

*In the opinion of Pacifica Law Group LLP, Bond Counsel, assuming compliance with certain covenants of the Issuer and the University, interest on the 2015A Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the 2015A Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the 2015A Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. In the opinion of Pacifica Law Group LLP, Bond Counsel, interest on the 2015B Bonds is not excludable from gross income for federal income tax purposes. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.*

### **WBRP 3.2**

**(ALSO REFERRED TO AS WASHINGTON BIOMEDICAL RESEARCH PROPERTIES 3.2)**

**\$107,615,000**

**Lease Revenue Bonds, Series 2015A**

**\$24,455,000**

**Lease Revenue Bonds, Series 2015B (Taxable)**

**DATED: Date of Delivery**

**DUE: As shown on the inside front cover**

WBRP 3.2, a Washington nonprofit corporation (the "Issuer", also referred to as Washington Biomedical Research Properties 3.2), is issuing its Lease Revenue Bonds, Series 2015A (the "2015A Bonds"), and Series 2015B (Taxable) (the "2015B Bonds" and, together with the 2015A Bonds, the "Bonds"). The Bonds are being issued on behalf of the University of Washington (the "University") and, in the case of the 2015A Bonds, pursuant to Revenue Ruling 63-20 of the U.S. Treasury, as amended and updated by Revenue Procedure 82-26 of the U.S. Treasury.

The Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as Registered Owner and nominee for The Depository Trust Company ("DTC"). DTC will act as securities depository for the Bonds. The Bonds will be issued initially in book-entry form only in the denomination of \$5,000 or any integral multiple thereof within a series and maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. The 2015A Bonds will bear interest from their date of delivery, payable semiannually on each January 1 and July 1, beginning on January 1, 2016. The 2015B Bonds will bear interest from their date of delivery, payable semiannually on each March 1 and September 1, beginning on March 1, 2016. The Bonds are issued under the terms of an Indenture of Trust dated as of October 1, 2015 (the "Indenture") between the Issuer and U.S. Bank National Association (the "Trustee"). For so long as the Bonds remain in a "book-entry only" system, the Trustee will make payments of principal of and interest on the Bonds only to DTC, which, in turn, is obligated to remit such payments to the DTC participants for subsequent disbursement to Beneficial Owners of the Bonds as described in Appendix C.

The 2015A Bonds are subject to optional and mandatory redemption prior to maturity as described in this Official Statement.

The proceeds of the Bonds are to be used to (i) finance costs of permitting, designing, constructing and furnishing a biomedical research facility with associated clinical and administrative space, in the South Lake Union area of Seattle, Washington and leased to the University (the "Project"); (ii) capitalize interest on the Bonds; and (iii) pay costs of issuance.

The land upon which the Project will be constructed (the "Leased Property") is owned by City Investors XII L.L.C. (the "Ground Lessor"), a Washington limited liability company, and has been leased to the Issuer pursuant to a ground lease dated July 30, 2010, as first amended as of December 1, 2010, and as expected to be extended as of September 30, 2015, to May 31, 2063 as described herein. The Issuer has agreed to lease the Leased Property, the Project and the Issuer's rights under a Reciprocal Easements Agreement (collectively, the "Premises"), pursuant to a Facilities Lease for Biomedical Research Facilities, Seattle, Washington, dated as of October 1, 2015 (the "Lease"), to the:



**The University is obligated under the Lease to pay Base Rent commencing on March 1, 2018 (the "Rent Commencement Date"), a Lump Sum Payment on the Rent Commencement Date, and Additional Rent commencing on the earlier of (i) the date on which the University first occupies the Premises following substantial completion of the Project or (ii) the Rent Commencement Date. The University's obligation to pay Rent is not subject to appropriation or abatement so long as the Issuer maintains a leasehold interest in the Leased Properties. The University's obligation to pay Base Rent and the Lump Sum Payment is not conditioned upon the completion of the Project or the status of construction. Under the Lease the University has covenanted that, to the extent that Project costs are in excess of Project Funds described under the Lease, the University will pay all costs to complete the Project when due, as described herein. The initial term of the Lease extends to May 31, 2063 as described herein.**

The Bonds are non-recourse revenue obligations of the Issuer, payable solely from the Trust Estate pledged under the Indenture. No other revenue, receipts, donations, earnings, property, or assets of the Issuer other than those included in the Trust Estate are subject to the lien of the Indenture, nor is the Issuer in any other way obligated for the repayment of the Bonds. The Issuer is a single purpose entity, is not a governmental unit and has no taxing power. The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate.

Neither the University nor any other agency of the State of Washington is obligated to pay debt service on the Bonds. The Bonds are not an obligation of the University, moral or otherwise. The University's sole obligations, including the obligation to pay Rent, are those set forth in the Lease. The University is obligated to pay Rent under the Lease from its General Revenues, as described herein, on an equal and ratable basis with the University's other outstanding and future General Revenue obligations, without preference, priority or distinction.

The Bonds are offered when, as and if issued and delivered by the Issuer and received by the Underwriters, and are subject to receipt of the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. A form of the approving legal opinion of Bond Counsel is attached hereto as Appendix D. Certain legal matters will be passed upon for the Issuer by Hillis Clark Martin & Peterson P.S., Seattle, Washington, for the University by Pacifica Law Group LLP, and for the Underwriters and the Development Manager (defined herein) by Foster Pepper PLLC, Seattle, Washington. It is expected that delivery of the Bonds will be made by Fast Automated Securities Transfer through DTC in New York, New York, on or about on or about October 7, 2015.

*This cover page contains certain information for quick reference only. It is not a summary of the terms of or security for the Bonds. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

**WBRP 3.2**  
**(ALSO REFERRED TO AS WASHINGTON BIOMEDICAL RESEARCH PROPERTIES 3.2)**

**\$107,615,000**  
**LEASE REVENUE BONDS, SERIES 2015A**

Due (January 1)	Principal Amounts	Interest Rates	Yield	CUSIP Number <sup>†</sup>
2019	\$ 2,420,000	5.00%	1.06%	937308AA2
2020	2,540,000	5.00	1.35	937308AB0
2021	2,670,000	5.00	1.61	937308AC8
2022	2,800,000	5.00	1.85	937308AD6
2023	2,945,000	5.00	2.13	937308AE4
2024	3,090,000	5.00	2.27	937308AF1
2025	3,240,000	5.00	2.40	937308AG9
2026	3,400,000	5.00	2.56*	937308AH7
2027	3,575,000	5.00	2.73*	937308AJ3
2028	3,755,000	5.00	2.84*	937308AK0
2029	3,940,000	5.00	2.97*	937308AL8
2030	4,140,000	5.00	3.06*	937308AM6
2031	3,940,000	5.00	3.13*	937308AN4
2032	4,140,000	5.00	3.21*	937308AP9
2033	4,345,000	5.00	3.28*	937308AQ7
2034	2,685,000	5.00	3.33*	937308AR5
2035	2,820,000	5.00	3.37*	937308AS3
2036	2,960,000	5.00	3.39*	937308AU8
2037	3,110,000	5.00	3.43*	937308AV6
2038	3,265,000	5.00	3.47*	937308AW4
2039	3,425,000	5.00	3.50*	937308AX2
2040	3,600,000	5.00	3.52*	937308AY0

\$34,810,000, 4.00%, due January 1, 2048 (Price 98.00%) CUSIP No. 937308AT1<sup>†</sup>

**\$24,455,000**  
**LEASE REVENUE BONDS, SERIES 2015B (TAXABLE)**

\$24,455,000, 1.485%, due March 1, 2018 (Yield 1.485%) CUSIP No. 937308AZ7<sup>†</sup>

\* Priced to the first call date of July 1, 2025.

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## **WBRP 3.2**

c/o The National Development Council  
1218 Third Avenue, Suite 1403  
Seattle, Washington 98101

### **Board of Directors and Officers**

Robert W. Davenport	Chairman of the Board of Directors and President
John A. Finke	Director and Vice President
Ann Vogt	Director, Secretary and Treasurer

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### **Bond Counsel and Disclosure Counsel**

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Seattle, Washington

### **Financial Advisor to the University**

PIPER JAFFRAY & CO.  
Seattle, Washington

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\* The University's website is not part of this Official Statement, and investors should not rely on information presented on the University's website in determining whether to purchase the Bonds. This inactive textual reference to the University's website is not a hyperlink and does not incorporate the University's website by reference.

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No dealer, broker, sales representative or other person has been authorized by the Issuer, the University or the Underwriters to give any information or to make any representations with respect to the Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain statements contained in this Official Statement do not reflect historical facts but are forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, words such as “estimate,” “project,” “anticipate,” “expect,” “intend,” “forecast,” “plan,” “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

The Underwriters have provided the following three sentences for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. In connection with this offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriters may offer and sell the Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

CUSIP numbers are included in this Official Statement for convenience of the holders and potential holders of the Bonds. The CUSIP numbers were provided by CUSIP Global Services. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of issuance and delivery of the Bonds. The Issuer does not take any responsibility for the accuracy of such CUSIP numbers.

This Official Statement is not to be construed as a contract or agreement between the Issuer or the University and purchasers or owners of any of the Bonds.

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## OFFICIAL STATEMENT

### WBRP 3.2

(ALSO REFERRED TO AS WASHINGTON BIOMEDICAL RESEARCH PROPERTIES 3.2)

<b>\$107,615,000</b>	<b>\$24,455,000</b>
<b>Lease Revenue Bonds, Series 2015A</b>	<b>Lease Revenue Bonds, Series 2015B (Taxable)</b>

### INTRODUCTION

This Official Statement, including the cover page and appendices hereto, is being distributed by WBRP 3.2, a single purpose Washington nonprofit corporation (the “Issuer”, also referred to as Washington Biomedical Research Properties 3.2), in connection with the issuance of its Lease Revenue Bonds, Series 2015A (the “2015A Bonds”), and Series 2015B (Taxable) (the “2015B Bonds” and, together with the 2015A Bonds, the “Bonds”). The Issuer is issuing the Bonds on behalf of the University of Washington (the “University”) and, in the case of the 2015A Bonds, pursuant to Revenue Ruling 63-20 of the U.S. Treasury, as amended and updated by Revenue Procedure 82-26 of the U.S. Treasury (the “Ruling”).

The Issuer has leased land (the “Leased Property”) from City Investors XII L.L.C. (the “Ground Lessor”) for the Project site pursuant to a Ground Lease (Phase 3.2) dated July 30, 2010, as first amended as of December 1, 2010, and as expected to be extended as of September 30, 2015 (the “Ground Lease”) with a term ending May 31, 2063. The Issuer will issue its bonds to finance the Project and will cause the design and development of the Project pursuant to a Development Management Agreement, dated July 30, 2010, as amended as of December 1, 2010, with City Investors LLC (the “Development Manager”). The Project is part two of the third phase of a multi-phase development of a biomedical research campus leased to the University at the site and on adjacent properties for use by the University’s School of Medicine and related clinical entities. Entities related to the Issuer financed the development of the completed components of this multi-phase development. See “THE ISSUER.”

Under the terms of a Facilities Lease for Biomedical Research Facilities, Seattle, Washington, dated as of October 1, 2015 (the “Lease”), the University has leased the Premises (as defined herein and which includes the Leased Property, the Project, and the Issuer’s rights to shared parking and infrastructure under Reciprocal Easement Agreements) for an initial term that extends to May 31, 2063.

The University is obligated under the Lease to pay the Lump Sum Payment on, and Base Rent commencing on, the “Rent Commencement Date,” which is specified in the Lease to be March 1, 2018. Taking into account the Lump Sum Payment, Base Rent includes components sufficient to pay scheduled debt service on the Bonds and rent due under the Ground Lease. In addition, commencing on the earlier of (i) the date on which the University first occupies the Premises following substantial completion of the Project or (ii) the Rent Commencement Date, the University is obligated to pay Additional Rent to cover taxes, maintenance and repair, easement payments, property management fees, utilities, janitorial and building services, interest on the Bonds during the period between final completion of the Project and the Rent Commencement Date (if applicable) and other costs. Under the Lease the University has covenanted that, to the extent that Project Costs are in excess of the Project Funds, the University will pay all costs to complete the Project as the same become due and payable. See “THE PROJECT.”

### The Transaction Participants

The Bonds will be issued by the Issuer, a Washington nonprofit corporation, acting on behalf of the University. See “THE ISSUER.” The Ground Lessor has leased the Leased Property to the Issuer. The Issuer will cause the development of the Project under the Development Management Agreement with the Development Manager, an affiliate of the Ground Lessor. The Issuer will lease the Project to the University. See “THE PROJECT.”

## **The Bonds**

The Issuer is issuing the Bonds pursuant to an Indenture of Trust between the Issuer and U.S. Bank National Association, as trustee (the "Trustee") dated as of October 1, 2015 (the "Indenture"). The Bonds will be dated and bear interest from their date of delivery. Interest on the 2015A Bonds will be payable semiannually on each July 1 and January 1, beginning January 1, 2016. Interest on the 2015B Bonds will be payable semiannually on each March 1 and September 1, beginning March 1, 2016. The Bonds will be issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof within a series and maturity, and will be issued initially in book-entry only form. See "Appendix C – Book-Entry Only System." Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

## **Purpose of the Bonds; The Project**

The Project consists of a biomedical research facility with clinical and administrative space. The parking garage, ramps and loading docks and related infrastructure (the "Shared Infrastructure") on the site were constructed during a prior phase of the multi-phase development. The Issuer has the right to use the Shared Infrastructure under the terms of the Reciprocal Easements Agreement during the term of the Lease.

The Project will be constructed pursuant to the Development Management Agreement. Under the Development Management Agreement, the Development Manager has agreed to supervise and coordinate the design and permitting of the Project, to assist the Issuer in the retention of the architect and general contractor (the "General Contractor"), and to administer and supervise construction of the Project by the General Contractor. Pursuant to the Development Management Agreement, the construction contract with the General Contractor is required, as to the building shell and core, to be on a cost plus fee basis with a guaranteed maximum price. All of the construction contracts are required to have mandated schedules for completion, contingency reserve line items satisfactory to the Issuer, a requirement for retainage for all major categories of hard construction costs for which retainage is commonly utilized, and reasonable warranties against construction defects.

## **The Ground Lease**

The land upon which the Project is being constructed is owned by the Ground Lessor. The Leased Property has been leased to the Issuer pursuant to the Ground Lease. Unless sooner terminated or extended in accordance with its terms, the Ground Lease will terminate on May 31, 2063. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—The Ground Lease."

## **The Lease**

The Issuer is leasing the Leased Property, the Project and the Issuer's rights under a Reciprocal Easements Agreement to underground facilities including the Shared Infrastructure (collectively, the "Premises") to the University under the terms of the Lease. The Lease is an absolute net lease. The initial term of the Lease extends to May 31, 2063 as described herein.

The University is obligated to pay Rent, which includes Base Rent and a Lump Sum Payment paid pursuant to a schedule of payments attached to the Lease in the aggregate amount sufficient to pay rent due under the Ground Lease and debt service on the Bonds, plus Additional Rent sufficient to pay the Issuer's insurance costs, taxes, accounting and financing costs, maintenance and repair, easement payments, property management fees, utilities, and janitorial and building services and interest on the Bonds during the period between final completion of the Project and the Rent Commencement Date (if applicable). The University's obligation to pay Base Rent commencing on the Rent Commencement Date (March 1, 2018) and to pay the Lump Sum Payment on the Rent Commencement Date is not conditioned upon the completion of the Project or the status of construction. The University is obligated to pay Additional Rent commencing the earlier of (i) the date on which the University first occupies the Premises following substantial completion of the Project or (ii) the Rent Commencement Date.

**The University is obligated to pay Rent from its General Revenues, consisting of all non-appropriated income, revenues, and receipts of the University if and to the extent such funds are not restricted in their use**

**by law, regulation, or contract. The University's obligation to pay Rent is not subject to appropriation or abatement so long as the Issuer maintains a leasehold interest in the Leased Premises. The University is obligated to pay rent from its General Revenue, on an equal and ratable basis with the University's other outstanding and future General Revenue obligations, including without limitation its General Revenue bonds, without preference, priority or distinction because of date of issue or otherwise.**

General Revenues are described under the heading "UNIVERSITY LEASE OBLIGATIONS PAYABLE FROM GENERAL REVENUES."

### **Authorization**

The Issuer's Board of Directors approved the Ground Lease on July 28, 2010 and has approved the Lease by its resolution dated September 16, 2015. The Issuer has authorized the issuance of the Bonds by its resolution dated September 16, 2015. On September 10, 2015, the Board of Regents of the University approved the Project and the issuance of the Bonds, and agreed to accept title to the Premises upon full payment or defeasance of the Bonds, solely for the purposes of meeting the requirements of the Ruling. Also on September 10, 2015, the Board of Regents approved the Lease, pursuant to RCW 28B.140.010.

### **Security**

The Bonds are non-recourse revenue obligations of the Issuer, payable solely from the Trust Estate pledged under the Indenture. No other revenue, receipts, donations, earnings, property, or assets of the Issuer other than those included in the Trust Estate are subject to the lien of the Indenture nor is the Issuer in any other way obligated for the repayment of the Bonds. The Issuer is a single purpose entity, is not a governmental unit and has no taxing power. **The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate.**

The Trust Estate pledged under the Indenture includes all funds held by the Trustee under the Indenture, excluding the Rebate Fund and the Capital Repairs Fund, as further described in the Indenture. **The primary source of Revenues anticipated to be received by the Issuer and included within the Trust Estate is the Base Rent and the Lump Sum Payment to be received from the University under the Lease.** The Issuer also will provide the Leasehold Deed of Trust, the Assignment of Leases and the Assignment of Construction Agreements as additional security instruments in favor of the Trustee.

Neither the University nor any agency of the state of Washington (the "State") is obligated to pay debt service on the Bonds. The Bonds are not an obligation of the University, moral or otherwise. The University's sole obligations, including the obligation to pay Rent, are those set forth in the Lease. The University's obligation to pay Rent under the Lease is payable from its General Revenues, on an equal and ratable basis with the University's other General Revenue obligations, including without limitation its General Revenue bonds, without preference, priority or distinction because of date of issue or otherwise.

### **Ownership**

The Issuer is obligated under the terms of the Lease and the Indenture to tender to the University unencumbered title to the improvements constructed with the proceeds of the Bonds when the Bonds have been paid or defeased. By resolution, the Board of Regents of the University has stated its present intent to accept delivery of title to the improvements constructed with the proceeds of the Bonds at that time.

### **Description**

The Bonds are dated and are to bear interest from the date of their delivery. Interest on the 2015A Bonds is payable semiannually on January 1 and July 1, beginning on January 1, 2016, and interest on the 2015B Bonds is payable semiannually on March 1 and September 1, beginning on March 1, 2016 (each an "Interest Payment Date"). Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will bear interest at the rates and mature in the years and in the amounts set forth on the inside cover of this Official

Statement (each a “Principal Payment Date”). The Bonds will be fully registered as to both principal and interest, and will be in the denomination of \$5,000 or any integral multiple thereof within a single series and maturity. Initially, individual purchases of the Bonds may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. When issued, the Bonds will be registered in the name of Cede & Co. as Registered Owner and nominee of The Depository Trust Company, New York, New York (“DTC”). So long as Cede & Co. is the Registered Owner of the Bonds, references herein to the Owners, Registered Owners or Bond Owners will mean Cede & Co. and will not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” will mean the person for whom a DTC participant acquires an interest in the Bonds.

Principal of and interest on the Bonds are payable by the Trustee. So long as Cede & Co. is the Registered Owner of the Bonds and the Bonds are in fully immobilized form, principal of and interest on the Bonds are payable by wire transfer by the Trustee to DTC, which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described herein under “THE BONDS—Book Entry System” and in Appendix C.

In the event that the Bonds are no longer in fully immobilized form, interest on the Bonds will be paid by the Trustee by check mailed on the applicable Interest Payment Date to the Owner as of the close of business on the applicable Record Date, all as defined in the Indenture, at the address in the books for registration of the Bonds kept for the Issuer by the Trustee (the “Bond Register”), or at such other address as is furnished in writing by such Owner to the Trustee (provided, however, the Trustee will, at the request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds, make payments of interest on such Bonds by wire transfer to the account at any bank in the United States designated by such Owner in writing on or before the Record Date), and the principal of the Bonds is payable in lawful money of the United States of America upon surrender thereof at the principal corporate trust office of the Trustee. No payment of principal will be made on any certificated Bond unless and until such Bond is surrendered to the Trustee for payment.

### **Redemption of the Bonds**

*Optional Redemption of the 2015A Bonds.* The 2015A Bonds maturing on and after January 1, 2026 are subject to redemption prior to their stated maturity on and after July 1, 2025 at a price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption (i) upon the written direction of the University (so long as no Lease Default Event, as defined in the Indenture, has occurred and is continuing) given to the Issuer and the Trustee; and (ii) otherwise upon the written direction of the Issuer, in either case as a whole or in part (and if in part with series and maturities to be selected by the University, so long as no Lease Default Event has occurred and is continuing, and otherwise by the Issuer).

### **Mandatory Sinking Fund Redemption**

The 2015A Bonds maturing on January 1, 2048 (the “Term Bonds” or the “Original Issue Discount Bonds”) are subject to mandatory sinking fund redemption at a price of par plus accrued interest to the date of redemption on January 1 in the years and amounts as follows:

<u>Date</u>	<u>Mandatory Sinking Fund Redemption</u>
2041	\$3,780,000
2042	3,930,000
2043	4,085,000
2044	4,250,000
2045	4,420,000
2046	4,595,000
2047	4,780,000
2048*	4,970,000

\* Maturity.

If the Issuer redeems Term Bonds under the optional redemption provisions described above or purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for the Term Bonds in the manner to be determined by the Issuer or, if no such determination is made, on a *pro rata* basis.

*Partial Redemption of 2015A Bonds.* If the 2015A Bonds are held in certificated form, then the Trustee will select the particular 2015A Bonds to be optionally redeemed within a maturity randomly in such manner as it will determine. As long as the 2015A Bonds are held in book-entry only form, then the Trustee will select the particular 2015A Bonds to be optionally redeemed within a maturity in accordance with the operational arrangements of DTC as then set forth.

*Notice and Effect of Redemption.* As long as the 2015A Bonds are held in book-entry only form, notice of redemption shall be given by DTC solely in accordance with the operational arrangements of DTC as then set forth. If the 2015A Bonds are no longer held in book-entry form, notice of redemption shall be given as provided hereinafter. The Trustee will give notice of redemption by first-class mail, postage prepaid, mailed no fewer than 20 nor more than 60 days prior to the redemption date to each Registered Owner of the 2015A Bonds to be redeemed at the address of such Registered Owner appearing on the Bond Register. The Trustee, so long as a book-entry system is used for determining ownership of the 2015A Bonds, will send the notice of redemption to DTC or its nominee, or its successor. **Any notice of redemption may be conditional and may be revocable at any time prior to the conditions set forth therein being satisfied in full.**

Any failure of DTC to furnish such notice to any participant and any failure of any participant to furnish such notice to the persons for whom they act as nominees with respect to the 2015A Bonds, will not affect the sufficiency or the validity of the notice of redemption of the 2015A Bonds. The Issuer can make no assurances that DTC, its participants or other nominees of the Beneficial Owners of the 2015A Bonds will distribute such redemption notices to the Beneficial Owners of the 2015A Bonds, or that they will do so on a timely basis.

2015A Bonds to be redeemed will become due and payable on the redemption date at the redemption price specified and, on and after such date, the 2015A Bonds will cease to accrue interest and will cease to be entitled to any benefit or security under the Indenture except to receive payment of such redemption price.

*No Optional Redemption of the 2015B Bonds.* The 2015B Bonds are not subject to optional redemption prior to their maturity on March 1, 2018.

## **Purchase**

At the written direction of the University, so long as no Lease Default Event has occurred and is continuing, and otherwise at the written direction of the Issuer, and with the sources of funds specified by the University and/or the Issuer, the Trustee will purchase Bonds offered to the University at prices acceptable to the University or the Issuer, as applicable. The principal amount of any Term Bonds so purchased will be credited against the scheduled redemptions of such Bonds in the manner designated by the University or the Issuer, as applicable.

## **Book-Entry System**

The Bonds will be registered initially in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners, Owners or Bond Owners will mean Cede & Co. and will not mean the “Beneficial Owners” of the Bonds. See Appendix C for additional information.

*The Issuer makes no representation as to the accuracy or completeness of the information in Appendix C provided by DTC. Purchasers of the Bonds should confirm this information with DTC or its participants.*

## **Defeasance of Bonds**

In the event that the Issuer or the University sets aside irrevocably in a special fund for and pledges money (which will remain uninvested) and/or Government Obligations, as such term is defined in chapter 39.53 RCW, as the same may hereinafter be amended or restated, that are not subject to redemption prior to maturity, sufficient in amount (as verified in a report from a firm of certified public accountants), together with known earned income from the investments thereof, to make such payments and to accomplish the refunding or defeasance as scheduled (the “trust account”); then in that case all right and interest of the Owners of the Bonds to be so retired, refunded or defeased (collectively, the “Defeased Bonds”) in the covenants of the Indenture, in the Trust Estate and in the funds and accounts obligated to the payment of such Defeased Bonds, other than the right to receive the funds so set aside and pledged, thereupon will cease and become void, except that Owners shall have the right to receive payment of principal of and premium, if any, and interest on the Defeased Bonds from the trust account and, in the event the funds in the trust account are not available for payment, shall have the residual right to receive these payments from the Trust Estate without any priority of lien or charge against the Trust Estate or covenants with respect thereto except to be paid therefrom (except such rights as exist with respect to payment, exchange, and transfer of such Bonds under the pertinent provisions of the Indenture).

Money held in any defeasance trust account will be held solely for the benefit of the Owners of the Defeased Bonds. On the date of defeasance or full payment of all 2015A Bonds, except as described in the following paragraph the Issuer will convey the Premises to the University by statutory warranty deed, modified to convey all of the Issuer’s leasehold interest in the Leased Property and its fee ownership interest in all improvements thereon constructed by the Issuer, free and clear of all liens and encumbrances, except those liens and encumbrances approved by the University, and the Indenture and the Lease will automatically terminate.

The Indenture requires that all 2015B Bonds be paid or defeased in the event that the 2015A Bonds are paid or defeased in full. In such event, the Issuer will convey the Premises to the University for no additional consideration.

As currently defined in chapter 39.53 RCW, “Government Obligations” means (a) direct obligations of or obligations the principal and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (b) bonds, debentures, notes, participation certificates or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, federal land banks or the Federal National Mortgage Association; (c) public housing bonds and project notes fully secured by contracts with the United States; and (d) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the federal savings and loan insurance corporation, to the extent insured or guaranteed as permitted under any other provision of State law.

If the Issuer defeases any 2015B Bonds, such 2015B Bonds may be deemed to be retired and “reissued” for federal income tax purposes as a result of the defeasance. In such event, the Registered Owner of such 2015B Bond would recognize a gain or loss on the 2015B Bond at the time of defeasance. See “TAX MATTERS.”

*[Remainder of Page Intentionally Left Blank]*



## Summary of Debt Service Requirements for the Bonds

**TABLE 1:**

### DEBT SERVICE SCHEDULE\*

The table below displays debt service payments for the Bonds on an annual basis, as of each June 30.

<b>Date (June 30)</b>	<b>Principal</b>	<b>Interest</b>	<b>Total<sup>†</sup></b>
2016	\$ -	\$1,319,548	\$1,319,548
2017	-	5,395,807	5,395,807
2018	24,455,000	5,395,807	29,850,807
2019	2,420,000	5,032,650	7,452,650
2020	2,540,000	4,911,650	7,451,650
2021	2,670,000	4,784,650	7,454,650
2022	2,800,000	4,651,150	7,451,150
2023	2,945,000	4,511,150	7,456,150
2024	3,090,000	4,363,900	7,453,900
2025	3,240,000	4,209,400	7,449,400
2026	3,400,000	4,047,400	7,447,400
2027	3,575,000	3,877,400	7,452,400
2028	3,755,000	3,698,650	7,453,650
2029	3,940,000	3,510,900	7,450,900
2030	4,140,000	3,313,900	7,453,900
2031	3,940,000	3,106,900	7,046,900
2032	4,140,000	2,909,900	7,049,900
2033	4,345,000	2,702,900	7,047,900
2034	2,685,000	2,485,650	5,170,650
2035	2,820,000	2,351,400	5,171,400
2036	2,960,000	2,210,400	5,170,400
2037	3,110,000	2,062,400	5,172,400
2038	3,265,000	1,906,900	5,171,900
2039	3,425,000	1,743,650	5,168,650
2040	3,600,000	1,572,400	5,172,400
2041	3,780,000	1,392,400	5,172,400
2042	3,930,000	1,241,200	5,171,200
2043	4,085,000	1,084,000	5,169,000
2044	4,250,000	920,600	5,170,600
2045	4,420,000	750,600	5,170,600
2046	4,595,000	573,800	5,168,800
2047	4,780,000	390,000	5,170,000
2048	4,970,000	198,800	5,168,800
<b>Total<sup>†</sup></b>	<b>\$132,070,000</b>	<b>\$92,627,861</b>	<b>\$224,697,861</b>

\* This table shows debt service on the Bonds, which are the Issuer's only outstanding obligations. The University's obligation to pay Rent under the Lease is payable from General Revenues. The University has pledged its General Revenues to outstanding University debt as well as financing leases such as the Lease. See "UNIVERSITY LEASE OBLIGATIONS PAYABLE FROM GENERAL REVENUES—University Debt Outstanding."

<sup>†</sup> Totals may not foot due to rounding.

Source: *The University*.

## Sources and Uses of Proceeds

**TABLE 2:**  
**SOURCES AND USES OF PROCEEDS**

The proceeds of the Bonds are to be used to: (i) finance costs of the Project; (ii) capitalize interest on the Bonds through March 1, 2018 (or until final completion, if final completion occurs earlier than March 1, 2018); and (iii) pay the costs of issuance. The proceeds from the Bonds will be applied as follows:

The following table shows the sources and uses of the Bond proceeds.

<b>Sources:</b>	<b>2015A Bonds</b>	<b>2015B Bonds</b>	<b>Total</b>
Par Amount	\$107,615,000.00	\$24,455,000.00	\$132,070,000.00
Plus Net Premium	10,926,041.05	--	10,926,041.05
<b>Total Sources</b>	<b>\$118,541,041.05</b>	<b>\$24,455,000.00</b>	<b>\$142,996,041.05</b>
<b>Uses:</b>			
Project Costs	\$104,849,679.05	\$23,217,584.40	\$128,067,263.45
Capitalized Interest	12,078,360.00	871,576.22	12,949,936.22
Costs of Issuance <sup>(1)</sup>	1,613,002.00	365,839.38	1,978,841.38
<b>Total Uses</b>	<b>\$118,541,041.05</b>	<b>\$24,455,000.00</b>	<b>\$142,996,041.05</b>

<sup>(1)</sup> Includes Underwriters' discount, financial advisor's fees, legal fees, and other costs of issuance of the Bonds.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### Limited Obligations

The Bonds are non-recourse revenue obligations of the Issuer, payable solely from the Trust Estate pledged under the Indenture. No other revenue, receipts, donations, earnings, property, or assets of the Issuer other than those included in the Trust Estate are subject to the lien of the Indenture nor is the Issuer in any other way obligated for the repayment of the Bonds. The Issuer is a single purpose entity, is not a governmental unit and has no taxing power. **The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate.**

Neither the University nor any agency of the State is obligated to pay debt service on the Bonds. The Bonds are not an obligation of the University, moral or otherwise.

The University's sole obligations, including the obligation to pay Rent, are those set forth in the Lease. The University's obligation to pay Rent under the Lease is payable from its General Revenues, on an equal and ratable basis with the University's other General Revenue obligations, without preference, priority or distinction because of date of issue or otherwise. See "UNIVERSITY LEASE OBLIGATIONS PAYABLE FROM GENERAL REVENUES."

### The Indenture

The form of the Indenture, including capitalized terms not defined herein, is set forth in its entirety in Appendix A. The following is only a summary, and reference is made to the complete form of the Indenture included in Appendix A.

*Non-Recourse Revenue Obligations; Pledge of Trust Estate.* The Bonds are non-recourse revenue obligations of the Issuer, payable solely from the Trust Estate pledged under the Indenture. The Trust Estate includes the following, pledged for the benefit of the Bonds and any Future Bonds:

- (i) All of the Issuer's rights and interest in all rents, issues, income, revenues and receipts derived by the Issuer from all sources, including the Lease, with respect to the use of the Premises;
- (ii) The Premises pursuant to the Leasehold Deed of Trust, the Assignment of Construction Agreements and the Assignment of Leases, including all proceeds thereof;
- (iii) All Revenues, which is defined to include all amounts received by the Issuer or by the Trustee for the account of the Issuer pursuant to the Lease (or any other lease by the Issuer of the Premises) or otherwise with respect to the Premises, including, without limiting the generality of the foregoing, all Rent (including both timely and delinquent payments and any late charges, paid from any source), prepayments, any payments received under any policy of title insurance with respect to the Premises, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (except as otherwise provided therein), but not including (a) Administrative Fees and Expenses, (b) Rebatable Arbitrage, (c) money deposited in the Capital Repairs Fund; and (d) any and all revenue, income, and receipts of the Issuer not derived from or received with respect to the Lease, the Premises, or any fund or account established pursuant to the Indenture;
- (iv) All choses in action and all choses in possession now or hereafter existing to the benefit of or arising for the benefit of the Issuer with respect to the Bonds, including all proceeds of all the foregoing;
- (v) All funds and accounts established under the Indenture and the investments thereof, if any, and money, securities and obligations therein (subject to disbursements from any such fund or account upon the conditions set forth in the Indenture), except for money held in the Rebate Fund and Capital Repairs Fund, as described below in "Funds Created Under the Indenture;"
- (vi) All money, securities and property that may be held by the Trustee under the terms of the Indenture; and
- (vii) All proceeds of all of the foregoing.

*Funds Created Under the Indenture.* The Cost of Issuance Fund is established with the Trustee for the purpose of paying Costs of Issuance, as defined in the Indenture. The Project Fund is established with the Trustee for the purpose of paying Costs of the Project (other than Costs of Issuance and capitalized interest), as defined in the Indenture. The Project Fund includes (i) a Bond Proceeds Account, and (ii) a Non-Bond Proceeds Account (collectively, the "Accounts"). The Trustee shall disburse money from the Accounts within the Project Fund to pay Costs of the Project upon receipt of requisitions from the Issuer, signed by its Authorized Representative. After providing for the payment of all Costs of the Project, the balance, if any, in the Bond Proceeds Account of the Project Fund shall be transferred to the Principal Account of the Bond Fund, described below, and shall be applied to pay principal of the Bonds.

If the Trustee receives any payments with a direction that such payments be deposited in the Non-Bond Proceeds Account, the Trustee shall deposit such funds in the Non-Bond Proceeds Account to be applied to pay the costs to repair and restore the Project, to pay Costs of the Project, or to redeem Bonds, all as provided in the Indenture, the Lease and the Leasehold Deed of Trust.

The Capitalized Interest Fund is established with the Trustee for the purpose of paying interest on the Bonds through the earlier of final completion of the Project and March 1, 2018. On and after the earlier of the date the Trustee receives notice of final completion or the Rent Commencement Date, the balance on hand in the Capitalized Interest Fund shall be, at the direction of the Issuer, transferred to the Principal Account to pay principal on the Bonds.

The Revenue Fund is established with the Trustee to receive the portion of Base Rent under Section 6.2.1.2 of the Lease, the Lump Sum Payment under Section 6.6 of the Lease, and late charges, if any, pursuant to the Lease, all net earnings on investments of money in the Revenue Fund, and other money received by the Trustee with

instructions to deposit it in the Revenue Fund. All Base Rent under Section 6.2.1.2 of the Lease determined in accordance with the then current schedule of Base Rent attached to the Lease, and the Lump Sum Payment, shall be paid directly to the Trustee for deposit in the Revenue Fund.

The money and investments in the Revenue Fund are irrevocably pledged and shall be used and transferred by the Trustee as follows and in the following order of priority:

- (i) On or prior to each Interest Payment Date, the amount necessary to pay the interest on the Bonds coming due on the Interest Payment Date to the Interest Account;
- (ii) On or prior to each Principal Payment Date, the amount necessary to pay the regularly scheduled principal of Bonds maturing on such Principal Payment Date to the Principal Account;
- (iii) On or prior to each day on which Bonds shall be subject to redemption prior to scheduled maturity, the redemption price of Bonds to be redeemed to the Redemption Account; and
- (iv) To pay Administrative Fees and Expenses, but only upon the written direction of an Authorized Representative of the Issuer; provided, that such written direction shall not be required if an Event of Default has occurred and is continuing.

The Bond Fund is a trust fund held in the custody of the Trustee for the purpose of paying debt service on the Bonds. The Trustee shall deposit the following sums into the Bond Fund:

- (i) On each Interest Payment Date, to the Interest Account an amount that, together with any other money then available in the Interest Account, will be equal to the interest on all of the Bonds then Outstanding to become due and payable on that Interest Payment Date;
- (ii) On each Principal Payment Date, to the Principal Account for as long as any of the Bonds are Outstanding and unpaid, an amount that, together with any other money available in the Principal Account, will be equal to the principal (including mandatory redemption amounts) of the Bonds to become due and payable on that Principal Payment Date;
- (iii) On the date on which the Bonds are subject to redemption prior to maturity, to the Redemption Account, the redemption price of the Bonds to be redeemed;
- (iv) As received, all interest earnings on the Bond Fund to the respective account; and
- (v) All other money directed in writing by the Issuer or the University to be deposited therein.

If prior to completion of the Project the Trustee receives any insurance proceeds attributable to delays in completing the Project under the "Builders' risk" insurance, and such proceeds are designated for such purpose by the Issuer in writing to the Trustee, such funds shall be deposited to the Interest Account to be used (before using funds in the Capitalized Interest Fund) to pay interest on the Bonds. Following the date of issuance of the Bonds and until the earlier of final completion of the Project and the Rent Commencement Date, the deposits to the Interest Account referred to in (i) above shall be made from funds on hand in the Capitalized Interest Fund.

Except as otherwise expressly provided in the Indenture, money in the Bond Fund shall be used solely for the payment of the principal of and interest on the Bonds as the same shall become due and payable at maturity, upon redemption or acceleration or otherwise, and the lien of the Owners of Bonds on such money shall be first and prior to the lien of any other person thereon.

The Indenture authorizes the Trustee to establish a Capital Repairs Fund. There is no requirement to maintain any particular balance in this fund; however, the Lease permits the Issuer and the University to make determinations in the future to establish a balance in the Capital Repairs Fund through the payment of Additional Rent. Funds in the

Capital Repairs Fund shall be used to finance the costs of capital improvements and major maintenance of the Project. The Capital Repairs Fund is not pledged to secure the Bonds.

The Indenture establishes a Rebate Fund to be held by the Trustee. A rebate calculation will be made pursuant to the Indenture. Pursuant to such calculation, the Trustee shall deposit into the Rebate Fund the amount necessary to make rebate payments, if any, from such fund or account as directed by the Issuer. The Rebate Fund is not pledged to secure the Bonds.

**There is no debt service reserve fund provided for the Bonds.**

### **The Ground Lease**

The form of the Ground Lease, including definitions of capitalized terms used in the following summary, is set forth (without exhibits) in Appendix A. The following is only a summary, and reference is made to the form included in Appendix A.

*Third Phase of Multi-Phase Development.* The Project is the second part of the third phase of a multi-phase development of University biomedical research facilities on adjacent blocks in South Lake Union. Phase I, Phase II and the first phase of Phase 3 were completed on time and are fully assigned. The Issuer has entered into the ground lease for the third part of Phase 3.

*Term.* The Ground Lease extends to May 31, 2063 unless sooner terminated or extended in accordance with the terms of the Ground Lease. This term includes the option period expected to be exercised by the Issuer on September 30, 2015.

*Development of Project.* Under the Ground Lease, the Issuer has the right to use the property for general office and administrative uses, parking and loading facilities, biomedical and biotechnical research and development, clinical use, including patient visits and treatments, laboratory uses, and similar clinical, research, and development uses as are permitted by law, zoning code and ordinance applicable to the property. The Lease permits all uses by the University as are permitted under the Ground Lease. The obligation of the University to pay Base Rent under the Lease includes an amount sufficient to pay all rent due under the Ground Lease.

*Issuer and University Obligation to Proceed.* Under the Lease, during the period reasonably needed for design, permitting and construction the Issuer is obligated to exercise reasonable commercial best efforts to build the Project improvements in accordance with the plans and specifications developed by the Issuer and the University and in accordance with the Development Management Agreement. The University is obligated to work cooperatively with the Issuer and the Development Manager to develop, approve, modify and timely make all decisions necessary to finalize permit-ready and bid-ready plans and specifications for the construction of the Project improvements. The Ground Lessor has the right to terminate the Ground Lease in the event that the Issuer has not obtained permits, arranged financing and commenced construction of the Project by early to mid-2019 (taking into account certain extensions and cure periods permitted under the Ground Lease). See Appendix A.

### **The Lease**

The form of the Lease, including definitions of capitalized terms used in the following summary, is set forth (without all exhibits) in Appendix A. The following is only a summary, and reference is made to the form included in Appendix A.

*Term.* The Lease is a financing lease authorized under RCW 28B.140.010. The Initial Term of the Lease commences on the "Lease Commencement Date," which is specified in the Lease to be October 7, 2015, and extends to the Lease Termination Date on May 31, 2063. The Lease may be extended to May 31, 2068 upon satisfaction of certain conditions.

*University Rent Obligation.* The University is obligated under the Lease to pay Base Rent commencing on the Rent Commencement Date (March 1, 2018), and to pay the Lump Sum Payment on the Rent Commencement Date. The

University is obligated to pay Additional Rent commencing the earlier of (i) the date on which the University first occupies the Property following substantial completion of the Project or (ii) the Rent Commencement Date. The University's obligation to pay Base Rent from and after the Rent Commencement Date and to pay the Lump Sum Payment on the Rent Commencement Date is not conditioned upon the completion of the Project or the status of construction. **The University is obligated to pay Rent from its General Revenues, consisting of all non-appropriated income, revenues, and receipts of the University if and to the extent such funds are not restricted in their use by law, regulation, or contract. The University's obligation to pay Rent is not subject to appropriation or abatement so long as the Issuer maintains a leasehold interest in the Leased Premises. The University is obligated to pay Rent from its General Revenues, on an equal and ratable basis with the University's other outstanding and future General Revenue obligations, including without limitation its General Revenue bonds, without preference, priority or distinction because of date of issue or otherwise.**

*Rent includes Base Rent and Additional Rent.* Base Rent includes rent due under the Ground Lease as well as debt service on the Bonds, as set forth on a schedule attached to the Lease. Base Rent representing debt service on the Bonds and the Lump Sum Payment will be paid to the Trustee and the amount to be remitted on a monthly basis is subject to periodic adjustment to take into account interest earnings in the Revenue Fund, payment of principal from Bond proceeds remaining in the Project Fund after Project completion, or payment of principal from Bond proceeds remaining in the Capitalized Interest Fund after the Rent Commencement Date and not directed to be used to fund Project Costs.

*Absolute Net Lease.* The Lease is an absolute net lease. As of the Rent Commencement Date, all costs of the Issuer in performing its obligations as landlord under the Lease, or as ground lessee under the Ground Lease or as a party to the Reciprocal Easements Agreement, are passed through to the University under the Lease or are to be paid directly by the University. In addition to Base Rent and the Lump Sum Payment, the University is required to pay Additional Rent in an amount equal to the sum of the Additional Rent Components. The Additional Rent Components consist of the cost of the Issuer's insurance, taxes, accounting and financing costs, maintenance and repair costs, easement payments, property management fees, utilities, janitorial and building services fees, interest on the Bonds during the period between final completion of the Project and the Rent Commencement Date (if applicable), and any payments required to be made to the Operating Reserve. The Operating Reserve is funded by Additional Rent payments and is generally equal to the sum of 1/6th of the total projected sum of Additional Rent Components for the current Lease Year, with certain exclusions, plus one month's Base Rent. **The Operating Reserve is not pledged to the Bonds.**

*Use.* Under the Lease the University may use and occupy the Premises for any purpose not prohibited by the Ground Lease or by the Indenture, so long as such use does not jeopardize the Issuer's status as a 501(c)(3) tax exempt non-profit entity or the tax-exempt status of interest on the 2015A Bonds.

