2017 BONDHOLDERS REPORT

UNIVERSITY *of* WASHINGTON | TREASURY OFFICE

2017 BONDHOLDERS REPORT

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University of Washington

2017 BONDHOLDERS REPORT

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

As a preface to reviewing the materials, we suggest starting with the University's Financial Report, which highlights the accomplishments, opportunities and challenges facing the University. The enclosed audited financial statements are as of June 30, 2017, the University's fiscal year end. Unlike previous years, the 2017 financial statements present only the current fiscal year. A change in accounting treatment required by GASB 73, which was implemented during fiscal year 2017, cannot be applied to the prior fiscal year.

Also included is a supplemental report, which includes additional financial and operating information, provided for the benefit of the holders and beneficial owners of the Bonds. This section includes some information that is also provided in the University's Financial Report. This information may contain adjustments resulting from changes in methodology or timing.

If you have comments, questions or need additional information, please contact us using the information shown below.

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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.

Unaudited – see accompanying notes to financial statements

  - 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%.

Debt and Related Capital Improvements

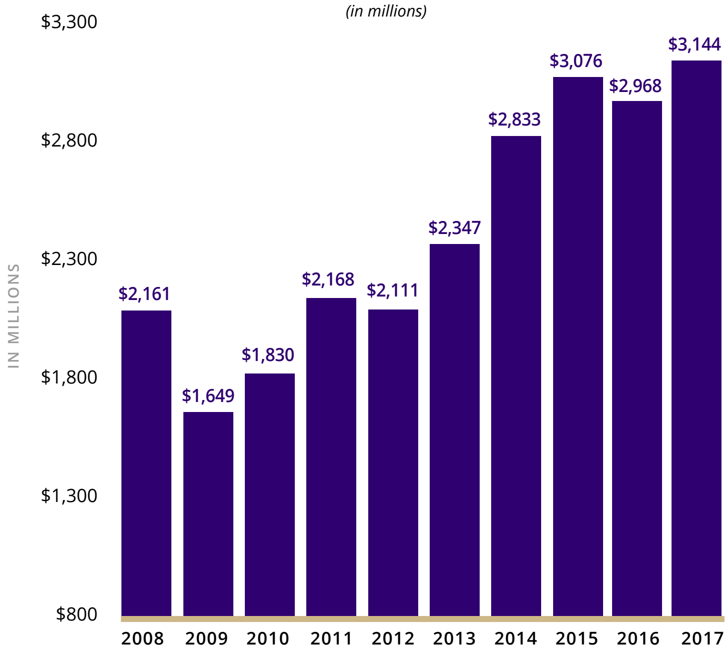
The University's general revenue borrowing platform, established in 2003, has been used to fund buildings that support the educational, research and service missions of the institution. The University's debt portfolio consists primarily of fixed-rate debt in the form of General Revenue Bonds, Lease Revenue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

Consolidated Endowment Fund Market Value

(in millions)

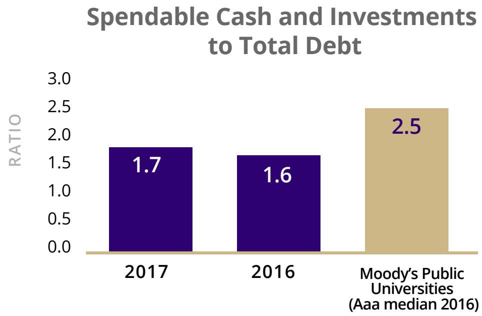


A portion of the University's operating funds are invested in the CEF. As of June 30, 2017, these funds comprise $615 million of the CEF market value.

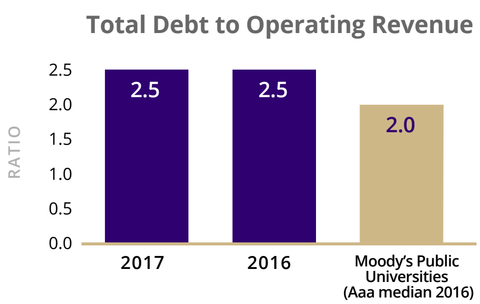
Moody's Fiscal Year 2016
Public College and University Rating Distribution

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

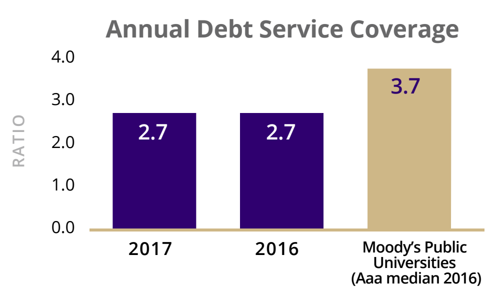
The University uses financial ratios to evaluate institutional health and to inform planning for future debt issuances. Each ratio is defined by Moody's Investors Service, and reflects year-to-year changes at the University as well as how those results trend against other Aaa-rated peer schools. Spendable 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.

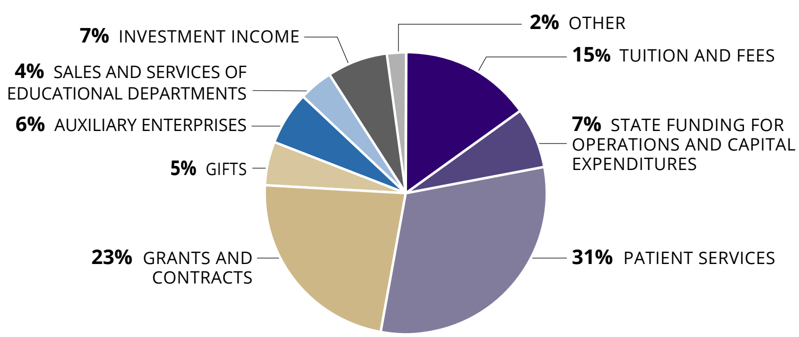
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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.

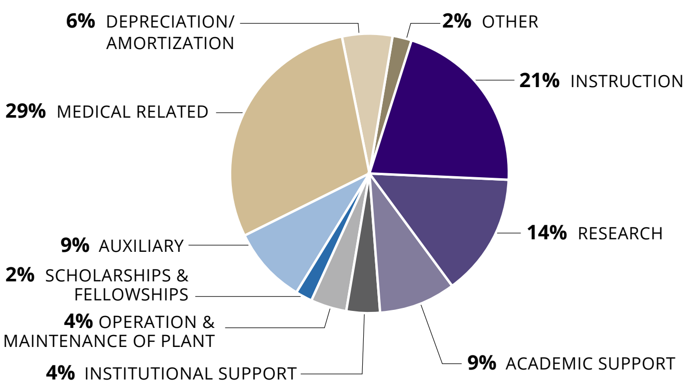
Unaudited – see accompanying notes to financial statements

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.

Uses of Funds



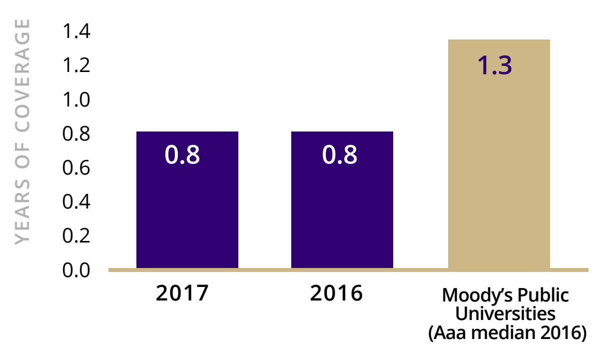
A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2017 and 2016 follows:

(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.

Spendable Cash and Investments to Operating Expenses



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.

Notes to Financial Statements (continued)

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.

Notes to Financial Statements (continued)

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).

Notes to Financial Statements (continued)

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%

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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The 2017 UW Financial Report and reports from previous years are available at annualreport.uw.edu.

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

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UNIVERSITY *of* WASHINGTON

SUPPLEMENTAL BONDHOLDER INFORMATION

OFFICIAL STATEMENT DISCLOSURES

OS DISCLOSURE OBLIGATION	LOCATION IN BONDHOLDERS REPORT
The audited financial statements of the University for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board.	Section 2 (UW Financial Report)
The amount of University revenue and other debt outstanding in that fiscal year.	Section 2 (UW Financial Report - SRECNP) Section 3 (Supplemental Bondholder Information)
Student enrollment information for that fiscal year, of the type provided in the table entitled "Applications, Students and Enrollment" under the heading "ADMISSIONS, STUDENT ENROLLMENT AND FACULTY INFORMATION" and distribution of undergraduate enrollment among University campuses.	Section 3 (Supplemental Bondholder Information)
Information regarding the number of faculty, tenure rate and percent holding terminal degrees for that fiscal year, of the type provided in the table entitled "FACULTY DATA."	Section 3 (Supplemental Bondholder Information)
Information regarding room and board fees, autumn opening occupancy and occupancy for that fiscal year, of the type provided in the table entitled "HOUSING AND DINING DATA."	Section 3 (Supplemental Bondholder Information)
General Revenues and General Revenue components for that fiscal year, of the type provided in the table entitled "GENERAL REVENUES" under the headings General Revenue (Exclusions from Total Revenue) and General Revenue (By Component) and for the line item General Net Position.	Section 4 (General Revenues)
Grant and contract revenues for that fiscal year, and amount or percentage of grant and contract revenues from federal sources.	Section 2 (UW Financial Report - SRECNP)
Information regarding the amount or percentage of revenues from Medicare or Medicaid payments in that fiscal year.	Section 3 (Supplemental Bondholder Information)
Operating expenses by type of expenditure in that fiscal year.	Section 2 (UW Financial Report - MD&A)
Expenditures of State capital and operating appropriations to the University for such fiscal year, of the type provided in the table entitled "Expenditures of State Appropriations to the University by Type"	Section 2 (UW Financial Report - SRECNP)
UW Medical Center, Northwest and Valley patient activity statistics for such fiscal year, generally of the type provided in the table under the heading "UW MEDICINE—Patient Activity Statistics."	Section 3 (Supplemental Bondholder Information)
UW Medical Center, Northwest and Valley financial information for such fiscal year, generally of the type provided in the table under the heading "RECENT DEVELOPMENTS"	Section 3 (Supplemental Bondholder Information)
Value of investments, including operating fund investments (currently referred to as "Invested Funds") and the Consolidated Endowment Fund ("CEF"), for that fiscal year.	Section 3 (Supplemental Bondholder Information)
A narrative description of any material changes to the University's investment policy or CEF distribution policy during the preceding fiscal year.	Section 3 (Supplemental Bondholder Information)
Gift revenue for that fiscal year.	Section 2 (UW Financial Report - SRECNP)
University revenue by source for that fiscal year, of the type provided in the chart titled "University Total Revenue by Source, Fiscal Year 2017"	Section 2 (UW Financial Report - MD&A)
Total University expenditures by category for that fiscal year	Section 2 (UW Financial Report - SRECNP)
University total net assets and unrestricted net assets, of the type presented under the heading "UNIVERSITY OF WASHINGTON—Other University Financial Information—University Net Assets."	Section 2 (UW Financial Report - SNA)
A description of any material changes to the University's obligations with respect to its pension plans, of the type presented under the heading "LABOR, RISK MANAGEMENT AND RETIREMENT INFORMATION."	Section 2 (UW Financial Report - Note 15)
A description of any material changes to the University's obligations with respect to other post-employment benefits, of the type presented under the heading "OTHER UNIVERSITY INFORMATION—Other Post-Employment Retirement Benefits ("OPEB")."	Section 2 (UW Financial Report - Note 15)
Amount of the University's self-insurance reserve, of the type presented under the heading "OTHER UNIVERSITY INFORMATION—Risk Management."	Section 2 (UW Financial Report - Note 16)

APPLICATIONS, STUDENTS & ENROLLMENT [1]

	AUTUMN QUARTER 2016	AUTUMN QUARTER 2017
UNDERGRADUATE		
Freshmen		
Applied	48,471	50,007
Accepted	23,776	25,017
Percent Accepted to Applied	49%	50%
Enrolled	7,802	8,158
Percent Enrolled to Accepted	33%	33%
Transfers [1]		
Applied	9,619	9,718
Accepted	5,164	4,974
Pecent Accepted to Applied	54%	51%
Enrolled	3,207	3,218
Percent Enrolled to Accepted	62%	65%
Total Undergraduate FTE [2]		
Bothell	4,804	5,026
Seattle	29,873	30,295
Tacoma	3,996	4,204
Total All Campuses	38,673	39,525
Totals Undergraduate Headcount		
Bothell	5,113	5,370
Seattle	31,418	31,843
Tacoma	4,301	4,457
Total All Campuses	40,832	41,670
Additional Enrollment Statistics		
Percent Non-resident Students	27%	29%
Percent Retention (Freshman to Sophomore)	92%	92%
Mean GPA	3.70	3.71
Median GPA	3.79	3.80
Percent of Class Reporting GPA Data	100%	100%
Mean Combined SAT Scores	1200	1263
Median Combined SAT Scores	1220	1290
Percent of Class Reporting SAT Data	78%	76%
GRADUATE		
Applied	32,562	34,150
Accepted	9,703	10,700
Percent Accepted to Applied	30%	31%
Enrolled	4,693	4,605
Percent Enrolled to Accepted	48%	43%
Graduate FTE	14,401	14,652
Graduate Headcount	13,896	14,059

(1) Unless otherwise noted, all figures include Seattle, Tacoma and Bothell campuses
(2) Full-time equivalent ("FTE") defined as an undergraduate carrying 12 credit hours or a graduate student carrying 10 credit hours. FTE enrollment exceeds

APPLICATIONS, STUDENTS & ENROLLMENT[1] CONTINUED

	AUTUMN QUARTER	
	2016	2017
PROFESSIONAL		
Law		
Applied	2,517	2,301
Accepted	677	757
Enrolled	156	166
Law Headcount	482	483
Pharmacy		
Applied	401	366
Accepted	131	153
Enrolled	106	105
Pharmacy Headcount	386	390
Dentistry		
Applied	1,096	944
Accepted	92	95
Enrolled	63	63
Dental Headcount	261	265
Medicine		
Applied	8,777	8,607
Accepted	326	330
Enrolled	270	270
Medicine Headcount	952	988
Total Professional FTE	3,900	3,978
Total Professional Headcount	2,081	2,126
Tuition and Fees (full academic year)		
Undergraduate Resident	$10,753 [2]	$10,974
Undergraduate Non-Resident	$34,791	$35,538
Graduate Resident	$16,653	$16,272
Graduate Non-Resident	$28,896	$28,320
Buisness Masters Resident	$32,394	$33,339
Buisness Masters Non-Resident	$47,214	$48,606
Law Resident	$32,721	$34,311
Law Non-Resident	$44,112	$44,979
Pharmacy Resident	$29,577	$30,297
Pharmacy Non-Resident	$50,274	$50,280
Medical Resident	$34,728	$35,745
Medical Non-Resident	$64,182	$65,451
Dentistry Resident	$46,875	$48,255
Dentistry Non-Resident	$71,703	$73,827
University FTE		
Undergraduate	38,673	39,525
Graduate	14,401	14,652
Professional	3,900	3,978
Total University FTE	56,974	58,155
University Headcount		
Undergraduate	40,832	41,670
Graduate	13,896	14,059
Professional	2,081	2,126
Graduate & Professional FTE	18,301	18,630
Graduate & Professional Headcount	15,977	16,185
Total University FTE	56,974	58,155
Total University Headcount	56,809	57,855

(1) Unless otherwise noted, all figures include Seattle, Tacoma and Bothell campuses
(2) The University reduced resident undergraduate tuition as part of an agreement with the Legislature that resulted in increased State appropriations.

FACULTY & OTHER DATA

	AUTUMN QUARTER	
	2016	2017
FACULTY DATA [1]		
Number of faculty	4,707	4,497
Tenure rate (%)	36%	36%
Percent holding terminal degree (Ph.D., MD, DDS)	93%	na [2]
HOUSING AND DINING		
Room and Board [2] [3]	$11,036	$11,251
Autumn Opening Occupancy [4]	7,024	7,294
Occupancy 5)	113%	118%

(1) Faculty data reflects core faculty comprised of professorial, instructional, and research categories. Headcount associated with temporary faculty categories is excluded. The University stopped tracking percent of faculty holding terminal degrees in 2017
(2) Figures for autumn 2016-2017 include residence hall units and exclude single student and family housing apartments
(3) Room and board pricing is for full academic year. The room portion of annual room and board pricing is the weighted average of all residence hall double rooms in inventory, and the dining portion is for a representative meal plan.
(4) Autumn opening occupancy is used to calculate capacity
(5) Effective October 31, 2014, numbers were restated to reflect as-built capacity and 10th day occupancy. Occupancy that exceeds 100 percent is the result of housing three students in a room designed for two

MEDICAL CENTERS [1]

	Year Ending June 30, 2016	2017
UW MEDICAL CENTER, NORTHWEST AND VALLEY FINANCIAL INFORMATION ($000)		
UW Medical Center [1]		
Total Operating Revenue	$ 1,135,626	$ 1,182,856
Operating Margin	(0.2%)	(4.0%)
Net Income	$ (27,679)	$ (44,323)
Northwest		
Total Operating Revenue	$ 372,751	$ 358,700
Operating Margin	(6.0%)	(9.9%)
Net Income	$ (4,511)	$ (26,314)
Valley		
Total Operating Revenue	$ 550,343	$ 576,042
Operating Margin	(1.9%)	(7.6%)
Net Income	$ 11,481	$ (21,930)
Combined		
Total Operating Revenue	$ 2,058,720	$ 2,117,598
Operating Margin	(1.7%)	(6.0%)
Net Income	$ (20,709)	$ (92,567)
UW MEDICAL CENTER, NORTHWEST AND VALLEY PATIENT STATISTICS		
UW Medical Center		
Admissions	18,362	18,964
Outpatient Visits	320,037	341,014
Emergency Visits	26,555	27,730
Northwest		
Discharges	10,060	9,945
Outpatient Visits	197,132	174,257
Emergency Visits	35,068	34,150
Valley		
Admissions	17,518	18,153
Outpatient Visits	499,814	529,092
Emergency Visits	83,067	83,907
Combined		
Admissions	45,940	47,062
Outpatient Visits	1,016,983	1,044,363
Emergency Visits	144,690	145,787
MEDICARE/MEDICAID PAYMENT		
Percent of Total Clinical Revenue [2]	44%	43%

(1) Only UW Medical Center revenues are currently included in General Revenues for the University

(2) Percent of total clinical revenue. Medicare and Medicaid payments as a percentage of total clinical revenue. Includes Northwest and Valley

ENDOWMENT RESOURCES

PORTFOLIO ($000)	Year Ending June 30, 2016	2017
Endowment Market Value		
True	$ 1,766,502	$ 2,007,631
Term	$ 38,671	$ 42,008
Quasi	$ 1,162,840	$ 1,094,151
Total	$ 2,968,013	$ 3,143,790
Portfolio Breakdown		
Total Equity	**87.0%**	**87.0%**
Developed Markets	38.0%	38.0%
Emerging Markets	20.0%	20.0%
Absolute Return	16.0%	15.0%
Private Equity	11.0%	12.0%
Opportunistic	2.0%	2.0%
Real Assets	**6.0%**	**6.0%**
Total Fixed Income (including cash)	**7.0%**	**7.0%**
Total	**100.0%**	**100.0%**

RETURN & SPENDING

Annualized Rates of Return (1)		
One	-1.6%	13.6%
Three	6.7%	5.1%
Five	6.5%	8.4%
Endowment Return & Spending (2)		
Total Annual Return on Endowment	$ (54,776)	$ 377,957
Amount of Annual Return Spent	$ 141,099	$ 141,023
Actual Annual Spending Rate	4.60%	4.80%

EXTERNALLY MANAGED FUNDS

Total Annuity and Life Income Funds	$ 75,647	$ 102,549
Externally Managed Endowments	$ 107,180	$ 112,821

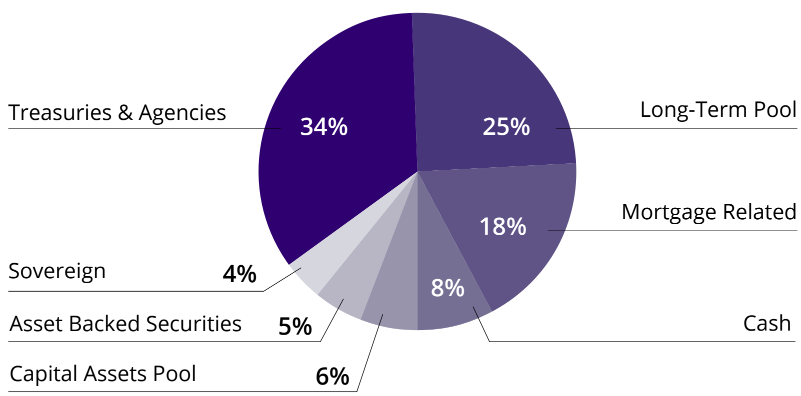
(1) Net of manager fees.
(2) Under the spending policy distributions to endowed programs are 4% of the average market value of the CEF for the previous five years. There is an additional 1% administrative fee bringing the total annual distribution to 5%. Total distribution shown.

OPERATING FUNDS

ALLOCATION BY POOL (in millions)
For the quarter ending June 30, 2017

	Fund Allocation		Range	DURATION IN YEARS Actual	Maximum
Short-term Pool	$ 1,253	52%	10% – 40%	1.1	3.0
Intermediate-term Pool	$ 406	17%	25% – 60%	3.1	5.0
Long-term Pool	$ 615	25%	15% – 45%	n/a	n/a
Total Invested Funds exluding Capital Assets Pool	**$ 2,273**	**94%**		n/a	n/a
Capital Assets Pool (1)	$ 139	6%	0% – 15%	n/a	n/a
Total Invested Funds	**$ 2,413**	**100%**	n/a	n/a	n/a

OPERATING FUNDS – MIX OF INVESTMENTS
(Excluding the Capital Assets Pool)
For the quarter ending June 30, 2017



(1) Capital Assets Pool is used to pay for University capital projects, and therefore consists of University capital assets.

Note: Numbers may not foot due to rounding

UNIVERSITY LIQUIDITY ($000)

	Year Ending June 30, 2017
Daily Liquidity [1]	
Money Market Funds	$ 107,942
Weekly Liquidity [2]	
U.S. Treasuries and Agencies	933,973
Fixed Income	393,903
Total Weekly Liquidity	1,327,876
Total Daily & Weekly Liquidity	**$ 1,435,818**
Other University Liquidity	
Supplemental Retirement Fund [3]	223,139
Total Operating Funds	**$ 1,658,957** [4]

(1) Investments that can be liquidated on a same-day basis, if sale executed prior to 10:00 AM Pacific time
(2) Investments that can be liquidated within 2 - 7 days
(3) Liquidity is restricted for use of the Supplemental Retirement Fund
(4) Excludes $37 million checking account balance held to meet next-day expense payments and $615 million in the Long-term Pool

FUTURE DEBT SERVICE ($000)

as of June 30, 2017

	FISCAL YEAR					
	2018	2019	2020	2021	2022	2023-2050
TOTAL UNIVERSITY DEBT SERVICE						
State General Obligation Bonds	$ 19,085	$ 18,393	$ 14,099	$ 14,070	$ 13,983	$ 54,842
State Certificates of Participation	$ 3,393	$ 3,247	$ 3,071	$ 2,870	$ 1,683	$ 674
Revenue Bonds						
General Revenue Bonds [1]	$ 123,282	$ 120,782	$ 120,575	$ 121,488	$ 121,498	$ 2,416,530
Lease Revenue Bonds [2]	$ 56,571	$ 33,088	$ 32,204	$ 32,042	$ 31,900	$ 451,299
Subtotal: General Revenue Debt Service	**$ 202,330**	**$ 175,511**	**$ 169,949**	**$ 170,470**	**$ 169,063**	**$ 2,923,346**
Interest on Commercial Paper [3]	$ 225	$ –	$ –	$ –	$ –	$ –
Equipment Leases & Others [4]	$ 4,304	$ 1,579	$ 1,412	$ 1,412	$ 1,402	$ 9,137
Total General Revenue Debt Service	**$ 206,858**	**$ 177,090**	**$ 171,361**	**$ 171,882**	**$ 170,465**	**$ 2,932,483**
AFFILIATED ENTITIES						
Northwest	$ 709	$ 709	$ 709	$ 709	$ 709	$ 7,146
Total Debt Service All Obligations [5]	**$ 207,567**	**$ 177,798**	**$ 172,070**	**$ 172,590**	**$ 171,173**	**$ 2,939,629**

(1) General Revenue Bonds Series 2007, 2008, 2009, 2009B, 2010A&B, 2011, 2012AB&C, 2013, 2015ABC&D, 2016A&B (includes debt service associated with Metropolitan Tract)
(2) Series 2010B WBRP, 2013 WEDFA, 2014 WEDFA, and 2015 WBRP
(3) Reflects interest to be paid on outstanding commercial paper through 6/30/2017. The University has authority to issue up to $250 million in commercial paper
(4) Includes capital leases other than leases included as a Lease Revenue obligation
(5) May not match most recent official statement future debt table due to timing differences

SUPPLEMENTAL FINANCIAL REPORTS

UNIVERSITY OF WASHINGTON

Supplementary Information

June 30, 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report on Supplementary Information

The Board of Regents
University of Washington:

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the University of Washington (the University), an agency of the state of Washington, as of and for the year ended June 30, 2017, and have issued our report thereon dated October 20, 2017, which contained unmodified opinions on those financial statements that collectively comprise the University's basic financial statements. Our audit was performed for the purpose of forming opinions on the financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 20, 2017.

The supplementary information included on pages 2 through 4 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Board of Regents and management of the University of Washington and rating agencies and bondholders who have previously received the financial statements of the University of Washington as of and for the year ended June 30, 2017, and our unmodified opinions thereon, for use in evaluating those financial statements, and is not intended to be, and should not be used for any other purpose.

KPMG LLP

October 20, 2017

UNIVERSITY OF WASHINGTON

Reconciliation of Total University Revenue to General Revenue

Year ended June 30, 2017

(Dollars in thousands)

General revenue:		
Total revenue	$	6,106,922
Less:		
State appropriations		341,971
Grant and contract direct costs		1,147,694
Gifts		166,491
Revenues of component units		636,200
Student activities fees and U-Pass fees		44,816
Student technology fees, student building fees, and student loan funds		72,008
Trust and endowment income, net unrealized gains on noninvested funds investments, Metropolitan Tract net operating income, component unit investment income, and other restricted investment income		416,327
Capital appropriations		64,166
Capital grants, gifts and other		52,897
Other nonoperating revenues		12,963
Gifts to permanent endowments		85,449
Total general revenue	$	3,065,940
General revenue components:		
Student tuition and fees (less student activities fees, U-Pass fees, technology fees, building fees, and loan funds)	$	836,837
Grant and contract indirect costs		257,706
Invested funds distribution and net invested funds unrealized gains and losses (note 2)		27,056
Sales and services of educational departments		217,421
Auxiliary systems and patient services		1,675,127
Other operating revenues		51,793
Total general revenue	$	3,065,940

See accompanying notes to supplementary information.

UNIVERSITY OF WASHINGTON

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

June 30, 2017

(Dollars in thousands)

Total University unrestricted net position per financial statements	$	380,050
Less:		
Student and activities fees		23,767
Net position (deficit) of component units:		
Association of University Physicians		95,155
UW Neighborhood Clinics		(1,686)
Northwest Hospital		(38,262)
Real estate entities		(14,906)
Total to be excluded, net		64,068
General net position	$	315,982

See accompanying notes to supplementary information.

(1) Basis of Presentation

The General Revenue schedule presents the general income of the University of Washington (University) that is not restricted in its use by law, regulation, or contract. General Revenues, as defined in the bond agreements, are revenues pledged to bondholders under the University's General Revenue Bond platform. The supplementary information included herein reconciles total University revenue to General Revenue pledged to bondholders. For example, the following items are restricted and, therefore, excluded from General Revenues:

a. Appropriations to the University by the state of Washington (state) from the state's General Fund;

b. Revenues from gifts or grants restricted by the terms of the gift or grant either in writing or otherwise by the donor;

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

d. Revenues and receipts attributable to the Metropolitan Tract Revenue, which are appropriated to the University by the state.

Unrestricted fund balances, to the extent that they were accumulated from money that was received as General Revenues, also are included and available to pay obligations secured by General Revenues. Any interest subsidy received from the federal government with respect to General Revenue Bonds is included and available to pay obligations secured by General Revenues.

(2) Invested Funds Distributions and Net Invested Funds Unrealized Gains and Losses

These amounts represent the net interest, dividends, and realized gains or losses earned on the Invested Funds that are distributed to departments for operations, in addition to or offset by any unrealized gains and losses on the portfolio.

(3) Adoption of Governmental Accounting Standards Board (GASB) Statements

On July 1, 2016, the University adopted 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*. GASB Statement No. 73 requires governments to record the total actuarially determined pension liability; 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. Implementation of GASB Statement No. 73 resulted in the restatement of fiscal year 2017 beginning unrestricted net position, reducing it by $215,387,000.

On July 1, 2016, the University adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units*. GASB Statement No. 80 requires blending of a component unit's balances and activities 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. Implementation of GASB Statement No. 80 resulted in the restatement of fiscal year 2017 beginning unrestricted net position, increasing it by $89,498,000 due to the blending of Northwest Hospital and Medical Center that was previously reflected as a discrete component unit.

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES

(A Department of University of Washington)

Financial Statements

June 30, 2017

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington Housing and Food Services, a department of the University of Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Housing and Food Services as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1, the financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2017, the changes in its financial position or its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1, on July 1, 2016, the University of Washington Housing and Food Services adopted new accounting guidance requiring governments providing defined benefit pensions 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.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 9, and the schedules of required supplementary information on pages 33 through 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
November 29, 2017

Discussion and Analysis Prepared by Management

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Housing and Food Services (HFS) as of and for the years ended June 30, 2017 and 2016. This discussion has been prepared by HFS management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2017, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Overview of the Financial Statements

The financial statements of HFS include the Statement of Net Position; the Statement of Revenue, Expenses, and Changes in Net Position; the Statement of Cash Flows; and, Notes to Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for state and local governments.

