetting the internal cost of managing endowment assets (0.20%).

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value is $2,065,000 at June 30, 2017.

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 $112,821,000 at June 30, 2017. Income received from these trusts, which is included in Investment Income, was $4,619,000 for the fiscal year ended June 30, 2017.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of $47,518,000 in fiscal year 2017 from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year include the net appreciation (depreciation) of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the year ended June 30, 2017 was $337,086,000.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2017, the University had outstanding commitments to fund alternative investments of $385,591,000. These commitments are expected to be called over a multi-year time frame. The University believes it has adequate liquidity and funding sources to meet these obligations.

DERIVATIVES

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

Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price. Total return swaps involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The notional amount and fair value of investment derivative instruments outstanding at June 30, 2017, categorized by type, are as follows:

Credit exposure represents exposure to counterparties relating to financial instruments, where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2017. No derivative instruments have been reclassified from a hedging instrument to an investment instrument.

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

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

Notational Amount as of June 30		Fair Value as of June 30		Change in Fair Value	
DESCRIPTION	2017	ASSET CLASSIFICATION	2017	INCOME CLASSIFICATION	2017
SWAPS FIXED INCOME – LONG	$ 94,365	INVESTMENTS	$ 94,365	INVESTMENT INCOME	$ –
SWAPS FIXED INCOME – SHORT	$ (94,365)	INVESTMENTS	$ (95,409)	INVESTMENT INCOME	$ (1,044)
FUTURES ON CONTRACTS – LONG	$133,581	INVESTMENTS	$ 133,374	INVESTMENT INCOME	$ (207)
FUTURES ON CONTRACTS – SHORT	$ (74,786)	INVESTMENTS	$ (74,723)	INVESTMENT INCOME	$ 63

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. Effective duration is a commonly used measure of interest rate risk. The longer the duration, the more sensitive the portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income portfolio was 1.95 years at June 30, 2017.

CREDIT RISK

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

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

Duration and credit risk figures at June 30, 2017 exclude $15,625,000 of fixed income securities held outside the CEF and the IF. These amounts make up 0.80% of the University's fixed income investments, and are not included in the duration figures detailed in Table 4.

The composition of fixed income securities at June 30, 2017, along with credit quality and effective duration measures, is summarized as follows:

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

2017

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	$ 774,034	$ –	$ –	$ –	$ 774,034	1.57
U.S. GOVERNMENT AGENCY	569,325	–	–	–	569,325	2.30
MORTGAGE BACKED	–	135,624	49,402	20,477	205,503	1.50
ASSET BACKED	–	139,233	2,048	564	141,845	0.92
CORPORATE AND OTHER	–	171,826	40,591	28,595	241,012	3.68
TOTAL	**$ 1,343,359**	**$ 446,683**	**$ 92,041**	**$ 49,636**	**$ 1,931,719**	**1.95**

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

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policies permit investments in international equity and other asset classes, which can include foreign currency exposure. The University also enters into foreign currency forward contracts, futures contracts, and options to manage the foreign currency exposure. The University held non-U.S. denominated securities at June 30, 2017 of $1,121,780,000.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	2017
INDIAN RUPEE (INR)	$ 169,112
JAPANESE YEN (JPY)	117,709
EURO (EUR)	112,308
CHINESE RENMINBI (CNY)	100,807
BRAZIL REAL (BRL)	88,806
SOUTH KOREAN WON (KRW)	63,005
HONG KONG DOLLAR (HKD)	61,804
BRITISH POUND (GBP)	55,104
RUSSIAN RUBLE (RUB)	43,103
CANADIAN DOLLAR (CAD)	41,703
MEXICAN PESO (MXN)	32,802
TAIWANESE DOLLAR (TWD)	30,102
PHILIPPINE PESO (PHP)	26,002
SWISS FRANC (CHF)	24,202
REMAINING CURRENCIES	155,211
TOTAL	**$ 1,121,780**

NOTE 7:

Metropolitan Tract

The University of Washington Metropolitan Tract (Metropolitan Tract), located in downtown Seattle, comprises approximately 11 acres of developed property including office space, retail space, residential apartments, parking, and a luxury hotel. This land was the original site of the University from 1861 until 1895 when the University moved to its present location on Lake Washington. Since the early 1900s, the University has managed the Metropolitan Tract by leasing to third party tenants, and ground leasing to entities responsible for developing and operating new buildings.