*Project Construction and Management.* The Issuer is obligated to cause the design, permitting and construction of the Project and has entered into the Development Management Agreement. No later than two months prior to the Rent Commencement Date, the Issuer is obligated to hire a Property Manager meeting specified requirements.

Under the Lease, the Issuer is obligated to exercise reasonable commercial best efforts to build the Project, in accordance with plans and specifications developed by the University and the Issuer. The Issuer is obligated to pay Project Costs from Bond proceeds. Under the Lease the University has covenanted that, to the extent that Project Costs are in excess of the Project Funds, the University will pay all costs to complete the Project as the same become due and payable. To the extent any Project Costs are incurred that have not been approved by the University, the University has the right to direct or join claims under the Ground Lease, Development Management Agreement, General Construction Contract, Architect's Agreement, any warranty or other project contract. See "THE PROJECT."

*Insurance.* The Issuer is required to maintain property insurance covering loss of or damage to the Leased Property in the full amount of its replacement cost with endorsement to cover code changes. The Issuer is further required to maintain commercial general liability insurance, with limits of liability no less than \$5,000,000 per occurrence and in the aggregate, with coverage on an occurrence basis. The University is required under the Lease to maintain

commercial general liability insurance (which may be through a captive insurer), with a liability limit of \$2,000,000 per occurrence and \$5,000,000 aggregate.

*Damage; Destruction.* If the Premises are partially or totally destroyed by any casualty that is covered by the required insurance, rendering the Premises partially or totally inaccessible or unusable the Issuer shall, if requested by the University or required under the Indenture or the Ground Lease, restore the Premises to substantially the same condition as they were in immediately before such destruction, if:

- (i) The insurance proceeds available to the Issuer equals or exceeds the cost of such restoration,
- (ii) Such restoration can be completed within 18 months,
- (iii) Such restoration is permitted under then existing laws to be done in such a manner as to return the Premises to substantially the same condition as they were in immediately before such destruction, and
- (iv) Such restoration is permitted (a) under the Ground Lease and (b) under the Indenture.

If the Issuer is required to repair or rebuild uninsured damage, all costs incurred by the Issuer for such repairs or restoration not covered by insurance shall be paid by the University as Additional Rent.

If the Premises are partially or totally destroyed by any casualty and the conditions for restoration set forth above cannot be met, the Issuer shall provide written notice to the University, the Bond Trustee, and any Bond Insurer.

*No Abatement of Rent.* If the Premises shall be rendered partially or wholly untenable as a result of damage or destruction of the Premises or the Project, and regardless of whether the Premises are reconstructed and repaired, Rent is not to be abated under the Lease. Unless the Issuer fails to maintain a leasehold interest in the Leased Property (such as in the event that the Issuer's leasehold interest in the Premises is condemned as described below), the University is required to continue to pay Base Rent and Additional Rent throughout the entire remaining term of the Lease, without any offset, deduction, suspension, or other abatement.

*Condemnation.* Upon a condemnation of the Premises such that the use of the Premises by the University is not economically sound, as reasonably determined by the University, the Issuer has a right to terminate the Ground Lease and the Lease. The University's obligation to pay Base Rent and Additional Rent will automatically terminate on the date the condemnor has the right to possession of the Premises.

Absent such a determination, the Lease is to continue in full force and effect as to the remainder of the Premises, and Rent is to continue without abatement except to the extent that the Ground Rent component of Base Rent is reduced in accordance with any reduction of Ground Rent under the Ground Lease.

*Defaults and Remedies.* Section 17.1 of the Lease sets forth events of default by the University including any failure to pay an installment of Rent or other payment when due within 10 Business Days after notice, and failure to perform any other provision of the Lease within 30 days after notice, subject to an additional cure period. The Issuer has the following rights and remedies in the event of a default by the University: to sue for Rent or any amounts due under the Lease or any damages, to remedy any nonmonetary default of the University, to enter upon the Premises to do any work or other things therein, or to maintain the University's right to possession and continue the Lease in effect whether or not the University has abandoned the Premises. In the event of any default by the University, the Issuer also has the right, without terminating the Lease, to reenter the Premises and to remove all persons and property from the Premises and take whatever actions may be necessary or advisable to relet, protect or preserve the Premises. In case of such re-entry, the Issuer may relet the Premises upon such terms as are commercially reasonable and for a term which may expire either before or after the expiration of the Lease Term but not for a term longer than the stated maturity of the Bonds. In re-letting the Premises, the Issuer is required by the Lease to restrict possible replacement tenants to those whose occupancy would have no adverse effect on the tax exempt status of the 2015A Bonds, but within such category of qualified tenants the Issuer is required to take reasonable measures to seek a maximum rental rate for reletting. See "BOND OWNERS RISKS—No Acceleration of Rent."

## **Leasehold Deed of Trust and Other Security Documents**

The Leasehold Deed of Trust grants a lien in favor of the Trustee on the Issuer's leasehold interest in the Leased Property and the Issuer's ownership interest in the Project and all other rights of the Issuer as tenant under the Ground Lease and grants to the Trustee certain remedies following a monetary event of default under the Indenture, including inter alia, the right to foreclose the Issuer's leasehold interest. By exercising this remedy, the Trustee would have the right to take possession of the Premises. The Ground Lessor has not subordinated its fee interest in the Leased Property to the lien created by the Leasehold Deed of Trust. **The land that is the subject of the Ground Lease is not pledged as security for the performance of any obligations with respect to the Bonds.**

The Issuer, the University, and the Trustee will also enter into the subordination, attornment and nondisturbance agreement, dated as of October 1, 2015 (the "Nondisturbance Agreement"), under which the University subordinates all of its lessee's right, title and interest under the Lease to the right, title and interest of the Trustee under the Leasehold Deed of Trust and agrees to accept a subsequent landlord under the Lease and lessee under the Ground Lease following a foreclosure under the Leasehold Deed of Trust, subject to further limitations as described in the Nondisturbance Agreement. Further, the Trustee agrees to not terminate the interest of the University, as lessee under the Lease, as long as the University is not in default under the Lease, subject to further limitations as described in the Nondisturbance Agreement. Additionally, under the Assignment of Construction Agreements, the Issuer will assign to the Trustee (for security purposes) its rights under the Development Management Agreement, the construction contract with the General Contractor, the architect's agreement; and all construction, architectural and other agreements now or hereafter entered into by the Issuer relating to construction of the Project.

The Issuer and the Trustee also will enter into the Assignment of Leases under which the Issuer will assign to the Trustee:

- (i) all existing and future leases upon all or relating to any part of the Premises, including the Lease;
- (ii) any and all guaranties of any tenants' performance under any and all leases of the Premises; and
- (iii) the right to collect and receive all of the rents, income, receipts, revenues, issues, profits, and other income of any nature pertaining to or arising from any lease of the Premises, including the Lease.

## **Amendments to the Principal Documents**

The Indenture provides that it may be supplemented without consent of Registered Owners in certain circumstances and that the consent of a majority of the Registered Owners is required for supplements in other circumstances where the rights of Registered Owners will be materially adversely affected. In addition, the Indenture provides that the Lease, the Leasehold Deed of Trust, the Ground Lease, the Development Management Agreement and the Assignment of Leases (the "Other Documents") may be amended without Registered Owner consent in certain circumstances, and may be amended only with the consent of a majority of the Registered Owners in other circumstances where the rights of Bond Owners will be materially adversely affected. See Appendix A.

## **Future Bonds**

Under the Indenture the Issuer, upon the direction of the University, reserves the right to issue future obligations only for refunding all or a portion of the Bonds or for the purpose of financing the repair or replacement of tenant improvements to the Premises, with a lien and charge on the Trust Estate equal to the lien thereon of the Bonds (the "Future Bonds") upon compliance with the following conditions:

- (i) The Lease remains in effect and no Lease Default Event, both as defined in the Indenture, has occurred and is then continuing;
- (ii) The University and the Issuer shall have entered into and approved an amendment to or restatement of the Lease providing for Base Rent payments sufficient to pay all payments of principal of, interest and premium, if any, on all Outstanding Bonds and any Future Bonds;



- (iii) The amendment or restatement of the Lease or a memorandum thereof shall have been recorded;
- (iv) The Issuer and the Trustee shall have entered into a Supplemental Indenture, as defined in the Indenture, providing for the creation of a bond fund for the payment of principal and interest on the Future Bonds and (if applicable) other funds required to effect the refunding of all or a portion of Bonds;
- (v) The final maturity of the Future Bonds shall not be later than the latest maturity of the Bonds; and
- (vi) The Issuer and the Trustee shall have received an opinion of Bond Counsel to the effect that the issuance of such Future Bonds is authorized under the Indenture and shall not adversely affect the tax-exempt status of bonds originally issued on a tax-exempt basis or the status of the 2015A Bonds.

### **Debt Payment Record**

The Bonds represent the first issue of the Issuer.

### **UNIVERSITY LEASE OBLIGATIONS PAYABLE FROM GENERAL REVENUES**

The University has pledged its General Revenues to payment of its obligations under the Lease. “General Revenue” or “General Revenues” means all non-appropriated income, revenues, and receipts of the University if and to the extent such funds are not restricted in their use by law, regulation, or contract. For example, the following items are restricted and, therefore, excluded from General Revenues:

- (a) Appropriations to the University by the State from the State’s General Fund;
- (b) Each fund the purpose of which has been restricted in writing by the terms of the gift or grant under which such fund has been donated, or by the donor thereof;
- (c) Fees imposed upon students as a condition of enrollment at the University, including but not limited to services and activities fees, building fees (“Building Fees”) and technology fees; and
- (d) Revenues and receipts attributable to the Metropolitan Tract Revenue (which consists of revenues of 11 acres owned by the University in downtown Seattle, known as the “Metropolitan Tract”).

As noted under subsection (b) above, grants or other funds that are restricted by contract or donor terms are excluded from General Revenues. Unrestricted fund balances, to the extent that they were accumulated from money that was received as General Revenues, are included in and available to pay obligations secured by General Revenues. Any interest subsidy received from the federal government with respect to General Revenue bonds is included and available to pay obligations secured by General Revenues.

### **Additions to General Revenues**

The University reserves the right to include in General Revenues, at its sole option, in the future, other sources of revenue or income excluded in the definition of General Revenues. Such additions shall occur on the date and as provided in a certificate executed by the controller of the University (the “Controller”) (or the successor to the functions of the Controller). The Controller shall, in the case of additions of items or auxiliaries to General Revenues, certify that for the preceding two Fiscal Years for which audited financial statements are available, the item or auxiliary maintained a “coverage ratio” of at least 125 percent. In the event an auxiliary or item is added to General Revenues, the obligations of that auxiliary or item may remain outstanding and have a prior claim on auxiliary Net Revenue.

### **Deletions from General Revenues**

The University reserves the right to remove, at its sole option, in the future, without limitation, any revenues from General Revenues. The removal of General Revenues shall be evidenced by a certificate executed by the Controller

identifying the items to be deleted. The University is not required to meet any coverage or other test prior to removing revenues from General Revenues.

### **Additional Bonds**

The University may incur additional obligations, including General Revenue bonds, Payment Agreements and lease or other contractual obligations, that are payable from General Revenues, in addition to the University's outstanding General Revenue Notes (Commercial Paper) (the "Commercial Paper Notes"), outstanding General Revenue bonds, the Lease and other lease and contractual obligations. There are no limitations, either statutory or contractual, that would prevent the University from incurring such additional obligations.

### **Payment Agreements**

To the extent permitted by State law, the University may enter into Payment Agreements payable from General Revenues subject to the satisfaction of certain conditions precedent. Payment Agreements, as defined in chapter 39.96 RCW, include interest rate swaps entered into in connection with the issuance of bonds. The University currently has no Payment Agreements in place.

### **Debt Payment Record**

The University has never defaulted on the payment of principal of or interest on any of its bonds or other debt.

### **Future Debt**

The University funds authorized projects based on projected cash flows. In addition to the Lease, the University expects to issue approximately \$80 million in General Revenue bonds by June 30, 2018 to fund University projects. Additional projects may also be funded with bond proceeds, if approved by the Board. The University also from time to time issues Commercial Paper Notes. See "UNIVERSITY DEBT AND DEBT SERVICE— General Revenue Obligations."

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## UNIVERSITY DEBT AND DEBT SERVICE

### General Revenue Obligations

The University's General Revenue obligations take three forms:

- (a) General Revenue bonds and Commercial Paper Notes. The University is authorized to issue Commercial Paper Notes from time to time in an aggregate principal amount not to exceed \$250 million, for University purposes, pursuant to a Resolution of the Board adopted on June 16, 2009. The University issues Commercial Paper Notes generally to provide interim financing for University projects. The University provides self-liquidity for the payment of its Commercial Paper Notes, which are not secured by a bank credit or liquidity facility.
- (b) Leases and other contractual obligations payable from General Revenues.
  - (i) Leases Supporting Lease Revenue Bonds, including the Bonds. In addition to the Lease, the University has entered into a number of financing and other leases in connection with lease revenue bonds, which are payable from General Revenues. University lease payments are applied to pay debt service on lease revenue bonds issued by the Washington Economic Development Finance Authority or by nonprofit corporations (entities related to the Issuer) issuing bonds on behalf of the University. Lease revenue bonds have financed the prior phases of the University's multi-phase South Lake Union biomedical research facilities and other clinic, research and administrative facilities.
  - (ii) Other Contractual Obligations. The University has entered into other contracts payable from all or a component of General Revenues and, in some cases, other revenues. Reimbursed State General Obligation Bonds ("Reimbursed Bonds") refers to bonds authorized by the State Legislature (the "Legislature") and issued as State general obligation bonds to provide proceeds to the University. These bonds are payable from all or a component of General Revenues and, in some cases, other revenues.
- (c) Line of Credit. The University has entered into a Master Financing Agreement with JPMorgan Chase Bank, N.A., which serves as a line of credit to be drawn upon in aggregate amount not to exceed \$12 million through November 14, 2016, to finance short-term University assets.

The Lease, the outstanding General Revenue Bonds, the Commercial Paper Notes, other lease or contractual obligations, and the University's line of credit are equally and ratably payable from General Revenues without preference, priority or distinction because of date of issue or otherwise.

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## University Debt

The following table summarizes the University's outstanding obligations by type.

**TABLE 3:**

**UNIVERSITY OUTSTANDING OBLIGATIONS**  
**(as of October 8, 2015)**  
(dollars in thousands)

	<b>Total</b>	
<b>University Obligations</b>		
General Revenue Bonds <sup>(1)</sup>	\$	1,649,980
Leases (supporting lease revenue bonds) <sup>(2)</sup>		408,165
Reimbursed Bonds and Certificates of Participation <sup>(3)</sup>		156,365
Commercial Paper Notes <sup>(4)</sup>		50,000
Equipment Leases/Other <sup>(5)</sup>		22,388
Subtotal: General Revenue Obligations	\$	2,286,898
<b>Component Unit Obligations<sup>(6)</sup></b>		
Northwest Hospital and Medical Center <sup>(7)</sup>		12,294
Valley Medical Center <sup>(8)</sup>		79,035
Subtotal: Other Obligations	\$	91,329
<b>Total Obligations</b>	\$	2,378,227

<sup>(1)</sup> Includes general revenue bonds in the aggregate principal amount of \$195,510,000, which closed on September 23, 2015 (the "2015 General Revenue Bonds").

<sup>(2)</sup> Includes the Lease.

<sup>(3)</sup> Includes approximately \$25 million of Reimbursed Bonds paid from Metropolitan Tract Revenues, which are not included in General Revenues.

<sup>(4)</sup> Excludes commercial paper to be paid from proceeds of the 2015 General Revenue Bonds.

<sup>(5)</sup> Includes the University's line of credit.

<sup>(6)</sup> Debt obligations are non-recourse to the University, but assets and liabilities are consolidated on University financial statements.

<sup>(7)</sup> Northwest Hospital & Medical Center ("Northwest") affiliated with the University in January 2010. General Revenues do not include revenues of Northwest (now UW Medicine/Northwest dba Northwest Hospital & Medical Center). Excludes Northwest obligations refunded with University commercial paper. See "UW Medicine— Components of UW Medicine—Northwest Hospital & Medical Center."

<sup>(8)</sup> Valley Medical Center ("Valley") affiliated with the University in July 2011. General Revenues do not include Valley revenues. See "UW MEDICINE—Components of UW Medicine—Valley Medical Center." In addition to the obligations shown above, Valley (a public hospital district under State law) has outstanding \$239,856,412 of limited tax general obligation bonds payable from nonvoted property taxes levied by the public hospital district, and from other legally available funds.

Source: *The University*.

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Additional detail on the Commercial Paper Notes is shown in the following table:

**TABLE 4:**

**UNUSED COMMERCIAL PAPER AUTHORIZATION**  
**(as of October 8, 2015)**  
(dollars in thousands)

	<u><b>Total</b></u>
Maximum Amount Authorized	\$ 250,000
Less: Amount outstanding	(50,000)
Unused commercial paper authorization as of October 8, 2015	<u>\$ 200,000</u>

*Source: The University.*

**General Revenue Debt Service Schedule**

The following table provides the debt service-related Rent requirements for the Lease and the University's outstanding General Revenue Bonds. The table also provides debt service requirements for other lease and other contractual obligations payable from General Revenues. The table does not include debt service requirements for the Commercial Paper Notes, authorized to be issued from time to time in the aggregate principal amount of up to \$250 million.

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**TABLE 5:**  
**UNIVERSITY OF WASHINGTON**  
**GENERAL REVENUE DEBT SERVICE SCHEDULE**

Fiscal Year Ending 6/30	General Revenue Bonds <sup>(1)(2)</sup>	Lease and Other Obligations Paid from General Revenues <sup>(2)(3)(4)</sup>	2015 Lease Payment <sup>(4)</sup>	Total Debt Service <sup>(4)(5)</sup>
2016	\$ 107,171,673	\$ 61,950,615	\$ 1,319,548	\$ 170,441,836
2017	111,944,175	59,911,832	5,395,807	177,251,814
2018	112,707,169	53,052,936	29,850,807	195,610,912
2019	110,363,322	49,609,529	7,452,650	167,425,501
2020	110,155,181	44,362,278	7,451,650	161,969,109
2021	111,073,918	43,969,235	7,454,650	162,497,803
2022	111,078,315	42,648,749	7,451,150	161,178,214
2023	107,529,337	41,201,955	7,456,150	156,187,442
2024	107,503,074	36,176,863	7,453,900	151,133,837
2025	107,349,992	31,945,826	7,449,400	146,745,218
2026	107,186,257	25,942,312	7,447,400	140,575,969
2027	107,459,287	25,301,836	7,452,400	140,213,523
2028	106,947,446	21,341,291	7,453,650	135,742,387
2029	106,640,344	16,696,591	7,450,900	130,787,835
2030	103,795,171	14,965,752	7,453,900	126,214,823
2031	99,727,972	14,879,958	7,046,900	121,654,830
2032	98,256,440	14,800,912	7,049,900	120,107,252
2033	91,298,646	14,714,937	7,047,900	113,061,483
2034	87,275,932	14,621,888	5,170,650	107,068,470
2035	87,233,364	12,717,839	5,171,400	105,122,603
2036	127,365,729	12,618,662	5,170,400	145,154,791
2037	82,435,001	12,519,919	5,172,400	100,127,320
2038	82,677,344	12,410,684	5,171,900	100,259,928
2039	81,724,225	6,345,269	5,168,650	93,238,144
2040	102,780,496	6,225,985	5,172,400	114,178,881
2041	85,643,360	6,108,181	5,172,400	96,923,941
2042	85,767,121	5,981,204	5,171,200	96,919,525
2043	85,896,912	5,849,566	5,169,000	96,915,478
2044	83,573,887	—	5,170,600	88,744,487
2045	9,388,080	—	5,170,600	14,558,680
2046	7,583,700	—	5,168,800	12,752,500
2047	—	—	5,170,000	5,170,000
2048	—	—	5,168,800	5,168,800
<b>Total<sup>(4)(5)</sup></b>	<b>\$ 2,927,532,868</b>	<b>\$ 708,872,604</b>	<b>\$ 224,697,861</b>	<b>\$ 3,861,103,333</b>

<sup>(1)</sup> Includes the Outstanding General Revenue Bonds. Does not include Valley and Northwest debt service. Excludes Commercial Paper. Includes the 2015 General Revenue Bonds.

<sup>(2)</sup> Amounts reflect 100 percent of the University's debt service schedule. Subject to continued sequestration or other Congressional action, the University expects to receive an interest subsidy of up to 35 percent for certain outstanding bonds that were issued as Build America Bonds. Such subsidies are not included in this table.

<sup>(3)</sup> Includes lease and other contractual obligations payable from General Revenues, including lease obligations with respect to lease revenue bonds, equipment leases, and Reimbursed Bonds and Certificates of Participation and does not include principal payments made on commercial paper. Excludes the Lease.

<sup>(4)</sup> Includes scheduled mandatory redemption payments.

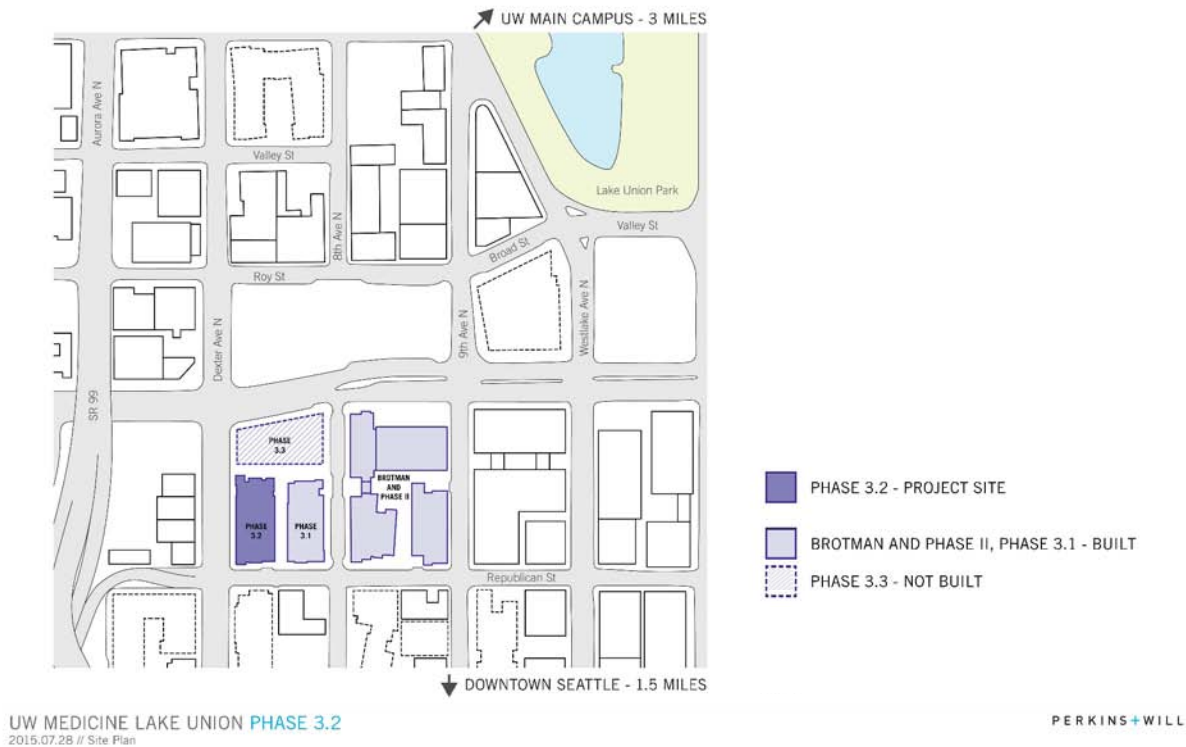
<sup>(5)</sup> Totals may not foot due to rounding.

Source: *The University*.

## THE PROJECT

*Overview.* The Project is the second part of the third phase of a multi-phase development of a campus of biomedical research facilities leased by the University’s School of Medicine (“SOM”) on the Leased Property and adjacent property. Phase I, Phase II and the first phase of Phase 3 were completed on time and are fully assigned. The Project is located in the South Lake Union area of Seattle, about three miles from the University’s main campus, about 1.5 miles from downtown Seattle, and near other biomedical research facilities (including Seattle Cancer Care Alliance and the Fred Hutchinson Cancer Research Center). The Project site is shown on the following map.

**Map of Project Site**  
(the Project is identified as “Phase 3.2”)



The Project consists of the design, construction and equipping of a new building totaling approximately 165,000 gross square feet of biomedical research facilities, with three clinics and associated clinical research facilities. The Project has access to the Shared Infrastructure that was constructed as part of Phase 3.1, including two levels of parking, loading dock, and mechanical and electrical rooms.

The Project will be utilized by the SOM, whose grant awards have grown at an annual rate of five percent over the past 15 years, with National Institutes of Health (“NIH”) funding for the SOM growing at an annual rate of five percent since 2000. There is effectively no surplus research space on the University’s main campus. The campus health sciences building is over 50 years old with mechanical infrastructure that is strained to support modern biomedical research. Phases I, II and 3.1 of the multi-phase development on South Lake Union (“SLU”) currently are fully assigned. The strategic importance of the SLU development to the SOM also is reflected in the substantial investment SOM has made (over \$375 million) in Phases I, II, and 3.1.

Research at this site is expected to include new programs and expansion of existing programs including microbiology, global health, kidney research, immunology, biomedical informatics, neurosciences, protein design, gastrointestinal and behavioral assays. Each of these areas has historically received substantial NIH funding. In

addition, the Project will include a primary care clinic as well as a diabetes clinic and an ophthalmology clinic focused on retinal diseases, which will provide an opportunity to integrate clinical care and research. Space in the Project is anticipated to be fully subscribed by SOM researchers and clinicians at the time of anticipated occupancy.

*Construction of the Project.* The Project will be constructed pursuant to the Development Management Agreement. Under the Development Management Agreement, the Development Manager (an affiliate of the Ground Lessor) has agreed to supervise and coordinate the design and permitting of the Project, to assist the Issuer in the retention of the architect and General Contractor, and to administer and supervise construction of the Project by the General Contractor. Perkins+Will is the architect for the Project. Pursuant to the Development Management Agreement, the construction contract with the General Contractor is required, as to the building shell and core, to be on a cost plus fee basis with a guaranteed maximum price. All of the construction contracts are required to have mandated schedules for completion, contingency reserve line items satisfactory to the Issuer, a requirement for retainage for all major categories of hard construction costs for which retainage is commonly utilized, and reasonable warranties against construction defects.

The Master Use Permit for the Project has been issued, and the period for appealing the Master Use Permit has expired. The Issuer is, however, seeking approval of a major revision to the Master Use Permit. A major revision is subject to a public comment period and the approval of both the Seattle Department of Planning and Development (“DPD”) and the City of Seattle Design Review Board (the “DRB”). A written decision on whether to approve the revision would ordinarily be issued by DPD (reflecting the decisions of both DPD and the DRB) approximately four to five months after the submission of a revised application. The decision is subject to administrative appeal.

If the Project revision is not approved, then Issuer would nonetheless be able to proceed with the Project as described in the Master Use Permit, if a valid and fully complete building permit application is submitted to DPD prior to the October 15, 2016 expiration date of the Master Use Permit, and a building permit is subsequently issued.

The Issuer expects to enter into a guaranteed maximum price contract with the General Contractor in March 2016. The Issuer expects to receive building and occupancy permits in the customary course of construction. Occupancy is expected to occur in February 2018. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—The Ground Lease.”

*Payment of Project Costs.* Under the Lease, the Issuer is obligated to exercise reasonable commercial best efforts to build the Project improvements, in accordance with plans and specifications developed by the University and the Issuer. The Issuer is obligated to pay Project Costs from Bond proceeds. Under the Lease the University has covenanted that, to the extent that Project Costs are in excess of the Project Funds, the University will pay all costs to complete the Project as the same become due and payable. To the extent any Project Costs are incurred that have not been approved by the University, the University has the right to direct or join claims under the Ground Lease, Development Management Agreement, General Construction Contract, Architect’s Agreement, any warranty or other project contract. See Section 8.1 and 11 of the Lease included at Appendix A.

*Property Management.* Not later than two months prior to the Rent Commencement Date, the Issuer is required by the Lease to select a property manager for the Premises (the “Property Manager”) with the concurrence of the University. The Property Manager is required to be qualified and have expertise in the management of laboratory and research facilities and experience with the University or other large, institutional tenants. In the event the University is unsatisfied with the Property Manager, the Issuer is required, at the University’s expense, to seek to find a replacement Property Manager meeting the required criteria.



## THE UNIVERSITY OF WASHINGTON (THE LESSEE)

In Fiscal Year 2014, more than 88,000 people studied and worked in approximately 22 million square feet of University-owned and University-leased facilities. Of these people, approximately 62 percent were students and 38 percent were staff and faculty. With approximately 40,000 full-time and part-time employees, the University is one of the largest employers in King County and the State.

The University includes three academic campuses, which are located in Seattle, Tacoma and Bothell. The University provides baccalaureate, masters, doctoral and professional degree programs through 16 colleges and schools including arts and sciences, built environments, business, dentistry, education, educational outreach, engineering, environment, information, law, medicine, nursing, pharmacy, public affairs, public health, and social work. The University offers more than 250 degree options across more than 150 programs. In the 2013-2014 academic year, the University awarded more than 15,000 degrees, including approximately 9,900 bachelor degrees, 3,900 masters degrees, 700 doctoral degrees and 500 professional degrees.

### Governance

The University is governed by a 10-member Board of Regents, which includes one student of the University. Regents are appointed by the Governor of the State (the "Governor") with the consent of the State Senate, and, except for the student member, hold their offices for six-year terms or until their successors are appointed and qualified, whichever is later. The student member of the Board serves a one-year term from July 1 to June 30 of the following year, or until his or her successor is appointed and qualified, whichever is later.

The Board of Regents is comprised of the following individuals:

*William S. Ayer, Chair* (Chairman and Former Chief Executive Officer, Alaska Airlines and Alaska Air Group).

*Patrick M. Shanahan, Vice Chair* (Senior Vice President and General Manager of Airplane Programs, Boeing Commercial Airplanes).

*Kristianne Blake, Member* (President, Kristianne Gates Blake, P.S.).

*Joanne Harrell, Member* (Senior Director, e-Government Programs, Microsoft Corporation).

*Jeremy Jaech, Member* (Chief Executive Officer, SNUPI Technologies).

*Constance Rice, Member* (Managing Director, Knowledge Management for Casey Family Programs).

*Rogelio Riojas, Member* (President and Chief Executive Officer, Sea Mar Community Health Centers).

*Herb Simon, Member* (Simon Johnson, LLC).

*Orin Smith, Member* (Retired Chief Executive Officer, Starbucks Corporation).

*Vanessa Kritzer, Student Member* (University master's degree student in public administration and business administration).<sup>(1)</sup>

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<sup>(1)</sup> Pending State Senate confirmation.

The University's Administrative Officers include the following individuals:

*Ana Mari Cauce, Interim President.* Professor Ana Mari Cauce is the Interim President of the University. Dr. Cauce joined the University's faculty in 1986, and is a full professor with the departments of Psychology and American Ethnic Studies, with secondary appointments in Gender, Women, and Sexuality Studies and the College of Education. She became Interim President in March 2015, after a tenure as the University's Provost and Executive Vice President. Interim President Cauce has held numerous leadership positions at the University, including Director of the University Honors Program, Chair of American Ethnic Studies, Chair of Psychology, Executive Vice Provost, Dean of Arts and Sciences, and, most recently, Provost and Executive Vice President. Among the recognitions she has earned through her career are the Dalmas Taylor Distinguished Contribution Award, the Luis Fernando Esteban Public Service Award, the James M. Jones Lifetime Achievement Award of the American Psychological Association, the Grace Hopper Exemplary Leadership Award, and the Distinguished Contribution Award from the Society for Community Research and Action. In 1999, she joined a list of notable faculty by being awarded the Distinguished Teaching Award, the highest honor the University gives to faculty members for their work with students both within and outside the classroom. She was a recipient of the University's Distinguished Teaching Award. Dr. Cauce earned degrees in English and Psychology from the University of Miami, and a Ph.D. in Psychology, with a concentration in Child Clinical and Community Psychology from Yale University. A Presidential Search Advisory Committee and a national search firm have been selected by the Board of Regents to assist in the Presidential selection process. The Presidential search is on-going. By November 30, 2015, unless extended by agreement of the Board of Regents, the Committee is to submit to the Board of Regents a list of three to five unranked recommended candidates.

*Gerald J. Baldasty, Interim Provost and Executive Vice President, Interim Treasurer.* Gerald J. Baldasty was appointed Interim Provost and Executive Vice President on March 3, 2015, and was appointed Interim Treasurer on August 1, 2015. He joined the faculty of the University in 1978, and is a professor of Communication and an adjunct professor in two departments (Gender, Women and Sexuality Studies and American Ethnic Studies). Dr. Baldasty is the author of three books (*The Commercialization of News in the Nineteenth Century*, *E.W. Scripps and the Business of Newspapers*, and *Vigilante Newspapers*) and of numerous journal articles. He focuses his research on communication and media history, particularly on political communication, media as businesses, and on race, ethnicity and gender. He was chair of the Department of Communication from 2002 to 2008. He served as interim dean, and then dean and vice provost, of the University's Graduate School from 2008 to 2012. From 2012 to March 2015, he was Senior Vice Provost for Academic and Student Affairs. He is a former director of the University Teaching Academy. He has served on a wide variety of University committees and boards, including the University Book Store board of trustees, Diversity Research Institute advisory board, University Press Committee, Graduate Opportunity-Minority Achievement Program advisory board, and two faculty councils. He has been associate editor and senior editor of *Journalism History*. Dr. Baldasty received the University Distinguished Teaching Award in 2000, and he received honorable mention for the Landolt Graduate Mentor Award that same year. He was named one of the College of Arts and Sciences "Timeless Award" recipients in 2012. He received his Ph.D. in Communications from the University in 1978, M.A. in Journalism from the University of Wisconsin-Madison in 1974 and B.A. in Communications from the University in 1972.

*Paul Jenny, Senior Vice President, Planning and Management.* Paul Jenny joined the University in July 2008 as the Vice Provost of Planning and Budgeting. In his current role as Senior Vice President, Mr. Jenny oversees the activities of more than 250 employees and 12 units including the Capital Projects Office, Office of the University Architect, Real Estate Office, Office of Strategy Management, Planning and Budgeting, Institutional Analysis and the Budget Office. He has extensive experience in academic resource management, strategic planning and modeling, policy development, and budgeting. Prior to his appointment at the University, he served as the Associate Vice Chancellor of Budget and Resource Planning at the University of California – Berkeley from 2004-2008 and as Associate Director, Budget and Institutional Research, for the University of Alaska system from 2002-2004. From 1999 to 2002 he was Director of Budget for the Brookings Institution in Washington D.C. Mr. Jenny's education includes an MBA with honors from Loyola University in New Orleans and a BA in Economics from the University in 1992. He currently serves as immediate past president of the Western Association of College and University Business Officers and serves on the National Association of College and University Business Officers board. Additionally, Mr. Jenny serves on the board of the W Fund which focuses on early-stage investments in

spin-outs from the University of Washington and other early-stage companies headquartered in the State. He is also a member of the Governing Board of KEXP 90.3 public radio station.

*Elizabeth Cherry, Associate Vice Provost of Compliance and Risk Services and Interim Vice President of Finance and Facilities.* Ms. Cherry joined the University as Director of the Office of Risk Management in 1988, and from 2004 to July 2015, was Executive Director of Risk Management. She is a member of the Risk and Insurance Management Society, the University Risk Management and Insurance Association, the National Association of College and University Attorneys, and the Society of Corporate Compliance and Ethics. She helped create the University Complaint Investigation and Resolution Office, and in 2002, founded Portage Bay Insurance, the University's internal insurance company of which she serves as President. Ms. Cherry is a former member of the University of Washington Club Board of Trustees (1999-2005, 2010-2012) and served as its president from 2004-2007 and again from 2010-2012. She received her B.S. in Forestry and Resource Conservation from the University of Montana and earned her J.D. in 1980 from the Northwestern School of Law of Lewis & Clark College. Ms. Cherry also is a Certified Compliance and Ethics Professional with an international designation.

*Dr. Paul G. Ramsey, CEO of UW Medicine, Executive Vice President for Medical Affairs and Dean of the School of Medicine.* Dr. Ramsey has served as the senior executive leader of UW Medicine since 1997. He came to the University in 1978, following completion of his residency training in Internal Medicine at Massachusetts General Hospital. He served as acting chair and then chair of UW Medicine from 1990 to 1997, when he was appointed to his current administrative leadership position. Dr. Ramsey was the first holder of the Robert G. Petersdorf Endowed Chair in Medicine in 1995. He has received the Distinguished Teacher Award from the University School of Medicine's graduating class three times (in 1984, 1986, and 1987) and the Margaret Anderson Award from the University graduating class of 1989, which recognizes exceptional support of medical students. Dr. Ramsey's research has focused on the development of methods to assess physicians' clinical competence. He has been the Principal Investigator on multiple research grants related to assessment of physicians' clinical skills, and served as a Henry J. Kaiser Family Foundation Faculty Scholar in General Internal Medicine for five years. Dr. Ramsey received the John P. Hubbard Award from the National Board of Medical Examiners in 1999 in recognition of his research contributions in the field of evaluation. He has served on many national committees, including serving as an elected member of the Association of American Physicians and the Institute of Medicine of the National Academy of Sciences, and is a member of multiple organizations. Dr. Ramsey graduated from Harvard College with honors in Biochemistry and received his M.D. from Harvard Medical School.

## **Accreditation**

The University is accredited by the Northwest Commission on Colleges and Universities ("NWCCU") and is a member of the Association of American Universities. The University has been continuously accredited by NWCCU, its regional higher education authority, since 1918. The University's periodic NWCCU accreditation evaluation was last completed in October 2013. NWCCU adheres to a seven-year accreditation cycle.

## **Admissions, Student Enrollment and Faculty Information**

- For the 2013-2014 and 2014-2015 academic years, total student headcount<sup>(1)</sup> enrollment for the University's Autumn quarter was 53,072 and 54,670, respectively
- For the 2013-2014 and 2014-2015 academic years, FTE<sup>(2)</sup> students at the Seattle, Bothell and Tacoma campuses for the Autumn quarter numbered 53,380 and 54,857, respectively
- For both the 2013-2014 and 2014-2015 academic years, approximately 70 percent of undergraduate and graduate FTEs were in-State residents

<sup>(1)</sup> Including undergraduate, graduate and professional school students.

<sup>(2)</sup> FTE defined as an undergraduate carrying 12 credit hours or a graduate student carrying 10 credit hours. FTE enrollment exceeds headcount enrollment when students take more credit hours than the credit hour threshold equating to one FTE.

The following tables show the number of applicants to the University's undergraduate, graduate and professional schools, certain qualifications of these applicants, the number of applicants accepted into each school, the tuition and fees for each school, and the number of students enrolled in Autumn quarter 2010-2014. In 2014, 79 percent of undergraduate students were located at the Seattle campus, 11 percent at Bothell, and 10 percent at Tacoma. The Bothell and Tacoma campuses are comprised primarily of undergraduate students. The University expects future growth to occur largely at campuses other than the Seattle campus. As of July 22, 2015, freshman applications for Autumn Quarter 2015 are estimated to be 41,265.

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**TABLE 6:**  
**Student and Enrollment<sup>(1)</sup>**

<b>Undergraduate</b>	<b>Autumn Quarter</b>				
<i>Freshmen</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013<sup>(2)</sup></b>	<b>2014<sup>(2)</sup></b>
Applied	25,269	27,469	29,723	33,857	35,382
Accepted	14,753	16,527	18,152	19,560	20,510
Percent Accepted to Applied	58%	60%	61%	58%	58%
Enrolled	6,122	6,546	6,931	7,233	7,429
Percent Enrolled to Accepted	41%	40%	38%	37%	36%
 <i>Transfers</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Applied	7,430	8,277	8,415	8,809	9,480
Accepted	3,854	4,250	4,448	4,705	4,826
Percent Accepted to Applied	52%	51%	53%	53%	51%
Enrolled	2,783	3,046	3,084	3,252	3,308
Percent Enrolled to Accepted	72%	72%	69%	69%	69%
 <i>Undergraduate FTE</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Bothell	2,438	2,934	3,327	3,794	4,101
Seattle	27,964	28,118	28,011	28,597	29,359
Tacoma	2,431	2,775	3,064	3,346	3,565
Total All Campuses	32,833	33,827	34,402	35,737	37,025
 <i>Undergraduate Headcount</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Bothell	2,751	3,254	3,648	4,106	4,406
Seattle	30,093	29,822	29,771	30,148	31,099
Tacoma	2,771	3,116	3,366	3,641	3,826
Total All Campuses	35,615	36,192	36,785	37,895	39,331
 <i>Additional Enrollment Statistics:</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
% of All Students From Outside State <sup>(1)</sup>	25%	32%	30%	30%	31%
% retention (Freshman to Sophomore)	92%	92%	91%	91%	92%
Mean GPA	3.69	3.70	3.69	3.69	3.69
Median GPA	3.76	3.77	3.76	3.77	3.76
% of class reporting GPA data	99%	100%	100%	100%	100%
Mean Combined SAT scores	1198	1193	1198	1200	1200
Median Combined SAT scores	1210	1210	1210	1220	1210
% of class reporting SAT data	90%	86%	86%	87%	84%

<sup>(1)</sup> Unless otherwise noted all figures include Seattle, Tacoma, and Bothell campuses.

<sup>(2)</sup> In October 2015, 2013 and 2014 enrollment numbers will be restated to reflect first-time, first-year freshmen. This change in methodology will slightly reduce previously reported numbers.

Source: The University.

**Student and Enrollment<sup>(1)</sup> Continued**

<b>Graduate</b>	<b>Autumn Quarter</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Applied	23,316	24,692	26,350	27,381	29,851
Accepted	6,844	7,493	8,106	8,980	9,106
Percent Accepted to Applied	29%	30%	31%	33%	31%
Enrolled	3,485	3,720	3,643	4,383	4,389
Percent Enrolled to Accepted	51%	50%	45%	49%	48%
Graduate FTE	12,499	12,820	13,049	13,557	13,751
Graduate Headcount	12,389	12,574	12,782	13,177	13,333
<b>Professional</b>	<b>Autumn Quarter</b>				
<i>Law:</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Applied	2,560	2,656	2,930	2,624	2,946
Accepted	545	586	638	686	776
Enrolled	186	182	176	143	163
Law Headcount	528	520	527	508	493
<i>Pharmacy:</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Applied	470	354	411	413	390
Accepted	86	108	123	131	121
Enrolled	80	94	99	96	90
Pharmacy Headcount	338	350	361	372	374
<i>Dentistry:</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Applied	1,027	996	1,085	1,058	1,046
Accepted	79	80	83	82	85
Enrolled	63	63	62	63	63
Dental Headcount	242	258	260	262	262
<i>Medicine:</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Applied	4,459	4,962	5,101	6,015	6,129
Accepted	270	285	272	296	287
Enrolled	216	219	220	235	240
Medicine Headcount	828	851	851	858	877
Total Professional FTE	3,970	3,932	3,949	4,086	4,081
Total Professional Headcount	1,936	1,979	1,999	2,000	2,006

<sup>(1)</sup> Unless otherwise noted all figures include Seattle, Tacoma, and Bothell campuses.  
Source: The University.

**TABLE 7:**  
**Tuition and Fees<sup>(1)</sup>**  
**(Full Academic Year)**

	Autumn Quarter				
	2011	2012	2013	2014	2015
Undergraduate Resident	\$ 10,574	\$ 12,383	\$ 12,397	\$ 12,394	\$ 11,839
Undergraduate Non-Resident	28,058	29,938	31,971	33,513	34,143
Graduate Resident	13,438	14,698	15,666	16,683	17,496
Graduate Non-Resident	26,308	27,318	28,119	28,926	30,345
Business Masters Resident	26,338	27,608	28,950	30,339	31,200
Business Masters Non-Resident	38,408	40,158	42,126	44,175	45,450
Law Resident	26,608	29,948	31,983	31,980	31,962
Law Non-Resident	40,678	42,918	45,024	45,021	44,124
Pharmacy Resident	20,778	24,018	26,325	26,496	28,362
Pharmacy Non-Resident	37,878	43,688	47,964	49,215	50,286
Medical Resident	25,548	28,268	30,186	32,220	33,759
Medical Non-Resident	54,528	57,198	59,175	61,206	64,194
Dentistry Resident	27,388	32,948	36,150	39,654	43,494
Dentistry Non-Resident	50,298	53,018	56,667	60,555	66,483

<sup>(1)</sup> Unless otherwise noted all figures include Seattle, Tacoma, and Bothell campuses.  
Source: *The University*.