The Statement of Net Position presents the financial condition of HFS and reports all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. A summarized comparison of HFS's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position is as follows as of June 30, 2017 and 2016:

Summary Statements of Net Position

	2017	2016	Percentage change
Assets:			
Current assets	$ 85,557,983	77,188,429	10.8 %
Noncurrent assets	507,360,386	451,532,466	12.4
Total assets	592,918,369	528,720,895	12.1
Deferred outflows	3,372,565	2,490,375	35.4
Total assets and deferred inflows	$ 596,290,934	531,211,270	12.3 %
Liabilities:			
Current liabilities	$ 47,533,692	36,179,002	31.4 %
Noncurrent liabilities	546,265,369	486,840,082	12.2
Total Liabilities	593,799,061	523,019,084	13.5
Deferred inflows	701,091	1,635,039	(57.1)

		2017	2016	Percentage change
Net position:				
Net investment in capital assets	$	(31,416,235)	(31,105,557)	1.0
Unrestricted		33,207,017	37,662,704	(11.8)
Total net position		1,790,782	6,557,147	(72.7)
Total liabilities and net position	$	596,290,934	531,211,270	12.3 %

Current assets consist primarily of cash, accounts receivable, inventory, prepaid expenses, and receivables from other University departments. Current assets were $38.0 million and $41.0 million more than current liabilities at June 30, 2017 and 2016, respectively. Total current assets increased 10.8% from $77.2 million at June 30, 2016 to a total of $85.6 million at June 30, 2017. The increase was caused by an increase in cash due to an overall increase in residence hall room rents, conference services, and related food services.

Noncurrent assets consist of capital assets of land, buildings, building improvements, equipment, construction in process, University of Washington Supplemental Retirement Plan (UWSRP) pension investment, and amounts due from University Transportation Services. Noncurrent assets increased 12.4% or $55.8 million more at June 30, 2017, than at June 30, 2016. This is mainly due to continuing construction of additional housing under the Housing Master Plan (the Master Plan) and the transfer of the existing Nordheim Court Apartments to HFS, which were previously under a lease agreement with the UW Real Estate Office that was not renewed in the current fiscal year.

Current liabilities consist primarily of accounts payable, accrued interest, accrued expenses, unearned revenue, deposits, amounts due to other University departments, and the current portion of debt payments. Current liabilities increased by 31.4% to a total of $47.5 million at June 30, 2017, from $36.2 million at June 30, 2016, due to increases in accounts payable and short-term portion of Internal Lending Program (ILP) debt, all related to the overall increase in debt associated with the new residential housing.

Noncurrent liabilities consist of the long-term portion of ILP debt and pension liability. Total long-term debt increased by 11.7% to a total of $531.0 million at June 30, 2017, from $476.1 million at June 30, 2016, due primarily to additional debt incurred to finance the Master Plan. Pension liability increased from $10.8 million at June 30, 2016 to $15.3 million at June 30, 2017 primarily impacted by service cost and interest on the unfunded liability representing HFS's proportionate share of the state-wide amounts reported by the Department of Retirement Systems (DRS) as well as the adoption of GASB 73 regarding supplemental pension liability as discussed further in note 6.

The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the past year. Total net position was lower by 72.7% to a total of $1.8 million at June 30, 2017, from $6.6 million at June 30, 2016. Although the continued strong demand for campus housing resulted in a positive net operating income, this was offset by higher debt interest payments, increased building depreciation and the implementation in 2017 of Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of*

GASB Statement 68, which resulted in the recording of additional pension liabilities. Also contributing to the decrease in net position was the transfer of the Nordheim Court Apartments to HFS, which resulted in a $7.1 million loss upon transfer.

Statements of Revenue, Expenses, and Changes in Net Position

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

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

Nonoperating revenue is that received for which goods and services were not provided. Under GASB reporting principles, investment income and expenses are classified as nonoperating activities. Also included as nonoperating are energy rebates and interest expense. HFS also recorded a loss on net capital asset transfer of Nordheim Court Apartments from the University Real Estate Office, which did not renew its third-party lease agreement.

The following is a condensed view of the Statements of Revenue, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2017 and 2016:

	2017	2016	Percentage change
Operating revenue	$ 130,879,431	121,375,651	7.8 %
Operating expenses	(105,870,844)	(98,218,640)	7.8
Net operating income	25,008,587	23,157,011	8.0
Net nonoperating expense	(21,093,127)	(21,198,035)	(0.5)
Capital asset transfer	(7,121,289)	(2,852,697)	149.6
Change in net position	(3,205,829)	(893,721)	258.7
Net position, beginning of year	6,557,147	7,450,868	(12.0)
Effect of accounting change	(1,560,536)	—	(100)
Net position, end of year	$ 1,790,782	6,557,147	(72.7)%

(Continued)

Revenue from All Sources

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

		2017	2016
Residence halls and single-student apartment rent	$	70,450,236	62,991,783
Residence halls and retail food services		44,076,785	42,935,073
Conferences and guest rent		6,892,929	6,159,709
Leases		3,611,600	3,587,121
Family housing rent		2,206,020	2,181,081
Forfeitures and miscellaneous fees		1,400,124	1,355,780
Educational sponsorship		949,000	949,000
Vending machines		620,521	660,162
Laundry		464,167	431,064
Parking revenue		92,433	8,054
Energy rebates and refunds		53,183	1,009,650
Investment income		741,272	1,340,128
Other		115,616	116,824
Total revenue – all sources	$	131,673,886	123,725,429

The largest revenue source is residence hall and single-student room rent and food services, which comprised 87.0%. Residence hall and single-student rent increased by 11.8%, or $7.5 million, food services increased by 2.7% or $1.1 million, and conference services also increased by 11.9% or $0.7 million over the prior year. The increase is mainly due to continuing strong demand for student housing at a higher room rate. The number of conference attendees on campus also continued to grow.

Nonoperating revenue decreased in 2017 primarily due to a 44.7% decrease in investment income from interest rate reduction from 2% in prior year to 1% in the current year.

(Continued)

Expenses and Expense Transfers

The following table summarizes expenses and expense transfers for the years ended June 30, 2017 and 2016:

		2017	2016
Salaries and related benefits	$	32,008,663	29,916,642
Depreciation		20,740,567	20,103,177
Cost of food and merchandise		16,814,086	16,583,415
Noncapitalized equipment		8,535,518	5,316,676
Utilities		7,913,046	6,998,727
Indirect expenses		7,006,001	6,939,511
Contract services		5,513,424	5,037,449
Supplies		2,977,583	3,126,689
Repairs and maintenance		2,661,815	2,645,639
Institutional overhead		1,533,128	1,338,635
Interest expense on capital asset-related debt		21,843,929	21,693,412
Loss on capital asset disposals and transfers		23,633	1,095,711
Financing cost		20,020	758,690
Capital asset transfer from other University department		7,121,289	2,852,697
Other		167,013	212,080
Total expenses and expense transfers	$	134,879,715	124,619,150

Salaries and benefits expense increased by 7.0%, or $2.1 million over the prior year mainly due to labor rate increases and to expanded housing and food operation.

Noncapitalized equipment increased in 2017 due primarily to a 60.5% or $3.2 million increase resulting from a significant amount of preconstruction cost and design of the Phase 4b Master Plan. Utilities also increased due primarily to a 13.1% or $0.9 million increase attributed to the Nordheim Court Apartment addition and general rate increases. The remaining operating expenses were comparable between 2017 and 2016.

Nonoperating expenses decreased in 2017 primarily due to decreases in financing costs and lower losses on capital asset disposals and transfers. Loss on capital asset transfers increased $4.3 million in 2017 resulting from the loss on net capital asset transfer of the Nordheim Court apartments of $7.1 million.

Economic Factors and Significant Events

System Wide Considerations

Effective January 1, 2017, the University of Washington increased the minimum wage for hourly students and staff from $13.00 to $15.00 resulting in increased labor costs of $1,480,000 from prior year. This change in hourly rate was required per the City of Seattle's $15.00 minimum wage requirement phase-in timeline.

(Continued)

The University of Washington Treasury Office has decreased the campus depositor's rate for the fiscal year 2017 from 2.0% to 1.0% resulting in interest income of $741,000, down from $1,340,000 in fiscal year 2016.

Housing Operation

Autumn quarter 2017 will open at 118.0% occupancy of as-built capacity including 1,055 in expanded capacity spaces and approximately 104 students in temporary lounge space. There are 200 students projected to be on the wait list. Privately managed off campus facilities coordinated through UW Real Estate are showing similar strength in demand.

Updates to the Housing Master Plan

HFS developed a Housing Master Plan to develop residence halls and single-student apartments in four phases. The development of these residence halls creates a richer on campus community, alleviating the currently overcrowded conditions within student housing, and provide additional bed capacity (surge space) to support replacement of existing residence halls. This additional capacity permits HFS to replace existing facilities while continuing to meet current housing demand. As of June 30, 2017 and 2016, costs incurred related to the Housing Master Plan totaled approximately $527.0 million and $464.0 million, respectively. These costs were recorded in construction in process and completed building costs at June 30, 2017 and 2016. Total projected cost of the Housing Master Plan is $730.0 million, which will mainly be funded by borrowing under the ILP (note 5). The Board of Regents has approved borrowing under the ILP of up to $761.0 million for all the four phases of the Housing Master Plan as of June 30, 2017.

Phase 1, which consisted of four new facilities, was completed as of September 2012. Phase 2, which consisted of two new facilities, was completed in January 2014. Phase 3, which consisted of two new facilities, was completed in July 2015 and opened to students the following autumn quarter. The completion of Phase 3 marks the end of the west campus development phase of the Housing Master Plan. As a result of this phase, net bed space has increased by approximately 400.

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

Phase 4b is currently in the early planning stages. The Board of Regents approved the site, architect, and $10.0 million pre-construction budget in July 2016. This phase will include the demolition of Haggett Hall as well as the construction of two new facilities, Oak and new Haggett. It is planned that these halls will open to students in Autumn 2020 and Autumn 2021, increasing system net beds by 300.

Debt service is being paid to the ILP for all Phase 1, 2 and 3 buildings. Debt service on Phase 4a is scheduled to begin in October 2018. The debt service ratio for fiscal year 2017 is 1.54.

In May 2016, Treasury announced that it would be reducing the interest rate on all ILP debt from 4.75% to 4.50%, effective November 2016, resulting in annual savings of $750,000. ILP loans for Phases 1 and 2 are now closed. Closure of debt for Phase 3 is pending final charges from UW Capital Projects Office.

Residence Hall Dining Operation

New programs such as free beverages for dining plan holders, late night hours, and bundled Husky Meals were introduced in 2016–17 to encourage student engagement and direct sales back to Residential Dining Operations. As a result, overall sales in these venues increased $458,400 over prior year actuals.

The existing campus Grab & Go program was rebranded under the District Market name in 2016–17 and production was reorganized under the current catering program. Despite higher wholesale and retail pricing, the new recipes feature higher quality ingredients and the resulting customer satisfaction is high.

Approximately $600,000 of the $733,000 hourly labor increase was associated with the minimum wage increase.

Retail and Remote Dining Operation

Overall Retail & Remote sales were greater than prior year by $84,100. This was offset by the change in institutional overhead rate, which increased from 9.7% to 10.0%, higher hourly labor costs resulting from the City's minimum wage increase to $15 per hour, and increased costs of the campus Grab & Go program. The Retail and Remote operations ended the year at a net operating loss of – $138,000.

UW Dining opened two new retail concepts in 2016–17. Sunrise Griddle, a new "breakfast all day" mobile food truck opened in September 2016 and Glacie Creamery in the Husky Union Building opened in January 2016.

Construction of the second Starbucks Licensed Store located in Suzzallo Library in Red Square began in March 2017. The store opened to customers in September 2017. The addition of this Licensed Store required an initial commitment of $1,283,000 in fiscal year 2016–17 and $300,000 in fiscal year 2015–16 with an additional $854,000 planned for expenditure in 2017–18. Over the course of the ten-year sponsorship agreement, the University will be opening three additional Licensed Stores across the UW system. HFS received Starbucks and Coca-Cola sponsorship funds totaling $949,000 in fiscal year 2016–17.

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

Statement of Net Position

June 30, 2017

Assets and Deferred Outflow of Resources	
Current assets:	
Cash and cash equivalents in the University of Washington Invested Funds Pool	$ 78,621,218
Accounts receivable, net	2,155,213
Prepaid expense	1,141,059
Inventory	791,257
Due from other University departments	2,849,236
Total current assets	85,557,983
Noncurrent assets:	
Due from other University departments	3,241,140
Capital assets, less accumulated depreciation (note 3)	502,982,370
Other assets (note 6)	1,136,876
Total noncurrent assets	507,360,386
Pension deferred outflow of resources (note 6)	3,372,565
Total assets and deferred outflow of resources	$ 596,290,934
Liabilities, Deferred Inflow of Resources, and Net Position	
Current liabilities:	
Accounts payable	$ 12,563,483
Accrued interest	1,832,029
Other accrued expenses	2,611,535
Unearned revenue	8,745,650
Deposits	4,589,801
Due to other University departments	3,471,112
Internal lending program payable, current portion (notes 2 and 5)	13,345,082
Lease payable, current portion (notes 2 and 4)	375,000
Total current liabilities	47,533,692
Noncurrent liabilities:	
Internal lending program payable, less current portion (notes 2 and 5)	529,300,668
Pension liability (note 6)	15,259,701
Lease payable, less current portion (note 4)	1,705,000
Total noncurrent liabilities	546,265,369
Total liabilities	593,799,061
Pension deferred inflow of resources (note 6)	701,091
Net position:	
Net investment in capital assets	(31,416,235)
Unrestricted	33,207,017
Total net position	1,790,782
Total liabilities, deferred inflow of resources, and net position	$ 596,290,934

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2017

Operating revenues:	
Residence halls and single-student apartment rent	$ 70,450,236
Residence halls and retail food services	44,076,785
Conferences and guest rent	6,892,929
Leases	3,611,600
Family housing rent	2,206,020
Forfeitures and miscellaneous fees	1,400,124
Educational Sponsorship	949,000
Vending machines	620,521
Laundry	464,167
Parking Revenue	92,433
Other	115,616
Total operating revenues	130,879,431
Operating expenses:	
Salaries and related benefits	32,008,663
Depreciation	20,740,567
Cost of food and merchandise	16,814,086
Noncapitalized equipment	8,535,518
Utilities	7,913,046
Indirect expenses	7,006,001
Contract services	5,513,424
Supplies	2,977,583
Repairs and maintenance	2,661,815
Institutional overhead	1,533,128
Other	167,013
Total operating expenses	105,870,844
Net operating income	25,008,587
Nonoperating revenue (expense):	
Energy rebates	53,183
Investment income	741,272
Interest expense on capital asset-related debt	(21,843,929)
Financing cost	(20,020)
Loss on capital asset disposals and transfers	(23,633)
Total nonoperating expense	(21,093,127)
Loss on capital asset transfer from other University department	(7,121,289)
Change in net position	(3,205,829)
Net position, beginning of year (as restated)	4,996,611
Net position, end of year	$ 1,790,782

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2017

Cash flows from operating activities:	
Cash received from student housing fees	$ 70,451,714
Cash received from residence hall food services	43,864,719
Cash received from conference services	6,484,231
Cash received from leases	4,542,030
Cash received from facility rentals	2,574,214
Cash received from vending commissions	626,994
Cash received from educational sponsorship	949,000
Cash received from others	119,765
Cash received for interfund and debit card activities	1,514,680
Cash paid to suppliers	(43,316,428)
Cash paid for employee salaries, wages, and benefits	(28,698,153)
Cash paid for indirect expenses	(9,132,953)
Net cash flows provided by operating activities	49,979,813
Cash flows from capital and related financing activities:	
Purchases of capital assets	(75,652,872)
Borrowing on internal lending program	69,696,041
Interest paid on capital debt	(23,778,269)
Principal payments on capital debt	(13,050,175)
Financing cost paid on capital debt	(20,020)
Net cash flows used in capital and related financing activities	(42,805,295)
Cash flow from investing activity:	
Interest received	741,272
Net change in cash and cash equivalents	7,915,790
Cash and cash equivalents, beginning of year	70,705,428
Cash and cash equivalents, end of year	$ 78,621,218
Reconciliation of operating income to net cash flows from operating activities:	
Operating income	$ 25,008,587
Adjustments to reconcile operating income to net cash flows provided by operating activities:	
Depreciation	20,740,567
Change in operating assets and liabilities:	
Accounts receivable	(878,490)
Prepaid expenses and other	1,201,430
Inventory	141,642
Due to/from other University departments	617,994
Accounts payable	78,315
Unearned revenue	2,481,677
Accrued expenses	139,789
Deposits	468,311
Pension deferred resources and liability	(20,009)
Net cash flows provided by operating activities	$ 49,979,813
Supplemental disclosures for cash flow information:	
Capitalized interest	$ 1,818,078
Amortization of deferred premium on refunded bonds	66,480
Capital asset transfer from other University department	7,121,289
Capital asset in accounts payable and due to other University departments	7,116,051

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

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

(b) Basis of Accounting

The financial statements have been prepared in accordance with generally accepted accounting principles. The statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All internal activities have been eliminated. The financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2017, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

On July 1, 2016, the University adopted the 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 guidance is intended to improve the financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, and improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68. The University of Washington Supplemental Retirement Plan (UWSRP, note 6) does not currently fall within the scope of GASB 68 since the assets set aside to pay retiree benefits have not been segregated and restricted in a trust or equivalent arrangement. Implementing this Statement will require that the University recognize the remaining unamortized pension plan liability for the UWSRP, together with any associated deferred inflows and deferred outflows of resources, and to restate net position for all periods presented.

With the adoption of GASB Statement No. 73, 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:

Net position at June 30, 2016, as previously reported	$	6,557,147
Adoption of GASB No. 73		(1,560,536)
Net position at July 1, 2016, as restated	$	4,996,611

(c) Cash and Cash Equivalents in the University Invested Funds Pool

Investments

Pooled Investments held on behalf of HFS by the University of Washington are recorded at HFS's share of the carrying value of the University of Washington Cash and Liquidity Pools. These funds are available on demand without prior notice or penalty. The Cash and Liquidity Pools were invested as follows at June 30, 2017:

Cash and cash equivalents	6.20 %
U.S. Treasury and Agency securities	69.00
Mortgage related securities	8.60
Asset-backed debt securities	6.70
Corporate and Other fixed income	9.50
Total	100.00 %

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

(d) Accounts Receivable

HFS has established an allowance for doubtful accounts to allow for those receivables which are estimated to be uncollectible. The allowance is based on historical collection rates. Student accounts are considered past due if they are unpaid for 30 days after the due date. Other customer accounts are considered past due if they are unpaid for 60 days after the due date. When an account is deemed uncollectible, it is generally written off against the allowance. The balance of the allowance account was $85,400 at June 30, 2017.

(e) Inventory

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

(f) Prepaid Expense

Prepaid expense consists primarily of building insurance amortized over one year. In 2017 it also included a contractual prepayment of furnishings for delivery to the new North campus housing which will open next fiscal year.

(g) Due from Other University Departments

Due from other University departments, current, consist mainly of lease revenue (note 4) of $2,656,691 accrued as of fiscal year 2017.

Due from other University department, noncurrent, resulted from an agreement with the University Transportation Services to build extra parking stalls at the Terry/Maple Hall to be liquidated in year 2020 under the Master Plan for north campus housing. The amount owed by Transportation Services is $3,241,140 for fiscal year 2017.

(h) Capital Assets

Buildings, building improvements, and equipment are stated at cost. Additions, replacements, major repairs, and renovations are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, and 4 to 13 years for equipment. Expenditures for noncapitalized equipment and repairs that represent normal replacement of such equipment and routine maintenance of the buildings are expensed as incurred, as are furniture, fixtures, or equipment for newly constructed buildings that individually do not meet the criteria described below. Building and improvements are capitalized if they result in additional asset services (i.e., expanded facilities), result in more valuable asset services (i.e., upgraded facilities), or extend normal service life. Expenditures are not capitalized if they are incurred to maintain assets in good operating condition, and/or do not meet the criteria for capitalization stated above. Equipment with a cost of $5,000 and above is generally capitalized if it benefits more than one operating cycle.

Interest expense is capitalized during the time a project is under construction and begins upon the issuance of debt to finance the construction of a capital asset. Capitalized construction-related interest was $1,818,078 during 2017.

(i) Unearned Revenue

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

(j) Deposits

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

(k) Net Position

Net position consists of the following components:

Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation, reduced by the net outstanding debt balances related to capital assets, net of unamortized debt expenses. The negative balance at June 30, 2017 is due to the inclusion of existing debt on the old Mercer, Lander, Terry and McCarty Halls, all of which were demolished, while additional debt was incurred for the demolition and redevelopment.

Unrestricted – This component consists of assets and liabilities that do not meet the definition of “net investment in capital assets.”

(l) Operating and Nonoperating Revenue and Expenses

In general, operating revenue is revenue received for providing housing, dining, and related services to the customers of HFS, the majority of which consists of room and board services to students. Revenue is recognized as the food service is provided, the appropriate rental period occurs, or the conference takes place. Operating expenses are those expenses paid to provide the services and resources, mainly consisting of the cost of food, salaries and benefits, utilities, building maintenance, and administrative overhead expenses.

Nonoperating revenue is recognized for receipts under the energy rebate program applied from the Master Plan constructions as well as investment income and other revenue sources that are not associated with HFS's primary operations. Nonoperating expense includes interest expense, loss on net capital asset transfer of Nordheim Court apartment facility, previously managed under a third-party lease agreement.

(m) Institutional Overhead

The University allocates certain general and administrative charges to those departments for which services are performed. This institutional overhead charge, which is based on a percent of division revenue, amounted to $1,533,128 during the year ended June 30, 2017.

(n) Indirect Expenses

Administrative expenses such as salaries and benefits, contract services, and supplies are reported as indirect expense. These allocations to HFS amounted to $7,006,001 for the year ended June 30, 2017. The allocation to each operation within the department is based on support activity and effort in direct relation to actual benefits to the operations. Distribution of each administrative services are evaluated each year during the budget and rate setting process.

(o) Capital Asset Transfer from Other University Department

During fiscal year 2017, the University did not renew the Nordheim Court Apartments lease agreement with Blanton Turner, the third-party property manager. Therefore, management of the operations, all capital assets and related debt were turned over to HFS. There was a net loss of $7,121,289 for this transfer as long-term debt was more than the net book value of the building asset.

(p) Income Taxes

As a part of the University, the operations of HFS are exempt from federal income taxes, except to the extent of unrelated business income. HFS did not incur unrelated business income tax during 2017, and accordingly, the financial statements do not include a provision for federal income taxes.

(q) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the

(Continued)

financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2017 is summarized as follows:

	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017
Noncurrent liabilities:				
ILP payable	$ 485,712,614	69,696,041	(12,762,905)	542,645,750
Pension liability	10,766,158	4,493,543	—	15,259,701
Lease payable	2,435,000	—	(355,000)	2,080,000
Total noncurrent liabilities	498,913,772	74,189,584	(13,117,905)	559,985,451
Current portion	(12,073,690)			(13,720,082)
Noncurrent portion	$ 486,840,082			546,265,369

(3) Capital Assets

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

	Balance at June 30, 2016	Additions/ transfers	Retirements	Balance at June 30, 2017
Capital assets, not being depreciated:				
Land	$ 6,775,215	—	—	6,775,215
Construction in progress	22,554,457	62,259,251	—	84,813,708
Total capital assets not being depreciated	29,329,672	62,259,251	—	91,588,923
Capital assets, being depreciated:				
Building and building improvements	521,163,150	26,697,632	(29,363)	547,831,419
Equipment	6,290,066	183,640	(901,674)	5,572,032
Total capital assets being depreciated	527,453,216	26,881,272	(931,037)	553,403,451

(Continued)

	Balance at June 30, 2016	Additions/ transfers	Retirements	Balance at June 30, 2017
Less accumulated depreciation:				
Building and building improvements	$ 106,104,525	31,786,436	(29,363)	137,861,598
Equipment	4,424,230	602,217	(878,041)	4,148,406
Total accumulated depreciation	110,528,755	32,388,653	(907,404)	142,010,004
Capital assets, net	$ 446,254,133	56,751,870	(23,633)	502,982,370

(4) Leases

Lease Payments

In June 2001, the state of Washington, in conjunction with the Washington Finance Officers Association (a nonprofit corporation), issued Certificates of Participation (CoPs) to certain investors. The proceeds from the CoPs were used for improvements to food services at the HUB. The University has agreed to make certain payments (considered lease payments) as required by the CoPs and HFS has agreed to reimburse the University for these payments.

At June 30, 2017, the total principal amount of obligation under this agreement was $2,080,000. It is expected to be repaid in installments of approximately $480,000 (including imputed interest of approximately 5%) per year through 2022. Following is a summary of minimum payments under this agreement (principal and interest) for the years ending June 30:

	Principal	Interest	Total
2018	$ 375,000	108,534	483,534
2019	395,000	89,315	484,315
2020	415,000	68,775	483,775
2021	435,000	46,987	481,987
2022	460,000	24,150	484,150
	$ 2,080,000	337,761	2,417,761

Lease Revenue

The University and Community Development Properties (CDP), a nonprofit organization, entered into a lease agreement whereby CDP issued bonds to undertake a comprehensive redevelopment of the Commodore Duchess and Radford Court, mainly for student housing. In July 2011 and 2012, the University took over the Nordheim Court, Commodore Duchess and Radford Court, properties (the Apartments). The Apartments are owned by the University and are managed by University of Washington Real Estate (UWRE) with an outside property manager. The University refunded the CDP bonds with loan proceeds from the Internal Lending Program (ILP). In accordance with the ILP financing agreement, HFS will be obligated to pay debt service on this loan only in the event that funds from the Apartments are insufficient. The Apartments have been self-sustaining in past years. As of June 30, 2017, the outstanding debt under this agreement was $35,472,703.

The University receives an annual payment from the Apartments, which it designates to HFS. Revenue from these properties was $3,611,600 for the year ended June 30, 2017.

As of July 1, 2016 Nordheim Court was restructured to be the direct responsibility of the University of Washington Department of Housing and Food Services (HFS). This was a mission-based decision made by HFS in order to offer university programs to the residents of Nordheim Court that could not be administered by a third-party property manager. The net book value of the capital asset of $15,108,026 and its related ILP debt of $22,229,315 are included and presented as acquisitions and a loss on transfer on the Statement of Revenues, Expenses and Changes in Net Position.

(5) The Internal Lending Program

Effective July 1, 2008, the University Board of Regents adopted the amended “Debt Management Policy: Statement of Objectives and Policies” to provide for the implementation of an ILP.

The purpose of the ILP is to lower the University’s overall cost of capital and provide internal borrowing units with a stable and predictable borrowing rate. The ILP will make loans to internal borrowers at a uniform internal lending rate. These loans will be funded through the issuance of University General Revenue bonds and notes. ILP program policies include a provision for a rate of stabilization reserve and a provision for rate adjustments, if necessary.

On April 22, 2008, the University issued General Revenue Refunding Bonds (2008 Bonds) to refund certain outstanding bonds of the University. A portion of the proceeds from the sale of the 2008 Bonds was used for the purpose of refunding HFS’s 1996 junior lien revenue bonds with a premium. HFS is obligated to the ILP in the amount of $10,663,333 as of June 30, 2017. The final payment is due in the fiscal year ending 2022. The average interest rate is 3.75%. The balance of the premium was $264,260 as of June 30, 2017.

In December 2008, HFS drew funds from the ILP in a total amount of $6,348,067 for the purchase of a piece of property called the Cavalier Apartments for future housing development plans. The final payment is due in the fiscal year ending 2034. The interest rate is 4.5%. HFS is obligated to the ILP in the amount of $5,047,372 as of June 30, 2017.

In October 2010, the University issued General Revenue & Refunding Bonds, 2010A & B. A portion of the proceeds was used to partially refund the 2002 Housing and Dining Revenue & Refunding Bonds with a premium. HFS is obligated to the ILP in the amount of $7,387,882 as of June 30, 2017. The final payment is due in the fiscal year ending 2032. The interest rate is 4.5%. The balance of the premium was $68,119 as of June 30, 2017.

In March 2012, the University issued General Revenue & Refunding Bonds, 2012A & B. A portion of the proceeds was used to fully refund the 2002 and 2004 Housing and Dining Revenue & Refunding Bonds. The amount refunded was $15,595,000 with no gain or loss. HFS is obligated to the ILP in the amount of $9,434,909 as of June 30, 2017. The final payments are due in the fiscal years ending 2022 and 2029. The interest rate is 4.5% for the GRB 2012A. The interest rate for GRB 2012B remained at 4.06%.

From May 2009 through January 2016, the Board of Regents approved borrowing for HFS under the ILP of up to $760.8 million for the four phases of the Housing Master Plan to build residence halls and single student apartments. The total draws to fund the project as of June 30, 2017 has amounted to approximately $515.1 million, and HFS has made principal payments beginning October 2011 for Phases 1 through 3. Principal payments for Phase 4 is projected to begin January 2019. HFS is obligated to the ILP in the amount of $488,512,875 as of June 30, 2017. The final payments are due between the fiscal years ending 2042 and 2049. The interest rate is 4.5%.

In July 2016, due to the transfer of the Nordheim Court Apartments from University Real Estate Office (note 4), HFS is obligated to the ILP in the amount of $21,267,000 as of June 30, 2017. The final payment is due in the fiscal year ending 2032. The interest rate is 4.5%.

