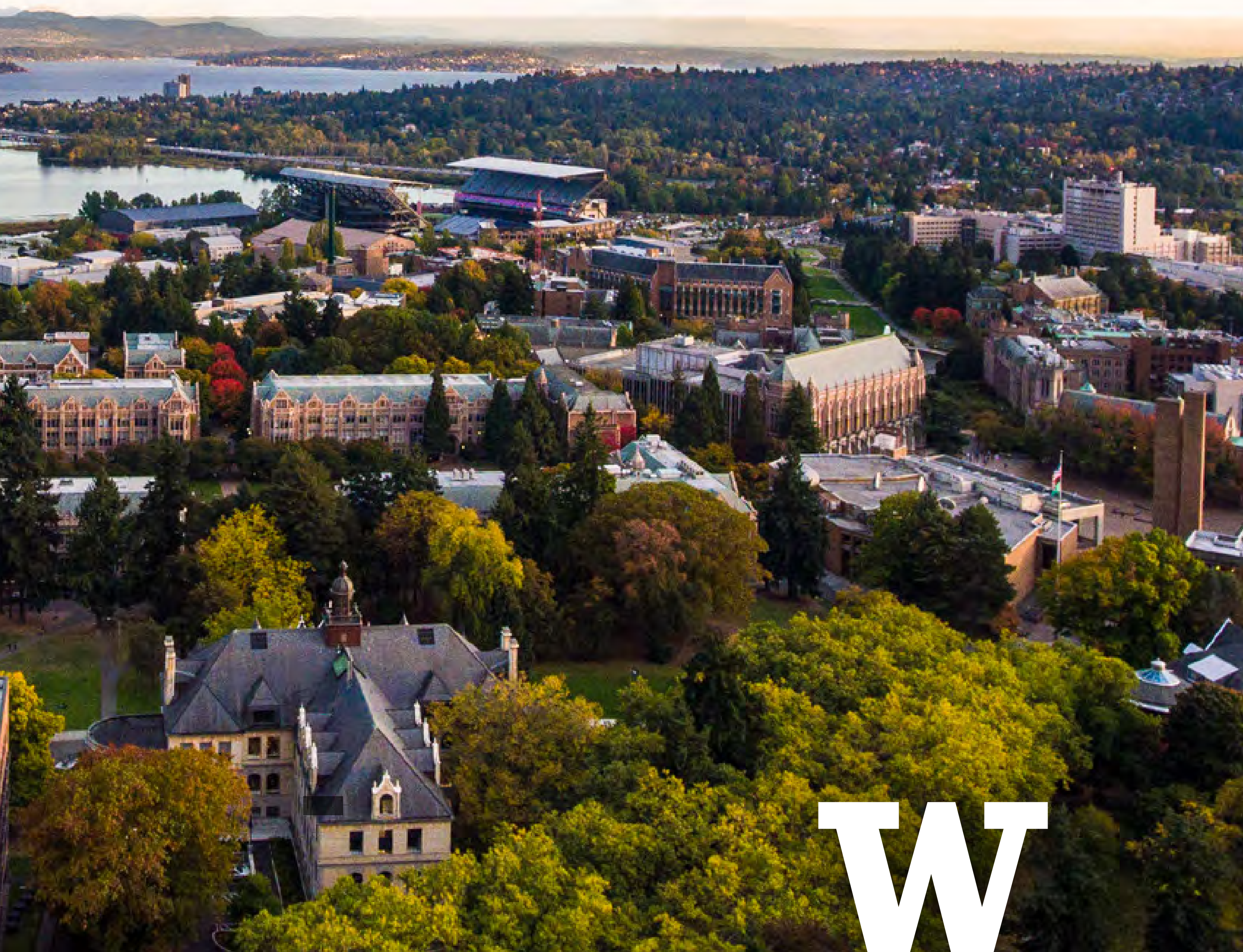
2020 UNIVERSITY *of* WASHINGTON

FINANCIAL REPORT



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University Facts

	FISCAL YEAR 2020 Academic Year 2019-2020	FISCAL YEAR 2015 Academic Year 2014-2015	FISCAL YEAR 2010 Academic Year 2009-2010
STUDENTS			
Autumn Enrollment (headcount)			
Undergraduate	42,544	39,331	34,972
Graduate	14,628	13,333	11,996
Professional	2,209	2,006	1,913
TOTAL	**59,381**	**54,670**	**48,881**
Professional and Continuing Education - Course and Conference Registrations	90,714	76,245	63,178
Number of Degrees Awarded			
Bachelor's	11,508	10,145	9,290
Master's	4,957	4,117	3,269
Doctoral	845	838	703
Professional	598	554	523
TOTAL	**17,908**	**15,654**	**13,785**
FACULTY[1]	4,864	4,561	4,169
FACULTY AND STAFF[2]	31,093	27,264	24,741
RESEARCH FUNDING - ALL SOURCES *(in thousands of dollars)*	$ 1,631,329	$ 1,308,801	$ 1,317,614
SELECTED REVENUES *(in thousands of dollars)*			
Net Patient Service and Other Medical-Related Revenues[3]	$ 2,949,012	$ 2,283,022	$ 1,473,779
Gifts, Grants and Contracts	1,762,883	1,444,765	1,314,485
Tuition and Fees[4]	1,058,271	914,419	527,958
Auxiliary Enterprises and Other Revenues	719,578	614,185	315,363
State Appropriations (Operating)	415,030	255,156	347,425
Investment Income	207,993	227,404	308,752
SELECTED EXPENSES *(in thousands of dollars)*			
Medical-Related[3]	$ 2,577,507	$ 2,068,491	$ 1,043,171
Instruction, Academic Support, and Student Services	2,121,064	1,640,377	1,291,234
Institutional Support and Physical Plant	936,834	767,784	525,273
Research and Public Service	873,225	765,036	733,769
Auxiliary Enterprises	589,895	291,628	165,612
CONSOLIDATED ENDOWMENT FUND[5] *(in thousands of dollars)*	$ 3,560,000	$ 3,076,000	$ 1,830,000
SQUARE FOOTAGE[6] *(in thousands of square feet)*	27,202	22,326	18,526

1. Prior to 2018, this number represents headcount for core faculty (Professorial, Instructional and Research). Starting in 2018, this number represents full time faculty from all campuses including the Medical Centers.
2. Full time equivalents – restated (historically) using centralized data source and enterprise definitions
3. Includes Valley Medical Center in 2020 and 2015 only
4. Net of scholarship allowances of $198.8 million in 2020, $142.7 million in 2015 and $82.5 million in 2010
5. Stated at fair value
6. Gross square footage, all campuses

KPMG LLP
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Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the University of Washington (the University), which comprise the statements of net position as of June 30, 2020 and 2019, 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, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University of Washington as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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, 2020 and 2019, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our 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 18, and the schedules of required supplementary information on pages 67 through 72, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University of Washington's basic financial statements. The accompanying information under the table of contents titled "University Facts" is presented for purposes of additional analysis and are 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 23, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington ("University") for the fiscal years ended June 30, 2020 and 2019, with comparative financial information for 2018. 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 to financial statements that follow this section.

Financial Highlights for Fiscal Year 2020

The University recorded a $343 million increase in net position in 2020 compared to an increase of $481 million in 2019. The 2020 operating loss increased $262 million over the prior year, as the Novel coronavirus (COVID-19) pandemic contributed to operating expense growth that was not accompanied by similar growth in operating revenues. Nonoperating and other revenues increased during the year, benefiting from support provided by federal and state sources related to COVID-19, but were offset by a decrease in the University's investment income.

Key Financial Results

(in millions)	2020	2019	2018
Total operating revenues	$ 5,511	$ 5,485	$ 5,172
Total operating expenses	6,352	6,064	5,859
Operating loss	(841)	(579)	(687)
State appropriations	415	379	362
Gifts	220	166	167
Investment income	208	340	404
Other nonoperating revenues, net	341	175	244
Increase in net position	343	481	490
Net position, beginning of year	5,578	5,097	6,267
Cumulative effect of accounting changes (described below):			
GASB 75 - Other post-employment benefits	—	—	(1,660)
Net position, beginning of year as restated	5,578	5,097	4,607
Net position, end of year	**$ 5,921**	**$ 5,578**	**$ 5,097**

Operating Revenues

Operating revenues increased $26 million, or 0.5%, in 2020. Revenue from student tuition and fees increased a modest $6 million, whereas grant and contract revenue recorded another strong year, increasing $66 million, or 5%, over 2019. Revenue from patient services decreased $43 million, or 2%, during 2020 reflecting the impact on clinical operations from the COVID-19 pandemic and restrictions on non-urgent and elective procedures temporarily mandated by the state's Governor. Other operating revenue increased $37 million, primarily due to strong contract pharmacy revenues. Sales and services of educational departments increased $23 million due to School of Medicine programs, primarily Lab Medicine. These were offset by a decrease in Housing and Food Services revenues of $38 million due to impacts from the pandemic on demand for housing and retail operations, as well as lower revenues from other auxiliary operations.

Operating Expenses

Operating expenses increased $288 million, or 5%, in 2020. Staff salaries and benefits increased $150 million during the year, primarily due to merit increases, the need to retain historical staffing levels despite a decrease in UW Medicine volumes as a result of the COVID-19 pandemic, and higher expenses associated with the University's pension and other post-employment benefit (OPEB) plans. Other contributing factors included an $70 million increase in purchased services such as consulting and contract medical personnel, and a $32 million increase in supplies and materials primarily associated with pharmaceutical supplies.

Nonoperating Revenues

Revenues from nonoperating and other sources, net of interest on capital-related debt, increased $123 million, or 12%, in 2020. Current use, capital and endowed gifts increased a combined $121 million during the year, primarily due to $125 million received from the Bill & Melinda Gates Foundation to support the Population Health Initiative. Amounts received as COVID-19 support, and provided by the CARES Act (described below), contributed $87 million during 2020. Offsetting these was a decrease in investment income during the year, reflecting lower investment returns earned on the University's endowment and operating funds.

COVID-19

The COVID-19 pandemic has had widespread impacts on societal and economic conditions at a local, national and global level, and has had a significant impact on the University's operations. On February 29, 2020, the Governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address coronavirus in Washington and the forecasted potential surge of COVID-19 patients. On March 23, 2020, President Trump declared a national state of emergency with respect to the COVID-19 outbreak, ordering all states to establish emergency operations and authorizing the use of federal funds.

In accordance with direction and mandates from the Governor, beginning on March 19, 2020, the University's clinical operations cancelled or postponed all non-urgent and elective procedures. On May 19, 2020, the Governor lifted these restrictions, allowing non-urgent and elective procedures to resume. The cancellation of procedures from mid-March to mid-May had a significant impact on patient volumes and revenues in the current fiscal year.

On March 23, 2020, the Governor issued a statewide "Stay Home, Stay Healthy" proclamation requiring individuals to stay home except for essential activities, banning social and other gatherings, and closing all businesses with certain exceptions. University courses shifted to remote instruction for the final two weeks of Winter Quarter and for all of Spring Quarter, continuing through Summer Quarter. Although the University did not experience a significant change in student enrollment during the shift to online instruction, many students opted to discontinue living on campus, which together with mandates from the Governor's directive significantly impacted University residential and retail operations.

COVID-19 financial and liquidity support from federal and state sources during fiscal year 2020 took the following forms:

Medicare Advance Payment Program - The University requested and received approval for six months of advance Medicare payments under the Centers for Medicare and Medicaid Services (CMS) Medicare Advanced Payment Program (MAPP). The University received $125 million in April and May of 2020, which is recorded as "unearned revenues" in the accompanying Statements of Net Position. The advance Medicare funds will be recovered by Medicare by offsetting paid claims until the full amount is recouped, beginning one year after the advance payment was issued. The University has up to twenty-nine months from the date of the advance payment to repay the balance. Medicare has not yet begun recovering advance payments through claims for services.

CARES Act Provider Relief Fund - The Federal Government passed the Coronavirus Aid, Relief and Economic Security (CARES Act) in March 2020. The Provider Relief Fund payments are intended to assist with lost revenues associated with lower patient volumes, cancelled procedures and services due to COVID-19. Provider relief funds consisted of both general and targeted distributions. The University received both types of distributions totaling $66 million. For the year ended June 30, 2020, the University has recognized this funding as "other nonoperating revenues" on the Statements of Revenues, Expenses and Changes in Net Position. Subsequent to June 30, 2020, the Department of Health and Human Services (HHS) published its Provider Reporting Guidelines. The guidelines include the reporting timing and deadlines and methodology for calculating lost revenues attributable to COVID-19. Since this information could not have been known at June 30, 2020, any change in the estimate of revenue to be recognized will be recorded in future periods. The University is currently assessing the impact of these reporting requirements.

CARES Act HEERF - Under the CARES Act, the University became eligible for approximately $40 million in grant funding via the Higher Education Emergency Relief Fund (HEERF). Half of this amount is intended to assist eligible students impacted by on-campus financial disruption (student aid portion) with the other half to be used to cover costs associated with significant changes to the delivery of instruction (institutional portion) due to COVID-19. The University distributed $18 million as emergency financial aid to students during fiscal year 2020, with $2 million remaining to be distributed during 2021. Of the $20 million institutional portion, $4 million was allocated to the University's Housing and Food Services auxiliary operation in fiscal year 2020 to cover expenditures that would otherwise have been funded by housing and dining revenues which were impacted by the pandemic. The remainder of these funds will be drawn in fiscal year 2021. The $22 million that has been recognized in fiscal year 2020 is reported as "other nonoperating revenues" on the Statements of Revenues, Expenses and Changes in Net Position.

CARES Act FICA Deferral - The CARES Act provides that employers may elect to defer payment of the employer's share of social security taxes through December 31, 2020. Of these deferred payments, 50% must be paid by December, 2021, with the remainder paid by December, 2022. As a result, $31 million has been deferred by the University as of June 30, 2020, and is shown as "long-term liabilities, net of current portion" on the Statements of Net Position.

CARES Act Paycheck Protection Program - Also as part of the CARES Act, the federal government enacted a loan program called the Paycheck Protection Program (PPP) for eligible businesses with 500 or fewer employees. Eligible businesses are able to apply for a loan of up to 2.5 times the average monthly payroll expense of the business. The interest on PPP loans is deferred for the first six months of the loan, with an interest rate of 1% after the deferral period. UW Neighborhood Clinics applied for and was granted a loan of $5 million which is recorded as "long-term liabilities, net of current portion" on the University's Statements of Net Position.

FEMA Public Assistance Program - The University applied for an $85 million grant from the Federal Emergency Management Agency (FEMA) Public Assistance program via the expedited funding channel, which enabled partial funding of estimated eligible expenditures up front, with a 25% state cost share requirement. The University received an expedited payment from the grant program of $32 million to help defray certain costs incurred as part of the University's response to COVID-19. These amounts are reported as "unearned revenues" in the accompanying Statements of Net Position. The University also received an emergency allocation from the state of Washington in relation to the 25% cost share which will be reported as "state appropriations" in fiscal year 2021.

State Appropriations - Including the emergency allocation for the 25% cost share related to the FEMA funding noted above, the state of Washington appropriated a total of $83 million in emergency funding in response to the COVID-19 pandemic in fiscal year 2020. These funds will be used primarily to expand lab capacity for COVID-19 testing, procure medical supplies and equipment, sanitize facilities and equipment, and provide information to the public. Of this funding, $8 million was received as of June 30, 2020 and is included in "state appropriations" in the University's Statements of Revenues, Expenses and Changes in Net Position.

In total, the University received or deferred payment of $288 million during fiscal year 2020 in relation to COVID-19 support. Of this amount, $95 million has been recognized as revenue during the current fiscal year and $36 million represents a future payment obligation of the University (see note 2 to the financial statements). These amounts exclude amounts received and payments deferred by the University's discrete component unit, Valley Medical Center.

Changes in Accounting Standards

The University implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (OPEB) during fiscal year 2018. As a result of implementing Statement No. 75, the University recognized its proportionate share of the state of Washington's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to implementing this Statement the University's financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expense based on cash contributions paid to the OPEB plan administrator. In addition to the reporting changes described above, unrestricted net position was restated at July 1, 2017 by a decrease of $1.7 billion.

The University implemented GASB Statement No. 81, "Irrevocable Split-Interest Agreements" during fiscal year 2018. This Statement changed the way that governments reflect resources received pursuant to irrevocable split-interest agreements, both at inception and throughout the life of the associated contract. Specifically, where the University has a remainder interest in a trust that is also managed by the University, revenues are no longer recognized when the asset is acquired and upon periodic revaluation, but are instead recorded as a deferred inflow of resources and recognized at termination of the contract. Additionally, where the University has a lead interest in a trust that is not managed by the University, revenues are now recognized both when the asset is received or communicated to the University, and upon periodic revaluation. These events were previously not reflected in the financial statements of the University.

The University implemented GASB Statement No. 83, "Certain Asset Retirement Obligations" during fiscal year 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 are now required to recognize a liability and offsetting deferred outflow of resources when these costs are incurred and are reasonably estimable. The University's 2015 Decommissioning Funding Plan, prepared in accordance with Washington Administrative Code 246-235-075, estimated disposal and clean-up costs related to all radioactive materials used for research, clinical applications, and education and was used as the basis for recording the initial ARO liability. Prior to implementing this Statement, the University's financial statements did not reflect any ARO liability or associated deferred outflow, and reported costs associated with these retirement activities as expense at the time of asset disposal.

No new accounting standards were implemented by the University during fiscal year 2020.

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 the University's auditors, KPMG LLP.
- 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, 2020 and 2019). 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 years ended June 30, 2020 and 2019). Their purpose is to assess the University's operating and nonoperating activities.
- Statements of Cash Flows present cash receipts and payments of the University during a period of time (the fiscal years ended June 30, 2020 and 2019). 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 since it has a separate board of directors, it does not provide services exclusively to the University, and it is not a nonprofit corporation of which the University is the sole corporate member; therefore, its financial position at June 30, 2020 and 2019, and results of operations for the fiscal years ended June 30, 2020 and 2019, 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 of Washington 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, 2020, 2019 and 2018 is shown below:

Summarized Statements of Net Position

(in millions)	2020	2019	2018
Current assets	$ 2,029	$ 1,574	$ 1,486
Noncurrent assets:			
Capital assets, net	4,972	4,935	4,980
Investments, net of current portion	5,570	5,375	5,105
Other	568	525	481
Total assets	13,139	12,409	12,052
Deferred outflows	639	414	244
Total assets and deferred outflows	13,778	12,823	12,296
Current liabilities	1,528	1,166	1,267
Noncurrent liabilities:			
Bonds payable	2,371	2,353	2,334
Pensions and OPEB	2,740	2,498	2,750
Other	383	335	332
Total liabilities	7,022	6,352	6,683
Deferred inflows	835	893	516
Total liabilities and deferred inflows	7,857	7,245	7,199
Net position	**$ 5,921**	**$ 5,578**	**$ 5,097**

Current assets include those that may be used to support current operations, and consist primarily of cash and cash equivalents, 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 $501 million in 2020, and $408 million in 2019, reflects the continuing ability of the University to meet its short-term obligations.

Current assets increased $455 million, or 29%, in 2020. Amounts received from federal and state sources pertaining to COVID-19 support drove a $383 million increase in short-term investments. Likewise, a focus on conserving operating cash balances to protect liquidity in light of COVID-19 contributed to an increase of $58 million in cash and cash equivalents. Current assets increased $88 million, or 6%, in 2019 due to a $60 million increase in accounts receivable, driven by patient receivables and pending investment sales, and a $64 million increase in short-term investments. These amounts were partially offset by a $59 million decrease in cash and cash equivalents.

Current liabilities increased $362 million, or 31%, in 2020. Accounts payable and accrued liabilities increased $213 million during the year primarily driven by a $160 million increase in pending investment purchases compared to the prior year, and a $38 million increase in the liability for accrued annual leave due to the pandemic. A $174 million increase in unearned revenues also contributed to the year over year change, and was primarily attributable to amounts received by the University related to COVID-19 support from the Medicare Advance Payment Program and the FEMA Public Assistance Program. Current liabilities decreased $101 million, or 8%, in 2019 driven by a $65 million decrease in commercial paper debt together with a $33 million decrease in other operating and vendor payables.

Noncurrent assets increased $275 million, or 3%, in 2020 primarily due to a $195 million increase in the market value of the University's long-term investments, combined with a $25 million increase in the value of the University's equity interest in the Seattle Cancer Care Alliance. Noncurrent assets increased $269 million, or 3%, in 2019 primarily due to an increase in the market value of the University's long-term investments.

Noncurrent liabilities increased $308 million, or 6%, in 2020. Pension and OPEB liabilities increased $242 million, reflecting the impact of lower end of year discount rates used in the associated actuarial valuations. Other contributing factors were a $32 million net increase in general revenue bonds outstanding (new issuances less debt service) and $31 million of social security payments owed but unpaid at year end through the CARES Act FICA tax deferral. Noncurrent liabilities decreased $230 million, or 4%, in 2019 primarily due to changes in the University's pension and OPEB liabilities. The net pension liability pertaining to the pension plans administered by the Washington Department of Retirement Systems (DRS) decreased $223 million in 2019 as a result of better than expected investment returns on pension plan assets, and a decrease in the University's proportionate share of the statewide PERS 1 liability. The OPEB liability decreased $211 million due primarily to a reduction in the actuarial assumptions surrounding future healthcare cost trends. Offsetting these was a $182 million increase in the University of Washington Supplemental Retirement Plan (UWSRP) pension liability, due to lower than expected investment returns on the model portfolio used to calculate retiree benefit eligibility, a decrease in the ending discount rate, and salary growth that was higher than expected.

Deferred outflows of resources and deferred inflows of resources primarily represent pension and OPEB-related deferrals, and the University's remainder interest in split-interest agreements. The increase in deferred outflows of $225 million, or 54%, in 2020 primarily pertains to the UWSRP and OPEB plans. UWSRP deferred outflows increased $117 million, and OPEB deferred outflows increased $85 million, due to a decrease in the discount rates used to value the respective ending liabilities. The increase in deferred outflows of $170 million, or 70%, in 2019 also primarily pertains to the UWSRP and OPEB plans. UWSRP deferred outflows increased $141 million in 2019 due to a decrease in the discount rate used to value the ending liability, together with a change in the actuarial assumption pertaining to investment performance and differences between expected and actual experience regarding salary growth. OPEB deferred outflows increased $47 million in 2019, also due to differences between expected and actual experience.

Deferred inflows decreased $58 million, or 6%, in 2020, primarily due to a $66 million reduction in OPEB deferred inflows resulting from amortization of amounts recorded in prior years. Deferred inflows increased $377 million, or 73%, in 2019. The University's share of deferred inflows associated with the DRS plans increased $83 million in 2019 due to the impact of changes in actuarial assumptions, and differences between expected and actual experience when calculating the ending liabilities. OPEB deferred inflows increased $312 million in 2019, primarily due to changes in actuarial assumptions pertaining to future medical cost trends.

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.

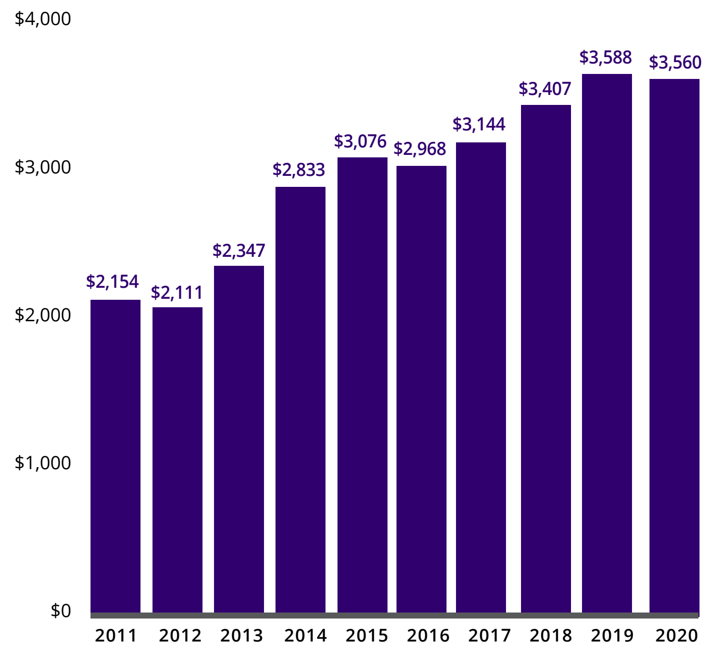
The University of Washington Board of Regents is vested by statute with responsibility for the University's properties and investments, and for establishing investment policy. The University of Washington Investment Management Company (UWINCO), led by the Chief Investment Officer, carries out the day-to-day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

Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. Most endowments are commingled in the Consolidated Endowment Fund (CEF), a diversified investment fund. Similar to 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 endowment gifts and investment returns. The number of individual endowments in the CEF has grown significantly, from 3,545 at June 30, 2011 to 5,253 at June 30, 2020. The market value of the CEF has similarly increased, from $2.2 billion at June 30, 2011 to $3.6 billion at June 30, 2020.

Consolidated Endowment Fund Market Value

(in millions)



The impact to program support has been substantial with $1.1 billion 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.

In February 2019, the Board of Regents approved an amendment to the CEF Investment Policy to reduce the total spending rate from 5.0% to 4.5%. A three-year phased reduction was implemented to cushion the impact on University units starting with a 4.9% spending rate in fiscal year 2020. Quarterly distributions to programs are based on an annual percentage rate of 3.92%, applied to the five-year rolling average of the CEF's market value. Additionally, the policy allows for an administrative fee of 0.98% supporting campus-wide fundraising and stewardship activities (0.784%) and offsetting the internal cost of managing endowment assets (0.196%). The reduction to 4.5% will be in full effect for fiscal year 2022 and beyond.

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 is divided into 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, 2020, 72% of the CEF was invested in Capital Appreciation and 28% in Capital Preservation. Following an expectation that market returns for equities will exceed bonds over the next decade, a medium-term objective is maintained of generally overweighting equity-oriented strategies with a focus on quality companies and downside protection. The University also maintains ample liquidity within Capital Preservation to meet its funding requirements, as well as to take advantage of market dislocations if opportunities arise.

For the fiscal year ended June 30, 2020, the CEF returned +1.1% versus +4.2% for the passive benchmark. The CEF's Private Equity strategy led returns this year. In a very volatile and narrow market driven by a small set of technology stocks, the CEF's Capital Appreciation portfolio underperformed the passive benchmark. The CEF is underweight in the U.S., especially technology, and overweight in international markets. The CEF's Capital Preservation portfolio substantially underperformed the passive benchmark due to the sharp decrease in government bond yields.

A portion of the University's operating funds are invested in the CEF. As of June 30, 2020, these funds comprise $625 million of the CEF market value.