**TABLE 8:**  
**University FTE<sup>(1)</sup>**

	Autumn Quarter				
	2010	2011	2012	2013	2014
Undergraduate	32,833	33,827	34,402	35,737	37,025
Graduate	12,499	12,820	13,049	13,557	13,751
Professional	3,970	3,932	3,949	4,086	4,081
Total University FTE	49,302	50,579	51,400	53,380	54,857

<sup>(1)</sup> Unless otherwise noted, all figures include Seattle, Tacoma, and Bothell campuses.  
Source: *The University*.

**TABLE 9:****University Headcount<sup>(1)</sup>**

	<b>Autumn Quarter</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Undergraduate	35,615	36,192	36,785	37,895	39,331
Graduate	12,389	12,574	12,782	13,177	13,333
Professional	1,936	1,979	1,999	2,000	2,006
Total University Headcount	49,940	50,745	51,566	53,072	54,670

<sup>(1)</sup> Unless otherwise noted, all figures include Seattle, Tacoma, and Bothell campuses.

Source: *The University*.

The following tables show faculty and student housing and dining data for Autumn quarter for the past five years.

**TABLE 10:****FACULTY DATA**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Number of Faculty <sup>(1)</sup>	4,235	4,280	4,356	4,497	4,561
Tenure Rate (%) <sup>(2)</sup>	39%	39%	39%	37%	37%
Percent Holding Terminal Degree (Ph.D., MD, DDS) <sup>(3)</sup>	93%	93%	93%	92%	93%

<sup>(1)</sup> Effective October 31, 2013, faculty headcount is restated to reflect core faculty comprised of professorial, instructional, and research categories. Headcount associated with temporary faculty categories is excluded.

<sup>(2)</sup> Effective October 31, 2013, tenure rate percentage is restated using the core faculty total headcount comprised of professorial, instructional, and research categories.

<sup>(3)</sup> Effective October 31, 2013, terminal degree percentage is restated using the core faculty total headcount comprised of professorial, instructional, and research categories.

Source: *University 2014 Bondholder's Report, Supplemental Bondholder Information section*.

For Autumn quarter 2015, data reflects 100 percent occupancy of University housing at 6,998. Average room and board cost for existing double housing in Autumn quarter 2015 is \$10,576 for the academic year.

**TABLE 11:****HOUSING AND DINING DATA**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014<sup>(1)</sup></b>	<b>2015<sup>(1)</sup></b>
Room and Board <sup>(2)</sup> :	\$7,785	\$8,091	\$9,360	\$10,055	\$10,576
Autumn Opening Occupancy <sup>(3)</sup> :	5,677	5,294	6,407	6,607	6,998
Occupancy <sup>(4)</sup> :	116%	114%	111%	114%	112%

<sup>(1)</sup> Figures for Autumn 2014 and 2015 include residence hall units and exclude single student and family housing apartments.

<sup>(2)</sup> Room and board pricing is for the full academic year. Room portion of annual room and board pricing is the weighted average of all residence hall double rooms in inventory, and dining amount is for a representative meal plan.

<sup>(3)</sup> Autumn opening occupancy is used to calculate capacity.

<sup>(4)</sup> Effective October 31, 2014 numbers restated to reflect as-built capacity and 10th day occupancy (occupancy that exceeds 100% is the result of housing three students in a room designed for two).

Source: *University Housing and Dining*.



## General Revenues

As described under the heading “UNIVERSITY LEASE OBLIGATIONS PAYABLE FROM GENERAL REVENUES,” General Revenues include all non-appropriated income, revenues, and receipts of the University if and to the extent such funds are not restricted in their use by law, regulation, or contract. Unrestricted fund balances, to the extent that they were accumulated from money that was received as General Revenues, also are included in General Revenues.

The following table shows General Revenues and General Revenue balances of the University for Fiscal Years 2010 through 2014. General Revenues are displayed in two ways: first as gross University revenues minus exclusions from General Revenues, and second as the components that comprise General Revenues.

**TABLE 12:**

### GENERAL REVENUES (dollars in thousands)

General Revenue (Exclusions from Total Revenue)	Fiscal Year				
	2010	2011	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>
Total Revenue	\$3,966,534	\$4,346,940	\$3,965,450	\$4,601,792	\$4,953,409
Less:					
State appropriations	(347,425)	(296,769)	(218,343)	(218,165)	(262,146)
Grant and contract direct costs	(1,021,074)	(1,110,531)	(1,101,106)	(1,109,871)	(1,080,088)
Gifts	(65,300)	(86,823)	(76,718)	(101,823)	(117,071)
Revenues of component units <sup>(2)</sup>	(199,085)	(154,782)	(156,653)	(171,238)	(161,247)
Student activities fees and U-Pass fees	(26,886)	(26,123)	(30,827)	(40,082)	(43,539)
Student technology fees, student Building Fees, student loan funds	(37,273)	(43,706)	(58,220)	(66,726)	(71,576)
Trust and endowment income, net unrealized gains on noninvested funds investments, Metropolitan Tract net operating income, component unit investment income, and other restricted investment income	(259,634)	(360,298)	17,738	(324,901)	(440,903)
Capital appropriations	(32,539)	(37,255)	(6,066)	(47,123)	(7,693)
Capital grants, gifts and other	(16,005)	(35,622)	(25,514)	(26,763)	(26,156)
Other nonoperating revenues (expenses)	8,861	12,946	18,330	19,780	(42,816)
Gifts to permanent endowments	(43,943)	(74,422)	(53,259)	(57,882)	(55,541)
<b>Total General Revenues</b>	<b>\$1,926,231</b>	<b>\$2,133,555</b>	<b>\$2,274,812</b>	<b>\$2,456,998</b>	<b>\$2,644,633</b>
<b>General Revenue Components:</b>					
Student tuition and fees (less student activities fees, U-Pass fees, technology fees, Building Fees and loan funds)	\$463,798	\$525,085	\$601,964	\$711,056	\$733,815
Grant and contract indirect costs	228,111	248,274	247,835	246,502	242,773
Indirect funds distributions and net invested funds unrealized gains and losses <sup>(1)</sup>	49,118	34,372	51,861	16,340	39,742
Sales and services of education departments	166,810	165,475	185,521	198,320	212,592
Auxiliary systems and patient services <sup>(2)</sup>	963,261	1,085,871	1,125,187	1,194,740	1,332,929
Other operating revenues	55,133	74,478	62,444	90,040	82,782
<b>Total General Revenues</b>	<b>\$1,926,231</b>	<b>\$2,133,555</b>	<b>\$2,274,812</b>	<b>\$2,456,998</b>	<b>\$2,644,633</b>
<b>General Revenue Balances</b>					
Accumulated General Revenue Balances	\$992,807	\$1,189,010	\$1,240,322	\$1,459,610	\$1,614,991

<sup>(1)</sup> See accompanying notes to the University of Washington Supplementary Information, June 30, 2014 and 2013 (in Appendix B).

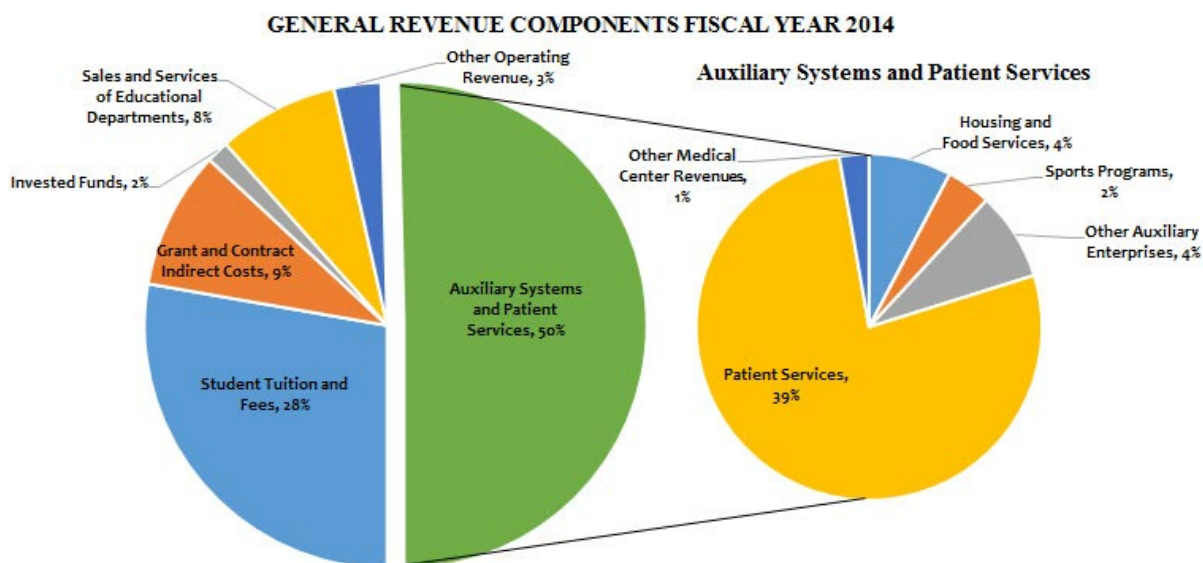
<sup>(2)</sup> Excludes revenues from Northwest Hospital & Medical Center and Valley Medical Center. See “UW MEDICINE—Components of UW Medicine.”

Source: The University's General Revenue Audit Supplement.

## Overview of General Revenues

Financial support is received by the University from a variety of sources, including grants and contracts, patient services, tuition and fees, State funding, gifts, auxiliary enterprises, investment income and sales and services. As shown in the table entitled “GENERAL REVENUES,” several of these sources are unrestricted and are included in General Revenues: auxiliary systems and patient services, student tuition and fees (less student activities fees, U-Pass fees, technology fees, Building Fees and loan funds), grant and contract indirect costs, sales and services of educational departments of the University, other operating revenue, and invested funds distribution and net invested funds’ unrealized gains and losses.

The following charts show the General Revenue components for Fiscal Year 2014 with a breakout of the auxiliary systems and patient services components of General Revenues for that fiscal year.



Source: *The University*.

The following describes the largest components of General Revenues, which include auxiliary systems and patient services, student tuition and fees, and grant and contract indirect costs.

*Auxiliary Systems and Patient Services.* Since the University incorporated auxiliary systems and patient services revenue into General Revenues in 2009, these revenues have represented the largest component of General Revenues. Auxiliary systems and patient services revenue include patient services, housing and food services, other auxiliary enterprises, sports programs and other UW Medicine revenues. Auxiliary systems and patient services represent 50% of General Revenues in Fiscal Year 2014, and patient services and other UW Medicine revenues are 80% of that component. See “UW MEDICINE” for a discussion of UW Medicine and its component units.

*Student Tuition and Fees.* Student tuition and fees represent the second largest component of General Revenues. Student tuition is established by the Board within the tuition-setting authority delegated by the Legislature. After legislative action concluded in late June 2015, the University maintained its long-standing authority to set tuition for all categories of students, with the exception of undergraduate residents. The University has tuition setting authority for nonresident and graduate student tuition. For Fiscal Years 2016 and 2017, the Legislature reduced resident undergraduate tuition rates by five and 15 percent over Fiscal Year 2015 rates, respectively, and limited future increases as follows. Beginning in 2017–18, the University may increase resident undergraduate tuition by

no more than the average annual percentage growth rate in the median hourly wage for Washington for the previous 14 years.

The State’s adopted 2015–2017 biennial operating budget requires that the University maintain a minimum enrollment level, which is below the current actual level. Growth plans are for minimal increases in enrollment at the Seattle campus and continued growth at the Tacoma and Bothell campuses of five to nine percent per year. See “Other University Financial Information – *State Funding*.”

In addition to tuition, the University charges its students a variety of other fees. The degree to which these fees can be increased is governed by the provisions of Initiative 960, its reenacting initiatives, and each omnibus appropriations act signed into law annually. As described under the heading “INITIATIVES—Initiative 960,” Initiative 960 requires Legislative approval of fee increases and any new fee. The adopted State biennial operating budget allowed the Board to increase fees in Fiscal Years 2010 through 2016 by amounts judged reasonable and necessary by the Board. Fees include summer quarter tuition, fee-based and self-sustaining degree and certificate programs, services and activity fees, student technology fees, course and lab fees, and other administrative fees. Certain other fees collected through proprietary transactions are also included in General Revenues, but may not be considered fees subject to Initiative 960.

The University also has authority from the State to waive tuition and fees. Tuition waivers are used to assist low-income students, recruit outstanding students, and recruit and support graduate teaching and research assistants. Tuition can be waived by the University for students meeting certain eligibility requirements consistent with these objectives. Student tuition and fees revenue figures included in this Official Statement exclude amounts waived.

*Grant and Contract Indirect Costs.* Grant and contract indirect costs constituted the third largest component of General Revenues in Fiscal Year 2014. Grant and contract indirect costs fund a wide variety of research and training programs at the University. In each year since 1974, the University has been among the top five universities in the nation, both public and private, in federal research and training funds awarded. The University’s expectations with regard to future grant and contract revenue are informed by its awards. Awards are received by the University over one or more fiscal years and, when received, are presented as grant and contract revenues in the University’s financial statements (see “APPENDIX B—AUDITED FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTAL INFORMATION OF THE UNIVERSITY (FISCAL YEARS ENDED JUNE 30, 2014 AND 2013)”) for more information regarding grant and contract revenues for Fiscal Years 2014 and 2013). The following award information provides information regarding the University’s grant and contract awards.

**TABLE 13:**

**GRANT AND CONTRACT AWARDS**  
(dollars in millions)

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Federal Grants and Contracts	\$ 1,245	\$ 1,187	\$ 981	\$ 1,084	\$ 1,037
<i>Without ARRA</i> <sup>(1)</sup>	1,087	1,180	972	1,083	1,036
Non-Federal Grants and Contracts	253	284	287	302	264
Total <sup>(2)</sup>	<u>\$ 1,498</u>	<u>\$ 1,471</u>	<u>\$ 1,238</u>	<u>\$ 1,386</u>	<u>\$ 1,301</u>
Total without Student Financial Aid	<u>\$ 1,396</u>	<u>\$ 1,364</u>	<u>\$ 1,123</u>	<u>N/A<sup>(3)</sup></u>	<u>N/A<sup>(3)</sup></u>

<sup>(1)</sup> Federal grants and contracts excluding amounts awarded pursuant to the American Recovery and Reinvestment Act of 2009 (“ARRA”).

<sup>(2)</sup> Totals subject to change per negotiations with sponsors after fiscal year end.

<sup>(3)</sup> External financial aid grants to undergraduates were removed from totals starting in Fiscal Year 2014.

Source: *The University*.

## Other University Financial Information

This section introduces components of University revenues (including but not limited to components of General Revenues) and notes recent trends.

Patient services revenue has increased, most notably with the addition of Northwest in Fiscal Year 2010 and Valley in Fiscal Year 2012. As part of fulfilling its mission of improving the health of the public, UW Medicine's goals include becoming a leading Accountable Care Organization ("ACO"). This work includes measuring and improving the health of those served, effectively coordinating care across a continuum of care settings, providing the appropriate care in the appropriate location while operating in a dynamic environment as the federal and state governments implement healthcare reform.

Based on preliminary unaudited Fiscal Year 2015 results, as a whole the clinical enterprise has exceeded budgeted levels. Of the four hospitals owned or operated by the University, three have preliminary unaudited Fiscal Year 2015 results exceeding budgeted levels. Northwest has not met budget expectations for a variety of reasons including payer mix and patient volumes. Management is currently developing a five-year financial plan for Northwest including clinical program development.

In recent years tuition revenue has grown as State appropriations to the University have declined. In Fiscal Year 2015, State support for the University is approximately \$155 million less than what it was at its peak at the start of Fiscal Year 2009, and the amount of tuition revenue collected from students has more than doubled in the last six years. Despite facing required increases to K-12 funding over the next several years, in its most recent budget the State Legislature substantially increased appropriations to the University to help offset significant tuition reductions, modifying this trend.

Undergraduate applications for all campuses have been strong; 35,382 applications were submitted for Autumn 2014 and 20,510 were accepted. Undergraduate applications for Autumn 2015 were the largest in the University's history. As of July 22, 2015, total applications were calculated at 41,265, 17 percent higher than Autumn 2014. Official annual totals will be available on October 15, 2015. Matriculation rates have declined slightly, averaging 38 percent over the last four years.

Fiscal Year 2015 grants and contracts awards were \$1.3 billion, which represents a six percent decline over Fiscal Year 2014. In large part the decline is due to Federal sequestration in Fiscal Year 2013. Specifically, sequestration in Fiscal Year 2013 pushed multiple awards into Fiscal Year 2014, creating a timing lag that increased Fiscal Year 2014 values and makes year-over-year comparisons difficult. The federal budget remains under significant pressure; ongoing federal funding for research could be impacted.

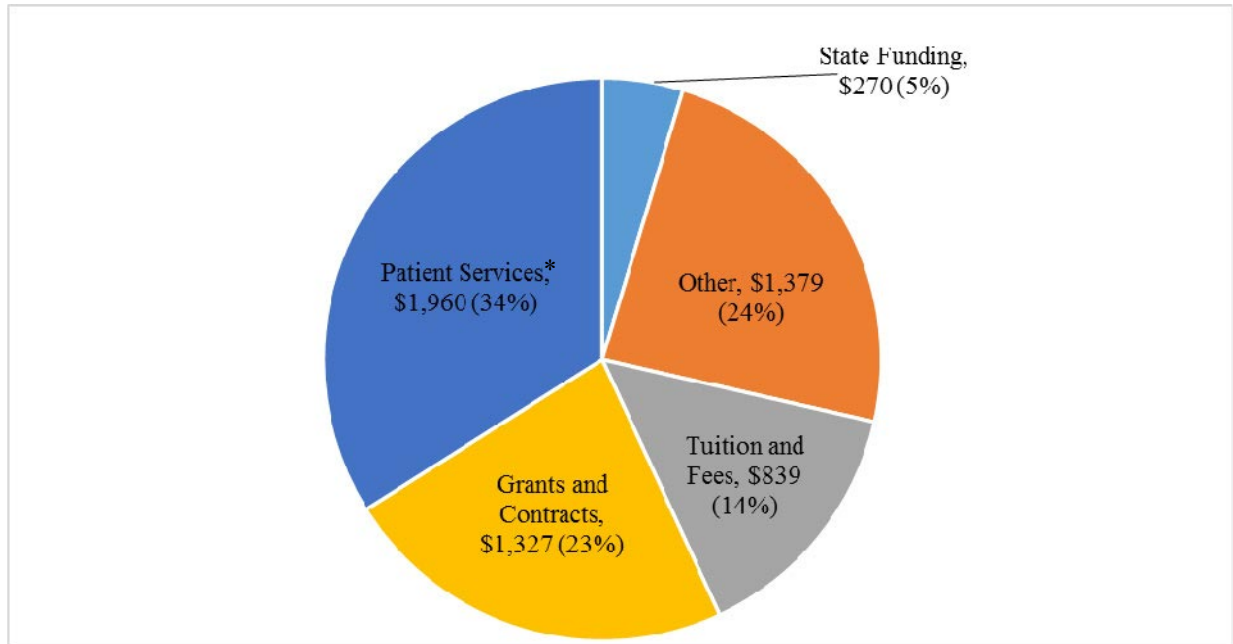
Philanthropic support declined slightly in Fiscal Year 2015 from a historic high level in Fiscal Year 2014, but still remained strong, with private grants and gifts totaling \$449 million.

University revenues may be restricted in whole or part and, to the extent restricted, are excluded from General Revenues. Appropriated revenue is also excluded from General Revenues. These revenues are, however, important components of the University's overall financial situation. The following provides an overview of University total revenue (including Northwest and Valley revenue).

*University Total Revenue by Source.* The following shows the University's \$5.8 billion in total revenue by source for Fiscal Year 2014.

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**UNIVERSITY TOTAL REVENUE BY SOURCE, FISCAL YEAR 2014**  
**(dollars in millions)**



\* Patient Services revenue includes Northwest Hospital and Valley Medical Center.

Source: *The University*.

*University Expenditures.* Based on Fiscal Year 2014 financial statements (including Northwest and Valley), 35 percent of the University’s \$5.2 billion in expenditures for Fiscal Year 2014 supported the two primary functions of the University: instruction (20 percent) and research (15 percent). Other expenditures include medical-related expenses (35 percent), academic support services (six percent), depreciation (six percent), auxiliary enterprises (six percent), institutional support (four percent), scholarship and fellowships (three percent), and other (six percent).\*

*University Net Assets.* As of June 30, 2014, the University had total net assets of approximately \$6.96 billion, an increase of five percent over Fiscal Year 2013 (due in part to the addition of Valley in Fiscal Year 2012). Investment in buildings, improvements and land was approximately \$2.1 billion as of June 30, 2014, net of related debt. Including Northwest and Valley, unrestricted net assets equaled 29.6 percent of total net assets at the end of Fiscal Year 2014.

*State Funding.* The State appropriates funds for certain University operating expenses and for a portion of the University’s capital budget. These appropriations are subject to the Legislature’s biennial budget process. The following table shows University expenditures of State operating and capital appropriations to the University since 2010:

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\* Totals may not foot due to rounding.

TABLE 14:

**EXPENDITURES OF STATE APPROPRIATIONS  
TO THE UNIVERSITY BY TYPE  
(dollars in millions)**

	Fiscal Year					
	2010	2011	2012	2013	2014	2015
Operating Appropriations	\$ 303.5	\$ 296.8	\$ 218.3	\$ 218.2	\$ 262.1	\$ 255.2
Capital Appropriations	32.4	37.3	6.1	47.1	7.7	20.8
Total Appropriations	\$ 335.9	\$ 334.1	\$ 224.4	\$ 265.3	\$ 269.8	\$ 276.0

Source: The University.

State legislative appropriations comprised approximately five percent of the University’s total revenue in Fiscal Year 2014. State appropriations for the 2013-15 biennium increased 20 percent over the 2011-13 biennium. State appropriations for the 2015-17 biennium are currently budgeted to exceed the previous biennium by 24 percent.

The 2015 Legislature passed a final compromise operating budget for the 2015-17 biennium after two special 30-day sessions. Despite facing constitutionally-required increases to K-12 funding over the next several years, the final State budget includes targeted investments in public higher education including in computer science and engineering and health sciences and medical residencies, and a reduction in the tuition fees charged to resident undergraduate students. The reduction in the operating fee portion of tuition is addressed in part through increased State appropriations, and the University expects the balance of the 2015-2017 reduction to be addressed in the Legislature's 2016 supplemental budget. Although student tuition is a component of General Revenues, state appropriations are excluded.

In addition, the Legislature authorized salary increases and provided partial funding for those increases based on the assumption that tuition rates for students other than resident undergraduates would grow with inflation and cover compensation increases for faculty and staff.

The Legislature continues to face budgetary pressure as a result of court-mandated increases in K-12 education funding. Article IX of the Washington State Constitution provides that it is the “paramount duty” of the State to make “ample provision” for basic education. A 2012 Washington Supreme Court decision (*McCleary v. Washington*) held that the State was not adequately funding K-12 education to this constitutional standard. The Court reserved jurisdiction to enforce its ruling and required the State to provide an annual report summarizing actions taken to achieve compliance within 60 days following the adoption of the State budget through 2018. In September 2014, the Court held the Legislature in contempt for its failure to put forth a complete funding plan. The Court gave the Legislature through the 2015 legislative session to lay out its plan to fully fund basic education by the 2017-18 school year. The Legislature increased funding for K-12 education in its most recent session. On August 13, 2015, the Court found that the Legislature had not achieved full constitutional compliance and imposed sanctions in the form of a \$100,000 per day fine. This penalty may be abated if the Legislature calls a special session that results in achieving full compliance. See BOND OWNERS RISKS—*Uncertainties of State Legislation and Initiatives*.

*Relationship to Federal Funding Sources; Sequestration.* The two largest sources of University funding – patient services and grants and contracts – benefit directly or indirectly from federal funding. Research funding from federal sources continues to be a large part of the University’s total research revenues. Federal funding represented 78 percent of the University’s total research revenues in Fiscal Year 2014. Medicare and Medicaid payments represented 38 percent of total patient services revenues in Fiscal Year 2014. See “OTHER UNIVERSITY INFORMATION—Risk Management.”

Fiscal Year 2014 University data for the federal fiscal year show a five percent increase in NIH funds and no change in National Science Foundation funds compared to Fiscal Year 2013. The University experienced no change in total federal research funds between 2014 and 2013 on a federal fiscal year basis.

**Investments; Invested Funds and Endowment Funds**

The Board is vested by statute with the responsibility to manage the University’s assets, including its investments. Depending upon whether investments are restricted or unrestricted, investments may be available for payment of General Revenue obligations. Unrestricted fund balances, to the extent that they were accumulated from money that was received as General Revenues, are included in and available to pay obligations secured by General Revenues.

The Board delegates to its Finance and Asset Management Committee the responsibility to oversee the investment program. The Chief Investment Officer of the University directs the day-to-day activities of the investment portfolio, including the selection of investment managers who invest the University’s funds based on the University’s objectives and policies. Investment performance is reviewed quarterly by the University’s Investment Committee, which is an advisory committee. Information regarding the balances of and returns on the University’s operating and endowment funds is reported to the Finance and Asset Management Committee on a quarterly basis. Balances and returns on these funds have varied, sometimes significantly, from period to period.

*Invested Funds.* The total value of the University’s operating fund investments (currently referred to as the University’s “Invested Funds”) as of June 30, 2015 was \$2.46 billion, including the portion invested in the Consolidated Endowment Fund (“CEF”) as described below. The Invested Funds Pool currently consists of four pools: the Cash Pool, the Liquidity Pool, the Diversified Investment Pool and the Capital Assets Pool (“CAP”). The Cash and Liquidity Pools are invested primarily in short-term and intermediate-term, high quality, fixed-income securities to meet the day-to-day obligations of the University. The Diversified Investment Pool holds CEF units that are intended to enhance the overall portfolio return. In May 2014, the Board approved the CAP, which allows funds to be spent on approved University capital projects. The size of this pool is targeted at 10 percent of the Invested Funds, and the maximum size is limited by policy to 15 percent of the Invested Funds.

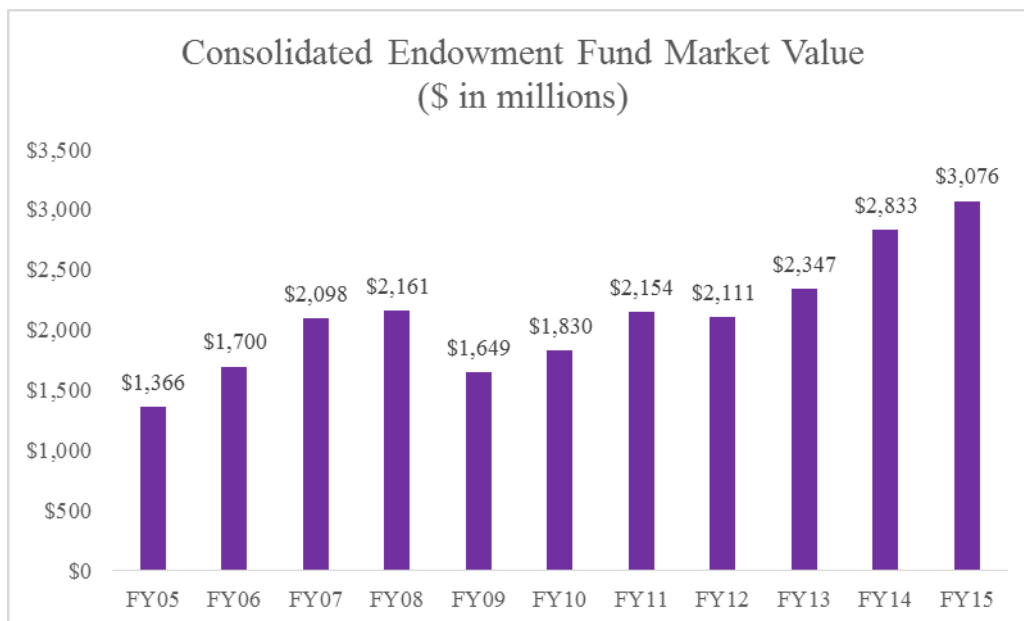
University policy stipulated the following minimum and maximum percentages that the Invested Funds may be invested in these pools as of March 31, 2015. The percentages that were invested in these funds for the periods ended June 30, 2014 and June 30, 2015 (prior to adjustment to incorporate CAP) are shown below:

**TABLE 15:**

	<b>Percentage Investment By Pool</b>		
	<b>Policy %</b>	<b>% June 30, 2014</b>	<b>% June 30, 2015</b>
Cash Pool	10%-40%	34%	28%
Liquidity Pool	25%-60%	37%	34%
Diversified Investment Pool	15%-45%	29%	33%
Capital Assets Pool	0%-15%	0%	5%

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*Consolidated Endowment Fund.* The total value of the CEF as of June 30, 2015 was \$3.1 billion (including \$806 million of units owned by the Invested Funds). For the 10 consecutive fiscal years that ended June 30, 2015, the average annual return on the CEF was 7.5 percent. The following table shows the value of the CEF in Fiscal Years 2005 through 2015. See “APPENDIX B—AUDITED FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTAL INFORMATION OF THE UNIVERSITY (FISCAL YEARS ENDED JUNE 30, 2014 AND 2013),” which includes notes to the financial statements detailing the investment of the CEF.



Source: *The University.*

*Endowment Distributions.* Under the Board-approved spending policy for the CEF, quarterly distributions to programs are made based on an annual percentage rate of four percent, applied to the five-year rolling average of the CEF’s market valuation. This policy was effective with the December 2010 quarterly distributions, with the five-year averaging period implemented incrementally. The spending policy calls for an administrative fee of one percent to support fundraising and stewardship activities (0.8 percent) and investment management (0.2 percent). Similar to program distributions, the administrative fee is based on the CEF’s five-year average market value.

**Gifts and Fundraising**

A principal source of funding for the University is private (non-governmental) support. In Fiscal Year 2015, the University received \$448.7 million in total private support from 107,376 donors. This is up from the trailing five-year average of \$351 million. Of the \$448.7 million received, approximately \$227 million was private gifts and approximately \$221.7 million was private grants. The University is in the early stages of its third comprehensive campaign, with a goal to raise \$4 billion.

**UW MEDICINE**

UW Medicine is an integrated health system that owns or operates Harborview Medical Center (“Harborview”), Northwest, Valley, UW Medical Center, UW Neighborhood Clinics, UW Physicians, SOM and Airlift Northwest.

**Components of UW Medicine**

*Harborview Medical Center.* Harborview is owned by King County and managed by the University. Harborview is a Level 1 adult and pediatric trauma and burn center with 413 licensed beds that offers specialty care in nearly every area of medicine. Harborview’s primary mission is to provide and teach exemplary patient care and to provide



health care for those patients King County is obligated to serve. Harborview's financial results are not included in the University's financial statements.

*Northwest Hospital & Medical Center.* Northwest is a 281 licensed bed hospital in North Seattle, which affiliated with UW Medicine on January 1, 2010. Northwest is a non-profit community hospital offering comprehensive medical, surgical and therapeutic services. Northwest is a discretely presented component unit of the University.

*Valley Medical Center.* Valley is a 321 licensed bed hospital in Southeast King County, and is a full-service acute care public hospital serving over 600,000 patients. On July 1, 2011, Valley entered into a strategic alliance with UW Medicine. In addition to the hospital, Valley operates a network of more than two dozen primary care, urgent care and specialty clinics throughout Southeast King County. Valley is a discretely presented component unit of the University.

*UW Medical Center.* UW Medical Center is a 450 licensed bed hospital that is a division of the University. UW Medical Center provides highly specialized healthcare to patients throughout the Pacific Northwest and also serves as a major clinical, teaching and research site for students and faculty of the University. In 2014, UW Medical Center began phase two of the Montlake Tower project to construct three shelled inpatient floors including the addition of intensive care, medical/surgical beds and operating rooms. Phase two is expected to be completed by June 2017.

*UW Neighborhood Clinics.* UW Neighborhood Clinics is a network of primary care clinics with 10 locations throughout the greater Seattle area. The clinics offer a complete spectrum of primary care services for the entire family from pediatrics to geriatrics, as well as ancillary services, including on-site laboratory, X-ray facilities and nutrition services.

*UW Physicians.* UW Physicians is the physician practice group for more than 2,000 physicians and other healthcare professionals associated with UW Medicine. UW Physicians provides primary and specialty care totaling more than one million patient visits each year.

*UW School of Medicine.* The SOM was founded in 1946 and is recognized for training primary care physicians and for advancing medical knowledge through scientific research. Physician faculty members of the SOM staff UW Medical Center, Harborview, and UW Neighborhood Clinics, as well as the Puget Sound Veterans Affairs Health Care System, Seattle Cancer Care Alliance and Seattle Children's Hospital.

*Airlift Northwest.* Airlift Northwest is a medical transport service that works with first responders throughout Washington, Alaska, Montana and Idaho to transport critically ill and injured patients to local hospitals, regional trauma centers or specialty care facilities.

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**Financial Information and Patient Activity Statistics**

**TABLE 16:**

**UW Medical Center, Northwest and Valley Financial Information  
Fiscal Years 2010–2014 (in thousands)**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<i>UWMC</i>					
Total Operating Revenue	\$811,461	\$847,861	\$877,548	\$920,705	\$967,651
Net Income	73,161	59,891	36,026	5,798	14,096
<i>Valley</i>					
Total Operating Revenue	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	\$436,407	\$451,012	\$474,196
Net Income	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	(5,899)	(13,035)	6,149
<i>Northwest</i>					
Total Operating Revenue	N/A <sup>(1)</sup>	\$275,839	\$300,089	\$327,807	\$324,342
Net Income	N/A <sup>(1)</sup>	(8,390)	(2,700)	9,284	(4,755)
<i>Combined</i>					
Total Operating Revenue	\$811,461	\$1,123,700	\$1,614,044	\$1,699,524	\$1,766,189
Net Income	73,161	51,501	27,427	2,047	15,490

<sup>(1)</sup> Northwest affiliated with the University in 2010, and Valley affiliated in 2011.

Source: *The University*.

**TABLE 17:**

**UW Medical Center, Northwest and Valley Patient Activity Statistics  
Fiscal Years 2010–2014**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<i>UWMC</i>					
Admissions	19,260	18,919	17,915	17,728	18,033
Outpatient Visits	323,393	306,825	300,487	284,870	291,375
Emergency Visits	25,602	24,119	23,487	22,977	25,338
<i>Valley</i>					
Admissions	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	16,842	17,477	16,693
Outpatient Visits	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	344,947	362,274	403,169
Emergency Visits	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	75,586	74,202	73,763
<i>Northwest</i>					
Admissions	N/A <sup>(1)</sup>	9,576	9,127	9,974	9,211
Outpatient Visits	N/A <sup>(1)</sup>	161,297	193,992	195,978	193,387
Emergency Visits	N/A <sup>(1)</sup>	35,146	33,832	33,942	34,276
<i>Combined</i>					
Admissions	19,260	28,495	43,884	45,179	43,937
Outpatient Visits	323,393	468,122	839,426	843,122	887,931
Emergency Visits	25,602	59,265	132,905	131,121	133,377

<sup>(1)</sup> Northwest affiliated with the University in 2010, and Valley affiliated in 2011.

Source: *The University*.

## **Recent Developments**

*UW Medicine Strategic Planning; Collaborations.* In September 2013, UW Medicine signed a strategic collaboration with PeaceHealth for UW Medicine to serve as PeaceHealth's complex tertiary and quaternary health system for specialty care. The agreement is to allow both organizations to work together on improving the quality, safety and cost-effectiveness of care. The two organizations will remain legally independent and there is no change in the governance or mission of either organization.

In March 2014, UW Medicine and Capital Medical Center (Olympia, Washington) signed an agreement selecting UW Medicine as the healthcare system of choice for complex tertiary and quaternary care for Capital Medical Center patients. This strategic collaboration, effective April 1, 2014, is intended to provide Capital Medical Center patients prompt access to advanced services while allowing the organizations to work together to continue improving the quality, safety and cost-effectiveness of care in the South Puget Sound region.

In 2014, UW Medicine formed an accountable care network ("ACN") with certain other health care organizations and healthcare professionals in Western Washington. The UW Medicine ACN was formed to focus on keeping people healthy and out of the hospital by employing evidence-based preventive measures to identify and treat underlying health problems early before they become chronic conditions. UW Medicine and its ACN members entered into agreements to provide health care services to employees of The Boeing Company beginning in January 2015. Agreements are also in place to provide healthcare services to the employees of the State of Washington in a five-county Puget Sound area beginning January 2016. These arrangements provide opportunities for shared savings between the ACN and the employers based on achieving quality and financial benchmarks. If the ACN does not attain certain financial benchmarks, UW Medicine, along with contractually agreed upon risk-sharing payments from its ACN members, will pay the employers based on their agreement.

In 2015, UW Medicine, Skagit Regional Health and Cascade Valley Hospital and Clinics entered into a Clinical Affiliation Agreement intended to create a long-term and durable affiliation to integrate clinical programs to achieve the "Triple Aim" of better care for individuals, better health for populations and lower per capita costs.

## **OTHER UNIVERSITY INFORMATION**

### **Labor Relations**

The University employs approximately 40,000 full-time and part-time employees, of whom approximately 17,500 are unionized. Pursuant to chapter 41.80 RCW, the University negotiated collective bargaining agreements to cover the 2015-2017 biennium with the Inland Boatmen's Union of the Pacific (mariners), Service Employees International Union ("SEIU") Local 925 (clerical and healthcare employees), the Washington Federation of State Employees (service, library, public safety, skilled trade employees), and UW Police Management, also represented by the Washington Federation of State Employees, and the Teamsters Local Union No. 117 (police officers). Combined, these unions cover approximately 8,700 employees in 16 bargaining units.

The University entered into negotiations with SEIU Local 1199NW (registered nurse, healthcare specialist, imaging tech, social worker, anesthesia and respiratory tech employees at Harborview Medical Center), and the Washington State Nurses Association (registered nurses at the UW Medical Center) for 2015-2017 collective bargaining agreements in spring of 2015, and negotiations are still ongoing.

As far as agreements covered by chapter 41.56 RCW, the University concluded negotiations for the first collective bargaining agreement with the American Federation of Teachers Local 6486 (representing approximately 65 English language extension lecturers within UW Educational Outreach) in July 2014, effective through June 2017. In spring 2015, the University reached agreement on a three-year agreement with the United Auto Workers ("UAW") Local 4121, representing approximately 4,500 academic student employees, which will expire on April 30, 2018. The University also reached agreement with the graphic communications bargaining unit, now represented by the Teamsters Local 117 as well, on a contract spanning July 1, 2015, to June 30, 2017. In September 2014, the UW Housestaff Association was certified (under chapter 41.56 RCW) as the official labor union for approximately 1,300 medical residents and fellows at the University. Negotiations for an initial collective bargaining agreement commenced in January 2015, and are still ongoing.

The University is currently in discussion with all unions over the upcoming institution-wide transition to a new Human Resources/Payroll system and its potential impacts.

### **Risk Management**

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

The self-insurance reserve is estimated through an actuarial calculation and included in Long-Term Liabilities. Changes in the self-insurance reserve for the years ended June 30, 2012, 2013, and 2014 are noted below:

**TABLE 18:**

**UNIVERSITY SELF INSURANCE RESERVE  
(dollars in thousands)**

	<b>2012</b>	<b>2013</b>	<b>2014</b>
Reserve at Beginning of Fiscal Year	\$50,092	\$62,919	\$79,708
Incurred Claims and Changes in Estimates	24,839	28,605	13,917
Claim Payments	<u>(12,012)</u>	<u>(11,816)</u>	<u>(26,175)</u>
Reserve at End of Fiscal Year	\$62,919	\$79,708	\$67,450

*Source: The University.*

As enacted in 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act") has changed how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital ("DSH") payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Further, it provides for a value-based purchasing program and the establishment of accountable care organizations and bundled payment pilot programs, which may create sources of additional revenue.

*Moore v. Health Care Authority (Moore I)* is a class action lawsuit brought against the State on behalf of temporary, part-time employees. The plaintiffs allege that the State improperly denied them healthcare benefits by incorrectly calculating their eligibility. Even though the case does not name the University as a defendant, some of the class members are present or former University employees, which could result in the University being responsible for a share of any amounts paid in the event of a settlement or judgment. Multiple issues are currently being litigated including how to define the class list and how to measure damages. The Washington State Supreme Court is currently considering an appeal by plaintiffs on the issue of whether the alleged violations ended prior to December 31, 2009 or, potentially, continued up to May 2014 along with a request for clarification on prior rulings related to how damages should be calculated. *Moore I* is set for a trial date of December 5, 2015. A continuation of *Moore I* was filed in Thurston County Superior Court (*Moore II*) seeking damages over a six-year time frame under a breach of contract claim. In November 2014, the State's motion to dismiss that case was denied.

In October 2013, the Washington Health Benefit Exchange began open enrollment for State residents through the Washington Health plan finder. The Exchange coupled with the expansion of the Medicaid program has resulted in providing health insurance coverage for some patients who had previously been receiving charity care. The Exchange also includes coverage options for previously commercially-insured patients whose employers have elected to seek coverage for their employees in plans that are more affordable than traditional commercial plans. To date, the overall financial impact of these programs has been positive. Management continues to monitor the financial impact of these evolving programs retrospectively as well as prospectively during the long range planning and budgeting cycles.

## Pension Plans

The University offers two contributory pension plans: the Washington State Public Employees Retirement System (“PERS”) plan, a defined-benefit retirement plan; and the University of Washington Retirement Plan (“UWRP”), a defined-contribution plan. The University of Washington Supplemental Retirement Plan, a defined-benefit plan, is closed to employees who were not active participants on February 28, 2011.

*PERS Plan Description.* The University contributes to PERS, a cost-sharing, multiple-employer, defined-benefit pension plan administered by the State Department of Retirement Systems (“DRS”). PERS Plan 1 provides retirement and disability benefits, along with minimum benefit increases beginning at age 66 to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living allowance to eligible nonacademic plan members hired on or after October 1, 1977. In addition, PERS Plan 3 has a defined-contribution component, which is fully funded by employee contributions. The authority to establish and amend benefit provisions resides with the Legislature.

The State issues a publicly available comprehensive annual financial report (“CAFR”) that includes financial statements, notes to the financial statements, and required supplementary information for PERS. As described in note 11 to the CAFR dated October 2014, as of June 30, 2013, PERS Plan 1 had an actuarial accrued liability (“AAL”) of \$12.9 billion, an actuarial value of assets of \$8.1 billion, and an unfunded actuarial accrued liability (“UAAL”) of \$4.8 billion, for a funded ratio of 63 percent. PERS Plans 2 and 3 had a funded ratio as of June 30, 2013 of 92 percent. The assumptions used by the Office of the State Actuary (“OSA”) in calculating the UAAL as of June 30, 2013 in the State’s CAFR are as follows:

**TABLE 19:  
OSA PERS Assumptions**

	PERS Plan 1	PERS Plan 2/3
Valuation date	6/30/2013	6/30/2013
Actuarial cost method	Entry age normal <sup>(1)</sup>	Aggregate <sup>(2)</sup>
Amortization method		
Funding	Level % <sup>(3)</sup>	N/A
GAAP reporting	Level \$	N/A
Remaining amortization years (closed)	10-year rolling	N/A
Remaining amortization period (closed)	N/A	N/A
Asset valuation method	8-year graded smoothed fair value <sup>(4)</sup>	8-year graded smoothed fair value <sup>(4)</sup>
Actuarial assumptions		
Investment rate of return <sup>(5)</sup>	7.80%	7.80%
Projected salary increases		
Salary inflation at 3.75%, plus merit increases described below		
Initial salary merit (grades down to 0%)	6.0%	6.0%
Merit period (years of service)	17 years	17 years
Includes inflation at	N/A	3.00%
Cost of living adjustments (“COLA”)	Minimum COLA <sup>(6)</sup>	CPI increase, maximum 3%

Footnotes to table are on the following page.

N/A indicates data not applicable.

