UNIVERSITY OF WASHINGTON
INTERNAL LENDING PROGRAM

Basic Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
INTERNAL LENDING PROGRAM

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Independent Auditors' Report

The Board of Regents
University of Washington:

Opinion

We have audited the financial statements of the University of Washington Internal Lending Program (the Program), a department of the University of Washington, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as of and for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Reporting Entity

As discussed in note 1, the financial statements of the Program are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the University of Washington that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2023 or 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting.

from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control−related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
October 31, 2023

Discussion and Analysis Prepared by Management

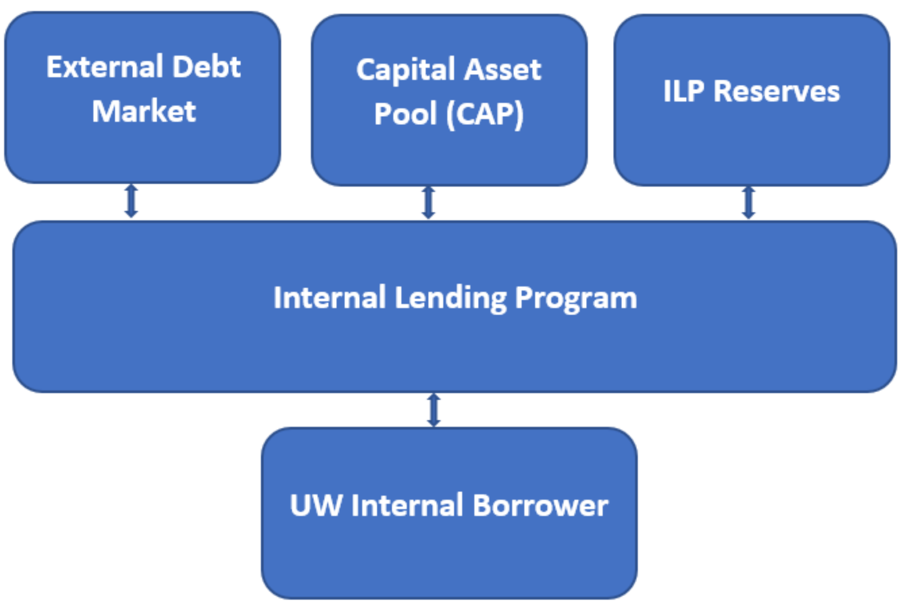
The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Internal Lending Program (Program or ILP) for the years ended June 30, 2023 and 2022, with comparative financial information for 2021. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The ILP commenced operations on July 1, 2008 based upon the direction and authority of the University of Washington Board of Regents (Board of Regents). It operates as a program of the University of Washington (University).

The ILP makes loans funded through the issuance of University General Revenue debt obligations, the Capital Asset Pool (CAP) or from ILP reserves. The ILP finances capital projects with maturities up to 30 years.

The University has an additional lending program, reflected on the ILP financial statements, called FASTer which makes loans for short-term projects that are currently funded from ILP reserves.

The internal loan portfolio consists of loans to internal units, while the external debt portfolio comprises short-term and long-term debt obligations of the University. Per the Board of Regents approved Debt Policy, the external debt portfolio is actively managed to reduce the University's cost of capital and to achieve stability and predictability in the internal lending rate for internal borrowers. Active management of the external debt portfolio entails the possible use of risk-evaluated debt structures and debt management techniques to achieve the lowest risk-adjusted cost of capital consistent with market conditions and institutional credit considerations.

The diagram below outlines the flow of funds into the ILP:



Using the Financial Statements

The ILP's financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for state and local governments, including public colleges and universities. Information about the financial condition of the ILP is provided in the summaries and explanations that follow.