Capital Improvements

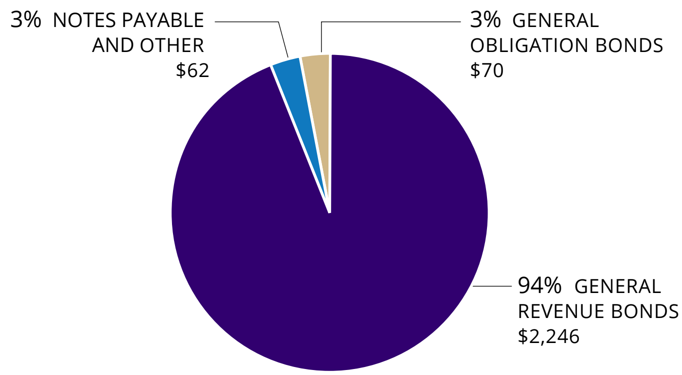
The University continues to expand its campuses, invest in information technology and renovate existing facilities to meet the needs of its students, patients, faculty and staff. Significant capital asset expenditures (greater than $20 million) during fiscal year 2020 included $115 million for the Population Health Facility, $43 million for North Campus Student Housing (Oak Hall), $34 million for the UW Medicine clinical transformation program ("Destination: One"), and $23 million for the renovation of Kincaid Hall.

Debt

The University's Debt Policy governs the type and amount of debt the University may incur. The Debt Policy is designed to maintain access to capital markets and to minimize the risk-adjusted cost of capital.

The University's debt portfolio consists primarily of fixed-rate debt in the form of General Revenue Bonds, Lease Revenue Bonds and state-issued General Obligation Bonds. As of June 30, 2020, the University had $2.4 billion of bonds and notes payable outstanding, an increase of 2.1% from June 30, 2019. Debt outstanding on the Metropolitan Tract is not included in these amounts (see note 8).

Bonds and Notes Payable
(in millions)



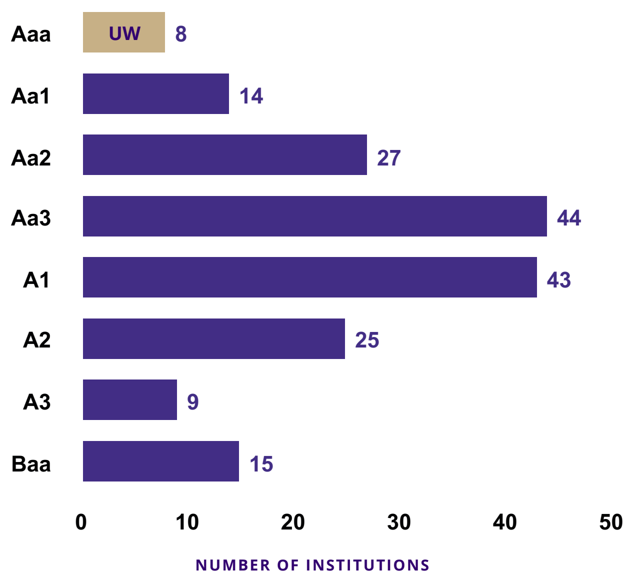
In March 2020, the University issued $51 million of tax-exempt General Revenue bonds with an all-in true interest cost of 2.61% and $51 million of taxable General Revenue bonds with an all-in true interest cost of 2.30%. Proceeds were used to fund various projects including UW Medicine Destination: One, the Childbirth Center at UW Medical Center Northwest Campus (fka Northwest Hospital Childbirth Center), and the Kincaid Hall Renovation. Additionally, the University issued $118 million of tax-exempt General Revenue Refunding Bonds (Delayed Delivery Bonds) to refund callable 2011A bonds and achieve debt service savings. The all-in true interest cost of the refunding bonds was 1.84%. These bonds are scheduled to close in February 2021.

The University has a $250 million commercial paper program, which is typically used to fund project expenditures until long-term funding is secured. As of June 30, 2020, there was no commercial paper outstanding.

In June 2020, the Board of Regents approved a resolution to allow for the issuance of one or more notes in the aggregate amount not to exceed $200 million to evidence one or more liquidity lines of credit for University purposes. The University entered into two separate $100 million agreements with lenders in August 2020, in order to provide short-term emergency support for COVID-19 impacts and align the University with peer schools by having another credit tool available for use. Credit agencies consider this type of liquidity support as a credit positive.

Credit ratings are an indicator of the University's effectiveness in managing its financial resources. During fiscal year 2020, both Moody's (Aaa, Negative Watch) and Standard and Poor's (AA+, Stable) reaffirmed the University's credit ratings. These strong ratings carry substantial advantages for the University: continued and wider access to capital markets, lower interest rates on bonds, and the ability to negotiate favorable bond terms. The University's short-term credit ratings were also affirmed at P-1 (Moody's) and A-1+ (Standard and Poor's).

Moody's Fiscal Year 2019
Public College and University Rating Distribution
(As of the June 2020 Moody's Median Report)



The Board of Regents typically authorizes the long-term debt (excluding commercial paper) issuance on a fiscal year basis, and for fiscal year 2021 has authorized $97 million. Any increase, other than debt issued to achieve debt service savings, would require additional approval by the Board.

Debt beyond fiscal year 2021 is managed through a process in which the University estimates debt capacity. Updated annually, key debt-related financial metrics are benchmarked to credit peer institutions. Current estimates assume outstanding debt will remain relatively flat for the next five years.

Net Position

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

The University reports its "equity" in four categories:

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

The University's net position at June 30, 2020, 2019 and 2018 is summarized as follows:

Categories of Net Position

(in millions)	2020	2019	2018
Net investment in capital assets	$ 2,532	$ 2,489	$ 2,484
Restricted:			
Nonexpendable	1,939	1,878	1,722
Expendable	2,243	2,192	2,129
Unrestricted	(792)	(981)	(1,238)
Total net position	**$ 5,921**	**$ 5,578**	**$ 5,097**

Net investment in capital assets increased $43 million, or 2%, in 2020. This balance typically increases as debt is repaid, 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 2020 was primarily a result of 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. This category of net position was largely unchanged from 2018 to 2019.

Restricted nonexpendable net position increased $60 million, or 3%, in 2020 primarily as a result of receiving $65 million in new endowment gifts during the year. This category of net position increased $156 million, or 9%, in 2019 primarily as a result of receiving $135 million in new endowment gifts during the year.

Restricted expendable net position increased $51 million, or 2%, in 2020. Unspent operating and capital gifts increased $88 million during 2020, together with $4 million from the institutional support portion of the CARES Act HEERF and $15 million from earnings on the Metropolitan Tract. These amounts were partially offset by a $72 million increase in unrealized and realized losses on investments held in the CEF. This category of net position increased $63 million, or 3%, in 2019. Unrealized and realized gains in the market value of the CEF contributed $31 million to the increase for 2019, with the remainder being comprised of the excess of new operating and capital gifts compared to spending of gifts received in prior years.

Unrestricted net position increased $189 million, or 19%, in 2020. Operating losses associated with unrestricted activities were $511 million and interest expense on capital asset-related debt was $93 million. These amounts were more than offset by $415 million in state operating appropriations, $256 million in investment income on unrestricted investments, and $83 million of federal funds from the CARES Act Provider Relief Fund and the student aid portion of HEERF. This category of net position increased $257 million, or 21%, in 2019. Operating losses associated with unrestricted activities were $358 million in 2019 and interest expense on capital asset-related debt was $89 million. These amounts were offset by $379 million in state operating appropriations and $294 million in investment income related to unrestricted investments.

As of June 30, 2020, Unrestricted Net Position reflects a deficit of $792 million due to implementation of GASB Statement No. 68 (pensions) during fiscal year 2015, and the implementation of Statement No.75 (OPEB) during fiscal year 2018. These statements require the University to record its proportionate share of the state of Washington's actuarially determined liabilities for pension and OPEB. As a result of these implementations, Unrestricted Net Position is negative despite historically positive operating results.

The University's Unrestricted Net Position, excluding the impacts from Statement No's 68 and 75, is as follows:

Unrestricted Net Position Excluding Pensions and OPEB

(in millions)	2020	2019	2018
Unrestricted net position, as reported	$ (792)	$ (981)	$ (1,238)
Impact of GASB 68 - Pensions	456	584	706
Impact of GASB 75 - OPEB	1,854	1,817	1,764
Unrestricted net position, excluding pensions and OPEB	**$ 1,518**	**$ 1,420**	**$ 1,232**

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, 2020, 2019 and 2018 follows:

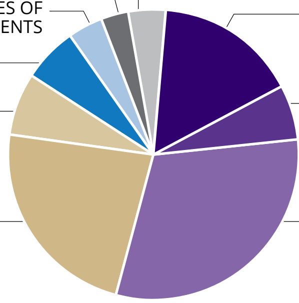
Operating Results

(in millions)	2020	2019	2018
Tuition and fees, net	$ 1,058	$ 1,052	$ 990
Net patient services	2,093	2,136	2,008
Grants and contracts	1,492	1,426	1,409
Other operating revenues	868	871	765
Total operating revenues	5,511	5,485	5,172
Salaries and benefits	3,882	3,732	3,661
Other Operating Expenses	2,470	2,332	2,198
Operating loss	**(841)**	**(579)**	**(687)**
State appropriations	415	379	362
Gifts	220	166	167
Investment income	208	340	404
Other nonoperating revenues	434	264	321
Interest on capital asset-related debt	(93)	(89)	(77)
Increase in net position	**$ 343**	**$ 481**	**$ 490**

The University's operating loss increased to $841 million in 2020, from $579 million in 2019. State appropriations, which are primarily used to fund operations, are shown as nonoperating revenue pursuant to GASB standards. If state appropriations were classified as operating revenue, the operating loss would have been $426 million in 2020, and $200 million in 2019.

The University has a diversified revenue base. No single source generated more than 31% of the total fiscal year 2020 revenues of $6.8 billion.

Sources of Funds



The following table summarizes revenues from all sources for the years ended June 30, 2020, 2019 and 2018:

Revenues from All Sources

(in millions)	2020		2019		2018	
Net patient services	$ 2,093	31%	$ 2,136	32%	$ 2,008	31%
Grants and contracts	1,555	23%	1,492	22%	1,468	23%
Tuition and fees, net	1,058	16%	1,052	16%	990	15%
Gifts	452	7%	331	5%	398	6%
Auxiliary enterprises	420	6%	483	7%	403	6%
State funding for operations	415	6%	379	6%	362	6%
Sales and services of educational departments	283	4%	260	4%	243	4%
Investment income	208	3%	340	5%	404	6%
State funding for capital projects	23	—%	25	—%	26	—%
Other	280	4%	136	3%	124	3%
Total revenue - all sources	**$ 6,787**	**100%**	**$ 6,634**	**100%**	**$ 6,426**	**100%**

Patient Services–UW Medicine

The financial statements of the University include the operations of the School of Medicine (SOM), three hospitals, associated physician group and clinics, Airlift Northwest, and the University's share of three joint ventures. These entities, together with Harborview Medical Center (not included in the University's financial statements – see note 15) and shared services providing IT, accounting, financial services and human resources comprise UW Medicine. 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 healthcare providers, support research activities in collaboration with the SOM 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.

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

UW Medical Center (UWMC) is an 810-bed hospital located on two campuses that provides comprehensive healthcare services to the Puget Sound community and patients from throughout the Pacific Northwest and beyond. Effective January 1, 2020, Northwest Hospital & Medical Center was integrated into UWMC as its second campus, and its assets and liabilities were transferred to UWMC. UWMC also serves as the major clinical, teaching and research site for students and faculty in Health Sciences at the University. More than 22,000 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, among others.

Valley Medical Center (VMC) is a 321-bed acute care hospital and network of clinics that treats approximately 17,000 inpatients per year, and is the oldest and largest public hospital district in the state of Washington. VMC joined UW Medicine in July 2011. VMC's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position are presented in a discrete column on the financial statements of the University.

Northwest Hospital & Medical Center (NWH) is a full-service medical facility with 281 beds and treated approximately 5,000 patients during the first six months of fiscal year 2020. In February 2018, the University Board of Regents granted approval to proceed with the dissolution of NWH as a separate corporation. Effective January 1, 2020, NWH was integrated into UWMC as its second campus, and its assets and liabilities were transferred to UWMC. NWH employees became University employees effective January 1, 2020. NWH ceased operations and is in the process of winding up for dissolution of the corporation.

UW Neighborhood Clinics (Neighborhood Clinics) is a network of clinics with 13 neighborhood locations throughout the greater Puget Sound area, providing primary, urgent and selected specialty care with a staff of 120 healthcare providers.

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

Airlift Northwest provides rapid emergency air transport services to critically ill or injured patients throughout Washington, Alaska, Montana and Idaho.

Joint Ventures - The University is also a participant in three joint ventures: Seattle Cancer Care Alliance, Children's University Medical Group and Embright, LLC. The University's share of these activities is reflected in the University's financial statements.

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 UW Medicine IT Services (ITS), UW Medicine Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, and UW Medicine Contracting.

In combination, these organizations (not including VMC) contributed nearly $2.1 billion in net patient services revenue in fiscal year 2020, compared with over $2.1 billion in fiscal year 2019, a decrease of $43 million, or 2%. UWMC (including NWH) generated 76% of this revenue in 2020 and 79% in 2019. UWMC and NWH admissions were 26,998 in 2020 compared with 28,715 in 2019, a decrease in admissions of 6%. In addition, surgeries declined 9% for UWMC and NWH as compared to 2019. These declines were attributable to the cancellation of non-urgent and elective procedures from mid-March to mid-May, 2020, as directed by the Governor of the state of Washington in response to the COVID-19 pandemic.

Grant and Contract Revenue

One of the largest sources of revenue (23%) continues to be grants and contracts. Grant and contract revenue is received from federal sponsors, by far the largest component, and also from state, local and nongovernmental sources. Total grant and contract revenue increased $63 million in 2020, compared to an increase of $24 million in 2019.

Federal grant and contract revenue increased $41 million, or 4%, in 2020 due primarily to National Institutes of Health (NIH) grant activity and continued research vessel support from the National Science Foundation (NSF). A total of 31 new NIH grants increased revenue by $13 million, supporting a variety of biomedical research initiatives aiming to enhance health and reduce illness. The University also received a 5-year, $34 million NSF award to perform oceanographic research missions aboard the newly refurbished R/V Thomas G. Thompson. Federal grant and contract revenue decreased $7 million, or 1%, in 2019 due primarily to two large projects that ended part way through 2019. Refurbishing work on the R/V Thomas G. Thompson research vessel to extend the vessel's useful life another 20 to 25 years was completed in September, 2018. The University also completed a major genome sequencing contract in the first half of 2019.

State and local grant and contract revenue increased $16 million, or 14%, in 2020 largely attributable to the Washington College Grant, formerly called the Washington State Need Grant, which grew $15 million during the year as a result of increased support from the state legislature related to appropriations and a higher number of eligible students. State and local grant and contract revenue increased $13 million, or 12%, in 2019 also due to the Washington State Need Grant, which increased $9 million as a result of increased state appropriations and a higher number of eligible students.

Nongovernmental grant and contract revenue increased $9 million, or 3%, in 2020. Grants from the Paul G. Allen Family Foundation supporting the UW Medicine Emergency Response Fund for COVID-19 and the Alcohol and Drug Abuse Institute contributed to this increase. The University also received a large consultancy agreement from the Inter-American Development Bank to assist with the Regional Malaria Elimination Initiative. This initiative is funded by the Bill and Melinda Gates Foundation and the Global Fund, with an aim of accelerating progress towards Malaria elimination in Mesoamerica and the Dominican Republic. Nongovernmental grant and contract revenue increased $10 million, or 4%, in 2019. Contributing to this growth was a 20% boost in clinical trial activity within the School of Medicine, as well as increased spending related to a $10 million, four-year grant from the Paul G. Allen Family Foundation to create the Allen Discovery Center for Cell Lineage Tracing. The Center will focus on developing the first global maps of cell lineage in complex organisms, which will help to advance research in disciplines such as developmental biology, neuroscience, cancer biology and regenerative medicine.

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 2020 and 2019 indirect cost recovery rate for research grants was 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)	2020		2019		2018	
Operating tuition and fees	$ 701	48%	$ 716	50%	$ 675	50%
Fees for self-sustaining educational programs	357	24%	336	24%	315	23%
Subtotal - tuition and fees	1,058	72%	1,052	74%	990	73%
State operating appropriations	415	28%	379	26%	362	27%
Total educational support	**$1,473**	**100%**	**$1,431**	**100%**	**$1,352**	**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, net of scholarship allowances, increased $6 million in 2020, compared to an increase of $62 million in 2019. These increases were partially due to the state allowing a 2.4% operating fee increase in resident undergraduate tuition in 2020 and a 2.2% increase in 2019. Other tuition categories also contributed to these increases. Nonresident undergraduate operating fees increased 4.4% in 2020. Most graduate and professional operating fees increased 2.4%, while other program rates increased 0-4%. Most fee-based program rates increased 0-6% in 2020. These other fee increases were consistent with those implemented during 2019.

Revenue growth for both years was also partly due to modest increases in student enrollment. Full-time equivalent (FTE) enrollment in 2020 in undergraduate tuition-and fee-based programs were flat in the resident student category, but increased 0.3% in the nonresident student category. FTE enrollment in graduate and professional tuition- and fee-based programs held steady in the resident student category and increased by 1.8% in the nonresident student category. FTE enrollment in 2019 in undergraduate tuition-and fee-based programs increased 0.4% in the resident student category, and by 5.2% in the nonresident student category. FTE enrollment in graduate and professional tuition and fee-based programs increased 2.7% in 2019 in the resident student category, and by 3.7% in the nonresident student category.

Self-sustaining educational programs (fee-supported programs) include the following amounts for each of the fiscal years 2020, 2019 and 2018: Continuum College (the continuing education branch of the University) $132 million, $126 million and $113 million, respectively, summer quarter tuition $81 million, $65 million and $55 million, respectively, and for Business School and School of Medicine programs $66 million, $63 million and $60 million, respectively.

Gifts, Endowments and Investment Revenues

Net investment income for the years ended June 30, 2020, 2019 and 2018 consisted of the following:

Net Investment Income

(in millions)	2020	2019	2018
Interest and dividends, net	$ 63	$ 72	$ 72
Metropolitan Tract net income	25	26	16
Seattle Cancer Care Alliance change in equity	25	24	17
Realized gains	170	169	62
Unrealized (losses) gains	(75)	49	237
Net investment income	**$ 208**	**$ 340**	**$ 404**

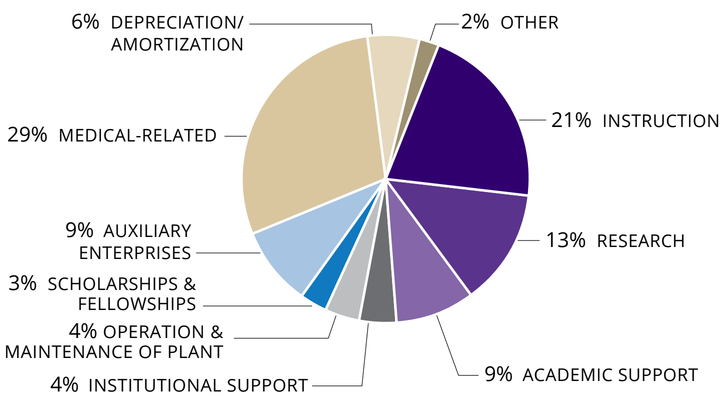
Net investment income decreased $132 million, or 39%, in 2020 compared to a decrease of $64 million, or 16%, in 2019. A decline in unrealized gains drove the decrease in 2020, whereas a similar decrease in unrealized gains during 2019 was partly offset by increases in realized gains. Returns on the CEF were +9.6% in fiscal year 2018, but decreased to +5.8% in 2019 and +1.1% in 2020.

In fiscal year 2020, the University concluded a ten-year fundraising campaign titled "Be Boundless - For Washington, For the World" which resulted in more than a half-million donors giving a combined $6.3 billion. Gifts are a key and necessary source of support for a variety of purposes, including current operating activities. Gifts support scholarships and research, capital improvements, and are used to fund permanent endowments for various academic and research purposes. Current use gifts increased $54 million in 2020 primarily due to $24 million received by the School of Medicine to support the University's response to COVID-19, and $12 million related to the Brotman Baty Institute. Current use gifts in 2019 were largely unchanged from 2018. Capital gifts increased $138 million in 2020 driven by $125 million of support received from the Bill & Melinda Gates Foundation to benefit the University's Population Health Initiative. Capital gifts decreased $106 million in 2019, reflecting an $85 million gift from the Bill & Melinda Gates Foundation which had been received in the prior year but not repeated in 2019. Gifts to permanent endowments decreased $70 million in 2020, compared to an increase of $40 million in 2019. Two large estate gifts received by the University in 2019, but not repeated in 2020, are the primary reason for the decrease during the current year.

Expenses

Two primary functions of the University, instruction and research, comprised 34% of total operating expenses in 2020. These dollars provided instruction to over 59,000 students and funded over 5,500 research awards. Medical-related expenses, such as those related to patient care, also continue to be one of the largest individual components, accounting for 29% of the University's total operating expenses in 2020.

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, 2020, 2019 and 2018 follows:

Operating Expenses by Function

(in millions)	2020		2019		2018	
Educational and general instruction	$1,361	21%	$1,320	22%	$1,268	22%
Research	796	13%	749	12%	785	13%
Public service	77	1%	66	1%	49	1%
Academic support	542	9%	540	9%	512	9%
Student services	55	1%	54	1%	53	1%
Institutional support	268	4%	226	4%	251	4%
Operation and maintenance of plant	281	4%	252	4%	201	3%
Scholarships and fellowships	162	3%	155	3%	149	3%
Auxiliary enterprises	590	9%	554	9%	495	8%
Medical-related	1,832	29%	1,776	29%	1,712	29%
Depreciation/ amortization	388	6%	372	6%	384	7%
Total operating expenses	**$6,352**	**100%**	**$6,064**	**100%**	**$5,859**	**100%**

Overall, the University's operating expenses increased $288 million, or 5%, in 2020 and $205 million, or 3%, in 2019. Approximately 61% of amounts incurred for operating expenses in both 2020 and 2019 were related to faculty and staff compensation and benefits.

In 2020, expense associated with faculty and staff salaries increased $82 million, or 3%, primarily due to merit increases and the need to retain historical staffing levels despite a decrease in UW Medicine volumes as a result of the COVID-19 pandemic.

Benefits expense increased $68 million, or 8% in 2020. Pension-related benefit expenses increased $41 million, driven by amortization of UWSRP deferred outflows reflecting a lower discount rate that had an unfavorable impact on pension expense. OPEB expense decreased $16 million primarily due to lower service cost in 2020. All other benefit expenses, which fluctuate each year in relation to the change in total paid salaries, increased $43 million during 2020.

Supplies and materials expense increased $32 million, or 5%, in 2020 primarily driven by higher costs for pharmaceutical expenses associated with growth in contract pharmacy, as well as generally rising costs for pharmaceutical supplies.

Purchased services increased $70 million, or 8%, in 2020, primarily due to costs associated with information technology and management consulting, as well as contract medical personnel.

In 2019, expense associated with faculty and staff salaries increased $143 million, or 5% primarily due to merit increases and a 1% increase in University FTE's. Benefits expense decreased $71 million, or 8% in 2019. Pension-related benefit expenses decreased $42 million, driven by a reduction in the University's proportionate share of expense associated with the DRS plans, primarily due to better than expected earnings on plan assets and a decrease in the University's PERS 1 participation. OPEB expense decreased $49 million due to a favorable change in the actuarial assumptions regarding future growth in healthcare costs. These decreases were partially offset by a $20 million increase in all other benefit expenses, primarily due to growth in the underlying salaries and the number of FTE's.

Supplies and materials expense increased $43 million, or 7%, in 2019 primarily driven by greater costs for pharmaceutical and medical supplies due to increased patient care volumes and acuity.

Purchased services increased $40 million, or 5%, in 2019. The services of contract medical personnel, as well as information technology and management consulting, make up part of the increase, together with increased services purchased from Fred Hutchinson Cancer Research Center and Seattle Cancer Care Alliance.

Other operating expense increased $49 million, or 29%, in 2019 due, in part, to an increase in the self-insurance claims reserve resulting from two professional liability claims, together with higher rental expenses for University properties.

Economic Factors That May Affect the Future

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by the University, including written or oral statements made by its representatives, may contain forward looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the University expects or anticipates will or may occur in the future contain forward-looking information. In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The University does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

STATE OPERATING AND CAPITAL APPROPRIATIONS

Throughout 2020, the state of Washington, which provided approximately 6% of the University's total revenues in fiscal year 2020, continued to experience significant uncertainty in state tax collections due to the COVID-19 pandemic. In recent biennia, growth in state tax collections and new revenue have largely been consumed by court-mandated increases to K-12 education funding (McCleary v. Washington). As part of the 2019-21 compromise budget package, which was passed during the 2019 legislative session and is effective for fiscal years 2020 and 2021, the legislature approved HB 2158, which created a dedicated source of funding for higher education through an increase to Business and Occupation (B&O) taxes on professional services. In addition to funding foundational support allocations to public colleges and universities, this revenue will maintain the legislature's commitment to fully-fund the State Need Grant program (re-named the "Washington College Grant" program) by fiscal year 2021, and will make significant investments in science, technology, engineering and math (STEM) enrollments across all three University campuses.

Following the 2020 legislative session, the state was slated to pass a supplemental budget amending the 2019-21 biennial budget which provided modest additional increases to some programs. However, due to projected decreases in tax revenue as a result of the COVID-19 pandemic, many of these provisos were vetoed by the Governor.

Since then, the pandemic has severely impacted state revenues. The June 2020 revenue forecast projected a nearly $9 billion deficit over the current and upcoming biennia. As a result of this projected deficit, the University was asked to provide to the state Office of Financial Management a response to an exercise modeling a 15% reduction to state operating appropriations to the institution. The September 2020 revenue forecast updated projections in a positive direction, reducing the projected revenue deficit to $4.5 billion over the current and next biennia, $2.4 billion of which is attributed to the current biennium. It is possible that the legislature will convene in late 2020, but more likely that they will do so in early 2021 to explore options for reconciling the state budget for fiscal year 2021 and determining appropriation levels for fiscal years 2022 and 2023.

The University's fiscal year 2021 general operating appropriation from the state (excluding certain amounts appropriated for specific purposes) currently totals nearly $423 million. This amount is an increase from approximately $397 million in 2020 and $368 million in 2019. Recent increases are largely attributable to targeted investments in foundational support and STEM enrollments included in HB 2158. The University also received new appropriations for compensation, medical education, hospital and dental clinic safety net support, and targeted research investments. In light of the modeling exercise noted above, the University currently anticipates that actual appropriations could be less than the current $423 million amount. The University did not implement salary increases for faculty and professional staff consistent with other state agencies, and has already returned over $4 million in state general funding originally provided for that purpose. Further, given the risks identified above relating to state revenue collections, it is possible that this funding amount will be further reduced in a 2021 supplemental budget passed by the legislature in the upcoming session.