The balance as of June 30, 2017 of $146,258,000 represents the asset value net of operating liabilities and long-term debt on the property. The asset value is comprised primarily of land, buildings, building improvements and operating assets.

Total debt outstanding on the Metropolitan Tract was $35,000,000 as of June 30, 2017, which will be repaid by proceeds from the properties. The debt was issued in 2015 to refund commercial paper and acquire the leasehold on the Cobb Building. This amount is reflected in the balance for Metropolitan Tract on the Statement of Net Position, and is therefore not included in Note 9 or Note 11.

In 2014, the University entered into an agreement with Wright Runstad to undertake activities relating to the redevelopment of the site currently occupied by the Rainier Square (Predevelopment Agreement). The agreement commenced on November 1, 2014 and expires upon the completion of certain development milestones. The Predevelopment Agreement provides for the execution of a ground lease for the development of a multi-use office tower (Tower Lease) and a separate ground lease for a luxury hotel (Rainier Square Hotel Lease).

SUBSEQUENT EVENT

On September 12, 2017, the University executed the Tower Lease with Wright Runstad and amended the Predevelopment Agreement to allow for a separate future closing of the Rainier Square Hotel Lease. The Tower Lease has an 80 year term, requires Wright Runstad to complete development of the approved building in four years, is unsubordinated, and requires minimum ground rent during construction and 8% of adjusted gross revenue from the project thereafter. Demolition of the existing Rainier Square building is expected in November 2017.

In connection with the Tower Lease, the University executed an Operating Agreement with Wright Runstad that regulates how the Rainier Tower and the lessees of the Rainier Square Tower and Hotel will operate shared mix use space on the Rainier Square block.

NOTE 8:

Capital Assets

Capital asset activity for the period ended June 30, 2017 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2016	Additions/ Transfers	Retirements	Balance at June 30, 2017
LAND	$ 139,565	$ 4,646	$ –	$ 144,211
INFRASTRUCTURE	247,792	62,296	–	310,088
BUILDINGS	5,766,853	389,840	5,620	6,151,073
FURNITURE, FIXTURES AND EQUIPMENT	1,484,793	151,963	159,813	1,476,943
LIBRARY MATERIALS	349,516	16,879	1,904	364,491
CAPITALIZED COLLECTIONS	7,183	110	45	7,248
INTANGIBLE ASSETS	139,155	71,074	1,701	208,528
CONSTRUCTION IN PROGRESS	353,597	8,009	11,907	349,699
INTANGIBLES IN PROCESS	56,800	(46,290)	–	10,510
TOTAL COST	**8,545,254**	**658,527**	**180,990**	**9,022,791**
LESS ACCUMULATED DEPRECIATION/AMORTIZATION:				
INFRASTRUCTURE	111,694	8,862	–	120,556
BUILDINGS	2,395,932	209,263	4,886	2,600,309
FURNITURE, FIXTURES AND EQUIPMENT	1,214,848	129,857	151,232	1,193,473
LIBRARY MATERIALS	261,669	12,951	1,449	273,171
INTANGIBLE ASSETS	96,153	2,095	–	98,248
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	**4,080,296**	**363,028**	**157,567**	**4,285,757**
CAPITAL ASSETS, NET	**$ 4,464,958**	**$ 295,499**	**$ 23,423**	**$ 4,737,034**

NOTE 9:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

Long-term liability activity for the period ended June 30, 2017 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2016	Additions/ Transfers	Reductions	Balance at June 30, 2017	Current Portion 2017
BONDS PAYABLE:					
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	$ 127,054	$ 9,130	$ 26,985	$ 109,199	$ 13,890
REVENUE BONDS PAYABLE (NOTE 11)	1,992,945	205,160	85,775	2,112,330	77,250
UNAMORTIZED PREMIUM ON BONDS	137,142	37,403	17,341	157,204	12,465
TOTAL BONDS PAYABLE	**2,257,141**	**251,693**	**130,101**	**2,378,733**	**103,605**
NOTES PAYABLE AND CAPITAL LEASES:					
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED (NOTE 11)	36,499	–	9,860	26,639	5,177
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	1,316	453	290	1,479	1,355
CAPITAL LEASE OBLIGATIONS (NOTE 10)	12,298	3,796	3,265	12,829	2,425
TOTAL NOTES PAYABLE AND CAPITAL LEASES	**50,113**	**4,249**	**13,415**	**40,947**	**8,957**
OTHER LONG-TERM LIABILITIES:					
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	39,154	20,800	5,271	54,683	5,694
POLLUTION REMEDIATION LIABILITY (NOTE 1)	21,000	–	–	21,000	3,000
HMC ITS FUNDING (NOTE 13)	27,610	4,434	1,786	30,258	9,500
SICK LEAVE (NOTE 1)	42,191	9,499	4,919	46,771	5,286
SELF-INSURANCE (NOTE 16)	79,153	15,026	15,695	78,484	21,761
OTHER NONCURRENT LIABILITIES	12,637	6,569	–	19,206	–
TOTAL OTHER LONG-TERM LIABILITIES	**221,745**	**56,328**	**27,671**	**250,402**	**45,241**
TOTAL LONG-TERM LIABILITIES	**$ 2,528,999**	**$ 312,270**	**$ 171,187**	**$ 2,670,082**	**$ 157,803**