Statements of Net Position Summary

The statements of net position reflect the financial condition of the ILP at the end of the fiscal year and report the various categories of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The following summary statements of net position show the ILP's total assets, deferred outflows of resources, total liabilities, total deferred inflows of resources and net position as of June 30, 2023, 2022, and 2021:

Summary Statements of Net Position

		2023	2022	2021
Current assets	$	204,155,682	301,998,922	221,524,331
Noncurrent assets		1,983,585,960	1,956,031,129	1,990,884,338
Total assets		2,187,741,642	2,258,030,051	2,212,408,669
Deferred outflows of resources		—	—	12,770,002
Total assets and deferred outflows of resources	$	2,187,741,642	2,258,030,051	2,225,178,671
Current liabilities	$	96,483,146	103,322,210	95,846,045
Noncurrent liabilities		1,979,215,839	2,063,228,654	2,043,852,569
Total liabilities		2,075,698,985	2,166,550,864	2,139,698,614
Deferred inflows of resources		1,986,392	1,423,084	—
Unrestricted net position		110,056,265	90,056,103	85,480,057
Total liabilities, deferred inflows of resources and net position	$	2,187,741,642	2,258,030,051	2,225,178,671

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

- As of June 30, 2023, current assets included $111.3 million in cash and cash equivalents in the University of Washington Invested Funds (IF), $24.4 million in restricted investments of undistributed bond proceeds, and $61.2 million in current internal lending program receivables. As of June 30, 2022, current assets included $94.0 million in cash and cash equivalents in the IF, $109.6 million in restricted investments of undistributed bond proceeds, and $91.2 million in current internal lending program receivables. In fiscal year 2023, current assets decreased by $97.8 million primarily due to the reduction in restricted investments used in funding loans and UW Medicine not having to pay principal in fiscal year 2024 because of a waiver of Financial Stability Plan requirements (see Note 8). In fiscal year 2022, current assets increased by $80.5 million primarily due to a decrease in distributions of ILP reserves from the prior year to the University and an increase in interest revenues received from outstanding loans.

- Noncurrent assets consist mainly of internal loan receivables within the University. Noncurrent assets were $27.6 million more at the end of fiscal year 2023 compared to the end of fiscal year 2022 as a result of new internal lending. Noncurrent assets were $34.9 million less at the end of fiscal year 2022 compared to the end of fiscal year 2021 as a result of the continuing collection of internal loan receivables.
- Deferred outflows of resources and deferred inflows of resources consist entirely of deferred gains and losses on debt refundings. There were no deferred outflows of resources in fiscal year 2023 or fiscal year 2022. Deferred outflows of resources decreased $12.8 million in fiscal year 2022 compared to the end of fiscal year 2021 due to gains on refunding resulting from new debt, as well as amortization of deferred gains and losses on debt refundings. Deferred inflows of resources increased $563.3 thousand in fiscal year 2023 compared to the end of fiscal year 2022.
- As of June 30, 2023, current liabilities included $73.9 million in bonds payable and $18.7 million in interest payable. As of June 30, 2022, current liabilities included $73.6 million in bonds payable and $18.7 million in interest payable. Current liabilities decreased by $6.8 million in fiscal year 2023 compared to the end of fiscal year 2022 primarily due to a $7.3 million decrease in amounts due to the University related to cash paid by the University on behalf of the ILP as a result of the timing of capital expenditures. Current liabilities increased by $7.5 million in fiscal year 2022 compared to the end of fiscal year 2021 primarily due to a $6.4 million increase in amounts due to the University related to cash paid by the University on behalf of the ILP as a result of the timing of capital expenditures.
- Noncurrent liabilities as of June 30, 2023 included $1.9 billion in bonds payable and $125.0 million in CAP payable to the IF. Noncurrent liabilities as of June 30, 2022 included $1.9 billion in bonds payable and $135.3 million in CAP payable to the IF. The $84 million decrease in noncurrent liabilities in fiscal year 2023 compared to the end of fiscal year 2022 was primarily related to the paying down of external debt. The $19.4 million increase in noncurrent liabilities in fiscal year 2022 compared to the end of fiscal year 2021 resulted primarily from additional external borrowing by the ILP.