The ILP agreements require HFS to maintain certain financial performance ratios. If these requirements were violated, future financing for the ILP can be ceased or minimized. As of June 30, 2017, HFS met all these requirements.

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

	Principal	Interest	Total
2018	$ 13,345,082	21,665,995	35,011,077
2019	14,384,064	22,305,486	36,689,550
2020	15,494,331	22,878,305	38,372,636
2021	16,219,104	22,158,347	38,377,451
2022	16,894,134	21,410,535	38,304,669
2023–2027	81,034,528	96,322,519	177,357,047
2028–2032	98,050,041	76,083,998	174,134,039
2033–2037	105,457,548	53,256,295	158,713,843
2038–2042	127,837,424	26,930,567	154,767,991
2043–2052	53,597,115	4,538,687	58,135,802
	542,313,371	$ 367,550,734	909,864,105
Add unamortized premium	332,379		
	$ 542,645,750		

(6) Pension Plan

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

(a) Plan Descriptions of the DRS Plans

(i) Public Employees' Retirement System (PERS)

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.

(b) Vesting and Benefits Provided

(i) PERS Plan 1

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

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

(ii) PERS Plan 2/3

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

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

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

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

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

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

(c) Fiduciary Net Position

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

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

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

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

(d) Actuarial Assumptions

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

(Continued)

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). HFS'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). And, 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, valuations were based on the results of 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.

(Continued)

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

	2017 (Measurement date 2016)	
	Target allocation	Percentage long-term expected real rate of return arithmetic
Asset class:		
Fixed income	20.00 %	1.70 %
Tangible assets	5.00	4.40
Real estate	15.00	5.80
Global equity	37.00	6.60
Private equity	23.00	9.60

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

(e) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which the HFS participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

		1% Decrease	Discount rate at 7.5%	1% Increase
Plan:				
PERS 1	$	7,312	6,063	4,989
PERS 2/3		12,953	7,035	(3,662)

(g) Employer Contribution Rates

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

		PERS	
Description		**Plan 1**	**Plan 2/3**[i]
		(Dollars in thousands)	
Contributions as June 30, 2017:			
Contribution rate		11.18 %	11.18 %
Contributions made	$	652	838

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

(h) HFS Proportionate Share

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

	Proportionate share	
	PERS 1	PERS 2/3
Year ended June 30, 2017	0.11 %	0.14 %

(i) HFS Aggregated Balances

HFS's aggregated balances of net pension liabilities and net pension asset as of June 30, 2017, are presented in the table below:

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
June 30, 2017:				
Net pension liability	$	6,063	7,035	13,098

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

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

		Proportionate share of pension expense		
Description		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
As of June 30, 2017	$	392	1,145	1,537

Description		Deferred outflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
June 30, 2017:				
Change in assumptions	$	—	73	73
Difference between expected and actual experience		—	375	375
Difference between expected and actual earnings		152	861	1,013
Change in HFS's proportionate share		—	422	422
HFS's contributions subsequent to the measurement date of the collective net pension liability[a]		652	838	1,490
Total	$	804	2,569	3,373

(a) Recognized as a reduction of the net pension liability as of June 30, 2018

Description		Deferred inflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
June 30, 2017:				
Difference between projected and actual earnings on plan investments, net	$	—	—	—
Difference between expected and actual experience		—	232	232
Change in HFS's proportionate share		—	—	—
Total	$	—	232	232

Description		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
Deferred outflows of resources related to HFS's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2018	$	652	838	1,490

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		
Year		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
2018	$	(38)	190	152
2019		(38)	168	130
2020		140	728	868
2021		88	412	500
2022		—	—	—
Thereafter		—	—	—
Total	$	152	1,498	1,650

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

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

(i) 403(b) Plan Description

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

(ii) 403(b) Funding Policy

Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents.

(l) University of Washington Supplemental Retirement Plan

(i) Plan Descriptions

The University of Washington Supplemental Retirement Plan (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. HFS also participates in this plan. The UWSRP was closed to new participants effective March 1, 2011. HFS participants as of June 30, 2017 were 35 active employees and 3 inactive employees receiving benefits.

This plan provides for a supplemental payment component, which guarantees a minimum retirement benefit based upon a one-time calculation at each eligible participant's retirement date. The University makes direct payments to qualifying retirees when the retirement benefits provided by the 403(b) plan do not meet the benefit goals. Benefit payments made during the fiscal year ended June 30, 2017 were $25,000.

(ii) 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 HFS reports their share of the total UWSRP pension liability. This is different from the DRS plans which have trusted assets and, therefore, are reported as a net pension liability. HFS has set aside $1,136,876 to pay future UWSRP retiree benefits associated with HFS employees. These assets are reported as other assets on the Statement of Net Position.

		June 30, 2017 (Dollars in thousands)
Schedule of changes in total pension liability:		
Beginning balance	$	2,550
Service cost		98
Interest on TPL		74
Difference between expected and actual experience		(369)
Change in assumptions		(141)
Change in proportion		(26)
Benefit payments		(25)
Ending balance	$	2,161

The TPL is based on an actuarial valuation performed as of June 30, 2016. 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.

HFS share of UWSRP pension expense for the fiscal year ended June 30, 2017 was $109,000.

(iii) *Actuarial Assumptions*

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

	June 30, 2017 (Dollars in thousands)
Significant assumptions used to measure the total pension liability:	
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	$ 2,161
TPL discount rate increased 1%	1,882
TPL discount rate decreased 1%	2,500

(iv) Deferred inflows of resources

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

		2017 (Dollars in thousands)
Deferred inflows of resources:		
Difference between expected and actual experience	$	323
Change in assumptions		123
Change in proportion		23
Total	$	469
Amortization of deferred inflows of resources (a) (dollars in thousands):		
Year:		
2018	$	(67)
2019		(67)
2020		(67)
2021		(67)
2022		(67)
Thereafter		(134)
Total	$	(469)

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

(7) Other Postemployment Benefits (OPEB)

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

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2017

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

PERS 1

(Dollar amounts in thousands)

		2017	2016	2015
Housing and Food Services' proportion of the net pension liability		0.11 %	0.11 %	0.10 %
Housing and Food Services' proportionate share of the net pension liability	$	6,063	5,838	5,126
Housing and Food Services' covered-employee payroll		13,177	12,416	10,839
Housing and Food Services' 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

Schedule of Contributions
(as of current fiscal year-end)

PERS 1

(Dollar amounts in thousands)

		2017	2016	2015
Contractually required contribution	$	23	29	28
Contributions in relation to the contractually required contribution		23	29	28
Contribution deficiency (excess)		—	—	—
Housing and Food Services' covered-employee payroll		13,407	13,177	12,416
Contributions as a percentage of covered-employee payroll		0.17 %	0.22 %	0.22 %

See accompanying independent auditors' report.

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2017

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

PERS 2/3

(Dollar amounts in thousands)

	2017	2016	2015
Housing and Food Services’ proportion of the net pension liability	0.14 %	0.14 %	0.13 %
Housing and Food Services’ proportionate share of the net pension liability	$ 7,035	4,928	2,530
Housing and Food Services’ covered-employee payroll	13,051	12,239	10,721
Housing and Food Services’ proportionate share of the net pension liability as a percentage of covered-employee payroll	53.90 %	40.27 %	23.60 %
Plan fiduciary net position as a percentage of the total pension liability	85.82	89.20	93.29

Schedule of Contributions
(as of current fiscal year-end)

PERS 2/3

(Dollar amounts in thousands)

	2017	2016	2015
Contractually required contribution	$ 1,503	1,448	1,127
Contributions in relation to the contractually required contribution	1,505	1,462	1,127
Contribution deficiency (excess)	(2)	(13)	—
Housing and Food Services’ covered-employee payroll	13,444	13,051	12,239
Contributions as a percentage of covered-employee payroll	11.18 %	11.10 %	9.21 %

See accompanying independent auditors’ report.

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2017

Schedule of changes in the total pension liability
UW Supplemental Retirement Plan

(Dollars in thousands)

		2017
Total pension liability – beginning	$	2,550
Service cost		98
Interest		74
Differences between expected and actual experience		(369)
Changes in assumptions1		(141)
Changes in proportion		(26)
Benefit payments		(25)
Total pension liability – ending	$	2,161
Total pension liability – ending	$	2,161
UWSRP covered-employee payroll		3,947
Total pension liability as percentage of covered-employee payroll		54.8 %

See accompanying independent auditors' report.

Plans administered by DRS

Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 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.

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 that meets the criteria in GASB statement 73, paragraph 4 to pay related benefits.

Material assumption changes during the measurement period include updating the GASB 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%.

See accompanying independent auditors’ report.

KPMG

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Financial Statements and Schedules

June 30, 2017

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington Department of Intercollegiate Athletics (the Department) as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Department of Intercollegiate Athletics as of June 30, 2017, and the changes in its net position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2017, the changes in its financial position or its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1, on July 1, 2016, the Department adopted new accounting guidance requiring governments providing defined benefit pensions to their employees that are not administered through a trust to record the total pension liability, as well as recognized most changes in the total pension liability within pension expense. 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 10, and the schedules of required supplementary information on pages 33 through 35, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

KPMG LLP

Seattle, Washington
December 1, 2017

Discussion and Analysis Prepared by Management

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Department of Intercollegiate Athletics (ICA) as of and for the years ended June 30, 2017 and 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements present only the University of Washington Department of Intercollegiate Athletics and do not purport to, and do not, present fairly the financial position of the University of Washington as of June 30, 2017, the changes in its financial position, or its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Using the Financial Statements

ICA's financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. The financial health of ICA can be measured by reviewing the summaries and explanations that follow.

Statements of Net Position Summary

The following statements of net position summary shows ICA's total assets, total pension deferred outflows of resources, total liabilities, total pension deferred inflows of resources, and net position as of June 30, 2017 and 2016:

Statements of Net Position Summary

		2017	2016
		(In thousands)	
Current assets	$	21,994	14,322
Noncurrent assets:			
Capital assets, net		333,592	348,384
Other		91,803	80,743
Total assets		447,389	443,449
Pension deferred outflows of resources		1,627	974
Total assets and pension deferred outflows of resources	$	449,016	444,423

(Continued)

Statements of Net Position Summary

		2017	2016
		(In thousands)	
Current liabilities	$	31,815	29,513
Noncurrent liabilities		266,939	266,260
Total liabilities		298,754	295,773
Pension deferred inflows of resources		1,150	715
Net position		149,112	147,935
Total liabilities, pension deferred inflows of resources, and net position	$	449,016	444,423

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

- Current assets consist primarily of cash and cash equivalents, accounts receivable, and prepaid expenses. Current assets were $9.8 million less than current liabilities at the end of 2017. The negative working capital is due to unearned income of $20.8 million largely related to ticket sales for the 2017 football season, which will be recorded as revenue in 2018. Current assets were $15.2 million less than current liabilities at the end of 2016. The negative working capital is due to unearned income of $17.4 million largely related to ticket sales for the 2016 football season, which were recorded as revenue in 2017. Increases and decreases in current assets occur due to the timing of payments and receipts from operations.
- Noncurrent assets consist primarily of long-term investments, endowments, and capital assets. Noncurrent assets were $3.7 million less at the end of 2017 due to an increase in accumulated depreciation on capital assets offset by an increase in endowments and $2.7 million in other assets. As of June 30, 2017, there was $14.5 million of noncurrent assets in long-term investment funds in which these investments can be used to meet ICA's long-term obligations.
- Current liabilities increased by $2.3 million during 2017 to a total of $31.8 million largely due to the $3.4 million increase in unearned income.
- Noncurrent liabilities increased by $679 thousand in 2017 due to an increase in pension liabilities related to implementing GASB Statement No. 73, *Accounting and Financial Reporting for Pensions*, offset by principal payments to the Internal Lending Program (ILP) of the University of Washington (University).
- The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the year. The total net position increased by $1.2 million during 2017 due to a decrease in capital assets (net of related debt) and an increase in endowments.

ICA's Net Position or "Equity"

The following table is a summary of the net position or "equity" for ICA at June 30, 2017 and 2016:

		2017	2016
		(In thousands)	
Net investment in capital assets	$	79,412	89,441
Restricted:			
Nonexpendable		59,142	52,928
Expendable		16,459	11,019
Unrestricted		(5,901)	(5,453)
Total net position	$	149,112	147,935

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

- "Net investment in capital assets" is ICA's total investment in property, plant, equipment, and infrastructure, net of accumulated depreciation and any outstanding debt obligations related to those capital assets.
- "Restricted nonexpendable net position" consists of funds for which the donor has made the restriction that the principal is not available for expenditures, but investment earnings can be used for specific purposes.
- "Restricted expendable net position" is resources that ICA is obligated to spend in accordance with the restrictions placed by donors and/or external parties.
- "Unrestricted net position" is all other funds available to ICA for any purpose. Unrestricted assets are often internally designated for specific purposes.

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

- Net investment in capital assets decreased by $10 million in 2017 to a total of $79.4 million. This balance increases as debt is paid off or when ICA funds fixed asset purchases without financing. The balance decreases as assets are depreciated.
- Restricted nonexpendable net position increased by $6.2 million in 2017. The increases in 2017 is mainly due to an increase in contributed endowments of $5.1 million.
- Restricted expendable net position increased by $5.4 million in 2017 due to an increase in the market value of endowments and the creation of numerous new restricted gift accounts.
- Unrestricted net position decreased by $448 thousand in 2017. On July 1, 2016, ICA adopted GASB Statement No. 73. Implementation of this standard resulted in the restatement of beginning fiscal year 2017 unrestricted net position, reducing it by $3.4 million. This was mostly offset in fiscal year 2017 by an increase in contributions.

Endowments and Other Investments

- The fair market value of ICA's endowments was $74.1 million at June 30, 2017. The increase in 2017 is due to additional endowment contributions of $5.1 million.
- ICA had $14.5 million and $16.1 million of long-term investments, not including endowments, in the Consolidated Endowment Fund (CEF) at June 30, 2017 and 2016, respectively. In fiscal year 2017, ICA had a market-related gain. In fiscal year 2017, ICA withdrew $2.8 million from the CEF to fund a coach's deferred salary compensation.
- Short-term investments in the Invested Funds Pool used as operating funds for ICA yielded returns of 1% in 2017 and 2% in 2016.

Capital Improvements and Related Debt

- In 2017, there was a net decrease of $14.8 million in net capital assets, primarily related to the depreciation of capital assets exceeding the acquisition of capital assets.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present how ICA's operating and nonoperating items resulted in changes in net position. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The following summary shows the revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016:

Revenues, Expenses, and Changes in Net Position Summary

		2017	2016
		(In thousands)	
Operating revenues	$	85,555	79,180
Operating expenses		(126,340)	(120,091)
Operating loss		(40,785)	(40,911)
Nonoperating revenues, net		38,471	10,381
Other revenues		6,858	8,969
Increase (decrease) in net position		4,544	(21,561)
Net position, beginning of year		147,935	169,496
Effect of accounting change		(3,367)	—
Net position, end of year	$	149,112	147,935

Revenues from All Sources

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

Revenues from All Sources Summary

	2017	2016
	(In thousands)	
Gate ticket sales	$ 26,509	25,899
NCAA/conference distributions	35,905	31,554
Sponsorships, trademarks, and licensing	16,276	13,935
Concessions, souvenirs, parking, boat moorage	3,699	3,344
Other operating revenue	3,166	4,446
Contributions (noncapital)	35,367	23,187
Investment income, net	3,050	2,802
Gain (loss) on investments	6,827	(5,140)
University funded tuition waivers	3,743	1,986
Capital gifts	1,731	1,513
Settlement agreement	1,030	—
Endowment gifts	5,127	7,457
Total revenue – all sources	$ 142,430	110,983

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

- Gate ticket sales continue to be a large source of revenue for ICA. Gate ticket sales increased by $610 thousand in 2017 from 2016 due to an increase in football season ticket sales.
- NCAA/Conference distributions increased by $4.4 million in 2017 due to an increase in Pac-12 TV shares of $215 thousand. In addition, Conference postseason/regular season shares increased $967 thousand and the Pac-12 Bowl Game Allowance increased $1.8 million from 2016 primarily due to participation in the College Football Playoffs. In addition, $2.5 million was paid out related to the Pac-12 Network in 2017, which is a $542 thousand increase from 2016.
- Sponsorship revenue increased by $2.3 million in 2017 from 2016 due to the field naming rights agreement with Alaska Airlines, $113 thousand additional in donated advertising, and $107 thousand additional in trademarks and licensing.
- Other operating revenue decreased by $1.3 million in 2017 from 2016 due to a one-time settlement from Sound Transit for the Link light rail station at Husky Stadium received in 2016.
- Contributions related to noncapital gifts increased by $12.2 million in 2017 from 2016 due to the launch of an annual giving campaign and increased football season ticket sales.

(Continued)

- Investment income increased by $248 thousand in 2017. Investment income is earned on the following two categories:
  - Investment income in the CEF increased by $121 thousand in 2017 mainly due to an increase in the balance held in the CEF during these periods.
  - Short-term investments received 1% distributions in 2017 and 2% in 2016. Due to increase ticket sales and contributions, the average investment balances were higher than in 2016, which resulted in a positive return.
- In 2017, there was an increase in gain on investments of $12.0 million due to an increase of value of long-term investment and endowment funds.
- University funded tuition waivers increased by $1.8 million in 2017 due to increased funding from the University.
- Capital gifts were $1.7 million in 2017 and $1.5 million in 2016, respectively. The slight increase in 2017 is due to an increase in the payment of the remaining pledges due for the stadium.
- In 2017, there was a settlement agreement reached with a former coach, which resulted in $1.0 million in settlement agreement revenue.
- Endowment gifts decreased by $2.3 million in 2017 to a total of $5.1 million due to less endowments being established in 2017.

(Continued)

Expenses and Losses

The following table summarizes expenses and losses for the years ended June 30, 2017 and 2016:

Expenses and Losses Summary

		2017	2016
		(In thousands)	
Salaries and wages	$	36,382	29,459
Payroll taxes and employee benefits		8,322	7,611
Athletic student aid		13,212	13,026
Guarantees paid to visiting teams		2,523	2,113
Team travel		6,413	5,077
Day of game		8,454	7,536
Direct facilities, maintenance, and utilities		4,645	3,786
Advertising		2,793	2,680
Uniforms and supplies		7,001	6,211
Training table		2,853	2,861
Department relations		620	469
Banquets and special events		422	466
Depreciation		15,710	17,570
Noncapitalized equipment and repairs		1,748	1,695
Institutional overhead		2,417	1,859
Pac-12 Management Fee		—	7,300
Other operating expenses		12,825	10,371
Total operating expenses		126,340	120,090
Loss on disposal of capital assets		2	71
Interest expense		11,543	12,383
Total nonoperating expenses and losses		11,545	12,454
Total	$	137,885	132,544

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

- Salaries and wages increased by $6.9 million in 2017 from 2016 due to severance payments made to former staff, merit increases for professional and classified staff, and incentive bonuses paid to coaching staff.
- Payroll taxes and employee benefits increased by $711 thousand in 2017 from 2016 primarily due to the payout of deferred compensation to contract staff. Since payroll taxes and employee benefits are a percentage of salaries and wages, the changes detailed above in salaries and wages for 2017 directly impact the changes in payroll taxes and employee benefits. The percentages charged to ICA on

professional and contract staff salaries went from 30.5% in 2016 to 32.4% in 2017. The smaller amount spent on classified staff salaries compared to professional and contract staff salaries only has a small impact on increasing the total amount of payroll taxes and employee benefits paid. The percentages charged on hourly staff, overtime, and additional compensation for contract staff decreased to 17.9% in 2017 from 18.8% in 2016.

- Athletic student aid increased by $186 thousand in 2017 from 2016 due to a higher proportion of out-of-state students and an increase in summer school attendance. In-state tuition rates were reduced by 10.00% in 2017 and 4.75% in 2016. Out-of-state tuition was kept at the same level in 2017 as 2016.
- Guarantees paid to visiting teams fluctuate due to the difference in the nonconference football game schedule.
- Team travel increased by $1.3 million in 2017 from 2016 due to the football team's participation in the College Football Playoff game at the Peach Bowl.
- Day of game increased by $918 thousand in 2017 from 2016 due to having a weekday football game, which increases fan bus transportation costs as an additional bus transportation vendor is required for weekday games and an increase in the cost of game day security.
- Direct facilities, maintenance, and utilities increased by $859 thousand in 2017 due to an increase in maintenance and utility costs.
- Uniforms and supplies increased by $790 thousand in 2017 mainly due to an increase in general supply purchases.
- Depreciation expense decreased by $1.9 million in 2017 due primarily to the stadium and arena scoreboards being fully depreciated in 2016.
- Institutional overhead increased by $558 thousand due to an increase in the calculation from higher gate and sponsorship revenue than in 2016.
- In 2016, ICA recorded a $7.3 million expense for Pac-12 management fee expenses related to a multimedia rights agreement.
- Other expenses increased $2.5 million in 2017 primarily due to a write-off of a receivable from the University.
- Interest expense decreased by $840 thousand due to a change in the ILP interest rate on July 1, 2016 from 4.75% to 4.50%.

Operating Loss

There was an operating loss of approximately $40.8 million in 2017. There was sufficient nonoperating revenues from contributions, investment income, and University funded tuition waivers to cover the operating losses for 2017.

Economic Factors Affecting the Future

The greatest factor that determines the amount of gate revenues and contributions for Intercollegiate Athletics is having winning seasons for the football team. Football revenue supports the operations of all 22 Intercollegiate Athletic programs. An economic downturn would have a negative financial impact on athletic programs. In addition, NCAA deregulation can have a significant impact on increasing department expenses.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statement of Net Position

June 30, 2017

Assets and Deferred Outflows of Resources

Current assets:	
Cash in the University of Washington Invested Funds Pool (note 2)	$ 16,162,285
Accounts receivable	4,532,888
Prepaid expenses	1,298,422
Total current assets	21,993,595
Noncurrent assets:	
Investments:	
University of Washington Consolidated Endowment Fund (note 3)	14,451,690
Endowments (note 3)	74,091,991
UWSRP (note 8)	2,688,993
Advances to University for capital projects	570,194
Capital assets, net (note 4)	333,591,764
Total noncurrent assets	425,394,632
Total assets	447,388,227
Pension deferred outflows of resources (note 8)	1,627,323
Total assets and deferred outflows of resources	$ 449,015,550

Liabilities, Deferred Inflows of Resources, and Net Position

Current liabilities:	
Accounts payable	$ 1,754,372
Accrued salaries and vacation payable	2,874,381
Admission taxes payable	1,150,998
Accrued interest payable	220,121
Unearned income	20,807,304
Capitalized equipment lease payable, current portion (note 6)	952,811
Internal lending program payable, current portion (note 5)	4,055,285
Total current liabilities	31,815,272
Noncurrent liabilities:	
Capitalized equipment lease payable, net of current portion (note 6)	4,705,441
Internal lending program payable, net of current portion (note 5)	244,466,254
Net pension liability (note 8)	10,467,189
Pac-12 Management Fee payable	7,300,000
Total noncurrent liabilities	266,938,884
Total liabilities	298,754,156
Pension deferred inflows of resources (note 8)	1,148,918
Net position:	
Net investment in capital assets	79,411,973
Restricted:	
Nonexpendable (note 3)	59,142,243
Expendable:	
Expendable endowment principal (note 3)	1,077,174
Expendable endowment gains	13,872,574
Other expendable	1,509,387
Unrestricted	(5,900,875)
Total net position	149,112,476
Total liabilities, deferred inflows of resources, and net position	$ 449,015,550

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statement of Revenue, Expenses, and Changes in Net Position

Year ended June 30, 2017

Operating revenue:	
Gate ticket sales	$ 26,508,808
NCAA/conference distributions	35,904,543
Sponsorships	15,443,444
Concessions, souvenirs, parking, and boat moorage	3,699,034
Trademarks and licensing	832,593
Facility income	2,349,518
Other	817,469
Total operating revenue	85,555,409
Operating expenses:	
Salaries and wages	36,382,047
Payroll taxes and employee benefits	8,321,576
Athletic student aid	13,211,739
Guarantees paid to visiting teams	2,522,500
Team travel	6,413,380
Day of game expenses	8,453,562
Direct facilities, maintenance, and utilities	4,644,647
Advertising	2,793,110
Uniforms and supplies	7,000,689
Training table	2,852,795
Department relations	620,029
Banquets and special events	421,638
Depreciation	15,710,367
Noncapitalized equipment and repairs	1,747,866
Institutional overhead	2,417,014
Medical expenses	1,147,359
Fund-raising, marketing, and promotions	341,066
Recruiting	499,305
Equipment	5,763
Other	10,832,977
Total operating expenses	126,339,429
Operating loss	(40,784,020)
Nonoperating revenues (expenses):	
Contributions	35,367,277
Investment income on Invested Funds	31,921
Investment income on CEF	3,017,965
Gain on investments	6,826,617
Loss on disposal of capital assets	(1,683)
University funded tuition waivers	3,742,613
Settlement agreement	1,030,000
Interest expense	(11,543,469)
Total nonoperating revenues	38,471,241
Loss before other revenues	(2,312,779)
Other revenues:	
Capital gifts	1,731,183
Gifts to permanent endowments	5,126,536
Total other revenues	6,857,719
Increase in net position	4,544,940
Net position:	
Net position at beginning of year, as restated (note 1(b))	144,567,536
Net position at end of year	$ 149,112,476

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statement of Cash Flows

Year ended June 30, 2017

Cash flows from operating activities:		
Gate ticket sales	$	30,079,728
NCAA/conference distributions		37,864,519
Sponsorships		10,011,582
Concessions and souvenirs		3,721,300
Trademarks and licensing		874,351
Facility income		2,576,416
Other		817,149
Payments to suppliers		(46,830,650)
Payments to employees		(38,018,885)
Payments for benefits		(7,173,856)
Payments for scholarships		(13,200,381)
Net cash used in operating activities		(19,278,727)
Cash flows from noncapital financing activities:		
Contributions, excluding permanent endowments and capital		35,367,277
Contributions to permanent endowments		5,126,536
Settlement agreement		380,000
University funded tuition waivers		3,742,613
Net cash provided by noncapital financing activities		44,616,426
Cash flows from capital and related financing activities:		
Capital gifts received		1,731,183
Acquisition and construction of capital assets		(370,460)
Principal paid on capital debt		(4,763,710)
Interest paid on capital debt		(11,467,947)
Net cash used in capital and related financing activities		(14,870,934)
Cash flows from investing activities:		
Purchases of investments		(5,681,820)
Sale of investments		3,034,447
Investment income		3,083,394
Net cash provided by investing activities		436,021
Net increase in cash and cash equivalents		10,902,786
Cash and cash equivalents at beginning of year		5,259,499
Cash and cash equivalents at end of year	$	16,162,285
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(40,784,020)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense		15,710,367
Other changes in assets and liabilities:		
Decrease in accounts receivable		3,769,093
Decrease in prepaid expenses		78,482
Increase in accounts payable		602,573
Increase in unearned income		3,365,179
Decrease in accrued salaries and vacation payable		(1,695,854)
Decrease in pension liability		(469,459)
Increase in admissions taxes payable		144,912
Net cash used in operating activities	$	(19,278,727)
Supplemental disclosures of noncash activities:		
Donated supplies	$	2,742,304
Pac-12 Management Fee and Interest		75,523

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Washington Department of Intercollegiate Athletics (Department or ICA) is an auxiliary enterprise within the University of Washington (the University). The records of the Department are maintained as part of the general records of the University.

(b) Basis of Presentation

The financial statements of the Department have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements* – *and Management's Discussion and Analysis* – *for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements* – *and Management's Discussion and Analysis* – *for Public Colleges and Universities*. The Department is reporting as a special purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the Department presents a management's discussion and analysis, statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and notes to the financial statements. The financial statements present only the University of Washington ICA and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2017, the changes in its financial position, or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The Department reports capital assets net of accumulated depreciation (as applicable) and reports depreciation expense in the statement of revenues, expenses, and changes in net position.

On July 1, 2016, ICA adopted portions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB 67 and 68,* pertaining to pension plans not within the scope of Statement No. 68. The guidance is intended to improve the financial reporting of governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68. The University of Washington Supplemental Retirement Plan (UWRSP, note 8) does not currently fall within the scope of GASB 68 since the assets set aside to pay retiree benefits have not been segregated and restricted in a trust or equivalent arrangement. Implementing this Statement will require that the University recognize the remaining unamortized pension plan liability for the UWRSP, together with any associated deferred inflows and deferred outflows of resources, and to restate net position for all periods presented.

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

Net position at June 30, 2016, as previously reported	$	147,935,239
Effect of accounting change		(3,367,703)
Net position at July 1, 2016, as restated	$	144,567,536

(c) Capital Assets

Expenditures for equipment and repairs that represent normal replacement of such equipment and routine maintenance of the buildings are expensed as incurred. Capital expenditures for facilities and equipment funded by the Department are reflected as capital assets on the Department's Statement of Net Position. Buildings and equipment are stated at cost, or if acquired by gift, at fair market value at the date of the gift. Additions, replacements, major repairs, and renovations are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15–50 years for building components, 20 to 50 years for infrastructure and land improvements, and 5–7 years for equipment.

(d) Advances to University for Capital Projects

Advances to University for capital projects represent the difference between the cash paid and the expenditures incurred by the University for various capital projects that are in process at year-end, which ICA expects to expense or capitalize in the next fiscal year.

(e) Unearned Income

Funds received from the sale of tickets for games to be played subsequent to June 30, 2017 are unearned. The Department's receipts are recognized as income in the period in which the games are played. At June 30, 2017, unearned income consists of the following:

Advance sales of football tickets	$	18,934,516
Advance sales for men's and women's basketball		990,671
Other unearned income		882,117
	$	20,807,304

(f) Operating Activities

The Department defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received.

Certain other revenues used for operations, such as contributions, University funded tuition waivers and investment income, are recorded as nonoperating revenues.