- (1) PERS and Teachers Retirement System (“TRS”) Plans 1 use a variation of the entry age normal (EAN) cost method, whereas Law Enforcement Officers and Fire Fighters (“LEOFF”) Plan 1 uses a variation of the frozen initial liability cost method.
- (2) The aggregate cost method does not identify or separately amortize UAAL.
- (3) Level percent of system payroll, including system growth.
- (4) Asset Valuation Method - eight-year smoothed fair value: The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years, the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last eight years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). The annual gain/loss for the Volunteer Fire Fighter Relief and Pension Fund and LEOFF Plan 2 are centered around a 7 percent and 7.5 percent expected rate of return, respectively, instead of 7.8 percent.
- (5) The Legislature prescribes the assumed rate of investment return.
- (6) The PERS Plan 1 COLA: Qualifying retirees receive an increase in their monthly benefit once a year. The COLA on minimum benefit levels is calculated as the last unrounded minimum COLA amount increased by 3 percent, rounded to the nearest penny.

Source: State of Washington CAFR, October 2014

**Funding Policy.** The OSA, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Contribution rates for Fiscal Year 2016 are as follows:

**TABLE 20:  
PERS Contribution Rates  
(Fiscal Year 2016)**

Required Contribution Rates	Employer			Employee		
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
<b><u>PERS</u></b>						
<b>State agencies*</b>	<b>11.18%</b>	<b>11.18%</b>	<b>11.18%</b>	<b>6.00%</b>	<b>6.12%</b>	<b>**</b>
<b>Local governmental units*</b>	<b>11.18%</b>	<b>11.18%</b>	<b>11.18%</b>	<b>6.00%</b>	<b>6.12%</b>	<b>**</b>

\* Includes an administrative expense rate of 0.18 percent.

\*\* Variable from 5 percent to 15 percent based on rate selected by the member.

Source: OSA

The blended contribution rate for the University at June 30, 2014 and 2013, for each of PERS Plans 1, 2, and 3 was 9.21 percent and 7.21 percent for the respective years.

The OSA currently calculates the funded ratios using the Projected Unit Credit cost method. The OSA report can be obtained by visiting: [http://osa.leg.wa.gov/actuarial\\_services/publications/valuations.htm](http://osa.leg.wa.gov/actuarial_services/publications/valuations.htm). The OSA report is not incorporated by this reference.

On October 22, 2014, the DRS issued its CAFR which included valuations as of June 30, 2014. PERS Plan 1 has a total pension liability of \$12.98 billion, plan fiduciary net position of \$7.94 billion, and a participating employers’ net pension liability of \$5.04 billion. The total pension liability was determined by the actuarial valuation as of June 30, 2013, with results rolled forward to June 30, 2014 using the following assumptions applied to all prior periods: 3.0 percent total economic inflation, 3.75 percent salary inflation, 7.50 percent investment rate of return, and 7.50 percent discount rate. PERS Plans 2 and 3 have a total pension liability of \$30.12 billion, plan fiduciary net position of \$28.10 billion, and a participating employers’ net pension liability of \$2.02 billion. The total pension liability was determined by the actuarial valuation as of June 30, 2013, with results rolled forward to June 30, 2014 using the following assumptions applied to all prior periods: 3.0 percent total economic inflation, 3.75 percent salary inflation, 7.50 percent investment rate of return, and 7.50 percent discount rate. Additionally, PERS Plans 1, 2 and 3 were calculated using the following assumptions per the DRS 2014 CAFR: “Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent 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 lifetime. The actuarial assumptions

used in the June 30, 2013 valuation were based on the results of the 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report.” The DRS CAFR report can be obtained by visiting: [www.drs.wa.gov/administration/annual-report/cafr/](http://www.drs.wa.gov/administration/annual-report/cafr/). The DRS CAFR report is not incorporated by this reference.

*GASB 68.* In June 2012, the Governmental Accounting Standards Board (“GASB”) approved Statement No. 68, “Accounting and Financial Reporting for Pensions,” which is effective for the University’s fiscal year 2015 Financial Report. The University participates in several cost sharing, multiple-employer, defined-benefit pension plans administered by the DRS. GASB 68 will change how the University accounts for and reports its participation in these plans.

Prior GASB accounting required the University to recognize pension expense equal to the cash funding paid to the DRS, with no associated liability reported on the Statement of Net Position. GASB 68 requires that pension expense equal the University’s share of future pension benefits earned by all participating employees due to current period service, plus/minus the impact of any actuarial changes impacting the total pension liability. It will also require that the University record on the Statement of Net Position its proportionate share of the total DRS liability for pension amounts earned by employees based on current and past service but not yet funded (the unfunded pension liability).

Harborview, a related party of the University, is owned by King County and is not included in the University’s reporting entity for GASB financial reporting purposes. However, all of the employees who work at Harborview are University employees and the University will be required under GASB 68 to include the pension-related amounts pertaining to employees working at Harborview in the amounts recorded to the University’s Financial Report. Harborview will continue to account for pension-related expenses using the current “funding” approach, and will not record any of the associated GASB 68 liabilities.

The DRS has published audited Schedules of Collective Pension Amounts and Schedules of Employer Allocations for all of the plans it administers, for use by those employers required to implement GASB 68. According to these DRS reports, as of June 30, 2014 (the actuarial measurement date for the amounts to be recorded by the University for fiscal year 2015), the total amount of underfunding for all participating employers for the plans in which the University participates was approximately \$9 billion. Based on the proportionate share information provided by DRS, the University estimates the following impacts to its fiscal year 2015 Financial Report as a result of implementing GASB 68:

- A decrease in Beginning Unrestricted Net Position of \$830 million (approximately \$250 million attributable to Harborview employees). This represents the University’s proportionate share of the net unfunded liabilities for those DRS pension plans in which University employees participate, as of June 30, 2013, net of the University’s fiscal year 2014 contributions to those plans.
- Net Pension Liability of \$620 million (approximately \$190 million attributable to Harborview employees) This represents the University’s proportionate share of the net unfunded liabilities for those DRS pension plans in which University employees participate as of June 30, 2014. Per GASB 68, the change in this net liability amount between years is to be recognized as either pension expense, or recorded to a deferred inflow or outflow, based on the nature of the item impacting the calculation of the net liability. The calculation of the net unfunded liability at June 30, 2014 was favorably impacted by investment performance during the fiscal year that was significantly better than expected. This caused a reduction of the actuarial liability between years, and will result in the University recognizing a Deferred Inflow of Resources of approx. \$270 million at June 30, 2015.

It is not yet known whether the long term impact on total pension expense reported in the University’s Financial Report as a result of GASB 68 will vary significantly from amounts reported using the funding approach.

*University of Washington Retirement Plan.* The UAAL and Annual Required Contribution (“ARC”) as of July 1 of the respective years are shown in the following table.

**TABLE 21:**

**UAAL AND ARC OF UNIVERSITY RETIREMENT PLAN  
(dollars in thousands)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Balance At Beginning of Fiscal Year	\$99,124	\$127,465	\$163,372
Annual Required Contribution	30,381	38,550	38,550
Payments to Beneficiaries	(2,040)	(2,643)	(3,027)
<b>Balance At End of Fiscal Year</b>	<b>\$127,465</b>	<b>\$163,372</b>	<b>\$198,895</b>
	<u>2009</u>	<u>2011</u>	<u>2013</u>
UAAL	\$218,036	\$235,048	\$292,535
Normal Cost	8,860	10,774	9,529
Amortization of UAAL, Including Interest	17,220	19,607	29,021
ARC	26,080	30,381	38,550
<b>Actuarial Assumptions</b>	<u>2009</u>	<u>2011</u>	<u>2013</u>
Payroll Covered By Plan	\$976,000	\$1,129,000	\$1,047,000
Rate of Return Assumptions	5.00%	4.25%	4.25%
Salary Increases for Years 1 and 2	2.00%	2.00%	3.00%
Salary Increase for Third Year	4.00%	4.00%	3.00%
Salary Increase Thereafter	4.00%	4.00%	3.00%

*Source: The University.*

The following table reflects the activity in the Net Pension Obligation for the years ended June 30, 2012, 2013, and 2014.

**TABLE 22:**

**NET PENSION OBLIGATION OF UNIVERSITY RETIREMENT PLAN  
(dollars in thousands)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Balance at Beginning of Fiscal Year	\$99,124	\$127,465	\$163,372
Annual Required Contribution	30,381	38,550	38,550
Payments to Beneficiaries	(2,040)	(2,643)	(3,027)
<b>Balance at end of Fiscal Year</b>	<b>\$127,465</b>	<b>\$163,372</b>	<b>\$198,895</b>

*Source: The University.*



*Retirement Plan (403(b)) and Supplemental Retirement Plan (401(a)).* Faculty, librarians and professional staff are eligible to participate in the UWRP, a 403(b) defined-contribution plan, and the UW Supplemental Retirement Plan, a 401(a) defined-benefit retirement plan which is closed to new participants and operates in tandem with the 403(b) plan. Both plans are administered by the University.

UWRP Description. Contributions to the UWRP are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100 percent 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 to establish and amend benefit provisions.

UWRP Funding Policy. Employee contribution rates are 5 percent, 7.5 percent or 10 percent of salary, based on age. The University matches the contributions of employees. Within parameters established by the Legislature, contribution requirements may be established or amended by the Board. Employee and employer contributions for the years ended June 30, 2014 and 2013 were \$97,763,000 and \$90,837,000, respectively.

UW Supplemental Retirement Plan Description. This plan provides for a supplemental payment component, which guarantees a minimum retirement benefit based upon a one-time calculation at each eligible participant's retirement date. The University makes direct payments to qualifying retirees when the retirement benefits provided by the UWRP plan do not meet the benefit goals. During fiscal year 2011, the University amended the Supplemental Retirement Plan, limiting participation to those individuals who were active participants on February 28, 2011.

UW Supplemental Retirement Plan Funding. The University received an actuarial valuation of the supplemental payment component of the UWRP with a valuation date of July 1, 2013. The previous evaluations were performed in 2011 and 2009. The University has set aside \$177,019,000 and \$148,270,000 as of June 30, 2014 and 2013, respectively, for this liability. These funds do not meet the GASB technical definition of "Plan Assets" since they have not been segregated and restricted in a trust or equivalent arrangement. The UAAL shown in the table above, therefore, does not reflect a credit for these amounts.

#### **Other Post-Employment Retirement Benefits ("OPEB")**

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

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

An additional factor in the OPEB obligation is a payment that is required by the Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). For both calendar years 2014 and 2013, this amount was \$150 per retiree eligible for parts A and B of Medicare. This is also passed through to State agencies through active employee rates charged to the agency.

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

*Actuarial Study.* Actuarial studies, performed every two years by the OSA, calculated that the total OPEB obligation of the State at January 1, 2013 and 2011 was \$3.7 billion and \$3.5 billion, respectively. The annual cost was \$342 million and \$321 million for the University for 2013 and 2011, respectively. The OSA calculated the OPEB obligation based on individual State employee data, including age, retirement eligibility and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on State-wide historical data.

The OSA's allocation of the cumulative State-wide liability related to the University and its unconsolidated affiliates was estimated at approximately \$671 million and \$605 million for 2013 and 2011, respectively. These amounts are not included in the University's financial statements.

The University paid \$289 million and \$297 million for healthcare expenses in 2013 and 2012, respectively, which included its pay-as-you-go portion of the OPEB liability, calculated by the OSA at \$6.8 million and \$7.4 million in 2013 and 2011, respectively.

The OSA report is available at: [http://osa.leg.wa.gov/Actuarial\\_Services/OPEB/OPEB.htm](http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm) (which is not incorporated into this Official Statement by this reference).

## **THE ISSUER**

### **General**

The Issuer is a Washington nonprofit corporation organized in 2010 exclusively to issue the Bonds as an "on-behalf-of issuer" and enter into and fulfill its obligations under the Ground Lease, the Lease, the Development Management Agreement, the Leasehold Deed of Trust and the Indenture, and engage in other activities necessary and desirable in connection with the Project or incidental to the Project. The Issuer is a single purpose entity, is not a governmental unit and has no taxing power. The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate pledged under the Indenture.

The Issuer is related through common management to the National Council for Community Development, Inc., d/b/a the National Development Council ("NDC"), a 501(c)(3) organization organized under the laws of the State of New York, and to NDC Housing and Economic Development Corporation ("HEDC"), a 501(c)(3) organization organized under the laws of the Commonwealth of Virginia. NDC is a nonprofit entity operating nationwide. Its primary purpose is to provide consulting assistance to governmental entities on housing and economic development projects. It currently works with a large number of public sector clients. Development of specific projects occurs through HEDC. All of the board members of HEDC are appointed by NDC. All current board members of the Issuer (other than the "independent director" as discussed below) have been employees of NDC or HEDC for at least the last 10 years. Under the Issuer's bylaws, HEDC has the right to appoint the Board members of the Issuer (other than the independent director).

For most projects, HEDC creates a separate single-purpose entity, typically incorporated in the state in which the project is located. Neither NDC nor HEDC, however, has any ownership or membership interest in the Issuer, which is a distinct entity with its own separate assets and liabilities. The Indenture, Lease, Ground Lease and all other contracts are entered into by the Issuer solely in its own name and as its own separate obligation.

HEDC holds a group tax exemption letter from the Internal Revenue Service, which allows its subordinate organizations, including the Issuer, to qualify as 501(c)(3) organizations. The Issuer's status as a 501(c)(3) organization depends, among other things, on the continued effectiveness of HEDC's group exemption and HEDC's continued compliance with the requirements of the exemption with respect to the Issuer.

### **Western Washington Projects**

HEDC subordinate nonprofit corporations also have been involved in Phase I, Phase II and Phase 3.1 of the University's South Lake Union biomedical research campus. Financing for Phase I was provided by bonds issued by the Washington Economic Development Facilities Authority (WEDFA) in 2004 (refinanced in 2014), the proceeds of which were loaned to the HEDC subordinate organization. Financing for Phase II was provided by bonds issued by WEDFA in 2005 and 2006 (refinanced in 2014), the proceeds of which were loaned to the HEDC subordinate organization. Financing for Phase 3.1 was provided by bonds issued directly by a different HEDC subordinate organization pursuant to Revenue Ruling 63-20 and Revenue Procedure 82-26 of the U.S. Treasury.

Additionally, in four other separate transactions occurring over the past 19 years, HEDC has created nonprofit entities to assist the University in financing, constructing and operating student housing and other facilities in various locations in Seattle, Washington.

HEDC subordinate nonprofit corporations have also assisted in financing and constructing a variety of major public projects for the State of Washington, King County and municipalities in western Washington, including office building projects for King County located in Seattle, Washington, an office building for the State located in Tumwater, Washington, a data center and related facilities for the State located on the Capitol Campus in Olympia, Washington, an office and laboratory building for the City of Tacoma, Washington, and buildings on behalf of King County in Seattle, Washington, for use by Harborview Medical Center.

### **Organization and Key Personnel**

The Issuer has a board consisting of three managing directors, appointed by HEDC. In addition, the Issuer's Bylaws provide for, and the Issuer intends to appoint an "independent director" who is entitled to participate only in certain decisions relating to bankruptcy, merger, dissolution and similar events, and whose affirmative vote would be required in connection with any such decisions. The board of directors has appointed several officers to manage and carry out the business of the Issuer. Under the Issuer's bylaws, regular meetings of the board are held as the board designates from time to time and annual meetings are held on the second Thursday of March unless otherwise determined. Special meetings may be called at any time by the President or at the written request of any two directors. Meetings are held at the registered office of the Issuer, or at another place designated by written notice and may also be held by telephone conference call. Any action required or permitted to be taken at a board of directors meeting may be taken by unanimous written consent in lieu of a meeting. The following are the current officers and managing directors of the Issuer:

*Robert W. Davenport, Chairman of the Board of Directors and President.* Mr. Davenport is also the President of NDC and has held that position since 1986. He has worked for NDC since 1976. He has also served as Director of Midwest Operations, Director of Training and Director of MIS for NDC. Mr. Davenport received his B.A. from Stanford University in 1967 and his M.B.A. in finance from Columbia University in 1971.

*John A. Finke, Director and Vice President.* Mr. Finke has worked for NDC since 1983. He is currently Senior Director and is responsible for NDC's Public-Private Partnership program nationwide. From 1979 to 1983, he worked as the Development Finance Manager for the City of Seattle's Office of Economic Development. Mr. Finke has served on the Board of Directors of the Pike Place Market Preservation and Development Authority since 1989. Mr. Finke received his B.A. from the University of Washington in 1976 and took graduate studies at the University of Illinois School of Urban Planning.

*Ann Vogt, Director, Secretary and Treasurer.* Ms. Vogt joined NDC in December 1995 and currently serves as Chief of Staff. In addition, she is General Manager of HEDC. She also serves as Director of Operations for the NDC Corporate Equity Fund. From 1985 to 1995, Ms. Vogt was employed by the Brooklyn Economic Development Corporation, where she served as Assistant Manager, Financial Services Division (1985-87), Manager, Financial Services Division (1987-89), and Vice President (1989-95). Ms. Vogt received her B.S. in chemistry from The College of New Rochelle in 1977 and her M.B.A. in finance from Iona College in 1984.

### **THE TRUSTEE**

The Issuer has appointed U.S. Bank National Association to serve as Trustee. The Trustee is to carry out those duties assignable to it under the Indenture. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Official Statement and assumes no responsibility for the contents, accuracy, fairness or completeness of the information set forth in this Official Statement or for the recitals contained in the Indenture or the Bonds, or for the validity, sufficiency, or legal effect of any of such documents.

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the Issuer of any of the Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such Bonds by the Issuer. The Trustee has not evaluated the risks, benefits, or propriety of any

investment in the Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets or revenues pledged or assigned as security for the Bonds, the technical or financial feasibility of the Project, or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

### **BOND OWNERS' RISKS**

Prospective purchasers of the Bonds should consider carefully all possible factors that may affect the ability of the Issuer pay principal of and interest on the Bonds and the ability of the University to pay Rent under the Lease. The Bonds may not be a suitable investment for all prospective purchasers.

Prospective purchasers should consult their investment advisors before making any decisions as to the purchase of the Bonds. The following discussion, while not setting forth all factors that must be considered, contains some of the factors which should be considered prior to purchasing the Bonds. There can be no assurance that other risk factors will not become material in the future.

#### **Special Obligation of the Issuer**

The Bonds are non-recourse revenue obligations of the Issuer, payable solely from the Trust Estate pledged under the Indenture. No other revenue, receipts, donations, earnings, property, or assets of the Issuer other than those included in the Trust Estate are subject to the lien of the Indenture nor is the Issuer in any other way obligated for the repayment of the Bonds. The Issuer is a single purpose entity, is not a governmental unit and has no taxing power. The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate.

#### **Determination of Taxability**

The excludability of interest on the 2015A Bonds from gross income for federal income tax purposes depends on continuing compliance by the Issuer and the University with certain requirements of the Code, including the requirement that a portion of the facilities financed or refinanced with the proceeds of the Bonds be owned by an organization described in Section 501(c)(3) of the Code. Upon a Determination of Taxability, the interest on the 2015A Bonds could become taxable from the date of delivery of the 2015A Bonds, regardless of the date on which the event causing such taxability occurs, and the 2015A Bonds would be subject to special mandatory redemption.

#### **University Lease Obligation**

Neither the University nor any agency of the State is obligated to pay debt service on the Bonds. The Bonds are not an obligation of the University, moral or otherwise. The University's sole obligations, including the obligation to pay Rent, are those set forth in the Lease. The University's obligation to pay Rent under the Lease is payable solely from General Revenues. The University has issued, and is authorized to issue, additional General Revenue obligations. The University may add revenues to its General Revenues, upon compliance with certain conditions, and may delete components of General Revenues.

The University's ability to derive General Revenues from these sources sufficient to pay its obligations under the Lease depends on many factors, some of which are not subject to the control of the University. The following discusses some of the factors affecting General Revenues but cannot, however, describe all of the factors that could affect General Revenues.

*Uncertainties in the Higher Education Sector.* Through the recession and slow recovery, the U.S. higher education sector has faced uncertainties in an environment of rising tuition, changing enrollment trends, high student debt burdens, reduced state appropriations, federal funding constraints, competition for sponsored research, lower but recovering endowment returns, and gift trends reflecting economic conditions. In addition, the higher education sector has experienced significant demand for capital investment in housing, dining, and other student facilities, and in addressing deferred maintenance. The higher education sector has experienced technological changes and a growth in online educational options.

*Patient Revenues; Uncertainties of the Health Care Sector.* Patient services revenue is the largest component of General Revenues. The University generates patient services revenues through the operation of four hospitals as well as neighborhood and other clinics. The ability of the University to generate patient services revenue depends, in part, upon the financial health of the health care sector. Challenges inherent to the healthcare sector include potential funding cuts for Medicare and Medicaid, lower patient volumes, uncertainty over healthcare reform implementation and payer reimbursement pressure. The sector has undergone significant legislative and regulatory change, and these changes and other factors have led to mergers, acquisitions, consolidations, bankruptcies and closures. The University has entered into a number of recent affiliations, and may enter into future affiliations. The University expects a continued period of transition as the University works to align affiliated entities services and performance with UW Medicine objectives.

UW Medical Center and UW Medicine's other hospitals have agreements with federal and State agencies and commercial insurers that provide for payments at amounts different from gross charges. The hospitals also provide care at no charge or reduced charges to patients who qualify under charity policies. The payer mix is a key factor in the overall financial operating performance of the various UW Medicine components providing patient services

*Tuition and Student Fee Revenues.* Tuition and student fees are the second largest component of General Revenues. Certain significant components of General Revenues, most significantly student tuition, are considered fees subject to Initiative 960 and therefore cannot be increased without legislative approval. Tuition is established by the Board within the tuition-setting authority delegated by the Legislature. For fiscal years 2015 and 2016, the Legislature reduced tuition levels for resident undergraduate students, and limited future increases to a statutory growth factor. In addition to tuition, the University charges its students a variety of other fees. Initiative 960 requires legislative approval of fee increases and any new fee.

A portion of student tuition and fee revenue is derived from financial aid provided to students. Federal, State, institutional and private funders may not appropriate or approve funding for grant, scholarship, loan and other financial aid programs at the same level and under the same terms in the future, which may affect the amount of financial aid available to University students.

*Uncertainties of State Legislation and Initiatives.* The Legislature considers legislation from time to time that may affect the University, including without limitation legislation appropriating funds for higher education, legislation authorizing State bonds for the benefit of the University, and legislation regarding public employees, benefits, tuition, academic standards, public procurement and contracting, and other matters. The Legislature continues to face budgetary pressure as a result of court-mandated increases in K-12 education funding, in light of the State constitutional mandate to fund basic education and a 2012 Washington Supreme Court decision that the State was not adequately funding basic education to this constitutional standard. The Court has found that the Legislature's 2015-2016 budget did not achieve constitutional compliance and has imposed a financial penalty that may be abated if the Legislature calls a special session that results in compliance. It is not clear as of the date of this Official Statement whether and how the Legislature will address this order, whether the Legislature will respond with additional K-12 funding, whether higher education funding could be affected, and whether the Court will impose additional sanctions. See "UNIVERSITY OF WASHINGTON (THE LESSEE)—Other University Financial Information."

As described under the heading "INITIATIVES," State initiative measures have been filed from time to time affecting the University or its revenues, including Initiatives 601 and 960. Various State initiative measures have been and may be filed, and approved, from time to time that may have a fiscal impact on the University and/or the State, and if affecting the State, may impact State spending on higher education, including State appropriations to the University.

*Uncertainties of the Federal Budget.* Two of the largest sources of University funding – patient services and grants and contracts – benefit directly or indirectly from federal funding. Research funding from federal sources continues to be a large part of the University's total research revenues. Federal funding, including federal research funding and healthcare reimbursement funding, is subject to federal legislative action, including through the federal budget process and sequestration. State and local reductions in funding could also affect University revenues.

*Laws and Regulation.* The University is subject to federal, State, and local laws and regulations. Failure by the University to comply with, or violations of, statutory and regulatory requirements could result in the loss of federal or State grant funds and other consequences. These statutory and regulatory requirements are subject to change and could become more stringent and costly for the University.

The healthcare industry is subject to numerous laws and regulations of federal, State, and local governments, including the Affordable Care Act. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, governmental healthcare program participation requirements, reimbursement for patient services, privacy of health records, 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. Recent regulatory, legislative and accounting activity will impact all entities in UW Medicine during fiscal year 2016 and beyond.

*Relationship Between the Lease and the Tax-Exempt Status of the 2015A Bonds.* The tax-exempt status of the 2015A Bonds depends upon continuing compliance by the Issuer and the University with Code requirements. If the University defaults under the Lease, the Issuer must endeavor to lease this space to other qualifying governmental entities or, in the case of a portion of the facility, 501(c)(3) entities. There are a limited number of State or local governmental entities or 501(c)(3) entities within the local area that might be available as potential tenants for the Premises, which consist of specialized biomedical research facilities.

If the Issuer is unable to lease the Premises to another qualifying governmental or, in the case of a portion of the facility, 501(c)(3) lessee following a default under the Lease, the Issuer may be required to refund or defease the 2015A Bonds to avoid a Determination of Taxability. In that event, the Issuer might attempt to refinance the Bonds and relet the Premises to private tenants. The Issuer may experience delay or difficulty in reletting the Premises and defeasing or refunding the 2015A Bonds.

*Costs of Reletting.* The Issuer and, upon certain events of default the Trustee, may re-let the Premises and apply revenues therefrom toward payment of the Bonds. Although the Premises contains some general office space, tenant improvements have been completed to meet the research and clinical needs of the SOM and, therefore, the Premises may require additional tenant improvements to meet the needs of another tenant. There can be no assurance that the Issuer or Trustee will be able to realize from the re-leasing of the Premises an amount sufficient to pay principal of and interest on the Bonds.

### **Insurance on the Project**

Under the Lease, the Issuer is required to maintain through the term of the Lease policies of insurance covering loss or damage to the Premises in the full amount of its replacement cost. In the event the Premises are damaged or destroyed, there can be no assurance that the insurance proceeds will be sufficient to repair or restore the Project, or to redeem or defease all of the then Outstanding Bonds. Under the Lease, however, if the Issuer is required to repair or rebuild uninsured damage pursuant to the terms of the Ground Lease or the Indenture, the Issuer is obligated to do so and costs for such repairs or restoration not covered by insurance are to be paid by the University as Additional Rent. See Section 15 of the Lease attached at Appendix A.

### **Condemnation of the Project**

If all or a portion of the Premises were condemned, there can be no assurance that any such award or payment will be sufficient at the time to redeem or defease all of the then Outstanding Bonds. See Section 16 of the Lease attached at Appendix A.

### **No Acceleration of Rent**

In the event of a payment-related default under the Indenture, the Trustee may accelerate the Bonds and declare the Bonds to be due and payable. Nothing in the Lease, however, permits the Issuer or the Trustee to accelerate Rent. Upon an acceleration of the Bonds, the Trustee will pursue all available remedies, including but not limited to

foreclosing on the Leasehold Deed of Trust, but there can be no assurance that sufficient funds will be available at the time to redeem or defease all of the then outstanding Bonds.

### **Project Construction**

Under the Lease, the Issuer is obligated to exercise reasonable commercial best efforts to build the Project improvements, in accordance with plans and specifications developed by the University and the Issuer. The Issuer is obligated to pay Project Costs from Bond proceeds. Under the Lease the University has covenanted that, to the extent that Project Costs are in excess of the Project Funds, the University will pay all costs to complete the Project as the same become due and payable. To the extent any Project Costs are incurred that have not been approved by the University, the University has the right to direct or join claims under the Ground Lease, Development Management Agreement, General Construction Contract, Architect's Agreement, any warranty or other project contract. See "THE PROJECT" and the copies of the Lease and Ground Lease attached at Appendix A.

### **Earthquake Activity; Other Natural Disasters**

The Project is located in an area of seismic activity, with frequent small earthquakes and occasional moderate and larger earthquakes. The Issuer and University can give no assurance regarding the effect of an earthquake, a tsunami from seismic activity in the State or in other areas, a volcano, mudslide or other natural disaster or that the University's self-insurance reserves or proceeds of insurance carried by the Issuer or the University, if any, would be sufficient, if available, to rebuild and reopen the Project or surrounding facilities and infrastructure could or would be rebuilt and reopened in a timely manner following a major earthquake or other natural disaster. Following commencement of and during construction, the Ground Lease requires that builder's risk insurance be maintained upon the entire work on the Property in the amount of 100% replacement value against "all risks" of physical loss or damage to the property insured, including earth movement and flood (subject to reasonable and appropriate limits or as otherwise commercially available in the insurance marketplace). There can be no assurance that such amount will be sufficient to repair damage. After the Rent Commencement Date, there is no requirement that any commercial property insurance policy carried by the University include earthquake coverage. See Section 15 of the Lease included in Appendix A.

### **Remedies**

In the event of default under the Indenture, the Trustee may exercise certain remedies under the Indenture and the Other Documents. In the event of a monetary default under the Indenture, the Trustee has the right to enter and take possession of the Premises, and the Trustee may hold, operate, manage or re-let the Premises and apply revenues therefrom toward payment of the Bonds. Although the Premises will contain general office and administrative space, the Premises constitute a special purpose research and clinical facility for the University and, thus, could be converted to other uses only with significant additional expense. Accordingly, there can be no assurance that the Trustee will be able to realize from the re-leasing of the Premises an amount sufficient to pay principal of and interest on the Bonds. In addition, the Trustee may incur significant operating costs in connection with re-leasing and re-leasing creates liability and the risk of possible damage to the Premises. Additionally, remedies allowing the Trustee to hold, operate, manage, re-let or sell its interest in the Premises after the Lease is terminated are limited by the possible termination of the Ground Lease pursuant to an Event of Default thereunder. Possible termination of the Ground Lease may make re-leasing more difficult.

### **Limitation on Trustee's Obligations under the Indenture**

The Trustee has no obligation to advance its own funds to pursue any remedies. As a consequence, the Trustee's willingness and ability to pursue any of the remedies provided in the Principal Documents may be dependent upon the availability of funds from an interested party. Additionally, the Trustee is not required to acquire possession of the Premises if doing so subjects it to Comprehensive Environmental Response Compensation and Liability Act of 1980 liability and is relieved of its liability if it is unable to perform its duties due to acts of God as described in the Indenture. There can be no assurance the Trustee will be willing and able to perform its duties under the Indenture.

## **Limitations on Enforceability**

The enforcement of any remedies provided in the Ground Lease, the Lease, the Leasehold Deed of Trust and the Indenture could prove both expensive and time consuming. The rights and remedies provided in the Ground Lease, the Lease, the Leasehold Deed of Trust and the Indenture may be limited by federal bankruptcy laws, as now or hereafter enacted, and other applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity.

Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights. See the Ground Lease and Lease attached as Appendix A for a discussion of the contractual rights of the Trustee under the Ground Lease and Lease in the event of a proceeding by the Ground Lessor or the Issuer under the U.S. Bankruptcy Code. Under Washington State law, "taxing districts" are authorized to voluntarily file a petition for bankruptcy under the federal bankruptcy code. The State is not authorized to file a petition for bankruptcy. Although the University is a political subdivision in some contexts, it is not considered a taxing district under State property, excise or other tax statutes and does not have taxing power. Accordingly, it is not clear that the University has authority under State law to voluntarily file a petition for bankruptcy. State law does not provide for involuntary bankruptcy against the State or its political subdivisions.

## **INITIATIVES**

### **State Initiatives and Referenda**

Under the State Constitution, the voters of the State have the ability to initiate legislation and to modify existing laws through the powers of initiative and referendum. An initiative measure is submitted to the voters (if an initiative to the people) or to the Legislature (if an initiative to the Legislature) if certified by the Secretary of State. An initiative or referendum approved by a majority of voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

#### **Initiative 601**

Initiative 601, approved by State voters in 1993, limits State expenditures and revenues. Under Initiative 601, the State generally is prohibited from increasing expenditures from the State's general fund and related funds during any fiscal year by more than the fiscal growth factor, which equals the average growth in State personal income for the prior ten fiscal years. Initiative 601 also limits State revenue increases.

Finally, Initiative 601 provides that no fee may increase in any fiscal year by a percentage greater than the fiscal growth factor without prior legislative approval. The term "fee" is not defined in the initiative, so the University has interpreted informal guidance from the State Attorney General's Office to identify specific types of University fees as either covered by or exempt from Initiative 601. Under the policy, mandatory fees related to the regular State-funded instructional program or other degree-granting education programs are considered subject to Initiative 601. Other University fees are considered proprietary and not subject to the Initiative 601 limitation.

#### **Initiative 960**

Initiative 960, approved by State voters in November 2007, amended Initiative 601 to require legislative approval of all fee increases without regard to a fiscal growth factor. Initiative 960 also requires legislative approval of any new fee. Initiative 960 did not amend or define the term "fee" used in Initiative 601. On January 31, 2008, the State Office of Financial Management distributed to State agencies an informal memorandum (the "OFM Memo"). Under the reasoning of the OFM Memo (and the University policy interpreting Initiative 601), certain components of General Revenues, most significantly, student tuition, are considered fees subject to Initiative 960 and therefore



cannot be increased without legislative approval. Other fees collected through proprietary transactions are also included in General Revenues, but would not be considered fees subject to Initiative 960 under the reasoning of the OFM Memo.

In the event that Initiative 960 were applied to limit the University's ability to increase fees that contribute to General Revenues, the University would, if necessary, seek to obtain legislative approval for fee increases or would pursue alternative revenue sources, program cuts or reallocations.

### **Other Initiatives**

State initiative measures have been filed from time to time affecting the University or its revenues, including Initiatives 601 and 960. Initiative 1366 has been filed and has received sufficient signatures to be placed on the November 2016 ballot. Initiative 1366 would cut the State sales tax from 6.5 percent to 5.5 percent unless by April 2016 the Legislature approves a constitutional amendment to require a two-thirds vote to raise revenue. Litigation has been filed challenging the initiative.

### **UNDERWRITING**

The 2015A Bonds are being purchased by Barclays Capital Inc., Citigroup Global Markets Inc., Wells Fargo Securities, and Backstrom McCarley Berry & Co., LLC (together, the "Underwriters") at an aggregate price of \$118,242,236.14 (representing the aggregate principal amount of the 2015A Bonds, plus a net original issue premium of \$10,926,041.05, and less an Underwriters' discount of \$298,804.91). The 2015B Bonds are being purchased by the Underwriters at an aggregate price of \$24,387,098.02 (representing the aggregate principal amount of the 2015B Bonds, less an Underwriters' discount of \$67,901.98). The initial public offering prices set forth on the inside cover hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Bonds into unit investment trusts or money market funds, certain of which may be sponsored or managed by the purchaser, at prices lower than the public offering prices stated on the inside cover hereof.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the University and the Issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the University and the Issuer. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the

distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

## **CERTAIN LEGAL MATTERS**

### **Litigation**

At the time of delivery of and payment for the Bonds, the Issuer will deliver a certificate stating that there is no litigation then pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, application of the proceeds of the Bonds as contemplated by the Indenture, the financing and acquisition of the Project, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Issuer taken with respect to the issuance or sale thereof, the pledge or application of any money or security provided for the payment of the Bonds, the existence or powers of the Issuer or the title of any officers of the Issuer to their respective positions.

At the time of delivery of and payment of the Bonds, the University will deliver a certificate regarding the absence of litigation challenging the Lease or the University’s authority in connection with the Lease.

### **Legal Opinions**

Legal matters incident to the authorization, issuance and sale of the Bonds by the Issuer are subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel and to the opinion of counsel to the Issuer, Hillis Clark Martin & Peterson P.S., Seattle, Washington. A copy of the opinion of Bond Counsel is attached hereto as Appendix D. Counsel to the Issuer has reviewed this Official Statement only to confirm that the portion of it describing the Issuer is true and correct. Certain legal matters will be passed upon for the Underwriters and the Development Manager by Foster Pepper PLLC, Seattle, Washington.

## **CONTINUING DISCLOSURE**

The Issuer and the University will enter into Continuing Disclosure Undertakings to meet the requirements of SEC Rule 15c2-12(b)(5) (the “Rule”), as applicable to the Underwriters for the Bonds for the benefit of holders of the Bonds to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board (“MSRB”), annual financial information (“annual financial information”) to the MSRB and timely notice of the occurrence of material events as more fully described in Appendix E to this Official Statement.

This is the first undertaking of the Issuer.

In reviewing its continuing disclosure filings on EMMA, the University determined that, while it had timely filed its annual financial and operating information in the form of its UW Bondholders Report in connection with its General Revenue Bonds, this UW Bondholders Report was not linked to the CUSIP numbers for all bonds issued by or on behalf of the University. On July 16, 2014, the University re-filed its UW Bondholders reports for the years ended June 30, 2010 through June 30, 2013, to link these reports to the CUSIP numbers for outstanding bond issues.

With respect to notices of material or listed events, the University provided notice of certain insurer ratings downgrades, but has determined that notices had not been filed for every ratings event. On August 8, 2013, the University filed notices regarding the downgrade of the insurer of the 2005 Bonds, and on June 16, 2014, the University filed a supplemental notice of insurer rating changes for outstanding insured bond issues. See “APPENDIX E—FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS OF THE ISSUER AND THE UNIVERSITY.”

## TAX MATTERS

*2015 Bonds.* In the opinion of Bond Counsel, interest on the 2015A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the 2015A Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the 2015A Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the 2015A Bonds and the facilities financed or refinanced with proceeds of the 2015A Bonds and certain other matters. The Issuer and the University have covenanted to comply with all applicable requirements.

The Issuer and University intend to elect to designate a portion of the 2015A Bonds to be issued as qualified 501(c)(3) bonds and, if so designated, facilities financed or refinanced with that portion of the 2015A Bonds will be required to be used by organizations described in Section 501(c)(3) of the Code or by state or local governmental entities such as the University. Bond Counsel's opinion is subject to the condition that the Issuer and the University comply with the above-referenced covenants and, in addition, will rely on representations by the Issuer and the University and their advisors with respect to matters solely within the knowledge of the Issuer and the University and their advisors, respectively, which Bond Counsel has not independently verified. If the Issuer or the University fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the 2015A Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2015A Bonds, regardless of the date on which the event causing taxability occurs.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the 2015A Bonds. Registered Owners of the 2015A Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2015A Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the 2015A Bonds should be aware that ownership of the 2015A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2015A Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the 2015A Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations such as the 2015A Bonds, are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the University's and Issuer's compliance with their respective covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the 2015A Bonds. Registered Owners of the 2015A Bonds are advised that, if the IRS does audit the 2015A Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the Issuer as the taxpayer, and the Registered Owners of the 2015A Bonds may have limited rights to participate in

the audit. The commencement of an audit could adversely affect the market value and liquidity of the 2015A Bonds until the audit is concluded, regardless of the ultimate outcome.

In addition, Bond Counsel has relied, among other things, on the opinion of Hillis Clark Martin & Peterson P.S., Counsel to the Issuer, regarding the current qualification of the Issuer as an organization described in Section 501(c)(3) of the Code, and such opinion relies on the opinion of Dentons US LLP, Counsel to HEDC, regarding the current qualification of HEDC as an organization described in Section 501(c)(3) of the Code. Such opinions are subject to a number of qualifications and limitations.

*Proposed Tax Legislation; Miscellaneous.* Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the 2015A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent the beneficial owners of the 2015A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the 2015A Bonds. Proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal tax purposes of interest on obligations such as the 2015A Bonds. Prospective purchasers of the 2015A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

**The following advice was written to support the promotion or marketing of the 2015B Bonds. This advice is not intended or written by Bond Counsel to be used, and may not be used, by any person or entity for the purpose of avoiding any penalties that may be imposed on any person or entity under the U.S. Internal Revenue Code. Prospective purchasers of the 2015B Bonds should seek advice based on their particular circumstances from an independent tax advisor.**

*2015B Bonds.* The following discussion describes aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners (“Owners”) of the 2015B Bonds. This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the “Code”), published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect).

This summary discusses only 2015B Bonds held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, Owners holding the 2015B Bonds as part of a hedging transaction, “straddle,” conversion transaction, or other integrated transaction, or Owners whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds. ACCORDINGLY, INVESTORS WHO ARE OR MAY BE DESCRIBED WITHIN THIS PARAGRAPH SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO SUCH INVESTORS, AS WELL AS TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL, OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY, OF PURCHASING, HOLDING, OWNING AND DISPOSING OF THE 2015B BONDS.

For purposes of this discussion, a “U.S. person” means an individual who, for U.S. federal income tax purposes, is (a) a citizen or resident of the United States, (b) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (c) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (d) a trust, if either: (i) a United States court is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) a trust has a valid election in effect to be treated as a United States person under the applicable treasury regulations. The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts (“Foreign Owners”) to the

extent that their ownership of the Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from U.S. sources as if they were citizens or residents. It should also be noted that certain “single member entities” are disregarded for U.S. federal income tax purposes. Such Foreign Owners and Owners who are single member non-corporate entities, should consult with their own tax advisors to determine the U.S. federal, state, local, and other tax consequences that may be relevant to them.

*In General.* Interest derived from a 2015B Bond by an Owner is subject to U.S. federal income taxation. In addition, a 2015B Bond held by an individual who, at the time of death, is a U.S. person is subject to U.S. federal estate tax.

*Payments of Interest.* Interest, including additional amounts of cash and interest, if any, paid on the 2015B Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner’s method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest income; whereas Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

*Disposition or Retirement.* Upon the sale, exchange or other disposition of a 2015B Bond, or upon the retirement of a 2015B Bond, an Owner will recognize capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (reduced by any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner’s adjusted tax basis in the 2015B Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes. If the Issuer defeases any 2015B Bonds, such 2015B Bonds may be deemed to be retired and “reissued” for federal income tax purposes as a result of the defeasance. In such event, the Owner of a 2015B Bond would recognize a gain or loss on the Bond at the time of defeasance.

The Code contains a number of provisions relating to the taxation of securities such as the 2015B Bonds (including, but not limited to the tax treatment of and accounting of interest, premium, original issue discount and market discount thereon, gain from the sale, exchange or other disposition thereof and withholding tax on income therefrom) that may affect the taxation of certain owners, depending on their particular tax situations.

**The federal tax discussion set forth above is included for general information only and may not be applicable depending upon an Owner’s particular situation. Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the 2015B Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not U.S. persons.**

#### **Qualified Tax-Exempt Obligations**

The Issuer has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code.

#### **Premium**

An amount equal to the excess, if any, of the purchase price of a bond over its stated redemption price at maturity constitutes premium on that 2015A Bond. A purchaser of a 2015A Bond must amortize any premium over that 2015A Bond’s term using constant yield principles, based on the 2015A Bond’s yield to maturity. As premium is amortized, the purchaser’s basis in the 2015A Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the 2015A Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of 2015A Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and the state and local tax consequences of owning such 2015A Bonds.

## **Original Issue Discount**

The initial public offering price of the Original Issue Discount Bonds is less than the stated redemption price at maturity. In such case, the difference between (i) the stated amount payable at the maturity of an Original Issue Discount Bond and (ii) the initial public offering price of that Original Issue Discount Bond constitutes original issue discount with respect to that Original Issue Discount Bond in the hands of the owner who purchased that Original Issue Discount Bond at the initial public offering price in the initial public offering of the 2015A Bonds. The initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to an Original Issue Discount Bond equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by the initial owner.

In the event of the redemption, sale or other taxable disposition of an Original Issue Discount Bond prior to its stated maturity, however, the amount realized by the initial owner in excess of the basis of the Original Issue Discount Bond in the hands of its initial owner (adjusted upward by the portion of the original issue discount allocable to the period for which such 2015A Bond was held by the initial owner) is includable in gross income. Purchasers of Original Issue Discount Bonds should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning Original Issue Discount Bonds.

## **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain requirements on employee plans subject to Title I of ERISA (“ERISA Plans”), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements under Title I, Part 4 of ERISA, including, but not limited to, the requirements of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons” (each a “Party in Interest”)) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any 2015B Bonds should consider, among other things, whether such purchase and holding may involve (a) the direct or indirect extension of credit to a Party in Interest, (b) the sale or exchange of any property between a Plan and a Party in Interest and (c) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets within the meaning of 29 CFR Sec. 2510.3-102 as modified by ERISA Section 3(42). Depending on the identity of the Plan fiduciary making the decision to acquire or hold 2015B Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption (“PTCE”) 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by independent “qualified professional asset managers”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by certain “in-house asset managers”) (collectively, the “Class Exemptions”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries (or affiliates of such fiduciaries) with respect to the “plan assets” of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a 2015B Bond, each Beneficial Owner will be deemed to have represented and warranted that either (a) no “plan assets” of any Plan have been used to purchase such 2015B Bond, or (b) the Underwriters are not a Party in Interest with respect to the “plan assets” of any Plan used to purchase such 2015B Bond, or (c) the purchase and holding of such 2015B Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under ERISA) should consult with its legal advisor concerning an investment in any of the 2015B Bonds.