DISCRETE COMPONENT UNIT

Long-term liability activity for the period ended June 30, 2017 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2016	Additions/ Transfers	Reductions	Balance at June 30, 2017	Current Portion 2017
VALLEY MEDICAL CENTER					
LIMITED TAX GENERAL OBLIGATION BONDS	$ 230,745	$ 214,926	$ 207,312	$ 238,359	$ 7,020
REVENUE BONDS	15,959	–	1,641	14,318	1,790
BUILD AMERICA BONDS	61,155	–	–	61,155	–
NOTES PAYABLE & OTHER	603	–	281	322	244
TOTAL LONG-TERM LIABILITIES	**$ 308,462**	**$ 214,926**	**$ 209,234**	**$ 314,154**	**$ 9,054**

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments as of June 30, 2017, are as follows:

CAPITAL LEASES

Year *(Dollars in thousands)*	Future Payments
2018	$ 2,696
2019	2,710
2020	2,370
2021	2,008
2022	1,983
THEREAFTER	1,981
TOTAL MINIMUM LEASE PAYMENTS	13,748
LESS: AMOUNT REPRESENTING INTEREST COSTS	919
PRESENT VALUE OF MINIMUM PAYMENTS	**$ 12,829**

OPERATING LEASES

The University has certain lease agreements in effect that are considered operating leases, which are primarily for leased building space. During the year ended June 30, 2017, the University recorded rent expense of $78,127,000 for these leases. Future lease payments as of June 30, 2017 are as follows:

Year *(Dollars in Thousands)*	Future Payments
2018	$ 72,053
2019	69,715
2020	65,601
2021	55,648
2022	46,751
2023 - 2027	120,394
2028 - 2032	51,465
2033 - 2037	52,940
2038 - 2042	61,240
2043 - 2047	70,825
2048 - 2052	81,936
2053 - 2057	94,797
2058 - 2062	109,686
2063 - 2067	21,530
TOTAL MINIMUM LEASE PAYMENTS	**$ 974,581**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2017 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 0.91% to 6.52%. Debt service requirements at June 30, 2017 were as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON GENERAL REVENUE BONDS		NOTES PAYABLE AND OTHER	
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2018	$ 13,890	$ 5,195	$ 77,250	$ 97,920	$ 6,532	$ 1,164
2019	13,920	4,473	56,795	95,276	3,819	1,008
2020	10,275	3,824	58,195	92,782	3,628	855
2021	10,765	3,305	61,585	90,143	3,577	705
2022	11,230	2,753	64,370	87,228	2,529	556
2023 - 2027	45,275	5,580	331,795	389,724	4,796	1,381
2028 - 2032	3,844	142	370,285	303,304	3,177	399
2033 - 2037	–	–	398,670	214,940	60	–
2038 - 2042	–	–	439,405	106,738	–	–
2043 - 2047	–	–	249,010	17,353	–	–
2048 - 2052	–	–	4,970	–	–	–
TOTAL PAYMENTS	**$ 109,199**	**$ 25,272**	**$ 2,112,330**	**$ 1,495,408**	**$ 28,118**	**$ 6,068**

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 service revenues, tuition, timber sales and other revenues.