ILP's Net Position

Unrestricted net position includes all funds available to the ILP for any purpose associated with the University's mission. Net position increased by $20 million, or 22.2%, during fiscal year 2023 compared to the end of fiscal year 2022 driven by a decrease in operating expenses and a decrease in transfers of reserves to the University. Net position increased by $4.6 million, or 5.4%, during fiscal year 2022 compared to the end of fiscal year 2021 driven by a decrease in operating expenses and a decrease in transfers of reserves to the University.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position presents the ILP's operations and nonoperating revenues and changes in net position. The following summary shows the revenues, expenses, and changes in net position for the years ended June 30, 2023, 2022, and 2021:

Summary Statements of Revenues, Expenses, and Increase in Net Position

		2023	2022	2021
Operating revenues	$	82,399,466	83,573,618	78,757,538
Operating expenses		67,578,560	71,772,048	78,882,726
Operating income (loss)		14,820,906	11,801,570	(125,188)
Nonoperating revenues		5,179,256	3,774,476	3,695,874
Transfers of reserves to the University		—	(11,000,000)	(18,000,000)
Change in net position		20,000,162	4,576,046	(14,429,314)
Net position, beginning of year		90,056,103	85,480,057	99,909,371
Net position, end of year	$	110,056,265	90,056,103	85,480,057

The following are comments about the revenues and expenses highlighted in the summary:

- Operating revenues consists of interest collected and accrued on internal loans. Operating revenues decreased by $1.2 million, or 1.40%, in fiscal year 2023 compared to fiscal year 2022, as borrowers continue to make payments on existing amortizing loan schedules. Operating revenues increased by $4.8 million, or 6%, in fiscal year 2022 compared to fiscal year 2021, primarily due to an increase in the number of internal loans in fiscal year 2022 compared to fiscal year 2021.
- Nonoperating revenues includes Build America Bonds (BABs) grant revenue and net investment income earned on unspent bonds proceeds. In fiscal year 2023, nonoperating revenues included $3.9 million in BABs grant revenue and $1.3 million in net investment income earned on unspent bond proceeds. In fiscal year 2023, there were no transfers of ILP reserves to the University. In fiscal year 2022, transfers of reserves to the University included $11 million which was distributed from ILP reserves to the University mainly to support Intercollegiate Athletics operations and in paying debt service.
- In fiscal year 2023, operating expenses included $63.1 million in interest paid and accrued on outstanding bonds compared to $66.9 million in interest paid and accrued on outstanding bonds and commercial paper in fiscal year 2022. Interest expense decreased by $3.8 million in fiscal year 2023 compared to fiscal year 2022. Expenses to administer the ILP program totaled $4.4 million and $4.9 million for the fiscal years ended 2023 and 2022, respectively. Administrative expenses include fees paid for legal counsel, financial advisory services, rating agencies, underwriter's discount, staff salaries and benefits, and the Provost credit support fee.

Debt Administration

The University is rated Aaa (stable) by Moody's and AA+(stable) by S&P Global. Each fiscal year, the Board of Regents approves a bond resolution that contains the maximum amount of General Revenue Bonds that the University can issue in the upcoming year to fund projects. The resolution also allows the University to refund debt for the purposes of economic benefit and/or the remarketing of put or term bonds from time to time. During fiscal year 2023, the ILP did not issue any General Revenue and Refunding Bonds. During fiscal year 2022, the ILP issued $364.7 million in General Revenue and Refunding Bonds (see note 7).

Moody's and Standard & Poor's have assigned short-term ratings of P-1/A-1+, respectively, to the University's commercial paper program. These are the highest short-term ratings each agency assigns. The University has a $250.0 million commercial paper program and issues commercial paper throughout the year to manage cash flows between long-term debt issuances. In fiscal years 2023 and 2022, the ILP did not issue any commercial paper.

The University's Treasury Office provides regular updates on internal loans and external debt as part of its ongoing reporting to the Board of Regents.