During the 2015-17 biennium, the state approved a new tuition policy that 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. The same tuition policy allowed for future increases tied to a rolling average of median hourly wage in the state. Under this current policy, the state has allowed resident undergraduate tuition to increase by just over 2% in each year. While the legislature can always modify its policy, it has so far chosen to maintain it through the 2019-21 biennium. The University's current expectation is that resident undergraduate tuition increases will continue to be limited to approximately 2% each year for the near future. The University's Board of Regents continues to have broad tuition and fee setting authority for categories other than resident undergraduate tuition.

State funding for capital appropriations continues to be constrained, but the state's 2019-21 biennial capital budget provided state bonding capacity or other funding for several critical capital projects that the University requested for the 2019-21 biennium. These include a health sciences education building, STEM-related buildings across all three campuses, and seismic upgrades. The state also provided significant funding for the University to expand mental health services in the state through a new behavioral health teaching facility. The 2020 supplemental capital budget added funding for pre-design of a multi-phased renovation of the Magnuson Health Sciences Center.

UW MEDICINE

The COVID-19 pandemic continues to evolve and the future impact on UW Medicine's operations and financial position will be driven by many factors, most of which are beyond UW Medicine's control and are difficult to predict. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures, government-imposed or recommended suspensions of non-urgent and elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, and incremental expenses required for supplies and personal protective equipment. While the future impact of COVID-19 is unknown, the pandemic may impact UW Medicine's patient population, cause volatility in future volumes and require additional changes in the delivery of patient care. Because of these factors and other uncertainties, including a potential fall and winter surge, management cannot estimate the length or severity of the impact of the pandemic on UW Medicine's business. UW Medicine continues to focus on reducing expenses and recovering lost revenues through all available sources.

The healthcare industry, in general, and the acute care hospital business, in particular, are experiencing considerable 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 (ACA). It is difficult to predict the full impact of these actions on UW Medicine's future revenues and operations. Changes to the ACA could significantly impact UW Medicine.

The ability to increase profitability will depend, in part, on successfully executing UW Medicine 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, successfully managing costs and efficiently delivering care are paramount.

Destination: One

In July 2018, the University Board of Regents granted approval to proceed with the UW Medicine clinical transformation program, called Destination: One. This multi-year program will allow UW Medicine to improve patient engagement, physician and practitioner experience and is expected to achieve business and operating efficiencies through development of foundational systems and improved staffing workflows. Patient engagement will be enhanced through development of a single online patient portal for activities between the patient and UW Medicine. More online service opportunities and easy navigation will create additional opportunities for communication between the patient and their care team. UW Medicine will achieve business and operating efficiencies through simplification and standardization across operations and IT, resulting in revenue cycle improvements and optimized resource utilization. Total program costs are estimated to be $180 million, of which $129 million will be financed through the University's Internal Lending Program. Destination: One will be fully implemented in January, 2021.

Behavioral Health Teaching Facility at UWMC

During the fiscal year 2019 Washington State legislative session, UW Medicine was awarded new funding to expand behavioral health services. Specifically, the state awarded $33 million for the planning and design work necessary to build a new, first of its kind, Behavioral Health Teaching Facility at UWMC, which will be located on the Northwest Campus. Planning work is currently underway to design the facility using the initial capital funding appropriation in order to receive the second phase of capital funding of $192 million during the fiscal year 2021 legislative session.

OTHER

In December 2019, the UW Finance Transformation (UWFT) program received unanimous approval from the University's Board of Regents to proceed with a broad redesign of finance-related policies and processes, enabled by the implementation of new ERP technology. Workday Financials has been chosen to support the business objectives for this transformation. The University expects three primary areas of program benefit: functional benefits in the form of new and improved system capabilities, cost avoidance of maintaining and upgrading existing systems, and efficiencies in new business processes and organization. This transformation will move the institution toward a single financial system of record, and is a top administrative priority for the University. Total program costs are estimated at $269 million, which includes all operating and capital costs for implementation and one year of stabilization. Go-live for UWFT is expected to be July 1, 2022.

Rising benefit costs, particularly for healthcare and pensions, continue to impact the University. The monthly employer base rate paid by the University for employee healthcare increased 3% during fiscal year 2020, and will be increasing 4% during fiscal year 2021, from $939 to $976 per month per active employee. Likewise, employer pension funding rates for the Public Employees Retirement System (PERS) pension plans increased 1% during fiscal year 2020, and will be increasing another 1% in fiscal year 2021. Both rates are likely to continue increasing over the next few years.

FINANCIAL STATEMENTS & NOTES

STATEMENTS OF NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNIT VALLEY MEDICAL CENTER	
	June 30,		June 30,	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2020**	**2019**	**2020**	**2019**
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS (NOTE 3)	$ 143,195	$ 85,516	$ 114,880	$ 35,373
INVESTMENTS, CURRENT PORTION (NOTE 7)	999,750	616,484	74,035	67,198
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $23,896 and $21,673) (NOTE 6)	824,226	817,762	89,817	86,924
OTHER CURRENT ASSETS	61,868	54,675	31,829	24,246
TOTAL CURRENT ASSETS	2,029,039	1,574,437	310,561	213,741
NONCURRENT ASSETS:				
DEPOSIT WITH STATE OF WASHINGTON (NOTE 4)	78,673	72,843	—	—
INVESTMENTS, NET OF CURRENT PORTION (NOTE 7)	5,570,383	5,375,352	257	545
METROPOLITAN TRACT (NOTE 8)	182,970	168,292	—	—
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF $4,520 and $1,656) (NOTE 5)	48,945	60,737	—	—
OTHER NONCURRENT ASSETS	257,395	221,994	144,978	152,759
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF $5,103,381 and $4,898,154) (NOTE 9)	4,971,660	4,935,336	393,772	385,901
TOTAL NONCURRENT ASSETS	11,110,026	10,834,554	539,007	539,205
TOTAL ASSETS	13,139,065	12,408,991	849,568	752,946
DEFERRED OUTFLOWS OF RESOURCES (NOTE 13)	639,368	414,063	15,112	16,119
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 13,778,433**	**$ 12,823,054**	**$ 864,680**	**$ 769,065**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 963,443	$ 750,853	$ 136,125	$ 124,460
UNEARNED REVENUES	362,911	188,702	82,186	—
OTHER CURRENT LIABILITIES	40,673	85,285	—	—
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 10-12)	161,269	141,368	10,570	10,550
TOTAL CURRENT LIABILITIES	1,528,296	1,166,208	228,881	135,010
NONCURRENT LIABILITIES:				
U.S. GOVERNMENT GRANTS REFUNDABLE	34,790	43,346	—	—
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 10-12)	2,719,287	2,644,445	328,062	338,374
PENSION LIABILITIES (NOTE 16)	1,198,088	1,143,483	—	—
OTHER POST-EMPLOYMENT BENEFITS (NOTE 17)	1,541,654	1,354,177	—	—
TOTAL NONCURRENT LIABILITIES	5,493,819	5,185,451	328,062	338,374
TOTAL LIABILITIES	7,022,115	6,351,659	556,943	473,384
DEFERRED INFLOWS OF RESOURCES (NOTE 13)	834,820	893,069	29,190	23,849
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**7,856,935**	**7,244,728**	**586,133**	**497,233**
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	2,531,666	2,489,083	118,350	102,937
RESTRICTED:				
NONEXPENDABLE	1,938,615	1,877,816	—	—
EXPENDABLE	2,243,384	2,192,163	856	3,525
UNRESTRICTED	(792,167)	(980,736)	159,341	165,370
TOTAL NET POSITION	5,921,498	5,578,326	278,547	271,832
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 13,778,433**	**$ 12,823,054**	**$ 864,680**	**$ 769,065**

See accompanying notes to financial statements

Dollars in thousands

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNIT VALLEY MEDICAL CENTER	
	Year ended June 30,		Year ended June 30,	
REVENUES	**2020**	**2019**	**2020**	**2019**
OPERATING REVENUES:				
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $198,769 and $159,390)	$ 1,058,271	$ 1,052,222	$ —	$ —
NET PATIENT SERVICE REVENUES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $17,238 and $29,140)	2,092,975	2,135,733	639,971	622,824
FEDERAL GRANTS AND CONTRACTS	1,081,880	1,041,103	—	—
STATE AND LOCAL GRANTS AND CONTRACTS	132,119	115,969	—	—
NONGOVERNMENTAL GRANTS AND CONTRACTS	277,624	268,449	—	—
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	283,159	260,176	—	—
AUXILIARY ENTERPRISES:				
HOUSING AND FOOD SERVICES	114,726	152,965	—	—
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $8,143 and $8,014)	91,535	93,304	—	—
OTHER AUXILIARY ENTERPRISES	213,887	236,906	—	—
OTHER OPERATING REVENUE	165,275	128,391	67,063	55,033
TOTAL OPERATING REVENUES	**5,511,451**	**5,485,218**	**707,034**	**677,857**
EXPENSES				
OPERATING EXPENSES (NOTE 14):				
SALARIES	2,961,040	2,879,442	381,791	347,820
BENEFITS	920,605	852,888	93,547	84,177
SCHOLARSHIPS AND FELLOWSHIPS	161,972	155,158	—	—
UTILITIES	61,804	67,977	5,563	6,024
SUPPLIES AND MATERIALS	663,676	631,511	108,019	90,764
PURCHASED SERVICES	954,758	884,334	91,190	81,907
DEPRECIATION/AMORTIZATION	388,338	372,435	33,366	37,202
OTHER	239,361	220,485	33,495	33,429
TOTAL OPERATING EXPENSES	**6,351,554**	**6,064,230**	**746,971**	**681,323**
OPERATING LOSS	**(840,103)**	**(579,012)**	**(39,937)**	**(3,466)**
NONOPERATING REVENUES (EXPENSES)				
STATE APPROPRIATIONS	415,030	378,656	—	—
GIFTS	219,542	165,831	—	—
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $7,964 and $8,700)	207,993	339,878	8,786	7,787
INTEREST ON CAPITAL ASSET-RELATED DEBT	(92,739)	(88,498)	(13,961)	(14,853)
PELL GRANT REVENUE	51,719	51,790	—	—
PROPERTY TAX REVENUE	—	—	24,003	23,258
OTHER NONOPERATING REVENUES (EXPENSES)	114,118	8,363	27,824	(689)
NET NONOPERATING REVENUES	**915,663**	**856,020**	**46,652**	**15,503**
INCOME BEFORE OTHER REVENUES	**75,560**	**277,008**	**6,715**	**12,037**
CAPITAL APPROPRIATIONS	23,098	24,797	—	—
CAPITAL GRANTS, GIFTS AND OTHER	179,089	44,260	—	—
GIFTS TO PERMANENT ENDOWMENTS	65,425	135,484	—	—
TOTAL OTHER REVENUES	**267,612**	**204,541**	**—**	**—**
INCREASE IN NET POSITION	**343,172**	**481,549**	**6,715**	**12,037**
NET POSITION				
NET POSITION – BEGINNING OF YEAR (NOTE 1)	5,578,326	5,096,777	271,832	259,795
NET POSITION – END OF YEAR	**$ 5,921,498**	**$ 5,578,326**	**$ 278,547**	**$ 271,832**

See accompanying notes to financial statements

Dollars in thousands

STATEMENTS OF CASH FLOWS

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	**2020**	**2019**
STUDENT TUITION AND FEES	$ 1,013,436	$ 1,007,157
PATIENT SERVICES	2,105,973	2,097,521
GRANTS AND CONTRACTS	1,517,392	1,454,338
PAYMENTS TO SUPPLIERS	(675,574)	(661,940)
PAYMENTS FOR UTILITIES	(63,570)	(69,370)
PURCHASED SERVICES	(955,809)	(903,559)
OTHER OPERATING DISBURSEMENTS	(239,510)	(220,428)
PAYMENTS TO EMPLOYEES	(2,960,222)	(2,870,989)
PAYMENTS FOR BENEFITS	(850,441)	(858,285)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(161,972)	(155,158)
LOANS ISSUED TO STUDENTS	(3,805)	(16,009)
COLLECTION OF LOANS TO STUDENTS	15,597	16,624
AUXILIARY ENTERPRISE RECEIPTS	413,271	482,011
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	267,153	248,804
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	959,743	902,277
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(960,398)	(920,315)
OTHER RECEIPTS	257,236	109,276
NET CASH USED BY OPERATING ACTIVITIES	**(321,500)**	**(358,045)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	429,393	360,803
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	51,719	51,790
PRIVATE GIFTS	165,422	130,496
PERMANENT ENDOWMENT RECEIPTS	65,425	135,484
DIRECT LENDING RECEIPTS	234,139	236,348
DIRECT LENDING DISBURSEMENTS	(219,568)	(233,837)
FEDERAL STIMULUS FUNDING	124,575	—
OTHER	26,740	8,897
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**877,845**	**689,981**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	172,136	184,003
STATE CAPITAL APPROPRIATIONS	20,346	23,704
CAPITAL GRANTS AND GIFTS RECEIVED	179,001	38,068
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(406,338)	(314,652)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(151,988)	(225,447)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(91,221)	(89,443)
OTHER	(4,294)	(2,885)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(282,358)**	**(386,652)**

UNIVERSITY OF WASHINGTON

CASH FLOWS FROM INVESTING ACTIVITIES	Year Ended June 30, 2020	2019
PROCEEDS FROM SALES OF INVESTMENTS	8,853,263	11,323,460
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(9,157,311)	(11,425,292)
INVESTMENT INCOME	87,740	97,928
NET CASH USED BY INVESTING ACTIVITIES	**(216,308)**	**(3,904)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57,679	(58,620)
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	85,516	144,136
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 143,195**	**$ 85,516**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (840,103)	$ (579,012)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	388,338	372,435
CHANGES IN ASSETS, LIABILITIES AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:		
RECEIVABLES	23,017	(31,151)
OTHER ASSETS	(42,594)	(28,711)
PENSION AND OPEB RELATED DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES	(284,066)	202,777
PENSION LIABILITIES	54,605	(41,368)
OPEB LIABILITY	187,477	(211,036)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1,983	(48,309)
UNEARNED REVENUE	142,319	625
OTHER LONG-TERM LIABILITIES	44,288	5,090
U.S. GOVERNMENTAL GRANTS REFUNDABLE	(8,556)	(2,189)
LOANS TO STUDENTS	11,792	2,804
NET CASH USED BY OPERATING ACTIVITIES	**(321,500)**	**(358,045)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
STOCK GIFTS	51,481	36,844
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	25,062	24,231
NET UNREALIZED (LOSSES) GAINS	(82,418)	41,208
EXTERNALLY MANAGED TRUSTS	7,257	8,109
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ 1,382**	**$ 110,392**

See accompanying notes to financial statements

Dollars in thousands

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

The University of Washington (University), an agency of the state of Washington, is governed by a 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 (see note 15).

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. Financial disclosures for these entities are reported in the financial statements of the University in one of two ways: the component units' reported amounts may be blended with amounts reported by the University, or they may be disclosed in a separate column. All component units of the University meet the criteria for blending in accordance with Governmental Accounting Standards Board (GASB) code section 2600, "Reporting Entity and Component Unit Presentation and Disclosure", except Valley Medical Center. Valley Medical Center 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 of which the University is the sole corporate member.

CHANGE IN REPORTING ENTITY

On Feb. 8, 2018 the University's Board of Regents approved the dissolution of Northwest Hospital & Medical Center (NWH), a Washington non-profit corporation, and integration of NWH and UWMC. The integration occurred on January 1, 2020, at which time NWH ceased operations and the University accepted the assets, liabilities, and remaining operations of the corporate entity. At the time of the integration, Northwest Hospital became the Northwest Campus of UWMC and ceased to be a blended component unit of the University. The integration was accounted for as a government merger and, as such, will be reflected in the University's consolidated financial statements as if the merger had occurred on July 1, 2019.

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

The Association of University Physicians dba UW Physicians (UWP)

UWP is a Washington nonprofit corporation formed in 1983 for the exclusive benefit of the University of Washington School of Medicine (SOM). UWP employs SOM faculty and bills and collects for their clinical services as an agent for SOM. UWP had operating revenues of $354.8 million and $309.7 million for the years ended June 30, 2020 and 2019, respectively.

UW Medicine Neighborhood Clinics (Neighborhood Clinics)

Neighborhood Clinics is a Washington nonprofit corporation formed in 1996 exclusively for charitable, scientific and educational purposes for the benefit of SOM, UWP and its affiliated medical centers, HMC and UWMC. Neighborhood Clinics was organized to coordinate and develop patient care in a community clinical setting. Neighborhood Clinics enhances the academic environment of SOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of $31.1 million and $32.0 million for the years ended June 30, 2020 and 2019, respectively.

REAL ESTATE ENTITIES

The entities listed below are nonprofit corporations that were formed for the purposes of acquiring and constructing certain real properties for the benefit of the University to help fulfill its educational, medical and scientific research missions. The 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

As of June 30, 2020 and 2019, these entities had net capital assets of $335.6 million and $348.5 million, respectively, and long-term debt of $338.1 million and $354.5 million, respectively. These amounts are reflected in the University's financial statements.

DISCRETELY PRESENTED COMPONENT UNIT

Valley Medical Center

The University and Public Hospital District No. 1 of King County, a Washington public hospital district dba Valley Medical Center (VMC), participate in a Strategic Alliance Agreement. 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, are members of 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 holds a one-third interest in the joint venture. The University accounts for its interest in the SCCA under the equity method of accounting. As of June 30, 2020 and 2019, the University's investment in the SCCA totaled $208.4 million and $183.4 million, respectively. The University's investment in the SCCA is included in other noncurrent assets in its Statements of Net Position. The University reported investment income of $25.1 million and $24.2 million for its share of the joint venture for the years ended June 30, 2020 and 2019, respectively.

The University and Seattle Children's Hospital established Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care and charitable, educational and scientific missions. CUMG employs SOM faculty physicians, and bills and collects for their services as an agent for SOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (see note 6) as of June 30, 2020 and 2019 includes amounts due from CUMG of $17.8 million and $16.6 million, respectively.

In October 2018, the University became an equity member in PNWCIN, LLC dba Embright (Embright), a Limited Liability Company that was created in 2018. Embright is jointly owned by the University, MultiCare Health System and LifePoint Health. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the members to partner together to further the Triple Aim of improving the patient care experience and improving the health of populations while reducing costs. Together, the members represent 14 hospitals, more than 6,500 providers and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols, care pathways, standardized processes and care management services for complex patients. As of June 30, 2020 and 2019, the University's ownership interest in Embright totaled $1.8 million and $1.0 million, respectively. The University's ownership interest in Embright is recorded in other noncurrent assets in the University's Statements of Net Position.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with GASB, code section Co5, "*Colleges and Universities*", under which the University is considered to be a special-purpose government engaged in business-type activities (BTA). The University presents Management's Discussion and Analysis, Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to the Financial Statements. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. Significant intra-entity transactions are eliminated. The University reports capital assets net of accumulated depreciation and amortization (as applicable), and reports depreciation and amortization expense in the Statements of Revenues, Expenses and Changes in Net Position.

On July 1, 2018, the University implemented GASB Statement No. 83, "*Certain Asset Retirement Obligations*." An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments that have a legal obligation to perform future tangible asset retirement activities are now required to recognize a liability and offsetting deferred outflow of resources when the obligation associated with these costs has been incurred and the costs are reasonably estimable. The basis of the estimate is the current value of the expected future outlays, and is adjusted annually for inflation and any changes in relevant factors. The deferral is recognized as expense in a systematic and rational manner over the life of the tangible capital asset. The liability is extinguished as retirement costs are paid. The University's 2015 Decommissioning Funding Plan, prepared in accordance with Washington Administrative Code 246-235-075, estimated disposal and clean-up costs related to all radioactive materials used for research, clinical applications, and education and was used as the basis for recording the initial ARO liability. These costs were updated based on information provided by vendors that the University is using to prepare its forthcoming Decommissioning Funding Plan report. Prior to implementing this Statement, the University's financial statements did not reflect any ARO liability or associated deferred outflow, and reported costs associated with these retirement activities as expense at the time of asset disposal. Implementation of this Statement resulted in the recognition of a liability of $8.2 million, deferred outflow of $4.3 million and amortization expense of $3.9 million in fiscal year 2019.

On July 1, 2018, the University implemented GASB Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*." This Statement requires that additional information related to debt be disclosed in the Notes to Financial Statements, including the amount of unused lines of credit, assets pledged as collateral, significant default and termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that currently existing disclosure requirements related to long-term liabilities be provided for direct borrowings and direct placements of debt separately from other debt disclosures. The Statement does not impact the recognition or measurement of liabilities, and has no impact on the University's net position. Implementation of this Statement did not have a material impact on the University's financial statements.

ACCOUNTING STANDARDS IMPACTING THE FUTURE

In May 2020, the GASB issued Statement No. 95, *"Postponement of the Effective Dates of Certain Authoritative Guidance,"* which was effective upon issuance. This Statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018. As a result, the University will postpone implementation of Statements No. 84, No. 87 and No. 89.

In January 2017, the GASB issued Statement No. 84, *"Fiduciary Activities,"* which will be effective for the fiscal year ending June 30, 2021, as amended by the issuance of Statement No. 95. This Statement establishes criteria for identifying and reporting fiduciary activities of all state and local governments. Governments with activities meeting the criteria are required to 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 June 2017, the GASB issued Statement No. 87, *"Leases,"* which will be effective for the fiscal year ending June 30, 2022, as amended by the issuance of Statement No. 95. 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 (ROU) lease asset, and lessors will be required to recognize a lease receivable and a deferred inflow of resources. The University expects that implementation of this Statement will have a material impact on its financial statements. While the University continues to assess all of the impacts of implementation, it currently believes the most significant impact relates to the recognition of new ROU assets and lease liabilities on its Statements of Net Position for its real estate and equipment leases. At the time of implementation, the University currently expects to recognize lease liabilities with corresponding ROU assets in the range of $600 million to $700 million. The University also expects to recognize lease receivables with corresponding deferred inflows of resources of approximately $275 million related to real estate agreements in which it is the lessor. The substantial majority of the approximately $275 million expected to be recognized for the University's lessor agreements relate to the University of Washington Metropolitan Tract (Metropolitan Tract). The estimates above are based on the University's existing lease agreements and its currently estimated incremental borrowing rate. The actual impact could differ materially from these estimates based on future leasing activities as well as any changes in the University's estimated incremental borrowing rate.

In June 2018, the GASB issued Statement No. 89, *"Accounting for Interest Cost Incurred before the End of a Construction Period,"* which will be effective for the fiscal year ending June 30, 2022, as amended by the issuance of Statement No. 95. This Statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will no longer be included in the capitalized cost of capital assets reported by the University. This Statement will be applied on a prospective basis, and interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated. The University estimates that implementation of this Statement will result in approximately $7.0 million of additional interest expense being recognized annually.

In May 2019, the GASB issued Statement No. 91, *"Conduit Debt Obligations,"* which will be effective for the fiscal year ending June 30, 2022. This Statement provides a single method for reporting conduit debt obligations of issuers. The Statement clarifies the existing definition of a conduit debt obligation, creates standards for accounting for commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improves related financial statement disclosures. The Statement provides guidance for arrangements when capital assets are acquired with proceeds of conduit debt obligations used by a third party that is obligated to pay the debt service. The University has not issued conduit debt; therefore, implementation of this Statement will have no impact on the University's financial statements.

In January 2020, the GASB issued Statement No. 92, *"Omnibus 2020,"* which primarily will be effective for the fiscal year ending June 30, 2021. This Statement addresses a variety of topics, including specific provisions related to leases, certain intra-entity transfers between a primary government and a component unit's post-retirement benefit plan, reporting of post-employment plan assets accumulated outside of a qualified trust, certain requirements related to fiduciary activities' post-employment benefit arrangements, measurement of asset retirement obligations resulting from a government acquisition, public entity risk pools, fair value measurements, and derivative instrument terminology. While the University continues to assess the impact of implementation of this Statement, it does not currently expect implementation to have a material impact on the its financial statements.

In March 2020, the GASB issued Statement No. 93, *"Replacement of Interbank Offered Rates,"* which will be effective for the fiscal year ending June 30, 2022, as amended by Statement No. 95. This Statement addresses accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate. While the University continues to assess the impact of implementation of this Statement, it does not currently expect it to have a material impact on the University's financial statements.

In March 2020, the GASB issued Statement No. 94, *"Public-Private and Public-Public Partnerships and Availability Payment Arrangements,"* which will be effective for the fiscal year ending June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). APAs are agreements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The University is currently assessing the impact of implementation of this Statement on its financial statements.

In May 2020, the GASB issued Statement No. 96, *"Subscription-Based Information Technology Arrangements,"* which will be effective for the fiscal year ending June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement defines an SBITA, establishes that an SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of an SBITA), and requires note disclosures regarding an SBITA. The University is currently assessing the impact of implementation of this Statement on its financial statements.

In June 2020, the GASB issued Statement No. 97, *"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*." Some requirements of the statement related to defined contribution post-employment benefit plans and fiduciary defined benefit post-employment benefit plans are effective immediately. Management has concluded that these requirements have no material impact on the University. The remaining requirements are effective for the fiscal year ending June 30, 2022. This statement provides guidance intended to increase consistency and comparability related to reporting of fiduciary component units in situations where a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform. The Statement also intends to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements. Lastly, the Statement seeks to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan, and for benefits provided through those plans. While the University continues to assess the impact of implementation of this Statement, it does not currently expect implementation to have a material impact on the its financial statements.

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, the University believes that allowances, reserves and estimates of expected liabilities are adequate.

The University estimates the pollution remediation liability (see remediation liabilities, note 10) 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 (see notes 5 and 6) 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 and other post-employment benefit 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 and retiree populations.

The self-insurance reserve (see note 18) is estimated through an externally prepared actuarial calculation using individual case-basis valuations and statistical analyses. Considerable variability is inherent in such estimates.

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

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. Cash equivalents included in short-term investments is excluded from the beginning and ending cash amounts on the statements of cash flows.

Inventories. Inventories are carried at the lower of cost or market value and are reflected in other current assets on the University's Statements of Net Position. 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 materials and intangibles are stated at cost or, if acquired by gift, at fair market value at the date of the gift, less accumulated depreciation and amortization. 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 materials, and 3 to 15 years for intangibles.

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

Interest incurred on capital asset-related debt was $94.2 million and $91.7 million for the years ended June 30, 2020 and 2019, respectively. The University capitalized $1.5 million and $3.2 million of this cost for the years ended June 30, 2020 and 2019, respectively.

Unearned Revenues. Unearned revenues occur when funds have been collected in advance of when the associated goods or services have been provided, such as advance ticket sales, summer quarter tuition, unspent cash advances on certain grants and advance Medicare payments as described in note 2.