ISSUANCE ACTIVITY

On November 9, 2016, the University issued $205,160,000 in General Revenue & Refunding Bonds, 2016A&B, at a premium of $35,596,000. Part of the proceeds were used to refund existing debt. The amount of refunded bonds was $38,220,000; the amount of refunding bonds was $35,020,000 (plus premium of $4,989,000). The refunded bonds had coupon rates ranging from 4.0% to 5.0% with an average coupon of 4.68%; the new bonds have an average coupon of 4.39%. The refunding decreased the total debt service payments to be made over the next 21 years by $6,154,000 and resulted in a total economic gain of $4,960,000. The remainder of the proceeds are funding a variety of projects. The average life of the 2016A&B General Revenue Bonds is 17.2 years with final maturity on December 1, 2046. The average coupon of these bonds is 4.80%.

REFUNDING ACTIVITY

On July 14, 2016, the state of Washington refunded General Obligation Bonds totaling $9,755,000 (UW portion) with new bond issuances totaling $9,130,000 and premium of $1,717,000. The refunded bonds had an average interest rate and coupon rate of 5.00%; the new bonds have an average coupon rate of 4.90%. The refunding decreased the total debt service payments to be made over the next seven years by $1,057,000 and resulted in a total economic gain of $958,000.

COMMERCIAL PAPER PROGRAM

The University has a commercial paper program with a maximum borrowing limit of $250,000,000, payable from University general revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2017, there was $67,000,000 in outstanding commercial paper.

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

SUBSEQUENT DEBT ACTIVITY

On August 31, 2017, the University issued $45,000,000 of commercial paper debt. The proceeds will be used to fund the Life Sciences Building and Phase 4a of the Housing Master Plan.

On September 20, 2017, the University issued $14,000,000 of commercial paper debt. The proceeds will be used to fund construction of the Burke Museum.

DEFEASED BONDS

The University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The trust account assets and the liability for the defeased bonds are not included in the University's financial statements. As of June 30, 2017, $38,693,000 of bonds outstanding are considered defeased.

NOTE 12:

Operating Expenses by Function

Operating expenses by functional classification for the year ended June 30, 2017 are summarized as follows:

OPERATING EXPENSES *(Dollars in thousands)*	**2017**
INSTRUCTION	$ 1,203,800
RESEARCH	767,887
PUBLIC SERVICE	39,338
ACADEMIC SUPPORT	506,501
STUDENT SERVICES	48,372
INSTITUTIONAL SUPPORT	240,446
OPERATION & MAINTENANCE OF PLANT	206,436
SCHOLARSHIPS & FELLOWSHIPS	136,871
AUXILIARY ENTERPRISES	495,375
MEDICAL-RELATED	1,658,375
DEPRECIATION/AMORTIZATION	363,028
TOTAL OPERATING EXPENSES	**$ 5,666,429**

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 13:

Related Parties

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

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

HMC revenues and expenses are not recognized in the University's financial statements. The University's financial statements do, however, include accounts receivable from HMC of $28,432,000 as of June 30, 2017, as well as HMC investments of $3,629,000, current accrued liabilities of $26,731,000, and long-term liabilities of $30,258,000.

Under an annual agreement, HMC provides strategic funding to Neighborhood Clinics. Funding from HMC to Neighborhood Clinics was $11,522,000 during fiscal year 2017, and is presented as Other Operating Revenue in the Statements of Revenues, Expenses and Changes in Net Position.

UW Medicine information technology operates as a self-sustaining activity of the University (ITS department). The ITS department records enterprise-wide information technology capital assets that are purchased for use by UW Medicine entities. The HMC ITS funding reflected in long-term liabilities (Note 9) of $30,258,000 at June 30, 2017, represents HMC's funding of the enterprise-wide information technology capital assets which will be included in the recharge rates of the ITS department over the useful life of the assets.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2017, the UWF transferred $114,167,000 to the University in gifts and grants received on its behalf; these are included in the financial statements of the University. The remaining amounts retained by the UWF are not significant to the University's financial statements.

The University of Washington Alumni Association is a tax-exempt entity that was established to connect and celebrate alumni and to support the University's mission. The Alumni Association received $3,755,000 from the University in support of its operations in fiscal year 2017. These amounts were expensed by the University.

NOTE 14:

Other Post Employment Benefits

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

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

An additional factor in the OPEB obligation is a payment that is required by the state legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). For calendar year 2017, this amount was $150 per retiree eligible for parts A and B of Medicare. This is also passed through to state agencies through active employee rates charged to the agency.