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Statements of Net Position

June 30, 2023 and 2022

Assets		**2023**	**2022**
Current assets:			
Cash in the University of Washington Invested Funds Pool	$	111,345,403	94,034,087
Restricted investments, current		24,424,920	109,646,418
Interest receivable		7,170,541	6,855,437
Other receivable		—	215,263
Internal Lending Program receivable, current portion		61,214,818	91,247,717
Total current assets		204,155,682	301,998,922
Noncurrent assets:			
Restricted investments, noncurrent		7,692,038	—
Internal Lending Program receivable, net of current portion		1,975,893,922	1,956,031,129
Total noncurrent assets		1,983,585,960	1,956,031,129
Total assets	$	2,187,741,642	2,258,030,051
Liabilities and Net Position			
Liabilities:			
Accounts payable	$	30,040	42,500
Accrued salaries and vacation payable		227,669	182,823
Interest payable		18,652,212	18,670,511
Due to University of Washington		276,622	7,550,312
CAP payable to IF, current portion		3,433,708	3,294,984
Bonds payable, current portion		73,862,895	73,581,080
Total current liabilities		96,483,146	103,322,210
CAP payable to IF, net of current portion		124,955,695	135,303,486
Bonds payable, net of current portion		1,854,260,144	1,927,925,168
Total noncurrent liabilities		1,979,215,839	2,063,228,654
Total liabilities		2,075,698,985	2,166,550,864
Deferred inflows of resources:			
Gain on refunding		1,986,392	1,423,084
Net position:			
Unrestricted net position		110,056,265	90,056,103
Total liabilities, deferred inflows of resources and net position	$	2,187,741,642	2,258,030,051

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

		2023	2022
Operating revenues:			
Interest revenue	$	82,399,466	83,573,618
Total operating revenues		82,399,466	83,573,618
Operating expenses:			
Interest expense		63,141,078	66,898,883
Administration expenses		4,437,482	4,873,165
Total operating expenses		67,578,560	71,772,048
Operating income		14,820,906	11,801,570
Nonoperating revenues (expenses):			
Grant revenue subsidies		3,916,946	3,711,763
Investment revenue, net of expenses		1,262,310	62,713
Transfers of reserves to the University		—	(11,000,000)
Total nonoperating revenues (expenses)		5,179,256	(7,225,524)
Change in net position		20,000,162	4,576,046
Net position at beginning of year		90,056,103	85,480,057
Net position at end of year	$	110,056,265	90,056,103

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
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Statements of Cash Flows

Years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Interest received from internal borrowers	$ 82,084,362	83,704,857
Loans made to internal borrowers	(91,609,247)	(69,897,777)
Principal received from internal borrowers	101,779,352	95,188,473
Payments for administration expenses	(4,405,096)	(4,816,677)
Net cash provided by operating activities	87,849,371	104,178,876
Cash flows from noncapital financing activities:		
Proceeds from issuance of bonds	—	390,440,118
Proceeds from the Invested Funds (CAP Program)	2,800,000	13,612,100
Build America Bonds grant received	4,132,209	2,738,111
(Payments to) proceeds from the University	(7,273,690)	6,429,987
Principal paid on debt	(71,718,513)	(354,288,767)
Interest paid on debt	(77,269,832)	(81,344,395)
Distributions to the University	—	(11,000,000)
Net cash used in noncapital financing activities	(149,329,826)	(33,412,846)
Cash flows from investing activities:		
Purchases of investments	(155,774,731)	(91,685,057)
Proceeds from sales of investments	232,056,967	50,641,828
Investment income	2,509,534	62,713
Net cash provided by (used in) investing activities	78,791,770	(40,980,516)
Net increase in cash and cash equivalents	17,311,315	29,785,514
Cash and cash equivalents at beginning of year	94,034,088	64,248,573
Cash and cash equivalents at end of year	$ 111,345,403	94,034,087
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 14,820,906	11,801,570
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense	63,141,078	66,898,883
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(315,104)	131,239
Decrease in Internal Lending Program receivable	10,170,105	25,291,386
Increase in accounts payable and accrued liabilities	32,386	55,798
Net cash provided by operating activities	$ 87,849,371	104,178,876

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Washington's Internal Lending Program (Program or ILP) is a program of the University of Washington (University). The purpose of the ILP is to provide internal borrowing units with a stable and predictable borrowing rate. The Board of Regents approved the ILP on May 15, 2008, with ILP operations commencing on July 1, 2008.