Asset Retirement Obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. AROs are measured at the current value of the estimated costs required to dispose of the asset. AROs are included in long-term liabilities on the University's Statements of Net Position (see remediation liabilities, note 10), and represent costs related to two cyclotrons used for research, clinical applications, and education. Disposal of these assets must be accomplished in accordance with Washington Administrative Code Chapter 246, "Department of Health". The University used the decommissioning guidance provided by the U.S. Nuclear Regulatory Commission to estimate the disposal costs. The assets identified have estimated remaining useful lives of 10 and 15 years. The University has issued a statement of intent to the Washington Department of Health to request funding from the state legislature to fund the decommissioning of these assets. The University has no assets restricted for payment of these obligations. The University has not recognized an obligation for costs that would be incurred in the event that the University relinquished its license from the Department of Health and ceased use of radioactive materials in its operations as the likelihood of this occurring is remote.

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 net pension asset or liability 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 an average credit rating of AA/Aa or higher. 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 total pension liability is the same as the Statements of Net Position date. Legislation passed by the state of Washington and effective beginning in fiscal year 2021 established a funding policy intended to pre-fund retiree benefits, and trust accounts that will be used to accumulate contributions and investment returns. Under this new structure the Supplemental Retirement Plan will report under GASB Statement No. 67/68, which will include setting a discount rate consistent with the expected long-term rate of return on plan assets, and applying the market value of the trust assets against the total pension liability.

Other Post Employment Benefits (OPEB). The total OPEB liability is measured as the University's proportionate share of the state of Washington total OPEB liability, with the proportionate share determined based on the relationship of the University's healthcare-eligible headcount to the total healthcare-eligible headcount for the state. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate required by GASB Statement No. 75 for OPEB plans that do not have assets residing in a qualified trust. OPEB expense is recognized for subsidies earned during the period, interest on the total OPEB 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 healthcare-eligible employees. 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 total OPEB liability is June 30 of the prior fiscal year.

Split-Interest Agreements. Under such agreements, donors make gifts to the University but the University is not the sole beneficiary and receives either a lead interest (distributions during the term of the agreement) or a remainder interest (distribution of assets remaining at the end of the agreement). Charitable trusts, charitable gift annuities, pooled income funds and beneficial interests in charitable trusts are examples of split-interest gifts. Where the University holds a remainder interest in a trust that is also administered by the University, an asset related to these agreements is recorded at fair market value, a deferred inflow is recorded for the remainder value, and a liability is recorded equal to the present value of expected future distributions to the income beneficiaries. The liability is calculated using discount rates ranging from 3.4% to

7.5%. Additionally, donors have established and funded trusts which are administered by organizations other than the University. Under the terms of these trusts, the University has the irrevocable right to receive all or a portion of the income earned on the trust assets in perpetuity. The University does not control the assets held by the outside trusts but recognizes an interest in the trusts, based on the fair value of the assets contributed to the trusts, mostly as permanently restricted contributions. Fluctuation in the fair value of these assets are recorded annually as revenue and impact restricted nonexpendable net position.

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, 2020 and 2019 was $170.2 million and $132.5 million, respectively, and is included in accounts payable and accrued liabilities in the University's Statements of Net Position. Sick leave accrued at June 30, 2020 and 2019 was $54.7 million and $51.3 million, respectively, and is included in long-term liabilities (see note 10) in the University's Statements of Net Position.

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 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. Revenue related to financial assistance provided to patients is excluded from net patient service revenue.

Third-party payer 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 finance.uw.edu/treasury/bondholders/other-investor-material.

Financial Assistance. Financial assistance provides patient care without charge to patients who meet certain criteria under the financial assistance policy. Records are maintained to identify and monitor the level of financial assistance provided. These records include charges foregone for services and supplies furnished under the financial assistance 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 financial assistance provided is calculated based on the aggregate relationship of costs to charges. The estimated cost of financial assistance provided during the years ended June 30, 2020 and 2019 was $22.9 million and $21.9 million, respectively.

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 and 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.

Reclassifications. Certain amounts in the 2019 financial statement footnotes have have been reclassified for comparative purposes to conform to the presentation in the 2020 financial statements.

NOTE 2:

COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) to be a pandemic. The COVID-19 pandemic has had widespread, rapidly evolving, and unpredictable impacts on societal and economic conditions at a local, national, and global level and has had a significant impact on the University's operations. The Federal Government and the state of Washington have implemented measures in an effort to contain the virus, including social distancing, travel restrictions, border closures, and limitations on public gatherings. In February 2020, the Governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address COVID-19 and in March 2020, mandated the postponement of all non-urgent and elective medical procedures. Elective and non-urgent medical procedures were later resumed in May 2020. In March 2020, the University announced that instruction would be offered remotely throughout spring quarter.

In response to financial pressures brought on by the pandemic, the Federal Government and the state of Washington have provided additional sources of liquidity to institutions of higher education and healthcare providers. During the year ended June 30, 2020, the University received funds from the following sources as part of that response:

- *Medicare Advance Payment Program.* In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, the Centers for Medicare & Medicaid Services (CMS) temporarily expanded its Accelerated and Advance Payment Program. Inpatient acute care hospitals, children's hospitals, and certain cancer hospitals were able to request up to 100% of their Medicare payment amount for a six-month period. Amounts received by the University in April and May of 2020 under the Medicare Advance Payment Program constitute six months of advance Medicare payments that will be recovered by Medicare by offsetting paid claims until the full amount is recouped. As of June 30, 2020, recoveries by Medicare were set to commence 120 days after the date of the original advance. On September 30, 2020, this timeline was extended such that recoveries are now set to commence one year from the date of the original advance with full repayment to occur no later than twenty-nine months from the date of the original advance.
- *Coronavirus Aid, Relief and Economic Security Act (CARES Act) Provider Relief Fund.* The CARES Act Provider Relief Fund makes funding available to healthcare providers to assist with lost revenues associated with lower volumes and cancelled procedures and services due to COVID-19. Subsequent to June 30, 2020, the Department of Health and Human Services (HHS) published its Provider Reporting Guidelines. The guidelines include the reporting timing and deadlines and methodology for calculating lost revenues attributable to COVID-19. Since this information could not have been known at June 30, 2020, any change in the estimate of revenue to be recognized will be recorded in future periods. The University is currently assessing the impact of these reporting requirements.
- *Federal Emergency Management Agency (FEMA) Public Assistance Program.* The FEMA Public Assistance Program provides partial funding for costs related to emergency protective measures conducted as a result of the COVID-19 pandemic. Amounts received by the University under the FEMA Public Assistance Program represent expedited funding for estimated costs incurred by the University for the period from January through June 2020. Amounts unearned are currently expected to be recognized by the University as federal grant revenue when the claims are submitted in fiscal year 2021.
- *CARES Act Higher Education Emergency Relief Fund.* The CARES Act Higher Education Emergency Relief Fund makes funding available to colleges and universities to assist eligible students impacted by on-campus financial disruption (student aid) as well as to cover costs associated with significant changes to the delivery of instruction (institutional) due to COVID-19.
- *State Appropriations.* The state of Washington provided emergency funding for the purposes of mitigating the spread of COVID-19 primarily through expanding capacity for COVID-19 testing.
- *CARES Act Paycheck Protection Program.* The CARES Act Paycheck Protection Program is a loan program that allows eligible businesses to apply for a loan of up to 2.5 times the average monthly payroll expense of the business.

The table below summarizes amounts recorded by the University during the year ended June 30, 2020:

(Dollars in thousands)		University of Washington		Discrete Component Unit - Valley Medical Center
MEDICARE ADVANCE PAYMENT PROGRAM (1)	$	125,300	$	64,298
CARES ACT PROVIDER RELIEF FUND (2) (5)		65,553		47,929
FEMA PUBLIC ASSISTANCE PROGRAM (1)		31,890		—
CARES ACT HIGHER EDUCATION EMERGENCY RELIEF FUND - STUDENT AID (2)		17,601		
STATE APPROPRIATIONS (3)		7,629		—
CARES ACT PAYCHECK PROTECTION PROGRAM (PPP) (4)		5,293		—
CARES ACT HIGHER EDUCATION EMERGENCY RELIEF FUND - INSTITUTIONAL (2)		4,238		—
TOTAL	**$**	**257,504**	**$**	**112,227**

(1) Included in “unearned revenues” on the University’s Statements of Net Position

(2) Included in “other nonoperating revenues” on the University’s Statements of Revenues, Expenses and Changes in Net Position

(3) Included in “state appropriations” on the University’s Statements of Revenues, Expenses and Changes in Net Position

(4) Included in “long-term liabilities, net of current portion” on the University’s Statements of Net Position

(5) For the University’s discrete component unit, $30.0 million is included in “other nonoperating revenues” on the University’s Statements of Revenues, Expenses and Changes in Net Position and $17.9 million is included in “unearned revenues” on the University’s Statements of Net Position

The University and its discrete component unit have both elected to defer payment of the employer portion of social security taxes through December 31, 2020, as provided for under the CARES Act. As of June 30, 2020, amounts deferred of $30.7 million and $3.6 million, respectively, were included in long-term liabilities, net of current portion on the University’s Statements of Net Position.

NOTE 3:

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 4:

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 5:

Student Loans Receivable

As of June 30, 2020 and 2019, net student loans of $48.9 million and $60.7 million, respectively, consist of $34.8 million and $43.3 million, respectively, from federal programs, and $14.1 million and $17.4 million, respectively, from University programs. For the years ended June 30, 2020 and 2019, interest income from student loans was $1.6 million. These unsecured loans are made primarily to students who reside in the state of Washington.

NOTE 6:

Accounts Receivable

The major components of accounts receivable as of June 30, 2020 and 2019 are as follows:

(Dollars in thousands)	2020	2019
NET PATIENT SERVICES	$ 347,394	$ 360,301
GRANTS AND CONTRACTS	189,399	186,498
INVESTMENTS	127,105	86,013
SALES AND SERVICES	62,193	46,188
DUE FROM OTHER AGENCIES	61,196	94,723
STATE APPROPRIATIONS	15,024	26,635
TUITION	14,823	11,735
ROYALTIES	8,071	2,937
OTHER	22,917	24,405
SUBTOTAL	848,122	839,435
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(23,896)	(21,673)
TOTAL	**$ 824,226**	**$ 817,762**

NOTE 7:

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 ("UWINCO Board") consists of both Board of Regents' members and external investment professionals who advise UWINCO, the President and the Board of Regents.

The University holds significant amounts of investments that are measured at fair value on a recurring basis. The University is required to provide the following information according to the three-tier fair value hierarchy which is based on the observability of the inputs used in the valuation techniques to measure the fair value of certain financial assets and liabilities. The three-tier hierarchy ranks the quality and reliability of the information used to determine fair values and 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, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.
- Level 3 Inputs – Inputs that are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

TABLE 1 – INVESTMENTS *(Dollars in thousands)*

INVESTMENTS BY FAIR VALUE LEVEL	2020	Fair Value Measurements Inputs: 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	$ 1,043,802	$ 15,660	$ 1,028,142	$ —
U.S. GOVERNMENT AGENCY	396,580	11,151	385,429	—
MORTGAGE BACKED	222,329	—	222,329	—
ASSET BACKED	213,099	—	213,099	—
CORPORATE AND OTHER	506,833	21,025	485,808	—
TOTAL FIXED INCOME SECURITIES	**2,382,643**	**47,836**	**2,334,807**	**—**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	535,298	532,623	2,675	—
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	324	—	—	324
REAL ESTATE	23,677	18,800	—	4,877
OTHER	7,546	—	—	7,546
TOTAL EQUITY SECURITIES	**566,845**	**551,423**	**2,675**	**12,747**
EXTERNALLY MANAGED TRUSTS	**123,539**	**—**	**—**	**123,539**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**3,073,027**	**$ 599,259**	**$ 2,337,482**	**$ 136,286**

INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)	
GLOBAL EQUITY INVESTMENTS	1,527,184
ABSOLUTE RETURN STRATEGY FUNDS	649,895
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	532,244
REAL ASSET FUNDS	147,283
OTHER	70,654
TOTAL INVESTMENTS MEASURED USING NAV	**2,927,260**
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	6,000,287
CASH EQUIVALENTS AT AMORTIZED COST	569,846
TOTAL INVESTMENTS	**$ 6,570,133**

INVESTMENTS BY FAIR VALUE LEVEL	2019	Fair Value Measurements Inputs: 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	$ 948,192	$ 26,758	$ 921,434	$ —
U.S. GOVERNMENT AGENCY	388,414	11,068	377,346	—
MORTGAGE BACKED	247,486	—	247,486	—
ASSET BACKED	278,752	—	278,752	—
CORPORATE AND OTHER	449,450	76,355	373,095	—
TOTAL FIXED INCOME SECURITIES	**2,312,294**	**114,181**	**2,198,113**	**—**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	603,348	598,195	5,153	—
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	132	—	—	132
REAL ESTATE	10,268	4,311	—	5,957
OTHER	16,080	7,039	880	8,161
TOTAL EQUITY SECURITIES	**629,828**	**609,545**	**6,033**	**14,250**
EXTERNALLY MANAGED TRUSTS	**130,795**	**—**	**—**	**130,795**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**3,072,917**	**$ 723,726**	**$ 2,204,146**	**$ 145,045**

INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)	
GLOBAL EQUITY INVESTMENTS	1,495,365
ABSOLUTE RETURN STRATEGY FUNDS	651,054
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	451,191
REAL ASSET FUNDS	164,931
OTHER	69,189
TOTAL INVESTMENTS MEASURED USING NAV	**2,831,730**
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	5,904,647
CASH EQUIVALENTS AT AMORTIZED COST	87,189
TOTAL INVESTMENTS	**$ 5,991,836**

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)*

2020	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,527,184	$ —	MONTHLY TO ANNUALLY	15-180 days
ABSOLUTE RETURN STRATEGY FUNDS	649,895	13,095	QUARTERLY TO ANNUALLY	30-90 days
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	532,244	370,381	N/A	—
REAL ASSETS FUNDS	147,283	58,753	N/A	—
OTHER	70,654	32,674	QUARTERLY TO ANNUALLY	30-95 days
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,927,260**			
2019	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (if Currently Eligible)**	**Redemption Notice Period**
GLOBAL EQUITY INVESTMENTS	$ 1,495,365	$ 14,523	MONTHLY TO ANNUALLY	15-180 days
ABSOLUTE RETURN STRATEGY FUNDS	651,054	13,190	QUARTERLY TO ANNUALLY	30-90 days
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	451,191	387,288	N/A	—
REAL ASSETS FUNDS	164,931	67,229	N/A	—
OTHER	69,189	38,916	QUARTERLY TO ANNUALLY	30-95 days
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,831,730**			

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. As of June 30, 2020 and 2019, approximately 78% and 79%, respectively, of the value of the investments in this category can be redeemed within 90 days. As of June 30, 2020 and 2019, approximately 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. As of June 30, 2020 and 2019, approximately 83% and 72%, respectively, of the value of the investments in this category can be redeemed within one year.
3. **Private equity and venture capital:** This category includes buyout, venture, and special situations funds. These investments cannot be redeemed at the request of the University. 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. These investments cannot be redeemed at the request of the University. 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 opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. As of June 30, 2020 and 2019, approximately 25% 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, 2020 and 2019, the Short-term and Intermediate-term Invested Funds Pools totaled $2.1 billion and $1.6 billion, respectively. The Invested Funds Pool also owns units in the Consolidated Endowment Fund (CEF) valued at $625.0 million and $649.0 million at June 30, 2020 and 2019, respectively. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 0.75% in fiscal years 2020 and 2019. University Advancement received 3.0% of the average balances in endowment operating and gift accounts in fiscal years 2020 and 2019. 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.

In February 2019, the Board of Regents approved an amendment to the CEF Investment Policy to reduce the total spending rate from 5.0% to 4.5%. A three-year phased reduction was implemented to cushion the impact on University units starting with a 4.9% spending rate in fiscal year 2020. Quarterly distributions to programs are based on an annual percentage rate of 3.92%, applied to the five-year rolling average of the CEF's market value. Additionally, the policy allows for an administrative fee of 0.98% to support campus-wide fundraising and stewardship activities (0.784%) and to offset the internal cost of managing endowment assets (0.196%). The reduction to 4.5% will be in full effect for fiscal year 2022 and beyond.

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 was $5.5 million and $30 thousand at June 30, 2020 and 2019, respectively.

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of $170.0 million and $169.0 million in fiscal years 2020 and 2019, respectively, from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year include the net appreciation of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the years ended June 30, 2020 and 2019 was $95.0 million and $220.7 million, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2020 and 2019, the University had outstanding commitments to fund alternative investments of $474.9 million and $521.1 million, respectively. These commitments are expected to be called over a multi-year time frame, generally 2-5 years depending on the type of fund. The University believes it has adequate liquidity and funding sources to meet these obligations.

DERIVATIVES

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

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 as of June 30, 2020 and 2019, categorized by type, are as follows:

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

Notional Amount as of June 30			Fair Value as of June 30			Change in Fair Value		
DESCRIPTION	**2020**	**2019**	**ASSET CLASSIFICATION**	**2020**	**2019**	**INCOME CLASSIFICATION**	**2020**	**2019**
SWAPS FIXED INCOME - LONG	$ —	$113,705	INVESTMENTS	$ —	$113,705	INVESTMENT INCOME	$ —	$ —
SWAPS FIXED INCOME SHORT	—	(113,705)	INVESTMENTS	—	(115,748)	INVESTMENT INCOME	—	(2,043)

As of June 30, 2020 and 2019, the University had outstanding futures contracts with notional amounts totaling $65.1 million and $189.6 million, respectively. As of June 30, 2020 and 2019, accumulated unrealized gains on these contracts totaled $20 thousand and $0.9 million, respectively. These accumulated unrealized gains are included in Investments on the Statements of Net Position. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price.

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, 2020 or 2019. No derivative instruments have been reclassified from a hedging instrument to an investment instrument.

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

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. Effective duration is a commonly used measure of interest rate risk. The longer the duration, the more sensitive the portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income portfolio was 1.99 years and 2.86 years at June 30, 2020 and 2019, respectively.

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' short-term pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The Invested Funds' intermediate-term 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, 2020 and 2019 exclude $32.3 million and $41.5 million, respectively, of fixed income securities held by component units. These amounts make up 1.36% and 1.79%, respectively, of the University's fixed income investments, and are not included in the duration figures detailed in Table 4.

The composition of fixed income securities at June 30, 2020 and 2019, along with credit quality and effective duration measures, is summarized as follows:

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

2020

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (In years)
U.S. TREASURY SECURITIES	$ 1,028,142	$ —	$ —	$ —	$ 1,028,142	2.25
U.S. GOVERNMENT AGENCY	391,240	—	—	—	391,240	3.02
MORTGAGE BACKED	—	177,087	14,037	31,205	222,329	1.78
ASSET BACKED	—	190,520	3,400	19,179	213,099	1.16
CORPORATE AND OTHER	—	427,629	22,703	45,199	495,531	1.06
TOTAL	**$ 1,419,382**	**$ 795,236**	**$ 40,140**	**$ 95,583**	**$ 2,350,341**	**1.99**

2019

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (In years)
U.S. TREASURY SECURITIES	$ 921,434	$ —	$ —	$ —	$ 921,434	3.11
U.S. GOVERNMENT AGENCY	382,739	—	—	—	382,739	2.99
MORTGAGE BACKED	—	198,360	37,698	11,428	247,486	3.52
ASSET BACKED	—	276,446	847	1,459	278,752	1.39
CORPORATE AND OTHER	—	358,195	24,205	58,020	440,420	2.11
TOTAL	**$ 1,304,173**	**$ 833,001**	**$ 62,750**	**$ 70,907**	**$ 2,270,831**	**2.86**

*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 of $1.4 billion and $1.5 billion at June 30, 2020 and 2019, respectively.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	2020	2019
CHINESE RENMINBI (CNY)	$ 299,324	$ 270,614
JAPANESE YEN (JPY)	229,546	167,433
EURO (EUR)	150,466	206,129
INDIAN RUPEE (INR)	119,874	160,397
BRITISH POUND (GBP)	96,832	89,330
BRAZIL REAL (BRL)	79,831	88,404
CANADIAN DOLLAR (CAD)	54,539	59,636
SOUTH KOREAN WON (KRW)	53,471	42,714
HONG KONG DOLLAR (HKD)	47,526	41,264
AUSTRALIAN DOLLAR (AUD)	37,665	26,747
SWISS FRANC (CHF)	33,393	35,895
SWEDISH KRONA (SEK)	30,295	43,459
TAIWANESE DOLLAR (TWD)	29,441	30,491
SINGAPORE DOLLAR (SGD)	24,635	20,055
RUSSIAN RUBLE (RUB)	18,141	27,666
SOUTH AFRICAN RAND (ZAR)	14,154	12,421
REMAINING CURRENCIES	92,478	170,172
TOTAL	**$ 1,411,611**	**$ 1,492,827**

NOTE 8:

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.

Deed restrictions and subsequent Washington State legislation govern the University's authority over the Metropolitan Tract. The original land deeds require that proceeds from a sale of Metropolitan Tract property be used to purchase land and improve or erect buildings. Any remaining funds are to be invested and the income derived is to be used for maintenance of University property. The state legislature enacted further restrictions over the past 160 years requiring legislative approval for the sale of real property on the Metropolitan Tract, and for leases of land or buildings with terms exceeding eighty years. Proceeds from an authorized sale must be deposited in the University's accounts established by the state treasury and used exclusively for construction, maintenance, or alterations to University buildings or debt service related to these activities.

The balances included on the Statements of Net Position as of June 30, 2020 and 2019 of $183.0 million and $168.3 million, respectively, represent 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.

As of June 30, 2020 and 2019, total debt outstanding on the Metropolitan Tract was $29.8 million and $30.6 million, respectively. This debt will be repaid by income generated from the properties. The debt was issued in 2015 to refund commercial paper and to acquire the leasehold on the Cobb Building. These amounts are reflected in the balances for Metropolitan Tract on the Statements of Net Position, and are therefore not included in Note 10 or Note 12.

On September 12, 2017, the University executed a ground lease with a developer to construct a 58-story multi-use office tower (Rainier Square Tower). The Rainier Square Tower lease has an eighty-year term, requires completion of the building in four years, is unsubordinated, and provides minimum ground rent during construction and 8% of adjusted gross revenue to the University thereafter. Completion of the building will occur in late 2020.

On October 10, 2019, the University signed an additional ground lease with the same developer on the Rainier Square block authorizing the construction of an 11-story office building (400 University Building). The 400 University Building lease commenced on January 1, 2020 for a seventy-eight year term, requires completion of the building in three years, is unsubordinated, and provides minimum ground rent during construction and 10% of adjusted gross revenue to the University thereafter. Construction commenced in June 2020 and completion is scheduled for July 2021.

NOTE 9:

Capital Assets

Capital asset activity for the years ended June 30, 2020 and 2019 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2018	Additions/ Transfers	Retirements	Balance as of June 30, 2019	Additions/ Transfers	Retirements	Balance as of June 30, 2020
LAND	$ 144,624	$ 1,694	$ —	$ 146,318	$ (227)	$ 2,854	$ 143,237
INFRASTRUCTURE	311,298	3,139	51	314,386	602	401	314,587
BUILDINGS	6,435,449	628,548	33,611	7,030,386	97,261	11,115	7,116,532
FURNITURE, FIXTURES AND EQUIPMENT	1,516,320	101,004	56,461	1,560,863	45,786	174,948	1,431,701
LIBRARY MATERIALS	376,755	16,656	2,060	391,351	14,808	2,143	404,016
CAPITALIZED COLLECTIONS	7,365	313	—	7,678	(67)	—	7,611
INTANGIBLE ASSETS	220,688	2,505	7,761	215,432	7,014	140	222,306
CONSTRUCTION IN PROGRESS	566,788	(430,200)	4,255	132,333	230,974	6,452	356,855
INTANGIBLES IN PROCESS	7,497	27,246	—	34,743	43,453	—	78,196
TOTAL COST	**9,586,784**	**350,905**	**104,199**	**9,833,490**	**439,604**	**198,053**	**10,075,041**
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION:							
INFRASTRUCTURE	129,209	8,400	—	137,609	8,338	392	145,555
BUILDINGS	2,816,487	239,383	26,330	3,029,540	275,487	9,641	3,295,386
FURNITURE, FIXTURES AND EQUIPMENT	1,251,441	105,014	53,419	1,303,036	72,617	171,337	1,204,316
LIBRARY MATERIALS	285,790	12,559	1,585	296,764	13,423	1,671	308,516
INTANGIBLE ASSETS	124,126	7,079	—	131,205	18,473	70	149,608
TOTAL ACCUMULATED DEPRECIATION/ AMORTIZATION	**4,607,053**	**372,435**	**81,334**	**4,898,154**	**388,338**	**183,111**	**5,103,381**
CAPITAL ASSETS, NET	**$ 4,979,731**	**$ (21,530)**	**$ 22,865**	**$ 4,935,336**	**$ 51,266**	**$ 14,942**	**$ 4,971,660**

NOTE 10:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

Long-term liability activity for the years ended June 30, 2020 and 2019 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2018	Additions	Reductions	Balance as of June 30, 2019	Additions	Reductions	Balance as of June 30, 2020	Current portion as of June 30, 2019	Current portion as of June 30, 2020
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 12)	$ 95,309	$ —	$ 13,919	$ 81,390	$ 12,410	$ 24,215	$ 69,585	$ 10,275	$ 10,685
REVENUE BONDS PAYABLE (NOTE 12)	2,168,865	100,000	61,375	2,207,490	102,000	63,015	2,246,475	63,014	70,000
UNAMORTIZED PREMIUM ON BONDS	162,898	8,132	17,288	153,742	14,673	17,130	151,285	16,515	16,001
TOTAL BONDS PAYABLE	**2,427,072**	**108,132**	**92,582**	**2,442,622**	**129,083**	**104,360**	**2,467,345**	**89,804**	**96,686**
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER -CAPITAL ASSET RELATED (NOTE 12)	27,556	15,870	5,413	38,013	28,053	5,428	60,638	5,428	10,965
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 12)	1,431	153	90	1,494	114	100	1,508	1,458	1,508
CAPITAL LEASE OBLIGATIONS (NOTE 11)	10,102	—	2,451	7,651	—	2,200	5,451	2,214	1,964
TOTAL NOTES PAYABLE AND CAPITAL LEASES	**39,089**	**16,023**	**7,954**	**47,158**	**28,167**	**7,728**	**67,597**	**9,100**	**14,437**
OTHER LONG-TERM LIABILITIES:									
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	57,185	6,290	5,839	57,636	3,301	5,978	54,959	5,840	5,978
SOCIAL SECURITY TAXES (NOTE 2)	—	—	—	—	30,683	—	30,683	—	—
REMEDIATION LIABILITIES (NOTE 1)	21,000	12,153	—	33,153	632	—	33,785	900	—
HMC ITS FUNDING (NOTE 15)	29,719	—	5,897	23,822	447	—	24,269	11,100	9,600
SICK LEAVE (NOTE 1)	49,635	5,151	3,514	51,272	18,251	14,834	54,689	3,358	9,174
SELF-INSURANCE (NOTE 18)	112,210	22,178	34,225	100,163	41,339	16,421	125,081	21,266	25,323
OTHER NONCURRENT LIABILITIES	21,194	8,793	—	29,987	5,858	13,697	22,148	—	71
TOTAL OTHER LONG-TERM LIABILITIES	**290,943**	**54,565**	**49,475**	**296,033**	**100,511**	**50,930**	**345,614**	**42,464**	**50,146**
TOTAL LONG-TERM LIABILITIES	**$2,757,104**	**$ 178,720**	**$ 150,011**	**$2,785,813**	**$ 257,761**	**$ 163,018**	**$2,880,556**	**$ 141,368**	**$ 161,269**

DISCRETE COMPONENT UNIT

Long-term liability activity for the years ended June 30, 2020 and 2019 is summarized as follows:

	Balance as of July 1, 2018	Additions	Reductions	Balance as of June 30, 2019	Additions	Reductions	Balance as of June 30, 2020	Current portion as of June 30, 2019	Current portion as of June 30, 2020
VALLEY MEDICAL CENTER *(Dollars in thousands)*									
LIMITED TAX GENERAL OBLIGATION BONDS	$ 229,850	$ 111,580	$ 10,235	$ 331,195	$ 6,680	$ 10,698	$ 327,177	$ 8,350	$ 10,271
REVENUE BONDS	12,593	—	1,820	10,773	—	10,773	—	1,960	—
BUILD AMERICA BONDS	61,155	—	61,155	—	—	—	—		—
NOTES PAYABLE & OTHER	5,872	1,402	318	6,956	4,781	282	11,455	240	299
TOTAL LONG-TERM LIABILITIES	**$ 309,470**	**$ 112,982**	**$ 73,528**	**$ 348,924**	**$ 11,461**	**$ 21,753**	**$ 338,632**	**$ 10,550**	**$ 10,570**

NOTE 11:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments as of June 30, 2020, are as follows:

CAPITAL LEASES

Year *(Dollars in thousands)*		**Future Payments**
2021	$	2,133
2022		1,896
2023		1,494
2024		120
TOTAL MINIMUM LEASE PAYMENTS		5,643
LESS: AMOUNT REPRESENTING INTEREST COSTS		192
PRESENT VALUE OF MINIMUM PAYMENTS	**$**	**5,451**

OPERATING LEASES

The University has entered into certain lease agreements that are considered to be operating leases, primarily for leased building space. For the years ended June 30, 2020 and 2019, the University recorded rent expense of $94.6 million and $89.9 million, respectively, for these leases.