## **OTHER BOND INFORMATION**

### **Ratings**

Ratings of “Aa1” and “AA+” have been assigned to the Bonds by Moody’s Investors Service and Standard & Poor’s Ratings Services, respectively. Such ratings reflect only the views of the rating organizations and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the agencies, circumstances so warrant. Any such downward revision or withdrawal of any of the ratings could have an adverse effect on the market price of the Bonds.

### **Financial Advisor**

The University has retained Piper Jaffray & Co., as financial advisor (the “Financial Advisor”) in connection with the preparation of the University’s plan of financing and with respect to the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken, to make any independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. While under contract to the University, the Financial Advisor may not participate in the underwriting of any University debt, including leases.

### **Potential Conflicts**

Some or all of the fees of the Underwriters, Bond Counsel, University Counsel, Issuer’s Counsel and Underwriters’ Counsel are contingent upon the sale of the Bonds. Furthermore, Bond Counsel serves as counsel to the University in connection with certain matters related to the Project, and from time to time Bond Counsel or Underwriters’ Counsel may serve as counsel to the University, the Underwriters, and to other parties involved with the Bonds with respect to transactions other than the issuance of the Bonds. Underwriter’s Counsel is serving as counsel to the Development Manager in connection with the Project. None of the directors or other officers of the Issuer of the University have interests in the issuance of the Bonds or the Project that are prohibited by applicable law.

### **Independent Auditor**

The selected financial statements of the University for the fiscal years ended June 30, 2014 and 2013 and included as Appendix B to this Official Statement have been audited by KPMG LLP (“KPMG”). KPMG has not been engaged to perform and has not performed, since the date of its report included therein, any procedures on the financial statements addressed in that report. KPMG also has not performed any procedures relating to this Official Statement.





APPENDIX A

FORMS OF THE PRINCIPAL DOCUMENTS:  
THE INDENTURE, THE LEASE AND THE GROUND LEASE (EXCLUDING EXHIBITS)

(SEE ATTACHED)

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INDENTURE OF TRUST

between

WBRP 3.2

and

U.S. BANK NATIONAL ASSOCIATION

Dated as of October 1, 2015

WBRP 3.2

\$107,615,000 Lease Revenue Bonds, Series 2015A  
\$24,455,000 Lease Revenue Bonds, Series 2015B (Taxable)

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Exhibit A	Requisition Certificate
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INDENTURE OF TRUST

THIS INDENTURE OF TRUST, made and dated as of October 1, 2015, by and between WBRP 3.2, a Washington nonprofit corporation (“WBRP”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association, organized and existing under the laws of the United States of America and having a corporate trust office in Seattle, Washington, not in its individual capacity but solely as trustee, as Trustee (the “Trustee”);

WITNESSETH:

WHEREAS, WBRP is a Washington nonprofit corporation and is an organization described under Section 501(c)(3) of the federal Internal Revenue Code of 1986, as amended (the “Code”); and

WHEREAS, WBRP has determined to undertake, on behalf of the University of Washington (the “University”) the permitting, design, construction and equipping of biomedical, clinical treatment, and office and general administrative facilities (the “Project”) on property situated in the South Lake Union area of Seattle, Washington (the “Leased Property”), and leased from City Investors XII L.L.C. under the terms of a Ground Lease, dated as of July 30, 2010, as amended December 1, 2010, and as extended on September 30, 2015 (the “Ground Lease”); and

WHEREAS, WBRP and the University have entered into a Facilities Lease for Biomedical Facilities, Seattle, Washington, dated as of October 1, 2015 (the “Lease”) under which WBRP will lease the Leased Property, the Project and WBRP’s rights under a Reciprocal Easements Agreement to the University (collectively, the “Premises”); and

WHEREAS, on September 10, 2015, the Board of Regents of the University approved the Project, the issuance of the Bonds (hereinafter defined) and the future acceptance of the title to the Premises; and

WHEREAS, WBRP and the University have determined that the most cost-effective method of financing the Project is through the issuance of a series of tax-exempt bonds pursuant to Rev. Rul. 63-20 of the U.S. Treasury, as further amended and updated by Rev. Rul. 82-26 (together, the “Ruling”) under the Code, together with a series of taxable bonds; and

WHEREAS, on September 16, 2015, the Board of Directors of WBRP adopted its Resolution approving the issuance by WBRP of the Bonds and providing that unencumbered title to the Premises (or the portion of the Premises allocable to the tax-exempt Bonds issued under the Ruling if the taxable Bonds are then outstanding) shall be delivered to the University at the time that all tax-exempt Bonds are paid or defeased; and

WHEREAS, to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof and interest thereon, WBRP has authorized the execution and delivery of this Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Bonds, when executed by WBRP, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal special, limited obligations of WBRP, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE

WITNESSETH:

GRANTING CLAUSES

WBRP, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the Owners thereof, and for other good and valuable consideration, the receipt of which is hereby acknowledged, to secure the payment of the principal of and interest on the Bonds and any Future Bonds according to their tenor and effect and the performance and observance by WBRP of all the covenants expressed or implied herein and in the Bonds and any Future Bonds, does hereby bargain, sell, convey, mortgage, assign, pledge and grant, without recourse, the Trust Estate in trust to the Trustee and its successors and assigns forever:

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, to the Trustee and its respective successors and assigns in trust forever:

I.

All right, title and interest of WBRP in and to all rents, issues, income, revenues and receipts derived by WBRP from all sources, including the Lease, with respect to the use of the Premises, including all right, title and interest and security interest, if any of WBRP, in and to all money, earnings, revenues, rights to the payment of money, receivables, accounts, contract rights, whether now owned or hereafter acquired, including, without limitation, all rents, issues, profits, income, revenues and receipts derived by WBRP in any fashion from the Premises;

II.

The Premises pursuant to the Leasehold Deed of Trust, the Assignment of Construction Documents and the Assignment of Leases, including all proceeds thereof;

III.

All Revenues;

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IV.

All choses in action and all choses in possession now or hereafter existing to the benefit of or arising for the benefit of WBRP with respect to the Bonds, including all proceeds of all the foregoing;

V.

All funds and accounts established under this Indenture and the investments thereof, if any, and money, securities and obligations therein (subject to disbursements from any such fund or account upon the conditions set forth in this Indenture), except for money held in the Rebate Fund and Capital Repairs Fund;

VI.

All money and securities from time to time held by the Trustee under the terms of this Indenture and any and all other real or personal property of every name and nature concurrently herewith or from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred to the Trustee, as and for additional security hereunder by WBRP, the University or by anyone on its or their behalf, and the Trustee is hereby authorized to receive any and all such property at any and all times (provided, however, that any real property may be conveyed to the Trustee only with its prior written consent); and

VII.

To the extent not covered hereinabove, all proceeds of all of the foregoing;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of Bonds and any Future Bonds issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds or Future Bonds over any other Bonds or Future Bonds;

PROVIDED, HOWEVER, that if WBRP, its successors or its assigns shall well and truly pay, or cause to be paid, the principal of and interest on all outstanding Bonds and any Future Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds and any Future Bonds and as provided in Article II hereof according to the true intent and meaning thereof, and shall cause the payments to be made as required under Article IV hereof, or shall provide, as permitted hereby, for the payment thereof in accordance with Article X hereof, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee sums of money due or to become due in accordance with the terms and provisions hereof, then upon such final payments or deposits as provided in Article X hereof, this Indenture and the rights hereby granted shall cease, terminate and be void, and the Trustee shall thereupon cancel and discharge this Indenture and execute and deliver to WBRP such instruments in writing as shall be requisite to evidence the discharge hereof.

THIS INDENTURE FURTHER WITNESSETH, that WBRP does hereby covenant to and agree with the Trustee, for the benefit of the Owners from time to time of the Bonds, as follows:

ARTICLE I  
DEFINITIONS; INTERPRETATION

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

*Account* means any of the Accounts created in Article IV.

*Additional Rent* has the meaning given such term in the Lease.

*Administrative Fees and Expenses* means all acceptance, service, administrative or similar fees charged, or reimbursement for administrative or other expenses incurred by the Trustee, pursuant to the Trustee's proposal and as it may be amended from time to time.

*Agreement by Landlord* means the agreement between the Landlord and Trustee.

*Architect's Agreement* has the meaning given such term in the Lease.

*Assignment of Construction Documents* means the document of that name, dated as of October 1, 2015, pursuant to which WBRP assigns the Architect's Agreement, the General Construction Contract (when executed) and the Development Management Agreement to the Trustee for security purposes.

*Assignment of Leases* means the Assignment of Leases and Cash Collateral, dated as of October 1, 2015, from WBRP to the Trustee.

*Authorized Denomination* means \$5,000 or any integral multiple thereof within a series and maturity.

*Authorized Representative* means (i) with respect to WBRP, its President, Vice President or any other person or persons designated as an Authorized Representative of WBRP by a resolution of the Board of Directors of WBRP and filed with the Trustee, and (ii) with respect to the University, the Senior Vice President or any other person or persons designated by the Senior Vice President in writing and filed with the Trustee.

*Base Rent* has the meaning given such term in the Lease.

**Beneficial Owner** means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond, including persons holding Bonds through nominees or depositories, while the Bonds are held in fully immobilized (book-entry) form.

**Bond or Bonds** means, collectively, the 2015A Bonds and the 2015B Bonds.

**Bond Fund** means the fund of that name established pursuant to Section 4.06 hereof.

**Bond Proceeds Account** means the account of that name created within the Project Fund pursuant to Section 4.02(a) of this Indenture

**Bond Purchase Contract** means the Bond Purchase Contract between WBRP and the Underwriters.

**Bond Register** means the books for registration of Bonds kept for WBRP by the Trustee as provided in Section 2.06 hereof.

**Bond Year** has the meaning given such term in the Federal Tax Certificate.

**Business Day** mean a day (i) other than a day on which banks located in the State of Washington, the City of New York, New York, or the city in which the Corporate Trust Office of the Trustee is located are required or authorized to close and (ii) on which the New York Stock Exchange is not closed.

**Capital Repairs Fund** means the fund of that name created pursuant to Section 4.15 hereof.

**Capitalized Interest Fund** means the fund of that name created pursuant to Section 4.03 hereof.

**Code** means the Internal Revenue Code of 1986, as it may be amended, if applicable. Any reference to a provision of the Code shall include the applicable regulations of the Department of the Treasury promulgated or proposed with respect to such provision.

**Continuing Disclosure Agreement** means the Continuing Disclosure Agreement between WBRP and U.S. Bank National Association, as dissemination agent, dated as of October 1, 2015, as such agreement may be amended from time to time.

**Corporate Trust Office** means, with respect to the Trustee, the office of the Trustee at Seattle, Washington, as described in Section 12.06 hereof, and any other office of the Trustee receiving notices pursuant to Section 12.06 hereof, or such other or additional offices, as may be specified by the Trustee in writing to WBRP.

**Cost or Costs** means any cost in respect of the Project, including without limiting the generality of the foregoing: (i) labor and materials and related costs; (ii) contract bonds and

insurance of all kinds that may be required or necessary during the course of acquisition, construction, manufacture or fabrication that are not paid by the contractors, suppliers or manufacturers thereof; (iii) surveys, estimates, plans and specifications and preliminary investigations therefor, supervision of manufacture, fabrication or construction, and the performance of all other duties required by or reasonably necessary for the acquisition of the Project; (iv) Costs of Issuance; (v) all other actual costs that WBRP shall be required to pay under the terms of any contract or contracts for the Project including Project Costs as defined in the Lease and including without limitation capitalized rent under the Ground Lease; (vi) any sums required to reimburse WBRP for actual advances made by WBRP with respect to any of the above items on or after September 16, 2015; (vii) any sums required to reimburse WBRP for advances made prior to that date, provided such amount does not exceed an "insubstantial portion" (as defined in the Code) of the proceeds of the Bonds; (viii) interest on the Bonds to the extent permitted by the Code; (ix) the costs of clearing title to the Premises; and (x) any other actual costs incurred by WBRP, including but not limited to Administrative Fees and Expenses prior to final completion of the Project, that are properly chargeable to a capital account with respect to the acquisition or construction of the Project and the financing thereof.

**Costs of Issuance** means all items of expense directly or indirectly payable by or reimbursable to WBRP, the University, or the Trustee and related to the authorization, execution, issuance, sale and delivery of the Bonds, including (without limitation) costs of preparation and reproduction of documents, filing and recording fees, fees and charges of WBRP, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of financial or other consultants and professionals, fees and charges for preparation, execution and safekeeping of the Bonds, and any other cost, charge or fee in connection with the issuance of the Bonds.

**Cost of Issuance Fund** means the fund of that name created pursuant to Section 4.01 hereof.

**Date of Issue** means the date the Bonds are issued and delivered to the Underwriters for redelivery to the initial purchasers thereof.

**Development Management Agreement** means the Development Management Agreement between WBRP and the Development Manager, dated July 30, 2010, and as it has and may from time to time be supplemented, modified, extended or amended in accordance with its terms.

**Development Manager** means City Investors LLC.

**DTC** means The Depository Trust Company, New York, New York.

**Environmental Claim** shall mean, with respect to any person, any action, suit, proceeding, investigation, notice, claim, complaint, demand, request for information or other communication (written or oral) by any other person (including any governmental authority, citizens group or employee or former employee of such person) alleging, asserting or claiming any actual or potential: (a) violation of any Environmental Law, (b) liability under any Environmental Law or (c) liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, fines or penalties arising

out of, based on, or resulting from, the presence or release into the environment of any Hazardous Substance at any location, whether or not owned by such person.

**Environmental Laws** has the meaning given such term in the Lease.

**Event of Bankruptcy** means the filing of a petition in bankruptcy or the commencement of a proceeding under Title 11 of the United States Code, as amended (or any successor federal statutory provisions) or under any other applicable law concerning insolvency, reorganization or bankruptcy by or against WBRP as debtor other than any involuntary proceeding that has been finally dismissed without entry of an order for relief or similar order and without effect on any amounts held in the Bond Fund or the Project Fund and as to which dismissal all appeal periods have expired.

**Event of Default** means any of the events specified in Section 7.01 hereof.

**Federal Tax Certificate** means the Federal Tax Certificates executed by WBRP and the University as of the date of issuance of the 2015A Bonds, setting forth certain expectations of WBRP and the University regarding the use of 2015A Bond proceeds.

**Fund** means any of the Funds created in Article IV of this Indenture.

**Future Bonds** means any revenue refunding bonds of WBRP issued in the future having a lien and charge on the Trust Estate equal to the lien thereon of the Bonds.

**Hazardous Substance** has the meaning given such term in the Lease.

**Indenture** means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

**Indenture Act** means the Trust Indenture Act of 1939 (Act of August 3, 1939, 53 Stat. 1149, 15 U.S.C., §§ 77aaa-77bbbb), as amended.

**Interest Account** means the account of that name established pursuant to Section 4.06 hereof.

**Interest Payment Date** means, for the 2015A Bonds, each July 1 and January 1, commencing January 1, 2016, and, for the 2015B Bonds, each September 1 and March 1, commencing March 1, 2016, and in each case each date on which a Bond is redeemed or accelerated for maturity in accordance with the terms hereof.

**Investment Securities** means obligations of the U.S. government; obligations of U.S. government agencies or of corporations wholly owned by the U.S. government; obligations of government-sponsored corporations which are, or may become, eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve; repurchase agreements utilizing the above securities and money market mutual funds registered with the Securities and Exchange Commission under Rule 2a-7 of the Investment Company Act

of 1940 which invest in the above securities. Investment Securities shall not include any guaranteed investment contract.

**Landlord** means City Investors XII L.L.C.

**Lease** means that certain Facilities Lease for Biomedical Facilities, Seattle, Washington, dated as of October 1, 2015, by and between WBRP and the University, as it may from time to time be supplemented, modified or amended in accordance with its terms and this Indenture.

**Lease Default Event** means any of the events specified in Paragraph 17.1 of the Lease.

**Leasehold Deed of Trust** means the Construction Leasehold Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing, dated as of October 1, 2015 from WBRP for the benefit of the Trustee, as the same may be amended from time to time in accordance with the provisions thereof and this Indenture.

**Letter of Representations** means the Blanket Issuer Letter of Representations between DTC and WBRP.

**Lump Sum Payment** has the meaning given such term in the Lease.

**Moody's** means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, **Moody's** shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P) designated in writing to the Trustee by WBRP.

**MSRB** means the Municipal Securities Rulemaking Board or any successors to its functions. Until otherwise designated by the MSRB or the Commission, any information, reports or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at [www.emma.msrb.org](http://www.emma.msrb.org).

**Non-Bond Proceeds Account** means the account of that name within the Project Fund established pursuant to Section 4.02 of this Indenture.

**Official Statement** means the Preliminary Official Statement dated September 16, 2015, and the Official Statement dated September 24, 2015, including any amendment or supplement thereto, pursuant to which the Bonds are initially sold.

**Opinion of Bond Counsel** means a written opinion of nationally recognized bond counsel selected by WBRP, and, so long as no Lease Default Event has occurred and is continuing, acceptable to the University.

**Other Documents** means any or all of the Lease, the Leasehold Deed of Trust, the Ground Lease, the Development Management Agreement and the Assignment of Leases.



**Outstanding**, when used as of any particular time with reference to the Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except (1) the Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) the Bonds with respect to which all liability of WBRP shall have been discharged in accordance with Section 10.01 hereof; (3) the Bonds paid pursuant to Section 2.07 hereof; and (4) the Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to Sections 2.04 and 2.05 hereof.

**Owner or Bond Owner**, whenever used herein with respect to a Bond, means the person in whose name such Bond is registered on the Bond Register.

**Person or person** means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**Principal Account** means the account of that name established pursuant to Section 4.06 hereof.

**Principal Payment Date** means, for the 2015A Bonds, January 1 of each year in which principal is due on any 2015A Bonds and means, for the 2015B Bonds, March 1 of each year in which principal is due on any 2015B Bonds.

**Project Costs** has the meaning given such term in the Lease.

**Project Fund** means the fund of that name established pursuant to Section 4.02 hereof.

**Rating Agency** means S&P if the Bonds are then rated by S&P and/or Moody's if the Bonds are then rated by Moody's.

**Rebatable Arbitrage** means the Rebate Amount calculated as provided in the Federal Tax Certificate and Section 4.13 of this Indenture.

**Rebate Analyst** means the firm of independent certified public accountants selected by WBRP to perform the rebate calculations as provided pursuant to Sections 4.12 and 4.13 hereof.

**Rebate Fund** means the fund of that name created pursuant to Section 4.13 hereof.

**Record Date** means the 15th day of the month preceding any Interest Payment Date.

**Rent** means the sum of Base Rent, Lump Sum Payment and Additional Rent paid pursuant to the Lease and rental payments made pursuant to any other lease by WBRP of the Premises.

**Rent Commencement Date** means March 1, 2018.

**Resolution** means the resolution adopted by WBRP's Board of Directors on September 16, 2015.

**Revenue Fund** means the fund of that name created pursuant to Section 4.05 hereof.

**Revenues** means all amounts received by WBRP or by the Trustee for the account of WBRP pursuant to the Lease (or any other lease by WBRP of the Premises) or otherwise with respect to the Premises, including, without limiting the generality of the foregoing, all Rent (including both timely and delinquent payments and any late charges, paid from any source), prepayments, any payments received under any policy of title insurance with respect to the Premises, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Indenture (except as otherwise provided herein), but not including (i) Administrative Fees and Expenses, (ii) Rebatable Arbitrage, (iii) monies deposited in the Capital Repairs Fund; and (iv) any and all revenue, income, and receipts of WBRP not derived from or received with respect to the Lease, the Premises, or any fund or account established pursuant to this Indenture.

**Rule** means Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

**S&P** means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, a New York corporation, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, **S&P** shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's) designated in writing to the Trustee by WBRP.

**SEC** means the United States Securities and Exchange Commission.

**State** means the State of Washington.

**Subordination, Non-Disturbance and Attornment Agreement** means the agreement of that name, between the University and the Trustee.

**Substantial Completion** has the meaning given such term in the Development Management Agreement.

**Supplemental Indenture** means any indenture hereafter duly authorized and entered into between WBRP and the Trustee, supplementing, modifying or amending this Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

**Trust Estate** means the trust estate pledged by WBRP and described in the Granting Clauses of this Indenture.

**Trustee** means U.S. Bank National Association or its successor, as Trustee hereunder as provided in Section 8.01 hereof.

**2015A Bonds** means the WBRP 3.2 Lease Revenue Bonds, Series 2015A, in the aggregate principal amount of \$107,615,000 issued pursuant to Section 2.01 of this Indenture.

**2015B Bonds** means the WBRP 3.2 Lease Revenue Bonds, Series 2015B (Taxable), in the aggregate principal amount of \$24,455,000 issued pursuant to Section 2.01 of this Indenture.

**Underwriters** mean Barclays Capital Inc., Citigroup Global Markets Inc., Wells Fargo Securities, and Backstrom McCarley Berry & Co., LLC.

**University** means the University of Washington, a state institution of higher education and an agency of the State of Washington, acting through its Board of Regents and its successors and permitted assigns as University under the Lease.

**WBRP** means WBRP 3.2, a Washington nonprofit corporation.

SECTION 1.02. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

(d) Certain terms are defined in Section 1.01 of this Indenture by reference to the meaning given such terms in other documents, *e.g.*, the Lease, the Ground Lease and the Development Management Agreement. To the extent that the meaning of any term thus defined is amended through an amendment to the respective document, the meaning of such defined term herein or for purposes of this Indenture shall be construed as amended upon receipt by the Trustee of written notice of any such amendment.

SECTION 1.03. Indenture and Bonds Constitute a Contract; Pledge. With respect to the Bonds, in consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued under this Indenture by the Owners from time to time: (a) this Indenture shall be deemed to be and shall constitute a contract among WBRP, the Trustee, and the Owners, from time to time, of such Bonds; (b) the pledge made herein and duties, covenants, obligations and agreements set forth herein to be observed and performed by or on behalf of WBRP shall be for the equal and ratable benefit, protection and security of the Owners of any and all of such Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal

rank without preference, priority or distinction as to lien or otherwise, except as expressly provided herein or permitted hereby; (c) WBRP, as security for the payment of the principal of, premium, if any, and interest on, the Bonds and as security for the observance and performance of any other duty, covenant, obligation or agreement of WBRP under this Indenture, all in accordance with the provisions thereof and hereof, does hereby grant, bargain, sell, convey, pledge, assign and confirm to the Trustee the Trust Estate; (d) the pledge made hereby is valid and binding from the time when the pledge is made, the Trust Estate shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against WBRP irrespective of whether such parties have notice thereof; (e) the Bonds shall be special, limited obligations of WBRP payable solely from and secured solely by a pledge of the Trust Estate as provided hereby; (f) no revenue, income, receipts, donations, earnings, property or assets of WBRP other than the Trust Estate shall ever be subject to any lien or claim for the payment of the Bonds or the performance of any other obligation of WBRP under this Indenture; and (g) wherever in this Indenture provision is made that WBRP shall pay or cause to be paid any amount necessary to pay the principal of, premium, if any, or interest on the Bonds or any other amounts required to be paid under this Indenture or the Leasehold Deed of Trust, such amounts shall be payable solely from and be secured by the Trust Estate, and WBRP shall have no legal, moral or other obligation to pay such amounts from any other source whatsoever.

SECTION 1.04. General Provisions Regarding the University and WBRP. Whenever in this Indenture the University is entitled to direct the Trustee in a particular matter or to approve acts of WBRP, such entitlement of the University is predicated upon the Lease being in effect and the University’s not then being in default under the Lease. With respect to such respective entitlements, if the Lease is no longer in effect or if a Lease Default Event has occurred and is continuing, then WBRP shall be entitled to direct the Trustee in a particular matter and the University’s approval of acts of WBRP shall not be required, whether or not the applicable provision of this Indenture so provides.

ARTICLE II  
THE BONDS; FUTURE BONDS

SECTION 2.01. Authorization of Bonds. Bonds in the principal amount of \$132,070,000 are authorized to be issued hereunder. The Bonds shall be issued in two series and designated as “WBRP 3.2 Lease Revenue Bonds, Series 2015A” and “WBRP 3.2 Lease Revenue Bonds, Series 2015B (Taxable)”. No Future Bonds may be issued under the terms set forth in Section 2.08 of this Indenture unless WBRP authorizes their issuance and executes a Supplemental Indenture for that purpose. This Indenture constitutes a continuing agreement with the Owners from time to time of the Bonds to secure the full payment of the principal of and interest on all such Bonds subject to the covenants, provisions and conditions herein contained.

At any time after the execution of this Indenture, WBRP may execute and, upon satisfaction of the conditions set forth in this Section, the Trustee shall authenticate and, upon request of WBRP, deliver the Bonds. Prior to the authentication and delivery of any Bonds by the Trustee, there shall have been filed with the Trustee each of the following:

- (a) This Indenture, duly executed;
- (b) A conformed copy of the Lease;
- (c) A conformed copy of the recorded Memorandum of Lease;
- (d) A conformed copy of the Ground Lease;
- (e) A conformed copy of the recorded Memorandum of Ground Lease;
- (f) A conformed copy of the Development Management Agreement;
- (g) The original Leasehold Deed of Trust, together with evidence of recording thereof;
- (h) The original Assignment of Leases, together with evidence of recording;
- (i) The Subordination, Non-Disturbance and Attornment Agreement with respect to the Lease;
- (j) The Assignment of Construction Documents, executed by WBRP;
- (k) The Agreement by Landlord with respect to the Ground Lease, executed by the Landlord;
- (l) A commitment to issue a mortgagee's policy of leasehold title insurance for the benefit of the Trustee;
- (m) Evidence of Development Manager's general liability insurance in accordance with the Development Management Agreement, and evidence of WBRP's general liability insurance in accordance with the Lease; and
- (n) The final approving opinion of Bond Counsel addressed to the Trustee, WBRP, the University and the Underwriters, duly executed.

The Trustee shall be authorized to rely upon the fact of such delivery in authenticating and delivering the Bonds but shall not be required to make any independent investigation of the contents or underlying facts of any such agreements, policies, opinions or other documents.

SECTION 2.02. Terms of the Bonds.

(a) Dated Date, Maturity, Interest Rates.

(1) *2015A Bonds.* The 2015A Bonds shall be issued in the aggregate principal amount of \$107,615,000. The 2015A Bonds shall be dated as of the date of their delivery to the

Underwriters, shall be fully registered as to both principal and interest, shall be in Authorized Denominations, provided that no 2015A Bond shall represent more than one maturity, shall be numbered separately in such manner and with any additional designation as the Trustee deems necessary for purposes of identification, shall bear interest from their date payable on each Interest Payment Date, at the following per annum interest rates, and shall mature on the Principal Payment Dates of the following years in the following principal amounts:

Maturity Years (January 1)	Principal Amounts	Interest Rates
2019	\$ 2,420,000	5.00%
2020	2,540,000	5.00
2021	2,670,000	5.00
2022	2,800,000	5.00
2023	2,945,000	5.00
2024	3,090,000	5.00
2025	3,240,000	5.00
2026	3,400,000	5.00
2027	3,575,000	5.00
2028	3,755,000	5.00
2029	3,940,000	5.00
2030	4,140,000	5.00
2031	3,940,000	5.00
2032	4,140,000	5.00
2033	4,345,000	5.00
2034	2,685,000	5.00
2035	2,820,000	5.00
2036	2,960,000	5.00
2037	3,110,000	5.00
2038	3,265,000	5.00
2039	3,425,000	5.00
2040	3,600,000	5.00
2048	34,810,000	4.00

(2) *2015B Bonds.* The 2015B Bonds shall be issued in the aggregate principal amount of \$24,455,000. The 2015B Bonds shall be dated as of the date of their delivery to the Underwriters, shall be fully registered as to both principal and interest, shall be in Authorized Denominations, provided that no 2015B Bond shall represent more than one maturity, shall be numbered separately in such manner and with any additional designation as the Trustee deems necessary for purposes of identification, shall bear interest from their date payable on each Interest Payment Date, at the rate of 1.485% per annum, and shall mature on March 1, 2018.

(b) Interest Accrual. Each Bond shall bear interest from the most recent Interest Payment Date to which interest has been paid in full or duly provided for (provided, however, that, initially the Bonds shall bear interest from the dated date of the Bonds), until payment of the principal or redemption price thereof shall have been made or provided for in accordance with

the provisions hereof, whether at maturity, upon redemption or otherwise. Interest on the Bonds shall be computed on the basis of a year of 360 days and twelve 30-day months. Each Bond shall bear interest on overdue principal and interest at the rate or rates borne by the Bonds during such time.

(c) Bonds Held in Fully Immobilized Form. Notwithstanding anything herein to the contrary, the Bonds initially shall be held in fully immobilized form by DTC acting as depository pursuant to the terms and conditions set forth in the Letter of Representations. To induce DTC to accept the Bonds as eligible for deposit at DTC, WBRP has authorized execution and delivery to DTC of the Letter of Representations. Neither WBRP nor the Trustee shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds regarding accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal or redemption price of or interest on the Bonds, any notice that is permitted or required to be given to Owners hereunder (except such notice as is required to be given by WBRP to the Trustee or to DTC), the selection by DTC or any DTC participant of any person to receive payment in the event of a partial redemption of the Bonds, or any consent given or other action taken by DTC as Owner of the Bonds. For so long as any Bonds are held in fully immobilized form hereunder, DTC, its successor or any substitute depository appointed by WBRP, as applicable, shall be deemed to be the Owner for all purposes hereunder, and all references to Owners or Bond Owners shall mean DTC or its nominee or its successor and shall not mean any Beneficial Owners of the Bonds.

(d) Use of Depository.

(1) The Bonds shall be registered initially in the name of CEDE & Co., as nominee of DTC, with one Bond of a series maturing on each of the maturity dates for the Bonds in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such immobilized Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute depository appointed by WBRP pursuant to subsection (2) below or such substitute depository's successor; or (C) to any person as provided in subsection (4) below.

(2) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by WBRP to discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), WBRP may appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (A) or (B) of subsection (1) above, the Trustee shall, upon receipt of all outstanding Bonds, together with a written request on behalf of WBRP, issue a single new Bond for each maturity of a series then outstanding, registered in the name of such successor or such substitute depository, or its nominee, as the case may be, all as specified in such written request of WBRP.

(4) In the event that (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (B) WBRP determines that it is in the best interest of the Beneficial Owners of the Bonds that such owners be able to obtain such Bonds in certificated form, the ownership of such Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held in fully immobilized form. WBRP shall deliver a written request to the Trustee, together with a supply of definitive Bonds in certificated form, to issue Bonds as herein provided in any Authorized Denomination. Upon receipt by the Trustee of all then outstanding Bonds together with a written request on behalf of WBRP to the Trustee, new Bonds shall be issued in the appropriate series, denominations and maturities and registered in the names of such persons as are designated in such written request.

(e) Payments of Principal and Interest. Principal and interest with respect to the Bonds shall be payable in lawful money of the United States of America. For so long as all Bonds are in fully immobilized form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that the Bonds are no longer in fully immobilized form, interest on the Bonds shall be paid by the Trustee by check mailed on the applicable Interest Payment Date to the Owner as of close of business on the applicable Record Date, at his address as it appears on the Bond Register or at such other address as is furnished in writing by such Owner to the Trustee (provided, however, that the Trustee shall, at the request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds, make payments of interest on such Bonds by wire transfer to the account at any bank in the United States designated by such Owner in writing on or before the Record Date), and the principal of the Bonds shall be payable in lawful money of the United States of America upon surrender thereof at the Corporate Trust Office of the Trustee. No payment of principal shall be made on any certificated Bond unless and until such Bond is surrendered to the Trustee for payment.

(f) The Bonds are payable solely from the Trust Estate, including amounts payable under the Lease assigned by WBRP and to be received by the Trustee from the University pursuant to the Lease. The Trustee is only obligated to pass-through such payments to Bond Owners in accordance with their relative interests; the Bonds shall not be obligations of the Trustee.

SECTION 2.03. Execution of Bonds. The Bonds shall be executed in the name and on behalf of WBRP with the manual or facsimile signature of its President, attested by the manual or facsimile signature of its Secretary. The Bonds shall then be delivered to the Trustee for authentication by it. In case any of the officials who shall have signed or attested any of the Bonds shall cease to be such official or officials of WBRP before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by WBRP, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon WBRP as though those who signed and attested the same had continued to be such officials of WBRP, and also any Bond may be signed and attested on behalf of WBRP by such persons as at the actual date of execution of such Bond shall be the proper officials of WBRP although at the nominal date of such Bond any such person shall not have been such officer of WBRP.

Only those Bonds that bear thereon a certificate of authentication substantially in the form hereinafter recited, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.04. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.06 hereof, by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such registered Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Beneficial Owners shall not have any right to cause a transfer of Bonds as provided in this Section 2.04.

Whenever any Bond or Bonds shall be surrendered for transfer, WBRP shall execute and the Trustee shall authenticate and date the Bond or Bonds and shall deliver a new Bond or Bonds of a like aggregate principal amount and of the same series, maturity and interest rate. The Trustee shall require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and may in addition require the payment of a reasonable sum to cover expenses incurred by WBRP or the Trustee in connection with such transfer.

SECTION 2.05. Exchange of Bonds. If the Bonds are no longer held in fully immobilized form, Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other Authorized Denominations and of the same series, maturity and interest rate. The Trustee shall require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange, and may in addition require the payment of a reasonable sum to cover expenses incurred by WBRP or the Trustee in connection with such exchange.

SECTION 2.06. Bond Register. The Trustee will keep or cause to be kept, at the Corporate Trust Office of the Trustee, sufficient books for the registration and transfer of the Bonds (the "Bond Register"), which shall at all times be open to inspection during regular business hours by WBRP upon reasonable prior notice to the Trustee; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as hereinbefore provided. Records of beneficial ownership of the Bonds shall not be maintained by the Trustee.

SECTION 2.07. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, WBRP, at the expense of the Owner of that Bond, shall execute, and the Trustee thereupon shall authenticate and deliver, a new Bond of like series, tenor and amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, WBRP. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to WBRP and the Trustee and, if such evidence is satisfactory to them and indemnity satisfactory to them is given, WBRP, at the

expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond, WBRP may pay the same without surrender thereof). WBRP may require payment by the Owner of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses that may be incurred by WBRP and the Trustee in the premises. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original contractual obligation on the part of WBRP, and shall be entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

SECTION 2.08. Future Bonds. WBRP shall not issue any series of obligations payable from Revenues except that WBRP reserves the right, upon the direction of an Authorized Representative of the University, to issue future obligations solely for the purpose of refunding all or a portion of the Bonds or for the purpose of financing the repair or replacement of tenant improvements to the Premises, with a lien and charge on the Trust Estate equal to the lien thereon of the Bonds ("Future Bonds") upon compliance with the following conditions:

- (a) the Lease is in effect and no Lease Default Event has occurred and is then continuing;
- (b) the University and WBRP shall have entered into and approved an amendment to or restatement of the Lease providing for Base Rent payments sufficient to pay all payments of all principal of, interest and premium, if any, on all Outstanding Bonds and Future Bonds;
- (c) the amendment or restatement of the Lease or a memorandum thereof shall have been recorded;
- (d) WBRP and the Trustee shall have entered into a Supplemental Indenture pursuant to Section 9.02(e) providing for the creation of a bond fund for the payment of principal of and interest on the Future Bonds and (if applicable) other funds required to effect the refunding of all or a portion of the Bonds;
- (e) the final maturity of the Future Bonds shall not be later than the latest maturity of the Bonds; and
- (f) WBRP and the Trustee shall have received an opinion of Bond Counsel to the effect that the issuance of such Future Bonds is authorized hereunder and shall not adversely affect the tax-exempt status of the 2015A Bonds.

ARTICLE III  
REDEMPTION OF BONDS

SECTION 3.01. Terms of Redemption.

(a) 2015A Bonds Subject to Optional Redemption. The 2015A Bonds are subject to redemption prior to their stated maturity as described below (i) upon the written direction of the University (so long as no Lease Default Event, as defined in the Indenture, has occurred and is continuing) given to WBRP and the Trustee at least 30 days prior to the date fixed for redemption; and (ii) otherwise upon the written direction of WBRP given to the Trustee at least 30 days prior to the date fixed for redemption, in either case as a whole or in part (and if in part with series and maturities to be selected by the University, so long as no Lease Default Event has occurred and is continuing, and otherwise by WBRP).

The 2015A Bonds maturing on and after January 1, 2026 are subject to redemption on any date on or after July 1, 2025 at the redemption price of 100% of the principal amount of the 2015A Bonds to be redeemed, plus accrued interest, if any, to the date of redemption.

The 2015B Bonds are not subject to optional redemption prior to their maturity.

The selection of 2015A Bonds to be redeemed within a maturity shall be made as provided in Section 3.03 of this Indenture.

(b) Mandatory Sinking Fund Redemption. The 2015A Bonds maturing in the year 2048 are term Bonds subject to mandatory sinking fund redemption at a price of 100% of the principal amount of the Bonds to be redeemed plus accrued interest to the date of redemption on January 1 in years and amounts as follows:

<u>Redemption Years</u>	<u>Redemption Amounts</u>
2041	\$3,780,000
2042	3,930,000
2043	4,085,000
2044	4,250,000
2045	4,420,000
2046	4,595,000
2047	4,780,000
2048*	4,970,000

\*Maturity.

If any term 2015A Bonds are redeemed or purchased other than as required by the schedules set forth above, the principal amount thereof shall be credited against such scheduled redemptions in the manner designated by an Authorized Representative of the University, so long as no Lease Default Event has occurred and is continuing, and otherwise by an Authorized Representative of WBRP.

SECTION 3.02. Notice of Redemption. As long as the 2015A Bonds are held in book-entry only form, notice of optional redemption shall be given by DTC solely in accordance with the operational arrangements of DTC as then set forth. If the 2015A Bonds are no longer held in book-entry form, notice of redemption shall be given as provided hereinafter. The Trustee shall give notice of redemption by first class mail, postage prepaid, mailed no fewer than 20 nor more than 60 days prior to the redemption date to each Owner of 2015A Bonds to be redeemed at the address of such Owner appearing in the Bond Register. Any notice of optional redemption may be conditional and may be revocable at any time prior to the conditions set forth therein being satisfied in full.

Neither the failure of any Owner to receive notice mailed as provided herein nor any defect in notice so mailed shall affect the validity of the proceedings for redemption in accordance herewith.

All notices of redemption shall state:

- (i) the redemption date and the conditions, if any, of redemption;
- (ii) the redemption price;
- (iii) the amount of accrued interest payable on the redemption date (if such amount can be calculated at the time the notice is mailed);
- (iv) the designation of the 2015A Bonds to be redeemed, the principal amount of 2015A Bonds to be redeemed, and, if less than all Outstanding 2015A Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the 2015A Bonds to be redeemed;
- (v) that on the redemption date the redemption price of each such 2015A Bond will become due and payable and that interest on each such 2015A Bond shall cease to accrue on and after such date;
- (vi) the place or places where such 2015A Bonds must be surrendered for payment of the redemption price thereof; and
- (vii) such additional information as WBRP shall deem appropriate.

Notice of redemption having been given to the Owners as aforesaid, and the conditions set forth therein having been satisfied, such 2015A Bonds to be redeemed shall become due and payable on the redemption date at the redemption price specified, and on and after such date (unless WBRP shall default in the payment of the redemption price) such 2015A Bonds shall cease to bear interest. Upon surrender of any such 2015A Bond for redemption in accordance with such notice, such 2015A Bond shall be paid at the redemption price thereof. To the extent possible, each check or other transfer of funds issued for the payment of the redemption price of 2015A Bonds being redeemed shall bear the CUSIP number identifying, by maturity, the 2015A Bonds being redeemed with the proceeds of such check or other transfer.

If any 2015A Bond called for redemption shall not be so paid upon surrender thereof for redemption, the redemption price and, to the extent lawful, interest thereon shall, until paid, bear interest from the redemption date at the rate borne by the 2015A Bond immediately before the redemption date.

SECTION 3.03. Partial Redemption of 2015A Bonds. For so long as the 2015A Bonds are held in fully immobilized form, the selection of particular Bonds within a maturity to be redeemed, whether by optional or mandatory redemption, will be made in accordance with the operational arrangements then in effect at DTC.

If the 2015A Bonds are held in certificated form, then the Trustee will select the particular 2015A Bonds to be redeemed within a maturity randomly in such manner as it will determine.

Upon surrender of any Series 2015A Bond redeemed in part only, WBRP shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at no expense to the Owner, a new Bond or Bonds of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered. Costs of printing and/or authentication of new Bonds shall be paid by WBRP.

SECTION 3.04. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and money for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the 2015A Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2015A Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue on the redemption date, said 2015A Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said 2015A Bonds shall have no rights in respect thereof except to receive payment of said principal and interest accrued to the date fixed for redemption.

All 2015A Bonds redeemed pursuant to the provisions of this Article shall be cancelled by the Trustee upon surrender thereof.

SECTION 3.05. Purchase of Bonds. At the written direction of an Authorized Representative of the University, so long as no Lease Default Event has occurred and is continuing, and otherwise at the written direction of WBRP, and with the sources of funds specified by the University and/or WBRP, the Trustee shall purchase Bonds offered to the University or WBRP at prices deemed acceptable to the University or WBRP, as applicable. The principal amount of any term 2015A Bonds purchased pursuant to this Section 3.05 shall be credited against the scheduled redemptions of such 2015A Bonds in the manner designated by an Authorized Representative of the University or WBRP, as applicable, in accordance with the provisions of Section 3.01(b) hereof, and upon such credit, such Bonds purchased shall be cancelled by the Trustee.

ARTICLE IV  
CREATION OF FUNDS AND ACCOUNTS;  
PAYMENT OF PRINCIPAL OF AND INTEREST ON BONDS

SECTION 4.01. Cost of Issuance Fund. The Trustee shall establish a Cost of Issuance Fund for the purpose of paying Costs of Issuance. Proceeds of the 2015A Bonds in the amount of \$1,314,197.09 and proceeds of the 2015B Bonds in the amount of \$297,937.40 (representing total Bond proceeds of \$1,612,134.49) shall be deposited in the Cost of Issuance Fund, and on or after the Date of Issue, the Trustee shall make payments from the Cost of Issuance Fund upon receipt of a requisition from WBRP in substantially the form attached hereto as Exhibit A. On the Date of Issue, disbursements may be made as provided in the closing memorandum for the Bonds or a certificate signed by an Authorized Representative of WBRP. On the earlier of (i) March 7, 2016, or (ii) the date the Trustee receives written direction from an Authorized Representative of WBRP that WBRP has determined that all Costs of Issuance have been paid, the Trustee shall transfer the balance on hand in the Cost of Issuance Fund to the Capitalized Interest Fund, and the Cost of Issuance Fund shall then be closed. All payments made from the Cost of Issuance Fund pursuant to instructions in the closing memorandum for the Bonds or written instructions from WBRP on the date of issuance of the Bonds or pursuant to a requisition in proper form shall be presumed to be made properly and the Trustee shall not be required to see to the application of any such payments or to make any investigation or inquiry into the purposes for which withdrawals are being made from the Cost of Issuance Fund. The Trustee shall be fully protected in relying upon any such instructions or requisitions.

SECTION 4.02. Project Fund.

(a) Establishment. The Trustee shall establish the Project Fund for the purpose of paying Costs of the Project (other than Costs of Issuance and the capitalized interest described in (viii) of the definition of Costs), and shall establish therein (i) a Bond Proceeds Account, into which shall be deposited \$104,849,679.05 from proceeds of the 2015A Bonds and \$23,217,584.40 from proceeds of the 2015B Bonds (representing total Bond proceeds of \$128,067,263.45), and (ii) a Non-Bond Proceeds Account, into which may be deposited, from time to time, certain funds pursuant to Section 4.04 hereof.

All amounts in the Project Fund, until applied as hereinafter provided, shall be held for the security of all Bonds Outstanding hereunder.

The Trustee shall maintain records sufficient to permit calculation of the income on investments and interest earned on deposit of amounts held in the Project Fund. Copies of such records shall be made available monthly to WBRP, the University and the Development Manager. The income and interest from the Accounts within the Project Fund shall be retained in the respective Accounts within the Project Fund.