(g) Contributions

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

(h) Sponsorships

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

The Department recorded $5.5 million in sponsorship revenue for these transactions in the year ended June 30, 2017.

(i) Income Taxes

As a part of the University, the Department is exempt from federal income taxes, except to the extent of unrelated business taxable income. Unrelated business tax was not significant to the financial statements taken as a whole at June 30, 2017.

(j) Use of Estimates

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

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

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

Pooled Investments held on behalf of ICA by the University are recorded at ICA's share of the carrying value of the University of Washington Cash and Liquidity Pools. The Cash and Liquidity Pools were invested as follows at June 30, 2017:

Cash and cash equivalents	6.2 %
Treasuries and agencies	69.0
Mortgage related securities	8.6
Asset-backed debt securities	6.7
Corporate and other fixed income	9.5
Total	100.0 %

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

(3) Investments

The Department purchases or sells units in the University's Consolidated Endowment Fund (CEF) on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed by the University based on the number of units held. The Department records its permanent endowments at fair value. Net appreciation/depreciation in the fair value is recorded as gain or loss on investments in the Statement of Revenue, Expenses, and Changes in Net Assets. For the investment portion of the CEF funds, the principal balance can be withdrawn at the end of each quarter. The Department earned investment income on these investment funds based on the performance of the University's CEF funds net of investment management and University administrative fees. The total return on the investments portion of the CEF funds for the year ended June 30, 2017 was approximately 13.6%. During fiscal year 2011, the Board of Regents adopted a long-term spending policy for the CEF. Under the current policy, quarterly distributions to programs are based on an annual percentage rate of 4.0%, applied to the five-year rolling average of the CEF's market valuation. The administrative fee of 1.0% supporting campus wide fund-raising and stewardship activities (0.8%) and offsetting the internal cost of managing endowment assets (0.2%) continues, but is now based on a five-year average value similar to program distributions. The Department's endowments represent 2.81% of the CEF balance as of June 30, 2017.

At June 30, 2017, the fund balance of the Endowment and Expendable Endowment funds stated at fair value comprised the following:

Expendable endowments:		
Graham*	$	435,932
Spence*		641,242
Endowments (including expendable gains)		73,014,817
Total	$	74,091,991

* Expenditure of principal is permitted under certain circumstances.

The Department received $5,126,536 during the year in endowment gifts which are invested in the CEF.

(a) Fair Value of Financial Instruments

(i) Fair Value Measurements

GASB 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department has the ability to access at the measurement date. As of June 30, 2017, the Department did not carry any Level 1 assets or liabilities.

Level 2 – Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. At June 30, 2017, the Department did not carry any Level 2 assets or liabilities.

Level 3 – Inputs are unobservable inputs for the asset or liability. As of June 30, 2017, the Department did not carry any Level 3 assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

Valuation techniques utilized in the fair value measurement of assets and liabilities presented on the Department’s statement of financial position were not changed from previous practice during the reporting period.

(ii) Financial Assets Measured at Fair Value on a Recurring Basis

The following table presents information about the Department’s financial assets that are measured at fair value on a recurring basis using net asset value per share as a practical expedient at June 30, 2017.

		June 30, 2017
Assets:		
Investments measured at net asset value:		
Pooled investments in the CEF	$	14,451,690
Total	$	14,451,690

The Department participates in pooled investments in the CEF and has the ability to redeem its investment at net asset value at June 30, 2017.

(4) Capital Assets

Capitalized asset activity for the year ended June 30, 2017 is summarized as follows:

		Balance at June 30, 2016	Additions/ (transfers)	Retirements	Balance at June 30, 2017
Buildings	$	451,661,227	965,944	—	452,627,171
Furniture, fixtures, and equipment		14,417,670	303,520	(627,927)	14,093,263
Construction in progress*		474,598	(350,027)	—	124,571
Total		466,553,495	919,437	(627,927)	466,845,005
Less accumulated depreciation:					
Buildings		106,608,402	14,814,516	—	121,422,918
Furniture, fixtures, and equipment		11,560,716	895,851	(626,244)	11,830,323
Total accumulated depreciation		118,169,118	15,710,367	(626,244)	133,253,241
Capital assets, net	$	348,384,377	(14,790,930)	(1,683)	333,591,764

* Nondepreciable

(5) Internal Lending Program

In February 2012, ICA began drawing money from the ILP for the costs related to renovating Husky Stadium. The Board of Regents at their November 18, 2010 meeting approved ICA to use the ILP for up to $250 million in project and capitalized interest costs for the renovation of Husky Stadium. On November 11, 2011, the Board of Regents approved to increase ICA's use of the ILP to $261.5 million for the costs of renovating Husky Stadium and adding a Sports Medicine and Sport Performance Center. Any amounts drawn from the ILP greater than $261.5 million will be funded by the Department. At the end of June 2017, ICA has a remaining principal balance of $248.5 million payable to the ILP relating to the construction of the Husky Stadium renovation and Husky Ballpark.

The purpose of the ILP is to lower the University's overall cost of capital and provide internal borrowing units with a stable and predictable borrowing rate. The ILP will make loans to internal borrowers at a uniform internal lending rate. These loans will be funded through the issuance of University General Revenue bonds and notes. ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary.

Under the terms of the ILP, rate adjustments will apply to all outstanding debt obligations, including debt issued prior to the ILP implementation. The ILP lending rate will be reviewed annually, and a preliminary indication of a rate adjustment will be announced to ILP participants 12 months in advance of the effective date. Final rate adjustments require approval by the Board of Regents.

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

		Principal	Interest
Years ending June 30:			
2018	$	4,055,285	11,098,922
2019		4,321,143	10,912,581
2020		4,519,655	10,714,069
2021		4,727,287	10,506,435
2022		4,944,458	10,289,265
Thereafter		225,953,711	131,497,450
	$	248,521,539	185,018,722

Internal Lending Program activity for the year ended June 30, 2017 is summarized as follows:

Balance as of June 30, 2016	$	251,829,737
Reductions		(3,308,198)
Balance as of June 30, 2017	$	248,521,539

(6) Capital Lease

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

		Future payments
Years ending June 30:		
2018	$	1,077,449
2019		997,934
2020		997,934
2021		997,934
2022		997,934
Thereafter		997,934
Total minimum lease payments		6,067,119
Less amount representing interest cost		408,867
Present value of minimum payments	$	5,658,252

Equipment under capital lease are as follows:

	Balance at June 30, 2016	Additions	Retirements	Balance at June 30, 2017
Equipment	$ 7,665,337	—	—	7,665,337
Total	7,665,337	—	—	7,665,337
Less accumulated depreciation:				
Equipment	7,374,446	116,659	—	7,491,105
Total accumulated depreciation	7,374,446	116,659	—	7,491,105
Leased capital assets, net	$ 290,891	(116,659)	—	174,232

(7) Related-Party Transactions

The University provides support to the Department by performing the following services:

- Providing use of University buildings and equipment
- Serving as the depository, purchasing, and disbursing agent
- Providing certain administrative and accounting services

In addition, the Department purchases operating and other services from the University and is allocated institutional overhead from the University for services provided and payment for utility costs. The institutional overhead allocated from the University for fiscal year 2017 was $2,417,014.

The Department is covered by the University's self-insurance program and is responsible for the first $100,000 of costs in general, automobile, and employment practices liability claims. Payments over $100,000 are covered by the University's self-insurance program and excess carriers, except that in claims related to coaches' contracts or the acts of trainers and non-University physicians to the athletes' medical services program, all costs are the exclusive responsibility of the Department.

(8) Pension Plans

(a) Pension Plans

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

(b) Plan Descriptions of the DRS Plans

(i) Public Employees' Retirement System

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

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

(c) Vesting and Benefits Provided

(i) PERS Plan 1

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

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

(ii) PERS Plan 2/3

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

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

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

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

(d) Fiduciary Net Position

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

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

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

http://www.drs.wa.gov/administration/annual-report/.

(e) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). ICA's 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). And, 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 dates of June 30, 2016, are summarized in the following table:

	2017 (measurement date 2016)	
	Target allocation	% Long-term expected real rate of return arithmetic
Asset class:		
Fixed income	20.00 %	1.70 %
Tangible assets	5.00	4.40
Real estate	15.00	5.80
Global equity	37.00	6.60
Private equity	23.00	9.60

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

(f) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 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 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which ICA participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

The following table presents the ICA's net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 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)

	1% Decrease	Discount rate at 7.5%	1% Increase
Plan:			
PERS 1	$ 3,012	2,501	2,055
PERS 2/3	5,255	2,854	(1,486)

(h) Employer Contribution Rates

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

Description		PERS Plan 1	PERS Plan 2/3[i]
		(Dollars in thousands)	
Contributions as June 30, 2017:			
Contribution rate		11.18 %	11.18 %
Contributions made	$	275	351

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

(i) ICA Proportionate Share

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

	Proportionate share	
	PERS 1	PERS 2/3
Plan:		
Year ended June 30, 2017	0.047 %	0.057 %

(j) ICA Aggregated Balances

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

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
Net pension liability	$	2,501	2,854	5,355

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

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

Description		Proportionate share of pension expense		
		PERS Plan 1	PERS Plan 2/3	Total
		(Dollars in thousands)		
As of June 30, 2017	$	(87)	424	337

Description		Deferred outflows of resources		
		PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
Difference between projected and actual earnings on plan investments, net	$	63	349	412
Change in assumptions		—	30	30
Difference between expected and actual experience		—	152	152
Change in ICA's proportionate share		—	(1)	(1)
ICA contributions subsequent to the measurement date of the collective net pension liability[a]		275	351	626
Total	$	338	881	1,219

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

Description		Deferred inflows of resources		
		PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
Difference between expected and actual earnings on plan investments, net	$	—	94	94
Total	$	—	94	94

Description		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
Deferred outflows of resources related to ICA's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability as of June 30, 2018	$	275	351	626

Amounts reported as deferred outflows of resources, as of June 30, 2017, 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		
Year		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
2018	$	(15)	36	21
2019		(15)	3	(12)
2020		58	237	295
2021		36	160	196
Total	$	64	436	500

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

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

(i) 403(b) Plan Description

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

(ii) 403(b) Funding Policy

Employee contribution rates, based on age, are 5.0%, 7.5%, or 10.0% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents.

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

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

Number of participants:

	June 30, 2017
Active employees	82
Inactive employees receiving benefits	8
Inactive employees entitled to, but not receiving, benefits	—

(i) 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 with 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.

(ii) 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), which have trusted assets and, therefore, are reported as a net pension liability. ICA has set aside $2,688,993 to pay future UWSRP retiree benefits. These assets are reported as Investments on the Statement of Net Position.

		June 30, 2017
		(Dollars in thousands)
Schedule of changes in total pension liability:		
Beginning Balance	$	5,503
Service cost		232
Interest on TPL		176
Difference between expected and actual experience		(873)
Change in assumptions		(333)
Change in proportion		467
Benefit payments		(60)
Ending Balance	$	5,112

The TPL is based on an actuarial valuation performed as of June 30, 2016. Update procedures performed by the OSA were used to roll forward the TPL to the measurement date of June 30, 2017.

ICA’s share of UWSRP pension expense for the fiscal year ending June 30, 2017 was $257,000.

(iii) 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 ICA's financial statements.

	June 30, 2017 (Dollars in thousands)
Significant assumptions used to measure the total pension liability:	
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 June 30, 2017
TPL measurement at discount rate	$ 5,112
TPL discount rate increased 1%	4,451
TPL discount rate decreased 1%	5,913

(iv) Deferred Inflows of Resources

The tables below summarize ICA'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:

		2017 (Dollars in thousands)
Deferred inflows of resources:		
Difference between expected and actual experience	$	764
Change in assumptions		291
Total	$	1,055
Deferred outflows of resources:		
Change in proportion	$	408

		2017
		(Dollars in thousands)
Amortization of deferred inflows of resources (a):		
Year:		
2018	$	(92)
2019		(92)
2020		(92)
2021		(92)
2022		(92)
Thereafter		(187)
Total	$	(647)

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

(9) Commitments and Contingencies

The Department is subject to various claims and lawsuits that are covered by the University's self-insurance fund, subject to a deductible of $100,000 per occurrence.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2017

Unaudited – See accompanying independent auditors' report

Schedule of Proportionate Share of the Net Pension Liability

(As of measurement date, the prior fiscal year-end)

PERS 1

(Dollar amounts in thousands)

	2015	2016	2017
Intercollegiate Athletics' proportion of the net pension liability	0.051 %	0.051 %	0.047%
Intercollegiate Athletics' proportionate share of the net pension liability	$ 2,547	2,645	2,501
Intercollegiate Athletics' covered-employee payroll	5,385	5,625	5,429
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll	47.30 %	47.02 %	46.01 %
Plan fiduciary net position as a percentage of the total pension liability	61.19 %	59.10 %	57.03 %

Schedule of Contributions

(As of current fiscal year-end)

PERS 1

(Dollar amounts in thousands)

	2015	2016	2017
Contractually required contribution	$ 12	12	10
Contributions in relation to the contractually required contribution	12	12	10
Contribution deficiency (excess)	—	—	—
Intercollegiate Athletics' covered-employee payroll	5,625	5,429	5,643
Contributions as a percentage of covered-employee payroll	0.22 %	0.22 %	0.17 %

(Continued)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2017

Unaudited – See accompanying independent auditors' report

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

PERS 2/3

(Dollar amounts in thousands)

		2015	2016	2017
Intercollegiate Athletics' proportion of the net pension liability		0.06 %	0.06 %	0.06 %
Intercollegiate Athletics' proportionate share of the net pension liability	$	1,215	2,135	2,854
Intercollegiate Athletics' covered-employee payroll		5,147	5,302	5,295
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll		23.61 %	40.27 %	53.90 %
Plan fiduciary net position as a percentage of the total pension liability		93.29	89.20	85.82

Schedule of Contributions
(As of current fiscal year-end)

PERS 2/3

(Dollar amounts in thousands)

		2015	2016	2017
Contractually required contribution	$	488	588	631
Contributions in relation to the contractually required contribution		488	593	631
Contribution deficiency (excess)		—	(5)	—
Intercollegiate Athletics' covered-employee payroll		5,302	5,295	5,640
Contributions as a percentage of covered-employee payroll		9.21 %	11.10 %	11.18 %

(Continued)

Schedule 1

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2017

Unaudited – See accompanying independent auditors' report

Schedule of Changes in Total Pension Liability
UW Supplemental Retirement Plan
(Dollars in thousands)

		2017
Total pension liability – beginning	$	5,503
Service cost		232
Interest on TPL		176
Difference between expected and actual experience		(873)
Change in assumptions		(333)
Change in proportion		467
Benefit payments		(60)
Total pension liability – ending	$	5,112
Total pension liability – ending	$	5,112
UWSRP covered-employee payroll		9,335
Total pension liability as percentage of covered-employee payroll		54.8%

Plans administered by DRS

Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in chapter 41.45 RCW. Consistent with the state’s contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 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.

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 that meets the criteria in GASB statement 73, paragraph 4 to pay related benefits.

Material assumption changes during the measurement period include updating the GASB 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%.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating and Other Revenue by Specific Function

Year ended June 30, 2017

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Administration and other	Total
Gate ticket sales revenue:							
Ticket sales for home events	$ 23,427,258	2,377,734	425,450	252,638	851,465	—	27,334,545
Admission taxes	(1,115,639)	(113,193)	(20,333)	(11,106)	(40,513)	—	(1,300,784)
Ticket-processing fees	380,931	30,256	31,165	3,776	21,419	—	467,547
	22,692,550	2,294,797	436,282	245,308	832,371	—	26,501,308
University's share of gate revenue for away games	—	—	—	1,500	6,000	—	7,500
Total gate ticket sales revenue	22,692,550	2,294,797	436,282	246,808	838,371	—	26,508,808
NCAA/conference distributions:							
PAC-12 television share	16,233,241	2,826,650	—	—	—	—	19,059,891
PAC-12 Rose/other bowl shares	7,457,883	—	—	—	—	—	7,457,883
Bowl Participation	2,624,000	—	—	—	—	—	2,624,000
NCAA MBB tournament	—	1,253,333	—	—	—	—	1,253,333
Football Pac-12 Championship Game	207,083	—	—	—	—	—	207,083
MBB PAC-12 tournament	—	66,667	—	—	—	—	66,667
Pac-12 Network Share	2,143,842	378,325	—	—	—	—	2,522,167
Other	—	—	—	—	—	2,713,519	2,713,519
Total NCAA/conference distributions	28,666,049	4,524,975	—	—	—	2,713,519	35,904,543
Royalties, advertisements, and sponsorships:							
Sponsorships	55,000	—	—	49,864	47,326	9,755,840	9,908,030
Donated advertising	—	—	—	—	—	2,793,110	2,793,110
Trademarks and licensing	—	—	—	—	—	832,593	832,593
Donated supplies	878,200	176,000	168,000	581,890	742,910	195,304	2,742,304
Total royalties, advertisements, and sponsorships	933,200	176,000	168,000	631,754	790,236	13,576,847	16,276,037
Contributions	26,131,819	2,327,028	122,485	634,723	770,199	5,381,023	35,367,277
Capital gifts	—	—	—	—	—	1,731,183	1,731,183
Gifts to permanent endowments	—	—	—	—	—	5,126,536	5,126,536
Gain on investments	—	—	—	—	—	6,826,617	6,826,617
Investment income, net	—	—	—	—	—	3,049,886	3,049,886
University funded tuition waivers	—	—	—	—	—	3,742,613	3,742,613
Concessions, souvenirs, parking, and boat moorage	2,623,055	118,390	90,130	15,508	33,046	818,905	3,699,034
Facility income	—	—	—	—	—	2,349,518	2,349,518
Settlement Agreement	—	—	—	—	—	1,030,000	1,030,000
Other	54,208	—	—	196,897	197,681	368,683	817,469
Total revenue	$ 81,100,881	9,441,190	816,897	1,725,690	2,629,533	46,715,330	142,429,521

See accompanying independent auditors' report.

Schedule 3

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating Expenses and Other Deductions by Specific Function

Year ended June 30, 2017

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Postseason activity	Administration	Facilities maintenance and event management	Department relations and visiting recruits	Total
Operating expenses:										
Salaries and wages	$ 9,768,806	5,772,494	1,129,145	2,450,720	3,310,647	955,135	10,903,084	2,053,227	38,789	36,382,047
Payroll taxes and employee benefits	2,210,452	798,748	324,444	722,413	951,270	97,600	2,555,360	661,119	170	8,321,576
Athletic student aid	3,689,270	554,487	629,975	2,480,508	4,650,954	—	1,125,859	—	80,686	13,211,739
Guarantees paid to visiting teams	1,750,000	627,000	104,000	36,500	5,000	—	—	—	—	2,522,500
Team travel	1,165,294	484,241	254,512	947,949	1,396,423	1,928,883	159,314	—	76,764	6,413,380
Day of game expenses	2,301,589	306,528	227,512	226,167	278,692	37,252	615,955	778,518	3,681,349	8,453,562
Direct facilities, maintenance, and utilities	151,016	—	—	60,774	80,285	—	3,071,852	1,280,720	—	4,644,647
Donated advertising	—	—	—	—	—	—	2,793,110	—	—	2,793,110
Uniforms and supplies	1,800,147	114,990	70,584	404,844	428,467	105,778	1,094,944	276,462	4,473	4,300,689
Donated supplies	878,200	176,000	168,000	581,890	742,910	—	153,000	—	—	2,700,000
Institutional overhead	—	—	—	—	—	—	2,417,014	—	—	2,417,014
Medical expenses	18,918	2,596	68	16,020	22,753	—	1,072,494	—	14,510	1,147,359
Fund-raising, marketing, and promotions	—	—	—	—	12,626	—	328,440	—	—	341,066
Recruiting	—	—	—	—	—	—	—	—	499,305	499,305
Equipment	—	—	—	—	—	—	—	5,763	—	5,763
Training table	1,106,602	26,811	13,577	169,646	239,108	64,862	218,365	—	1,013,824	2,852,795
Department relations	27,953	1,505	3,937	34,142	44,671	63,046	66,040	903	377,832	620,029
Banquets and special events	(660)	—	4,248	19,469	29,573	—	159,911	—	209,097	421,638
Depreciation	—	—	—	—	—	—	15,710,367	—	—	15,710,367
Noncapitalized equipment and repairs	—	—	—	—	—	—	—	1,747,866	—	1,747,866
Other	719,112	351,754	343,413	420,416	521,362	236,619	6,768,906	30,857	1,440,538	10,832,977
Total operating expenses	25,586,699	9,217,154	3,273,415	8,571,458	12,714,741	3,489,175	49,214,015	6,835,435	7,437,337	126,339,429
Other deductions:										
Loss on disposal of capital assets	—	—	—	—	—	—	—	1,683	—	1,683
Interest expense	—	—	—	—	—	—	11,543,469	—	—	11,543,469
Total other deductions	—	—	—	—	—	—	11,543,469	1,683	—	11,545,152
Total operating expenses and other deductions	$ 25,586,699	9,217,154	3,273,415	8,571,458	12,714,741	3,489,175	60,757,484	6,837,118	7,437,337	137,884,581

See accompanying independent auditors' report.

KPMG

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Financial Statements

June 30, 2017

(With Independent Auditors’ Report Thereon)

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The University of Washington
UW Medicine Board:

We have audited the accompanying financial statements of UW Medicine Clinical Enterprise – UW Division (the Group), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Emphasis of Matter

As discussed in note 1, the financial statements of the Group which are, divisions, departments and component units of the University of Washington (the University), are intended to present the net position, the changes in net position, and the cash flows of only that portion of the business-type activities of the University that are attributable to the transactions of the Group. They do not purport to, and do not, present fairly the net position of the University as of June 30, 2017, the change in its net position, or its cash flows for the year ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 2 to the financial statements, on July 1, 2016, the Group adopted new accounting guidance requiring governments providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, as well as recognizing most changes in the net pension liability within pension expense. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Group as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flow thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 through 16, and the schedules of required supplementary information on page 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Group's basic financial statements. The combining financial statements included on pages 56–57 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The combining financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Seattle, Washington
October 13, 2017

The following discussion and analysis provide an overview of the financial position and activities of the UW Medicine Clinical Enterprise – UW Division (the Group), for the years ended June 30, 2017 and 2016. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the audited financial statements and accompanying notes that follow this section.

The Group consists of divisions, departments, and component units of the University of Washington (the University) and includes: University of Washington Medical Center (UW Medical Center), UW Medicine/Northwest dba Northwest Hospital & Medical Center (Northwest Hospital), UW Physicians Network dba UW Neighborhood Clinics (Neighborhood Clinics), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift) and shared service departments that support the entire UW Medicine enterprise. Also part of UW Medicine, but not included in these financial statements, are Harborview Medical Center (Harborview) as operated and managed by the University under the Hospital Services Agreement between King County and the University, Public Hospital District No. 1 of King County, Washington dba Valley Medical Center (VMC), and the University of Washington School of Medicine (the School).

Using the Financial Statements

The Group's financial statements consist of three statements: statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows. These financial statements and related notes provide information about the activities of the Group, including resources held by the Group but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

The statement of revenues, expenses, and changes in net position reports all revenues, expenses, and other activity affecting net position during the time period indicated. Net position, the difference between assets and liabilities, is one way to measure the financial health of the Group and whether the organization has been able to recover all costs through net patient service revenue and other revenue sources.

The statement of cash flows reports the cash provided by the Group's operating activities, as well as other cash sources such as investment income, cash payments for capital additions and improvements, and payments for debt service, interest payments, and funding to affiliates. The statement provides meaningful information on how the Group's cash was generated and what it was used for.

(Continued)

(Dollar amounts in thousands)

Financial Highlights for Fiscal Year 2017

The Group reported a loss from operations of $65,302 and a decrease in net position of $66,449 for the year ended June 30, 2017 compared to an operating loss of $39,188 and a decrease in net position of $34,095 for the year ended June 30, 2016. The decrease in operating income is due to a deterioration in payer mix and commercial reimbursement as well as an increase in labor and purchased services expense. UW Medical Center continued construction of the Montlake Tower and Northwest Hospital expanded primary care services and opened the UW Medicine Kidney Stone Center, which led to higher operating expenses for the Group.

		2017	2016
Operating revenues	$	1,968,019	1,898,148
Operating expenses		2,033,321	1,937,336
Loss from operations		(65,302)	(39,188)
Investment income, net		8,116	7,190
Interest expense		(17,951)	(15,905)
Other, net		7,632	16,759
Nonoperating (expenses) revenues		(2,203)	8,044
Loss before capital contributions and other transfers		(67,505)	(31,144)
Capital contributions and other transfers		1,056	(2,951)
Decrease in net position		(66,449)	(34,095)
Net position, beginning of year		561,901	595,996
Cumulative effect of change in accounting principle		(25,378)	—
Net position, beginning of year, as adjusted		536,523	595,996
Net position, end of year	$	470,074	561,901

(Continued)

(Dollar amounts in thousands)

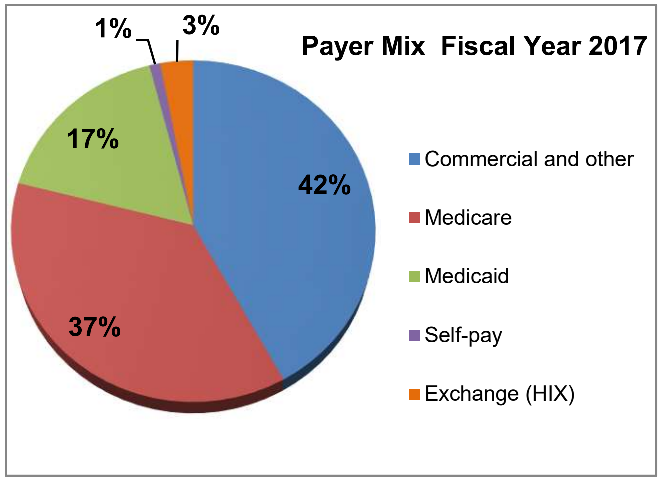
The following chart represents key statistics of the Group:

	2017	2016
Licensed beds	810	810
Admissions	28,909	28,422
Patient days	181,778	181,021
Average length of stay	6.29	6.37
Case mix index (CMI) – UW Medical Center	2.25	2.24
Case mix index (CMI) – Northwest Hospital	1.53	1.50
Surgery cases	26,827	25,802
Emergency room visits	61,880	61,623
Primary and Urgent care clinic visits	418,184	380,627
Specialty care clinic visits	435,261	437,341
Full-time equivalents (FTEs)	8,789	8,595
Births	3,109	3,154
Solid organ transplants	356	326
RVU Volume	6,573,028	6,182,988
Airlift flights	3,639	3,379

Operating Revenues

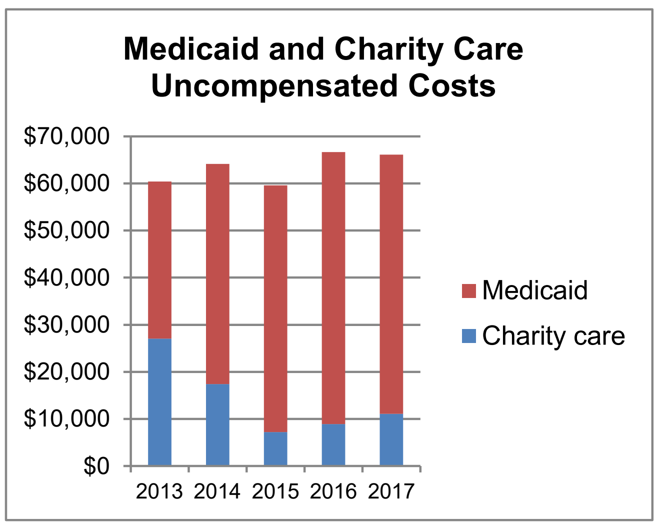
Operating revenues consist primarily of net patient service revenues, UWP billing revenues, net, and other revenue. Net patient service revenue is recorded based on standard billing rates less contractual adjustments, charity, and a provision for uncollectible accounts. The Group has agreements with federal and state agencies, and commercial insurers that provide for payments at amounts different from gross charges. The Group provides care at no charge to patients who qualify under the Group's charity policy. The Group also estimates the amount of patient responsibility accounts receivable that will become uncollectible, which is reported as a reduction of net patient service revenue. The difference between gross charges and the estimated net realizable amounts from payers and patients is recorded as an adjustment to charges. The resulting net patient service revenues are shown in the statements of revenues, expenses, and changes in net position.

Net patient service revenues includes inpatient, outpatient and flight revenue. Outpatient revenue consists of hospital-based and ambulatory revenue. UWP billing revenues is limited to its operating expenses based on the operating agreement between the University and UWP. Other revenue comprise of revenues from activities such as contract pharmacy, parking, and cafeteria sales.



The Group's payer mix is a key factor in the overall financial operating performance. The chart to the right illustrates payer mix for 2017. For the years ended June 30, 2017 and 2016, commercial revenue represented 42% and 43%, Medicare revenue represented 37%, Medicaid revenue represented 17% and 18%, Self-pay revenue represented 1%, and Exchange revenue represented 3% and 1%, respectively.