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

ACTUARIAL STUDY

Actuarial studies, performed every two years by the Washington Office of the State Actuary, calculated that the total OPEB obligation of the state of Washington at January 1, 2017 was $5,500,000,000. The annual required contribution was

$534,000,000 for the state of Washington for 2017. The actuary calculated the OPEB obligation based on individual state employee data, including age, retirement eligibility and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

The actuary's allocation of the cumulative statewide liability related to the University and HMC (an unconsolidated related party), was estimated at approximately $1,200,000,000 for 2017. This amount is not included in the University's financial statements.

The University paid $349,000,000 for healthcare expenses in fiscal year 2017, which included its pay-as-you-go portion of the OPEB liability, calculated by the actuary at $16,000,000 in 2017.

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

NOTE 15:

Pension Plans

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

As of June 30, 2017, the University's share of the total unfunded liabilities associated with the defined-benefit pension plans administered by the DRS was $983,658,000. The liability associated with the defined-benefit pension plan administered by the University was $438,753,000, but does not reflect assets physically segregated in a separate investment account to pay future retiree benefits of $230,782,000. For the year ended June 30, 2017, total pension expense recorded by the University related to both the DRS and University plans was $130,620,000.

PLANS ADMINISTERED BY DRS

PLAN DESCRIPTION

Public Employees' Retirement System

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

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

Teachers' Retirement System

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

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

Law Enforcement Officers' and Fire Fighters' Retirement System

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

VESTING AND BENEFITS PROVIDED

PERS Plan 1 and TRS Plan 1

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

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

PERS Plan 2/3 and TRS Plan 2/3

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

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

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

LEOFF Plan 2

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

Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index) capped at 3% annually, and a one-time duty-related death benefit if the member is found eligible by the Washington State Department of Labor and Industries.

FIDUCIARY NET POSITION

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

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

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

ACTUARIAL ASSUMPTIONS

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The University's 2017 pension liability is based on an OSA valuation performed as of June 30, 2015, with the results rolled forward to the measurement date of June 30, 2016. The following actuarial assumptions have been applied to all prior periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report.

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement date of June 30, 2016, are summarized in the following table:

	2017 *(Measurement Date 2016)*	
Asset Class	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
FIXED INCOME	20.00%	1.70%
TANGIBLE ASSETS	5.00%	4.40%
REAL ESTATE	15.00%	5.80%
GLOBAL EQUITY	37.00%	6.60%
PRIVATE EQUITY	23.00%	9.60%

The inflation component used to create the above table is 2.20%, and represents WSIB's most recent long-term estimate of broad economic inflation.

DISCOUNT RATE

The discount rate used to measure the total pension liabilities as of June 30, 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

DISCOUNT RATE SENSITIVITY – NET PENSION LIABILITY (ASSET)

(Dollars in thousands)		2017	
Plan	1% Decrease	Current Discount Rate	1% Increase
PERS 1	$ 547,890	$ 454,341	$ 373,837
PERS 2/3	960,686	521,777	(271,615)
TRS 1	6,716	5,463	4,384
TRS 2/3	4,700	2,077	(2,413)
LEOFF 2	4,011	(1,430)	(5,531)

EMPLOYER CONTRIBUTION RATES

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

Description *(Dollars in Thousands)*	PERS 1	PERS 2/3[a]	TRS 1	TRS 2/3[a]	LEOFF 2
2017					
CONTRIBUTION RATE	11.18%	11.18%	13.13%	13.13%	8.59%
CONTRIBUTIONS MADE	$ 50,761	$ 64,001	$ 703	$ 717	$ 342

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

UNIVERSITY PROPORTIONATE SHARE

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by the University as of June 30, 2017 was June 30, 2016. Employer contributions received and processed by the DRS during the fiscal year ended June 30, 2016 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in their June 30, 2016 Schedules of Employer and Nonemployer Allocations. The University's proportionate share for each DRS plan is shown in the table below.

PROPORTIONATE SHARE *(Dollars in thousands)*

PLAN	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
YEAR ENDED JUNE 30, 2017	8.46%	10.36%	0.16%	0.15%	0.25%

UNIVERSITY AGGREGATED BALANCES

The University's aggregated balance of net pension liabilities and net pension asset as of June 30, 2017 is presented in the table below.