(b) Payments from Accounts within Project Fund. The Trustee shall disburse money from the Accounts within the Project Fund to pay Costs of the Project (other than Costs of Issuance and the capitalized interest described in (viii) of the definition of Costs) upon receipt of requisitions from WBRP, signed by its Authorized Representative, in substantially the form

attached hereto as Exhibit A. Amounts deposited to the Non-Bond Proceeds Account under Section 4.04 may also be used to pay costs to repair or restore the Project as provided therein. All payments made from Accounts within the Project Fund pursuant to such requisitions shall be presumed to be made properly, and the Trustee shall not be required to see to the application of any payments made from the Accounts within the Project Fund, to determine the propriety of any such requisition, including without limitation pursuant to the Development Management Agreement (except that the Trustee shall be required to determine that any such requisition has been properly signed by the Authorized Representative of WBRP as set forth on Exhibit A to this Indenture) or otherwise to make any investigation or inquiry into the purposes for which disbursements are made from the Accounts within the Project Fund, including without limitation whether any such disbursements are used to pay Costs of the Project.

Any requisition received by the Trustee by 1:00 p.m., Seattle time, on any Business Day shall be paid by the Trustee in immediately available funds no later than 1:00 p.m. Seattle time on the second succeeding Business Day. Any requisition received by the Trustee after 1:00 p.m., Seattle time, on any Business Day shall be paid by the Trustee in immediately available funds no later than 1:00 p.m., Seattle time, on the third succeeding Business Day. The Trustee shall retain copies or records of each requisition and shall not destroy such records for a period of seven years after receipt without the prior consent of WBRP and the University, which consent will not unreasonably be withheld.

(c) Final Payment. Upon final completion of the Project, WBRP shall promptly deliver to the University and the Trustee a final completion certificate in substantially the form attached hereto as Exhibit B. Upon receipt of such completion certificate, and after making any transfer to the Rebate Fund, the Trustee shall retain certain funds in the Project Fund as may be indicated on such completion certificate, and at the written direction of WBRP (consented to by the University so long as no Lease Default Event has occurred and is continuing), the Trustee shall transfer any funds remaining in the Project Fund in excess of the amounts specified to the Trustee by WBRP in the completion certificate to the Principal Account promptly upon receipt of such direction. Any such funds transferred to the Principal Account shall be applied to pay principal of the Bonds. The balance remaining in the Project Fund shall be retained by the Trustee and applied as directed in writing by WBRP, and any amount remaining after receipt by the Trustee of written notice from WBRP that all conditions for paying retained funds have been satisfied or waived shall be transferred to the Principal Account promptly upon receipt of such notice, and the Bond Proceeds Account within the Project Fund shall then be closed. Any such funds transferred to the Principal Account shall be applied to pay principal of the Bonds. WBRP shall promptly send a copy to the University of any such written directions to the Trustee.

(d) Notices to Trustee. WBRP shall provide written notice to the Trustee and the University promptly upon its actual knowledge of the occurrence of the following:

- (i) Final completion of the Project (through delivery of notice in the form of Exhibit B); and
- (ii) Any Lease Default Event.

(e) Disclaimer of WBRP. WBRP makes no representation that the amounts deposited or to be deposited in the Project Fund or any Account therein will be sufficient to complete the Project, and WBRP has no obligation to deposit any funds in the Project Fund or any Account therein except from proceeds of the Bonds, from other funds and accounts under this Indenture, and from such other sources as may be provided for under the Lease.

SECTION 4.03. Capitalized Interest Fund. The Trustee shall establish a Capitalized Interest Fund for the purpose of paying debt service on the Bonds through and including the earlier of final completion of the Project and March 1, 2018. From the 2015A Bond proceeds an amount equal to \$12,078,360.00 and from the 2015B Bond proceeds an amount equal to \$871,576.22 (representing \$12,949,936.22 in total Bond proceeds) shall be deposited into the Capitalized Interest Fund, subject to this Section 4.03. Transfers from the Capitalized Interest Fund to the Interest Account shall be made without requisition in accordance with Section 4.06(c) hereof. All amounts in the Capitalized Interest Fund, until applied as hereinafter provided, shall be held for the security of all Bonds Outstanding hereunder. All investment earnings on money in the Capitalized Interest Fund shall be credited to the Capitalized Interest Fund. On or after the earlier of the date the Trustee receives the final completion certificate attached as Exhibit B hereto or the Rent Commencement Date, the balance on hand in the Capitalized Interest Fund, at the written direction of WBRP, with a copy to the University, shall be transferred to the Principal Account of the Bond Fund to be applied to pay principal of the Bonds. The Trustee shall then close the Capitalized Interest Fund. The Trustee shall notify the University and WBRP in writing of the amount of such balance, if any, transferred from the Capitalized Interest Fund to the Principal Account.

SECTION 4.04. Deposits of Funds Other Than Bond Proceeds Into the Project Fund and Bond Fund.

(a) Insurance Proceeds.

(1) To Non-Bond Proceeds Account. If prior to completion of the Project, the Trustee receives any proceeds of insurance for damage to the Project, including proceeds of the "Builders Risk" insurance, as such proceeds are designated for such purpose by WBRP in writing to the Trustee, with a copy to the University, the Trustee shall deposit such funds in the Non-Bond Proceeds Account and WBRP shall apply such funds, pursuant to written requisitions in accordance with Section 4.02(b) hereof submitted to the Trustee, to pay the costs to repair and restore the Project or to pay Costs of the Project.

(2) To Interest Account. If prior to completion of the Project, the Trustee receives any insurance proceeds attributable to delays in completing the Project under the "Builders Risk" insurance required pursuant to Exhibit E of the Development Management Agreement, and such proceeds are designated for such purpose by WBRP in writing to the Trustee, with a copy to the University, such funds shall be deposited in the Interest Account to be used (before using funds in the Capitalized Interest Fund) to pay interest on the Bonds, in accordance with Section 4.06(c) hereof.



(b) Condemnation Proceeds. If prior to completion of the Project, WBRP receives condemnation proceeds with respect to the Premises pursuant to Section 16.1 of the Lease, it shall pay those condemnation proceeds over to the Trustee, with written instructions, with a copy to the University, to apply them as follows:

(1) Project Cannot be Completed. If the Project cannot be completed, WBRP shall give the Trustee written notice that all or a portion of such condemnation proceeds shall be deposited into the Non-Bond Proceeds Account in the specified amount necessary to pay the parties entitled thereto for all Costs of the Project incurred as of the date of such condemnation (provided, however, that upon the written direction of WBRP the Trustee shall first apply for such purpose any funds then available in the Bond Proceeds Account), and the balance shall be applied by the Trustee at the direction of WBRP, with a copy to the University, to defease such Bonds as are directed by WBRP pursuant to Section 10.02 hereof.

(2) Project Can be Completed. If the Trustee receives written notice from WBRP that the Project can be completed, such condemnation proceeds shall be deposited into the Non-Bond Proceeds Account to pay Costs of the Project, as directed by WBRP in writing, with a copy to the University (provided, however, that upon the written direction of WBRP, with a copy to the University, the Trustee shall first apply for such purpose any funds then available in the Bond Proceeds Account).

(c) WBRP Deposits to Non-Bond Proceeds Account. If the Trustee receives any payment from WBRP or the University for any additional Costs of the Project that the University is obligated to pay under the Lease or any other insurance proceeds, condemnation proceeds or other amount for deposit to the Non-Bond Proceeds Account, then upon written instructions from WBRP, with a copy to the University, to the Trustee of any amount paid pursuant to this subsection, the Trustee shall deposit any such funds into the Non-Bond Proceeds Account. Upon the written direction of WBRP, with a copy to the University, the Trustee shall (i) apply such funds to pay Costs of the Project and/or (ii) shall transfer a specified amount to a specified account in the Bond Fund. At the direction of WBRP, funds described in this subsection (c) may be transferred to specified accounts within the Bond Fund.

#### SECTION 4.05. Revenue Fund.

(a) The Trustee shall establish a Revenue Fund into which the Trustee shall deposit:

- (1) the portion of Base Rent described in Section 6.2.1.2 of the Lease;
- (2) the Lump Sum Payment on the Rent Commencement Date pursuant to Section 6.6 of the Lease, identified as such to the Trustee by WBRP;
- (3) all net earnings on investments of money in the Revenue Fund; and
- (4) all other money (including without limitation Additional Rent received for deposit to the Revenue Fund) received by the Trustee with written instructions by WBRP, with a copy to the University, to deposit it in the Revenue Fund.

All Base Rent determined in accordance with Section 6.2.1.2 of the Lease, the Lump Sum Payment under Section 6.6 of the Lease and any Additional Rent required to pay interest on the Bonds (that will not be paid from the Capitalized Interest Account) prior to the Rent Commencement Date shall be paid directly to the Trustee for deposit in the Revenue Fund. Following the Rent Commencement Date, the Trustee shall notify WBRP and the University by the close of business on the second Business Day of each month if Base Rent determined in accordance with Section 6.2.1.2 of the Lease has not been received for such month.

(b) The money and investments in the Revenue Fund are irrevocably pledged and shall be used and transferred by the Trustee, as follows and in the following order of priority:

- (1) On or prior to each Interest Payment Date, the amount necessary to pay the interest on the Bonds coming due on the Interest Payment Date to the Interest Account;
- (2) On or prior to each Principal Payment Date, the amount necessary to pay the regularly scheduled principal of Bonds maturing on such Principal Payment Date to the Principal Account;
- (3) On or prior to each day on which Bonds shall be subject to redemption prior to scheduled maturity, the redemption price of Bonds to be redeemed to the Redemption Account; and
- (4) To pay Administrative Fees and Expenses, but only upon the written direction of an Authorized Representative of WBRP; provided, that such written direction shall not be required if an Event of Default has occurred and is continuing.

Upon the occurrence and continuation of an Event of Default and acceleration of all Bonds for maturity pursuant to Section 7.02 hereof, and subject to the lien of all Bonds, all money in the Revenue Fund and all funds that are then on deposit with the Trustee pursuant to this Indenture (other than funds on deposit in the Rebate Fund and the Capital Repairs Fund) shall be transferred to the Principal Account.

#### SECTION 4.06. Bond Fund

(a) Establishment. There is hereby created and established with the Trustee a trust fund in the name of WBRP to be designated "WBRP 3.2 Lease Revenue Bonds, Series 2015 Bond Fund." The Bond Fund shall include three accounts: (1) an Interest Account; (2) a Principal Account; and (3) a Redemption Account.

The Bond Fund shall be in the custody of the Trustee (or any of its affiliates satisfying the requirements of Section 8.01(e) hereof) but in the name of WBRP, and WBRP hereby authorizes and directs the Trustee to withdraw money from the Bond Fund sufficient to pay the principal of and interest on the Bonds as the same shall become due and payable.

(b) Deposits into Bond Fund. The Trustee shall deposit the following sums into the Bond Fund:

(1) On each Interest Payment Date, to the Interest Account an amount that, together with any other money then available therefor in the Interest Account, will be equal to the interest on all of the Bonds then Outstanding to become due and payable on that Interest Payment Date;

(2) On each Principal Payment Date for as long as any of the Bonds are Outstanding and unpaid, to the Principal Account an amount that, together with any other money available therefor in the Principal Account, will be equal to the principal (including mandatory redemption amounts pursuant to Section 3.01(b) hereof) of the Bonds to become due and payable on that Principal Payment Date;

(3) On each date on which the Bonds are subject to redemption prior to maturity, whether by optional redemption or acceleration prior to maturity, to the Redemption Account the redemption price of the Bonds to be redeemed;

(5) As received, all interest earnings on the Bond Fund to the respective account; and

(6) All other money directed in writing by WBRP or the University, with a copy to WBRP or the University, as applicable, to be deposited therein.

(c) Source of Funds for Deposits to Bond Fund. Following the Date of Issue and until the earlier of the date the Trustee receives the final completion certificate at Exhibit B and the Rent Commencement Date, the deposits to the Interest Account referred to in Section 4.06(b)(1) shall be made from funds on hand in the Capitalized Interest Fund.

Following the earlier of the date the Trustee receives the final completion certificate at Exhibit B and the Rent Commencement Date, the deposits to the Bond Fund are expected to be made from the following sources (not identified in order of priority) (i) transfers made pursuant to Section 4.02(c) from the Bond Proceeds Account and/or the Non-Bond Proceeds Account in the Project Fund, (ii) transfers to the Principal Account made pursuant to Section 4.03 from the Capitalized Interest Fund; and (iii) money on hand in the Revenue Fund. Notwithstanding the foregoing, the Trustee may accept deposits from any source, with written instructions from WBRP or the University, as applicable, with a copy to the other, to deposit the same into the Bond Fund.

(d) Balance in Bond Fund. The Trustee shall provide WBRP and the University with online access to the Trustee's Trust Account Reporting System or its online equivalent ("Inform"). In the event that the Trustee does not have access to an online reporting system, the Trustee shall provide another means of communicating with WBRP and the University regarding balances on hand in the Project Fund, Revenue Fund and the Bond Fund from time to time. In the event that monthly statements from the Trustee reflect balances on hand in the Revenue Fund and the Bond Fund available to pay upcoming maturities of debt service, the University and

WBRP, with written notice to the Trustee from WBRP, may adjust upcoming payments of Base Rent (either on a pro-rata basis or applicable to the final payment of Base Rent prior to an Interest Payment Date).

(e) Use of Money in Bond Fund. Except as otherwise provided in Sections 4.09, 4.11, 4.12, 4.13, 7.03 and Article X hereof, money in the Bond Fund shall be used solely for the payment of the principal of and interest on the Bonds as the same shall become due and payable at maturity, upon redemption or acceleration or otherwise, and the lien of the Owners of Bonds on such money shall be first and prior to the lien of any other Person thereon.

SECTION 4.07. Liens. WBRP shall not create any lien upon the Bond Fund or upon the Revenues other than the lien hereby created or permitted to be created for the benefit of Future Bonds, by the Leasehold Deed of Trust or by the Assignment of Leases.

SECTION 4.08. Bonds Not Presented for Payment. In the event any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity or at the date fixed for redemption thereof or otherwise, if money sufficient to pay such Bonds is held by the Trustee for the benefit of the Owners thereof, the Trustee shall segregate and hold such money in trust, without investing such money and without liability for interest thereon, for the benefit of the Owners of such Bonds, who shall, except as provided in the following paragraph, thereafter be restricted exclusively to such fund or funds for the satisfaction of any claim of whatever nature on their part under this Indenture or relating to said Bonds.

Any money that the Trustee shall segregate and hold in trust for the payment of the principal of or interest on any Bond and remaining unclaimed for five years after such principal or interest shall have become due and payable shall be remitted by the Trustee in accordance with the Uniform Unclaimed Property Act, Chapter 63.29 RCW, as amended, or its successor, or to or as directed by pertinent escheat authority, as identified by the Trustee in its sole discretion, pursuant to and in accordance with applicable unclaimed property laws, rules or regulations, and thereafter Owners of Bonds shall be entitled to look only to such Owners' rights provided under the Uniform Unclaimed Property Act or to the laws of the jurisdiction of any such pertinent escheat authority, as applicable, and all liability of the Trustee with respect to such money shall thereupon cease; provided, however, that before such money is remitted as aforesaid, the Trustee may at the written request of the University (at the cost of the University), so long as no Lease Default Event has occurred and is continuing, and otherwise at the written request of WBRP (at the cost of WBRP), first mail to the Owners of Bonds that have not yet been paid, at the addresses shown on the Bond Register, a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to such Owners' rights under the Uniform Unclaimed Property Act. Any such delivery to any such escheat authority shall be in accordance with the customary practices and procedures of the Trustee and the escheat authority. Any money held by the Trustee pursuant to this Section shall be held uninvested and without any liability for interest.

SECTION 4.09. Money Held in Trust. All money required to be deposited with or paid to the Trustee for deposit into any fund (except the Rebate Fund and Capital Repairs Fund) or account under any provisions hereof, and all money held by the Trustee hereunder, shall be

held by the Trustee (or any of its affiliates satisfying the requirements of Section 8.01(e) hereof) in trust, and such money (other than money held pursuant to Sections 4.08, 4.13 and 4.15 hereof) shall, while so held, constitute part of the Trust Estate and be subject to the lien hereof.

SECTION 4.10. Payment to the University. Any money remaining in the Bond Fund after the right, title and interest of the Trustee in and to the Trust Estate and all covenants, agreements and other obligations of WBRP under this Indenture shall have ceased, terminated and become void and shall have been satisfied and discharged in accordance with Article X hereof, shall be paid to the University as a rebate of or credit to Rent under the Lease.

SECTION 4.11. Investment of Money. All money held in the Project Fund, the Cost of Issuance Fund, the Capitalized Interest Fund, the Bond Fund, and the Revenue Fund shall be invested by the Trustee at the written direction of an Authorized Representative of WBRP, or upon oral direction promptly confirmed in writing as described in this sentence, solely in Investment Securities which shall mature not later than the date when the amounts will foreseeably be needed for purposes set forth in this Indenture. Upon completion of the Project, WBRP shall not direct the investment of Bond proceeds in any manner inconsistent with the limitations set forth in the Federal Tax Certificate (which outlines certain yield limitations) unless WBRP and the Trustee have received an opinion of Bond Counsel to the effect that such investment shall not adversely affect the status of the 2015A Bonds. The Trustee shall have no obligation to determine whether any such directed investment is authorized under the definition of Investment Securities, to determine whether any such direction is in compliance, or has become noncompliant, with the Federal Tax Certificate, including without limitation whether or not any direction requires an opinion of Bond Counsel as contemplated under this Section 4.11, or to otherwise approve or disapprove of any such direction and shall suffer no liability whatsoever in following any such direction. In the event that the Trustee shall not have received written direction as to the investment of such funds, the Trustee shall invest such funds in money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating on the date of such investment by S&P of AAAM-G and if rated by Moody's having a rating on the date of such investment of Aaa, including without limitation any fund for which the Trustee or any affiliate of the Trustee serves as investment manager, administrator, shareholder, servicing agent, and/or custodian or subcustodian, notwithstanding that (a) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (b) the Trustee charges and collects fees for services rendered under this Indenture, which fees are separate from the fees received from such funds, and (c) services performed pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates, but the Trustee shall not be required to maximize Investment results in making such investment.

Investment Securities acquired as an investment of money in any fund or account established under this Indenture and earnings thereon shall be credited to such fund or account, except as otherwise provided herein. Investments in any and all funds and accounts may be commingled for purposes of making, holding, and disposing of investments, notwithstanding provisions herein for transfer to or holding in particular funds and accounts amounts received or held by the Trustee hereunder, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and

otherwise as provided in this Indenture. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee may sell or present for redemption any Investment Securities so purchased whenever it shall be necessary to provide money to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited. The Trustee may make any and all such investments through its own trust or investment department, or through any of its affiliates or subsidiaries. WBRP and the University acknowledge that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory agency grant the right to receive brokerage confirmations of security transactions, WBRP and the University waive receipt of such confirmations. The Trustee shall furnish to the University and WBRP periodic statements of account which include detail of all investment transactions made by the Trustee.

SECTION 4.12. Arbitrage Rebate. WBRP will perform or cause to be performed the rebate calculations and will direct the Trustee to pay any required amounts to the United States of America in accordance with the provisions of the Federal Tax Certificate. The Trustee shall not be responsible for performing rebate calculations and shall not be responsible for any loss or damage resulting from any action taken or omitted to be taken by WBRP in performing such calculations or making any necessary payments.

SECTION 4.13. Rebate Fund.

(a) Establishment. The Trustee shall establish a Rebate Fund, into which the Trustee shall deposit amounts received as provided in this Section 4.13. Notwithstanding any provision hereof to the contrary, funds deposited in the Rebate Fund shall be free and clear of any lien hereunder, but shall be held in trust for the purposes described in this Section 4.13. At the direction of WBRP, the Trustee shall apply funds on deposit in the Rebate Fund to make the payments of Rebateable Arbitrage required pursuant to Section 4.12 hereof.

(b) Rebate Calculations and Deposits. WBRP will, at its cost, hire a Rebate Analyst, which shall calculate (i) by no later than December 1 of each year, commencing December 1, 2016, the Rebateable Arbitrage as of June 30 of the preceding fiscal year for each year following the Date of Issue, and (ii) within 15 days of final completion, the Rebateable Arbitrage as of the date of final completion. Based on each such calculation, the Trustee shall deposit into the Rebate Fund the amount, if any, from such fund or account as directed by WBRP, with the written approval of the University, promptly upon receipt of each such calculation from the Rebate Analyst.

After Substantial Completion, the Rebate Analyst shall continue to make periodic rebate calculations by no later than each December 1 for the immediately preceding fiscal year. Based on such calculations, and promptly upon receipt of each such calculation from the Rebate Analyst, WBRP shall direct the University to pay to the Trustee as Additional Rent pursuant to Section 6.3.1 of the Lease amounts sufficient to make payments of any Rebateable Arbitrage, as determined by the Rebate Analyst. The Trustee shall deposit any such amounts into the Rebate Fund.

(c) Investment of Money in the Rebate Fund. Money in the Rebate Fund shall be invested by the Trustee, upon written direction of an Authorized Representative of WBRP in Investment Securities that mature no later than a date that is earlier than the date any payment of Rebateable Arbitrage is due.

(d) Rebate Withdrawals. If the annual calculation of Rebateable Arbitrage under subsection (b) of this Section 4.13 hereof indicates that the balance in the Rebate Fund exceeds the Rebateable Arbitrage as of the date thereof, then the Trustee shall, if directed in writing by WBRP, transfer all or any portion of such excess, (i) if prior to Substantial Completion, to the fund or account from which it came, and (ii) if following Substantial Completion, to the Revenue Fund.

(e) Remaining Balance. Any funds remaining in the Rebate Fund after the Bonds are no longer Outstanding and after the right, title and interest of the Trustee in and to the Trust Estate and all covenants, agreements and other obligations of WBRP under this Indenture shall have ceased, terminated and become void and shall have been satisfied and discharged in accordance with Article X hereof, shall be paid to the University, so long as no Lease Default Event has occurred and is continuing, and otherwise to WBRP.

(f) Amendment. The intent of this Section 4.13 is to require funding of the Rebate Fund so that money in that account will be available to pay Rebateable Arbitrage when it is required to be paid under Section 148 of the Code. Notwithstanding anything stated to the contrary in this Indenture, WBRP shall not be required to retain a Rebate Analyst or continue to perform arbitrage rebate calculations as provided in this Section 4.13 if WBRP provides the Trustee with an Opinion of Bond Counsel to the effect that WBRP has met one of the permitted exceptions from the payment of Rebateable Arbitrage, no Rebateable Arbitrage is due and owing and/or rebate computations are no longer required (which opinion may rely upon the mathematical computations of a Rebate Analyst).

SECTION 4.14. Additional Accounts and Subaccounts. The Trustee may, in its discretion, establish such additional accounts within the Project Fund, the Capital Repairs Fund and the Bond Fund, and subaccounts within any of the accounts within those funds, as the Trustee may deem necessary or useful for the purpose of identifying more precisely the sources of payments into and disbursements from the Project Fund, the Capital Repairs Fund and Bond Fund and their accounts, respectively, or for the purpose of complying with the requirements of the Code relating to arbitrage, but the establishment of any such account or subaccount shall not alter or modify any of the requirements of this Indenture with respect to a deposit or use of money in the Project Fund or the Bond Fund, or result in commingling of funds not permitted hereunder. In establishing such accounts or subaccounts, the Trustee may at any time request, receive and rely with full acquittance upon an Opinion of Bond Counsel, addressed to the Trustee and WBRP, that the establishment of such accounts or subaccounts will not cause any part of the Bonds to become arbitrage bonds within the meaning of the Code.

SECTION 4.15. Capital Repairs Fund. Under Section 10.4 of the Lease the Trustee may receive certain funds under the Lease for capital repairs, and the Trustee shall establish a Capital Repairs Fund, and accounts therein if appropriate, for such funds if and when received.

If WBRP receives payments with a direction that they are to be used to fund a capital replacement reserve pursuant to Section 10.4 of the Lease, such payments shall be delivered to the Trustee for deposit to the Capital Repairs Fund. Such proceeds shall be disbursed at the written direction of WBRP, if requested of WBRP by the University, to pay the costs of capital improvements and major maintenance of the Project. The Trustee shall have no duty to monitor or determine the necessity, adequacy or propriety of any funding of the Capital Repairs Fund or the use of any disbursements therefrom, whether or not a Lease Default Event has occurred and is then continuing.

Any funds remaining in the Capital Repairs Fund upon the final payment or defeasance of Bonds shall be disbursed to the University. The Bondholders shall have no right to direct the use and application of the proceeds of the Capital Repairs Fund. The Capital Repairs Fund is not a part of the Trust Estate, and the Bondholders shall not have any rights or obligations with respect to money in the Capital Repairs Fund.

SECTION 4.16. Funds and Accounts. Any fund required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the corporate trust industry, to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every Bondholder thereof.

#### ARTICLE V GENERAL COVENANTS

SECTION 5.01. Not General Obligations. Each and every covenant herein made, including all covenants made in the various sections of this Article V, is predicated upon the condition that the Bonds shall not be general obligations of WBRP, but shall be payable solely from the Trust Estate pledged under this Indenture. WBRP is a single-purpose entity, is not a governmental entity and does not have taxing power.

WBRP shall execute and deliver the Leasehold Deed of Trust and the Assignment of Leases in favor of the Trustee as the beneficiary on behalf of the Owners. WBRP shall record the Leasehold Deed of Trust and Assignment of Leases in King County and shall file a central UCC Financing Statement with the Washington Department of Licensing, and the Trustee shall file continuation statements as described herein to maintain the security interests granted therein. The Trustee shall prepare, request that the University and/or WBRP execute (if such execution is necessary for any such filing) and file in a timely manner (if received from the University and/or WBRP in a timely manner if execution by the University and/or WBRP is necessary) in such places as the initial filings (copies of which shall be provided to the Trustee by WBRP) were made a continuation statement with respect to each UCC Financing Statement filed by WBRP under this Section 5.01 on the Date of Issue; provided that the Trustee shall not be responsible for any initial filings of any financing statements or the information contained therein (including the exhibits thereto), the perfection of any such security interests or the accuracy or sufficiency of any description of collateral in such initial filings or for filing any modifications or

amendments to the initial filings required by amendments of the UCC; and provided further, that unless the Trustee shall have been notified by the University or WBRP that any such initial filing or description of collateral was or has become defective, including without limitation because of any amendment of the UCC, the Trustee shall be fully protected in relying on such initial filing in filing continuation statement(s) pursuant to this Section.

WBRP shall promptly cause to be paid, solely from the sources stated herein, the principal of and interest on every Bond issued under this Indenture at the place, on the dates and in the manner provided herein and in the Bonds according to the true intent and meaning thereof.

**SECTION 5.02. Performance of Covenants of WBRP; Representations.** WBRP shall faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder, and in all proceedings pertaining thereto. WBRP represents that it is authorized under the laws of the State to issue the Bonds authorized hereby, to enter into this Indenture, the Development Management Agreement, the Ground Lease, the Leasehold Deed of Trust and the Lease, and to pledge and assign to the Trustee the Trust Estate, and that the Bonds are and will be valid and binding obligations of WBRP except as their enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other applicable laws in effect from time to time affecting the rights of creditors generally and (ii) the application of general principles of equity. WBRP shall also comply with all of its covenants, warranties and representations under the Leasehold Deed of Trust, the Ground Lease, the Development Management Agreement and the Lease.

**SECTION 5.03. Maintenance of Corporate Existence; Compliance With Laws.** WBRP shall at all times while any Bonds remain Outstanding maintain its existence as a Washington nonprofit corporation exempt from taxation under Section 501(c)(3) of the Code, and it shall comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body known to it to be applicable to the Development Management Agreement, the Lease, the Ground Lease and this Indenture.

**SECTION 5.04. Enforcement of Obligations of Third Parties to WBRP.** WBRP shall monitor the Project and shall enforce (i) the obligations of the Development Manager under the Development Management Agreement; (ii) the obligations of the Architect and the General Contractor under WBRP's contracts therewith; (iii) the obligations of the University under the Lease, including specifically, but without limitation, the University's obligation to maintain insurance under the Lease (which premiums, if delinquent, the Trustee shall pay to the extent a corporate trust officer responsible for the administration of this trust in the Trustee's Corporate Trust Office has actual notice of such delinquency and to the extent of Revenues available hereunder for such purpose), (iv) the obligations of the Landlord under the Ground Lease; and (v) the obligations of any other tenant under any other leases by WBRP of the Premises. The Trustee shall cooperate with WBRP in enforcing the foregoing obligations; provided, however, that the Trustee shall have no independent duty to enforce the foregoing obligations.

**SECTION 5.05. Further Instruments.** WBRP shall execute, and the Trustee shall accept, assignment of WBRP's rights under the Architect's Agreement and the General

Construction Contracts (as or when the same become available) and any other construction-related agreements, as additional security for the performance of its obligations hereunder. WBRP shall, upon the reasonable request of the Trustee, from time to time execute and deliver such further instruments as may be reasonable and as may be required to carry out the purposes of this Indenture; provided, however, that the Trustee shall have no responsibility for the adequacy or sufficiency of any such security or assignments thereof.

**SECTION 5.06. Tax Covenants.**

(a) WBRP covenants not to take or omit to take any action reasonably within its power and consistent with the Resolution, this Indenture and the Federal Tax Certificate that will impair the tax exempt status of the 2015A Bonds. WBRP also covenants for the benefit of the Owners from time to time of the 2015A Bonds that it will not knowingly act so as to cause the proceeds of the Bonds, any money derived, directly or indirectly, from the use or investment thereof and any other money on deposit in any fund or account maintained in respect of the Bonds (whether such money was derived from the proceeds of the sale of the Bonds or from other sources) to be used in a manner that would cause the 2015A Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code.

(b) The University is the governmental unit on whose behalf WBRP is issuing the Bonds, and WBRP shall not knowingly take or permit any action or fail to take any action that would cause the 2015A Bonds not to be considered issued on behalf of the University. In furtherance of the covenant contained in the preceding sentence, WBRP agrees to comply with the requirements of Rev. Rul. 63-20, 1963-1 C.B. 24; Rev. Proc. 82-26, 1982-1 C.B. 476 and any Internal Revenue Service rulings, regulations or notices concerning the issuance of obligations by a nonprofit corporation on behalf of a governmental unit.

(c) WBRP will convey to the University title to the Premises (unencumbered by management contracts or any leases by WBRP of the Premises), and, upon receipt of an executed statutory warranty deed from WBRP, the Trustee is authorized and directed to (i) request a full reconveyance of the Leasehold Deed of Trust, (ii) release such other liens and security interests of record in the Premises that it may hold, and (iii) deliver to the University for recordation the statutory warranty deed received from WBRP, without recourse or warranty and in its then condition, with any costs associated with such recording to be borne by the University, upon the full payment and retirement or defeasance of all the Bonds pursuant to the terms of this Indenture (including but not limited to the provisions of Article VI and Section 7.10 hereof), unless such payment and retirement of the Bonds occurs upon foreclosure on the Leasehold Deed of Trust and a Lease Default Event has occurred and is continuing.

The Trustee shall be fully protected in relying upon any such direction to convey and determination, allocation or division of the Premises by WBRP, and upon any such statutory warranty deed delivered to it by WBRP.

(d) Notwithstanding any other provision of this Indenture to the contrary, so long as necessary to maintain the exclusion from gross income of interest on the 2015A Bonds for federal income tax purposes, the covenants contained in this Section shall survive the payment of

the 2015A Bonds and the interest thereon, including any payment or defeasance thereof pursuant to Article X of this Indenture.

SECTION 5.07. No Designation under Section 265(b). The Bonds shall not be “qualified tax-exempt obligations” under Section 265(b) of the Code for investment by financial institutions.

SECTION 5.08. Amendments to the Resolution. WBRP shall make no amendment to the Resolution that would materially adversely affect the interest of the Owners of the Outstanding Bonds unless the consent of the Owners is obtained.

SECTION 5.09. Amendments to the Lease; Assignment of Lease. Any assignment of the Lease by either WBRP or the University shall be in accordance with the provisions of the Lease. WBRP shall provide a copy of any such amendment or assignment to the Trustee.

SECTION 5.10. Disposition of Project; Insurance of Premises. WBRP and the Trustee shall not sell, mortgage, lease or otherwise dispose of the Premises if prohibited by the Leasehold Deed of Trust. If the Lease terminates by its terms at any time that Bonds remain Outstanding hereunder, WBRP covenants to obtain and maintain, or cause the University to obtain and maintain, liability and property insurance substantially as described in Section 12 of the Lease.

#### ARTICLE VI OPTIONS TO PREPAY LEASE AND PURCHASE PROJECT

Section 6.01. Option to Purchase. If no Lease Default Event or no event of non-appropriation or emergency reduction in funding has occurred, the University shall have the option to purchase the Premises and thereby terminate the Lease on any Interest Payment Date pursuant to and subject to the limitations set forth in the Lease. On or after the date the Bonds are subject to optional redemption, the purchase price of the Premises shall be an amount sufficient to pay all Outstanding Bonds, plus interest accrued thereon to the date of redemption. Prior to the date the Bonds are subject to optional redemption, the purchase price of the Premises shall be an amount sufficient to pay all Outstanding Bonds, plus interest accrued thereon to the date of redemption, plus the additional amount, if any, required to fully defease the Outstanding Bonds in accordance with Article X.

Section 6.02. Exercise of Option. The University shall give the Trustee not less than 60 days prior written notice of its irrevocable election to exercise its option to purchase under Section 6.01 hereof. The notice and direction shall include a direction to deposit the payment to be made with the Trustee in a manner sufficient to redeem and defease the Bonds as provided in Article X. The purchase price shall be paid to the Trustee in cash or same-day available funds on the closing date specified in such notice (or such other date as the University and the Trustee may mutually agree).

Section 6.03. Conveyance of Premises. On the closing date specified in the notice of election to exercise purchase option, or such other date as the University, WBRP and the Trustee

may mutually agree and if the purchase price has been paid by the University, WBRP shall convey the Premises to the University by statutory warranty deed, free and clear of all liens and encumbrances, except those liens and encumbrances in place on the Date of Issue or approved by the University, and this Indenture and the Lease shall automatically terminate. The Trustee shall not be required to make any representations regarding the conditions of the Premises and the University shall agree to accept the Premises in an “as is” condition. Nothing herein shall be construed to require the University to exercise the purchase option herein granted.

#### ARTICLE VII EVENTS OF DEFAULT AND REMEDIES OF REGISTERED OWNERS

SECTION 7.01. Events of Default. The following events shall be Events of Default hereunder:

(a) default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise;

(c) default by WBRP in the observance of any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to WBRP and the University by the Trustee, or to WBRP, the University and the Trustee by the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding;

(d) Except with respect to matters constituting Events of Default as set forth in subsections (a), (b) and (c) above, any failure by WBRP to observe or perform any covenant, condition, agreement or provision in the Leasehold Deed of Trust on its part to be observed or performed which failure continues at least for a period of 30 days following written notice given by the Trustee to WBRP and the University specifying such failure and requesting that such failure be remedied by WBRP or the University; or

(e) an Event of Bankruptcy shall occur.

SECTION 7.02. Acceleration of Maturity; Remedies. If any Event of Default identified in (a) or (b) of Section 7.01 shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall be entitled and upon notice in writing to WBRP, the Trustee and the University, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable,

anything in this Indenture or in the Bonds contained to the contrary notwithstanding, and interest on the Bonds shall cease to accrue on the date of such declaration. The Trustee shall give notice of such declaration by mail to the respective Owners of the Bonds at their addresses appearing on the Bond Register.

Upon the occurrence and continuance of an Event of Default, then and in every such case the Trustee in its discretion may, or upon written demand of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and receipt of indemnity against anticipated expenses and liability to its satisfaction (which indemnity is a condition precedent to its duties hereunder), shall, in its own name and as the Trustee of an express trust, take any or all of the following actions if the Bonds are not fully paid:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require WBRP or the University to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under the Lease and this Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Lease or this Indenture, as the case may be;

(b) bring suit upon the Bonds (as provided in Section 7.04 hereof);

(c) by action or suit in equity require WBRP to account as if it were the trustee of an express trust for the Owners of Bonds;

(d) upon the occurrence of Event of Default described in (a) or (b) of Section 7.01, foreclose the Leasehold Deed of Trust or exercise any other remedies thereunder, including the reletting of the Premises for any commercial purpose consistent with the tax covenants of Section 5.06 hereof or the sale of the leasehold;

(e) exercise any remedy under the Lease or any other lease by WBRP of the Premises;

(f) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds; or

(g) take any action or exercise any remedy under the Construction Contracts (as such term is defined in the Development Management Agreement) and the Development Management Agreement, if such contracts and agreement remain in effect.

SECTION 7.03. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of this Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees and charges and

expenses of the Trustee (including reasonable fees and disbursements of its counsel and agents) incurred in and in connection with the performance of its powers and duties under this Indenture;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Indenture, as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on any overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference;

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon those Bonds, with interest on the overdue principal at the rate borne by the Bonds and to the payment of the principal of and interest due on other Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference; and

(c) All other amounts due to any other Person legally entitled thereto.

SECTION 7.04. Trustee to Represent Registered Owners. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, this Indenture, the Lease and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified against anticipated expenses and liabilities to its satisfaction therefor (which indemnity is a condition precedent to its duties hereunder, except

that Trustee may not seek indemnification as a condition precedent to accelerating the Bonds or making payments on Bonds when due to the extent of funds available therefor), shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under this Indenture, the Lease or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Trust Estate, pending such proceedings. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of this Indenture.

SECTION 7.05. Registered Owners' Direction of Proceedings. Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, upon indemnification satisfactory to the Trustee, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, and that the Trustee shall have the right to decline to follow any such direction that in the sole discretion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

SECTION 7.06. Limitation on Bond Owners' Right to Sue. No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture, the Ground Lease, the Development Management Agreement, the Lease or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or the rights of any other Owners of Bonds, or to enforce any right under this Indenture, the Lease or other applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the

benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of this Indenture.

SECTION 7.07. Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Owners of Bonds on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Owners, then in every such case WBRP, the Trustee and the Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of WBRP, the Trustee and the Owners shall continue as though no such proceedings had been taken.

SECTION 7.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 7.09. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by this Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

SECTION 7.10. Notice of Default; University's Right to Retire Bonds. The Trustee shall, within 30 days after the occurrence of an Event of Default, give written notice by first class mail to Owners of Bonds of all Events of Default known to the Trustee and, unless such Event of Default has been remedied, shall send a copy of such notice to WBRP, the University and, until the Project Fund is closed pursuant to Section 4.02(c) hereof, the Development Manager. Upon the occurrence of an Event of Default, the University has the exclusive option to purchase the Premises, and any additions to the Premises (by exercising such option within 90 days after such notice of Event of Default, and by purchasing the Premises and any additions within 90 days after the option is exercised), by defeasing all of the Bonds then Outstanding in accordance with Section 10.02 hereof and/or purchasing them in accordance with Section 3.05 hereof.



ARTICLE VIII  
THE TRUSTEE

SECTION 8.01. Duties, Immunities and Liabilities of Trustee. The Trustee hereby accepts the trusts imposed upon it by this Indenture, represents and covenants that it is fully empowered to accept said trusts, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions, and no implied covenants or obligations shall be read into this Indenture, the Other Documents or any other documents related to the transactions contemplated hereunder against the Trustee:

(a) The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default that may have occurred, perform such duties and only such duties as are specifically imposed upon it as set forth in this Indenture. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs; provided that, except as to disbursement of funds, making payments upon the Bonds when due or acceleration of the Bonds when required, if in the reasonable opinion of the Trustee any such action may tend to invoke expense or liability to the Trustee, it shall not be obligated to take such action unless it is first furnished with funds for payment of such expense or with indemnity therefor satisfactory to it including without limitation indemnity for Environmental Claims, which indemnity shall include payment of its fees, extraordinary expenses, outlays and reasonable attorneys' fees (whether incurred before trial, at trial or appeal and in any arbitration or bankruptcy proceeding), and other reasonable disbursements in connection therewith, and satisfactory indemnity against all risk and liability, except liability which is adjudicated to have resulted from its own negligence or willful misconduct in connection with any such action. However, the Trustee may, but shall have no obligation to, begin suit, or appear in and defend any suit, or intervene, or do anything else in its judgment proper to be done by it as such Trustee, without assurance of reimbursement or indemnity. In all such cases Trustee shall be reimbursed or indemnified for all fees and expenses, liabilities, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith, unless such liability or disbursement is adjudicated to have resulted from the negligence or willful default of the Trustee. If the Owners shall fail to make such reimbursement or indemnification, the Trustee may reimburse itself from any moneys in its possession under the provisions of this Indenture prior to making any payments to Owners of the Bonds but otherwise, subject only to the provisions of this Indenture.

Notwithstanding the effective date of this Indenture or anything to the contrary in this Indenture, the Trustee shall have no liability or responsibility for any act or event relating to this Indenture that occurs prior to the date the Trustee formally executes this Indenture and commences acting as Trustee hereunder.

(b) Upon 30 days' advance written notice to the Trustee, WBRP may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or, without

the necessity of advance written notice, if at any time the Trustee shall cease to be eligible in accordance with subsection (c) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon WBRP shall appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to WBRP and the University and by giving the Owners notice of such resignation by mail at the addresses shown on the Bond Register. Upon receiving such notice of resignation, WBRP shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to WBRP and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the money, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the request of WBRP or the request of the successor Trustee, such predecessor Trustee shall, at the expense of the University and upon prior payment or full assurance therefor, execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the rights, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, WBRP shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such money, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, such successor Trustee shall mail a notice of the succession of such Trustee to the trusts hereunder to the Rating Agency and to the Bond Owners at the addresses shown on the Bond Register.

(e) It is the intention that there shall at all times be one or more trustees under this Indenture qualified under the Indenture Act, at least one of whom shall at all times be a bank or corporation organized and doing business under the laws of the United States or of any state or of the District of Columbia or a corporation or other person permitted to act as trustee by the SEC (herein and in the Indenture Act referred to as the "institutional trustee"), which (A) is

authorized under such laws to exercise corporate trust powers, and (B) is subject to supervision or examination by federal, state or District of Columbia authorities. Any Trustee appointed under the provisions of this Section in succession to U.S. Bank National Association as the initial Trustee, shall be a trust company or bank having the powers of a trust company qualified under the Indenture Act to act as trustee, having a combined capital, surplus and undivided profits of at least \$50,000,000, subject to supervision or examination by federal, state, or District of Columbia authorities, and rated A3/P2 (or the equivalent) or higher by the Rating Agency, if any, then maintaining a rating for the Bonds or the Rating Agency then maintaining a rating for the Bonds provides written notice that the rating on the Bonds will not be reduced or withdrawn upon such appointment. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section. Any co-trustee shall be subject to the same qualification limitations imposed upon the Trustee. Upon any appointment of a co-trustee in addition to the institutional trustee, the rights, powers, duties, and obligations conferred or imposed upon any trustee shall be deemed to be conferred or imposed upon and exercised or performed by such institutional trustee or the institutional trustee and co-trustees jointly, except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed, the institutional trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties, and obligations shall be exercised and performed by such co-trustee(s). In no event shall the University serve as trustee under this Indenture.

(f) Notwithstanding anything to the contrary herein, the Trustee shall not be responsible for the preliminary or final official statement or any other offering materials relating to the Bonds (except for statements prepared or approved by the Trustee under the caption "The Trustee" in any such offering materials), or for any recital or statement herein or in the Bonds, the Other Documents or any assignments to the Trustee hereunder or under any instrument or any supplemental instrument by WBRP, the University or the Development Manager, as appropriate. The Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds, for the validity of the execution by WBRP of this Indenture, or for the validity of the execution of the Leasehold Deed of Trust, the Assignment of Leases or any other assignments to the Trustee hereunder or under any instrument or any supplemental instrument by WBRP, the University or the Development Manager, as appropriate, or for the validity or sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby, or for the value or title of the to the Trust Estate, or otherwise as to the maintenance of the security hereof, or for the creditworthiness of WBRP, the Development Manager or any other party to any Bond Document. The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenant, condition or agreement on the part of the University, the Development Manager or WBRP, as appropriate and shall have no duty to collect, preserve, exercise or enforce rights in the property or assets pledged hereunder to the Bonds (against prior parties or otherwise), except as set forth herein, but the Trustee may require of WBRP, the Development Manager and the University full information and advice as to the performance of the covenants, conditions and agreements aforesaid and of the condition of

the physical property included in the Trust Estate. The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder.

The Trustee makes no representation or warranty, express or implied, as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by WBRP, the University or the Development Manager of the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Other Documents, this Indenture or any other document related hereto or thereto for the existence, furnishing or use of the Premises.

(g) The Trustee's rights to immunities and protection from liability hereunder and its rights to payment of fees and expenses shall survive its resignation or removal and the final payment or defeasance of the Bonds or the discharge of this Indenture.