Future lease payments as of June 30, 2020 are as follows:

Year *(Dollars in Thousands)*		
2021	$	83,471
2022		71,986
2023		67,280
2024		53,935
2025		50,066
2026-2030		123,444
2031-2035		83,776
2036-2040		95,392
2041-2045		110,427
2046-2050		127,840
2051-2055		148,001
2056-2060		171,255
2061-2065		113,994
TOTAL MINIMUM LEASE PAYMENTS	**$**	**1,300,867**

NOTE 12:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2020 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 1.31% to 8.00%. As of

June 30, 2020, substantially all of the University's debt was public debt. Amounts from direct borrowings and direct placements were not material. Debt service requirements as of June 30, 2020 are 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**
2021	$ 10,685	$ 3,060	$ 70,000	$ 104,725	$ 12,473	$ 908
2022	11,675	2,729	73,125	101,474	9,392	743
2023	11,720	2,142	72,880	101,050	7,828	597
2024	12,230	1,542	72,585	97,746	7,885	514
2025	9,330	1,006	75,815	94,204	7,536	428
2026-2030	13,945	1,018	403,050	413,630	14,926	1,178
2031-2035	—	—	400,805	317,324	1,859	117
2036-2040	—	—	477,800	213,362	247	18
2041-2045	—	—	429,105	96,049	—	—
2046-2050	—	—	171,310	29,913	—	—
TOTAL PAYMENTS	**$ 69,585**	**$ 11,497**	**$ 2,246,475**	**$ 1,569,477**	**$ 62,146**	**$ 4,503**

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

ISSUANCE ACTIVITY

On March 17, 2020, the University issued $102.0 million in General Revenue Bonds, 2020A&B, at a premium of $12.8 million. The proceeds were used to fund various projects such as the UW Medicine clinical transformation program ("Destination: One"), as well as construction of the Childbirth Center at UW Medical Center Northwest Campus and renovation of Kincaid Hall. Some of the proceeds were also used to pay off $40.0 million in commercial paper. The 2020A&B bonds have coupon rates ranging from 1.31% to 5.00% with an average coupon rate of 3.63%.

On February 27, 2020, the University entered into a Delayed Delivery Bond Purchase Agreement with BofA Securities, Inc. (the "Purchase Agreement") in relation to the sale of General Revenue Bonds, 2020C. In accordance with the Purchase Agreement, this transaction will be completed and the bonds delivered to the buyer on February 9, 2021 subject to certain standard closing conditions, some of which are out of the University's control. The 2020C bonds have a par value of $117.8 million and were issued at a premium of $26.4 million. The proceeds of the 2020C bonds will be used to refund existing debt. The 2020C bonds have a coupon rate of 5.00%. The average life of the 2020 A,B&C bonds is 13.9 years with final maturity on April 1, 2050.

On February 7, 2019, the University issued $100.0 million in General Revenue & Refunding Bonds, 2019A, at a premium of $8.1 million. The proceeds were used to fund various projects such as the Destination: One project, as well as construction of the Life Sciences building and the Northwest Hospital Childbirth Center. In addition, proceeds were used to pay off $100.0 million in commercial paper. The 2019A bonds have a coupon rate of 5.00% for the first three years, after which the bonds have to be remarketed. If the bonds are not remarketed by May 1, 2022, they are subject to the delayed remarketing rate of 8.00%. The 2019A bonds have an average coupon rate of 7.67%. The average life of the 2019A General Revenue bonds is 3.2 years if the bonds are remarketed. If not remarketed, the average life of the bonds is 29.2 years with final maturity on May 1, 2048.

COMMERCIAL PAPER PROGRAM

The University has a commercial paper program with a maximum borrowing limit of $250.0 million, payable from University general revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2019, the University had $25.0 million, in outstanding commercial paper. The University had no outstanding commercial paper as of June 30, 2020.

During fiscal year 2020, the University issued $15.0 million of commercial paper debt. The University refunded $40.0 million of commercial paper debt with General Revenue Bonds, series 2020A&B during the same period.

During fiscal year 2019, the University issued $60.0 million of commercial paper debt. The University refunded $100.0 million of commercial paper debt with General Revenue Bonds, series 2019A, and repaid $25.0 million of commercial paper debt with University funds during the same period.

SUBSEQUENT DEBT ACTIVITY

On August 13, 2020, the University entered into a Revolving Loan Agreement with Washington Federal Bank, National Association which provides a revolving loan through August 1, 2023, for up to $100 million to be used for providing additional liquidity and short-term emergency support for COVID-19 impacts. Taxable borrowings under the agreement bear interest at 2.21%; tax-exempt borrowings bear interest at 1.75%. Amounts borrowed under the agreement are payable solely from and secured by a pledge of the University's general revenues.

On August 13, 2020, the University entered into a Revolving Credit Agreement with U.S. Bank National Association which provides a revolving line of credit through August 12, 2022, for up to $100 million to be used for providing additional liquidity and short-term emergency support for COVID-19 impacts. Borrowings for tax-exempt projects under the agreement bear interest at a fluctuating rate equal to 84% of the daily one-month LIBOR rate plus a margin of 1.22%; borrowings for taxable projects bear interest at a fluctuating rate equal to the daily one-month LIBOR rate plus a margin of 1.45%. The margins are subject to change depending on the University's credit rating. Amounts borrowed under the agreement are payable solely from and secured by a pledge of the University's general revenues.

The University made no draws and had no outstanding cash borrowings with respect to either of these agreements as of the financial statements issuance date.

CREDIT LINE

As of June 30, 2020 and 2019, the University had a master financing agreement with JPMorgan Chase Bank to serve as a non-revolving credit line (LOC) for the financing of short-term assets, including personal property, to be drawn on from time to time in an aggregate amount not to exceed $30.0 million. Outstanding borrowings on the credit line as of June 30, 2020 and 2019 totaled $25.0 million and $5.1 million, respectively.

NOTE 13:

Deferred Outflows and Deferred Inflows of Resources

The composition of deferred outflows and deferred inflows of resources as of June 30, 2020 and 2019 are summarized as follows:

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

2020	Pensions	OPEB	Split-Interest Agreements	Other	Total
DEFERRED OUTFLOWS OF RESOURCES	$ 450,491	$ 157,383	$ —	$ 31,494	$ 639,368
DEFERRED INFLOWS OF RESOURCES	321,859	469,116	43,845	—	834,820

2019	Pensions	OPEB	Split-Interest Agreements	Other	Total
DEFERRED OUTFLOWS OF RESOURCES	$ 310,096	$ 72,092	$ —	$ 31,875	$ 414,063
DEFERRED INFLOWS OF RESOURCES	311,507	535,079	46,483	—	893,069

NOTE 14:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2020 and 2019 are summarized as follows:

OPERATING EXPENSES *(Dollars in thousands)*	**2020**	**2019**
INSTRUCTION	$ 1,361,466	$ 1,320,209
RESEARCH	795,899	748,976
PUBLIC SERVICE	77,326	65,741
ACADEMIC SUPPORT	542,180	540,359
STUDENT SERVICES	55,446	54,351
INSTITUTIONAL SUPPORT	267,813	225,471
OPERATION & MAINTENANCE OF PLANT	280,683	252,024
SCHOLARSHIPS & FELLOWSHIPS	161,972	155,158
AUXILIARY ENTERPRISES	589,895	553,511
MEDICAL-RELATED	1,830,536	1,775,995
DEPRECIATION/AMORTIZATION	388,338	372,435
TOTAL OPERATING EXPENSES	**$ 6,351,554**	**$ 6,064,230**

Instruction

Instruction includes expenses for all activities that are part of an institution's instructional programs. 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. Expenditure of amounts received from the Washington College Grant, Washington Higher Education Grant, and Pell grants are reflected in this manner. Financial aid funded from existing University resources are considered scholarship allowances, which are reflected as an offset to tuition revenues.

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, UW Medicine Shared Services, Commuter Services and Housing and Food Services departments, among others, 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. The activities of UWMC, UWP, 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 15:

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 agreement has an initial ten-year term and may be renewed for two successive ten-year terms with the consent of both parties.

Under the Hospital Services Agreement, King County retains title to all real and personal properties acquired for King County with HMC capital or operating funds. These real and personal properties are recorded on HMC's books and facility revenues for the operation of HMC are deposited in a King County account that is separate from general King County accounts.

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. As of June 30, 2020, the University's financial statements included accounts receivable and long-term receivables from HMC of $27.7 million and $8.9 million, respectively, HMC investments of $4.2 million and current accrued liabilities and long-term liabilities of $38.1 million and $24.3 million, respectively, related to HMC. As of June 30, 2019, the University's financial statements included accounts receivable from HMC of $39.9 million, HMC investments of $4.1 million and current accrued liabilities and long-term liabilities of $39.9 million and $23.8 million, respectively, related to HMC.

Under an annual agreement, HMC provides strategic funding to Neighborhood Clinics. Funding from HMC to Neighborhood Clinics was $13.8 million and $12.4 million during fiscal years 2020 and 2019, respectively, and is included in 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 (see note 10) of $24.3 million and $23.8 million at June 30, 2020 and 2019, respectively, represents HMC's funding of the enterprise-wide information technology capital assets that 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 2020 and 2019, the UWF transferred $175.9 million and $153.5 million, respectively, to the University in gifts and grants received on its behalf; these are included in the financial statements of the University. The remaining amounts retained by the UWF are not significant to the University's financial statements.

The University of Washington Alumni Association is a tax-exempt entity that was established to connect and celebrate alumni and to support the University's mission. The Alumni Association received $4.4 million and $4.2 million from the University in support of its operations in fiscal years 2020 and 2019, respectively. These amounts were expensed by the University.

NOTE 16:

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, 2020 and 2019, the University's share of the total unfunded liability associated with the defined-benefit pension plans administered by the DRS was $416.3 million and $549.4 million, respectively. As of June 30, 2020 and 2019, the liability associated with the defined benefit pension plan administered by the University was $781.8 million and $594.0 million, respectively, but does not reflect assets segregated in a separate investment account to pay future retiree benefits of $344.8 million and $327.7 million, respectively. For the years ended June 30, 2020 and 2019, total pension expense recorded by the University related to both the DRS and University plans was $91.3 million and $50.8 million, respectively.

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 2% 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 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.

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.

Chapter 43.33A of the RCW 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 https://www.drs.wa.gov/administration/annual-report/.

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 2020 pension liabilities are based on an OSA valuation performed as of June 30, 2018, with the results rolled forward to the measurement date of June 30, 2019. Likewise, the University's 2019 pension liabilities are based on a valuation performed as of June 30, 2017, with the results rolled forward to the measurement date of June 30, 2018. The following actuarial assumptions have been applied to all prior periods included in the measurement:

INFLATION	2.75% TOTAL ECONOMIC INFLATION, 3.50% SALARY INFLATION
SALARY INCREASE	EXPECTED TO GROW BY PROMOTIONS AND LONGEVITY IN ADDITION TO SALARY INFLATION ASSUMPTION OF 3.50%
INVESTMENT RATE OF RETURN	7.40%

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, 2018 and 2017 valuations were based on the results of the 2007-2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the dates of the respective actuarial valuation reports.

The long-term expected rates 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 7.40% as of June 30, 2019 and 2018, 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, are summarized in the following table:

	2020 *(Measurement Date 2019)*		2019 *(Measurement Date 2018)*	
Asset Class	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
FIXED INCOME	20.00%	2.20%	20.00%	1.70%
TANGIBLE ASSETS	7.00%	5.10%	7.00%	4.90%
REAL ESTATE	18.00%	5.80%	18.00%	5.80%
GLOBAL EQUITY	32.00%	6.30%	32.00%	6.30%
PRIVATE EQUITY	23.00%	9.30%	23.00%	9.30%

The inflation component used to create the above table was 2.20% for both years, 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, 2020 and 2019 was 7.40%. 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 liability 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 7.40% future investment rate of return on pension plan investments was assumed as of June 30, 2019 and 2018. 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 liability for PERS 1 and TRS 1, respectively, as provided for in chapter 41.45 of the RCW).

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

The following table presents the University's proportionate net pension liabilities and assets calculated using the discount rate of 7.40% as of June 30, 2019 and 2018, as well as what the net pension liabilities or assets would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

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

	2020			2019		
Plan	**1% Decrease**	**Current Discount Rate**	**1% Increase**	**1% Decrease**	**Current Discount Rate**	**1% Increase**
PERS 1	$ 387,806	$ 309,671	$ 241,878	$ 450,287	$ 366,403	$ 293,743
PERS 2/3	758,531	98,901	(442,369)	800,058	174,913	(337,635)
TRS 1	7,925	6,200	4,705	8,826	7,061	5,534
TRS 2/3	8,104	1,487	(3,893)	6,642	1,066	(3,464)
LEOFF 2	(998)	(5,365)	(8,930)	(610)	(4,590)	(7,837)

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 following table presents the contribution rates, stated as a percentage of covered payroll as defined by the statute, and required contributions for each DRS plan in which the University participates for the years ended June 30, 2020 and 2019:

(Dollars in Thousands)	PERS 1	PERS 2/3[(a)]	TRS 1	TRS 2/3[(a)]	LEOFF 2
2020					
CONTRIBUTION RATE	12.83 %	12.83 %	15.41 %	15.41 %	8.93 %
CONTRIBUTIONS MADE	$ 59,236	$ 96,443	$ 1,483	$ 1,604	$ 435
2019					
CONTRIBUTION RATE	12.70 %	12.70 %	15.20 %	15.20 %	8.93 %
CONTRIBUTIONS MADE	$ 57,744	$ 83,159	$ 1,244	$ 1,290	$ 427

[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, 2020 was June 30, 2019. Employer contributions received and processed by the DRS during the fiscal year ended June 30, 2019 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, 2019 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by the University as of June 30, 2019 was June 30, 2018, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2018 used as the basis for determining each employer's proportionate share of the collective pension amounts. The following table presents the University's proportionate share for each DRS plan:

PROPORTIONATE SHARE	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
YEAR ENDED JUNE 30, 2020	8.05 %	10.18 %	0.25 %	0.25 %	0.23 %
YEAR ENDED JUNE 30, 2019	8.20 %	10.24 %	0.24 %	0.24 %	0.23 %

UNIVERSITY AGGREGATED BALANCES

The table below presents the University's aggregated balance of net pension liability and net pension asset as of June 30 2020 and 2019:

(Dollars in Thousands)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2020						
NET PENSION LIABILITY	$ 309,671	$ 98,901	$ 6,200	$ 1,487	$ —	$ 416,259
NET PENSION ASSET	—	—	—	—	5,365	5,365
2019						
NET PENSION LIABILITY	$ 366,403	$ 174,913	$ 7,061	$ 1,066	$ —	$ 549,443
NET PENSION ASSET	—	—	—	—	4,590	4,590

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, 2020	$ 7,139	$ 22,617	$ 557	$ 1,183	$ (217)	$ 31,279
YEAR ENDED JUNE 30, 2019	20,434	(830)	2,035	822	(455)	22,006

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in Thousands)*

2020	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
CHANGE IN ASSUMPTIONS	$ —	$ 2,533	$ —	$ 561	$ 9	$ 3,103
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	28,335	—	1,034	386	29,755
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	—	—	—	927	—	927
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [a]	59,236	96,443	1,483	1,604	435	159,201
TOTAL	**$ 59,236**	**$ 127,311**	**$ 1,483**	**$ 4,126**	**$ 830**	**$ 192,986**
2019						
CHANGE IN ASSUMPTIONS	$ —	$ 2,046	$ —	$ 18	$ 3	$ 2,067
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	21,440	—	501	246	22,187
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	—	—	—	1,155	—	1,155
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [b]	57,744	83,159	1,244	1,290	427	143,864
TOTAL	**$ 57,744**	**$ 106,645**	**$ 1,244**	**$ 2,964**	**$ 676**	**$ 169,273**

(a) Recognized as a reduction of the net pension liability as of June 30, 2021
(b) Recognized as a reduction of the net pension liability as of June 30, 2020

DEFERRED INFLOWS OF RESOURCES *(Dollars in Thousands)*						
2020	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 20,689	$ 143,960	$ 476	$ 1,284	$ 1,100	$ 167,509
CHANGE IN ASSUMPTIONS	—	41,496	—	395	604	42,495
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	21,263	—	48	96	21,407
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	—	6,957	—	—	87	7,044
TOTAL	**$ 20,689**	**$ 213,676**	**$ 476**	**$ 1,727**	**$ 1,887**	**$ 238,455**
2019						
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 14,561	$ 107,335	$ 302	$ 901	$ 803	$ 123,902
CHANGE IN ASSUMPTIONS	—	49,779	—	428	659	50,866
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	30,624	—	79	107	30,810
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	—	3,086	—	—	42	3,128
TOTAL	**$ 14,561**	**$ 190,824**	**$ 302**	**$ 1,408**	**$ 1,611**	**$ 208,706**

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**
2021	$ (4,567)	$ (45,029)	$ (98)	$ 43	$ (331)	$ (49,982)
2022	(10,818)	(75,159)	(255)	(328)	(602)	(87,162)
2023	(3,861)	(34,041)	(90)	2	(246)	(38,236)
2024	(1,443)	(18,811)	(33)	134	(129)	(20,282)
2025	—	(9,772)	—	242	(41)	(9,571)
THEREAFTER	—	4	—	702	(143)	563
TOTAL	**$ (20,689)**	**$ (182,808)**	**$ (476)**	**$ 795**	**$ (1,492)**	**$ (204,670)**

(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, 2020 and 2019 was 18,298 and 17,528, respectively.

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 years ended June 30, 2020 and 2019 were $132.1 million and $126.0 million, respectively.

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 requires participation in the UWRP. The table below shows the number of participants in the UWSRP as of June 30, 2020 and 2019:

NUMBER OF PARTICIPANTS	
ACTIVE EMPLOYEES	6,132
INACTIVE EMPLOYEES RECEIVING BENEFITS	853
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	188

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 years ended June 30, 2020 and 2019 were $8.3 million and $7.5 million, respectively.

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. As of June 30, 2020 and 2019, the University had set aside $344.8 million and $327.7 million, respectively, 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 Statements of Net Position.

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY (TPL) *(Dollars in thousands)*		
BALANCE AS OF JULY 1, 2018	**$**	**412,481**
SERVICE COST		11,823
INTEREST ON TPL		16,277
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE		102,713
CHANGE IN ASSUMPTIONS		58,228
BENEFIT PAYMENTS		(7,482)
BALANCE AS OF JUNE 30, 2019		**594,040**
SERVICE COST		16,698
INTEREST ON TPL		21,232
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE		31,426
CHANGE IN ASSUMPTIONS		126,749
BENEFIT PAYMENTS		(8,316)
BALANCE AS OF JUNE 30, 2020	**$**	**781,829**

The June 30, 2020 and 2019 TPL are based on an actuarial valuation performed as of June 30, 2018 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 dates of June 30, 2020 and 2019, respectively.

UWSRP pension expense for the years ended June 30, 2020 and 2019 was $60.0 million and $28.8 million, respectively.

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 impact on the University's financial statements. The following table shows significant assumptions used to measure the TPL as of June 30, 2020 and 2019:

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL PENSION LIABILITY *(Dollars in thousands)*		
	2020	**2019**
INFLATION	2.75%	2.75%
SALARY CHANGES	4.25%	4.25%
SOURCE OF MORTALITY ASSUMPTIONS	RP-2000 COMBINED HEALTHY TABLE, WITH GENERATIONAL MORTALITY IMPROVEMENTS USING SCALE BB	RP-2000 COMBINED HEALTHY TABLE, WITH GENERATIONAL MORTALITY IMPROVEMENTS USING SCALE BB
DATE OF EXPERIENCE STUDY	APRIL 2016	APRIL 2016
DISCOUNT RATE	2.21%	3.50%
SOURCE OF DISCOUNT RATE	BOND BUYER'S 20 BOND INDEX AS OF 6/30/2020	BOND BUYER'S 20 BOND INDEX AS OF 6/30/2019
TPL MEASUREMENT AT DISCOUNT RATE	$781,829	$594,040
TPL DISCOUNT RATE INCREASED 1%	$678,878	$518,334
TPL DISCOUNT RATE DECREASED 1%	$906,918	$685,507

Material assumptions changes during the measurement periods ending June 30, 2020 and 2019 included updating the GASB 73 discount rate from 3.50% to 2.21% and from 3.87% to 3.50%, respectively, as well as updated investment assumptions ("Change in assumption" which increased the TPL for both periods). Additionally, actual returns for CREF investments, which are used in determining a member's "assumed income", were less than expected for the measurement periods ending June 30, 2020 and 2019 and salary growth exceeded expectations for the measurement period ending June 30, 2019 ("Difference between expected and actual experience" which also resulted in an increase in the the TPL for both periods).

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

The tables below summarize the University's deferred outflows and 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 OUTFLOWS OF RESOURCES *(Dollars in thousands)*		
2020		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	104,214
CHANGE IN ASSUMPTIONS		153,291
TOTAL	**$**	**257,505**
2019		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	89,874
CHANGE IN ASSUMPTIONS		50,949
TOTAL	**$**	**140,823**

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*		
2020		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	58,518
CHANGE IN ASSUMPTIONS		24,886
TOTAL	**$**	**83,404**
2019		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	72,181
CHANGE IN ASSUMPTIONS		30,620
TOTAL	**$**	**102,801**

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*		
Year		
2021	$	22,096
2022		22,096
2023		22,096
2024		22,096
2025		35,676
THEREAFTER		50,041
TOTAL	**$**	**174,101**

NOTE 17:

Other Post Employment Benefits (OPEB)

PLAN DESCRIPTION

OPEB are benefits provided to retired employees (and their spouses) beyond those provided by their pension plans. These programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine terms and conditions of employee and retired employee participation and coverage. Benefits provided by this single-employer defined-benefit OPEB plan include medical, prescription drug, life, dental, vision, disability, and long-term care insurance. Medical, prescription drug and vision insurance comprise the bulk of the monetary assistance, or subsidies, provided by PEBB OPEB.

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs. The understanding by the employer and plan members is that there is no contractual obligation to continue the substantive plan as an employee benefit on an ongoing basis. Nevertheless, the actuarial assumptions used in the valuations presented in this footnote assume that this substantive plan will continue into the future.

The HCA has two claim pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. For retirees, participating employers provide two different subsidies: an implicit subsidy and an explicit subsidy.

The implicit subsidy, set up under RCW 41.05.022, is not a direct payment from the employer on behalf of the retiree. Retirees who are not yet eligible for Medicare benefits may currently continue to participate in the state's non-Medicare community-rated health insurance risk pool. Claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums. Therefore, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. This results in an implicit subsidy since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The dollar amount of the explicit subsidy increased to $183 per member per month beginning in calendar year 2020. The subsidy was $168 per member per month for the first half of fiscal year 2020. The subsidy increased to $168 per member per month beginning in calendar year 2019. It was set at $150 per member per month for the first half of fiscal year 2019.

The OPEB plan is currently available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire. PEBB member data used in the valuation of the OPEB liability include members enrolled in a PEBB program as well as other active employees who were eligible to enroll but waived coverage.