(Dollars in Thousands)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	Total
2017						
NET PENSION LIABILITY	$ 454,341	$ 521,777	$ 5,463	$ 2,077	$ –	$ 983,658
NET PENSION ASSET	$ –	$ –	$ –	$ –	$ 1,430	$ 1,430

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

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

PROPORTIONATE SHARE OF PENSION EXPENSE *(Dollars in thousands)*

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
YEAR ENDED JUNE 30, 2017	$ 31,179	$ 75,104	$ 1,315	$ 799	$ 169	$ 108,566

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*

2017	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 11,440	$ 63,850	$ 173	$ 334	$ 514	$ 76,311
CHANGE IN ASSUMPTIONS	–	5,393	–	21	5	5,419
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	27,784	–	157	196	28,137
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	10,906	–	837	50	11,793
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [a]	50,761	64,001	703	717	342	116,524
TOTAL	**$ 62,201**	**$ 171,934**	**$ 876**	**$ 2,066**	**$ 1,107**	**$ 238,184**

[a] Recognized as a reduction of the net pension liability as of June 30, 2018

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*

2017	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EXPERIENCE	$ –	$ 17,225	$ –	$ 92	$ –	$ 17,317
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	–	–	–	299	299
TOTAL	**$ –**	**$ 17,225**	**$ –**	**$ 92**	**$ 299**	**$ 17,616**

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

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

YEAR	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2018	$ (2,817)	$ 4,284	$ (45)	$ 226	$ (56)	$ 1,592
2019	(2,817)	4,225	(45)	226	(56)	1,533
2020	10,506	51,540	162	479	375	63,062
2021	6,568	30,659	101	294	245	37,867
2022	–	–	–	32	(42)	(10)
TOTAL	**$ 11,440**	**$ 90,708**	**$ 173**	**$ 1,257**	**$ 466**	**$ 104,044**

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

PLANS ADMINISTERED BY UNIVERSITY OF WASHINGTON

University of Washington Retirement Plan

PLAN DESCRIPTION

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

Contributions to the plan are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from the plan are available upon separation or retirement at the member's option. RCW 28B.10.400 et. seq. assigns the authority to the University of Washington Board of Regents to establish and amend benefit provisions.

The number of participants in the UWRP as of June 30, 2017 was 16,161.

Funding Policy

Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches 100% of employee contributions. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employer contributions for the year ended June 30, 2017 were $112,420,000.

University of Washington Supplemental Retirement Plan

PLAN DESCRIPTION

UWSRP, a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership includes academic, librarian, professional and other salary positions employed in eligible positions.

NUMBER OF PARTICIPANTS	As of June 30, 2017
ACTIVE EMPLOYEES	7,046
INACTIVE EMPLOYEES RECEIVING BENEFITS	696
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	4

VESTING AND BENEFITS PROVIDED

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal year ending June 30, 2017 were $5,136,000.

TOTAL PENSION LIABILITY (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS, TRS, and LEOFF2), which have trusted assets and, therefore, are reported as a net pension liability. The University has set aside $230,782,000 to pay future UWSRP retiree benefits. These assets are physically segregated in a separate investment account, and included in Investments, Net of Current Portion on the Statement of Net Position.

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY *(Dollars in thousands)*	
2017	
BEGINNING BALANCE	$ 512,372
SERVICE COST	19,892
INTEREST ON TPL	15,097
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	(74,919)
CHANGE IN ASSUMPTIONS	(28,553)
BENEFIT PAYMENTS	(5,136)
ENDING BALANCE	**$ 438,753**

The TPL is based on an actuarial valuation performed as of June 30, 2016 using the entry age actuarial cost method. Update procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement date of June 30, 2017.

UWSRP pension expense for the fiscal year ending June 30, 2017 was $22,054,000.

ACTUARIAL ASSUMPTIONS

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

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL PENSION LIABILITY *(Dollars in thousands)*	
2017	
INFLATION	2.75%
SALARY CHANGES	4.25%
SOURCE OF MORTALITY ASSUMPTIONS	RP-2000 COMBINED HEALTHY TABLE, WITH GENERATIONAL MORTALITY IMPROVEMENTS USING SCALE BB
DATE OF EXPERIENCE STUDY	APRIL 2016
DISCOUNT RATE	3.58%
SOURCE OF DISCOUNT RATE	BOND BUYER'S 20 BOND INDEX AS OF 6/30/2017
TPL MEASUREMENT AT DISCOUNT RATE	$ 438,753
TPL DISCOUNT RATE INCREASED 1%	$ 382,026
TPL DISCOUNT RATE DECREASED 1%	$ 507,452

Material assumption changes during the measurement period include updating the GASB Statement No. 73 discount rate from 2.85% to 3.58% (decreased the TPL), and updating the variable income investment return assumption used in the "assumed income" calculation from 6.75% to 6.25% (increased the TPL).