On July 1, 2008, debt of $576.4 million that was incurred by the University or its units before July 1, 2008 together with restricted investments of $4.9 million were transferred into the ILP at their remaining book values and related receivables from internal borrowers of $571.5 million were established between the internal borrowers and the ILP as of that same date. The internal borrowers pay the same interest rate at which the transferred debt was issued in the external market. Debt noted below was either not transferred or was not transferred at the same interest rate:

- Debt repaid from state-appropriated University funds was not transferred
- Debt issued by an external entity other than the state of Washington on behalf of the University was not transferred
- Personal property capital leases and personal property Certificates of Participation (COPs) were not transferred
- Lines of credit were not transferred

The ILP makes new loans to internal borrowers at a uniform internal lending rate. These loans are funded through the issuance of University General Revenue Bonds, short-term notes such as commercial paper, the Capital Asset Pool (CAP) or through ILP reserves. The CAP uses University funds to finance capital projects with maturities up to 30 years or short-term Bridge loans. The debt issued to fund loans is an obligation of the University; the Program manages the debt on behalf of the University. The Debt Management Policy includes a provision for a rate stabilization reserve and a provision for rate adjustments if necessary.

(b) Basis of Presentation

The financial statements of the Program have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The Program is reporting as a special purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the Program presents a 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 of the Program are intended to present the financial position, changes in its financial position, and cash flows of only that portion of the University of Washington that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2023 and 2022, the changes in its financial position, or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

The ILP's cash is managed by the UW Investment Management Company (UWINCO). During 2023 and 2022, the Program's funds on deposit with the University were invested in the University's IF.

(d) Restricted Investments

Restricted investments represent unspent bond proceeds invested at Northern Trust and invested bond proceeds held by trustees to serve as debt service funds in accordance with the terms of the bond indenture and are stated at amortized cost.

(e) Internal Lending Program Receivable

Internal Lending Program receivable represents amounts owed by participating units of the University to the Program. Any internal loans authorized after the inception of the ILP require a signed financing agreement before funds are released. The agreement is signed by a borrowing unit representative, the Provost, the Vice Provost for Planning and Budgeting, the Associate Vice President for Treasury, and the Vice President for UW Finance. Loans transferred at the Program's inception do not have a financing agreement. All receivables are from units within the University.

(f) Due to University of Washington

Due to University of Washington represents cash paid by the University on behalf of the ILP as a result of the timing of capital expenditures and will be reimbursed by the ILP at a later date.

(g) Unearned Revenue – Build America Bonds

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorized state and local governments to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt bonds. The issuers receive a direct federal subsidy payment for a portion of their borrowing cost on BABs equal to 28% to 35% of the total coupon interest paid to investors. The direct federal subsidy, once earned, is considered a nonexchange transaction separate from the interest payments made by the Program and is recorded in nonoperating revenues when the Program makes its interest payment and all eligibility requirements are met.

(h) Operating Revenues and Expenses

The Program's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing loans to internal borrowers−the Program's primary business. Operating expenses are all expenses incurred to provide loans to internal borrowers. Nonoperating revenues consists of investment revenue generated by the short-term investments the Program holds during the year and BAB federal subsidies.

(Continued)

(i) Federal Income Taxes

As a part of the University, the ILP is exempt from federal income taxes, except to the extent of unrelated business income. The ILP did not incur unrelated business income tax during 2023 and 2022, and accordingly, the financial statements do not include a provision for federal income taxes.