The table below shows the University's PEBB membership data as of June 30, 2020 and 2019:

NUMBER OF PARTICIPANTS	**2020** *(Measurement Date: 2019)*	**2019** *(Measurement Date: 2018)*
ACTIVE EMPLOYEES	33,289	33,070
INACTIVE EMPLOYEES RECEIVING BENEFITS	8,961	8,995
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	1,594	1,600

ACTUARIAL ASSUMPTIONS

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on the University. The professional judgments used by the Washington State Office of the State Actuary (OSA) in determining the assumptions used to value the state of Washington OPEB liability are important, and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the University's financial statements. The following table shows significant assumptions used to measure the total OPEB liability (TOL) as of June 30, 2020 and 2019:

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*	2020	2019
INFLATION	2.75%	2.75%
HEALTHCARE COST TREND	TREND RATE ASSUMPTIONS VARY SLIGHTLY BY MEDICAL PLAN. INITIAL RATE IS APPROXIMATELY 8.00%, REACHING AN ULTIMATE RATE OF APPROXIMATELY 4.50% IN 2080.	TREND RATE ASSUMPTIONS VARY SLIGHTLY BY MEDICAL PLAN. INITIAL RATE IS APPROXIMATELY 8.00%, REACHING AN ULTIMATE RATE OF APPROXIMATELY 4.50% IN 2080.
SALARY INCREASE	3.50% PLUS SERVICE-BASED SALARY INCREASES	3.50% PLUS SERVICE-BASED SALARY INCREASES
SOURCE OF MORTALITY ASSUMPTIONS	RP-2000 COMBINED HEALTHY TABLE AND COMBINED DISABLED TABLE, WITH FUTURE IMPROVEMENTS IN MORTALITY PROJECTED USING 100 PERCENT SCALE BB AND UPDATED BASED ON RESULTS OF THE 2007-2012 EXPERIENCE STUDY REPORT	RP-2000 COMBINED HEALTHY TABLE AND COMBINED DISABLED TABLE, WITH FUTURE IMPROVEMENTS IN MORTALITY PROJECTED USING 100 PERCENT SCALE BB AND UPDATED BASED ON RESULTS OF THE 2007-2012 EXPERIENCE STUDY REPORT
DATE OF EXPERIENCE STUDY	2007-2012 EXPERIENCE STUDY REPORT	2007-2012 EXPERIENCE STUDY REPORT
DISCOUNT RATE	3.50%	3.87%
SOURCE OF DISCOUNT RATE	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/19 (MEASUREMENT DATE)	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/18 (MEASUREMENT DATE)
POST-RETIREMENT PARTICIPATION PERCENTAGE	65.00%	65.00%
TOL MEASUREMENT AT DISCOUNT RATE	$1,541,654	$1,354,177
TOL DISCOUNT RATE INCREASED 1%	$1,289,041	$1,136,776
TOL DISCOUNT RATE DECREASED 1%	$1,866,891	$1,632,819
TOL MEASUREMENT AT HEALTHCARE COST TREND RATE	$1,541,654	$1,354,177
TOL HEALTHCARE COST TREND RATE INCREASED 1%	$1,937,224	$1,676,694
TOL HEALTHCARE COST TREND RATE DECREASED 1%	$1,247,735	$1,111,648

Material assumption changes during the measurement period ending June 30, 2019 include updating the discount rate, as required by GASB 75. Material assumption changes during the measurement period ending June 30, 2018 include updating the forecasts of healthcare cost trends, as well as updating the discount rate, as required by GASB 75.

CHANGES IN THE TOTAL OPEB LIABILITY

The TOL for the state of Washington as of June 30, 2020 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018, with the results rolled forward to the measurement date of June 30, 2019. The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The measurement date for the TOL as of June 30, 2019 was the same as the valuation date. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine the University's proportionate share of the statewide TOL is the relationship of University active, healthcare-eligible employee headcount to the corresponding statewide total.

The University's proportionate share percentage was 26.6% and 26.7% as of June 30, 2020 and 2019, respectively.

The OPEB plan is funded on a pay-as-you-go basis. Accordingly, contributions from employers to the HCA occur only when benefits become due (after retirement). No qualified trust fund has been established dedicated to these benefits and there are no associated assets. As a result, the University reports a proportionate share of the state's total OPEB liability.

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*		
BALANCE AS OF JULY 1, 2018	**$**	**1,565,213**
SERVICE COST		84,665
INTEREST ON TOL		58,207
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE		53,132
CHANGE IN ASSUMPTIONS		(370,652)
BENEFIT PAYMENTS		(24,584)
CHANGE IN PROPORTIONATE SHARE		(11,804)
BALANCE AS OF JUNE 30, 2019		**1,354,177**
SERVICE COST		62,422
INTEREST ON TOL		54,148
CHANGE IN ASSUMPTIONS		100,838
BENEFIT PAYMENTS		(24,769)
CHANGE IN PROPORTIONATE SHARE		(5,162)
BALANCE AS OF JUNE 30, 2020	**$**	**1,541,654**

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

The tables below summarize the University's OPEB expense, deferred outflows of resources and deferred inflows of resources related to the OPEB plan, together with the related future year impacts to OPEB 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 total OPEB liability in the following year, and are not amortized to OPEB expense.

PROPORTIONATE SHARE OF OPEB EXPENSE *(Dollars in Thousands)*		
YEAR ENDED JUNE 30, 2020	$	62,806
YEAR ENDED JUNE 30, 2019		78,429

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in Thousands)*		
2020		
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$	41,167
CHANGE IN ASSUMPTIONS		89,633
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY		26,583
TOTAL	**$**	**157,383**
2019		
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$	47,228
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY		24,864
TOTAL	**$**	**72,092**

DEFERRED INFLOWS OF RESOURCES *(Dollars in Thousands)*		
2020		
CHANGE IN ASSUMPTIONS	$	446,992
CHANGE IN PROPORTIONATE SHARE		22,124
TOTAL	**$**	**469,116**
2019		
CHANGE IN ASSUMPTIONS	$	516,622
CHANGE IN PROPORTIONATE SHARE		18,457
TOTAL	**$**	**535,079**

Amounts reported as deferred outflows and deferred inflows of resources will be recognized as a component of the University's OPEB expense as follows:

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(a) (Dollars in Thousands)*		
YEAR		
2021	$	(53,764)
2022		(53,764)
2023		(53,764)
2024		(53,764)
2025		(53,764)
THEREAFTER		(69,496)
TOTAL	**$**	**(338,316)**

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

NOTE 18:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2020 and 2019 were $173.6 million and $240.1 million, respectively. These expenditures will be funded from institutional reserves, debt proceeds and state appropriations.

The University receives and expends substantial amounts under federal and state grants, contracts and programs. This funding is used for research, student aid, Medical Center operations and other programs, and is subject to audit by governmental granting agencies. Certain grant and contract costs billed to the federal government are subject to audit under 2 CFR 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards."

The University is also involved in various other claims and legal actions arising in the ordinary course of business. University management believes that any liabilities arising from these matters will not have a material impact 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 when 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 using an actuarial calculation. The reserve is included in Long-Term Liabilities in the Statements of Net Position. Changes in the self-insurance reserve for the years ended June 30, 2020 and 2019 are noted below:

(Dollars in thousands)		**2020**		**2019**
RESERVE AT BEGINNING OF FISCAL YEAR	$	100,163	$	112,210
INCURRED CLAIMS AND CHANGES IN ESTIMATES		41,339		22,178
CLAIM PAYMENTS		(16,421)		(34,225)
RESERVE AT END OF FISCAL YEAR	**$**	**125,081**	**$**	**100,163**

REGULATORY COMPLIANCE

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. Through its compliance program, UW Medicine maintains an effective and safe program for reporting and addressing potential regulatory concerns. 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.

Between April 4 and April 12, 2018, the Washington State Department of Health, on behalf of CMS, conducted a survey at UW Medical Center. In a letter dated May 15, 2018, CMS informed UW Medical Center that based on the results of the survey, UW Medical Center was not in compliance with certain Medicare Conditions of Participation. The deficiencies identified within the survey relate primarily to UW Medical Center's relationship with the SCCA inpatient hospital located within the same building as UW Medical Center, including related policies, clinical areas, support services and personnel sharing between the two organizations. UW Medical Center submitted a Plan of Correction (the Plan) in response to the CMS survey findings, and CMS accepted the Plan on January 15, 2020. UW Medical Center and SCCA have implemented many components of their respective Plans and will continue implementation through August 2021, as approved by CMS. UW Medicine management will take necessary actions to comply with that Plan so UW Medical Center continues to participate in the Medicare program.

NOTE 19:

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, 2020**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 2,029,039	$ (33,910)	$ 1,913,298	$ 149,651	$ 144,623	$ 5,028
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	6,138,366	—	5,993,647	144,719	111,871	32,848
CAPITAL ASSETS, NET	4,971,660	—	4,622,937	348,723	13,172	335,551
TOTAL ASSETS	13,139,065	(33,910)	12,529,882	643,093	269,666	373,427
DEFERRED OUTFLOWS OF RESOURCES	639,368	—	639,368	—	—	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 13,778,433**	**$ (33,910)**	**$ 13,169,250**	**$ 643,093**	**$ 269,666**	**$ 373,427**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 1,528,296	$ (3,083)	$ 1,433,433	$ 97,946	$ 73,449	$ 24,497
TOTAL NONCURRENT LIABILITIES	5,493,819	(14,294)	5,158,144	349,969	10,244	339,725
TOTAL LIABILITIES	7,022,115	(17,377)	6,591,577	447,915	83,693	364,222
DEFERRED INFLOWS OF RESOURCES	834,820	—	834,820	—	—	—
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	7,856,935	(17,377)	7,426,397	447,915	83,693	364,222
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,531,666	—	2,521,560	10,106	12,607	(2,501)
RESTRICTED:						
NONEXPENDABLE	1,938,615	—	1,938,615	—	—	—
EXPENDABLE	2,243,384	—	2,243,384	—	—	—
UNRESTRICTED	(792,167)	(16,533)	(960,706)	185,072	173,366	11,706
TOTAL NET POSITION	5,921,498	(16,533)	5,742,853	195,178	185,973	9,205
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 13,778,433**	**$ (33,910)**	**$ 13,169,250**	**$ 643,093**	**$ 269,666**	**$ 373,427**

(Dollars in thousands) **Statements of Net Position – June 30, 2019**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities (1)**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 1,574,437	$ (30,590)	$ 1,416,508	$ 188,519	$ 162,599	$ 25,920
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	5,899,218	(160,934)	5,878,493	181,659	161,037	20,622
CAPITAL ASSETS, NET	4,935,336	(2,168)	4,474,035	463,469	115,013	348,456
TOTAL ASSETS	12,408,991	(193,692)	11,769,036	833,647	438,649	394,998
DEFERRED OUTFLOWS OF RESOURCES	414,063	—	408,100	5,963	5,963	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 12,823,054**	**$ (193,692)**	**$ 12,177,136**	**$ 839,610**	**$ 444,612**	**$ 394,998**
LIABILITIES						
TOTAL CURRENT LIABILITIES	1,166,208	(6,956)	1,046,772	126,392	99,033	27,359
TOTAL NONCURRENT LIABILITIES	5,185,451	(175,686)	4,818,269	542,868	175,097	367,771
TOTAL LIABILITIES	6,351,659	(182,642)	5,865,041	669,260	274,130	395,130
DEFERRED INFLOWS OF RESOURCES	893,069	—	893,069	—	—	—
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	7,244,728	(182,642)	6,758,110	669,260	274,130	395,130
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,489,083	—	2,377,810	111,273	107,648	3,625
RESTRICTED:						
NONEXPENDABLE	1,877,816	—	1,875,467	2,349	2,349	—
EXPENDABLE	2,192,163	—	2,191,489	674	674	—
UNRESTRICTED	(980,736)	(11,050)	(1,025,740)	56,054	59,811	(3,757)
TOTAL NET POSITION	5,578,326	(11,050)	5,419,026	170,350	170,482	(132)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 12,823,054**	**$ (193,692)**	**$ 12,177,136**	**$ 839,610**	**$ 444,612**	**$ 394,998**

(1) Includes Northwest Hospital

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position - Year Ended June 30, 2020**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 1,058,271	$ —	$ 1,058,271	$ —	$ —	$ —
PATIENT SERVICES	2,092,975	(12,619)	1,736,904	368,690	368,690	—
GRANT REVENUE	1,491,623	—	1,491,623	—	—	—
OTHER OPERATING REVENUE	868,582	(112,077)	866,943	113,716	55,001	58,715
TOTAL OPERATING REVENUES	**5,511,451**	**(124,696)**	**5,153,741**	**482,406**	**423,691**	**58,715**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	5,963,216	(82,518)	5,618,915	426,819	409,608	17,211
DEPRECIATION / AMORTIZATION	388,338	—	365,998	22,340	2,177	20,163
TOTAL OPERATING EXPENSES	**6,351,554**	**(82,518)**	**5,984,913**	**449,159**	**411,785**	**37,374**
OPERATING INCOME (LOSS)	**(840,103)**	**(42,178)**	**(831,172)**	**33,247**	**11,906**	**21,341**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	415,030	—	415,030	—	—	—
GIFTS	219,542	—	218,955	587	587	—
INVESTMENT INCOME	207,993	—	206,927	1,066	1,066	—
OTHER NONOPERATING REVENUES (EXPENSES)	73,098	37,695	41,657	(6,254)	5,750	(12,004)
NET NONOPERATING REVENUES (EXPENSES)	**915,663**	**37,695**	**882,569**	**(4,601)**	**7,403**	**(12,004)**
INCOME BEFORE OTHER REVENUES	**75,560**	**(4,483)**	**51,397**	**28,646**	**19,309**	**9,337**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	202,187	(1,000)	201,937	1,250	1,250	—
GIFTS TO PERMANENT ENDOWMENTS	65,425	—	65,425	—	—	—
TOTAL OTHER REVENUES	**267,612**	**(1,000)**	**267,362**	**1,250**	**1,250**	**—**
INCREASE IN NET POSITION	**343,172**	**(5,483)**	**318,759**	**29,896**	**20,559**	**9,337**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,578,326	(11,050)	5,424,094	165,282	165,414	(132)
NET POSITION – END OF YEAR	**$ 5,921,498**	**$ (16,533)**	**$ 5,742,853**	**$ 195,178**	**$ 185,973**	**$ 9,205**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position - Year Ended June 30, 2019**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities (1)**	**Real Estate Entities**
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 1,052,222	$ —	$ 1,052,222	$ —	$ —	$ —
PATIENT SERVICES	2,135,733	(27,632)	1,475,975	687,390	687,390	—
GRANT REVENUE	1,425,521	—	1,425,521	—	—	—
OTHER OPERATING REVENUE	871,742	(114,732)	868,464	118,010	66,453	51,557
TOTAL OPERATING REVENUES	**5,485,218**	**(142,364)**	**4,822,182**	**805,400**	**753,843**	**51,557**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	5,691,795	(107,027)	5,000,164	798,658	776,318	22,340
DEPRECIATION / AMORTIZATION	372,435	—	335,556	36,879	16,754	20,125
TOTAL OPERATING EXPENSES	**6,064,230**	**(107,027)**	**5,335,720**	**835,537**	**793,072**	**42,465**
OPERATING INCOME (LOSS)	**(579,012)**	**(35,337)**	**(513,538)**	**(30,137)**	**(39,229)**	**9,092**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	378,656	—	378,656	—	—	—
GIFTS	165,831	—	165,204	627	627	—
INVESTMENT INCOME	339,878	(2,761)	335,087	7,552	7,552	—
OTHER NONOPERATING REVENUES (EXPENSES)	(28,345)	33,576	(47,132)	(14,789)	(962)	(13,827)
NET NONOPERATING REVENUES (EXPENSES)	**856,020**	**30,815**	**831,815**	**(6,610)**	**7,217**	**(13,827)**
INCOME BEFORE OTHER REVENUES	**277,008**	**(4,522)**	**318,277**	**(36,747)**	**(32,012)**	**(4,735)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	69,057	(2,000)	68,156	2,901	2,901	—
GIFTS TO PERMANENT ENDOWMENTS	135,484	—	135,484	—	—	—
TOTAL OTHER REVENUES	**204,541**	**(2,000)**	**203,640**	**2,901**	**2,901**	**—**
INCREASE IN NET POSITION	**481,549**	**(6,522)**	**521,917**	**(33,846)**	**(29,111)**	**(4,735)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,096,777	(4,528)	4,897,109	204,196	199,593	4,603
NET POSITION – END OF YEAR	**$ 5,578,326**	**$ (11,050)**	**$ 5,419,026**	**$ 170,350**	**$ 170,482**	**$ (132)**

(1) Includes Northwest Hospital

(Dollars in thousands) **Statements of Cash Flows - Year Ended June 30, 2020**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (321,500)	$ —	$ (338,156)	$ 16,656	$ 7,468	$ 9,188
NONCAPITAL FINANCING ACTIVITIES	877,845	—	867,442	10,403	10,403	—
CAPITAL AND RELATED FINANCING ACTIVITIES	(282,358)	—	(272,997)	(9,361)	5,534	(14,895)
INVESTING ACTIVITIES	(216,308)	—	(222,142)	5,834	(175)	6,009
NET INCREASE IN CASH AND CASH EQUIVALENTS	**57,679**	**—**	**34,147**	**23,532**	**23,230**	**302**
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	85,516	—	53,642	31,874	29,550	2,324
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 143,195**	**$ —**	**$ 87,789**	**$ 55,406**	**$ 52,780**	**$ 2,626**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position - Year Ended June 30, 2019**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities (1)**	**Real Estate Entities**
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (358,045)	$ —	$ (403,400)	$ 45,355	$ 36,020	$ 9,335
NONCAPITAL FINANCING ACTIVITIES	689,981	—	714,786	(24,805)	(24,805)	—
CAPITAL AND RELATED FINANCING ACTIVITIES	(386,652)	—	(351,348)	(35,304)	(20,269)	(15,035)
INVESTING ACTIVITIES	(3,904)	—	(8,272)	4,368	2,894	1,474
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(58,620)**	**—**	**(48,234)**	**(10,386)**	**(6,160)**	**(4,226)**
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	144,136	—	90,366	53,770	47,220	6,550
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 85,516**	**$ —**	**$ 42,132**	**$ 43,384**	**$ 41,060**	**$ 2,324**

(1) Includes Northwest Hospital

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

PERS 1- SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	8.05%	8.20%	8.44%	8.46%	8.33%	8.28%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 309,671	$ 366,403	$ 400,426	$ 454,341	$ 435,853	$ 417,231
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 1,116,298	$ 1,074,943	$ 1,043,335	$ 987,405	$ 927,002	$ 882,215
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	27.74%	34.09%	38.38%	46.01%	47.02%	47.29%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

(Amounts determined as of the measurement date)

PERS 1 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 970	$ 1,231	$ 1,582	$ 1,788	$ 2,155	$ 2,058
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 971	$ 1,234	$ 1,578	$ 1,769	$ 2,155	$ 2,059
CONTRIBUTION DEFICIENCY (EXCESS)	$ (1)	$ (3)	$ 4	$ 19	$ —	$ (1)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 1,227,868	$ 1,116,298	$ 1,074,943	$ 1,043,335	$ 987,405	$ 927,002
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	0.08%	0.11%	0.15%	0.17%	0.22%	0.22%

(Amounts determined as of the fiscal year end)

PERS 2/3- SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	10.18%	10.24%	10.48%	10.36%	10.20%	10.00%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 98,901	$ 174,913	$ 364,073	$ 521,777	$ 364,303	$ 202,225
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 1,106,678	$ 1,062,415	$ 1,027,338	$ 967,955	$ 904,661	$ 856,839
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	8.94%	16.46%	35.44%	53.91%	40.27%	23.60%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

(Amounts determined as of the measurement date)

PERS 2/3 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 156,919	$ 141,681	$ 134,239	$ 114,852	$ 107,424	$ 83,323
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 157,000	$ 141,618	$ 134,366	$ 114,968	$ 108,413	$ 83,342
CONTRIBUTION DEFICIENCY (EXCESS)	$ (81)	$ 63	$ (127)	$ (116)	$ (989)	$ (19)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 1,220,321	$ 1,106,678	$ 1,062,415	$ 1,027,338	$ 967,955	$ 904,661
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	12.86%	12.80%	12.64%	11.18%	11.10%	9.21%

(Amounts determined as of the fiscal year end)

TRS 1- SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.25%	0.24%	0.20%	0.16%	0.13%	0.10%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 6,200	$ 7,061	$ 6,076	$ 5,463	$ 4,049	$ 2,881
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 16,677	$ 13,986	$ 10,967	$ 7,813	$ 5,790	$ 3,905
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	37.18%	50.49%	55.40%	69.92%	69.93%	73.78%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	70.37%	66.52%	65.58%	62.07%	65.70%	68.77%

(Amounts determined as of the measurement date)

TRS 1 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 55	$ 52	$ 48	$ 39	$ 38	$ 44
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 55	$ 52	$ 48	$ 40	$ 38	$ 42
CONTRIBUTION DEFICIENCY (EXCESS)	$ —	$ —	$ —	$ (1)	$ —	$ 2
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 20,153	$ 16,677	$ 13,986	$ 10,967	$ 7,813	$ 5,790
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	0.27%	0.31%	0.34%	0.36%	0.49%	0.76%

(Amounts determined as of the fiscal year end)

TRS 2/3- SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.25%	0.24%	0.19%	0.15%	0.12%	0.08%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 1,487	$ 1,066	$ 1,796	$ 2,077	$ 969	$ 252
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 16,337	$ 13,664	$ 10,669	$ 7,507	$ 5,367	$ 3,391
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	9.10%	7.80%	16.83%	27.67%	18.05%	7.43%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	96.36%	96.88%	93.14%	88.72%	92.48%	96.81%

(Amounts determined as of the measurement date)

TRS 2/3 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 3,068	$ 2,511	$ 2,036	$ 1,401	$ 956	$ 558
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 3,029	$ 2,470	$ 2,029	$ 1,410	$ 985	$ 555
CONTRIBUTION DEFICIENCY (EXCESS)	$ 39	$ 42	$ 7	$ (9)	$ (29)	$ 3
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 19,800	$ 16,337	$ 13,664	$ 10,669	$ 7,507	$ 5,367
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	15.49%	15.37%	14.90%	13.13%	12.73%	10.40%

(Amounts determined as of the fiscal year end)

Unaudited – see accompanying independent auditors' report

LEOFF 2- SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION ASSET	0.23%	0.23%	0.22%	0.25%	0.20%	0.21%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET	$ 5,365	$ 4,590	$ 2,995	$ 1,430	$ 2,083	$ 2,844
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 4,882	$ 4,487	$ 4,061	$ 4,474	$ 3,534	$ 3,581
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	109.91%	102.30%	73.74%	31.97%	58.94%	79.42%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION ASSET	119.43%	118.50%	113.36%	106.04%	111.67%	116.75%

(Amounts determined as of the measurement date)

LEOFF 2 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 444	$ 436	$ 400	$ 348	$ 384	$ 303
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 446	$ 435	$ 403	$ 352	$ 384	$ 300
CONTRIBUTION DEFICIENCY (EXCESS)	$ (2)	$ 1	$ (3)	$ (4)	$ —	$ 3
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 5,059	$ 4,882	$ 4,487	$ 4,061	$ 4,474	$ 3,534
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	8.78%	8.93%	8.91%	8.57%	8.58%	8.57%

(Amounts determined as of the fiscal year end)

UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN (UWSRP) SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY (TPL)

(Dollars in thousands)	2020	2019	2018	2017
TOTAL PENSION LIABILITY - BEGINNING	$ 594,040	$ 412,481	$ 438,753	$ 512,372
SERVICE COST	16,698	11,823	14,788	19,892
INTEREST ON TPL	21,232	16,277	16,127	15,097
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	31,426	102,713	(33,952)	(74,919)
CHANGE IN ASSUMPTIONS	126,749	58,228	(17,105)	(28,553)
BENEFIT PAYMENTS	(8,316)	(7,482)	(6,130)	(5,136)
TOTAL PENSION LIABILITY - ENDING	**$ 781,829**	**$ 594,040**	**$ 412,481**	**$ 438,753**
UWSRP COVERED-EMPLOYEE PAYROLL	$ 744,634	$ 787,384	$ 759,688	$ 801,161
TOTAL PENSION LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	105.00%	75.44%	54.30%	54.76%

Unaudited – see accompanying independent auditors' report

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL)			
(Dollars in thousands)	**2020**	**2019**	**2018**
TOTAL OPEB LIABILITY - BEGINNING	$ 1,354,177	$ 1,565,213	$ 1,685,909
SERVICE COST	62,422	84,665	106,112
INTEREST ON TOL	54,148	58,207	49,703
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	53,132	—
CHANGE IN ASSUMPTIONS	100,838	(370,652)	(242,454)
BENEFIT PAYMENTS	(24,769)	(24,584)	(25,330)
CHANGE IN PROPORTIONATE SHARE	(5,162)	(11,804)	(8,727)
TOTAL OPEB LIABILITY - ENDING	**$ 1,541,654**	**$ 1,354,177**	**$ 1,565,213**
OPEB COVERED-EMPLOYEE PAYROLL	$ 2,724,791	$ 2,493,991	$ 2,529,127
TOTAL OPEB LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	56.58%	54.30%	61.89%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2020

Plans administered by DRS

The Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019.

Additional Considerations on ADC for All Plans:

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2017 and ending June 30, 2019, the contribution rates that 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. This is the second of three biennia over which this increase is expected to be phased-in for PERS 1, PERS 2/3, TRS 1, and TRS 2/3.

For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC, except that the CRC reflect the adopted contribution rates for the time period shown. These 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 No. 73, paragraph 4 to pay related benefits.

Material assumption changes during the fiscal year 2020 measurement period include updating the GASB 73 discount rate from 3.50% to 2.21% ("Change in assumption" which increased the TPL). Additionally, CREF investment experience during fiscal year 2020 was lower than expected (2.31 percent actual return). Lower investment experience than expected leads to an increase in the TPL. TIAA investment experience only slightly deviated from OSA's assumption.

Material assumption changes during the fiscal year 2019 measurement period include updating the GASB 73 discount rate from 3.87% to 3.50% ("Change in assumption" which increased the TPL). Additionally, CREF investment experience during fiscal year 2019 was slightly lower than expected (4.97 percent actual return). Lower investment experience than expected leads to an increase in the TPL. TIAA investment experience only slightly deviated from OSA's assumption. Based on input from TIAA, OSA modified the TIAA settlement rates, settlement mortality, and increased the CREF investment return assumptions ("Difference between expected and actual experience" which also increased the TPL).

OPEB Plan administered by the Healthcare Authority of Washington State

The OPEB Plan has no assets accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4 to pay related benefits.

Material assumption changes in fiscal year 2020 relate to a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.87% for the June 30, 2018 measurement date, to 3.50% for the June 30, 2019 measurement date. This change resulted in an increase in the TOL.

Material assumption changes in fiscal year 2019 relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.58% for the June 30, 2017 measurement date, to 3.87% for the June 30, 2018 measurement date. Other material assumption changes included lowering the forecast of future healthcare cost trends. Both of these resulted in a decrease in the TOL.

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The 2020 UW Financial Report and reports from previous years are available at annualreport.uw.edu

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UNIVERSITY *of* WASHINGTON

UW Medicine Annual Financial Report

University of Washington Board of Regents
November 12, 2020

EXECUTIVE SUMMARY

UW Medicine made strong progress toward the fiscal year (FY) 2020 Financial Improvement & Transformation Project (Project FIT) goals through February 2020. Northwest Hospital and Medical Center (NWH) was successfully integrated into University of Washington Medical Center (UWMC), effective January 1, 2020, and the Clinical Strategic Refresh planning was completed. Key transformational projects, including the UW Medicine Clinical Transformation Program (Destination: One), were advanced, and UW Medicine was ahead of budget and experiencing improved overall financial performance. Consistent with the goals and objectives established for the year, UW Medicine focused on delivering world-class clinical care, research, education and training, while continuing to implement its strategic plan and achieving the UW Medicine Patients Are First pillar goals. As of March 1, 2020, however, UW Medicine became focused on responding to the COVID-19 pandemic. This response impacted every facet of our organization, including our healthcare workers who remained on-site in our hospitals and other employees who transitioned to a remote working environment. Beginning in March 2020, UW Medicine experienced significant negative financial impact from the pandemic, most notably as a result of the cancellation of non-urgent and elective surgeries and procedures as well as increased expenses related to COVID-19.