DEFERRED INFLOWS OF RESOURCES

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

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*		
2017		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	65,554
CHANGE IN ASSUMPTIONS		24,985
TOTAL	**$**	**90,539**

AMORTIZATION OF DEFERRED INFLOWS OF RESOURCES [(a)] *(Dollars in thousands)*		
Year		
2018	$	(12,934)
2019		(12,934)
2020		(12,934)
2021		(12,934)
2022		(12,934)
THEREAFTER		(25,869)
TOTAL	**$**	**(90,539)**

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

NOTE 16:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2017 were $332,061,000. These expenditures will be funded from institutional reserves, debt proceeds and state appropriations.

The University receives and expends substantial amounts under federal and state grants, contracts and programs. This funding is used for research, student aid, Medical Center operations and other programs, and is subject to audit by governmental granting agencies. Certain grant and contract costs billed to the federal government are subject to audit under 2 CFR 200, "*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*" The University is also involved in various other claims and legal actions arising in the ordinary course of business. University management believes that any liabilities arising from these matters will not have a material effect on the University's financial statements.

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

The self-insurance reserve is estimated through an actuarial calculation and included in Long-Term Liabilities. Changes in the self-insurance reserve for the year ended June 30, 2017 are noted below:

(Dollars in thousands)		**2017**
RESERVE AT BEGINNING OF FISCAL YEAR	$	79,153
INCURRED CLAIMS AND CHANGES IN ESTIMATES		15,026
CLAIM PAYMENTS		(15,695)
RESERVE AT END OF FISCAL YEAR	**$**	**78,484**

NOTE 17:

Blended Component Units

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

(Dollars in thousands) **Statements of Net Position – June 30, 2017**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 1,426,983	$ (23,618)	$ 1,208,515	$ 242,086	$ 129,045	$ 113,041
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	5,176,002	(106,532)	5,111,778	170,756	152,628	18,128
CAPITAL ASSETS, NET	4,737,034	–	4,316,830	420,204	125,756	294,448
TOTAL ASSETS	11,340,019	(130,150)	10,637,123	833,046	407,429	425,617
DEFERRED OUTFLOWS OF RESOURCES	268,641	–	262,945	5,696	5,696	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 11,608,660**	**$ (130,150)**	**$ 10,900,068**	**$ 838,742**	**$ 413,125**	**$ 425,617**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 1,314,800	$ (8,745)	$ 1,144,562	$ 178,983	$ 120,332	$ 58,651
TOTAL NONCURRENT LIABILITIES	3,984,599	(116,322)	3,593,367	507,554	119,262	388,292
TOTAL LIABILITIES	5,299,399	(125,067)	4,737,929	686,537	239,594	446,943
DEFERRED INFLOWS OF RESOURCES	108,155	–	108,155	–	–	–
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	5,407,554	(125,067)	4,846,084	686,537	239,594	446,943
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,424,447	–	2,315,559	108,888	115,308	(6,420)
RESTRICTED:						
NONEXPENDABLE	1,537,473	–	1,535,387	2,086	2,086	–
EXPENDABLE	1,859,136	–	1,858,205	931	931	–
UNRESTRICTED	380,050	(5,083)	344,833	40,300	55,206	(14,906)
TOTAL NET POSITION	6,201,106	(5,083)	6,053,984	152,205	173,531	(21,326)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 11,608,660**	**$ (130,150)**	**$ 10,900,068**	**$ 838,742**	**$ 413,125**	**$ 425,617**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position–Year ended June 30, 2017**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 941,873	$ –	$ 941,873	$ –	$ –	$ –
PATIENT SERVICES	1,869,238	(7,520)	1,269,217	607,541	607,541	–
GRANT REVENUE	1,359,285	–	1,359,285	–	–	–
OTHER OPERATING REVENUE	723,092	(93,265)	693,652	122,705	75,569	47,136
TOTAL OPERATING REVENUE	**4,893,488**	**(100,785)**	**4,264,027**	**730,246**	**683,110**	**47,136**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	5,303,401	(78,422)	4,667,868	713,955	691,335	22,620
DEPRECIATION / AMORTIZATION	363,028	–	329,494	33,534	18,945	14,589
TOTAL OPERATING EXPENSES	**5,666,429**	**(78,422)**	**4,997,362**	**747,489**	**710,280**	**37,209**
OPERATING INCOME (LOSS)	**(772,941)**	**(22,363)**	**(733,335)**	**(17,243)**	**(27,170)**	**9,927**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	341,971	–	341,971	–	–	–
GIFTS	166,491	–	165,328	1,163	1,163	–
INVESTMENT INCOME	443,383	(3,301)	440,939	5,745	5,745	–
OTHER NONOPERATING REVENUES (EXPENSES)	(18,309)	35,678	(42,458)	(11,529)	(758)	(10,771)
NET NONOPERATING REVENUES (EXPENSES)	**933,536**	**32,377**	**905,780**	**(4,621)**	**6,150**	**(10,771)**
INCOME (LOSS) BEFORE OTHER REVENUES	**160,595**	**10,014**	**172,445**	**(21,864)**	**(21,020)**	**(844)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	117,063	(1,413)	116,414	2,062	2,062	–
GIFTS TO PERMANENT ENDOWMENTS	85,449	–	85,449	–	–	–
TOTAL OTHER REVENUES	**202,512**	**(1,413)**	**201,863**	**2,062**	**2,062**	**–**
INCREASE (DECREASE) IN NET POSITION	**363,107**	**8,601**	**374,308**	**(19,802)**	**(18,958)**	**(844)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,837,999	(13,684)	5,679,676	172,007	192,489	(20,482)
NET POSITION – END OF YEAR	**$ 6,201,106**	**$ (5,083)**	**$ 6,053,984**	**$ 152,205**	**$ 173,531**	**$ (21,326)**