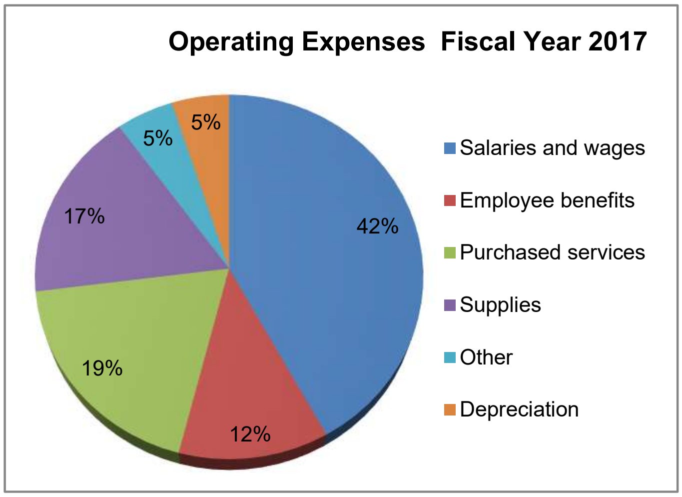
As a result of the Affordable Care Act, UW Medical Center and Northwest Hospital experienced a decrease in uninsured patients after January 1, 2014 as many patients who previously qualified for charity care now qualify for Medicaid coverage. However, UW Medical Center and Northwest Hospital has seen a corresponding increase in uncompensated care costs related to providing care to Medicaid patients. Uncompensated care costs as illustrated in the chart to the right represent cost in excess of payments for Medicaid and charity care patients. This chart does not include all uncompensated costs such as providing care to Medicare patients.



Reimbursement from governmental payers is below commercial rates and reimbursement rules are both complex and subject to interpretation and settlements.

For the years ended June 30, 2017 and 2016, the Group's total operating revenues was $1,968,019 and $1,898,148, comprising of $1,522,066 and $1,483,561 in net patient service revenues, $250,339 and $230,641 in UWP billing revenues, net, and $195,614 and $183,946 in other revenues, respectively. The increase in operating revenues between fiscal years 2017 and 2016 was driven by greater volumes, case acuity and price increases which increased net patient service revenue, as well as an increase in relative value units (RVUs) which increased UWP billing revenues. Greater contract pharmacy and an increase in revenues for services provided to non-Group entities increased other revenue in fiscal year 2017.

Operating Expenses



Operating expenses were $2,033,321 for the fiscal year 2017 compared to $1,937,336 for the fiscal year 2016. The composition of fiscal year 2017 operating expenses is illustrated in the chart to the left.

Salaries and wages expense increased $52,391 from $809,173 in fiscal year 2016 to $861,564 in fiscal year 2017. The increase in salaries and wages expense in fiscal year 2017 was primarily driven by an increase in FTEs and employee salary increases.

Employee benefits expense increased $13,800 from $229,055 in fiscal year 2016 to $242,855 in fiscal year 2017. Employee benefit expense increased as a result of an increase in FTE's and greater pension related expenses as calculated under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*. Between fiscal years 2016 and 2017, the University benefit load rate for classified employees decreased by 1.5% for the University employees within the Group. The benefit load rate increased by 2.2% for classified employees in fiscal year 2018.

Purchased services expense, consisting of professional fees, consulting fees, and School faculty funding, increased $23,441 from $368,494 in fiscal year 2016 to $391,935 in fiscal year 2017. The increase in purchased services expense between fiscal year 2017 and 2016 is attributed to an increase in the School faculty funding expense, physician fees paid to physicians providing services to the Group, but not employed by the Group, aviation expense, and information technology (IT) expense.

Supplies expense includes medical and surgical supplies, pharmaceutical supplies, and nonmedical supplies. In total, these expenses increased $6,496 from $346,298 in fiscal year 2016 to $352,794 in fiscal year 2017. The increase was a result of higher costs for organs and bone marrow, prosthesis, surgical supplies, and other medical expenses as a result of the higher surgical, transplant volume and acuity.

Other expense includes insurance, taxes, rent and other expenses. Other expenses decreased $6,151 from $97,540 in fiscal year 2016 to $91,389 in fiscal year 2017. The decrease in other expenses is due to adjustments to pension related expenses as calculated under GASB Statement No. 68.

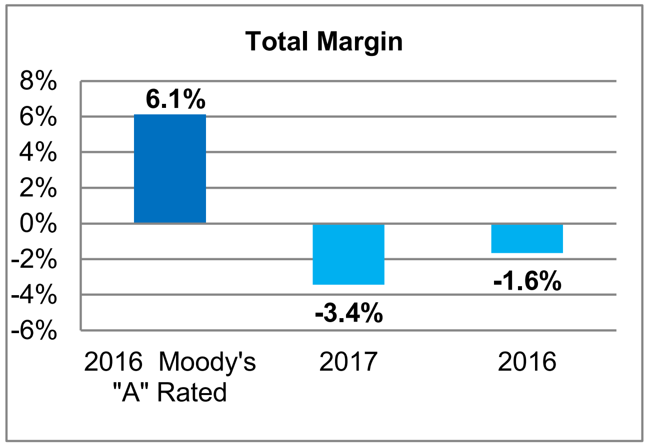
Depreciation expense increased $6,008 from $86,776 in fiscal year 2016 to $92,784 in fiscal year 2017. The UW Medicine ITS entity, as defined in note 1 to the financial statements, was formed in fiscal year 2014. UW Medicine ITS owns certain assets and, accordingly recognizes depreciation expense on these assets. Assets have an average estimated economic useful life of five years.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consists primarily of investment income, interest expense, intergovernmental transfer expense, equity earnings from the investment in Seattle Cancer Care Alliance (SCCA), and strategic funding from and to other UW Medicine entities. In 2017, net nonoperating revenues (expenses) decreased $10,247 from $8,044 in fiscal year 2016 to $(2,203) in fiscal year 2017. The decrease in net nonoperating revenues (expenses) is attributable to a decrease in equity earnings from SCCA, lower strategic funding from other UW Medicine entities as well as an increase in interest expense.

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue that has been realized in the form of net income (loss before capital contributions and other transfers) and is a common measure of total hospital profitability. Total margin for the fiscal years 2017 and 2016 compared to Moody's median is illustrated in the chart to the right.



(Dollar amounts in thousands)

Financial Analysis

Statements of Net Position

The table below is a presentation of certain condensed financial information derived from the Group's statements of net position as of June 30, 2017 and 2016:

		2017	2016
Current assets	$	370,400	367,143
Noncurrent assets:			
Capital assets, at cost, net of accumulated depreciation		740,245	742,593
Funds held by the University of Washington		173,034	243,917
Investments		146,192	142,913
Investment in Seattle Cancer Care Alliance		142,147	126,636
Other assets		29,318	10,692
Total assets		1,601,336	1,633,894
Deferred outflow of resources		95,556	66,826
Total assets and deferred outflow of resources	$	1,696,892	1,700,720
Current liabilities		395,031	406,813
Noncurrent liabilities		444,515	417,518
Pension liabilities		373,650	272,867
Total liabilities		1,213,196	1,097,198
Deferred inflow of resources		13,622	41,621
Net position		470,074	561,901
Total liabilities and net position	$	1,696,892	1,700,720

Total assets and deferred outflow of resources are $1,696,892 at June 30, 2017 compared to $1,700,720 at June 30, 2016 representing a decrease of $3,828. Significant events occurring within total assets during fiscal year 2017 include an increase in the investment in SCCA as a result of the Group's proportionate share of its earnings, an increase in other assets and deferred outflow of resources as a result of implementing GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Ammendments to Certain Provisions of GASB Statements 67 and 68* (GASB Statement No. 73), offset by a decrease in funds held by the University. The change in pension liabilities was driven by updated actuarial assumptions and the recording of the University of Washington Supplemental Retirement Plan (UWSRP) as required by GASB Statement No. 73.

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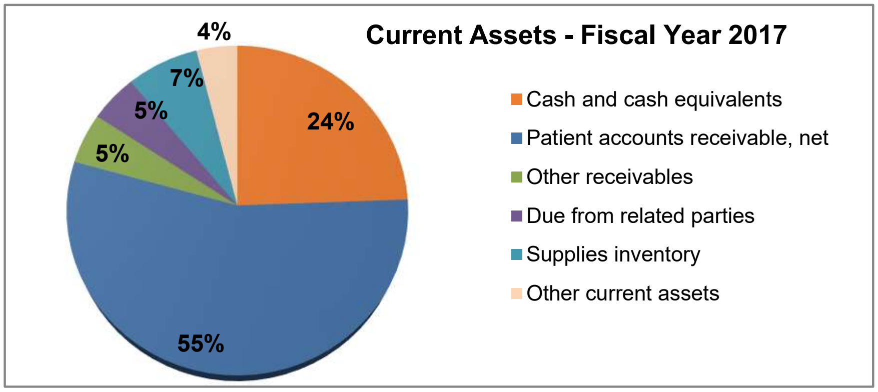
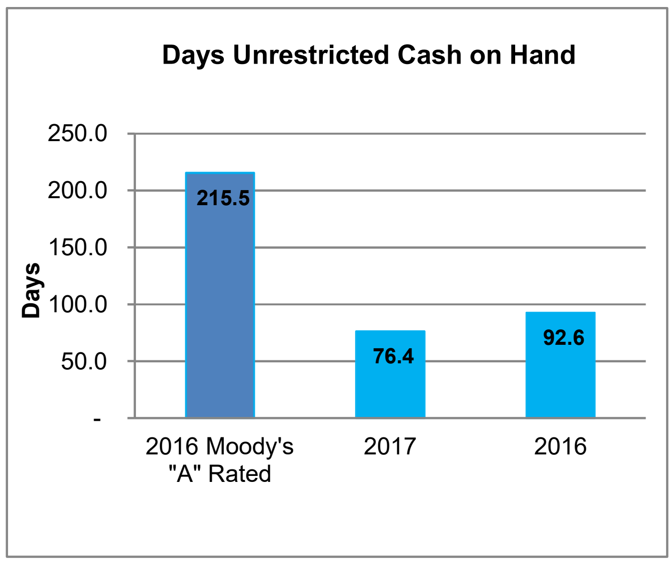
Current Assets



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

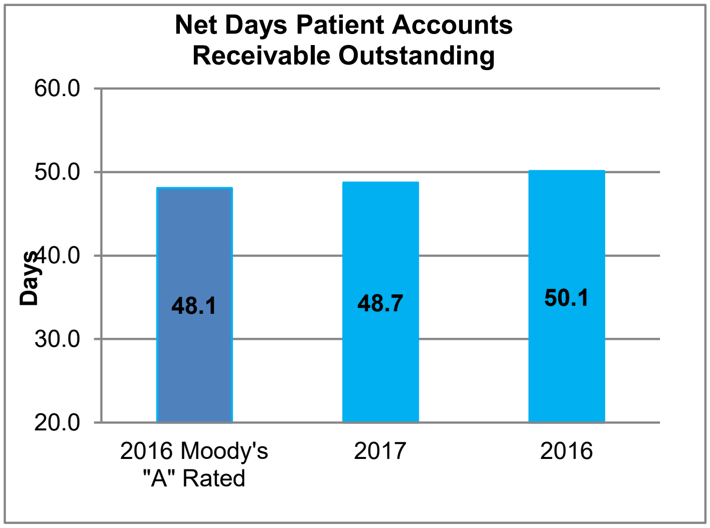
Fiscal year 2017 composition of current assets is illustrated in the chart to the left.

Cash and Cash Equivalents represent cash and funds held by the University on behalf of the Group that are considered cash equivalents. Cash and cash equivalents increased $4,981 from $85,492 at June 30, 2016 to $90,473 at June 30, 2017. The increases in cash and cash equivalents are primarily driven by a decrease in noncurrent funds held by the University for UW Medical Center who used those funds for operations during fiscal year 2017.



Days unrestricted cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days unrestricted cash on hand (including noncurrent funds) as of June 30 for fiscal years 2017 and 2016 as compared to Moody's median rating are illustrated in the chart to the right.

The Group's total days unrestricted cash on hand, decreased from 92.6 days at June 30, 2016 to 76.4 days at June 30, 2017. The decrease in 2017 was a result of the Group's higher operating expenses as a result of increased labor expenses. Net revenue expressed as a percentage of gross charges represents the portion of gross charges expected to be realized in cash. The Group experienced a decrease in the realization rate from 40.5% in 2016 to 39.0% in 2017.



Net patient accounts receivable was $203,235 as of June 30, 2017, compared to $203,187 as of June 30, 2016. Net patient accounts receivable was consistent with the prior year through a continued focus on billing and collection activities within the Group.

Net days patient accounts receivable outstanding illustrates an organization's ability to convert net patient service revenue to cash. Net days patient accounts receivable outstanding as of June 30 for fiscal years 2017 and 2016 as compared to Moody's median rating are illustrated in the chart to the left.

The Group's total net days patient accounts receivable outstanding decreased 1.4 days from 50.1 days at June 30, 2016 to 48.7 days at June 30, 2017. The decrease during fiscal year 2017 was due to a continued focus on revenue cycle initiatives that improved billing and collection activities.

As of June 30, 2017 and 2016, 46% and 42% of the gross patient accounts receivable balance are due from commercial payors, and 47% and 51% are due from governmental payers Medicare and Medicaid, respectively. In each year, self-pay and exchange payers comprised 5% and 2% of gross accounts receivable, respectively.

Other receivables consist of amounts due from external parties for supplies and services. Other receivables increased $1,023 from $17,324 at June 30, 2016 to $18,347 at June 30, 2017. In fiscal year 2017, the increase in other receivables was driven by an increase in pharmaceutical supplies provided to SCCA by the Group.

Due from related parties consists of amounts due for services provided to Harborview, VMC, and the School. Due from related parties decreased $7,259 from $24,599 at June 30, 2016 to $17,340 at June 30, 2017. The decrease in 2017 relates to the timing of payments between the Group, Harborview and the School.

Noncurrent Assets

Capital assets, at cost, net of accumulated depreciation decreased $2,348 during fiscal year 2017 from $742,593 at June 30, 2016 to $740,245 at June 30, 2017. The decrease in 2017 is driven by reduced construction costs for the Montlake Tower, as the project is near completion as well as lower investment in information technology projects.

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

Funds held by the University represent funds invested with the University classified as a noncurrent asset by the Group. Through the University's investment program, the Group receives a rate of return representative of a portion of fund performance. For fiscal years 2017 and 2016, the program generated a rate of return of 1.0%

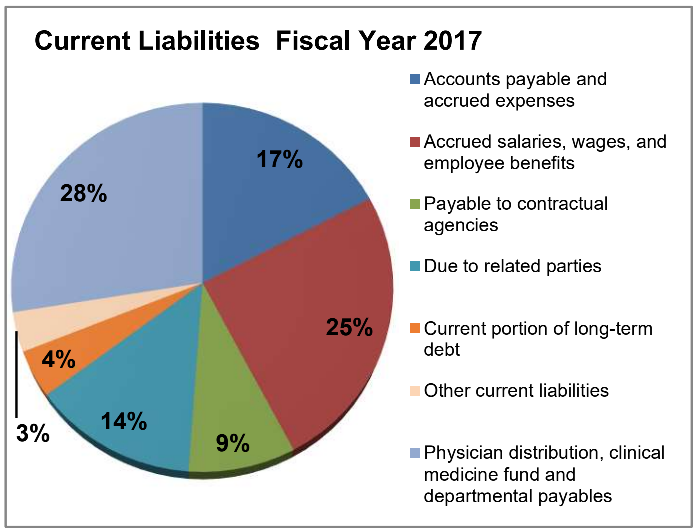
and 2.0%, respectively, on the Group's assets. Noncurrent funds held by the University decreased by $70,883 in fiscal year 2017 as a result of utilizing these funds for operations.

Investments represents investments held by the Group for capital improvements and replacements, those restricted for certain other purposes and investments held for the benefit of the School. Investments increased $3,279 from $142,913 at June 30, 2016 to $146,192 at June 30, 2017. The increase in investments was a result of positive investment portfolio performance during fiscal year 2017.

Investment in SCCA represents UW Medical Center's interest in SCCA, representing a 33.3% ownership. UW Medical Center accounts for its interest in the SCCA using the equity method of accounting. Investment in SCCA increased $15,511 from $126,636 at June 30, 2016 to $142,147 at June 30, 2017. Changes in the investment value reflect UW Medical Center's proportionate interest in the change in net assets of SCCA. The increase in 2017 was attributable to SCCA's positive operational and investment performance.

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within a year. Total current liabilities were $395,031 at June 30, 2017 compared to $406,813 at June 30, 2016. Fiscal year 2017 composition of current liabilities is illustrated in the chart to the right.



Accounts payable and accrued expenses decreased $36 from $68,693 at June 30, 2016 to $68,657 at June 30, 2017. Changes in accounts payable and accrued expenses are primarily the result of timing of payments to vendors.

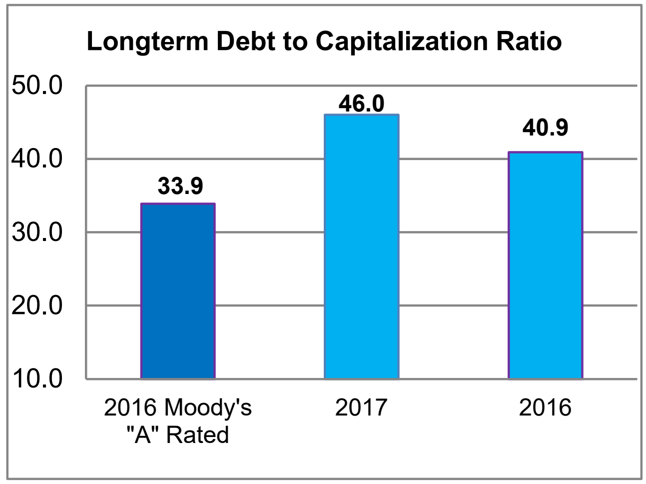
Accrued salaries, wages, and employee benefits decreased $3,127 from $101,565 at June 30, 2016 to $98,438 at June 30, 2017. Changes in accrued salaries, wages, and employee benefits were a result of the timing of bi-weekly payroll for Northwest Hospital, as fiscal year 2016 had an accrual for a two-week pay period while fiscal year 2017 paid employees on the last day of the fiscal year.

Due to related parties consists of amounts due for services provided to the Group by the School, the University, and other affiliates. Due to related parties decreased $19,175 from $73,209 at June 30, 2016 to $54,034 at June 30, 2017. The decrease in 2017 was driven by timing of payments between related parties.

Physician distribution, clinical medicine fund, and departmental payables consist of receipts collected by UWP that are allocated and distributed to the physicians, the clinical medicine fund, and departmental payables for the benefit of the School. The payable increased $11,379 from $97,416 at June 30, 2016 to $108,795 at June 30, 2017. The increase in the payables was due to favorable investment returns of $9,555 and cash collections in excess of distributions paid on behalf of the School as defined by the income distribution plan.

Noncurrent Liabilities

Noncurrent liabilities consist primarily of the noncurrent portion of long-term debt, pension liabilities and other noncurrent liabilities.



Long-term debt, including current portion, increased $10,255 from $385,722 at June 30, 2016 to $395,977 at June 30, 2017. The increase in long-term debt was due to the construction of the Montlake Tower, which was financed through the University's Internal Lending Program (ILP). The increase in long-term debt is offset by the Group's principal payments made in accordance with debt repayment schedules.

Long-term debt to capitalization is a ratio used to assess the capital structure of healthcare organizations. The chart above shows the long-term debt to capitalization ratio as of June 30 for 2017 and 2016 as compared to Moody's median rating. The Group's long-term debt to capitalization ratio increased from 40.9% in fiscal year 2016 to 46.0% in fiscal year 2017 as a result of additional debt borrowings of $29,403 and a decrease in unrestricted net assets.

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

Pension Liabilities

The University has a financial responsibility for pension benefits associated with the Public Employees' Retirement System (PERS) defined-benefit plans (as described in note 10(b)), which include those University employees deployed within the Group. Net pension liability and the respective deferred outflow and inflow of resources are determined by the State of Washington's Department of Retirement Systems (DRS) actuarial report. Net pension liability, deferred outflow, and deferred inflow of resources are allocated to the Group based on its proportionate share of employer contributions for the fiscal year. At June 30, 2017 and 2016, respectively, net pension liability of $336,735 and $272,867, deferred outflow of resources of $88,417 and $60,760, and deferred inflow of resources of $5,996 and $41,621 were recorded on the statement of net position. Additional discussion regarding pension liabilities can be found in the notes to the financial statements.

The University has a financial responsibility for the supplemental payment component associated with the University of Washington Supplemental Retirement Plan (UWSRP) defined-benefit plan (as described in note 10(c)), which includes those University employees deployed within the Group. In 2017, the University was required to implement GASB Statement No. 73, which required the University to recognize the remaining unamortized pension liability for UWSRP, together with any deferred inflows and outflows of resources. The Group's beginning net position for fiscal year 2017 has been restated for its proportionate share of the University's assets and pension liability related to this plan. Beginning net position decreased by $25,378 as a result of adopting this standard. Total pension liability and the respective deferred outflow and inflow of resources are determined by the actuarial report. Total pension liability, deferred outflow and inflow of resources, and other assets are allocated to the Group based on its proportionate share of employer contributions for the fiscal year. At June 30, 2017, the Group recorded total pension liability of $36,915, deferred outflow of resources of $1,443, deferred inflow of resources of $7,626 and other assets of $19,417 were recorded on the statement of net position. Additional discussion regarding pension liabilities can be found in the notes to the financial statements.

Factors Affecting the Future

Economic Uncertainty Facing the Healthcare Industry

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 Group's future revenues and operations. Changes to the ACA are likely to significantly impact UW Medicine.

However, we believe that our ultimate success in increasing profitability depends in part on our success in executing our strategies. In general, these strategies are intended to improve financial performance through the reduction of costs and streamlining how we provide clinical care, as well as mitigating the recent negative reimbursement trends being experienced within the market. With a continued focus on patient volumes shifting from inpatient to outpatient settings due to technological advancements and demand for care that is more convenient, affordable and accessible as well as the industry-wide migration to value-based payment models as government and private payers shift risk to providers, the Group's success at managing costs and delivering care efficiently is paramount.

UW Medicine/MultiCare Alliance

In July 2017, UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance that will expand access to high-quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. Through the alliance, UW Medicine and MultiCare will provide cost-effective and clinically integrated healthcare in communities throughout the Puget Sound region while supporting the education of the next generation of clinicians and advancing research. The parties' joint activities will be guided by four core principles: the provision of high-quality, patient-centered care; a commitment to teaching and research; ensuring strong financial stewardship to deliver value to the payers of healthcare services; and a focus on improving the health of populations served by the alliance.

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UW Medicine Accountable Care Network

In 2014, UW Medicine formed an Accountable Care Network (ACN) with other selected healthcare organizations and healthcare professionals in Western Washington to form a care delivery network to assume responsibility for the healthcare of contracted 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 (HCA) 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. This contract with HCA covering PEBB members began January 1, 2016.
- A subset of the network members have also agreed to participate with the ACN in a contract with Premera as part of its 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 is not at risk for the AHS product in 2016 and 2017.
- The UW Medicine ACN also entered into an agreement to provide health care 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.

Employee Costs

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University and the Group, in particular where University employees are deployed at certain entities within the Group. Employer pension funding rates for the PERS pension plans were mostly unchanged in fiscal year 2017 at 11.2% of covered salary, but will be increasing to 12.5% of covered salary in fiscal year 2018. The monthly employer base rate paid by the University and the Group for employee healthcare, however, increased 5.7% during fiscal year 2017, from $840 to $888 per active employee, and will be increasing to $913 per active employee during fiscal year 2018. Both rates are likely to continue increasing over the next few years.

(Continued)

Montlake Tower Expansion Project

In February 2008, the University board of regents granted approval to proceed with phase one of a multiphase inpatient expansion known as the Montlake Tower. The scope of phase one included the vertical shell for the entire eight-floor expansion as well as a new neonatal intensive care unit, an adult oncology and blood and bone marrow transplant unit, additional diagnostic imaging capacity, and future operating room capacity. In July 2012, phase one was substantially completed and operational components of phase one began servicing patients in October 2012. Total cost of phase one was $210,400, which was primarily funded through borrowings from the University ILP. In November 2012, the University board of regents granted approval to proceed with phase two of the Montlake Tower project. The scope of phase two completed three inpatient floors, including the addition of intensive care and medical/surgical beds as well as additional operating rooms. The estimated cost of phase two was initially projected and approved at $186,300. As part of the approval, the Board of Regents authorized funding from the University ILP up to $136,100, with the remaining $50,200 of anticipated cost to be funded through hospital operations and/or cash reserves. UW Medical Center completed the borrowing of all ILP funds during fiscal year 2017. Construction on the remaining phase two project segment began in 2017 and is expected to be completed by April 2018, with an estimated construction cost to complete of $22,600.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statement of Net Position

June 30, 2017

(Dollar amounts in thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	37,753
Funds held by the University of Washington		52,720
Patient accounts receivable, less allowance for uncollectible accounts of $18,860		203,235
Other receivables		18,347
Due from related parties		17,340
Supplies inventory		26,224
Restricted investments		1,482
Other current assets		13,299
Total current assets		370,400
Noncurrent assets:		
Capital assets, at cost, net of accumulated depreciation		740,245
Funds held by the University of Washington		173,034
Investments		146,192
Donor restricted assets		3,842
Investment in Seattle Cancer Care Alliance		142,147
Other assets		25,476
Total noncurrent assets		1,230,936
Total assets		1,601,336
Deferred outflow of resources:		
Deferred outflow of resources related to pensions		89,860
Deferred loss on refinancing		5,696
Total assets and deferred outflow of resources	$	1,696,892
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$	68,657
Accrued salaries, wages, and employee benefits		98,438
Payable to contractual agencies		34,927
Due to related parties		54,034
Current portion of long-term debt		16,462
Other current liabilities		13,718
Physician distribution, clinical medicine fund, and departmental payables		108,795
Total current liabilities		395,031
Noncurrent liabilities:		
Long-term debt, net of current portion		379,515
Pension liabilities		373,650
Due to related parties – long-term		31,458
Other noncurrent liabilities		33,542
Total liabilities		1,213,196
Deferred inflow of resources:		
Deferred inflow of resources related to pensions		13,622
Net position:		
Net investment in capital assets		342,019
Nonexpendable, restricted		2,085
Expendable, restricted		3,442
Unrestricted		122,528
Total net position		470,074
Total liabilities, deferred inflow of resources, and net position	$	1,696,892

See accompanying notes to financial statements.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2017

(Dollar amounts in thousands)

Operating revenues:		
Net patient service revenues (net of provision for uncollectible accounts of $23,929)	$	1,522,066
UWP billing revenues, net		250,339
Other revenue		195,614
Total operating revenues		1,968,019
Operating expenses:		
Salaries and wages		861,564
Employee benefits		242,855
Purchased services		391,935
Supplies		352,794
Other		91,389
Depreciation		92,784
Total operating expenses		2,033,321
Loss from operations		(65,302)
Nonoperating revenues (expenses):		
Investment income		8,116
Interest expense		(17,951)
Funding to affiliates		(11,560)
Funding from affiliates		1,667
Other, net		17,525
Nonoperating expenses		(2,203)
Loss before capital contributions and other transfers		(67,505)
Capital contributions and other transfers		1,056
Decrease in net position		(66,449)
Net position – beginning of year, as issued		561,901
Cumulative effect of change in accounting principle		(25,378)
Net position – beginning of the year, as adjusted		536,523
Net position – end of year	$	470,074

See accompanying notes to financial statements.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statement of Cash Flows

Year ended June 30, 2017

(Dollar amounts in thousands)

Cash flows from operating activities:	
Cash received for patient care	$ 1,524,634
Cash received for UWP billing revenues	240,374
Cash received for other services	201,044
Cash paid to employees	(1,107,903)
Cash paid to suppliers and others	(840,787)
Net cash provided by operating activities	17,362
Cash flows from noncapital financing activities:	
Funding to affiliates, net	(9,893)
Additions to clinical medicine fund and departmental payables	11,789
Other, net	1,321
Net cash provided by noncapital financing activities	3,217
Cash flows from capital and related financing activities:	
Proceeds from borrowings	29,232
Purchases of capital assets	(93,826)
Principal payments on long-term debt	(19,148)
Interest payments on long-term debt, net of amounts capitalized	(17,413)
Funding from affiliates for capital purchases	255
Net cash used in capital and related financing activities	(100,900)
Cash flows from investing activities:	
Proceeds from sale of investments	57,358
Purchases of investments	(48,821)
Change in funds held by the University and donor restricted assets	70,982
Investment income	6,516
Distributions from joint ventures	45
Net cash provided by investing activities	86,080
Increase in cash and cash equivalents	5,759
Cash and cash equivalents, beginning of year	84,714
Cash and cash equivalents, end of year	$ 90,473
Reconciliation of loss from operations to net cash provided by operating activities:	
Loss from operations	$ (65,302)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	92,784
Provision for uncollectible accounts	23,929
Loss on disposal of capital assets	3,470
Investment income	(9,555)
UWSRP pension plan adjustment	(943)
Net increase (decrease) in operating activities:	
Patient accounts receivable	(23,760)
Other receivables	(1,098)
Due from related parties	7,259
Other current assets and other assets	(3,528)
Pension related deferred inflows, deferred outflows, and net pension liability	586
Accounts payable and accrued expenses	310
Accrued salaries, wages, and employee benefits	(3,127)
Due to related parties	(7,170)
Payable to contractual agencies and other current liabilities	1,534
Physician distribution payable	(410)
Noncurrent liabilities	2,383
Net cash provided by operating activities	$ 17,362
Supplemental disclosures of noncash investing, capital, and financing activities:	
Change in capital assets included in accounts payable	$ (346)
Capital contributions	355

See accompanying notes to financial statements.

(1) Organization

The UW Medicine Clinical Enterprise – UW Division (the Group) is comprised of UW Medicine clinical entities which are divisions, departments and component units of the University of Washington (an agency of the State of Washington) (the University). The Group includes the University of Washington Medical Center (UW Medical Center), UW Medicine/Northwest dba Northwest Hospital & Medical Center (Northwest Hospital), UW Physicians Network dba UW Neighborhood Clinics (Neighborhood Clinics), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift), and UW Medicine Shared Services.

UW Medicine is governed and administered as an enterprise of the University whose mission is to improve the health of the public. UW Medicine also strives to facilitate the education of physicians and other health care providers, support research activities in collaboration with the University School of Medicine (the School) and render other services designed to achieve the "Triple Aim" which is to improve the healthcare experience for the individual, improve health of the population, and provide more affordable care.