(j) Use of Estimates

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

(2) Cash in the University of Washington Invested Funds

Pooled investments held on behalf of the ILP by the University totaling $111.3 million and $94.0 million as of June 30, 2023 and 2022, respectively, are recorded at the ILP's share of the carrying value of the IF. These funds are available on demand without prior notice or penalty. The IF was invested as follows at June 30:

	2023	2022
Cash and cash equivalents	15.7 %	4.5 %
Treasuries and agencies	48.2	65.7
Mortgage-related securities	5.0	5.2
Asset-backed debt securities	19.3	18.5
Corporate and other fixed income	11.8	6.1
Total	100.0 %	100.0 %

(3) Concentrations

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

(4) Restricted Investments

Current restricted investments of $24.4 million and $109.6 million as of June 30, 2023 and 2022, respectively, represent unspent bond proceeds. Such amounts are invested at Northern Trust Bank and consist of money market funds, which hold U.S. government securities with remaining maturities of one year or less at the time of purchase and are recorded at amortized cost. Any interest earnings in excess of the arbitrage rate may be subject to rebate to the Internal Revenue Service (IRS). During fiscal years 2023 and 2022, there were no rebatable arbitrage earnings due to the IRS. Restricted investments are typically classified as current assets based upon the Program's intention to spend down on capital projects during the next fiscal year.

The ILP's current restricted investments are held in the Invested Funds portfolio under UWINCO management.

(Continued)

Noncurrent restricted investments of $7.7 million as of June 30, 2023 represents assets set aside for in-substance defeasance as noted in Note 7.

(5) Internal Lending Program Receivable

Internal Lending Program receivable includes both receivables related to borrowings that were transferred at the time of inception of the Program as well as receivables on new borrowings since inception of the Program. The transferred receivables had fixed rates that ranged from 3.0% to 6.4%. At the time of inception, any new borrowings had a uniform interest rate of 5.50%. Effective April 1, 2015, the ILP interest rate was reduced to 4.75%, and was further reduced to 4.50% effective July 1, 2016. Effective May 1, 2020, the ILP interest rate was reduced to 4.25%, and effective July 1, 2021, the ILP rate was reduced to 4.00%.

Estimated repayment schedules related to the ILP receivable balances from participating units as of June 30, 2023 are summarized as follows:

Internal Lending Program Receivable
(Dollars in thousands)

	Central		School of Medicine		University of Washington Medical Center		Student Life	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 24,264	20,345	3,640	1,177	6,280	20,666	6,404	4,877
2025	28,076	19,416	2,916	1,018	32,956	19,738	6,691	4,594
2026	22,788	18,552	3,046	879	33,933	18,314	6,985	4,298
2027	23,405	17,720	3,182	733	33,527	16,851	7,283	3,988
2028	24,177	16,866	3,327	580	34,741	15,418	7,472	3,668
2029–2033	124,648	70,328	6,374	1,407	191,184	54,285	30,739	13,597
2034–2038	116,805	45,133	2,302	682	112,084	21,643	26,506	8,115
2039–2043	90,382	23,908	2,202	185	37,870	8,301	26,661	2,348
2044–2048	67,018	7,104	—	—	22,743	1,430	—	—
2049–2053	6,780	148	—	—	—	—	—	—
Total	$ 528,343	239,520	26,989	6,661	505,318	176,646	118,741	45,485

	Commuter Services		Intercollegiate Athletics		Housing and Dining		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 683	184	—	9,778	19,944	24,010	61,215	81,037
2025	711	156	—	9,778	20,761	23,195	92,111	77,895
2026	740	127	8,065	9,630	21,609	22,345	97,166	74,145
2027	770	97	8,393	9,301	22,496	21,461	99,056	70,151
2028	802	65	8,735	8,959	23,412	20,540	102,666	66,096
2029–2033	1,192	36	49,315	39,158	125,439	87,884	528,891	266,695
2034–2038	—	—	60,214	28,259	139,247	61,691	457,158	165,523
2039–2043	—	—	73,524	14,949	158,785	31,254	389,424	80,945
2044–2048	—	—	36,199	1,623	74,485	7,073	200,445	17,230
2049–2053	—	—	—	—	2,197	11	8,977	159
Total	$ 4,898	665	244,445	131,435	608,375	299,464	2,037,109	899,876