COVID-19 PANDEMIC AND IMPACTS BY ENTITY

The first case of COVID-19 in the United States was identified in Washington in January 2020, several weeks earlier than the rest of the country, placing UW Medicine on the front lines of the pandemic. In addition to our research, education and clinical functions, UW Medicine took a leadership role in collaboration with public health officials to address the pandemic by building needed clinical and epidemiological testing capacity in the region; modeling surge volumes and supply constraints nationally; providing publicly-accessible clinical protocols, procedures, and guidelines; and providing outreach to populations with unique needs, such as first responders, healthcare workers, nursing home patients and staff, and homeless populations.

Key UW Medicine Initiatives include:

- The Institute for Health Metrics and Evaluations (IHME) is producing COVID-19 estimates for every state in the country. These estimates are widely used by hospitals, state and local governments as well as the federal government to guide public health decisions and to estimate needed medical resources and supplies. Current IHME projections are guiding plans for recovery from the COVID-19 pandemic.
- The UW Medicine Department of Laboratory Medicine and Pathology (DLMP) was the first lab in the state to provide COVID-19 PCR testing. DLMP currently has capacity to perform 12,000 tests per day while maintaining a rapid turnaround time. Rapid turnaround time is essential in supporting clinical efforts and reducing transmission rates in Washington. To date, DLMP has performed 800,000 COVID-19 PCR tests. DLMP has performed approximately 40.0 percent of all tests in Washington. As a result of UW Medicine’s efforts, Washington is among the top states in accuracy of COVID-19 testing and providing rapid turnaround times.
- UW Medicine hospitals were the first in our area to develop drive-through testing sites for our healthcare workers and are now operating 3-5 testing sites serving our patients, first responders, the homeless and other vulnerable populations.
- The Brotman Baty Institute based Seattle Coronavirus Assessment Network (SCAN) is collecting population-based surveillance that is providing important data to guide public health planning for recovery from the COVID-19 pandemic. SCAN will also provide population-based monitoring for early identification of coronavirus in the late summer/early fall, as well as supporting testing for UW students.

- UW Medicine clinicians are translating research into clinical practice in real time, using the latest COVID-19 learnings to create policies and best practices to address the pandemic. These clinical guidelines are made publicly available and have been widely used by other hospitals across the country. As an example, UW Medicine recently published research establishing that symptom-based screening may not sufficiently identify infections in independent and assisted living facility residents. Based on these findings, UW Medicine clinicians have created protocols to more effectively screen and segregate residents, improving outcomes and preventing hospitalizations. UW Medicine also works closely with the Centers for Disease Control and Prevention (CDC) and other public health agencies to assist with patient triage, testing and infection prevention in nursing homes and other high risk settings.

- Despite the national shortages, our UW Medicine team has maintained adequate supplies of personal protective equipment (PPE) needed for direct patient care, including surgical masks, respirators, face shields, gowns and gloves. Based on serologic testing results, UW Medicine's workforce has a much lower rate of COVID-19 infection of 2.1 percent than the general community of 5.0 percent, reflecting the safe environment for our healthcare workers.

UW Medicine is facing substantial financial challenges as a result of our efforts dedicated to the COVID-19 pandemic. We experienced dramatically reduced revenues due to the cancellation of non-urgent and elective surgeries and procedures as mandated by Governor Inslee from March 19, 2020 through May 19, 2020. At the same time, we faced unbudgeted expenses due to higher supply costs related to PPE, required new procedures and protocols to support a safe work environment, and the inability to adjust our staffing levels rapidly to volumes. Our early estimates indicated that UW Medicine would experience lost revenue of $327.0 million between March and August of this year due to our COVID-19 response efforts and would incur $54.0 million in additional expenses over the same period. Our estimates continue to be refined, but remain relatively consistent with our initial projections. Lost revenue is primarily attributed to the cancellation of non-urgent and elective surgeries and procedures, a policy that was implemented first in the nation in Washington State on March 19, 2020. Responding to the COVID-19 pandemic has required significant additional resources to provide care and protect the workforce. We retained our workforce in order to maintain capacity for a surge, despite shutting down many of our typical clinical operations. Staffing costs increased on top of this as our hospitals, during certain times of the pandemic, expanded overtime and brought on additional personnel. In late May 2020 we implemented furloughs in areas with decreased volumes and certain administrative functions with the goal of reducing labor costs in the short term. Capital spending reduction or delays, as well as executive pay cuts, were instituted.

Additionally, our need for PPE has increased, as has the unit price for these supplies. Our hospitals have made significant adjustments to existing clinical space, for example, constructing new negative-pressure rooms and units for COVID-19 patients. UW Medicine continues to prioritize adequate levels of PPE in an effort to ensure the safety of our patients and our staff and is now warehousing these supplies to prepare for a potential fall surge. Recovery hinges on UW Medicine's ability to secure timely recovery funding as well as the ability to bring back into our facilities and maintain the non-emergent and elective procedures that were cancelled and are needed by our patients.

To date, the avenues for cost recovery funding include cost recovery through FEMA and the CARES Act, state funding and philanthropy. To date, we have applied for and received approval for accelerated Medicare Advance Payments for each of our hospitals and UW Physicians (UWP). These advance funding payments provide up to six months funding of Medicare claims to assist with cash flow. The repayment, which will be made against future Medicare claims, was expected to begin by the end of August 2020 with repayment over a period of six to nine months. Repayment has not yet commenced and CMS recently released new guidance on repayment, which is now expected to start in

April of 2021 and be spread over eighteen months. UW Medicine has received close to $190.0 million in CARES relief funds across the enterprise, of which $126.6 million has been recognized as an offset to losses in FY 2020.

Pursuit of FEMA funding is in process, and the University received approval of an expedited funding request from FEMA for projected eligible costs incurred during the pandemic. The exact amount of FEMA funding that will be received is unknown at this time. We also requested and received substantial state funds to support testing costs. Philanthropic funds pledged by community philanthropists also provided valuable relief for incurred expenses related to a number of key COVID-19 initiatives.

As with other disasters across the country, we expect it will take years of focused work to fully realize the funding recoveries available. COVID-19 will have lasting impacts on our financial performance and specifically our cash position. We remain focused on the preservation of capital and improving financial performance in order to generate margins that will provide a strong financial platform for UW Medicine.

FY 2020 was the third year of Project FIT which is our #1 strategic priority. Project FIT is a multi-year effort to improve our financial performance while achieving our mission to improve the health of the public. UW Medicine's continued progress towards financial stability is due to the efforts and commitment of approximately 30,000 talented staff, faculty, students, trainees and volunteers. Consistent with the goals established for the year, UW Medicine focused on delivering world class clinical care, research, education and training, continuing to implement our evolving strategic plan and achieving the UW Medicine Patients Are First pillar goals.

Consistent with the regional and national healthcare environment, UW Medicine continues to experience a challenging reimbursement environment with increases in reimbursement at less than inflationary levels. This shift creates a strong impetus for transformation. In addition, the Pacific Northwest healthcare market is shifting to more consolidations, affiliations and integration as well as new market entrants and the introduction of disruptive technologies. Self-insured employers continue to seek alternative contractual relationships with health systems and payers to improve the health of employees and their family members, increase satisfaction with the care that is provided and reduce overall cost.

UW Medicine, MultiCare Health System (MultiCare) and LifePoint Health formed the Pacific Northwest Clinically Integrated Network, LLC dba Embright, following University Board of Regents approval in October 2018. **As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the partners to develop care delivery models that will improve patient care and experience at a more affordable cost.** Together, the founding organizations represent 14 hospitals, more than 6,500 providers and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols and care pathways, standardized processes and care management services for complex patients.

In February 2018, the Board of Regents approved the integration of NWH and UWMC into one hospital with two campuses, UWMC. A successful integration occurred on January 1, 2020 because of the work of numerous operational teams. This integration resulted in better use of hospital capacity, improved access for our patients, better alignment of clinical services and administrative simplification.

In July 2018, the Board of Regents approved the plan to proceed with the UW Medicine

EXECUTIVE SUMMARY, continued

Clinical Transformation Program (Destination: One). This multi-year program, which is projected to go live in January 2021, will allow UW Medicine to improve patient engagement and clinician experience. Destination: One will also achieve business and operating efficiencies through the deployment of foundational systems and improved staffing workflows. Patient engagement will be enhanced through the development of a single online patient portal for activities between patients and UW Medicine. Total program costs are estimated at $180.0 million, of which $129.0 million will be financed through the internal lending program and the remaining portion will be funded by Harborview Medical Center (HMC), UWMC and Seattle Cancer Care Alliance.

During the FY 2019 Washington State legislative session, UW Medicine was awarded new funding to expand Behavioral Health Services across our organizations. Specifically, the State awarded $33.3 million for the planning and design work necessary to build a new, first of its kind, Behavioral Health Teaching Facility at UWMC which will be located on the Northwest Campus. Planning work is currently underway to design the facility using the initial capital funding appropriation in order to receive the second phase of capital funding of $192.0 million during the FY 2021 legislative session. The Legislature also provided $0.5 million in pre-design funding for a new Behavioral Health Institute (BHI) at HMC. The BHI is designed to serve outpatients who need immediate crisis intervention. Legislators also provided funding to offer community health care providers the ability to reach psychiatric experts within UW Medicine for consultation in the care of behavioral health patients. Additionally, the State of Washington provided funding to support the safety net and teaching activities of UWMC and HMC, recognizing the unique role that UW Medicine plays in our state's healthcare system.

Consistent with national and regional trends, UW Medicine has experienced slower growth of inpatient admission volumes over the past few years while at the same time seeing an increase in patient acuity and strong growth in the inpatient observation and outpatient clinic areas. The focus for future growth in inpatient volumes is targeted to key core service lines as identified through the refresh of our clinical strategic plan. Outpatient volumes are expected to increase because advances in technology and changes in reimbursement are rapidly moving some of the traditional inpatient care to an outpatient service delivery model. UW Medicine has continued to prioritize growth in the ambulatory setting through the development of the UW Neighborhood Clinics (UWNC), along with clinic growth at both UWMC's NW campus and Valley Medical Center (VMC). Additionally, telehealth capabilities were rapidly deployed during the pandemic and allowed UW Medicine to build new capacity that did not require brick and mortar investments. The strategic refresh process included gathering market data, input from our staff and providers as well as consultant led feedback gathering sessions. This work is informing the refinement of our long range financial plan for the next five years.

UW Medicine continues to be an international leader in medical research. UW Medicine faculty were once again in the top two in the country among all medical schools and first among public medical schools in National Institutes of Health (NIH) research funding, based on federal FY 2019 awards. FY 2020 rankings are not available as of this report date. Our faculty again received more than $1.0 billion in total research funding. Many of the multidisciplinary research programs, including the IHME, Institute for Protein Design, Institute for Stem Cell and Regenerative Medicine and the recently established Brotman Baty Institute for Precision Medicine are global leaders in their fields.

FY 2020 financial results for total combined UW Medicine revenue was approximately $5.9 billion; $4.3 billion related to the medical centers, clinics and professional billing and $1.6 billion related to the UW School of Medicine (SOM). This represents a 1.5 percent increase compared to FY 2019 primarily relating to philanthropy in the SOM. Clinical income during FY 2020 was substantially below budget due to the cancellation of non-urgent and elective surgeries and procedures and visits from March until late May. Total combined net income for UW Medicine was $58.2 million, yielding a 1.0 percent margin compared to FY 2019 combined net income of $100.6 million and a 1.7 percent margin. UW Medicine's FY 2020 performance is favorable to a budgeted total combined net income of $29.8 million and a 0.5 percent total margin. Included in UW Medicine's net income for FY 2020 is recognition of CARES relief funds of $126.6 million and a $36.2 million favorable adjustment as a result of a pension and other post-retirement obligations actuarial change in assumptions. Without the CARES relief funds, UW Medicine would have had a combined net loss of $68.4 million. UW Medicine Advancement also had another record breaking year and FY 2020 philanthropy exceeded budget.

The **combined balance sheet** for UW Medicine remained stable with unrestricted cash and investments of $1.6 billion at June 30, 2020, an increase of $433.7 million over the prior year. The increase in unrestricted cash and investments includes $257.6 million in cash received through the Medicare Advance Payment program which is expected to be repaid within FY 2021.

The University has a financial responsibility for pension and other post employment benefits (OPEB) for University employees deployed within the UWM Clinical Enterprise, which is measured and recognized utilizing the state actuary reports. All funding obligations to the University are on a pay-as-you-go basis. As the liability increases the funding obligations will likewise increase. In FY 2020 and FY 2019, the impact of OPEB to UW Medicine Clinical Enterprise net income was additional expense of $7.3 million and $11.0 million, respectively, which represents the difference between the actuarial expense and current year's expense recognized through cash funding. The liability on the balance sheet of the UW Medicine Clinical Enterprise was $309.4 million and $280.0 million at June 30, 2020 and 2019, respectively.

In addition to the OPEB liability, the UW Medicine Clinical Enterprise records pension benefits associated with the Public Employees' Retirement System (PERS) and the University of Washington Supplemental Retirement Plan for those University employees deployed within the Clinical Enterprise. The Clinical Enterprise funds the employer contributions to the State through the University benefit load rate. At June 30, 2020 and 2019, respectively, pension liabilities were approximately $217.4 million and $243.3 million which is recorded on the balance sheet. As a result of actuarial adjustments, the Clinical Enterprise actuarial pension expense is $19.4 million and $12.9 million compared to the cash funding of $60.6 million and $54.8 million in FY 2020 and FY 2019, respectively. In addition, the impact to UW Medicine Clinical Enterprise net income as a result of pension adjustments was additional income of $43.5 million and $41.9 million for F2020 and FY 2019, respectively. At June 30, 2020 and 2019, respectively, the net impact of OPEB and pension expense for the Clinical Enterprise was additional net income of $36.2 million and $29.9 million.

FINANCIAL HIGHLIGHTS FOR FY 2020

UNIVERSITY OF WASHINGTON MEDICAL CENTER (UWMC)

University of Washington Medical Center officially integrated with NWH effective January 1, 2020 and all FY 2020 values in this report include financial results from the Northwest campus for the six months ending June 30, 2020. UWMC recorded operating revenues of $1.6 billion in FY 2020, an increase of 10.0 percent over the prior year. UWMC reported total net income of $35.8 million, or 2.3 percent of operating revenue, versus a total net income of $75.3 million in the prior year. FY 2020 net income was above budget by $11.8 million. Included in net income is $58.9 million in federal stimulus funding related to the COVID-19 pandemic and favorable income of $34.4 million as a result of pension and other post employment actuarial adjustments. Without these two items, UWMC would have reported a net loss of $57.5 million. Reduced volumes due to the halt of non-urgent and elective surgeries and procedures associated with the COVID-19 pandemic are the primary driver of the unfavorable financial performance. However, inpatient, surgical and other procedural volume improved significantly at the end of the fiscal year after the ban on non-urgent and elective surgeries and procedures was lifted.

Construction continued on the Childbirth Center on the Northwest campus, a $25.0 million project approved by the Board of Regents in November 2018 which will update the facility and expand capacity. Selected equipment was replaced or upgraded, including added surgical robotic capacity at both campuses, surgical video upgrades, additional mammography equipment and replacement incubators for the Neonatal ICU. Capital investments included pharmacy compounding space renovations, emergency power improvements in the Surgery Pavilion and several clinic renovations.

HARBORVIEW MEDICAL CENTER (HMC)

Harborview Medical Center recorded operating revenues of $1.0 billion in FY 2020, a decrease of 1.9 percent over the prior year. HMC reported total net income of $27.0 million, or 2.6 percent of operating revenue. Net income was favorable to budget by $16.3 million. Included in the results are $31.0 million of federal stimulus funds. Without these funds, HMC would have reported a net loss of $4.0 million.

Volumes at the medical center were severely impacted by the COVID-19 pandemic and the Governor's mandate to cancel non-urgent and elective surgeries and procedures. Performance to budget was primarily driven by greater case acuity, the contract pharmacy 340B drug purchasing program, federal stimulus funding, and favorable third party reserve settlements. The payer mix remained relatively consistent with prior years.

With the support of the Board of Trustees, HMC has concluded the foundational work with King County to define the next phase of facility master planning. The goal of this work included single patient rooms, modernization to support clinical delivery of care, expansion of Behavioral Health programming and continuation of seismic facility upgrades. King County Executive, Dow Constantine, transmitted legislation to the King County Council that would place a capital improvement bond measure before King County voters on the November 2020 General Election ballot. The measure seeks voter approval of $1.7 billion in general obligation bond funding over 20 years for health and safety improvements at HMC.

NORTHWEST HOSPITAL & MEDICAL CENTER (NWH)

Northwest Hospital & Medical Center integrated with UWMC effective January 1, 2020 and all FY 2020 values reported here reflect financial performance for the six months prior to that date. NWH recorded operating revenues of $178.5 million for the six months in FY 2020, a decrease of 52.4 percent over the full twelve months in the prior year. NWH reported a total net loss of $33.8 million. The net loss was unfavorable to budget by $15.9 million.

FINANCIAL HIGHLIGHTS FOR FY 2020, continued

VALLEY MEDICAL CENTER (VMC)

Valley Medical Center recorded operating revenues of $707.0 million in FY 2020, an increase of 4.3 percent over the prior year. VMC reported total net income of $6.7 million, or 0.9 percent of operating revenue largely due to federal stimulus funds of $30.0 million recognized as part of the COVID-19 pandemic. Without these funds, VMC would have reported a net loss of $23.3 million for FY 2020. The second half of FY 2020 was heavily focused on the response to the COVID-19 pandemic.

Despite the cancellation of elective procedures as a result of COVID-19 in the last quarter of FY 2020, VMC's overall revenue increase was primarily the result of continued growth in clinic and ambulatory outpatient hospital services. VMC continues to focus on management of expenses and cost containment, cash stabilization, remaining a low-cost provider, expanding telemedicine, and expanding patient access through electronic direct scheduling, online bill payment and patient safety.

UW NEIGHBORHOOD CLINICS (UWNC)

UW Neighborhood Clinics ended the year favorable to budget and was able to return $1.0 million in operating funding back to UWMC and HMC. UWNC met financial targets and community healthcare needs by focusing on telehealth visits during the COVID-19 pandemic. UWNC reported operating revenues of $68.8 million, an increase of 5.3 percent over the prior year, partly due to a distribution from UWP of $1.0 million. Despite the impacts of COVID-19 in Q3 and Q4, UWNC generated 103,017 referrals for physician specialties, radiology and ancillary services sent to UW Medicine hospitals and clinics. UWNC's partnership with Population Health generated over $3.0 million in incentive payments to UW Medicine during FY 2020.

UW PHYSICIANS (UWP)

UW Physicians' FY 2020 operating revenues were $334.4 million, an increase of 7.8 percent over the prior year. In addition, UWP received $5.5 million in federal stimulus funds as a result of the pandemic. UWP generated income of $11.3 million before transfers to departments in support of physician funding and departmental operations. Net billing fees increased $18.5 million over FY 2019. This increase was primarily associated with a 2.8 percent increase in volumes (as measured in relative value units or RVU's). Volumes increased 6.0 percent related to the NWH providers joining UWP on January 1, 2020, offset by COVID-19 reductions in the last quarter. Net funds generated from UWP operations are transferred to the clinical departments of the SOM to support operations.

AIRLIFT NORTHWEST (ALNW)

Airlift Northwest recorded operating revenues of $46.6 million in FY 2020, a decrease of 16.7 percent over the prior year. ALNW reported a total net loss of $6.6 million. The net income was below budget by $8.8 million. ALNW received $1.1 million in federal stimulus funds in FY 2020 and recorded favorable income of $1.0 million as a result of pension and other post employment actuarial adjustments. Without these funds, ALNW would have had a net loss of $8.7 million in FY 2020. ALNW's unfavorable financial performance over the prior year is primarily the result of a decrease in flight volumes, billable mileage and unfavorable commercial payer mix. ALNW is currently working with UW Medicine's Strategy and Planning Department to develop a strategic plan, which will be implemented in Winter 2020/Spring 2021. The core elements of the strategic plan are to bring costs in line with reimbursement levels, invest in infrastructure for growth, align ALNW and UW Medicine branding, strategic placement of bases and to maintain financial stability.

FINANCIAL HIGHLIGHTS FOR FY 2020, continued

UW SCHOOL OF MEDICINE (SOM)

Overall revenue for the UW School of Medicine was $1.6 billion in FY 2020, an increase of 6.3 percent over the prior year. Revenues exceeded expenses for the year by $32.4 million, which was favorable to budget by $27.1 million. $21.6 million of this variance was attributable to receipt of current period gifts into the school's COVID-19 emergency response fund. Although committed, the majority of these funds had yet to be spent as of year-end and are expected to be utilized in FY 2021. Revenues increased by $97.2 million in FY 2020, primarily due to increases in gift and endowment income, practice plan salary support, self-sustaining funds and faculty practice plan support. Revenue generated from research activities increased by $6.3 million over FY 2019. UW Medicine faculty were responsible for teaching approximately 4,700 students and trainees in FY 2020.

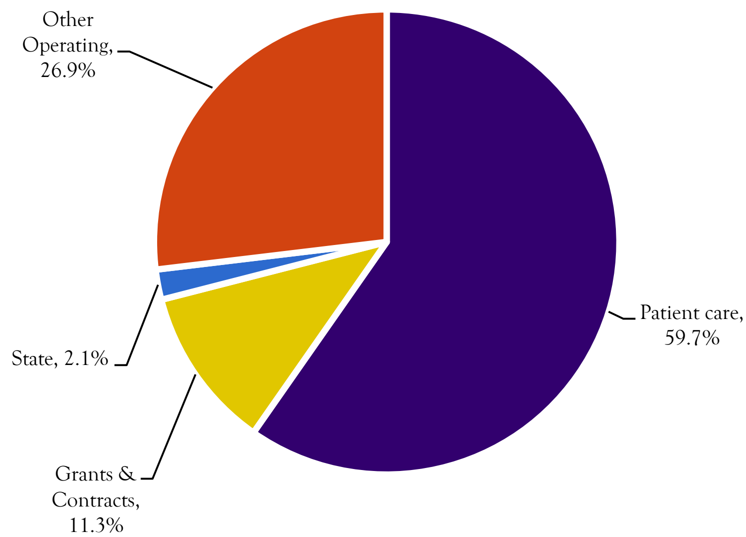
PRIVATE SUPPORT AND GIFTS

In FY 2020, over 19,000 generous individuals, foundations, and corporations gave $376.0 million in gifts and private grants to UW Medicine in support of its mission to improve the health of the public. Donors who made gifts of $203.0 million and private grants of $173.0 million in FY 2020 primarily supported research and education priorities at UW Medicine. Additionally, over $31.0 million was received in support of UW Medicine's response to COVID-19. FY 2020 was another record-breaking year for UW Medicine Advancement, representing a 22.0 percent increase over FY 2019 and 48.0 percent of the University's fundraising total, and was the first time UW Medicine Advancement had secured more than $200.0 million in gifts in a single fiscal year. FY 2020 also represented the final year of the Campaign. UW Medicine exceeded its $2.0 billion campaign goal by over $500.0 million.

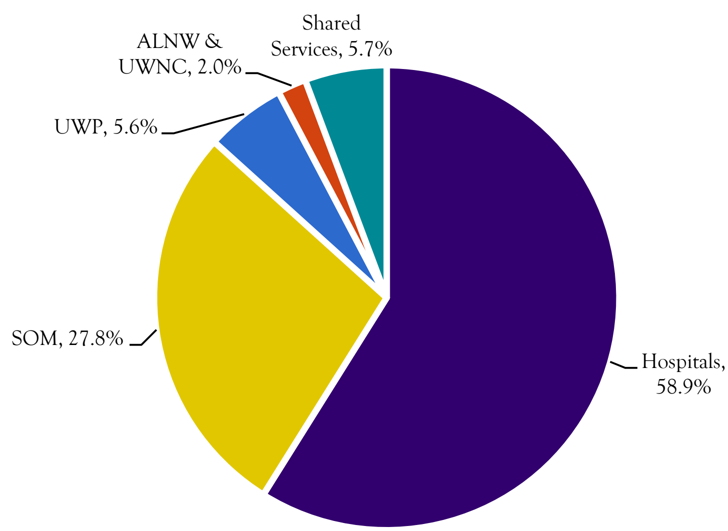
KEY STATISTICS & RESULTS

In FY 2020, UW Medicine revenues were approximately $5.9 billion. This represents an increase of 1.5 percent compared to FY 2019. The following charts summarize the sources of revenue for UW Medicine. Over the most recent four years, total combined UW Medicine revenue has increased at an average rate of 4.9 percent per year. These increases have occurred in the context of an extremely competitive local healthcare market, reductions in state and federal funding and increased competition for peer reviewed research grant funding. UW Medicine's largest source of revenue is patient care revenue (59.7 percent)[1].

Revenue by Source



Revenue by Organization Category



[1] Other operating revenue includes revenue for self-sustaining departments, research and training, and other hospitals revenue.

KEY STATISTICS & RESULTS, continued

The following tables summarize combined operating revenue, net income (loss) and uncompensated care for all UW Medicine organizations for FY 2019 and FY 2020[2].

Operating Revenue ($ in Millions)	FY 2019 (Audited)	FY 2020 (Audited)
Harborview Medical Center	$1,070	$1,049
Northwest Hospital & Medical Center	$375	$178
UW Medical Center	$1,413	$1,555
Valley Medical Center	$678	$707
Airlift Northwest	$56	$47
UW Neighborhood Clinics	$65	$69
UW Physicians	$310	$334
UW Medicine Shared Services	$320	$339
UW School of Medicine	$1,554	$1,651
Combined Total UW Medicine	**$5,841**	**$5,929**

Net Income (Loss) ($ in Millions)	FY 2019 (Audited)	FY 2020 (Audited)
Harborview Medical Center	$27	$27
Northwest Hospital & Medical Center	$(40)	$(34)
UW Medical Center	$75	$36
Valley Medical Center	$12	$7
Airlift Northwest	$2	$(7)
UW Neighborhood Clinics	$(2)	$(2)
UW Physicians[3]	$0	$0
UW Medicine Shared Services	$(3)	$(2)
UW School of Medicine	$30	$33
Combined Total UW Medicine	**$101**	**$58**

Uncompensated Care ($ in Millions)	FY 2019
Harborview Medical Center	$253
Northwest Hospital & Medical Center	$88
UW Medical Center	$277
Valley Medical Center	$88
Total UW Medicine	**$706**

UW Medicine provided over $706.0 million in uncompensated care system-wide in FY 2019, which includes the uncompensated cost of providing Medicaid and Medicare, as well as financial assistance. FY 2020 uncompensated care amounts will be finalized in December 2020. The estimated cost of financial assistance for FY 2020 was $60.7 million compared to $65.4 million in FY 2019. Financial assistance has decreased since January 2014 as a result of the Medicaid expansion to previously uninsured patients and implementation of Healthcare Exchanges, while the uncompensated cost of providing care to Medicaid eligible patients has increased.