(h) The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that WBRP, the University and the Development Manager (as applicable) shall provide to the Trustee an incumbency certificate listing designated persons with the authority to provide such instructions, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If any person so elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. WBRP agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

SECTION 8.02. Conflicting Interests. If the Trustee has or shall acquire any "conflicting interest" as such term is defined in the Indenture Act, then, within 90 days after ascertaining that it has such conflicting interest, and if the Event of Default to which such conflicting interest relates has not been cured or duly waived or otherwise eliminated before the end of such 90-day period, the Trustee shall either eliminate such conflicting interest or WBRP shall take prompt steps to have a successor appointed as provided by Section 8.01(b) of this Indenture.

In the event that WBRP shall fail to cause appointment of a successor, the Trustee shall, within 10 days after the expiration of such 90-day period, transmit notice of such failure to the Owners; and any Owner who has been a bona fide owner of Bonds for at least six months may, on behalf of him/her/itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee, and the appointment of a successor, if the Trustee fails, after written request thereof by such Owner, to cause appointment of a successor.

SECTION 8.03. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its municipal corporate trust business, provided such company shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Trustee without the executing or filing of any paper or any further act, anything herein to the contrary notwithstanding. Notice of such merger or consolidation shall be given to WBRP, the University, and, until the Project Fund is closed pursuant to Section 4.02(c), the Development Manager.

SECTION 8.04. Liability of Trustee.

(a) The recitals of facts herein and in the Bonds shall be taken as statements of WBRP, and the Trustee shall have no responsibility for the correctness of the same or for the validity or sufficiency of this Indenture, or any representations therein. The Trustee shall incur no responsibility in respect of any such documents, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable for following any instruction that it is directed to follow hereunder, and shall not be liable otherwise in connection with the performance of its duties or exercise of discretion hereunder, except for its own negligence or willful misconduct and except as otherwise provided in this Indenture. The Trustee may become the Owner of Bonds as principal with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as members of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. Notwithstanding anything to the contrary contained herein, the Trustee shall have no duty, and nothing herein shall be read to confer or imply that the Trustee has standing, to assert any claims under the federal securities laws on behalf of any Owners, or Beneficial Owners, or any class thereof.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under this Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) Notwithstanding anything to the contrary contained herein, the Trustee shall not be deemed to have knowledge of any default or Event of Default hereunder or Lease Default Event or any duty to give notice of any such event, unless and until a trust officer of the Trustee responsible for the administration of the Trust Estate at the Corporate Trust Office shall have actual knowledge thereof or shall have received written notice thereof, at its Corporate Trust Office, and in the absence of that notice so received, the Trustee may conclusively assume that there is no such Event of Default or Lease Default Event. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of a default or event of default (however defined) thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

(f) No provision of this Indenture shall require the Trustee to expend, advance or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, or take any action (including but not limited to the institution or defense of legal proceedings or the institution of foreclosure proceedings) if it shall have reasonable grounds for believing that prompt repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it; provided, however, if the Trustee elects to take any such action it shall be entitled to reimbursement, security or indemnity for the payment of the costs, expenses (including but not limited to attorneys' fees) and liabilities which may be incurred therein or thereby, satisfactory to the Trustee. Notwithstanding the above, the Trustee shall not seek indemnity before (1) making payments on the Bonds when due to the extent funds are available therefor, or (2) causing an acceleration when required by the Indenture.

(g) Except as provided in Sections 5.01 and 5.06(c) hereof, the Trustee shall have no responsibility for the recording or filing of this Indenture or any financing statements or any other document or instrument whatsoever. The Trustee shall not be responsible for the sufficiency or form of any insurance maintained with respect to the Project and shall not be required to obtain, maintain or review any policy of insurance

(h) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through affiliates, attorneys, accountants and other experts, agents, servicers, receivers, officers or employees and shall not be answerable for the conduct of the same if appointed by the Trustee with due care. All reasonable costs incurred by the Trustee and all reasonable compensation to all such attorneys, accountants and other experts, agents and receivers as may reasonably be employed in connection with the trusts hereof shall be paid by WBRP.

(i) The Trustee shall not be required to enter into any Supplemental Indenture or other supplement or amendment contemplated under Article VIII hereof that in the sole discretion of the Trustee may tend to involve it in liability or expense, or enlarge its duties hereunder or under any other instrument or agreement to which the Trustee is a party.

(j) Notwithstanding any provision of this Indenture to the contrary, under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds. In accepting the trust hereby created, the Trustee acts solely as trustee for the Owners and not in its individual capacity and, except as otherwise expressly provided herein, all Persons, including the Owners, the University, Landlord, WBRP and the Development Manager, having any claim against the Trustee arising from this Indenture shall look for payment only to the Funds held by the Trustee hereunder.

(k) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty of the Trustee, and the Trustee shall be answerable only for its own negligence or willful misconduct in accordance with the provisions of this Article. The Trustee shall not be required to give any bond or surety in respect of the execution of its trusts and powers hereunder or otherwise in respect of the premises. The Trustee shall have no liability in respect of any investment advice rendered to any Owner or for the management of the Project.

(l) Notwithstanding any other provision herein or in the Leasehold Deed of Trust, the Trustee shall not be required to acquire possession of or take any action with respect to the Project or other security hereunder which could cause it to be considered an “owner” or “operator” within the meaning of the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended from time to time, or which could result in personal liability, expense, or loss under any other law dealing with environmental matters or hazardous substances. It is acknowledged and agreed that the Trustee has no authority to manage or operate the Project, or any portion thereof, except as necessary to exercise remedies upon default.

SECTION 8.05. Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, requisition, consent, order, certificate, direction, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. At the expense of WBRP, the Trustee may consult with counsel, who may be counsel of or to WBRP, and the advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto is satisfactorily established, if disputed.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of WBRP, and such certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable. In furtherance and not in limitation of the foregoing, the Trustee may in any instance where the Trustee determines that it lacks or is

uncertain as to its authority to take or refrain from taking certain action, or as to the requirements of this Indenture, any Other Document, or any other documents related to the transactions contemplated hereunder under any circumstance before it, delay or refrain from taking action unless and until it has received such certificate from WBRP, or if the Trustee deems necessary, further instructions from WBRP or, at the expense of WBRP, advice from legal counsel (or other appropriate advisor), satisfactory to it in its sole discretion, as the case may be, subject to the requirements of the preceding paragraph concerning interpretations of the Indenture.

SECTION 8.06. Preservation and Inspection of Documents. All documents maintained by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of WBRP and its agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

SECTION 8.07. Compensation and Indemnification. WBRP shall pay the Trustee as compensation for its ordinary services hereunder the fees set forth in the written fee schedule of the Trustee in effect as of the Date of Issue based upon its proposal, payable semiannually in advance, or as of the date of appointment of any successor Trustee, and also all reasonable fees, expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under this Indenture. In the event that it should become necessary that the Trustee perform extraordinary services, it shall be entitled to reasonable extra compensation by WBRP therefor, and to reimbursement for reasonable and necessary extraordinary expenses in connection therewith; provided, that if such extraordinary services are due to the willful misconduct or negligence of the Trustee it shall not be entitled to compensation or reimbursement therefor. The Trustee's rights to receive compensation under this Section shall be secured by, and there is hereby granted, a lien on the Trust Estate, which lien shall be subordinate to the lien in favor of the Owners for payment of the principal of and premium, if any, and interest on the Bonds, except that, upon an Event of Default, but only upon an Event of Default, the Trustee shall have a prior lien upon the Trust Estate for its extraordinary fees, charges and attorney fees (whether incurred before trial, at trial, on appeal or in any bankruptcy or arbitration proceeding) and costs incurred in enforcing the provisions of the Indenture or any other agreement referred to herein.

WBRP covenants and agrees to indemnify and hold the Trustee and its directors, officers, agents and employees (collectively, the “Indemnitees”) harmless from and against any and all liabilities, losses, damages, fines, suits, actions, demands, penalties, costs and expenses, including out-of-pocket, incidental expenses, legal fees and expenses, the allocated costs and expenses of in-house counsel and legal staff and the costs and expenses of defending or preparing to defend against any claim (“Losses”) that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instruction or other direction upon which the Trustee is authorized to rely pursuant to the terms of this Indenture, or for loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with (1) the Project or the Premises, or the conditions, occupancy, use, possession, conduct, environmental condition or management of, or any work done in or about, the Project or the Premises, including any use, presence, storage, disposal, or release of any substance (whether solid, liquid, or gaseous) which

is or may be hazardous or toxic to the environment or to the health or safety of persons on the Premises, including without limitation Environmental Claims arising therefrom or related thereto, or from the planning, design, acquisition or construction of any Project facilities or any part thereof; (2) except those statements provided by the Trustee for inclusion therein, any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a material fact necessary to make the statements made not misleading in any statement, information or material furnished by WBRP or the University, including, but not limited to, the official statement utilized in connection with the sale of the Bonds. In addition to and not in limitation of the immediately preceding sentence, WBRP also covenants and agrees to indemnify and hold the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Trustee's performance under this Indenture or under the Other Documents, provided the Trustee has not acted with negligence or engaged in willful misconduct. The provisions of this Section shall survive the termination of this Indenture and the resignation or removal of the Trustee for any reason.

ARTICLE IX  
MODIFICATION OF THIS INDENTURE  
AND THE LEASEHOLD DEED OF TRUST

SECTION 9.01. Limitations. Neither this Indenture nor the Other Documents shall be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as may be expressly provided therein and in accordance with and subject to the provisions of this Article IX. The Trustee shall not be obligated to enter into or consent to any Supplemental Indenture or any modification, alteration, amendment or supplement to an Other Document that affects the duties, liabilities and immunities of the Trustee hereunder or the rights of the Trustee under Article VIII hereof. Notice of any Supplemental Indenture or any modification, alteration, amendment or supplement to an Other Document shall be given in writing to each Rating Agency, the University and, until the Project Fund is closed, pursuant to Section 4.02(c), the Development Manager.

SECTION 9.02. Supplemental Indentures without Consent of Owners. WBRP may, and, subject to the provisions of Section 9.01 hereof, the Trustee shall, from time to time and at any time (without the consent of or, except as provided below, notice to the Owners of the Bonds) enter into Supplemental Indentures as follows:

- (a) to cure any formal defect, omission, inconsistency or ambiguity in this Indenture;
- (b) to grant to or confer or impose upon the Trustee for the benefit of the Owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with this Indenture as theretofore in effect;
- (c) to add to the covenants and agreement of, and limitations and restrictions upon, WBRP in this Indenture other covenants, agreements, limitations and restrictions to be observed by WBRP that are not contrary to or inconsistent with this Indenture as theretofore in effect;

(d) to confirm, as further assurance, any pledge under, and the subject of the Trust Estate to any claim, lien or pledge created or to be created by, this Indenture;

(e) to provide for the issuance of the Bonds and the creation of funds in connection therewith; to authorize different Authorized Denominations of the Bonds and to make correlative amendments and modifications to this Indenture regarding exchangeability of the Bonds of different Authorized Denominations, redemptions of portions of the Bonds of particular Authorized Denominations and similar amendments and modifications of a technical nature;

(f) to modify, alter, supplement or amend this Indenture in such manner as shall permit the qualification hereof under the Indenture Act, as from time to time amended;

(g) to increase or decrease the number of days for notices or to change the addresses specified in Section 12.06 hereof, provided that no decreases in any such number of days shall become effective until 30 days after the Trustee shall have given notice to the Owners of the Bonds;

(h) to issue Future Bonds as permitted hereunder;

(i) to provide for the procedures required to permit Bonds to be held in certificated form;

(j) to modify, alter, amend or supplement this Indenture in such manner as shall preserve the tax-exempt status of interest on the Bonds originally issued on tax exempt basis; and

(k) to modify, alter, amend or supplement this Indenture in any other respect which is not materially adverse to the Owners and which does not involve a change described in the provisions of Section 9.03(a) hereof.

Before WBRP and the Trustee shall enter into any Supplemental Indenture pursuant to this Section 9.02, there shall have been delivered to the Trustee an Opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Indenture and complies with its terms, that it will, upon the execution and delivery thereof, be valid and binding upon WBRP in accordance with its terms and that it will not adversely affect the exemption from federal income taxation of interest on the Bonds.

SECTION 9.03. Supplemental Indentures with Consent of Owners.

(a) Except for any Supplemental Indenture entered into pursuant to Section 9.02 hereof, subject to the terms and provisions contained in this Section 9.03, the Owners of not less than a majority in aggregate principal amount of Bonds shall have the right from time to time to consent to and approve the execution and delivery by WBRP and the Trustee of any Supplemental Indenture deemed necessary or desirable by WBRP for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided, however, that, unless approved in writing by the Owners

of all Bonds affected by such change, nothing herein contained shall permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of or interest on any Bond, or a reduction in the principal amount or redemption price of any Bond or a change in the method of determining the rate of interest thereon, or (ii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (iii) a reduction in the aggregate principal amount of Bonds the consent of the Owners of which is required for any such Supplemental Indenture or which is required, under Section 9.07 hereof, for any modification, alteration, amendment, or supplement to the Leasehold Deed of Trust.

(b) If at any time WBRP shall request the Trustee to enter into any Supplemental Indenture for any of the purposes of this Section 9.03, the Trustee shall cause notice of the proposed Supplemental Indenture to be given to the University (so long as the Lease shall be in effect and no Lease Default Event has occurred and is continuing), all Owners of Bonds, and, until the Project Fund is closed pursuant to Section 4.02(c), the Development Manager. Such notice (which shall be prepared by or on behalf of WBRP but not by the Trustee) shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by the University (if applicable), all Owners of Bonds and the Development Manager (if applicable).

(c) Within four months after the date of the giving of such notice, WBRP and the Trustee may enter into such Supplemental Indenture in substantially the form described in such notice, but only if there shall have first been delivered to the Trustee (i) the required consents, in writing, of the Owners of Bonds, and, if applicable, the University, in accordance with Section 9.05 hereof, and (ii) an Opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Indenture and complies with its terms, and, upon the execution and delivery thereof, will be valid and binding upon WBRP and the University in accordance with its terms and will not adversely affect the exemption from federal income taxation of interest on the Bonds.

(d) If Owners of not less than the percentage of Bonds required by this Section 9.03 shall have consented to and approved the execution and delivery thereof as herein provided, no Owner shall have any right to object to the execution and delivery of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain WBRP or the Trustee from executing and delivering the same or from taking any action pursuant to the provisions thereof.

**SECTION 9.04. Effect of Supplemental Indenture.** Upon the execution and delivery of any Supplemental Indenture pursuant to the provisions of this Article IX, this Indenture shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of WBRP, the Trustee and all Owners of Bonds shall thereafter be determined, exercised and enforced under this Indenture subject in all respects to such modifications and amendments.

**SECTION 9.05. Consent for Supplemental Indentures.** Notwithstanding any other provision of this Indenture to the contrary, no Supplemental Indenture shall become effective

unless and until the Trustee, WBRP and the University (so long as the Lease shall be in effect and no Lease Default Event or Permitted Termination Event (as evidenced to the Trustee by a written certificate of WBRP) has occurred and is continuing) shall have consented thereto in writing.

**SECTION 9.06. Amendment of Other Documents without Consent of Owners.** Without the consent of or notice to the Owners of the Bonds, WBRP may modify, alter, amend, or supplement the Other Documents (a) as may be required by the provisions of the Other Documents, respectively, and this Indenture, (b) for the purpose of curing any formal defect, omission, inconsistency or ambiguity therein, (c) in connection with the issuance of Future Bonds, or (d) in connection with any other change therein which is not materially adverse to the Owners of Bonds. For avoidance of doubt, any change to the Other Documents that does not reduce or otherwise limit the University's obligation to pay Base Rent related to the Bonds under the Lease shall be deemed not materially adverse.

Before WBRP shall enter into any modification, alteration, amendment or supplement to the Other Documents pursuant to this Section 9.06, there shall have been delivered to WBRP and the Trustee (i) an Opinion of Bond Counsel stating that such modification, alteration, amendment or supplement is authorized or permitted by this Indenture and complies with its terms, that it will, upon the execution and delivery thereof, be valid and binding upon WBRP in accordance with its terms, and that it will not adversely affect the exemption from federal income taxation of interest on Bonds issued as tax-exempt bonds and (ii) only if the Ground Lease or Lease is modified, appropriate title insurance endorsements insuring that any such modification, alteration, amendment or supplement does not adversely affect the lien of the Other Documents on the Premises.

**SECTION 9.07. Amendment of Other Documents with Consent of Owners.** The Trustee shall not consent to any amendment, change or modification of an Other Document that would limit the University's obligation to pay Base Rent related to the Bonds or would impair or limit the Trustee's lien on the Lease without the written approval or consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, given and procured as provided in Section 9.03 hereof; provided, however, that, unless approved in writing by the Owners of all Bonds then Outstanding, nothing in this Section 9.07 contained shall permit, or be construed as permitting, a material and adverse change in the obligations of WBRP. If at any time WBRP shall request the consent of the Trustee to any such proposed modification, alteration, amendment or supplement, the Trustee shall cause notice thereof to be given in the same manner as provided by Section 9.03 hereof with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed modification, alteration, amendment or supplement and shall state that copies of the instrument embodying the same are on file at the Corporate Trust Office of the Trustee for inspection by all Owners. WBRP may enter into, and the Trustee may consent to, any such proposed modification, alteration, amendment or supplement subject to the same conditions and with the same effect as provided in Section 9.03 hereof with respect to Supplemental Indentures.

ARTICLE X  
DISCHARGE AND DEFEASANCE

SECTION 10.01. Discharge of Indenture. Bonds may be paid by WBRP in any of the following ways, provided that WBRP also pays or causes to be paid any other sums payable hereunder:

- (a) by paying or causing to be paid the principal of and interest on the Bonds, as and when the same become due and payable;
- (b) by defeasance (as provided in Section 10.02 hereof); or
- (c) by delivering to the Trustee, for cancellation by it, the Bonds then Outstanding pursuant to the terms of this Indenture.

The Trustee shall give written notice to the Rating Agency when the principal of and interest on all Outstanding Bonds are fully paid.

If WBRP shall also pay or cause to be paid all other sums payable hereunder, then and in that case, at the election of WBRP (evidenced by a certificate of WBRP filed with the Trustee, signifying the intention of WBRP to discharge all such indebtedness and this Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, this Indenture and the pledge of the Trust Estate, Revenues and other assets made under this Indenture and all covenants, agreements and other obligations of WBRP under this Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of WBRP, the Trustee shall cause an accounting for such period or periods as may be requested by WBRP to be prepared and filed with WBRP and shall execute and deliver to WBRP all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all money or securities or other property held by it pursuant to this Indenture that are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption to the University.

SECTION 10.02. Defeasance. In the event that WBRP or the University shall have set aside irrevocably in a special fund for and pledged money (which shall remain uninvested) and/or Government Obligations, as such term is defined in RCW ch. 39.53, as the same may hereafter be amended or restated, that are not subject to redemption prior to maturity, sufficient in amount (as verified in a report from a firm of certified public accountants), together with known earned income from the investments thereof, to make such payments and to accomplish the refunding or defeasance as scheduled (hereinafter called the "trust account"); then in that case all right and interest of the Owners of the Bonds to be so retired, refunded or defeased (hereinafter collectively called the "defeased Bonds") in the covenants of this Indenture, in the Trust Estate, and in the funds and accounts obligated to the payment of such defeased Bonds, other than the right to receive the funds so set aside and pledged, thereupon shall cease and become void, except that such Owners shall have the right to receive payment of the principal of and premium, if any, and interest on the defeased Bonds from the trust account and, in the event

the funds in the trust account are not available for such payment, shall have the residual right to receive payment of the principal of, premium, if any, and interest on the defeased Bonds from the Trust Estate without any priority of lien or charge against the Trust Estate or covenants with respect thereto except to be paid therefrom (except such rights as exist with respect to payment, exchange and transfer of such Bonds under the pertinent provisions of this Indenture). After the establishing and full funding of such trust account, the defeased Bonds shall be deemed to be discharged, the Trustee shall cancel the defeased Bonds as paid, and WBRP then may, at the direction of the University, so long as the Lease shall be in effect and no Lease Default Event has occurred and is continuing, and otherwise in WBRP's sole discretion, apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes as it shall determine, subject only to the rights of the Owners of any other Bonds then Outstanding. Money held in any defeasance trust account shall be held solely for the benefit of the Owners of said Bonds.

It shall be a condition of any such defeasance of the Bonds that WBRP has obtained and delivered to the Trustee (i) an Opinion of Bond Counsel that such Bonds have been legally defeased under this Indenture and that such refunding or defeasance shall not affect the tax-exempt status of the 2015A Bonds; and (ii) a verification report of independent certified public accountants. It shall be a condition of any defeasance of the 2015A Bonds that all 2015B Bonds shall have matured on the date of defeasance or shall also be defeased in full.

SECTION 10.03 Right to Title Upon Defeasance of the Bonds. Notwithstanding anything herein to the contrary, the University shall have the right at any time to obtain unencumbered fee title and exclusive possession of the Project financed by the Bonds by:

- (a) placing into the trust account an amount that will be sufficient to defease the Bonds pursuant to Section 10.02 hereof; and
- (b) paying or causing to be paid reasonable costs incident to the defeasance.

At any time before directing a defeasance of the Bonds pursuant to Section 10.02 hereof, the University may not agree or otherwise be obligated to convey any interest in the Project to any person (including the United States of America or its agencies or instrumentalities) for any period extending beyond or beginning after the defeasance. The University may not agree or otherwise be obligated to convey any interest in the Project within 90 days after the defeasance of the Bonds to any person who was a user of the Project, or a related person under Section 103(b)(6)(c) of the Code, prior to the defeasance.

SECTION 10.04 Cancellation of Encumbrances. Upon the redemption or defeasance of the Bonds, WBRP shall immediately cancel all encumbrances on the Project financed by the Bonds not in existence on the Date of Issue, including leases and management contracts. Any lease, management contract, or other similar encumbrance on the Project will be considered immediately cancelled if the lessee, management company, or other user vacates the Project within 90 days after the date of the defeasance or redemption. Encumbrances that do not significantly interfere with the enjoyment of the Project, such as most easements granted to utility companies, are not considered encumbrances for purposes of this Section 10.04.

ARTICLE XI  
FORM OF BONDS

SECTION 11.01. Form of Bonds. The Bonds shall be in substantially the following form with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture:

R- \_\_\_\_\_ \$ \_\_\_\_\_

UNITED STATES OF AMERICA  
WBRP 3.2  
LEASE REVENUE BOND, SERIES 2015[A/B]  
[(TAXABLE)]

MATURITY DATE: \_\_\_\_\_ CUSIP NO. \_\_\_\_\_  
INTEREST RATE: \_\_\_\_\_  
DATED: \_\_\_\_\_  
PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS  
REGISTERED OWNER: CEDE & Co.

WBRP 3.2, a Washington nonprofit corporation (“WBRP”), for value received, hereby promises to pay (but only out of the Trust Estate pledged therefor as hereinafter mentioned) to the Registered Owner identified above, or registered assigns, on the Maturity Date (subject to any right of prior redemption hereinafter mentioned), the Principal Amount identified above in lawful money of the United States of America; and to pay interest on the Principal Amount hereof in like lawful money from the date hereof until payment of such Principal Amount shall be discharged as provided in the Indenture hereinafter mentioned, at the Interest Rate set forth above, payable on the first day of each \_\_\_\_\_ and \_\_\_\_\_ (an “Interest Payment Date”) commencing \_\_\_\_\_ 1, 2016. For so long as this bond is in fully immobilized form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that this bond is no longer in fully immobilized form, the principal (or redemption price) hereof is payable upon presentation hereof at maturity or redemption date at the designated corporate trust office of U.S. Bank National Association (together with any successor as trustee under the Indenture, the “Trustee”).

This bond is one of a duly authorized issue of bonds of WBRP designated as “WBRP 3.2 Lease Revenue Bonds, Series 2015[A/B] [(Taxable)]” (the “Bonds”), issued in the aggregate principal amount of \$ \_\_\_\_\_ being issued pursuant to that certain Indenture of Trust, dated as of October 1, 2015, between WBRP and the Trustee (the “Indenture”). Capitalized terms used in this bond have the meanings given such terms in the Indenture.

The Bonds are issued for the purpose of financing the permitting, design, construction and equipping of Biomedical facilities in South Lake Union in Seattle, Washington, which shall be leased to the University of Washington (the “University”), pursuant to a Facilities Lease for Biomedical Facilities, Seattle, Washington, dated as of October 1, 2015, between WBRP and

landlord and the University (the “Lease”), for the purposes and on the terms and conditions set forth therein.

Reference is hereby made to the Indenture (copies of which are on file at the corporate trust office of the Trustee in Seattle, Washington) and all indentures supplemental thereto and to the Resolution for a description of the rights thereunder of the Registered Owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of WBRP thereunder, to all the provisions of which Indenture and Resolution the Registered Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds and the interest thereon are payable from Revenues (as defined in the Indenture), as and to the extent provided in the Indenture, and are secured by a pledge and assignment of said Revenues, a Leasehold Deed of Trust, and of amounts held in the funds and accounts established pursuant to the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Bonds are further secured by an assignment of the rights, title and interest of WBRP in the Lease (to the extent and as more particularly described in the Indenture).

The 2015A Bonds of this issue are subject to optional [and mandatory] redemption as provided in the Indenture.

Notice of any redemption of Bonds shall be given by mail to the Registered Owners of Bonds to be redeemed in the manner provided in the Indenture.

If an Event of Default (as that term is defined in the Indenture) in the payment of principal of or interest on the Bonds shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture.

The Bonds are not “qualified tax exempt obligations” under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, if acquired by banks and other financial institutions.

It is hereby certified and recited that any and all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Indenture and applicable law and that the amount of this Bond is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Trustee.

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IN WITNESS WHEREOF, WBRP 3.2 has caused this Bond to be executed in its name and in its behalf by the manual or facsimile signature of its President and Secretary initially all as of the date of original issuance and thereafter as provided in the Indenture.

WBRP 3.2

By \_\_\_\_\_  
President

Attested by:

\_\_\_\_\_  
Secretary

[FORM OF CERTIFICATE OF AUTHENTICATION]

Date of Authentication: \_\_\_\_\_

This is one of the WBRP 3.2 Lease Revenue Bonds, Series 2015[A/B] [(Taxable)], as described in the within-mentioned Indenture.

U.S. Bank National Association, as Trustee

By \_\_\_\_\_  
Authorized Officer

ARTICLE XII  
MISCELLANEOUS

SECTION 12.01. Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture either WBRP or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of WBRP and the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

SECTION 12.02. Limitation of Rights to Parties and Bond Owners. Nothing in this Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than WBRP, the Trustee, the University, the Development Manager and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision therein or herein contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of WBRP, the Trustee, the University, the Development Manager and the Owners of the Bonds.

SECTION 12.03. Waiver of Notice. Except as otherwise provided herein, whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the

giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 12.04. Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to WBRP of any Bonds, in lieu of such cancellation and delivery and unless otherwise directed by WBRP, the Trustee may treat such Bonds in accordance with its document retention policies or as may be directed by applicable law.

SECTION 12.05. Severability of Invalid Provisions. If any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. WBRP hereby declares that it would have entered into this Indenture and each and every other section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant hereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

SECTION 12.06. Notices. Any notice to or demand upon the following parties shall be given by first class mail, return receipt requested, as set forth below, or to such other addresses as may from time to time be furnished, effective upon the receipt of notice thereof given as provided for in this Section 12.06.

If to WBRP: WBRP 3.2  
c/o National Development Council  
1218 Third Avenue, Suite 1403  
Seattle, Washington 98101  
Attention: John Finke

If to the University: *Delivery Address:*  
University of Washington  
Real Estate Office  
4333 Brooklyn Avenue N.E.  
Seattle, Washington 98195-9446

*Mailing Address:*  
University of Washington  
Real Estate Office  
Campus Box 359446  
Seattle, Washington 98195-9446

Phone: 206-616-3400  
Fax: 206-685-1547

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with a copy to: University of Washington  
Treasury Office  
4311 11th Avenue NE  
Suite 600  
Seattle, WA 98105-6369

If to the Trustee: U.S. Bank National Association  
1420 Fifth Avenue, 7<sup>th</sup> Floor  
Seattle, WA 98101  
Attn: Global Corporate Trust Services

SECTION 12.07. Notice to Rating Agencies. The Trustee shall provide each Rating Agency with written notice prior to the effective date of such event of (i) any successor Trustee, (ii) any material amendments to this Indenture, the Ground Lease or the Lease, and (iii) the redemption in whole of the Bonds.

SECTION 12.08. Evidence of Rights of Bond Owners. Any request, consent or other instrument required or permitted by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and WBRP if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of registered Bonds shall be proved by the Bond Register.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or WBRP in accordance therewith or reliance thereon.

SECTION 12.09. Applicable Provisions of Law. This Indenture shall be governed by and construed in accordance with the laws of the State.

SECTION 12.10. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts, or as many of them as WBRP and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 12.11. No Recourse on Bonds. No recourse shall be had for the payment of the principal of or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in the Indenture, against any past, present or future officer, employee or agent, or member of WBRP, or any successor to WBRP, as such, either directly or through WBRP, or any past, present, or future officer, employee or agent, or member of any successor to WBRP under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officer, employee or agent, or member of WBRP or any successor to WBRP, as such, is expressly waived and released as a condition of and in consideration for the execution of the Indenture and the issuance of the Bonds.

SECTION 12.12. Continuing Disclosure by WBRP. Pursuant to the terms of the Continuing Disclosure Agreement, WBRP has undertaken responsibility to comply with the continuing disclosure requirements of the Rule (the "Issuer Undertaking"). Failure by WBRP to comply with the Continuing Disclosure Agreement will constitute neither an Event of Default nor a default under the Indenture; however the disclosure agent may (and, at the request of the Owners of at least a majority in aggregate principal amount of the Bonds Outstanding and payment of its fees and expenses, including attorneys' fees, shall) or any Bondowner may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause WBRP or the disclosure agent, to comply with the Issuer Undertaking.

SECTION 12.13. Continuing Disclosure by University. Pursuant to its Undertaking for Ongoing Disclosure, dated October 7, 2015 (the "University Undertaking"), the University has undertaken responsibility to comply with the continuing disclosure requirements of an "Obligated Person" with respect to the Bonds as set forth in Section (b)(5)(i) of the Rule. Neither the Trustee nor WBRP shall have any liability to the Owners or Beneficial Owners of the Bonds or any other Person with respect to such disclosure matters, and failure by the University to comply with the University Undertaking will constitute neither an Event of Default nor a Lease Default Event; however any disclosure agent may (and, at the request of the Owners of at least a majority in aggregate principal amount of the Bonds Outstanding and payment of its fees and expenses, including attorneys' fees, shall) or any Bondowner may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the University or the disclosure agent, to comply with the University Undertaking.

SECTION 12.14. Force Majeure. Notwithstanding any other provision of this Indenture, the Trustee shall not be obligated to perform any obligation hereunder and shall not incur any liability for the nonperformance or breach of any obligations hereunder to the extent that the Trustee is delayed in performing, unable to perform or breaches such obligation because of acts of God, it being understood that the Trustee shall use commercially reasonable efforts consistent with accepted practices for corporate trustees to maintain performance without delay or resume performance as soon as reasonably practicable under the circumstances.

IN WITNESS WHEREOF, WBRP 3.2 has caused this Indenture to be signed in its name by its duly authorized officer, and U.S. Bank National Association, in accepting the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunder duly authorized, all as of the day and year first above written.

WBRP 3.2

By \_\_\_\_\_  
Vice President

U.S. Bank National Association, as Trustee

By \_\_\_\_\_  
Vice President

EXHIBIT A  
REQUISITION CERTIFICATE

TO: U.S. Bank National Association, as Trustee

FROM: WBRP 3.2

SUBJECT: Indenture of Trust dated as of October 1, 2015 (the "Indenture") regarding WBRP 3.2 Lease Revenue Bonds, Series 2015A and Series 2015B (Taxable) (the "Bonds")

This represents Requisition Certificate No. \_\_\_\_\_ in the total amount of \$ \_\_\_\_\_ for payment of Costs of Issuance of the Bonds or Costs of the Project. You are requested to make the disbursement(s) to pay this requisition from the following funds, accounts or subaccounts under the Indenture:

- Cost of Issuance Fund  
Payee/Account No: \_\_\_\_\_  
Payee/Account No: \_\_\_\_\_  
Payee/Account No: \_\_\_\_\_  
Payee/Account No: \_\_\_\_\_
- Project Fund— Non-Bond Proceeds Subaccount  
Payee/Account No: \_\_\_\_\_  
Payee/Account No: \_\_\_\_\_  
Payee/Account No: \_\_\_\_\_  
Payee/Account No: \_\_\_\_\_
- Project Fund— Bond Proceeds Subaccount  
Payee/Account No: \_\_\_\_\_  
Payee/Account No: \_\_\_\_\_  
Payee/Account No: \_\_\_\_\_  
Payee/Account No: \_\_\_\_\_

The undersigned does hereby represent, warrant and certify under the Indenture that:

1. The expenditures for which money is requested hereby represent proper Costs of Issuance of the Bonds or Costs of the Project and have not been included in a previous Requisition Certificate.
2. The money requested hereby is not greater than that necessary to meet obligations due and payable. The money requested does not include retention or other money not yet due or earned under construction contracts.

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3. If any portion of the draw under this requisition is to be paid to the General Contractor, all payment and performance bonds required by the Development Management Agreement have been delivered to the Development Manager.

Terms capitalized herein have the meanings specified in the Indenture.

Executed this \_\_\_ day of \_\_\_\_\_, 20\_\_.

WBRP 3.2  
 By \_\_\_\_\_  
 Authorized Representative

EXHIBIT B

FINAL COMPLETION CERTIFICATE

TO: U.S. Bank National Association, as Trustee  
 FROM: WBRP 3.2  
 SUBJECT: Indenture of Trust dated as of October 1, 2015 (the "Indenture") regarding the WBRP 3.2 Lease Revenue Bonds, Series 2015A and Series 2015B (Taxable) (the "Bonds")

The undersigned does hereby represent, warrant and certify under the Indenture:

1. Final completion of the Project has occurred and the Costs of the Project have been paid in full except for those not yet due and payable, which are described below:

(a) Costs of the Project not yet due and payable:

<u>Description</u>	<u>Amount</u>
	\$ _____
TOTAL	\$ _____

(b) Payments being contested:

<u>Description</u>	<u>Amount</u>
	\$ _____
TOTAL	\$ _____

(c) Holdback Amounts

Amount (not exceeding \$ \_\_\_\_\_) reserved for warranty work to be retained in the Project Cost Account until \_\_\_\_\_, 20\_\_.

\$ \_\_\_\_\_

\$ \_\_\_\_\_

2. The Rebate Analyst has made the rebate calculation required pursuant to Section 4.13 of the Indenture. Based on this calculation, the Trustee is hereby directed to transfer \$ \_\_\_\_\_ from funds available in the Bond-Proceeds Subaccount in the Project Fund to the Rebate Fund.

3. No Lease Default has occurred. WBRP hereby directs the Trustee to pay \$\_\_\_\_\_ from the Project Fund to the University to be used for additional Costs of the Project.

4. No Lease Default Event has occurred. The money remaining in the Project Fund in excess of the amounts set forth in 1(a), (b), (c), 2, and 3 above is no longer needed to pay Costs of the Project, and the Trustee is hereby authorized and directed to transfer \$\_\_\_\_\_ of such money to the Principal Account, to be used to pay principal of the Bonds and until such payment is made to be invested at a yield not in excess of the yield on the Bonds. Amounts paid as Additional Rent to pay interest on the Bonds shall be deposited in the Revenue Fund and applied to pay interest on the Bonds.

Executed this \_\_\_ day of \_\_\_\_\_, 20\_\_.

WBRP 3.2

\_\_\_\_\_  
Authorized Representative

cc:

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FACILITIES LEASE FOR  
 BIOMEDICAL RESEARCH FACILITIES  
 SEATTLE, WASHINGTON

Between

WBRP 3.2,  
 AS LANDLORD

and

THE BOARD OF REGENTS  
 OF THE UNIVERSITY OF WASHINGTON,  
 AS TENANT

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**FACILITIES LEASE**

THIS FACILITIES LEASE (“*Lease*”), dated for reference purposes October 1, 2015, is made by and between WBRP 3.2, a Washington nonprofit corporation (“*WBRP*”) and THE BOARD OF REGENTS OF THE UNIVERSITY OF WASHINGTON, a state institution of higher education and an agency of the State of Washington (the “*University*”).

*Recitals*

A. WBRP is a 501(c)(3) non-profit corporation organized, among other purposes, to promote economic development, social welfare and education through the financing and construction of public facilities and cooperative programs with governmental entities. The University is an agency of the State of Washington that operates a state university for the education of undergraduate and graduate students. The University is among the top universities nationwide in the amount of federally funded research that it conducts.

B. To create a biomedical research facility, with associated clinical and administrative space, as more fully described on **Exhibit B** attached hereto (“*Improvements*”) that can be occupied and used by the University of Washington for its School of Medicine (the “*UW SOM*”) or otherwise, WBRP, as lessee, entered into a ground lease dated July 30, 2010, as amended as of December 1, 2010 (“*Ground Lease*”) with City Investors XII L.L.C., a Washington limited liability company (“*Ground Lessor*”) with respect to the real property described therein (“*Leased Property*”).

C. WBRP intends to obtain financing to develop and construct the Improvements. Financing for such development and construction will be secured by, among other things, WBRP’s interest as lessee under the Ground Lease and WBRP’s interest as lessor under this Lease. To facilitate timely performance of the Project, WBRP entered into a Pre-Development Agreement dated July 20, 2015 with the University. In addition, WBRP entered into a Development Management Agreement dated July 30, 2010, as amended as of December 1, 2010, with City Investors LLC, a Washington limited liability company (“*Development Manager*”), and will enter into a general construction contract and other contracts for the design and construction of the Improvements.

D. WBRP and the University are entering into this Lease to give the University the rights to occupy and use the Improvements for research and associated activities for a period ending May 31, 2063, with a possible extension to May 31, 2068. This Lease also grants the University substantial rights to participate in the design and construction of the Improvements. The parties intend that this Lease be an absolute net lease on a commercial, arms-length basis.

*Agreements*

**1. BASIC LEASE PROVISIONS.**

This Section contains the basic provisions of this Lease between WBRP and the University:



TENANT'S NAME AND ADDRESS: Board of Regents of the University of Washington

*Mailing Address:*  
 UW Real Estate  
 Campus Box 359446  
 Seattle, Washington 98195-9446

*Delivery Address:*  
 UW Real Estate  
 4333 Brooklyn Avenue N.E.  
 Seattle, Washington 98195-9446

Phone: 206-616-3400  
 Fax: 206-685-1547

LANDLORD'S NAME AND ADDRESS: WBRP 3.2  
 c/o The National Development Council  
 1218 Third Avenue, Suite 1403  
 Seattle, Washington 98101  
 Phone: 206-448-5244  
 Fax: 206-448-5246

PROPERTY ADDRESS: 500 Dexter Avenue N.  
 Seattle, Washington

LEASE COMMENCEMENT DATE: October 7, 2015

LEASE TERM AND LEASE TERMINATION DATE: The Lease Term runs from the Lease Commencement Date through May 31, 2063 and may be extended pursuant to Section 4 hereof. This Lease may be terminated prior to the end of the scheduled term in accordance with Section 20 hereof.

EXTENSION OPTION: Option to extend until May 31, 2068

PERMITTED USE: All uses not prohibited by the Ground Lease

RENT COMMENCEMENT DATE: March 1, 2018

BASE RENT: See Section 6.2 hereof.

ADDITIONAL RENT: See Section 6.3 hereof.

OPERATING RESERVE: See Section 6.3.2 hereof.

LUMP SUM PAYMENT: See Section 6.6 hereof

THE PROJECT AND ADDITIONAL TENANT IMPROVEMENTS: See Section 8 hereof.

SECURITY DEPOSIT: None

EXHIBITS:

EXHIBIT "A"	Legal Description of Leased Property
EXHIBIT "B"	Description of Improvements
EXHIBIT "C"	Calculation of Base Rent
EXHIBIT "D"	Preliminary Project Development Budget
EXHIBIT "E"	Work Letter/Communication and Cooperation Between WBRP and the University

**2. DEFINITIONS.** As used in this Lease, the following capitalized terms shall have the following meaning:

*"Additional Rent"* has the meaning set forth in Section 6.3 of this Lease.

*"Additional Rent Components"* has the meaning set forth in Section 6.3.1 of this Lease.

*"Additional Tenant Improvements"* has the meaning set forth in Section 8.2 hereof.

*"Architect"* means Perkins & Will, Inc., a Delaware corporation.

*"Architect's Agreement"* means the agreement to be entered into between WBRP and the Architect for architectural services relating to the Improvements.

*"Base Rent"* has the meaning set forth in Section 6.2.1 hereof.

*"Bond Financing"* or *"Bonds"* means any tax-exempt or taxable bond financing obtained by WBRP to construct the Improvements.

*"Bond Trustee"* means the trustee appointed under the Trust Indenture executed with respect to the Bond Financing.

*"Development Management Agreement"* means the Development Management Agreement between Development Manager and WBRP dated as of July 30, 2010, as amended as of December 1, 2010.

*"Development Manager"* means City Investors LLC, a Washington limited liability company.

**“Environmental Laws”** mean any federal, state or local law, rule or regulation pertaining to health, industrial hygiene or environmental conditions of the Premises, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“**CERCLA**”), 42 U.S.C. Section 9601 et seq., as amended by the Superfund Amendments and Reauthorization Act of 1986 (PL 99-499), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Toxic Substance Control Act, 15 U.S.C. Section 2601, et seq., and the Resource Conservation and Recovery Act of 1976, as amended (“**RCRA**”), 42 U.S.C. Section 6901, et seq.

**“Extension Option”** has the meaning set forth in Section 5 hereof.

**“Financing”** means the Bond Financing.

**“Financing Documents”** means the documents executed in connection with the Bond Financing.

**“General Construction Contract”** means the guaranteed maximum price general construction contract that is to be executed between WBRP and the General Contractor for construction of the Improvements

**“General Contractor”** means Sellen Construction Company, the general contractor with whom WBRP enters into a General Construction Contract for construction of the Improvements.

**“General Revenues of the University”** has the meaning set forth in Section 6.9 hereof.

**“Ground Lease”** means that certain Ground Lease between WBRP and Ground Lessor dated July 30, 2010, as amended as of December 1, 2010, the term of which was, on September 30, 2015, extended through May 31, 2063.

**“Ground Lessor”** means City Investors XII L.L.C., a Washington limited liability company.

**“Ground Rent”** means “Rent” under and as defined in the Ground Lease.

**“Hazardous Substance”** means any matter including petroleum products and by-products, asbestos, infectious waste and any other material, which is now or hereafter designated as a hazardous substance pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, et seq., or that is now or hereafter regulated by applicable Environmental Laws.

**“Improvements”** has the meaning set forth in Recital C hereof and includes WBRP’s interest in the Shared Underground Facilities.

**“Initial Term”** has the meaning set forth in Section 4 hereof.

**“Lease Commencement Date”** has the meaning set forth in Section 1 hereof.

**“Lease Termination Date”** means May 31, 2063, as it may be extended pursuant to Section 4 hereof.

**“Lease Year”** means a one year period that corresponds with a “Lease Year” under Section 4.7.1 of the Ground Lease.

**“Leased Property”** has the meaning set forth in the Recitals.

**“Lump Sum Payment”** has the meaning set forth in Section 6.6 hereof.

**“MUP”** means the master use permit issued by the City of Seattle for the development of the Improvements.

**“New Hazardous Substances”** means all Hazardous Substances in, on or under the Premises and first arising after the date of this Lease as a result of the use or occupancy of the Property by the University and its subtenants and their successors and assigns.

**“Operating Reserve”** has the meaning set forth in Section 6.3.2.

**“Premises”** has the meaning set forth in Section 3 hereof.

**“Project”** means the leasing of the Leased Property by WBRP as tenant under the Ground Lease, the construction and financing of the Improvements by WBRP on the Leased Property, the leasing of the Premises by WBRP to the University under this Lease, and all reasonable and proper actions and undertakings of WBRP relating to any of the foregoing.