(6) Commercial Paper

Commercial paper is a short-term borrowing vehicle and is primarily used to manage cash flows for capital projects that are funded with long-term debt. The use of commercial paper will typically increase prior to the issuance of long-term debt and be paid down with the proceeds of the long-term debt. During fiscal year 2023, the University did not issue any commercial paper for use in the ILP. During fiscal year 2022, the University did not issue any commercial paper for use in the ILP.

The Board of Regents has approved the University's $250.0 million commercial paper program in an ongoing resolution. The University may issue commercial paper at any time within the limits of the resolution.

(7) Long-Term Liabilities

Long-term liabilities for the years ended June 30, 2023 and 2022 include state of Washington General Obligation Bonds, University General Revenue Bonds, state of Washington COP's, and funds borrowed through the CAP that are payable to the IF. These obligations have fixed interest rates ranging from 0.2% to 8.0%.

Debt service requirements related to bonds payable and certificates of participation payable at June 30, 2023 were as follows:

Bonds Payable and Certificates of Participation Payable
(Dollars in thousands)

	State of Washington General Obligation Bonds		University of Washington Revenue Bonds		State of Washington Certificates of Participation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 9,719	1,024	50,486	68,852	225	9	60,430	69,885
2025	6,679	613	65,023	66,933	—	—	71,702	67,546
2026	2,934	338	68,762	64,937	—	—	71,696	65,275
2027	3,068	196	71,311	62,676	—	—	74,379	62,872
2028	1,626	94	73,322	60,176	—	—	74,948	60,270
2029–2033	1,540	31	369,766	261,110	—	—	371,306	261,141
2034–2038	—	—	343,648	193,953	—	—	343,648	193,953
2039–2043	—	—	451,315	103,995	—	—	451,315	103,995
2044–2048	—	—	272,650	36,050	—	—	272,650	36,050
2049–2053	—	—	12,943	1,025	—	—	12,943	1,025
Premium	1,116	—	121,958	—	32	—	123,106	—
Total	$ 26,682	2,296	1,901,184	919,707	257	9	1,928,123	922,012

Long-term liabilities activity for the years ended June 30, 2023 and 2022 is summarized as follows:

Long-Term Liabilities
(Dollars in thousands)

	Balance at June 30, 2022	Additions	Reductions	Balance at June 30, 2023	Current portion June 30, 2023
General obligation bonds payable	$ 35,001	—	(9,434)	25,567	9,719
General revenue and refunding bonds payable	1,828,286	—	(49,060)	1,779,226	50,486
Certificates of participation payable	440	—	(215)	225	225
Unamortized premium on bonds	137,780	—	(14,675)	123,105	13,434
CAP payable to IF	138,598	2,800	(13,009)	128,389	3,434
Total long-term liabilities	$ 2,140,105	2,800	(86,393)	2,056,512	77,298

Long-Term Liabilities
(Dollars in thousands)

	Balance at June 30, 2021	Additions	Reductions	Balance at June 30, 2022	Current portion June 30, 2022
General obligation bonds payable	$ 44,298	7,014	(16,311)	35,001	9,434
General revenue and refunding bonds payable	1,796,956	364,710	(333,380)	1,828,286	49,060
Certificates of participation payable	1,880	—	(1,440)	440	215
Unamortized premium on bonds	145,505	25,357	(33,082)	137,780	14,646
CAP payable to IF	128,144	13,612	(3,158)	138,598	3,295
Total long-term liabilities	$ 2,116,783	410,693	(387,371)	2,140,105	76,650