The UW Medicine Board (the Board) consists of community leaders appointed by the University of Washington Board of Regents. The UW Medicine Board advises and assists the chief executive officer and the dean of the School of Medicine in strategic planning and oversight of programs across the entities including Harborview Medical Center, the School, UW Medical Center, the Neighborhood Clinics, UWP, Northwest Hospital, Valley Medical Center, and Airlift, collectively, UW Medicine.

Harborview Medical Center (Harborview), a discretely presented component unit of King County, Washington and a related party to the University, is not reflected as part of the Group financial reporting entity.

Valley Medical Center (VMC), a Washington public hospital district, is a discretely presented component unit of the University, is not reflected as part of the Group financial reporting entity.

The School is a public medical school affiliated with the University but is not reflected as part of the Group financial reporting entity.

UW Medical Center

UW Medical Center is a 529 licensed-bed hospital and is a division of the University. Authority for specified governance functions of UW Medical Center has been delegated by the Board of Regents (the Regents) to the Board as specified in the Board's bylaws, originally adopted by the Regents in 1976 and amended in February 2000. UW Medical Center operates under the direction of the executive director, who is accountable to the Board and UW Medicine's chief health system officer for management of the facility.

Northwest Hospital

Northwest Hospital is a Washington not-for-profit corporation, incorporated in 1949, whose sole corporate member is the University. Northwest Hospital is a component unit of the University. Northwest Hospital is a 281 licensed-bed, full-service medical facility primarily serving the healthcare needs of the residents of King and Snohomish counties in Washington. Authority for specified governance functions of Northwest Hospital has been delegated to Northwest Hospital's Board of Trustees. Northwest Hospital operates under the direction of the Executive Director, who is accountable to the Board and UW Medicine's Chief Health System Officer for management of the facility.

UWP

UWP, a Washington not-for-profit corporation and component unit of the University, was formed on August 30, 1983, for the exclusive benefit of the School. UWP employs the School faculty and bills and collects for their clinical services as an agent for the School. All revenues after payment of operating expenses and physician salaries are held for the benefit of the School under the Operating Agreement between UWP and the University (note 8).

Airlift

Airlift provides rapid emergency air transport services through one owned and eleven leased aircraft to critically ill or injured patients throughout Washington, Alaska, Montana, and Idaho. Airlift has been a division of the University since 2010. Airlift operates under the direction of the executive director, who is accountable to the Board and UW Medicine's chief health system officer for the management of the facility.

Neighborhood Clinics

The Neighborhood Clinics, a Washington not-for-profit corporation and component unit of the University was formed in 1996. The Neighborhood Clinics was established for the benefit of the School, UWP, and its affiliated medical centers, exclusively for charitable, scientific, and educational purposes. The Neighborhood Clinics was organized to coordinate and develop patient care in a community clinical setting to enhance the academic environment of the School by providing additional sites of primary care practice and training for faculty, residents, and students.

UW Medicine Shared Services

UW Medicine Shared Services is comprised of a number of functions within the University, established for the purpose of providing scalable administrative and information technology (IT) support services for UW Medicine. These functions include IT services, revenue cycle, finance and accounting, supply chain, contracting, and the University of Washington Consolidated Laundry.

(2) Summary of Significant Accounting Principles

(a) Accounting Standards

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

(Dollar amounts in thousands)

(b) Basis of Accounting

The Group's financial statements have been prepared using the accrual basis of accounting with the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

(c) Use of Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the Group's financial statements include patient accounts receivable allowances and third-party payer settlements.

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less at the date of purchase, excluding amounts whose use is limited by board designation. As of June 30, 2017, approximately $37,495 was held in cash and $258 was held in cash equivalents. Cash deposits of up to $250 are fully insured by the Federal Depository Insurance Corporation.

(e) Funds Held by the University of Washington

Operating and capital funds for certain entities within the Group are invested directly with the University. All balances are available on demand and are stated at carrying value. In exchange, the University offers a stipulated rate of return determined at the end of the reporting period by the University based on pooled investment performance and the University's reserve fund goals. For fiscal year 2017, the rate returned was 1.0% and $2,371 in investment income.

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

Pooled investments held on behalf of the Group by the University are recorded at the Group's share of the carrying value of the University's cash and liquidity pools. The Cash and Liquidity Pools were invested as follows at June 30, 2017:

Cash and cash equivalents	6.2 %
U.S. Treasuries and agencies	69.0
Mortgage related securities	8.6
Asset-backed debt securities	6.7
Corporate and other fixed income	9.5
Total	100.0 %

Concentrations of credit risk consist of pooled investments held on behalf of the Group at the University.

(f) Investments

Northwest Hospital and UWP hold investments in the form of equity securities, fixed-income securities, and government obligations. Fair value is determined based on quoted market prices. Investment income, including realized and unrealized gains or losses, is reported as nonoperating revenue or expense. For UWP, investment income (including realized and unrealized gains and losses on investments) is a component of revenues as presented in note 2(r).

(g) Inventories

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

(h) Capital Assets

Capital assets are stated at cost at acquisition or if acquired by gift, at fair value at the date of the gift. Additions, replacements, major repairs, and major renovations are capitalized. Maintenance and repairs are expensed. The cost of the capital assets sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded in other nonoperating expense in the statement of revenues, expenses, and changes in net position.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are generally 5 to 25 years for land improvements, 10 to 40 years for buildings, renovations, and furnishings, 5 to 25 years for fixed equipment, 3 to 20 years for movable equipment, and 3 to 5 years for software.

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

Interest is capitalized on large construction projects as a cost of the related project, beginning with commencement of construction and ceases when the construction period ends and the related asset is placed in service. Interest capitalized during 2017 was $504 and is recorded in capital assets.

(i) UW Medicine IT Services

Harborview provides advance funding to UW Medicine IT Services which entitles Harborview access to the enterprise-wide IT software and services. UW Medicine ITS records the funding as unearned revenue. The unearned revenue is reported within other current liabilities and other noncurrent liabilities on the statement of net position. At June 30, 2017, $9,500 is recorded in other current liabilities and $20,757 is recorded in other noncurrent liabilities.

(j) Compensated Absences

Compensated absences represent the liability for employees with accumulated leave balances earned through various leave programs. These amounts would be payable if an employee terminated employment. Employees earn leave at varying rates depending upon their years of service and the leave plan in which they participate. Annual and sick leave accrued at June 30, 2017 is $56,532. Compensated absences are reported within the accrued salaries, wages, and employee benefits on the statement of net position.

(k) Aviation Expenses

Airlift contracts with two independent vendors to meet certain aviation service needs, including aircraft, pilots, flight planning, and maintenance. Flight costs include monthly fixed fees and variable fees based on hours flown and are expensed as incurred. Aviation expenses are reported in purchased services within the statement of revenues, expenses, and changes in net position.

(l) Payable to Contractual Agencies

The Group is reimbursed for Medicare inpatient, outpatient, psychiatric, and rehabilitation services, and for capital and medical education costs during the year either prospectively or at an interim rate. The difference between interim payments and the reimbursement computed based on the Medicare filed cost report results in an estimated receivable from or payable to Medicare at the end of each year. The Medicare program's administrative procedures preclude final determination of amounts receivable from or payable to the Group until after the cost reports have been audited or otherwise reviewed and settled by Medicare.

The estimated settlement amounts for Medicare cost reports and Certified Public Expenditures (CPE) payments that are not considered final are included in other receivables and payable to contractual agencies in the accompanying statement of net position.

(m) Classification of Revenues and Expenses

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

Operating expenses include all expenses, other than financing costs, incurred by the Group to provide healthcare services to the Group's patients.

Nonoperating revenues and expenses are recorded for certain exchange and nonexchange transactions. This includes investment income, donation income, interest expense, intergovernmental transfer expense, strategic funding to and from affiliates of UW Medicine, and equity earnings generated through investment in the Seattle Cancer Care Alliance (SCCA).

(n) Net Patient Service Revenues

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

Medicare

Acute inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on Medicare severity diagnosis-related groupings (MS-DRGs), as well as reimbursements related to capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for Medicare outpatient services are provided based upon a prospective payment system known as ambulatory payment classifications (APC's). APC payments are prospectively established and may be greater than or less than the actual charges for its services. The Medicare program utilizes the prospective payment system known as case mix group (CMGs) for rehabilitation services reimbursement. As with MS-DRGs, CMG payments are prospectively established and may be greater than or less than the Group's actual charges for its services. Geropsychiatric services are also paid prospectively using a federal per diem payment rate adjusted for comorbidity and various other adjustment factors. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Medicaid

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

Commercial

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

Exchange (HIX)

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

(Dollar amounts in thousands)

(o) Accountable Care Network

UW Medicine has formed an accountable care network (ACN) with other health care organizations and healthcare professionals to share financial and clinical responsibility for the healthcare of particular populations of patients. The Group, as part of UW Medicine, is a network member of the UW Medicine ACN and, as such, shares in any risk contract surplus or deficit based on agreed upon contractual terms. Since its inception, the ACN has entered into various contracts, which include provisions for shared risk as well as shared savings based on achieving certain quality and financial benchmarks. The Group, as part of UW Medicine, and the other network members share in the financial risk or savings. At June 30, 2017, the Group has recorded a liability of $6,418 for its portion of the estimated liability related to these risk-sharing arrangements. The liability is reflected in due to related parties in the accompanying statement of net position.

(p) Charity Care

The Group provides care without charge to patients who meet certain criteria under its charity care policy. Records are maintained to identify and monitor the level of charity care provided. These records include charges foregone for services and supplies furnished under its charity care policy to the uninsured and the underinsured. Because the Group does not pursue collection of amounts determined to qualify as charity care, these are not reported as net patient service revenue. The charges associated with charity care provided by the Group were $59,698 for the year ended June 30, 2017. The cost of charity provided is calculated based on the Group's aggregate relationship of costs to charges. The estimated cost of charity care provided for fiscal year ended June 30, 2017 was $21,346.

(q) UWP Accounting for Billing and Collection Services

As billing agent, UWP bills and collects patient accounts for the benefit of the School. Amounts billed are reflected as part of revenues processed and amounts due to the Clinical Medicine Fund (CMF) and departments. As described in note 2(r), UWP's revenue, by agreement, is limited to operating expenses incurred. Accounts receivable from patients, net of allowances for discounts, contractual adjustments and collection losses, are assets of the School.

The following represents the estimated net patient accounts receivable for which UWP will pursue collection on behalf of the School as of June 30, 2017, and are not reflected in the accompanying financial statements:

Accounts receivable (net of credit balances of $2,146)	$	84,445
Estimated allowances for discounts, contractual adjustments, and collection losses		(48,656)
	$	35,789

(Dollar amounts in thousands)

The amounts above exclude receivables related to services performed by certain nonmember healthcare professionals that are billed and collected by UWP as a billing agent. Cash collected on these accounts is remitted monthly to affiliates, net of billing service fees.

(r) UWP Billing Activity

As discussed in note 2(q), UWP acts as a billing agent for the School and as such collects cash for the benefit of the School. UWP's revenue, by agreement, is limited to the operating expenses incurred. A reconciliation of the net billing activity processed for the benefit of the School and investment income to revenue recognized by UWP is as follows:

Net billings processed on behalf of the School:		
Professional fee revenue, net	$	311,607
Professional services supplemental payment (PSSP)		4,476
Provider access payment (PAP) program		31,551
Meaningful use incentive payments		6,609
Billing reimbursement		2,626
		356,869
Investment income		9,555
Total net billings processed and investment income		366,424
Less:		
Amounts paid or due to affiliates		(2,554)
Amounts due to Clinical Medicine Fund and departments		(113,531)
UWP billing revenues, net	$	250,339

(s) Federal Income Taxes

UW Medical Center, Airlift, and UW Medicine Shared Services are divisions and/or departments of the University and are not subject to federal income tax under Section 115 of the Internal Revenue Code (IRC), except for unrelated business income tax. There are no significant tax obligations at June 30, 2017.

Northwest Hospital, UWP, and Neighborhood Clinics are exempt from federal income tax under Section 501(c)(3) of the IRC, except for unrelated business income tax. There are no significant tax obligations at June 30, 2017.

(t) Recently Adopted and Upcoming Accounting Pronouncements

On July 1, 2016, the University adopted the 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 guidance is intended to improve the financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, and to improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68. The University of Washington Supplemental Retirement Plan (note 10c) does not currently 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. The implementation of this statement required the University to recognize the remaining unamortized pension plan liability for the UWSRP, together with any associated deferred inflows and deferred outflows of resources, and to restate net position for all periods presented. The Group recorded its proportionate share of the pension liability, other assets and deferred outflow and inflow of resources in its 2017 financial statements. The implementation of this Statement resulted in a restatement of fiscal year 2017 beginning unrestricted net position, reducing it by $25,378.

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 by employers to the employees of state and local governments. The University participates in OPEB which is described in note 10, and currently does not impact the University's financial statements. As a result of implementing this statement, the University will be required to recognize its proportionate share of the state's actuarially determined OPEB liability and associated deferred inflows and outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented. The July 2017 actuarial valuation prepared in accordance with GASB Statement No. 45 reports an actuarial accrued liability for the state of Washington at $5,500,000 and of that, the University's estimated proportionate share is $1,200,000. The plan has no assets, therefore the University has estimated the impact to their financial statements to be recognition of the OPEB liability equal to the University's proportionate share, with a similar reduction in unrestricted net position. The University is unable to estimate the deferrals and OPEB expense at this time. This statement will impact the Group's financial statements in fiscal year 2018, as the Group has University employees deployed within the Group. The Group is unable to estimate its proportionate share of the liability, deferrals, and OPEB expense at this time.

 (Continued)

(Dollar amounts in thousands)

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 adjusted annually for inflation and any changes of relevant factors. The deferral is to be recognized as an expense in a systematic and rational manner over the life of the tangible capital asset. The liability is derecognized as retirement costs are paid. The standard requires disclosure of 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 Group is currently analyzing the impact of this statement.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be effective for the fiscal year ending June 30, 2021. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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. Contracts that convey the right to use a nonfinancial asset in an exchange or exchange-like transaction for a term exceeding 12 months are defined by the GASB as a lease. The Group is currently analyzing the impact of this statement.

(3) Net Patient Service Revenues

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2017, net patient service revenue includes approximately $7,192 relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including disproportionate share reimbursement and the CPE program.

The following are the components of net patient service revenues for the year ended June 30, 2017:

Patient service revenues	$	3,902,823
Less adjustments to patient service revenues:		
Contractual discounts		(2,312,720)
Charity care		(44,108)
Provision for uncollectible accounts		(23,929)
Total adjustments to patient service revenues		(2,380,757)
Net patient service revenues	$	1,522,066

(Dollar amounts in thousands)

The Group grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix of gross patient charges and gross receivables from significant third-party payers at June 30, 2017 was as follows:

	Patient service charges	Accounts receivable
Medicare	37 %	30 %
Medicaid	17	17
Commercial and other	42	46
Exchange (HIX)	3	2
Self-pay	1	5
Total	100 %	100 %

(a) *Medicaid Certified Public Expenditure (CPE) Reimbursement*

UW Medical Center is reimbursed at the “full cost” of Medicaid inpatient covered services under the public hospital CPE payment method. “Full cost” payments are determined using the respective hospital’s Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital, and the State claims federal match on the amount of the related certified public expenditures. According to the Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. UW Medical Center received $19,002 in claims payments under this program for the year ended June 30, 2017.

In addition, UW Medical Center receives the federal match portion of Disproportionate Share (DSH) payments, which is the lesser of qualifying uncompensated care cost or the hospital’s specific limit. UW Medical Center received $24,885 in DSH funding under this program for the year ended June 30, 2017.

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

In the event of a shortfall between CPE program payments and the amount determined under the hold harmless provision, the difference is paid to the hospitals as a grant from state only funds. UW Medical Center received $0 in state grants for the year ended June 30, 2017. Claims payments, DSH payments, and state grant funds (when received) are included in net patient service revenues in the statement of revenues, expenses, and changes in net position.

CPE payments are subject to retrospective determination of actual costs once UW Medical Center's Medicare Cost Report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete, after UW Medical Center receives its Medicare Notice of Program Reimbursements for the corresponding cost reporting year.

Interim state grant payments are retrospectively reconciled to "hold harmless" after actual claims are repriced using the applicable DRG payment methodology. This process takes place approximately twelve months after the end of the fiscal year and results in either a payable to, or receivable from, the state Medicaid Program. UW Medical Center has estimated the expected final settlement amounts based on the difference between CPE payments received and the estimated hold harmless amount.

As of June 30, 2017, UW Medical Center has an estimated payable for the CPE program of $20,338, which is recorded as a payable to contractual agencies in the accompanying statement of net position.

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

The professional services supplemental payment (PSSP) and provider access payment (PAP) are programs managed by the Washington State Healthcare Authority (HCA) and benefit certain public hospitals. Under the program, UW Medical Center, Harborview, Northwest Hospital, VMC, UWP, and Children's University Medical Group (CUMG) receive supplemental Medicaid payments for the physician and other professional services for which they bill. These supplemental payments equal the difference between the standard Medicaid reimbursement and the upper payment limit allowable by federal law. UW Medical Center, Harborview, and VMC provide the nonfederal share of the supplemental payments that are used to obtain matching federal funds.

UW Medical Center recorded $10,047 for the year ended June 30, 2017 in intergovernmental transfers to HCA related to professional claims paid in those fiscal years. This is included in funding to affiliates in the statement of revenues, expenses, and changes in net position.

HCA used the federal match funds to make professional services supplemental payments for PSSP and through Medicaid managed care plans for PAP to UW Medicine entities. UW Medical Center and Northwest Hospital recognized $6,422 in supplemental payments for the year ended June 30, 2017. The supplemental payments are recorded in net patient service revenues in the statement of revenues, expenses, and changes in net position. UWP recognized $36,027 in supplemental payments for the year ended June 30, 2017 for the benefit of the School and are reflected as part of revenues processed and amounts due to the CMF as shown in note 2(r).

PSSP and PAP funds received through the CMF are combined with other revenues and used by the School for the central support of faculty costs. As a result, the School requires less funding from UW Medical Center. The faculty support was reduced by $20,866 in fiscal year 2017. This reduction is included as an offset to purchased services in the statement of revenues, expenses, and changes in net position.

(c) Hospital Safety Net Program

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

In its 2013 session, the Washington State legislature passed a new assessment program that was similar to the original program in that the State will use federal matching funds to increase Medicaid hospital payments. Under the new HSNA program, PPS hospitals receive supplemental Medicaid payments, Critical Access Hospitals receive disproportionate share payments, and CPE hospitals receive state grants. The safety net assessment was subject to approval by the Center for Medicare and Medicaid Services before it took effect. CMS approved this program in 2014. The program has an expiration date of June 30, 2019.

UW Medical Center is exempt from the assessment as the hospital is operated by an agency of the state government and also participates in the CPE program. UW Medical Center recognized grant funding of $4,455 for the year ended June 30, 2017, which is recorded in other revenue in the statement of revenues, expenses, and changes in net position.

During the year ended June 30, 2017, Northwest Hospital recorded $6,199 related to assessment fee expense that is recorded in other operating expense on the statement of revenue, expenses, and changes in net position. At June 30, 2017, Northwest Hospital recorded a payable relating to the safety net assessment of $1,550 and is included in accounts payable and accrued expenses on the statement of net position.

Northwest Hospital recognized increased reimbursements of $7,711 under this program for the year ended June 30, 2017, which is included in net patient service revenue in the statement of revenue, expenses, and changes in net position. At June 30, 2017, Northwest Hospital recorded a receivable relating to increased reimbursements of $434 and is included in other receivables in the accompanying statement of net position.

(d) Meaningful Use Incentives

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

The Group recognized meaningful use of $3,905 for the year ended June 30, 2017 which is included in other revenue in the statement of revenues, expenses, and changes in net position. UWP recognized $6,609 in supplemental payments for the year ended June 30, 2017 for the benefit of the School, which is reflected as part of revenues processed and amounts due to the CMF and departments as shown in note 2(r).

(4) State Appropriation

An appropriation is made by the State to the University on a biennial basis, specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. UW Medical Center is designated as a division of the major program “hospitals” included within the total appropriation. Due to the nature of the designation, these amounts are included in other revenue in the accompanying statement of revenues, expenses, and changes in net position. UW Medical Center recognized $6,641 for the fiscal year ended June 30, 2017.

(Dollar amounts in thousands)

(5) Capital Assets

The activity in the Group's capital asset and related accumulated depreciation accounts for the year ended June 30, 2017 are set forth below:

	Balance June 30, 2016	Additions	Transfers	Retirements	Balance June 30, 2017
Capital assets, not being depreciated:					
Land	$ 13,766	—	—	—	13,766
Art	1,432	5	105	—	1,542
Construction in process	61,225	92,462	(119,331)	(3,470)	30,886
Total capital assets, not being depreciated	76,423	92,467	(119,226)	(3,470)	46,194
Capital assets, being depreciated:					
Land improvements	16,231	—	—	(737)	15,494
Buildings, renovations, and furnishings	878,573	319	34,701	(15,827)	897,766
Fixed equipment	168,276	58	8,390	(10,512)	166,212
Movable equipment	654,607	1,647	76,222	(26,105)	706,371
Total capital assets, being depreciated	1,717,687	2,024	119,313	(53,181)	1,785,843
Total capital assets at historical cost	1,794,110	94,491	87	(56,651)	1,832,037
Less accumulated depreciation for:					
Land improvements	(9,359)	(507)	—	736	(9,130)
Buildings, renovations, and furnishings	(381,576)	(33,429)	—	15,607	(399,398)
Fixed equipment	(135,088)	(3,935)	—	10,505	(128,518)
Movable equipment	(525,494)	(54,913)	(87)	25,748	(554,746)
Total accumulated depreciation	(1,051,517)	(92,784)	(87)	52,596	(1,091,792)
Total capital assets, net	$ 742,593	1,707	—	(4,055)	740,245

Capital assets, net, include intangible assets, net of accumulated amortization of $21,383 as of June 30, 2017.

(6) Investments

The majority of Northwest Hospital and UWP's investments correspond to assets designated by the Board for future capital improvements and replacements, assets designated for restricted purposes, and investments held for the benefit of the School.

(Dollar amounts in thousands)

The respective boards of Northwest Hospital and UWP are responsible for the management of investments by establishing investment policies that are carried out by external investment managers approved by the boards.

There are many factors that can affect the value of investments. Some, such as custodial risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to factors such as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

The composition of the carrying amounts of investments, by type, at June 30, 2017 is as follows:

Money market mutual funds	$ 3,822
Mutual funds	121,398
Domestic corporate bonds	8,185
U.S. governmental agency securities	4,381
U.S. Treasury securities	3,059
Other	6,829
Total	$ 147,674

(a) Credit Risk

Fixed income securities are subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or negative perceptions of the issuer's ability to make these payments will cause prices to decline. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Investments subject to credit risk (as determined through a nationally recognized rating agency – Standard & Poor's) are presented in the table below:

Investments	U.S. government	Investment grade*	Not investment grade	Not rated	Total	Duration (in years)
U.S. Treasury securities	$ 3,059	—	—	—	3,059	8.16
Domestic corporate bonds	—	7,378	—	807	8,185	6.01
U.S. governmental agency securities	4,381	—	—	—	4,381	3.95
	$ 7,440	7,378	—	807	15,625	6.04

* Investment grade securities are those that are rated BBB and higher by Standard and Poor's.

(Dollar amounts in thousands)

(b) Interest Rate Risk

The Group manages interest rate risk through construction of a broadly diversified portfolio that seeks to assume only the interest rate risk necessary to achieve the long-term goals in terms of investment returns. The Group does not make "tactical calls" with respect to the direction of interest rates. Therefore, the duration of the Group's holdings is a by-product of risk/return targets, rather than the inverse.

(c) Fair Value Hierarchy

The following table sets forth, by level, within the fair value hierarchy, the Group's investments carried at fair value as of June 30, 2017:

		Level 1	Level 2	Level 3	Total
Money market mutual funds	$	3,822	—	—	3,822
Mutual funds		121,398	—	—	121,398
Domestic corporate bonds		—	8,185	—	8,185
U.S. governmental agency securities		—	4,381	—	4,381
U.S. Treasury securities		3,059	—	—	3,059
Other		6,829	—	—	6,829
Total investments at fair value	$	135,108	12,566	—	147,674

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

(d) Investment Income

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held longer than the current reporting period and are sold in the current period include the net appreciation of these investments reported in the prior periods. UWP investment income is recorded in UWP billing revenues, net as presented in note 2(r), however, the composition of UWP's investment income is presented below. Investment income comprises the following at June 30, 2017:

Dividend and interest income	$	6,441
Net realized gains		3,302
Net unrealized gains		7,928
Total investment income	$	17,671

(Dollar amounts in thousands)

(7) Long-Term Debt and Capital Leases

Long-term debt, reported as a part of noncurrent liabilities, consists of the following as of June 30, 2017:

UW Medical Center Internal Lending Program Debt:		
Expansion Project, 4.50% interest rate, through 2046	$	274,174
All other debts, 4.04% to 5.0%		43,069
Northwest Hospital note payable to the University, at 4.50% annual debt service including interest of $5,928 through 2032, secured by an interest in Northwest Hospital's gross receivables and certain property and equipment		65,718
Northwest Hospital note payable at 4.65%, monthly installments including interest of $59 through July 2032; secured by a medical office building		7,673
Other note payable		746
Capital leases for equipment		4,597
Total long-term debt		395,977
Less current portion		(16,462)
Total long-term debt, net of current portion	$	379,515

(a) Long-Term Debt Overview

UW Medical Center

Under the "Debt Management Policy: Statement of Objectives and Policies" UW Medical Center obtains capital financing through the University's Internal Lending Program (ILP). The ILP is an internal financing pool intended to lower the University's overall cost of capital and provide a predictable borrowing rate for borrowers within the University. These loans are funded through the issuance of General Revenue bonds and notes. The ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary. Effective July 1, 2016, the ILP interest rate was reduced 25 basis points to 4.50%.

All other debts borrowed from ILP have an interest rate ranging from 4.04% to 5.0% and have annual maturities between fiscal years 2017 and 2028.

Northwest Hospital

In 2015, the University provided Northwest Hospital funds that were combined with the balance of Northwest Hospital's bond indenture trust funds and deposited into an irrevocable escrow account held by the Washington Healthcare Facilities Authority (WHCFA) bond trustee. The funds deposited were sufficient to prepay amounts due to the WHCFA to legally defease and advance refund the Series 2007 Revenue Bonds.

(Dollar amounts in thousands)

Through UW Medicine, Northwest Hospital entered into a financing agreement with the University to obtain funds for the defeasance and advance refunding of the Series 2007 Revenue Bonds. The total amount financed was $71,306. As a result of the above transaction, Northwest Hospital incurred a $6,435 loss on refinancing, which was recorded as a deferred outflow of resources on the statement of net position. The loss will be amortized to interest expense using the effective interest method over the remaining term of the note. The unamortized loss on refinancing at June 30, 2017 is $5,696.

(b) Long-Term Debt Maturities

The following schedule shows debt service requirements, for the next five years and thereafter, as of June 30, 2017, for both principal and interest:

		Principal	Interest	Total
2018	$	16,462	17,776	34,238
2019		16,989	17,023	34,012
2020		17,411	16,236	33,647
2021		17,850	15,423	33,273
2022		18,451	14,589	33,040
2023–2027		87,576	59,938	147,514
2028–2032		88,402	40,351	128,753
2033–2037		71,791	21,392	93,183
2038–2042		30,859	10,453	41,312
Thereafter		30,186	2,855	33,041
Total payments	$	395,977	216,036	612,013

(c) Changes in Long-term Debt and Capital Leases

Changes in long-term debt and capital leases during the fiscal year ended June 30, 2017 are summarized below:

		Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Due within one year
UW Medical Center ILP Debt:						
Expansion Project	$	255,966	24,602	(6,394)	274,174	6,899
All other debts		47,690	—	(4,621)	43,069	4,839
Note payable – University		68,608	—	(2,890)	65,718	3,023
Other note payables		11,945	777	(4,303)	8,419	419
Capital leases		1,513	4,024	(940)	4,597	1,282
Total noncurrent liabilities	$	385,722	29,403	(19,148)	395,977	16,462

(Dollar amounts in thousands)

(8) Physician Distributions, Clinical Medicine Fund, and Departmental Payables

Receipts collected by UWP are allocated and distributed in accordance with UWP's Income Distribution Plan. Allocations and distributions are calculated pursuant to the plan and the physicians' distributions, CMF, and departmental payables are recorded in the amounts due to the respective payable accounts.

The payables are comprised of the following at June 30:

Physician Distributions	$	18,283
Clinical Medicine Fund payable		38,741
Departmental payables		51,771
Total physician distribution, clinical medicine fund and departmental payables	$	108,795

(9) Risk Management

The Group is exposed to risk of loss related to professional and general liability, property loss and injuries to employees. UW Medical Center and Airlift participate in risk pools managed by the University to mitigate risk of loss related to these exposures. The other members of the Group mitigate risk of loss through a combination of participating in the risk pool managed by the University and commercial insurance products. All of the entities participate in the professional liability program managed by the University.

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components. The Group's annual contribution to the professional liability program funding is determined by the University administration using information from an annual actuarial study. The actuary used a discount rate of 5.0% for 2017 in recognition of the expected earnings of the self-insurance fund and other factors. In addition to the University, the participants in the professional liability program include the Group, Children's University Medical Group (CUMG), School of Dentistry, the School, and Harborview. In addition to the self-insurance fund contributions, the participants share in the expenses of the Health Science Risk Management Office.

The Group's contribution to the professional liability program was $12,242 in fiscal year 2017 and is recorded in other operating expense on the statement of revenues, expenses, and changes in net position.