[2] FY 2020 results for NWH represents the six month period ended December 31, 2019, prior to integration with UWMC.
[3] Results for UWP are shown after amounts available to the SOM.

KEY STATISTICS & RESULTS, continued

The following table provides comparisons of key financial indicators for the four medical centers for FY 2020.

Ratio/Indicator	HMC	NWH[4]	UWMC	VMC
Operating Cash Flow Margin[5]	3.3%	(16.5)%	0.9%	(0.9)%
Debt to Capitalization[6]	18.0%	200.9%	62.4%	54.2%
Days Cash on Hand[7]	158.8	41.6	77.5	144.9
Days in A/R (Net)[8]	54.0	41.6	51.4	44.5

UWMC’s long-term debt to capitalization ratio, adjusted for post employment retirement obligations, resulted in a reduction of unrestricted net position of $494.3 million. Without that reduction, the debt to capitalization ratio would be 33.3 percent.

HMC’s debt-to-capitalization ratio reflects the debt issued and supported through HMC revenues. Significant construction projects have been funded primarily through tax payer supported debt.

As the hospitals received Medicare Advanced Payments in FY 2020 that will be recouped by Medicare, days cash on hand excluding Medicare Advance Payments would be 134.3 at HMC, 51.7 at UWMC and 112.6 at VMC.

UW Medicine is not rated independently from the University. As a significant part of the UW financial performance, UW Medicine contributes positively toward the UW Moody’s “Aaa” rating.

[4] FY 2020 results for NWH represents the six month period ended December 31, 2019, prior to integration with UWMC.
[5] Cash generated from medical center core activities expressed as a percentage of operating revenue.
[6] Debt outstanding expressed as a percentage of capital/net assets.
[7] Number of days average expenditures that could be paid with current cash and investments on hand.
[8] Average number of days to collect patient care revenues.

FIVE-YEAR PERFORMANCE COMPARISON

The overall patient care volumes at UW Medicine hospitals and clinics were greatly impacted by the COVID-19 pandemic as a result of the cancellation of non-urgent and elective surgeries and procedures. The following tables summarize the clinical activities for the owned and managed hospitals and clinics of UW Medicine.

Harborview Medical Center

Statistic	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Admissions	16,969	17,158	16,716	16,073	15,329
Patient Days	144,140	146,805	147,027	147,649	140,502
Outpatient Visits	252,435	258,666	262,132	258,406	228,852
Emergency Visits	59,776	58,847	57,516	55,545	53,550
Average Length of Stay	8.5 days	8.6 days	8.8 days	9.2 days	9.2 days
Case Mix Index (CMI)	2.23	2.28	2.36	2.42	2.43

Northwest Hospital & Medical Center

Statistic	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020[9]
Admissions	10,060	9,945	9,935	9,767	4,821
Patient Days	48,492	49,375	48,653	49,970	24,342
Outpatient Visits	197,132	174,257	169,370	166,707	81,664
Emergency Visits	35,068	34,150	33,651	32,587	16,398
Average Length of Stay	4.8 days	5.0 days	4.9 days	5.2 days	5.1 days
Case Mix Index (CMI)	1.50	1.53	1.52	1.50	1.44

University of Washington Medical Center

Statistic	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020[10]
Admissions	18,362	18,964	19,350	18,948	22,177
Patient Days	132,529	132,403	136,568	138,770	154,203
Outpatient Visits	320,037	341,014	353,718	364,006	327,103
Emergency Visits	26,555	27,730	28,279	28,765	40,497
Average Length of Stay	7.2 days	7.0 days	7.1 days	7.3 days	7.0 days
Case Mix Index (CMI)	2.24	2.25	2.27	2.34	2.19

Valley Medical Center

Statistic	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Discharges	17,518	18,153	18,409	18,271	16,924
Patient days	70,148	72,541	73,102	75,824	76,758
Outpatient Visits	499,814	529,092	624,802	670,132	627,997
Emergency Visits	83,067	83,907	85,098	85,305	77,344
Average Length of Stay	4.0 days	4.0 days	4.0 days	4.2 days	4.5 days
Case Mix Index (CMI)	1.48	1.49	1.54	1.59	1.66

UW Neighborhood Clinics

Statistic	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Clinic Visits	300,799	338,174	372,413	373,304	367,976
New Patients	31,632	37,086	43,743	39,256	40,113

[9] FY 2020 results for NWH represents the six month period ended December 31, 2019, prior to integration with UWMC.
[10] FY 2020 results for UWMC includes both Montlake and NW campuses combined, as of January 1, 2020.

RESEARCH PROGRAMS

UW Medicine research awards managed through the University of Washington have increased at a compound annual growth rate (CAGR) of 3.0 percent over the last five years. FY 2017 awards of $1.0 billion included a ten-year, $280.0 million award from the Bill and Melinda Gates Foundation to the SOM Institute for Health Metrics and Evaluation. The following table summarizes UW-based SOM research awards over the past five UW fiscal years.

Table 1. Awards to UW School of Medicine (Federal, Non-federal) by UW Fiscal Year ($ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020 *(Prelim)*	5-Yr CAGR
Federal	$455.3	$517.5	$449.7	$567.7	$565.1	6%
Non-federal	$248.2	$493.3	$176.3	$227.6	$239.1	(1)%
Total	**$703.5**	**$1,010.8**	**$626.0**	**$795.3**	**$804.2**	**3%**

Note: Award totals are adjusted to reflect agreements between the Dean of the UW School of Medicine and the Deans of the College of Engineering and the School of Public Health for the Departments of Bioengineering and Global Health, respectively. Federal awards include federal flow-through from other institutions.

UW Medicine faculty were second in the country among all medical schools and first among public medical schools in total NIH research funding based on Federal FY 2019 awards. The federal fiscal year runs from October to September.

Table 2. Ranking of Organizations per Total NIH Awards by Federal Fiscal Year ($ in Millions)

Organization	2015 NIH Awards	2016 NIH Awards	2017 NIH Awards	2018 NIH Awards	2019 NIH Awards	5-yr CAGR
Harvard	$1,419.6	$1,430.4	$1,523.1	$1,641.8	$1,652.6	3.9%
U of Washington	**$606.2**	**$638.9**	**$706.7**	**$728.0**	**$783.7**	**6.7%**
UCLA	$472.9	$600.2	$621.6	$673.5	$707.5	10.6%
U of Pennsylvania	$514.2	$535.0	$565.7	$598.3	$700.5	8.0%
Johns Hopkins	$521.6	$564.9	$593.0	$595.6	$663.0	6.2%
UCSF	$531.1	$577.4	$555.3	$597.5	$611.9	3.6%
Columbia	$399.5	$461.1	$491.9	$568.9	$585.7	10.0%
Cornell	$280.3	$303.8	$325.0	$524.8	$582.1	20.0%
Washington U	$352.3	$374.0	$470.3	$514.2	$564.5	12.5%
Duke	$326.3	$369.6	$392.5	$412.5	$547.2	13.8%
NYU	$324.3	$310.8	$381.9	$451.2	$542.4	13.7%
U of Pittsburgh	$399.6	$476.7	$484.7	$528.8	$541.5	7.9%
Michigan	$385.4	$402.2	$435.1	$454.0	$499.6	6.7%
Icahn	$319.1	$348.2	$379.8	$435.4	$476.6	10.5%
Stanford	$375.3	$383.3	$408.8	$437.4	$462.5	5.4%

UW Medicine's comparative success in NIH funding is due to a number of factors, including the interdisciplinary breadth of its research programs, the addition of new laboratory space at South Lake Union and the increased emphasis on 21st century science such as genomics, proteomics, regenerative medicine and population health research. The Institute for Health Metrics & Evaluation, the Institute for Protein Design, the Brotman Baty Institute, the Lab Medicine Reference Lab and other programs focused on infectious diseases have been key to UW Medicine's response to the COVID-19 pandemic.

LOOKING FORWARD: FY 2021

As an integral part of preparing the UW Medicine Annual Budget, the boards and senior leaders at each individual UW Medicine organization, in conjunction with the UW Medicine Advisory Board and executive leaders, identify specific risks and mitigation plans. This planning process enhances our ability to achieve the financial performance required to implement strategic objectives that have been identified. The graphic below displays the consolidated assessment done for FY 2021 regarding global risks shared across all of UW Medicine as well as specific risks identified at the individual organization level.

UW MEDICINE FY 2021 FINANCIAL RISKS

LOOKING FORWARD: FY 2021, continued

REVENUES AND EXPENSES

UW Medicine is approaching FY 2021 and beyond as an opportunity to continue our work to improve the financial performance across the enterprise through the hardwiring of Project FIT. Project FIT focuses on substantial transformation of every facet of our business. Early in FY 2020 we kicked off our strategic planning work that will provide the roadmap for the next five years and beyond. The COVID-19 pandemic created the need for us to reevaluate strategic priorities and look for areas that capital investment could be delayed with minimal impact to return on investment. Due to the additional capacity generated by the extensive use of telehealth and the capacity generated by moving a portion of our patient care to a remote environment, we were able to defer some capital dollars to future year. These plans will be updated as part of the long range planning update currently underway. We are working collaboratively to maximize our clinical delivery system capacity, continuing to streamline our cost structure and focusing on infrastructure investments necessary to achieve future efficiencies.

In FY 2021 and beyond, it is anticipated that there will be continued downward pressure from all payers on reimbursement as well as pressure to transition care to lower cost settings. Revenue assumptions reflect continued pressure from government payers such as Medicare and Medicaid, continued shifts within our commercial payers to lower paying plans and continued reduction of fee-for-service based payments to reimbursement based on value (cost, quality, patient access and patient satisfaction). For the same time period, expense inflation factors have been applied to the cost of supplies, labor (both salaries and benefits) and equipment, putting additional pressure on margins. We are focused on achieving our Project FIT goals for FY 2021 and beyond, in order to position us to be able to execute on our strategic priorities.

INFORMATION TECHNOLOGY (IT)

Strategic IT investments are a priority at UW Medicine. The need to move to a single enterprise electronic health record (EHR) is compelling, due to the advantages it will offer around clinical quality, safety and workflow efficiencies, along with decreasing duplicative costs and complexity. In 2018, the Board of Regents approved the UW Medicine Clinical Transformation project (Destination: One), which began in October 2018. This project includes the implementation of one electronic medical record platform as well as revamping the way we do our work to ensure improved efficiencies and standardization. In addition to an improved patient experience, we anticipate savings in IT costs, revenue cycle improvements and quality/safety improvements. Continued implementation and optimization of the enterprise-wide electronic medical record as well as other clinical and business systems require an investment of $50.0 to $100.0 million per year. Additionally, UW Medicine is collaborating with UW Administration in the design and architect phase and, ultimately, the implementation phase of a new financial system known as Finance Transformation that will impact the entire University.

ACCOUNTABLE CARE NETWORK (ACN) RISK

As the number of UW Medicine ACN agreements grow, the risk to UW Medicine increases. In August 2017, we successfully negotiated a new four-year contract with Boeing that better aligns risks and incentives to achievable outcomes. The performance in 2019 was consistent with 2018 and the settlement is being finalized at this time. The contract with the Washington State Health Care Authority (HCA) was renegotiated in FY 2019 and the terms were retroactive to 2018, which resulted in $6.1 million in shared savings for the UW Medicine ACN. FY 2020 performance year is comparable to FY 2019, and the settlement is being finalized at this time. In an effort to expand its value-based reimbursement model to more providers and citizens of Washington, HCA has added School Employees Benefits Board to the ACN contract with HCA. The first year of enrollment will be 2020 and it is expected that 1,000-10,000 people will be added to the UW Medicine ACN's risk pool in its first year. The opportunity with the ACN contracts includes gaining additional market share, maintaining our current patient base and availability to serve as a high-quality preferred provider. As the market moves towards value-based care reimbursement, pushed along by legislation at the State and Federal levels, the imperative for UW Medicine to perform well in this reimbursement structure is crucial. In the competitive environment of healthcare that exists in King County and the greater Puget Sound region, the market is demanding a different model of care, driven by legislation and employer demand. This continues to require UW Medicine's diligence in transforming the care delivery model to better align incentives that are in place today and accommodate the demands of a new set of consumers who view healthcare as a retail commodity.

UW MEDICINE'S FIVE AREAS OF FOCUS FOR FY 2021 ARE:

1. Continue to provide safe and high quality care to our patients through a lens that now includes COVID-19.
    a. Leading the region in the fight against COVID-19.
    b. Ensuring adequate supply levels of PPE.
    c. Preparing for a potential future COVID-19 surge.
    d. Further developing mitigation strategies to minimize future potential financial losses.
2. Delivery of world class research and training.
    a. Continued development of IT platforms to support the needs of researchers, teachers and learners.
    b. Aggressive recruitment continues to attract strong research and teaching professionals to UW Medicine.
    c. Work to assure a supportive environment for interdisciplinary and translational research continues with a focus on retaining leaders of important research areas.
    d. Continue to assess and develop support for the ongoing need for an expanding physician workforce to meet demands for healthcare professionals across the WWAMI states, including telemedicine options.
    e. Maintain high quality and cost effectiveness of the medical school teaching program and UW Medicine's large graduate medical education programs.
    f. Continuous curriculum renewal to enhance active learning and increase integration across all years of the medical school across all teaching sites in our five-state program.
    g. Launch of center initiatives that encompass teaching, training and basic and translational research.
    h. Utilize simulation and modeling in our hospitals and clinics to train health professionals in the areas of procedural and communication skills.
3. Continued achievement of Project FIT.
    a. Continue to improve margins in order to generate the capital necessary to continue to invest in our future under solid financial footing.
    b. Focused development and execution of the key initiatives identified in Project FIT, including increasing revenues through the growth of clinical services, reducing costs through a number of initiatives related to labor, productivity, supply pricing and utilization as well as investing in our infrastructure.
    c. As initiatives mature and financial impacts are quantified with more certainty, it will be necessary to adjust and re-evaluate our work in order to achieve the impact that has been identified as our goal.

LOOKING FORWARD: FY 2021, continued

4. **Leading as an Accountable Care Organization by focusing on:**
    a. Measuring and improving the health of those served, effectively coordinating care across a continuum of health care settings and utilizing a "medical home" based model that supports patients with chronic conditions on a routine and individualized basis to ensure high-quality, efficient and affordable care. UW Medicine is focused on population health in all of our activities.
    b. Developing Embright, a clinical integrated network with MultiCare, to 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.
    c. Reducing the cost of healthcare by standardizing care protocols based on evidence-based research.
    d. Improving the experience of care by focusing on quality, safety, service and access as measured by Patients Are First pillar goals.
    e. Improving population health and providing 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, through the newly formed Embright.
    f. Meeting and exceeding expectations and requirements relative to the Boeing and HCA contracts.

5. **Advancing our single mission of improving the health of the public and our commitment to improving healthcare equity and advancing equity, diversity and inclusion.**
    a. UW Medicine's commitment to serving all populations will continue along with a focus on improving healthcare equity.
    b. The new UW Medicine Office of Healthcare Equity is developing a revised blueprint to guide multiple specific actions related to goals and objectives for equity, diversity and inclusion.
    c. UW Medicine will play a leading role in improving mental and behavioral health services for those in need in our community.

6. **Achievement of the UW Medicine Patients Are First pillar goals**.
    a. Focus on serving the patient and family
    b. Provide the highest quality care
    c. Become the employer of choice
    d. Practice fiscal responsibility

Healthcare organizations generally have relatively small operating margins, incur large capital expenditures to keep current with advances in technology and have a high reliance on government payments. Healthcare is in a period of consolidation and destabilization. The operating, clinical and financial aspects of our work will continue to be very challenging over the next few years as we recover from the COVID-19 pandemic as well as face the transition from fee-for-service to a value-based reimbursement system. The continued development of a strong philanthropic revenue stream to support UW Medicine priorities will be a key focus for our leaders going forward.

UW Medicine's ability to be successful requires that it has strong, effective and visionary leadership, makes well-informed strategic choices, recruits and retains exceptional staff, faculty, students and trainees, implements best practices in all aspects of its operations and strengthens its financial health to be able to invest in its future.

ATTACHMENT 3

FY 2020 UW Financials

Headlines

> **COVID had severe financial impacts to UW**
  – Adjusted operating loss doubled from FY2019 to $425m
  – Prior to external $ mitigations, FY2020 was largest operating loss in history of UW
  – Largest impacts to UWM and auxiliary units (ICA, HFS)

> **Net $200m estimated net income impact of pandemic for FY2020**

- $425m **revenue loss** vs. pre-COVID baseline
+ $95m of **remediation payments** (CARES etc.)* recorded on income statement
+ $130m of estimated **lower expenditures** vs. baseline
- $200m income loss vs. baseline

> **However FY2020 also showed evidence of institutional resilience**
  – UW added $343m to net position despite pandemic
    > Continued growth in grants and contracts
    > Non operating revenues (gifts and investments) offset adjusted operating loss

*Does not include $193m of additional mitigation recorded on balance sheet some of which may need to be repaid.

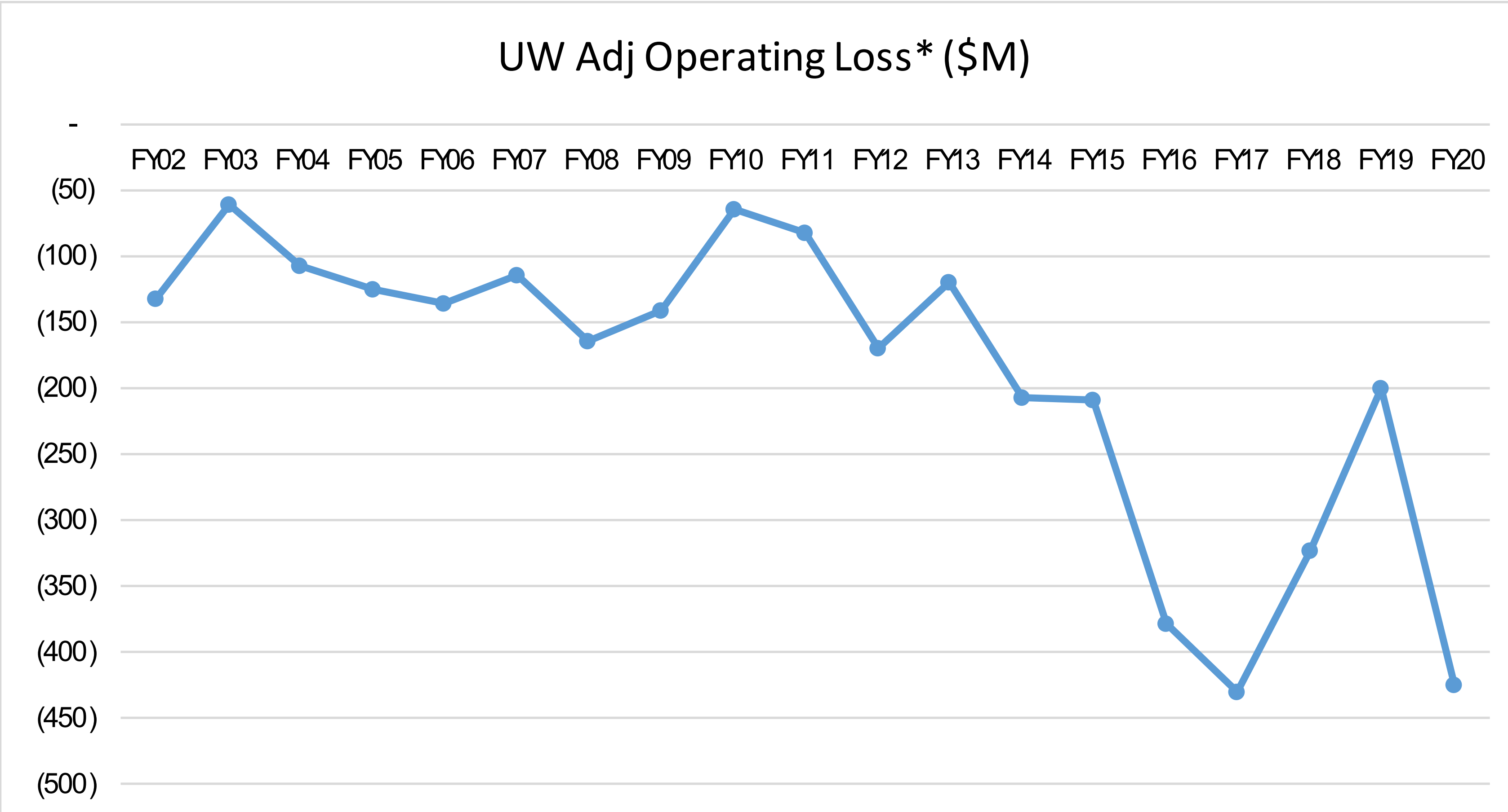
FY 2020 UW Operating Results ($M)

FY 2020 Financial Statements

		FY19	FY20	$ Change	% Change
	Operating Revenue				
1	Tuition & Fees	1,052	1,058	6	0.6%
2	Patient Services	2,136	2,093	(43)	-2.0%
3	Grants & Contracts	1,426	1,492	66	4.6%
4	State Appropriations	379	415	36	9.6%
5	Other Operating Revenue	872	869	(3)	-0.4%
6	**Adjusted Total Operating Revenues**	**5,865**	**5,927**	63	1.1%
	Operating Expenses				
7	Salaries	2,879	2,961	82	2.8%
8	Benefits	853	921	68	7.9%
9	Other Operating Expenses	2,332	2,470	138	5.9%
10	**Total Operating Expenses**	**6,064**	**6,352**	287	4.7%
11	**Adjusted Operating Loss**	**(199)**	**(425)**	**(226)**	**113.2%**
12	Gifts (Operating & Permanent Endowment)	301	285	(16)	-5.4%
13	Investment Income	340	208	(132)	-38.8%
14	Capital Related Revenue	69	202	133	192.8%
15	Other Net Expenses	(28)	73	101	
16	**Total Non Operating Revenue/Expense**	**682**	**768**	**86**	**12.7%**
17	**Increase in Net Position**	**483**	**343**	**(139)**	**-28.9%**

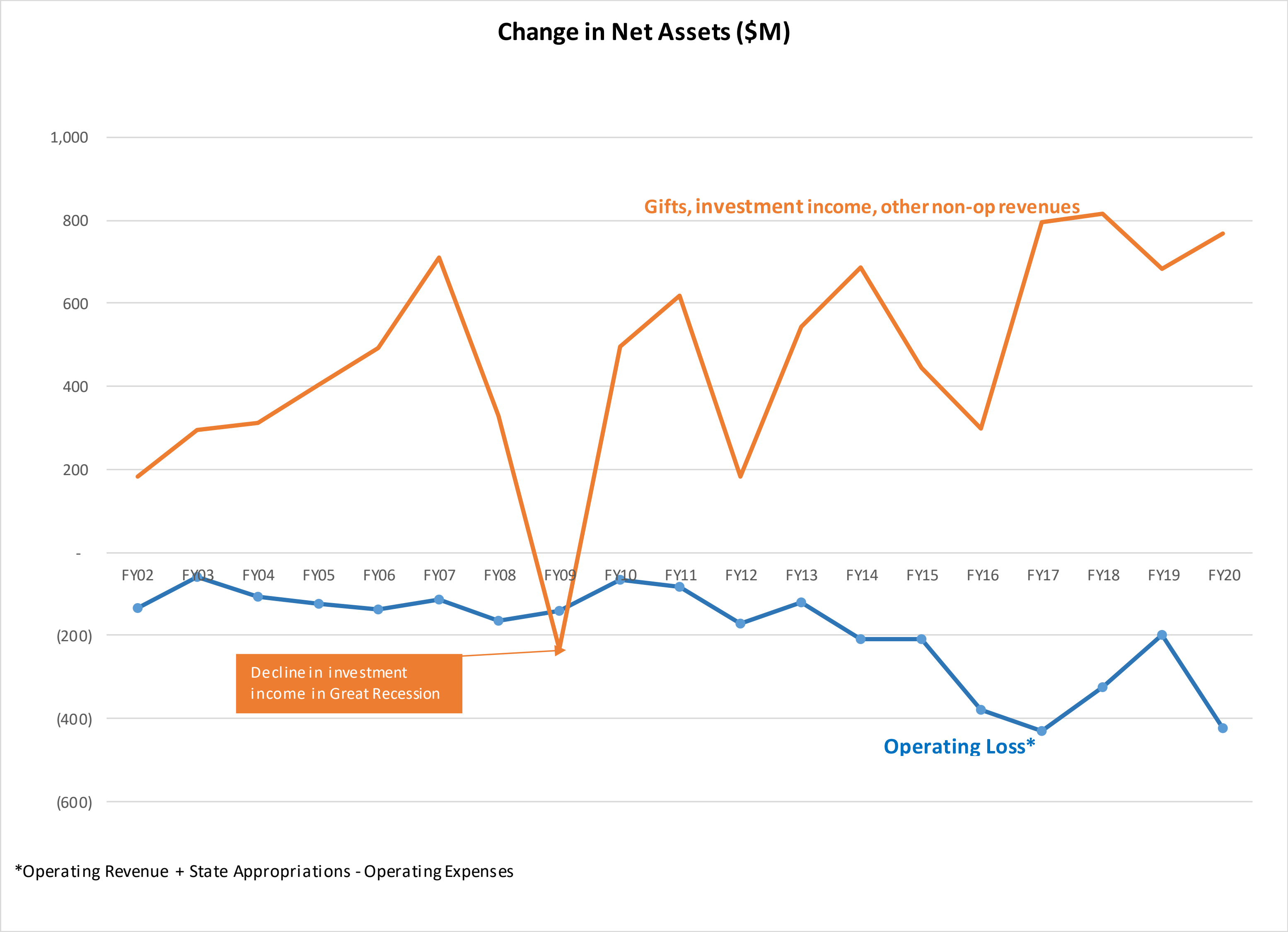
Totals may differ from financial statements due to rounding

UW Adjusted Operating Loss ($M)



*Operating Revenue + State Appropriations - Operating Expenses

Change in Net Position



Significant Risks Remain for FY2021

- Extent of future COVID related revenue losses
- State appropriations
- Enrollment trends
  - Non-resident
  - Graduate programs
- Gifts
- Economic impacts
  - Investment returns
- Extent of future federal mitigations