(Dollars in thousands) **Statements of Cash Flows –Year ended June 30, 2017**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (303,980)	$ –	$ (313,829)	$ 9,849	$ (2,703)	$ 12,552
NONCAPITAL FINANCING ACTIVITIES	603,428	–	587,920	15,508	15,508	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(485,376)	–	(447,428)	(37,948)	(25,383)	(12,565)
INVESTING ACTIVITIES	137,752	–	126,750	11,002	12,436	(1,434)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(48,176)**	**–**	**(46,587)**	**(1,589)**	**(142)**	**(1,447)**
CASH AND CASH EQUIVALENTS –BEGINNING OF THE YEAR	112,211	–	79,929	32,282	29,307	2,975
CASH AND CASH EQUIVALENTS –END OF THE YEAR	**$ 64,035**	**$ –**	**$ 33,342**	**$ 30,693**	**$ 29,165**	**$ 1,528**

Schedules of Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

(Amounts determined as of the measurement date)

PERS 1

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

PERS 2/3

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

TRS 1

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

TRS 2/3

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

Schedule of Contributions

(Amounts determined as of the fiscal year end)

PERS 1

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

PERS 2/3

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

TRS 1

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

TRS 2/3

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

Schedules of Required Supplementary Information (continued)

Schedule of Proportionate Share of the Net Pension Liability

(Amounts determined as of the measurement date)

LEOFF 2

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

Schedule of Contributions

(Amounts determined as of the fiscal year end)

LEOFF 2

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

UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN SCHEDULE OF CHANGES IN THE TOTAL PENSION LIABILITY

(Dollars in thousands)	2017
TOTAL PENSION LIABILITY – BEGINNING	$ 512,372
SERVICE COST	19,892
INTEREST	15,097
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE	(74,919)
CHANGES IN ASSUMPTIONS	(28,553)
BENEFIT PAYMENTS	(5,136)
TOTAL PENSION LIABILITY – ENDING	**$ 438,753**
UWSRP COVERED-EMPLOYEE PAYROLL	$ 801,161
TOTAL PENSION LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	54.76%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

Plans administered by DRS

OSA calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2015, and ending June 30, 2017, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased in over three biennia for PERS Plans 1, 2 and 3 and TRS Plans 1, 2 and 3. For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC except the CRC reflect the adopted contribution rates for the time period shown, which might differ from the contribution rates produced for the ADC.

Plans administered by the University

The University of Washington Supplemental Retirement Plan has no assets accumulated in a trust to pay retiree benefits that meets the criteria in GASB statement No. 73, paragraph 4.

Material assumption changes during the measurement period include updating the GASB statement No. 73 discount rate from 2.85% to 3.58%, and updating the variable income investment return assumption used in the "assumed income" calculation from 6.75% to 6.25%.

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