(10) Benefit Costs

Benefit costs are pooled centrally for all University employees, which, for the Group, include University employees deployed at UW Medical Center, Airlift, and UW Medicine Shared Services. Annually, the University reviews total employee benefit costs and prepares standard benefit load rates by employment classification. These benefit costs cover employee healthcare expense, workers' compensation, employment taxes, and retirement plans. Departments, divisions, agencies, component units, and related parties of the University that have University employees qualifying for employee benefit coverage are charged a cost allocation using the determined benefit load rate and budgeted salary dollars by employment classification. All funding of obligations are on a pay-as-you-go basis. At the end of the reporting period, the cost allocation is compared to actual benefit costs and differences between actual and budgeted costs are included as a component of the benefit load rates charged in the following year.

(a) Retirement and Other Postretirement Benefit Plans

University employees can participate in the following state and University sponsored retirement and other postretirement benefit plans:

University of Washington Retirement Plan (UWRP)(the 403(b)) – UWRP is a defined-contribution plan administered by the University. All faculty and professional staff are eligible to participate in the plan. Contributions to UWRP are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from fund sponsors are available upon separation or retirement at the member's option. Revised Code of Washington (RCW) 28B.10.400 et. seq. assigns the authority to the University Board of Regents to establish and amend benefit provisions.

Funding is determined by employee age and ranges from 5% to 10% of employee salary. Funding obligations are calculated at the University level and the University allocates expense to department, divisions, agencies, and component units through the benefit load.

Based on the University's benefit load apportionment, the Group incurred and paid $8,932 in fiscal year 2017 related to annual UWRP funding, which is recorded in employee benefits expense on the statement of revenues, expenses, and changes in net position.

Other Post-Employment Benefits (OPEB) – All University employees are eligible for participation in healthcare and life insurance programs administered by the HCA. University retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits based on their age and other demographic factors.

The Office of the State Actuary determines total OPEB obligations at the State level using individual state employee data, including age, retirement eligibility, and length of service. Information to support actuarial calculations at the division, department, or component unit level is not available. The State is ultimately responsible for the obligation; therefore, the annual required contribution is not recorded at the University or its departments, divisions, agencies, or component units, however, it will be recorded in fiscal year 2018.

(b) Public Employees' Retirement System Pension Plans

The University offers several contributory pension plans administered by the Washington State Department of Retirement Systems (DRS). The Group has employees in the Public Employees' Retirement System plan which is a defined-benefit retirement plan.

Plan Descriptions of the DRS Plans

Public Employees' Retirement System (PERS)

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

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

Vesting and Benefits Provided

PERS Plan 1

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

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

PERS Plan 2/3

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

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

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

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the Consumer Price

(Dollar amounts in thousands)

Index) capped at three percent annually, and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

Fiduciary Net Position

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

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

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

Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation conducted by the Washington State Office of the State Actuary (OSA). The Group's 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	7.5%

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

(Dollar amounts in thousands)

The actuarial assumptions used in the June 30, 2015 valuation was 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 Washington State Investment Board (WSIB) using a building block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The long-term expected rate of return of 7.5% 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:

	Target allocation	Long-term expected real rate of return arithmetic
Asset class:		
Fixed income	20.0 %	1.7 %
Tangible assets	5.0	4.4
Real estate	15.0	5.8
Global equity	37.0	6.6
Private equity	23.0	9.6

The inflation components used to create the above table are 2.20%, and represent 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 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which the Group participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Dollar amounts in thousands)

Using the WSIB long-term expected rate of return, a 7.5% future investment rate of return on pension plan investments was assumed for the test. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1, as provided for in Chapter 41.45 of the RCW).

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

The following table presents the Group's net pension liability calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)

		2017		
		1% Decrease	Current discount rate	1% Increase
Plan:				
PERS 1	$	187,030	155,096	127,615
PERS 2/3		334,431	181,639	(94,553)

Employer Contribution Rates

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

Description		PERS Plan 1	PERS Plan 2/3[i]
Contributions as June 30, 2017:			
Contribution rate		11.18 %	11.18 %
Contributions made	$	17,735	22,668

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

(Dollar amounts in thousands)

The Group's Proportionate Share

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

Proportionate share	
PERS 1	PERS 2/3
2.89 %	3.61 %

The Group Aggregated Balances

The Group's aggregated balances of net pension liabilities as of June 30, 2017 are presented in the table below.

Plan		PERS 1	PERS 2/3	Total
Net pension liability	$	155,096	181,639	336,735

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

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

		Proportionate share of pension expense		
Description		PERS Plan 1	PERS Plan 2/3	Total
June 30, 2017	$	12,195	28,997	41,192

(Dollar amounts in thousands)

Deferred Outflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2017:				
Change in assumptions	$	—	1,877	1,877
Difference between projected and actual earnings on plan investments, net		3,905	22,227	26,132
Difference between expected and actual experience		—	9,672	9,672
Change in the Group's proportionate share		—	10,332	10,332
The Group's contributions subsequent to the measurement date of the collective net pension liability [a]		17,735	22,669	40,404
Total	$	21,640	66,777	88,417

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

Deferred Inflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2017:				
Difference between expected and actual experience	$	—	5,996	5,996
Total	$	—	5,996	5,996

		Amortization of deferred inflows and deferred outflows of resources		
Year		PERS Plan 1	PERS Plan 2/3	Total
2017	$	(962)	4,318	3,356
2018		(962)	4,017	3,055
2019		3,586	19,024	22,610
2020		2,243	10,753	12,996
2021		—	—	—
Thereafter		—	—	—
Total	$	3,905	38,112	42,017

(Dollar amounts in thousands)

(c) University of Washington Supplemental Retirement Plan

Plan Description

The University of Washington Supplemental Retirement Plan (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. The number of Group participants included in the plan are as follows:

	June 30, 2017
Active employees	593
Inactive employees receiving benefits	59
Inactive employees entitled to, but not receiving benefits	—

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 that compares “goal income” to “assumed income”.

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 ended June 30, 2017 were $432.

(Dollar amounts in thousands)

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), which have trusted assets, and therefore, are reported as a net pension liability. The University has set aside $230,782 to pay future UWSRP retiree benefits, of which the Group recorded $19,417 as other assets on its statement of net position.

Schedule of Changes in Total Pension Liability
As of June 30, 2017

Beginning Balance	$	41,470
Service Cost		1,674
Interest on TPL		1,270
Difference between expected and actual experience		(6,303)
Change in assumptions		(2,402)
Change in proportion		1,638
Benefit Payments		(432)
Ending Balance	$	36,915

The TPL is based on an actuarial valuation performed as of June 30, 2016. Procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement date of June 30, 2017. The TPL is recorded within pension liabilities on the statement of net position.

UWSRP pension expense for the fiscal year ended June 30, 2017 was $1,856 which is reported within benefits expense on the statement of revenues, expenses, and changes in net position.

(Dollar amounts in thousands)

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

		June 30, 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 June 30, 2017
TPL measurement at discount rate	$	36,915
TPL discount rate increased 1%		32,142
TPL discount rate decreased 1%		42,695

Deferred outflow and inflow of resources

The tables below summarize the University's deferred inflows of resources related to the UWSRP as of June 30, 2017, together with the related future year impacts to pension expense from amortization of those deferred amounts:

Deferred outflow of resources		
Change in allocation percentage	$	1,443

Deferred inflow of resources		
Difference between expected and actual experience	$	5,525
Change in assumptions		2,101
Total	$	7,626

(Dollar amounts in thousands)

Amortization of deferred outflows and inflows of resources [(a)]

Year:		
2018	$	(883)
2019		(883)
2020		(883)
2021		(883)
2022		(883)
Thereafter		(1,768)
Total	$	(6,183)

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

(11) Other Retirement Plans

(a) Northwest Hospital Retirement Plans

(i) 401(k) Profit Sharing Plan

All employees of Northwest Hospital are covered by the Northwest Hospital & Medical Center 401(k) Profit Sharing Plan (the 401(k) Plan), a defined-contribution plan. Northwest Hospital, as Plan Sponsor, contributes based on a defined formula, with participants immediately vesting in all employer and employee contributions. Employee contribution rates can vary from 1% to 80% of gross compensation, as defined by the Plan, subject to certain limitations under the Internal Revenue Code. The 401(k) Plan provides for employer matching contributions for each participant who makes 401(k) tax-deferred contributions to this Plan and for each highly compensated employee of Northwest Hospital who makes salary reduction contributions to the 403(b) salary reduction contributions plan sponsored by Northwest Hospital. Northwest Hospital's employee and employer contributions to the 401(k) Plan during the fiscal year ended June 30, 2017 are approximately $9,326 and $5,088, respectively.

(ii) 403(b) Retirement Plan

Highly compensated employees who are not employed by a taxable affiliate of Northwest Hospital and who are not participating in the 401(k) Plan are eligible to participate in the Northwest Hospital & Medical Center 403(b) Retirement Plan (the 403(b) Plan). The 403(b) Plan is a defined-contribution plan, which includes a qualified cash or deferred arrangement. Employee contribution rates can vary from 1% to 80% of gross compensation, as defined by the Plan, subject to certain limitations under the IRC. The Plan does not provide employer contributions. The employee contributions to the 403(b) Plan during the fiscal year ended June 30, 2017 are approximately $2,669.

(b) UWP Pension Plan

UWP has a mandatory, noncontributory defined-contribution pension plan, The Association of University Physicians Pension Plan (the Plan). The Plan covers all employees meeting service requirements and employed on a regular, permanent basis. UWP contributes an amount equal to 9% of eligible compensation for each participant under age 50 and 10% for each participant age 50 and older. Eligible compensation includes the Association annual salary, plus amounts paid under the Income Distribution Plan, bonuses, and administrative overtime pay.

On termination of service due to death, disability, or retirement, a participant or beneficiary may elect to receive either a lump-sum distribution or an annuity to be paid in monthly installments over a fixed reasonable period of time, not exceeding life expectancy of the participant or designated beneficiary. For termination of service due to other reasons, a participant may elect the value of the vested interest in his or her account as a lump-sum distribution.

If a participant reaches normal retirement age (65), dies, or becomes disabled while employed by the UWP, vesting is 100%. Additionally, under certain circumstances, individuals who transfer employment at UWP to employment by the University are also immediately vested. In the event of termination of employment for reasons other than retirement, death, disability or University transfer, participants shall be entitled to benefits, which start with 25% vested after two years of service, 50% vested after three years of service, 75% vested after four years of service and 100% vested after five years of service.

Total pension expense was approximately $14,830, net of forfeitures of $337 in fiscal year 2017 and is recorded in benefits expense within the statement of revenues, expenses, and changes in net position. The Association had no liability outstanding for pension contributions at June 30, 2017.

(c) Neighborhood Clinics 401(k) Retirement Plan

The Neighborhood Clinics offer a 401(k) plan covering substantially all employees meeting certain age and service requirements, administered by the clinics. The Neighborhood Clinics make annual contributions of 6% of compensation, which starts with 25% vested after two years of service, 50% vested after three years of service, 75% vested after four years of service, and 100% vested after five years of service. Employer contributions were approximately $1,152 for the year ended June 30, 2017 and forfeitures were approximately $168. In addition, the 401(k) plan includes an employee self-elected deferral plan.

(12) Related Parties

The Group has engaged in a number of transactions with related parties. These transactions are recorded by the Group as either revenue or expense transactions because economic benefits are either provided or received by the Group. The Group presents cash transfers from related parties that are not the result of economic benefits as nonoperating revenue on the statements of revenues, expenses, and changes in net position.

(a) University of Washington

University divisions provide various levels of support to the Group. The following is a summary of services purchased:

The School

The Group purchases a variety of clinical and administrative services from the School, which includes laboratory services and resident and faculty support. The Group also transfers a portion of its Medicare reimbursement for medical education to the School in support of teaching costs. The amounts for these services are shown below (see note 12 (g)).

UW Medicine Central Costs

UW Medicine Central Costs represents services provided to the Group such as executive leadership, advancement, compliance, telemedicine, community relations staffing, medical staff oversight, marketing, and other administrative services related to UW Medicine. The amounts paid by the Group for these services are shown below (see note 12 (g)).

Other Divisions of the University

In addition to the divisions and transactions identified above, the Group purchases information technology services, general and professional liability insurance, printing, internal audit, accounting, temporary staffing, and other administrative and operational services from other divisions of the University. The amounts for these transactions are shown below (see note 12 (g)).

(b) UW Neighborhood Clinics

Under an annual agreement, the UW Medicine hospitals provide strategic funding to the Neighborhood Clinics for operations and capital purposes. For the year ended June 30, 2017, total funding from the UW Medicine hospitals to the Neighborhood Clinics was $47,343. Approximately $33,930 was provided from entities within the Group and was eliminated from these financial statements. The remaining portion is recorded as other revenue in the statement of revenues, expenses, and changes in net position.

(c) Northwest Hospital

For the year ended June 30, 2017, Harborview and UW Medical Center provide strategic funding to Northwest Hospital in the amount of $3,187. Funding from UW Medical Center of $1,519 is eliminated within these financial statements. The remaining portion of strategic funding is recorded as funding from affiliates in the statement of revenues, expenses, and changes in net position.

(Dollar amounts in thousands)

At June 30, 2017, Northwest Hospital has a payable of $36,458 to the University. This payable is subject to repayment in annual installments of $5,000 over future years, with an installment payment of $5,000 made during the year ended June 30, 2017. On the statement of net position, the current portion of $5,000 is included in due to related parties and the remaining $31,458 is included in due to related parties – long term in the statement of net position.

(d) Seattle Cancer Care Alliance

UW Medical Center is a one-third owner in the SCCA and accounts for its interest under the equity method of accounting. Equity earnings from SCCA of $15,511 was recorded in fiscal year 2017 and is included in other nonoperating revenues in the statements of revenues, expenses, and changes in net position. The following is a summary of the SCCA's financial results for the year ended June 30, 2017:

Assets	$	593,714
Liabilities	$	154,445
Unrestricted net assets		432,800
Temporarily restricted net assets		3,173
Permanently restricted		3,296
Total liabilities and net assets	$	593,714
Revenues	$	548,164
Expenses		526,843
Nonoperating expense		23,434
Excess of revenues over expenses		44,755
Other changes in unrestricted net assets		—
Increase in unrestricted net assets	$	44,755

SCCA operates a 20-bed unit located within UW Medical Center in which its adult inpatients receive care. The 20-bed unit qualifies as a hospital within a hospital for Medicare reimbursement purposes. SCCA provides medical oversight and management of the inpatient unit. Under agreements, UW Medical Center provides and bills for inpatient care services provided to SCCA patients including necessary personnel, equipment, and ancillary services and UW Medical Center purchases administrative and program support services from the SCCA. Payments due to UW Medical Center for services provided to the SCCA inpatients are included in net patient service revenues in the statement of revenues, expenses, and changes in net position.

UW Medical Center also provides various services to the SCCA's outpatient facility, including certain pharmacy, laboratory, and pathology services as well as purchasing, and other administrative services. Fees for such services and supplies provided by UW Medical Center are included in other revenue in the statement of revenues, expenses, and changes in net position. The amounts for these transactions are shown below (see (g)).

(Dollar amounts in thousands)

(e) Fred Hutchinson Cancer Research Center (Fred Hutch)

The SCCA partnership agreement provides that UW Medical Center will make various payments to Fred Hutch related to research and development support, data collection and analysis, physician assistance services, consulting services, and license rights to use the Fred Hutch name in connection with the inpatient oncology services program. These fees are included in the tables below (see note 12 (g)).

(f) Children's University Medical Group

UWP provides various administrative services to CUMG, and billing support services when CUMG physicians provide clinical care to patients in UW Medicine facilities. CUMG also reimburses UWP for its share of legal services provided through the centralized legal office for support of the nonprofit entities including UWP, Northwest Hospital, the Neighborhood Clinics and CUMG. UWP bills CUMG for these services on a monthly basis. Likewise, CUMG provides billing support services to UWP for UWP physicians providing clinical care to patients at the Seattle Children's Hospital.

(g) Summary of Related Party Transactions

The following table summarizes the related party revenue and expense transactions for the year ended June 30, 2017:

Revenue (expense) transactions		
Services and supplies purchased from the University and its departments and affiliates:		
The School	$	(138,639)
UW Medicine Central Costs		(17,545)
Other University departments		(78,562)
Services and supplies purchased from Harborview		(7,781)
Services and supplies purchased from VMC		(690)
Services and supplies purchased from SCCA		(14,352)
Services and supplies purchased from Fred Hutch		(20,161)
Services and supplies provided to the University and its departments and affiliates:		
The School	$	6,715
Other University departments		2,084
Services and supplies provided to Harborview		105,939
Services and supplies provided to SCCA		66,194
Services and supplies provided to VMC		2,010
Services and supplies provided to CUMG		2,716
Services and supplies provided to SCH		2,450
Services and supplies provided to Fred Hutch		805

(Dollar amounts in thousands)

Related party receivable and payable amounts are recorded in due from and due to related parties on the statement of net position. As of June 30, 2017, the Group had net amounts due from or (due to) related parties, other receivables, and accounts payable and accrued expenses for certain significant transactions as follows:

Net receivable (payable)		
The University and its departments and affiliates:		
The School	$	(11,005)
Other University departments		(55,473)
SCCA		7,540
Harborview		3,884
VMC		773
Fred Hutch		(4,096)
CUMG		(798)

(13) Commitments and Contingencies

(a) Operating Leases

The Group leases medical office space, aircraft hangar space, and equipment under operating lease arrangements. Total rental expense for fiscal year ended June 30, 2017 for all operating leases was $45,477, which is recorded in other expense in the statement of revenues, expenses, and changes in net position.

The following schedule shows future minimum lease payments for the Group, by fiscal year as of June 30:

2018	$	39,329
2019		35,720
2020		34,213
2021		26,539
2022		21,438
2023–2027		37,734
2028–2032		7,949
2033–2037		5,943
2038–2042		6,051
Thereafter		1,412
Total	$	216,328

Airlift has entered into contractual arrangements for fixed-wing and rotary-wing aviation services covering eight primary and three back-up aircrafts. The fixed-wing contract expires on April 30, 2022 and the rotary wing contract expires on September 30, 2020, both of which are included in the future minimum lease payments table above.

(b) Purchase Commitments

The Group has current commitments at June 30, 2017 of approximately $29,701 related to various construction projects and other.

(c) Regulatory Environment

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, governmental healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Group is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

(d) Litigation

Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Group’s financial statements.

(e) Collective Bargaining Agreements

The Group has approximately 61% of its workforce covered by collective bargaining agreements as of June 30, 2017. Nurses and other healthcare and support workers are represented by a number of collective bargaining units. Collective bargaining units have various contract expiration dates.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Schedules of Required Supplementary Information

Year ended June 30, 2017

(Dollar amounts in thousands)

The schedules of required supplementary information below reflect information for UW Medicine Clinical Enterprise – UW Division.

Schedule of the Group's Proportionate Share of the Net Pension Liability
PERS 1 Pension Plan

		2017	2016
The Group's proportion of the net pension liability		2.89 %	2.81 %
The Group's proportionate share of the net pension liability	$	155,096	147,106
The Group's covered-employee payroll		337,067	351,582
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		46.01 %	41.84 %
Plan fiduciary net position as a percentage of the total pension liability		57.03 %	59.1 %

Schedule of the Group's Contributions
PERS 1 Pension Plan

		2017	2016
Contractually required contribution	$	625	735
Contributions in relation to the contractually required contribution		618	735
Contribution deficiency (excess)		7	—
The Group's covered-employee payroll		364,515	337,067
Contributions as a percentage of covered-employee payroll		0.17 %	0.22 %

Schedule of the Group's Proportionate Share of the Net Pension Liability
PERS 2/3 Pension Plan

		2017	2016
The Group's proportion of the net pension liability		3.61 %	3.52 %
The Group's proportionate share of the net pension liability	$	181,639	125,761
The Group's covered-employee payroll		336,961	312,289
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		53.91 %	40.27 %
Plan fiduciary net position as a percentage of the total pension liability		85.82	89.20

Schedule of the University's Contributions
PERS 2/3 Pension Plan

		2017	2016
Contractually required contribution	$	40,679	37,396
Contributions in relation to the contractually required contribution		40,721	37,740
Contribution deficiency (excess)		(42)	(344)
University's covered-employee payroll		363,873	336,961
Contributions as a percentage of covered-employee payroll		11.18 %	11.10 %

Notes to required supplementary information for the year ended June 30, 2017

Changes of Benefit Terms : Amounts reported in 2017 reflect no change in benefit terms.

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Schedules of Required Supplementary Information

Year ended June 30, 2017

(Dollar amounts in thousands)

The Schedules of Required Supplementary Information below reflect information for UW Medicine Clinical Enterprise – UW Division.

UWSRP Schedule of Changes of Total Pension Liability

Total beginning pension liability	$	41,470
Service cost		1,674
Interest		1,270
Differences between expected and actual experience		(6,303)
Changes in assumptions		(2,402)
Change in proportion		1,638
Benefit payments		(432)
Total ending pension liability	$	36,915
UWSRP covered-employee payroll	$	67,407
Total pension liability as percentage of covered-employee payroll		54.8 %

See accompanying independent auditors' report.

Notes to Schedules of Required Supplementary Information
for the year ended June 30, 2017

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.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Combining Statement of Net Position

June 30, 2017

(Dollar amounts in thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Current assets:								
Cash and cash equivalents	$ —	2,006	23,508	3,805	8,434	—	—	37,753
Funds held by the University of Washington	26,861	—	—	—	21,023	4,836	—	52,720
Patient accounts receivable, net	153,365	35,559	—	3,195	11,116	—	—	203,235
Other receivables	10,091	4,329	328	1,200	1,010	1,389	—	18,347
Due from related parties	15,161	687	812	4,836	—	23,584	(27,740)	17,340
Supplies inventory	20,379	4,677	—	534	35	599	—	26,224
Restricted investments	—	1,482	—	—	—	—	—	1,482
Other current assets	12,348	4,297	344	74	514	6,811	(11,089)	13,299
Total current assets	238,205	53,037	24,992	13,644	42,132	37,219	(38,829)	370,400
Noncurrent assets:								
Capital assets, at cost, net of accumulated depreciation	543,753	108,528	2,250	14,978	5,706	65,030	—	740,245
Funds held by the University of Washington	173,039	—	—	—	—	1,708	(1,713)	173,034
Investments	—	46,714	99,478	—	—	—	—	146,192
Donor restricted assets	1,756	2,086	—	—	—	—	—	3,842
Investment in Seattle Cancer Care Alliance	142,147	—	—	—	—	—	—	142,147
Other assets	33,604	3,813	—	193	224	10,322	(22,680)	25,476
Total noncurrent assets	894,299	161,141	101,728	15,171	5,930	77,060	(24,393)	1,230,936
Total assets	1,132,504	214,178	126,720	28,815	48,062	114,279	(63,222)	1,601,336
Deferred outflow of resources:								
Deferred outflow of resources related to pensions	72,228	—	—	—	2,457	15,175	—	89,860
Deferred loss on refinancing	—	5,696	—	—	—	—	—	5,696
Total assets and deferred outflow of resources	$ 1,204,732	219,874	126,720	28,815	50,519	129,454	(63,222)	1,696,892
Current liabilities:								
Accounts payable and accrued expenses	$ 41,868	15,154	2,602	643	1,506	6,884	—	68,657
Accrued salaries, wages, and employee benefits	51,089	20,388	5,524	1,570	1,454	18,413	—	98,438
Payable to contractual agencies	34,927	—	—	—	—	—	—	34,927
Due to related parties	36,593	9,422	7,252	8,799	3,268	18,153	(29,453)	54,034
Current portion of long-term debt	12,355	4,048	—	59	—	—	—	16,462
Other current liabilities	1,243	462	336	1,143	1,034	20,453	(10,953)	13,718
Physician distribution, clinical medicine fund, and departmental payables	—	—	108,795	—	—	—	—	108,795
Total current liabilities	178,075	49,474	124,509	12,214	7,262	63,903	(40,406)	395,031
Noncurrent liabilities:								
Long-term debt, net of current portion	307,456	71,372	—	687	—	—	—	379,515
Pension liabilities	302,691	—	—	—	9,229	61,730	—	373,650
Due to related parties – long-term	—	31,458	—	—	—	—	—	31,458
Other noncurrent liabilities	3,455	3,992	2,211	3,151	125	43,424	(22,816)	33,542
Total liabilities	791,677	156,296	126,720	16,052	16,616	169,057	(63,222)	1,213,196
Deferred inflow of resources:								
Deferred inflow of resources related to pensions	8,576	—	—	—	238	4,808	—	13,622
Net position:								
Net investment in capital assets	223,943	33,108	—	14,232	5,706	65,030	—	342,019
Nonexpendable, restricted	—	2,085	—	—	—	—	—	2,085
Expendable, restricted	1,756	931	—	755	—	—	—	3,442
Unrestricted	178,780	27,454	—	(2,224)	27,959	(109,441)	—	122,528
Total net position	404,479	63,578	—	12,763	33,665	(44,411)	—	470,074
Total liabilities, deferred inflow of resources, and net position	$ 1,204,732	219,874	126,720	28,815	50,519	129,454	(63,222)	1,696,892

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2017

(Dollar amounts in thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Operating revenue:								
Net patient service revenues	$ 1,126,040	344,859	—	—	51,669	—	(502)	1,522,066
UWP billing revenues, net	—	—	255,990	—	—	—	(5,651)	250,339
Other revenue	56,816	13,841	—	61,849	1,199	265,385	(203,476)	195,614
Total operating revenues	1,182,856	358,700	255,990	61,849	52,868	265,385	(209,629)	1,968,019
Operating expenses:								
Salaries and wages	374,826	169,996	170,162	19,792	13,008	113,780	—	861,564
Employee benefits	127,868	36,023	30,529	7,092	4,559	36,784	—	242,855
Purchased services	373,271	71,517	26,293	23,004	26,215	71,177	(199,542)	391,935
Supplies	269,029	65,742	1,020	4,654	2,478	12,828	(2,957)	352,794
Other	19,318	30,188	27,679	7,931	2,259	11,144	(7,130)	91,389
Depreciation	52,153	16,936	307	1,702	846	20,840	—	92,784
Total operating expenses	1,216,465	390,402	255,990	64,175	49,365	266,553	(209,629)	2,033,321
Income (loss) from operations	(33,609)	(31,702)	—	(2,326)	3,503	(1,168)	—	(65,302)
Nonoperating revenues (expenses):								
Investment income	2,145	5,745	—	—	212	14	—	8,116
Interest expense	(14,102)	(3,825)	—	(24)	—	—	—	(17,951)
Funding to affiliates	(14,479)	(14)	—	—	—	—	2,933	(11,560)
Funding from affiliates	—	2,952	—	—	—	—	(1,285)	1,667
Other, net	15,722	530	—	536	62	675	—	17,525
Nonoperating revenues (expenses)	(10,714)	5,388	—	512	274	689	1,648	(2,203)
(Loss) income before capital contributions and transfers	(44,323)	(26,314)	—	(1,814)	3,777	(479)	1,648	(67,505)
Capital contributions and other transfers	375	394	—	1,885	50	—	(1,648)	1,056
(Decrease) increase in net position	(43,948)	(25,920)	—	71	3,827	(479)	—	(66,449)
Net position – beginning of the year, as issued	460,447	89,498	—	12,692	30,135	(30,871)	—	561,901
Cumulative effect of change in accounting principle	(12,020)	—	—	—	(297)	(13,061)	—	(25,378)
Net position – beginning of the year, as adjusted	448,427	89,498	—	12,692	29,838	(43,932)	—	536,523
Net position – end of year	$ 404,479	63,578	—	12,763	33,665	(44,411)	—	470,074

See accompanying independent auditors' report.