(a) Issuance and Refunding Activity

On March 8, 2022, the University issued $75.0 million of tax-exempt General Revenue Bonds, 2022A, at a premium of $16.2 million and an average coupon of 5.00%. The average life is 8.5 years with a final maturity on April 1, 2037. Proceeds will be mainly used to fund UW Medicine Small-Works projects and the Montlake Campus Membrane Repair project. Additionally, the University issued $199.0 million of taxable General Revenue Refunding Bonds, 2022B (Taxable), with an average coupon of 2.88%. The average life is 9.7 years with a final maturity on July 1, 2041. The bonds refunded by the 2022B Series had a par amount of $200.1 million and coupon rates ranging from 4.00% to 5.00%, with an average coupon of 4.94%. The refunding reduced the total debt service payments to be made by the University over the next 20 years by $33.8 million and resulted in a total economic gain of $26.5 million. Additionally, the University issued $90.7 million of tax-exempt General Revenue Refunding Bonds, 2022C (Term Rate Bonds) at a premium of $9.6 million and an average coupon of 4.00% through the 5-year mandatory redemption date of August 1, 2027. The 2022C Term Rate Bonds refunded the 2019A (Term Rate Bonds) with a par amount of $100.0 million at the mandatory redemption date.

On May 11, 2022, the state of Washington refunded General Obligations Bonds totaling $7.3 million (ILP portion) with new bonds issuances totaling $7.0 million and premium of $0.6 million. The refunding decreased the total debt service payments to be made over the next 5 years by $0.1 million and resulted in a total economic gain of $0.1 million.

(b) Defeasance of Debt

The University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the ILP's financial statements. As of June 30, 2023 and 2022, $112.7 million and $404.6 million, respectively, of bonds outstanding are considered defeased. In addition, in fiscal year 2023, $10.3 million of in-substance defeased debt remains outstanding as of June 30, 2023, and is included in Noncurrent Liabilities on the Statement of Net Position.

(8) Related-Party Transactions

The University provides support to the Program in the following ways:

- Allows use of the University's buildings and equipment
- Provides administrative and accounting support
- Serves as the purchasing and disbursing agent
- Provides various other operational and support services

All Program receivables are due from borrowers within the University and are all paid from University revenues. Balances are invested in the IF. The IF is managed by the University of Washington Investment Management Company (UWINCO).

In fiscal year 2023, there were no distributions to the University.

On June 8, 2023, the Board of Regents (Board) approved the extension of a waiver of Financial Stability Plan requirements for Intercollegiate Athletics (ICA). In fiscal year 2023, ICA paid only interest for the Husky Stadium and Husky Ballpark ILP loans. ICA will continue to pay only interest in fiscal year 2024. As of June 30, 2023, ICA has a remaining principal balance of $244 million payable to the ILP. In fiscal year 2022, the ILP distributed $10.0 million to ICA for assistance paying debt service and supporting operations.

On June 8, 2023, the Board approved the extension of a waiver of Financial Stability Plan requirements for UW Medicine Select Units UW Division for fiscal year 2024 (with ILP covenant compliance required to resume by June 30, 2025). UW Medicine Select Units will defer principal payments in fiscal year 2024, but will continue to pay interest in fiscal year 2024.

(9) Pension Plan

The University offers the University of Washington Retirement Plan (UWRP), a defined-contribution plan with supplemental payments to beneficiaries, when required. The ILP participates in this plan and is allocated a cost for participation in the plan. The cost is included in the benefit load rate set by the University in calculating its fringe benefit expense and is applied on a per-employee basis. These costs were immaterial for fiscal years 2023 or 2022.

University of Washington Retirement Plan (403(b))

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

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 Board of Regents to establish and amend benefit provisions.

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

(10) Commitments and Contingencies

The Program is not currently subject to any claims or lawsuits. All claims and lawsuits are covered by the University’s self-insurance fund, subject to a deductible of $100,000 per occurrence.

(11) Subsequent Events

There were no subsequent events in fiscal year 2023.