UNIVERSITY of WASHINGTON

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

FINANCIAL REPORT

JUNE 30, 2017

C O N T E N T S

petersonsullivan LLP
Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
University of Washington
Seattle, Washington

We have audited the accompanying financial statements of the University of Washington Metropolitan Tract, which comprise the statements of assets, liabilities, and net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Metropolitan Tract as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The details of property on page 18 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Peterson Sullivan LLP

October 13, 2017

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENTS OF ASSETS, LIABILITIES, AND NET POSITION

June 30, 2017 and 2016
(Amounts in thousands)

ASSETS	2017	2016
Current Assets		
Cash held in trust	$ 4,774	$ 5,392
Funds held by the University	49,818	33,459
Security deposits - residential	50	52
Due from Fairmont Olympic Hotel	767	232
Accounts receivable, net of allowance	335	832
Other current assets	263	361
Total current assets	56,007	40,328
Property, net	124,885	132,023
Straight-Line Rent Adjustment	8,374	6,491
Total assets	$ 189,266	$ 178,842
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	$ 3,280	$ 2,444
Leasehold excise tax payable	1,848	1,615
Security deposits - residential	50	52
Unearned rent revenue	1,222	1,149
Current portion of long-term debt	3,626	3,596
Total current liabilities	10,026	8,856
Security Deposits - commercial	1,681	1,534
Long-Term Debt, net of current portion	31,301	34,927
Total liabilities	43,008	45,317
NET POSITION		
Invested in Capital Assets, net of related debt	89,958	93,500
Unrestricted	56,300	40,025
Total net position	146,258	133,525
Total liabilities and net position	$ 189,266	$ 178,842

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended June 30, 2017 and 2016
(Amounts in thousands)

	2017	2016
Operating Revenues		
Office rent	$ 44,293	$ 42,947
Retail rent	4,496	4,946
Fairmont Olympic Hotel rent	5,289	4,903
Residential rent	2,969	2,969
Parking	3,320	3,690
Rainier Square rent	868	739
Other rent	557	545
Other income	39	70
Total operating revenues	61,831	60,809
Operating Expenses		
Property operating expenses	12,552	12,481
General and administrative	5,473	6,771
Taxes	6,681	6,613
Property management	1,964	1,830
Total operating expenses	26,670	27,695
Operating income before depreciation and amortization	35,161	33,114
Depreciation	12,443	11,535
Amortization	25	75
Net operating income	**22,693**	**21,504**
Other Revenues (Expenses)		
Rainier Square extension payment	250	500
Loss on disposal of property	(318)	
Interest income	367	516
Interest expense	(1,168)	(1,014)
Total other revenues (expenses)	(869)	2
Net income	**21,824**	**21,506**
Transfers		
Transfers from UW Real Estate Office	909	873
Distribution to UW Facilities Bond Retirement Account	(10,000)	(10,000)
Total transfers	(9,091)	(9,127)
Change in net position	12,733	12,379
Total Net Position, beginning of year	133,525	121,146
Total Net Position, end of year	$ 146,258	$ 133,525

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016
(Amounts in thousands)

	2017	2016
Cash Flows From Operating Activities		
Cash received from tenants	$ 59,985	$ 58,194
Payments made to vendors	(15,955)	(18,192)
Payments made to employees	(2,980)	(3,155)
Payments for leasehold excise taxes	(6,448)	(7,065)
Net cash flows from operating activities	34,602	29,782
Cash Flows From Capital and Related Financing Activities		
Improvements made to long-lived assets	(5,623)	(13,706)
Repayments to University Treasury Department	(3,596)	(3,576)
Interest expense	(1,168)	(1,014)
Cash received from property manager	250	500
Net cash flows from capital and related financing activities	(10,137)	(17,796)
Cash Flows From Noncapital Financing Activities		
Funds received from UW Real Estate Office	909	873
Distribution to UW Facilities Bond Retirement Account	(10,000)	(10,000)
Net cash flows from noncapital financing activities	(9,091)	(9,127)
Cash Flows From Investing Activity		
Interest received	367	516
Net change in cash	**15,741**	**3,375**
Cash, beginning of year	38,851	35,476
Cash, end of year	$ 54,592	$ 38,851
Cash in the statements of cash flows is reported in the statements of assets, liabilities, and net position as follows:		
Cash held in trust	$ 4,774	$ 5,392
Funds held by the University	49,818	33,459
Total	$ 54,592	$ 38,851

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

STATEMENTS OF CASH FLOWS
(Continued)

For the Years Ended June 30, 2017 and 2016
(Amounts in thousands)

	2017	2016
Reconciliation of Net Operating Income to Net Cash Flows from Operating Activities		
Net operating income	$ 22,693	$ 21,504
Adjustments to reconcile net operating income to net cash flows from operating activities		
Depreciation	12,443	11,535
Amortization	25	75
Changes in operating assets and liabilities		
Due from Fairmont Olympic Hotel	(535)	558
Accounts receivable	497	176
Other current assets	73	(41)
Straight-line rent adjustment	(1,883)	(3,190)
Leasehold excise tax payable	233	(452)
Unearned rent revenue	73	(159)
Other current liabilities	836	(507)
Security deposits payable	147	283
Net cash flows from operating activities	$ 34,602	$ 29,782
Noncash Activities		
Purchase of improvements not paid for with cash at year-end	$ 666	$ -

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Metropolitan Tract Ownership and Operation

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

Office Properties

The University owns the Rainier Tower, Financial Center, IBM Building, Skinner Building, and Puget Sound Plaza. The buildings include approximately 1.6 million square feet of office space and 100,000 square feet of retail space located at street level. The Financial Center and IBM Buildings have underground parking garages and the Puget Sound Plaza is connected to a multi-level parking structure also owned by the University.

The University entered into a property management agreement with Unico Properties LLC ("Unico") to manage all of the office buildings except the Rainier Tower. Wright Runstad Limited Partnership, an entity controlled by Wright Runstad, was contracted to manage the Rainer Tower due to its proximity to the Rainier Square Site. (See Note 8).

The University contracted with Unico to perform leasing services for all of the office properties on the Metropolitan Tract.

Cobb Building

The University also owns the Cobb Building. The Cobb Building is a 91-unit apartment building that was converted from medical and office space to luxury apartments in 2004. Management of the property is performed by Unico, who subcontracts with Blanton Turner, a residential property manager.

Rainier Square Site

The Rainier Square Building is a three-story building with 112,000 square feet of retail space. The property has historically underperformed and in the early 2000s, it was deemed a development site. In May 2014, the University entered into an agreement with WRC Fourth Avenue LLC ("WRC"), an entity controlled by Wright Runstad, to undertake activities relating to the redevelopment of the Rainier Square Site ("the Predevelopment Agreement"). The Predevelopment Agreement commenced on November 1, 2014, and expires upon the completion of certain development milestones. In accordance with the Predevelopment Agreement, the University entered into an Interim Agreement for the Rainier Square Site that gives WRC significant control over the management and operation of Rainer Square in exchange for a fixed rent schedule for up to seven years. On September 12, 2017, the University signed a ground lease with RSQ Tower LLC (an entity controlled by Wright Runstad) ("the Tower Lease"), which will result in the demolition of the existing Rainier Square property and the development of a 55-story mixed use retail, office, and residential tower. (See Note 8).

Hotel

On January 18, 1980, the Board of Regents entered into a lease ("the Hotel Lease") with the Olympic Hotel property, which expires in 2040. The hotel was operated as the Four Seasons Olympic Hotel until July 31, 2003. On August 1, 2003, the remaining lease term was assigned to LHCS Hotel Holding (2002), LLC. The hotel was renamed the Fairmont Olympic Hotel and managed by Fairmont Hotels and Resorts, Inc. On September 18, 2007, Legacy REIT, a publicly traded Canadian real estate investment trust and parent company of LHCS Hotel Holding (2002), LLC, was purchased by Cadbridge Investors, LP, a limited partnership majority owned by Cadim (a division of the Caisse de depot et placement du Quebec). The tenant under the Hotel Lease remained the same, and the management of the hotel by Fairmont Hotels and Resorts, Inc. did not change. On June 1, 2015, the University consented to the assignment of the Hotel Lease from LHCS Hotel Holding (2002), LLC to IC/RCDP Seattle Hotel, an entity owned by affiliates of Rockwood IX REIT, Inc. and an affiliate of DiNapoli Capital Partners, LLC.

On June 30, 2016, hotel ownership completed a full renovation of all 450 rooms in the hotel. The project cost $25 million and included replacement of windows, hallway refurbishment, and exterior repairs.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

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

Significant revenue recognition and related expense policies are as follows:

- Office, retail, and residential revenues are recognized (on a straight-line basis) each month based on tenant leases in place.

- Hotel rent comprises minimum monthly payments as calculated under the Hotel Lease, in addition to a percentage of tenant revenues as calculated at the end of the calendar year. The management of the Metropolitan Tract estimates and accrues the percentage rent for the period from January to June of 2017. Historically, there have been no significant adjustments from the estimated amount recognized and actual amounts calculated at the end of each lease year.

- Parking revenues are recognized based on tenant leases in place or as spaces are occupied.

- During the years ended June 30, 2017 and 2016, Rainier Square rent revenues are recognized on a monthly basis as outlined by the Interim Agreement. Future rents are outlined in the Tower Lease.

- Direct operating expenses related to the properties, including utilities, repairs and maintenance, and security and janitorial costs, are reported as property operating expenses.

- Expenses incurred in the management of the property, including contractual payments, are reported as property management.

- All other indirect expenses not related to the direct operating or property management are recorded as general and administrative.

- Non-operating revenue and expenses are activities that are not related to rental activities, including interest income and interest expense.

Cash Held in Trust

Cash held in trust represents operating cash held in financial institutions for various properties on behalf of the University. Cash balances held in the trust and other cash balances may exceed federally insured limits during the year.

Funds Held by the University

Funds held by the University are funds invested in pooled investments with the University. The University combines most short-term available cash balances from various departments into the invested funds pool, which is primarily composed of U.S. government and agency securities, mortgage rated investments, and asset-backed securities, as well as units in the Consolidated Endowment Fund ("CEF"), which is a diversified investment fund. The underlying investments in CEF include emerging market equity securities, developed market equity securities, and fixed income securities.

The University annually allocates investment earnings to the departments with qualifying funds in the invested funds pool based on relative amount invested at a rate determined and approved by the University. For the years ended June 30, 2017 and 2016, the rate determined by the University was 1.0% and 2.0%, respectively. Principal amounts invested in the pool are guaranteed by the University.

Security Deposits

Security deposits – residential consists of amounts collected by the University from residential tenants in the Cobb Building as security in the event of a lease default. These deposits are required to be retained and segregated from the University's operating cash. There are no such requirements for security deposits received by commercial tenants.

In lieu of a security deposit, commercial tenants are permitted to obtain letters of credit to serve as their security deposit. At June 30, 2017 and 2016, these letters of credit amounted to $1.3 million and $1.2 million, respectively.

Accounts Receivable

Accounts receivable are due from tenants for rent and other reimbursements. The University considers all accounts greater than 90 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is generally written off against the allowance. These receivables are generally unsecured and do not bear interest. At June 30, 2017 and 2016, the balance of allowance for uncollectible accounts amounted to $46 thousand and $51 thousand, respectively.

Due from Fairmont Olympic Hotel

This amount represents a receivable from the Fairmont Olympic Hotel for leasehold improvement taxes payable to the State of Washington and the percentage rent due for January to June 2017. A corresponding payable for the leasehold improvement taxes and percentage rent is included in leasehold excise tax payable.

Straight-Line Rent Adjustment

Many commercial and residential leases contain fixed escalations of the minimum annual lease payment during the original term of the lease. Therefore, rental income is recognized on the straight-line basis over the lease term. The difference between rental income recognized and the amount currently receivable is recorded as a straight-line rent adjustment.

Property and Depreciation

Land and buildings are recorded at the appraised values as of November 1, 1954, with subsequent additions at cost, when the assets are placed in service. Tenant and building improvements that have not yet been placed in service as of year-end are recorded as construction in progress and are expected to be completed within the next year. Improvements costing over $5 thousand with a useful life greater than one year are capitalized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	50 - 60 years
Modernizations	20 years
Tenant improvements	The lease term

The University reviews long-lived assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable. There were no such impairments during the years ended June 30, 2017 or 2016.

Leasehold Excise Tax Payable

Leasehold excise tax is payable on a quarterly basis to the State of Washington. The current liability represents taxes collected on contract rent, as defined by the Washington State Department of Revenue, during April to June of 2017 and 2016.

Net Position

The University's net position is presented as net investment in capital assets, with the remainder considered unrestricted net position. Capital assets consist of land, building, building improvements, furniture, fixtures and equipment, and construction in progress. The related debt is debt issued to support the acquisition and construction of capital assets and is subtracted from the capital asset balance to arrive at the net investment in capital assets. Unrestricted assets include assets that have no restrictions placed on them, as well as assets that have been internally restricted, if any.

Unearned Rent Revenue

Tenant rent payments received in advance are deferred until the period to which the payments relate.

Fair Value of Financial Instruments

The Metropolitan Tract's financial instruments consist primarily of cash held in trust, funds held by the University, receivables, payables, and long-term debt. The carrying amounts of cash held in trust, funds held by the University, receivables, and payables approximate their respective estimated fair value due to their short-term nature. The carrying amount of the long-term debt approximates the fair value because the interest rate on these loans does not vary materially from the market rate for similar debt instruments.

Transfer from UW Real Estate Office

This represents funds that were transferred from the UW Real Estate Office to the Metropolitan Tract.

Distribution to UW Facilities Bond Retirement Account

During the years ended June 30, 2017 and 2016, $10 million was distributed from the Metropolitan Tract to the UW Facilities Bond Retirement Account. The distribution is determined annually based on cash available after consideration of future operating and capital expenses, and adequacy of reserves.

Property Management Fees

Property management fees are included with operating expenses and represent costs paid to Unico, Wright Runstad, and Blanton Turner for services rendered on the properties. The fees are based on a percentage of tenant rent recognized at each property. Total fees paid to Unico and Wright Runstad were $397 thousand and $244 thousand, respectively, for the year ended June 30, 2017. Total fees paid to Unico and Wright Runstad were $376 thousand and $245 thousand, respectively, for the year ended June 30, 2016. Blanton Turner serves as a sub-contractor to Unico for the Cobb Building under the University's property management agreement with Unico.

Lease Commissions

Lease commissions are costs paid to commercial real estate brokers that facilitate the execution of tenant leases. These commissions are expensed as incurred and are included with general and administrative expenses on the statement of revenues, expenses, and changes in net position.

Income Taxes

As part of the University, the Metropolitan Tract is exempt from federal income taxes, unless it earns unrelated business income.

Use of Estimates

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

Subsequent Events

Management of the University has evaluated subsequent events through the date these financial statements were available to be issued, which was October 13, 2017.

Note 3. Property

Property activity for the years ended June 30, 2017 and 2016, is summarized as follows (amounts in thousands):

	Balance at June 30, 2016	Additions	Transfers	Disposals	Balance at June 30, 2017
Property, not being depreciated:					
Land	$ 9,974	$ -	$ -	$ -	$ 9,974
Construction in progress	3,924	5,275	(4,917)		4,282
Total property not being depreciated	13,898	5,275	(4,917)		14,256
Property, being depreciated:					
Land improvements	793				793
Buildings	95,504				95,504
Tenant improvements	69,874	194	2,087	(5,263)	66,892
Modernizations	129,491		2,830	(723)	131,598
Furniture, fixtures, and equipment	122	154			276
Total property being depreciated	295,784	348	4,917	(5,986)	295,063
Less accumulated depreciation:					
Land improvements	793				793
Buildings	72,455	1,298			73,753
Tenant improvements	49,214	5,209		(5,246)	49,177
Modernizations	55,173	5,911		(422)	60,662
Furniture, fixtures, and equipment	24	25			49
Total accumulated depreciation	177,659	12,443		(5,668)	184,434
Property, net	$ 132,023	$ (6,820)	$ -	$ (318)	$ 124,885

	Balance at June 30, 2015	Additions	Transfers	Disposals	Balance at June 30, 2016
Property, not being depreciated:					
Land	$ 9,974	$ -	$ -	$ -	$ 9,974
Construction in progress	4,389	12,739	(13,204)		3,924
Total property not being depreciated	14,363	12,739	(13,204)		13,898
Property, being depreciated:					
Land improvements	793				793
Buildings	95,504				95,504
Tenant improvements	61,021	92	8,761		69,874
Modernizations	124,185	863	4,443		129,491
Furniture, fixtures, and equipment	110	12			122
Total property being depreciated	281,613	967	13,204		295,784
Less accumulated depreciation:					
Land improvements	793				793
Buildings	71,156	1,299			72,455
Tenant improvements	44,743	4,471			49,214
Modernizations	49,423	5,750			55,173
Furniture, fixtures, and equipment	9	15			24
Total accumulated depreciation	166,124	11,535			177,659
Property, net	$ 129,852	$ 2,171	$ -	$ -	$ 132,023

In fiscal year 2017, the University disposed of $5,980 thousand of tenant improvements and modernizations. The related accumulated depreciation was $5,662 thousand, resulting in a loss on the disposal of $318 thousand. The disposals were a result of a thorough review of fixed asset records and writing off assets that were no longer in the buildings. There were no significant disposals of property in fiscal year 2016.

Note 4. Long-Term Debt

The Metropolitan Tract has a long-term loan from the University that was financed through the issuance of taxable serial bonds during the year ended June 30, 2015, for $8.5 million. The outstanding balance as of June 30, 2017 and 2016, was $2.9 and $5.7 million, respectively. The debt has an effective interest rate of 0.86% and a maturity date of December 2017 ($2.9 million is due during the year ending June 30, 2018).

The University has also issued general revenue bonds, and the Metropolitan Tract received $33.6 million in financing from the University's Treasury Department through the issuance of these bonds. The outstanding balance as of June 30, 2017 and 2016, was $32 and $33 million, respectively. The effective interest rate over the 30-year term of the loan is 3.49% and the loan matures in December 2044. Both loans are unsecured, but are expected to be repaid through revenues generated by the Metropolitan Tract properties.

Long-term liability activity is summarized as follows for the years ended June 30 (amounts in thousands):

	2017	2016
Beginning balance	$ 38,523	$ 42,099
Reductions	(3,596)	(3,576)
Total	34,927	38,523
Less current portion	(3,626)	(3,596)
Non-current portion	$ 31,301	$ 34,927

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

	Principal	Interest	Total
2018	$ 3,626	$ 1,052	$ 4,678
2019	766	1,030	1,796
2020	781	1,017	1,798
2021	796	1,002	1,798
2022	811	985	1,796
2023-2027	4,402	4,587	8,989
2028-2032	5,150	3,835	8,985
2033-2037	6,125	2,877	9,002
2038-2042	7,355	1,648	9,003
2043-2045	5,115	289	5,404
	$ 34,927	$ 18,322	$ 53,249

Note 5. Future Minimum Rent

The base rental income on the Fairmont Olympic Hotel is subject to change on an annual basis, as set forth in the lease. At the end of each lease year, the annual rent is adjusted for a percentage of revenues, not below an annual minimum of $1.26 million.

Minimum future rental income under the Hotel Lease is as follows for the years ending June 30 (amounts in thousands):

2018	$ 1,260
2019	1,260
2020	1,260
2021	1,260
2022	1,260
Thereafter	21,840
	$ 28,140

Minimum future rental income under non-cancelable lease agreements with various commercial (office and retail) and residential tenants is as follows for the years ending June 30 (amounts in thousands):

2018	$ 46,937
2019	36,268
2020	32,167
2021	25,736
2022	20,095
Thereafter	71,216
	$ 232,419

Note 6. Rainier Tower Sublease

In 1995, the University assumed a sublease for a portion of the Rainier Tower Building, one of the Unico-controlled buildings on the Metropolitan Tract, and directly controlled approximately 380,000 square feet of office space referred to as the Rainier Tower Sublease ("the Sublease"). As of October 31, 2014, the University directly controls the entire Rainier Tower Building; however, the Sublease agreements with the tenants remain in place until October 31, 2017. Unico managed the Sublease until October 31, 2014, when responsibilities were transferred to Wright Runstad.

Note 7. Related Party Transactions

The University rents office space in the Metropolitan Tract and the leases expire at various dates through 2020. The amount paid for the periods ended June 30, 2017 and 2016, were $2.6 million and $2.7 million, respectively.

Note 8. Rainier Square Redevelopment

As described in Note 1, the terms of the Predevelopment Agreement with WRC, an entity controlled by Wright Runstad, required WRC to make certain payments to the University to extend the termination date of the Rainier Square agreement. WRC extended the termination date of the Rainer Square agreement to June 30, 2018, and paid the University $500 thousand during the year ended June 30, 2016, and $500 thousand during the year ended June 30, 2017. Note that of the $500 thousand paid during the year ended June 30, 2017, $250 thousand was refunded based on the criteria in the Predevelopment Agreement. The remaining amounts collected were recorded as non-operating income during the years ended June 30, 2017 and 2016.

Also, as described in Note 1, on September 12, 2017, the University executed a lease with RSQ Tower LLC, an entity controlled by Wright Runstad, referred to as "the Tower Lease." The University also amended the Predevelopment Agreement to allow for a separate future closing relating to the portion of the project known as "the Rainier Square Hotel Lease". The Tower Lease has an 80-year term, requires RSQ Tower LLC to complete development of the approved building in four years, is unsubordinated, requires minimum ground rent during construction, and 8% of adjusted gross revenue from the project thereafter. Minimum rents for the first five years of the lease are to be $413 thousand per year, increasing to $1,652 thousand per year for the next five years, and continuing after, and adjusted each tenth lease year as 60% of the average annual percentage rents for the previous five lease years, added to the minimum rent payment (beginning with $1,652 thousand). Expected minimum rents as of the signing of the lease are expected to be $126 million over the lease term. The Tower Lease commenced on September 12, 2017, and full demolition of the existing Rainier Square building is expected in November 2017. Management of the University is determining the amount of assets currently occupying the space of the future project and will adjust accordingly upon demolition.

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

S U P P L E M E N T A R Y   I N F O R M A T I O N

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

DETAILS OF PROPERTY
June 30, 2017
(Amounts in thousands)

	Cobb Building	Skinner Building	Puget Sound Plaza	IBM Building	Rainier Tower *	Financial Center	Olympic Hotel	Olympic Garage	Total
Buildings, tenant improvements, and modernizations									
Buildings	$ 752	$ 2,037	$ 9,113	$ 8,413	$ 42,879	$ 16,984	$ 12,535	$ 2,791	$ 95,504
Tenant improvements		7,367	13,051	10,033	24,410	12,031			66,892
Modernizations	43,253	19,466	19,559	14,002	19,837	15,481			131,598
Construction in progress	77	951	937	2,020	27	270			4,282
Furniture, fixtures, and equipment	165	3	11	30	22	45			276
	44,247	29,824	42,671	34,498	87,175	44,811	12,535	2,791	298,552
Less accumulated depreciation and amortization									
Buildings	752	2,037	8,670	8,413	28,943	12,596	9,877	2,465	73,753
Tenant improvements		5,902	8,137	7,485	18,027	9,626			49,177
Modernizations	8,498	12,067	11,210	8,893	11,255	8,739			60,662
Furniture, fixtures, and equipment	13		3	10	4	19			49
	9,263	20,006	28,020	24,801	58,229	30,980	9,877	2,465	183,641
Net investment	$ 34,984	$ 9,818	$ 14,651	$ 9,697	$ 28,946	$ 13,831	$ 2,658	$ 326	114,911
Land									9,974
Land improvements									793
Less accumulated depreciation									(793)
Net land and land improvements									9,974
Net investment including land and land improvements									$ 124,885

* Includes Rainier Square

STUDENT SERVICES AND FACILITIES FEES –
SEATTLE CAMPUS

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

FINANCIAL REPORT

JUNE 30, 2017

C O N T E N T S

petersonsullivan LLP
Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
University of Washington
Seattle, Washington

We have audited the accompanying statements of cash receipts, cash disbursements, and changes in cash balances of Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2017 and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts, cash disbursements, and changes in cash balances of the Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2017 and 2016, on the cash basis of accounting described in Note 1.

Basis of Accounting

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

Peterson Sullivan LLP

October 20, 2017

STUDENT SERVICES AND FACILITIES FEES – SEATTLE CAMPUS
ADMINISTERED BY
THE DIVISION OF STUDENT LIFE
OF THE UNIVERSITY OF WASHINGTON

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

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Receipts		
Student Services and Facilities Fees - Seattle campus	$ 28,224,684	$ 28,287,449
Interest income	254,301	483,861
Total cash receipts	28,478,985	28,771,310
Debt Service		
Principal - ILP - IMA Bonds	(1,718,333)	(1,638,333)
Principal - ILP - Student Facilities Renovation	(2,275,057)	(2,095,416)
Interest - ILP - IMA Bonds	(1,700,104)	(1,782,021)
Interest - ILP - Student Facilities Renovation	(4,989,020)	(5,344,231)
Total debt service payments	(10,682,514)	(10,860,001)
Cash receipts available after debt service	17,796,471	17,911,309
Other Cash Disbursements		
Hall Health Center	6,848,966	6,643,106
Recreation	2,975,149	2,363,685
Student Parent Resource Center	1,404,398	1,400,000
Associated Students of the University of Washington	1,162,323	1,025,885
Student Activities and Union Facilities	1,044,290	1,009,244
Ethnic Cultural Center and Theatre Complex	1,030,025	1,000,574
Student Counseling Center	742,979	723,304
Student Publications	633,000	308,267
Graduate and Professional Student Senate	482,474	481,234
Campus Sustainability Fund	430,043	380,096
Q-Center	356,143	319,843
Student Legal Services	211,287	200,134
Classroom Support Services	166,662	198,512
Student Veteran Life	153,441	
Intellectual House	152,300	
D-Center	92,189	70,976
Peer Health Education Group	60,716	60,815
Services and Activities Committee Operations	37,079	28,000
Total other cash disbursements	17,983,464	16,213,675
Excess (deficiency of) cash receipts over other cash disbursements	(186,993)	1,697,634
Transfers		
Return of unspent funds	45,648	24,606
Change in cash balances	**(141,345)**	**1,722,240**
Cash Balance, beginning of year	25,094,687	23,372,447
Cash Balance, end of year	$ 24,953,342	$ 25,094,687

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

The Division of Student Life ("Student Life") is a unit within the University of Washington ("the University") and is responsible for a variety of programs, services, facilities, and operations supporting the student experience on campus, including, but not limited to, housing, food services, recreational sports programs, student government, the Husky Union Building, student conduct, counseling, health & wellness, disability resources, career services, student publications, fraternity and sorority life, the Q-Center, the D-Center, student veterans, ceremonies, and the University's police department. Student Life administers the allocation and expenditure of certain fees collected from students on the Seattle campus called "Student Services and Facilities Fees." Student Services and Facilities Fees are a portion of the total fees collected from students. Student Services and Facilities Fees include Services and Activities Fees, Intramural Bond Fees, and Student Facilities Renovation Fees.

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

As a part of the University, Student Services and Facilities Fee activity is exempt from income taxes and no tax return is filed. Student Services and Facilities Fee activity receives administrative support from the University without charge.

These financial statements only present a selected portion of the activities of the University. As such, they are not intended and do not present either the financial position, results of operations, or changes in net position of the University.

Financial Statement Presentation

These financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Accordingly, revenue is recognized when cash is received and expenses are recognized when cash is disbursed.

Cash Receipts

All cash receipts are deposited with the University. Funds held by the University are funds invested in pooled investments with the University. The University combines most short-term available cash balances from various departments into the invested funds pool, which is primarily composed of U.S. government and agency securities, mortgage-rated investments, and asset-backed securities, as well as units in the Consolidated Endowment Fund ("CEF"), which is a diversified investment fund. The underlying investments in CEF include emerging market equity securities, developed market equity securities, and fixed income securities.

The University annually allocates investment earnings to the departments with qualifying funds in the invested funds pool based on relative amount invested at a rate determined and approved by the University. For the years ended June 30, 2017 and 2016, the rate determined by the University was 1.0% and 2.0%, respectively. Principal amounts invested in the invested funds pool are guaranteed by the University.

Transfers

During the years ended June 30, 2017 and 2016, $45,648 and $24,606, respectively, in unspent innovation funds from various units were returned to Student Services and Facilities Fees.

Note 2. Uncollected Fees and Future Disbursements

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

In a prior year, the SAF Committee signed a memorandum of understanding with Student Publications to allocate $615,000 of Student Services and Facilities Fees in order to fund a majority of Student Publications' historical operating deficit and in 2015, $615,000 was transferred to Student Publications. The amount is to be repaid over a period of time to be determined by Student Publications' ability to repay the debt (not to exceed 30 years). During the years ended June 30, 2017 and 2016, no repayments were made.

Student Services and Facilities Fees that were uncollected (and are therefore receivable) were $735,792 and $952,908 at June 30, 2017 and 2016, respectively.

In July 2017, the Board of Regents accepted proposed disbursements for the year ending June 30, 2018, totaling $17,474,421.

Note 3. Internal Lending Program – IMA Bonds

Student Services and Facilities Fees are used to make debt service payments on the Series 2005 Revenue Bonds issued by the University. The debt is managed by the University's Internal Lending Program.

At June 30, 2017, the principal amount of the debt outstanding was $32,283,750. The interest rate is reviewed each year and is subject to adjustment by the Board of Regents and, as such, in May 2016, was adjusted from 4.75% to 4.50%, effective July 1, 2016. The final loan payment is due in June 2030.

Borrowings are being repaid by the IMA Bond Fees, which are included in the student services and facilities fees cash receipts at both June 30, 2017 and 2016.

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

	Principal	Interest	Total
2018	$ 1,807,500	$ 1,614,188	$ 3,421,688
2019	1,897,500	1,523,813	3,421,313
2020	1,992,083	1,428,938	3,421,021
2021	2,091,667	1,329,333	3,421,000
2022	2,196,250	1,224,750	3,421,000
2023-2027	12,744,167	4,362,521	17,106,688
2028-2030	9,554,583	997,813	10,552,396
	$ 32,283,750	$ 12,481,356	$ 44,765,106

Note 4. Internal Lending Program – Student Facilities Renovation

Student Services and Facilities Fees has borrowings available from the University's Internal Lending Program of $126,000,000, $8,000,000, and $16,000,000 for the renovation of the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively. At June 30, 2017, the principal amount of the debt outstanding on these borrowings was $89,239,893, $6,456,885, and $13,454,908 for the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively (total of $109,151,686). The interest rate is reviewed each year and is subject to adjustment by the Board of Regents and, as such, in May 2016, was adjusted from 4.75% to 4.50%, effective July 1, 2016. Loan payments began in October 2011 for the Hall Health Center with a 30-year amortization and term. Loan payments began in October 2012 for the Husky Union Building and the Ethnic Cultural Center, also with 30-year amortizations and terms. The renovation activity is not included in these financial statements.

Borrowings are being repaid by the Student Facilities Renovation Fees, which are included in the Student Services and Facilities Fees cash receipts at both June 30, 2017 and 2016.

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

	Principal	Interest	Total
2018	$ 2,387,983	$ 4,862,973	$ 7,250,956
2019	2,497,686	4,753,270	7,250,956
2020	2,612,429	4,638,526	7,250,955
2021	2,732,444	4,518,512	7,250,956
2022	2,857,972	4,392,984	7,250,956
2023 - 2027	16,384,148	19,870,632	36,254,780
2028 - 2032	20,509,608	15,745,172	36,254,780
2033 - 2037	25,673,842	10,580,938	36,254,780
2038 - 2042	31,805,007	4,121,342	35,926,349
2043	1,690,567	12,695	1,703,262
	$ 109,151,686	$ 73,497,044	$ 182,648,730

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

2016	2.6 to 1
2017	2.7 to 1

Note 5. Subsequent Events

Student Services and Facilities Fees has evaluated subsequent events through the date these financial statements were available to be issued, which was October 20, 2017.