**“Project Costs”** means the total costs of completing the Project, including but not limited to design and construction of the Improvements, capitalization of interest during construction and any other start-up period required under the Financing Documents, capitalized Ground Rent, development fees and other associated costs of the Project, reimbursement of the University’s out-of-pocket expenses incurred in connection with the Project (including but not limited to attorneys’ fees), reserves required under the Financing Documents, costs of issuance and any other loan or finance fees associated with any Financing.

**“Project Funds”** means the total funds available to WBRP to pay Project Costs, including: (i) the Lump Sum Payment, (ii) the amounts available therefor under the Bond Financing, (iii) funds made available for Project Costs by the University pursuant to Section 8.1(g), (iv) Rent and Additional Rent received by WBRP hereunder, and (v) any insurance or condemnation awards or proceeds made available to WBRP following destruction of partial condemnation of the Premises.

**“Property Manager”** has the meaning set forth in Section 10.3 hereof.

**“Reciprocal Easements Agreement”** means a Reciprocal Easements and Maintenance Agreement dated December 1, 2010, executed by and among Ground Lessor, WBRP,

Washington Biomedical Research Facilities 3, and WBRP 3.3, a Washington nonprofit corporation, and recorded under King County Recording No. 20101213001485, as it may be amended.

“**Rent**” means the sum of Base Rent, Lump Sum Payment and Additional Rent, each as defined herein.

“**Rent Commencement Date**” has the meaning set forth in Section 1 hereof.

“**Rent Payment Date**” means (i) for each month other than July and January, three business days prior to the beginning of such month, and (ii) for the months of July and January, the fifth business day of such months.

“**Shared Underground Facilities**” has the meaning set forth in Section 3.10.1.5 of the Ground Lease.

“**Start-Up Period**” has the meaning set forth in Section 4 hereof.

“**Taxes**” means all real property taxes and assessments (including assessments for special improvements), license and permit fees, charges for public utilities, excise taxes, levies, sales, use and occupancy taxes, any tax or charge assessed against the Rent or fair market value of the Leased Property or the Project, and any taxes levied or assessed in addition to or in lieu of, in whole or in part, such taxes, assessments or other charges and all other governmental impositions and charges of every kind and nature, general and special, which may be imposed, levied upon or assessed against or which arise with respect to or constitute a lien upon the Premises or the Project (or any part thereof).

“**Temporary Construction Easement**” means the Temporary Construction Easement Agreement with a reference date of October 1, 2015, between WBRP and WBRP 3.3.

“**Term**” means the period beginning on the Lease Commencement Date and terminating on the Lease Termination Date set forth in Section 1 above.

“**Utilities**” means all utilities and services furnished to the Premises, including, without limitation, gas, electricity, water, sewer, garbage collection, but excluding telephone, telecommunications and data transmission services.

“**WBRP Expenses**” has the meaning set forth in Section 6.4 hereof.

“**WBRP’s Construction Consultant**” means the construction consultant with whom WBRP enters into a Construction Consulting Agreement for the Improvements.

“**WBRP’s Construction Consulting Agreement**” means the Project Services Agreement between WBRP and WBRP’s Construction Consultant

**3. PREMISES.** WBRP leases to the University and the University leases from WBRP the Premises for the Term. The “**Premises**” means and consists of WBRP’s estate and interest in (i) the Leased Property legally described on **Exhibit A** attached hereto which is subject of the Ground Lease, (ii) the beneficial rights and interests of WBRP under the Reciprocal Easements Agreement and (iii) the Improvements. The University has inspected the Premises in its present condition and agrees with WBRP to accept the Premises subject to WBRP’s obligation to complete the Improvements in accordance with Section 8 hereof. In no event shall this Lease be deemed to be an assignment to the University of WBRP’s interest in the Ground Lease.

**4. TERM.** This Lease will have an initial “**Start-Up Period**” commencing on the Lease Commencement Date and ending on the Rent Commencement Date hereunder. During the Start-Up Period no Base Rent shall accrue or be payable. The “**Initial Term**” of this Lease means and consists of the period beginning on the Lease Commencement Date and expiring on the “**Lease Termination Date**”, which means the date that the initial term of the Ground Lease terminates (the “**Ground Lease Termination Date**”). In no event shall the term of this Lease be longer than the term of the Ground Lease.

**5. OPTION TO EXTEND.** WBRP has, at the direction of the University, previously exercised its option to extend the Ground Lease through May 31, 2063. So long as: (i) WBRP retains the option to further extend the Ground Lease for one additional term until May 31, 2068, as described in Section 2.3 of the Ground Lease, (ii) the University has given timely notice of its election to exercise the Extension Option and has authorized and directed WBRP to exercise such extension option under the Ground Lease and has directed Washington Biomedical Research Facilities 3 and WBRP 3.3 to exercise their extension options under their respective ground leases, and (iii) there does not exist any payment default hereunder, then the University shall have one option (the “**Extension Option**”) to extend this Lease on the same terms and conditions (except for Base Rent) until May 31, 2068 (“**Extension Period**”). The University may extend the Term by giving WBRP and Ground Lessor written notice of the exercise of the Extension Option by not later than December 31, 2019. Such notice shall include authorization and direction to WBRP to exercise its option to extend the Ground Lease. As provided in the Ground Lease, the University’s exercise of its Extension Option hereunder by notice to WBRP and Ground Lessor is an automatic request for an identical extension under the Ground Lease. If the University exercises the Extension Option, then simultaneously with the exercise of such option, the University shall pay to WBRP the extension fee referred to in Section 2.3.1 of the Ground Lease as the Second Extension Fee which WBRP shall immediately remit to Ground Lessor to satisfy the requirements of the Ground Lease.

## **6. RENT AND OTHER PAYMENT OBLIGATIONS.**

**6.1 Absolute Net Lease.** This Lease is intended to be an absolute net lease and all costs of WBRP in performing its obligations as landlord under this Lease, or as the ground lessee under the Ground Lease or as a party to the Reciprocal Easements Agreement, are to be passed through to the University under this Lease or paid directly by the University.

### **6.2 Base Rent.**

**6.2.1 Payment of Base Rent; Components.** From and after the Rent Commencement Date and continuing until the Lease Termination Date, as it may have been extended, the University shall pay Base Rent not later than the Rent Payment Date to WBRP at the address listed in Section 1 or such address(es) or to such account(s) as WBRP may have directed in writing. Such Base Rent shall be payable without offset, deduction or counterclaim. The “*Base Rent*” shall mean and be calculated as the sum of the following “*Base Rent Components*”:

**6.2.1.1 Ground Rent.** The amount of Ground Rent due under the Ground Lease; plus

**6.2.1.2 Regular Payments Due Under Bond Financing.** Until any Bond Financing is paid in full, the amount of debt service or other regular monthly payments due under any Bond Financing obtained in accordance with Section 6.10; plus

**6.2.1.3 Additional Monthly Charge.** An amount equal to \$7,500 per month commencing on the Rent Commencement Date and continuing through December 31, 2016, with such monthly amount increasing by 1.0% commencing on January 1, 2017 and by an additional 2.0% on January 1 of each successive year (i.e., 2.0% of the amount in effect during the immediately preceding year), until this Lease is terminated.

**6.2.1.4 Calculation of Base Rent.** The calculation of Base Rent is attached as **Exhibit C** attached hereto.

**6.2.2 Late Charges.** Any late charges, default interest, or other penalties incurred by WBRP under the Ground Lease, Reciprocal Easements Agreement or any Financing as a result of the University’s failure to timely pay Base Rent shall be paid by the University as a “*Late Charge*”, payable when such late charges, default interest, or penalties are due under the Ground Lease, Reciprocal Easements Agreement or the Bond Financing.

**6.2.3 Adjustments to Base Rent.** Base Rent will be increased or decreased concurrently with and in the amount of all increases or decreases to Ground Rent, and payments due under the Bond Financing. Therefore, WBRP will, or may cause the Bond Trustee to, keep the University continuously advised of the amount of Base Rent due each month under this Lease, and will provide the University with its calculations thereof. WBRP will notify the University of any change in the Base Rent at least 30 days prior thereto.

**6.3 Additional Rent.** In addition to Base Rent and the Lump Sum Payment, from and after the earlier of (i) the date on which the University first occupies the Property following substantial completion of the Project or (ii) the Rent Commencement Date and continuing until the Lease Termination Date, as it may have been extended, the University shall pay WBRP “*Additional Rent*” in an amount equal to the sum of the Additional Rent Components.

**6.3.1 Expenses to Be Included in Additional Rent.** The “*Additional Rent Components*” payable by the University as Additional Rent shall mean and be the following:

**6.3.1.1 WBRP’s Insurance.** Premiums incurred by WBRP for insurance coverage maintained by WBRP that is required by this Lease, the Ground Lease, the Development Management Agreement, and the Financing Documents;

**6.3.1.2 Taxes.** All real property, personal property, and other taxes and assessments associated with the Leased Property, as required under Section 9 of this Lease or Section 5 of the Ground Lease;

**6.3.1.3 WBRP’s Accounting Fees.** The accounting and auditing fees incurred by WBRP and approved in advance by the University in connection with the preparation of all financial statements and other financial certifications required under any Financing, including but not limited to the Bonds;

**6.3.1.4 Bond Financing Costs.** All arbitrage rebates, Bond custodial fees, Trustee’s fees, and any other fees or rebates relating to the Bonds and not available from Project Funds, costs payable in connection with any required defeasance or redemption of the Bonds, and interest on the Bonds during the period (if any) beginning on final completion of the Project (after which time amounts in the Capitalized Interest Fund created under the Trust Indenture for the Bonds will no longer be available to pay such interest) and ending on the Rent Commencement Date (after which time interest will be paid through Base Rent received from the University);

**6.3.1.5 Maintenance and Repair Costs.** All costs of repair, replacement, operation, and maintenance of the Premises, as required under Section 10 of this Lease, including the cost of supplies, materials, equipment, tools, and labor used in connection with the maintenance, operation, or repair of the Premises and any damage to the Premises caused by any criminal or negligent act (other than intentional misconduct or negligence of WBRP) that is (i) not covered by insurance, (ii) not being paid from the funds referenced in Section 6.6, and (iii) not a repair being accounted for under Section 10.4;

**6.3.1.6 Easement Payments.** Any fees, expenses or charges that are the responsibility of WBRP under the Reciprocal Easements Agreement and the Temporary Construction Easement;

**6.3.1.7 Property Management Fees.** The reasonable fees and reasonable reimbursable expenses of the Property Manager for the Premises;

**6.3.1.8 Utilities.** All costs of Utilities furnished in connection with the Premises;

**6.3.1.9 Janitorial and Building Services.** All costs of services furnished in connection with the Premises, including janitorial, security, gardening, landscaping, and related costs and expenses, licenses, permits, and inspection fees; and

**6.3.1.10 Insufficiency in Operating Reserve.** Any amount by which the Operating Reserve required to be maintained under Section 6.3.2 for the upcoming or current Lease Year exceeds the balance of the Operating Reserve on deposit with WBRP at the

beginning of such Lease Year (but this item shall be disregarded for the Lease Year in which the Rent Commencement Date occurs, because WBRP will specially assess the University for the amount of Additional Rent to establish the Operating Reserve for such Lease Year).

**6.3.2 Operating Reserve.** Commencing on the Rent Commencement Date, WBRP shall be entitled to receive, from a special assessment of Additional Rent, an amount sufficient to establish an “*Operating Reserve*” in the amount described herein, and thereafter on a monthly basis, to receive further payments of Additional Rent to maintain such Operating Reserve in approximately such amount. The amount of the Operating Reserve shall be equal to the sum of 2/12ths of the total annual projected sum of Additional Rent Components for the current Lease Year (but excluding the Additional Rent component described in Section 6.3.1.10) plus one month’s Base Rent (based on the highest amount of Base Rent projected to be due in the Lease Year for which Additional Rent is being calculated), to be held by WBRP to pay Additional Rent Components and Base Rent as and when they become due; provided, however, that the balance in the Operating Reserve at the end of each Lease Year shall be carried forward as a credit in WBRP’s estimate of Additional Rent Components for the next succeeding year and in the establishment of monthly payments of Additional Rent in Section 6.3.3. In the event WBRP uses the Operating Reserve in January or July because its obligations become due before the University is obligated to make a payment, the January or July rent payment shall be used to replenish the Operating Reserve.

**6.3.3 Payment of Additional Rent.** Except for special assessments of Additional Rent or adjustments permitted under Section 6.3.5, non-recurring costs (such as arbitrage rebates) under the Bond Financing, or as otherwise agreed in writing between WBRP and the University, WBRP shall reasonably estimate the total amount of Additional Rent Components reasonably expected to be incurred by WBRP during each Lease Year and shall send notice of the estimate to the University within thirty (30) days after the Term begins and thereafter at least thirty (30) days before commencement of each Lease Year. WBRP will give the University reasonably detailed documentation supporting WBRP’s estimate. On or before the Rent Payment Date, the University shall pay monthly, as Additional Rent, 1/12 of the applicable estimated annual amount to WBRP, together with Base Rent. The University shall continue to make estimated monthly payments of Additional Rent based upon the preceding year’s payment until notified by WBRP of a change in the amount.

**6.3.4 Reconciliation of Additional Rent.** Within ninety (90) days after the end of each Lease Year, WBRP shall give the University a written statement of Additional Rent for such Lease Year certified by a financial officer of WBRP in sufficient detail for verification by the University. In the event the total amount of Additional Rent paid by the University during the prior Lease Year is less than actual amount of Additional Rent Components paid by WBRP, then the University shall pay the difference in a lump sum within thirty (30) days after receipt of WBRP’s reconciliation statement. In the event the total amount of Additional Rent paid by the University during the prior year exceeds the actual amount of Additional Rent Components paid by WBRP, the excess shall be credited by WBRP to the Additional Rent next due and payable; provided, however, that if such excess sum is more than three (3) months of the then estimated Additional Rent, WBRP shall refund such excess to the University within thirty (30) days after the University’s receipt of WBRP’s reconciliation statement. In the Lease Year that this Lease terminates, the final calculation of Additional Rent

shall be done by WBRP within ninety (90) days after the Lease Termination Date with any payments due within thirty days (30) after delivery of such calculation.

**6.3.5 Special Assessments of Additional Rent or Adjustments to Payment Amounts.** Notwithstanding the foregoing procedure for estimation of the total annual amount of Additional Rent and payment of such Additional Rent in equal monthly installments, if WBRP incurs a substantial or extraordinary expenditure or obligation that constitutes an Additional Rent Component and based on the procedure described above WBRP does not or will not have sufficient funds to pay such item, WBRP shall have the right to make one or more special assessments of Additional Rent and/or to adjust the monthly payment of estimated Additional Rent by giving written notice to the University thereof, accompanied by an explanation of the Additional Rent Component needing to be paid and an accounting of the shortfall based on the payments of Additional Rent received to date. Within thirty (30) days after receiving such special assessment of Additional Rent, the University shall pay the amount specified in such notice or shall begin paying monthly Additional Rent in the new monthly amount designated by WBRP. Any such specially assessed Additional Rent shall be included in the next annual reconciliation. WBRP may, at any time after thirty (30) days prior to the Rent Commencement Date, make a special assessment of Additional Rent to first establish the Operating Reserve in the amount required by Section 6.3.2, which shall be due thirty (30) days after such assessment.

**6.3.6 Verification of Additional Rent Components and Operating Reserve.** The University shall have the right, during reasonable business hours and upon ten (10) days’ prior written notice to WBRP, to inspect and audit WBRP’s books and records with respect to this Lease to verify actual Additional Rent Components and the maintenance of the Operating Reserve. WBRP’s books and records shall be kept in accordance with generally accepted accounting principles. If any such audit reveals a discrepancy between WBRP’s statement of the actual Additional Rent Components for a calendar year and the amount determined by such audit, then WBRP shall reimburse the University the excess amount paid by the University (or the University shall pay WBRP the deficiency), if any; and, if such discrepancy reveals an overcharge of more than three percent (3%), WBRP shall promptly reimburse the University for the cost of such audit.

**6.4 Reimbursement of WBRP Expenses.** WBRP may incur certain additional costs and expenses in connection with the construction and maintenance of the Improvements and the leasing of the Premises to the University. As this Lease is intended to be an absolute net lease, the “*WBRP Expenses*”, which are listed in this Section 6.4, will be reimbursed by the University. The University shall, within 30 days of receiving an invoice from WBRP for any WBRP Expenses (except for Section 6.4.3, which shall be payable as set forth therein), pay the amount of such invoice to WBRP to the extent such invoice represents a reimbursable item hereunder. Prior to incurring any obligation under Section 6.4.1, 6.4.2, or 6.4.4, WBRP shall consult with the University as to a reasonable budget for such costs and expenses, attempt in good faith to negotiate caps on costs and expenses if practical and requested by the University, and provide monthly reports of the amounts so incurred.

**6.4.1 WBRP’s Legal Fees and Costs in Enforcing Agreements.** All attorneys’ fees and other costs incurred by WBRP at the request of University in efforts to

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enforce the provisions of the Ground Lease, Reciprocal Easements Agreement, Development Management Agreement, General Construction Contract, WBRP's Consultant Agreement, or other agreements relating to the Project, to remove construction liens from the Premises or to bond against them in the event of a good faith contest, or to enforce product or workmanship warranties given by the Development Manager, General Contractor, or other contractors or suppliers of equipment or materials (unless the University desires that WBRP instead assign such claims and warranties to the University in accordance with Section 11 hereof), but only to the extent that such costs cannot be paid from any contingency accounts, reserve accounts, or Project Funds;

**6.4.2 WBRP's Legal Fees and Costs in Administering and Modifying Agreements.** All reasonable attorneys' fees and other costs incurred by WBRP in routine administering or, at the University's request, modifying the provisions of the Ground Lease, this Lease, the General Construction Contract, the WBRP's Consultant Agreement, the Financing Documents, or other agreements relating to the Project, the administration of claims and insurance awards after damage, destruction, or a covered liability, the administration of claims in connection with any condemnation proceeding, any future renovations or alterations of the Premises, any future financings undertaken at the request of the University, or any other consents, approvals, or other actions requested or taken by WBRP under any such agreements in response to requests by the University or factual occurrences requiring WBRP's consents, approvals, or actions;

**6.4.3 WBRP's Advances to Pay Delinquent University Obligations.** Any amount that WBRP had advanced, at its election but without any obligation hereunder to do so, to pay any obligation that the University has failed to pay prior to delinquency and that have remained unpaid for a period of ten (10) days following WBRP's written notice to the University of such delinquent obligation;

**6.4.4 Costs Resulting from the University Actions.** Any additional attorneys' fees, costs or liabilities that WBRP may incur, including costs associated with any challenge to WBRP's non-profit tax-exempt status, arising from the University's actions in subleasing of any portions of the Premises, or any other actions of the University under this Lease or with respect to the Premises;

**6.4.5 Cost of Compliance with Laws.** All costs of ongoing compliance with governmental laws, building codes, and laws of the board of fire underwriters (or similar organization) now or hereafter constituted as applicable to the Premises;

**6.4.6 Other Ground Lease Expenses.** All other expenses of WBRP as ground lessee under the terms of the Ground Lease (not resulting from WBRP's default), subject to the exclusions described in Section 6.5.

**6.5 Exclusions from Base Rent and Additional Rent.** Notwithstanding any other provisions of this Lease, Base Rent and Additional Rent Components shall not include any of the following expenses:

(a) Any expense paid from proceeds of or reserves established under any Bond Financing;

(b) Any expense for which WBRP is reimbursed by insurance, warranty or condemnation award;

(c) Any costs for WBRP to continue to exist as a Washington non-profit corporation, costs of any annual licenses or tax returns of WBRP, and any internal overhead of WBRP;

(d) Any interest, fines, late charges, or penalties incurred by WBRP as a result of WBRP's negligence or intentional misconduct or due to late payment or late performance not caused by the University;

(e) Any cost to make repairs or replacements relating to damage caused by the negligence or intentional misconduct of WBRP; provided, however, that the University specifically confirms that except for WBRP's obligation to exercise reasonable diligence and good faith efforts to (i) complete the Improvements and (ii) rebuild and restore the Premises with insurance and condemnation proceeds as required by the Ground Lease and the Financing Documents and except as provided in Section 10.1 hereof, WBRP has no duties, obligations, or liability whatsoever relating to the suitability of the Premises for the University's particular use, the obligation to maintain and repair the Premises, the bursting of pipes or the failure or building utilities or services, or any damage to the Premises; or

(f) Any costs that are paid from the Lump Sum Payment received by WBRP under Section 6.6.

**6.6 Lump Sum Payment.** The University shall, in addition to Base Rent and Additional Rent, make a lump sum payment of rent in the amount of \$\_\_\_\_\_ (the "**Lump Sum Payment**") on the Rent Commencement Date, to be allocated pursuant to the Bond Financing to retire the Series 2015B Bonds. WBRP shall provide the University a notice of such payment obligation not later than thirty (30) days prior to the Rent Commencement Date.

**6.7 No Prepaid Rent; No Security Deposit.** The University has not prepaid any Rent to WBRP for the Premises. No security deposit or damage deposit is required under this Lease.

**6.8 Holdover Rent.**

In the event the University remains in the Premises for any reason after the effective date of the termination of this Lease, Base Rent and Additional Rent shall be calculated in the same manner that Base Rent and Additional Rent are calculated under Sections 6.2 and 6.3, but taking into account any increase in Ground Rent or Additional Rent during such holdover period.

**6.9 Source of Payments.** The obligations of the University under this Lease will be paid solely from General Revenues. "**General Revenues**" means all nonappropriated income, revenues, and receipts of the University if and to the extent such funds are not restricted

in their use by law, regulation, or contract. For example, the following items are restricted and, therefore, excluded:

- (a) Appropriations to the University by the State from the State's General Fund;
- (b) Each fund the purpose of which has been restricted in writing by the terms of the gift or grant under which such fund has been donated, or by the donor thereof;
- (c) Fees imposed upon students as a condition of enrollment at the University, including but not limited to services and activities fees, building fees, and technology fees; and
- (d) Revenues and receipts attributable to the Metropolitan Tract Revenue.

Unrestricted fund balances, to the extent that they were accumulated from money that was received as General Revenues, also would be includable and available to pay obligations secured by General Revenues.

The University reserves the right to include, at its sole option, in the future, other sources of revenue or income, specifically including, but not limited to, all or any portion of the items or the auxiliary systems, excluded above, to General Revenues, by a Certificate executed by the Controller of the University (or the successor to the functions of the Controller). "*Certificate executed by the Controller of the University*" means the written certification to the effect that for the preceding two fiscal years for which audited financial statements are available, the item or auxiliary maintained a "*coverage ratio*" of at least 125%, where the "*coverage ratio*" equals: (i) net revenue (for those items or auxiliaries whose debt has a lien on net revenues) or gross revenues (for those items or auxiliaries whose debt has a lien on gross revenues), divided by (ii) debt service with respect to the then-outstanding revenue debt of the auxiliary or item and state-reimbursed bonds allocable to such auxiliary or item. In the event an auxiliary or item is added to General Revenues, the obligations of that auxiliary or item may remain outstanding and have a prior claim on auxiliary net revenues. The University reserves the right to remove, at its sole option, in the future, any revenues from General Revenues.

## 7. USE OF THE PREMISES.

**7.1 Use.** The University may use and occupy the Premises for any purpose not prohibited by the Ground Lease or any Financing Documents, so long as such use does not jeopardize WBRP's status as a 501(c)(3) non-profit entity or the tax exempt status of interest on any tax exempt Bonds.

**7.2 Compliance with Law.** The University, at its expense, shall promptly comply with all present and future laws and requirements of all governmental authorities applicable to the Premises except for those items that are the responsibility of WBRP hereunder (although failure of WBRP to comply with any law shall not relieve the University of its obligation hereunder). If any governmental license or permit shall be required for the proper and

lawful conduct of the University's business activity carried on from the Premises, the University at its expense shall procure and thereafter maintain such license or permit.

**7.3 Hazardous Substances.** The University shall give notice to WBRP, with a copy delivered concurrently to Ground Lessor, promptly after learning of any release of any New Hazardous Substance on or at the Premises, or, if caused by the University or any subtenant of the University, on the surrounding environment in each case that constitutes a violation of any Environmental Laws or presents any substantial danger to human health or safety. This notice shall include a description of measures taken or proposed to be taken by the University to obtain and/or remedy the release and any resulting damage material to property, persons or the environment. At the University's own expense, the University shall promptly take all steps necessary to contain and remedy any release of New Hazardous Substances in, on or under the Premises, or surrounding environment, and all resultant damage or injury to property, persons and the environment, all in conformance with Environmental Laws. Upon termination of this Lease, the University shall remove all New Hazardous Substances not in existence on the Lease Commencement Date and shall decontaminate, decommission and, in the case of infectious or biological hazards, sterilize all areas in the Premises, in which New Hazardous Substances were generated, stored, accumulated, released, or otherwise present to a level not toxic to humans or animals and otherwise in conformance with Environmental Laws. The University shall indemnify, defend and hold WBRP harmless from any and all claims, demands, damages, costs, fees, penalties, and charges asserted against, imposed upon, and incurred by WBRP (including fees and costs of attorneys, consultants, laboratory testing charges and personal injury claims) as a result of any of the following actions or omissions of the University, or its regents, officers, employees, agents or students that constitutes a violation of any Environmental Laws: (i) the handling, use, generation, accumulation, storage, transportation, disposal, treatment and/or sale of New Hazardous Substances at the Premises; (ii) the unlawful release of any New Hazardous Substance on or at the Premises; (iii) the failure to comply with any Environmental Laws; (iv) the failure to remove all New Hazardous Substances not in existence on the Lease Commencement Date or decontaminate, decommission, or, in the case of infectious or biological hazards, sterilize all areas in the Premises in which any of New Hazardous Substances were generated, stored, handled, accumulated, released or otherwise present, all in conformance with Environmental Laws; and (v) the failure to comply with any other requirement of this Section 7.3.

The provisions of this Section 7.3 shall also be made fully applicable to all subtenants of the University at the Premises in any sublease by the University. The defense and indemnification obligations set forth above shall also run directly from the University (and any subtenant) for the benefit of WBRP and Ground Lessor (with a similar indemnification included in all subleases for the direct benefit of WBRP and Ground Lessor), and Ground Lessor is and shall be a third party beneficiary of such defense and indemnification obligations with a right to enforce such obligations directly against the University and/or any subtenant of the University. A bio-hazards handling and management plan prepared by the University of Washington or any other subtenant in the Property who handles New Hazardous Substances at the Property shall be provided to WBRP and Ground Lessor annually. All handling or management of New Hazardous Substances and biohazards shall include a disposal program (including all manifests regarding disposal in appropriate disposal facilities) in full compliance with Environmental Laws. WBRP shall be entitled, at WBRP's expense (but only to the extent recoverable from the

Ground Lessor under the Ground Lease), to review all records regarding all handling, management and disposal of New Hazardous Substances upon request.

Upon request by WBRP, the University and/or applicable subtenants of the University will also provide to WBRP copies of all permits, authorizations or entitlements obtained or required to be obtained with respect to the handling of New Hazardous Substances at the Premises, and complete copies of all compliance reports or similar information required to be maintained or filed in connection with such permits, authorizations and entitlements.

## 8. THE PROJECT AND ADDITIONAL TENANT IMPROVEMENTS.

**8.1 The Improvements.** Commencing upon the Lease Commencement Date and continuing during the period reasonably needed for design, permitting, and construction thereof, WBRP agrees to exercise reasonable commercial best efforts to build the Improvements, all in accordance with plans and specifications that will have been developed by the University and WBRP in accordance with **Exhibit E** and the Development Management Agreement, provided that each of the following conditions have been or are satisfied:

- (a) The Ground Lease and the Development Management Agreement remain in effect.
- (b) The University works cooperatively with WBRP and Development Manager to develop, approve, modify, and timely make all decisions necessary to finalize permit-ready and bid-ready plans and specifications for the Improvements.
- (c) Such plans and specifications are approved by the City of Seattle and a building permit, and any and all other permits required for construction of the Improvements are granted.
- (d) The Project Costs do not exceed the sum of Project Funds.
- (e) No events of default beyond the reasonable control of WBRP occur under the Bond Financing, under the Ground Lease, under the General Construction Contract, or under any other significant agreements, in each case, that have prevented completion of such Improvements.
- (f) No act of God or other force majeure event prevents WBRP from completing such Improvements.
- (g) To the extent the Project Costs are in excess of the Project Funds, the University shall pay into the applicable account under the Financing Documents, all costs to complete the Project as the same become due and payable. Notwithstanding the foregoing, to the extent any Project Costs are incurred that are not included in the Project Development Budget or in change orders under the General Construction Contract that have been approved by the University, or that have not otherwise been approved by the University, the University shall have the right to enforce the provisions of Section 11 hereof.

(h) A preliminary budget of the total amount of Project Costs is attached hereto as **Exhibit D**. A description of the Improvements is attached as **Exhibit B**. The arrangements and procedures to govern WBRP and the University with respect to development, planning and construction of the Improvements shall be in accordance with **Exhibit E**. The University shall have the right to concur in any material changes to the plans and specifications for the Project, the Development Management Agreement, the Architect's Agreement and the General Construction Contract, provided that such approval shall not be unreasonably withheld or delayed.

**8.2 Additional Alterations and Improvements.** The University may make "**Additional Tenant Improvements**", which means and shall be comprised of additional alterations and improvements to the Premises as are permitted by the Ground Lease. The University shall concurrently provide WBRP and Ground Lessor with any notices, plans and specifications, or other documents as are required to be submitted under the Ground Lease for Additional Tenant Improvements to the Premises.

**8.3 Ownership of Additional Tenant Improvements.** All Additional Tenant Improvements that may be installed in the Premises and that are affixed to the floors, walls or ceilings of the Premises in a manner that is intended to be permanent, shall remain with the Premises upon termination of this Lease or, if the Ground Lease has also terminated, Ground Lessor, unless the parties have otherwise agreed in writing at the time of installation. Any Additional Tenant Improvements consisting of trade fixtures and/or equipment temporarily installed upon or attached to the Premises (for seismic or other reasons ) by the University not required to remain pursuant to Section 3.13 of the Ground Lease and not intended by the University to become a permanent fixture to the Premises, shall remain the property of the University, and WBRP agrees that the University shall have the right at any time (and from time to time) during the Term of this Lease to remove any and all such trade fixtures and/or equipment, provided the University repairs any damage caused thereby. The University shall provide a list of items that are to be included in **Exhibit C** to the Ground Lease prior to their installation. The University's only responsibility upon removal of any such trade fixtures and/or equipment is to repair any damage caused by the removal but not to restore the Premises to any prior condition.

**8.4 Liens.** WBRP will utilize all Project Funds and will exercise commercial diligence and good faith to keep the Premises free from all construction and other liens on account of work done in connection with the Improvements. The University will keep the Premises free from all liens on account of work done for the University or persons claiming by, through or under the University. The University shall indemnify, defend and hold WBRP harmless from any lien claim, judgment or litigation arising out of any work performed or materials furnished by or at the direction of the University or its regents, officers, employees or agents. So long as Project Funds are available, WBRP will timely pay all costs of work performed, materials furnished or obligations incurred by WBRP in connection with the Premises or the Project and will keep the Premises and Project free from all construction and other liens on account of work done for WBRP or persons claiming by, through or under WBRP. Should any claim of lien be filed against the Premises or any action affecting the title to the Premises be commenced, the responsible party shall cause such lien to be released of record by payment or posting of a proper bond within thirty (30) days following the filing of such lien.



However, WBRP and the University each reserve the right to contest the validity or amount of any such lien in good faith provided that, within thirty (30) days after the filing of such lien, the party whose actions or inactions have allegedly caused such lien discharges said lien of record or records a bond which complies with the requirements of RCW 60.04.161 eliminating such lien as an encumbrance against the Premises. In the case of WBRP's obligation to discharge a lien, the costs of discharging such lien shall not be reimbursable.

**8.5 Early Termination of Ground Lease.** WBRP shall take no action to terminate the Ground Lease except at the written direction of the University. In the event the University directs WBRP to terminate the Ground Lease pursuant to Section 2.5 of the Ground Lease, the University shall reimburse WBRP for any surrender fee due under the Ground Lease.

## 9. TAXES, UTILITIES AND SERVICES.

**9.1 Taxes and Assessments.** The University shall make appropriate arrangements to receive directly from the applicable governmental agency, assessment notices and real property tax statements and shall promptly provide a copy thereof to WBRP. With respect to any general or special assessments which may be levied against the Premises or the Project, and which may be paid in installments, all such Taxes shall be paid in installments, and only the amount of the annual installment and interest due on any special assessment shall be included within the computation of Taxes. To the extent that any assessment, installment, or payment of Taxes includes periods of time prior to the Rent Commencement Date or after the Lease Termination Date, such assessments, installments, or payments of Taxes shall be pro-rated on a daily basis and the University shall pay to WBRP, as Additional Rent, only that portion of such Taxes that relate to the Term of this Lease.

The Leased Property is currently exempt from real property taxes. The University and WBRP shall cooperate in preparing and processing any necessary applications to continue that tax exemption during the Term. The University shall be entitled to the economic benefit of any such real property tax exemption by being relieved of the obligation to pay such taxes pursuant to this Section 9.1.

**9.2 Right to Contest Taxes.** If WBRP receives prior notice that an appraisal of the Premises, or any portion thereof, will be conducted for real or personal property tax purposes, WBRP shall so notify the University and permit the University to be present during such appraisal if the University so elects. Subject to the provisions of the Ground Lease, the University shall have the right in WBRP's name and stead, and at the University's sole expense, to contest the validity or amount of any real property taxes. WBRP shall cooperate with the University and provide reasonable assistance with respect to any such contest, including, without limitation, such information and supporting documents as may be reasonably requested by the University. In the event WBRP shall obtain a tax refund as a result of any such tax appeal or other proceedings the University shall be entitled to, and WBRP shall promptly pay to the University, all such tax refunds, subject to any rights of the lender or trustee under the Financing Documents to apply such refund future rent obligations, reserves, or otherwise.

**9.3 Building Utilities and Services.** As part of the Project, WBRP shall include in the Improvements, hook-ups, pipes, ventilation, cabling, wiring, and other facilities or

improvements to provide or enable the following utilities and other services to the Premises: electricity, HVAC, potable water (hot and cold) for lavatory and drinking purposes, elevators, sprinkler, fire alarm, security system, sewer, gas, trash removal, recycling and telecommunication conduit. All Utility services shall be available 24 hours a day, seven days a week. WBRP shall not have any liability for any freezing, clogging, breakage, or other failure or damage to pipes, cables, wiring, or other utilities, nor shall WBRP have any liability for any interruption in service by the applicable utility company or service provider; provided, that, in each case the same was not caused by WBRP's negligence or intentional misconduct.

**9.4 Janitorial and Other Services.** Janitorial and other services for the Premises shall be selected by the Property Manager and paid as Additional Rent. The parties agree that janitorial service providers should receive fair wages and health care benefits when performing services at the facility.

**9.5 Telephone and Data Transmission.** The University shall have the right to install telephone and data communications systems in the Premises and hereby releases WBRP of any responsibility therefor. The University shall pay for such services directly to the appropriate telephone company or other service provider.

## 10. MAINTENANCE, REPAIR AND RESTORATION; PROPERTY MANAGER; CAPITAL REPAIRS AND IMPROVEMENTS.

**10.1 WBRP's Obligations.** Except as provided in Section 10.2 and subject to Sections 10.3 and 13.1, throughout the term of this Lease, WBRP shall keep the Improvements and other improvements hereafter situated upon the Premises, including, without limitation, the structural and exterior portions, roofing and covering material, foundations, exterior walls, plumbing, electrical systems, heating and ventilation systems, security system, interior walls and finishes, windows, doors, and all other components of the building in good and safe condition and in good order and repair (ordinary wear and tear, and casualty loss, excepted), and shall conform to and comply with all provisions of the Ground Lease and the Financing Documents relating to maintenance, repair and restoration (including restoration in the event of casualty loss under Article 7 of the Ground Lease), as well as all valid ordinances, regulations or laws affecting the Premises, or any other improvements on the Premises or the use thereof. WBRP covenants and agrees that the University shall have the right to contest, at the University's sole cost and expense, any asserted or alleged violation of such ordinances, regulations or laws of any kind or character and by whomsoever asserted or alleged in the name of the University or WBRP, as the University may deem appropriate. Notwithstanding the foregoing, the WBRP's obligation with respect to maintenance and repair of the Improvements shall not include any obligation to replace any obsolete equipment, but WBRP shall nevertheless maintain in accordance with this section all building equipment consistent with prudent maintenance practices, and cause such equipment to be in working order upon expiration or earlier termination of this Lease, taking into account the age of such equipment. In no event shall WBRP be obligated to make repairs or replacements that would affect the taxability of any tax-exempt financing of the Improvements or any Additional Tenant Improvements.

**10.2 Delegation to Property Manager.** Upon substantial completion of the Project, WBRP intends to delegate its obligations under Section 10.1, and may delegate its

obligations under Section 15.2, to the Property Manager selected in accordance with Section 10.3 below. Subject to Section 13.2 and provided WBRP has complied with Section 10.3, WBRP shall have no liability to the University for any of the obligations set forth in Section 10.1 or 15.2.

**10.3 The Property Manager.** Not later than two months prior to the Rent Commencement Date, WBRP shall select a property manager for the Premises (the “*Property Manager*”) with the concurrence of the University. The Property Manager shall be qualified and have expertise in the management of laboratory and research facilities and experience with the University or other large, institutional tenants. The Property Manager’s contract shall be provided to the University for review and comment and subject to the concurrence of the University. The Property Manager shall be required to submit regular reports of all costs and expenses in connection in connection with its duties to WBRP and the University, together with back-up documentation for expenditures if requested by WBRP or the University. In the event the University is unsatisfied with the Property Manager, WBRP shall, at the University’s expense, seek to find a replacement Property Manager meeting the criteria set forth herein. All reasonable expenses and reimbursables incurred by the Property Manager in carrying out its duties shall be Additional Rent as provided in Section 6.3.1.7. Because of WBRP’s delegation and the University obligation to pay Additional Rent, the parties acknowledge that the University bears ultimate financial responsibility for the obligations under Section 10.1.

**10.4 Capital Repairs and Improvements.** In the event any third party requires a deposit or other upfront payment for repairs or replacements required by this Lease, the University shall deposit such amount with WBRP. In addition, if WBRP is required to borrow money to complete the maintenance obligations under Section 10.1 or under any future Improvement or other financings beyond the Bond Financing, or to undertake any obligations or perform any substantial services in connection with future alterations, renovations, or refurbishment of the Premises, WBRP and the University shall negotiate in good faith as to a one-time transaction fee payable to WBRP in connection with any such additional financing or other renovation, repair or replacement and an ongoing asset management fee payable to WBRP in connection with any payment installments relating to such financing or transaction, with the parties intending that such fees shall be calculated generally in accordance with the method used to calculate WBRP’s fees in connection with the Project. Base Rent shall be adjusted to take account of payments made under such additional financing.

**11. ASSIGNMENT OF CERTAIN RIGHTS; CLAIMS AGAINST THIRD PARTIES.** In the event the University, in its sole and absolute discretion, determines that WBRP may have a claim for damages, specific performance or other remedy at law or equity under the Ground Lease, Development Management Agreement, General Construction Contract, Architect’s Agreement, any product or service warranty provided by any subcontractor or supplier, or any other contract or undertaking with respect to the Project (each a “*Claim*”), the University may do any one of the following:

(a) Direct WBRP to take such action as the University may reasonably require in pursuit of such Claim, with the costs of such action being included as an Additional Rent Component;

(b) Join in any action commenced by WBRP (whether at the direction of the University or otherwise); or

(c) Direct WBRP to assign its rights to such Claim to the University or the University’s designee.

WBRP shall cooperate with the University and provide reasonable assistance with respect to any such Claim, including, without limitation, such information and supporting documents as may be reasonably requested by the University. The University shall indemnify WBRP against any costs, fees or expenses incurred by WBRP in taking any action prescribed by the University, its regents, officers, employees or agents in pursuit of any Claim. Any attorneys, consultants or other experts engaged by WBRP whose fees will be reimbursed by the University shall be reasonably acceptable to the University and approved in writing by the University in advance. Except in emergency circumstances where WBRP reasonably believes there is a risk of immediate or irreparable harm to persons or property, WBRP shall not take any action in respect of a Claim without first consulting with the University. In the event WBRP (or the University, upon an assignment to the University) obtains a monetary recovery in connection with any Claim, such amount shall, at the University’s direction but subject to any rights of the Bond Trustee to direct such application: (i) be applied to the Bond Financing (whether directly, into a sinking fund or otherwise), and Base Rent shall be reduced proportionately if such application results in a reduction in the installment payments due under the Bond Financing, (ii) be deemed prepaid Rent hereunder, applied to the next due installments of Base Rent or Additional Rent, as directed by WBRP, and/or (iii) be used to repair or improve the Premises. This Section 11 shall not apply to Claims to the extent (1) such rights have been assigned in connection with the Bond Financing (e.g., insurance proceeds and condemnation awards) or (2) expressly assigned or delegated to the University hereunder (e.g., tax contests under Section 9.2 hereof).

## 12. INSURANCE.

### 12.1 WBRP Insurance.

**12.1.1 Property Insurance.** WBRP shall maintain throughout the term of this Lease policies of insurance covering loss of or damage to the Premises and any Additional Tenant Improvements in the full amount of its replacement cost with endorsement to cover code changes. Such policies shall provide protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended perils (“*special cause of loss*”), and sprinkler leakage. Subject to any limitations imposed by the Financing Documents, if any permanent improvements are made to the Premises at University expense (e.g., Additional Tenant Improvements), WBRP shall and is hereby deemed to assign to the University a right to insurance proceeds in the amount equal to the cost of such Additional Tenant Improvements (which cost shall be reduced year-to-year based on a deemed amortization over the reasonable useful life of such Additional Tenant Improvements). Notwithstanding such assignment, and provided this Lease is not terminated pursuant to Section 15.3 or 15.4, all proceeds of WBRP’s property insurance shall be applied toward the restoration or replacement of the Premises, the Project and any Additional Tenant Improvements, and the University shall reassign to WBRP its portion of insurance proceeds for such purpose. Any amounts received by WBRP in respect of excess or unused insurance proceeds not required to be paid on the

Financing shall be applied as a credit to any remaining installments of Base Rent. To the extent such excess or unused insurance proceeds exceed the remaining installments of Base Rent, such excess shall be refunded to the University as a rebate in respect of paid Base Rent. To the extent the Ground Lease or the Bond Financing requires WBRP to maintain insurance beyond that which is required under this Section 12.1.1, WBRP shall also maintain the insurance required under the Ground Lease or any Financing.

**12.1.2 Liability Insurance.** WBRP shall further maintain a policy of commercial general liability insurance covering all claims with respect to injuries or damages to persons or property sustained in, on or about the Premises and the appurtenances thereto, including the sidewalks and alleyways adjacent thereto, which shall contain a “breach of warranty” and a cross-liability clause, with limits of liability no less than Five Million Dollars (\$5,000,000) per occurrence and in the aggregate, with coverage on an occurrence basis, insuring WBRP against liability arising out of the ownership, use, occupancy or maintenance of the Premises. The University may require higher limits and any additional premium shall be paid as Additional Rent under Section 6.3.1.1.

**12.1.3 Other Provisions.** WBRP’s insurance shall be issued by insurance companies authorized to do business in the State of Washington and reasonably acceptable to the University; shall name the University as an additional insured, be primary and non-contributing, and shall contain an endorsement requiring at least thirty (30) days’ prior written notice of cancellation to the University, before cancellation or material diminution in the coverage or amount of any policy. WBRP shall deliver a certificate or copy of such policy together with evidence of payment of all current premiums to the University within thirty (30) days of execution of this Lease.

**12.1.4 University Option to Obtain WBRP Insurance.** So long as the University occupies more than eighty percent (80%) of the rentable square footage of the Premises, then at its election the University may obtain on behalf of WBRP any insurance WBRP is required to carry hereunder so long as WBRP is a named insured and such insurance satisfies all of the requirements imposed thereon under this Lease, the Ground Lease, and the Financing Documents. Prior to obtaining such insurance (and before WBRP has obtained such insurance on its own behalf), the University shall notify WBRP of its intention to obtain insurance on behalf of WBRP, and shall provide WBRP with a schedule or binder showing all applicable coverages.

**12.2 The University’s Insurance.** The University, at its cost, shall maintain commercial general liability insurance (which may be through a captive insurer), with a liability limit of \$2,000,000 per occurrence and \$5,000,000 aggregate, insuring against liability of the University and its regents, officers, employees, agents and students to the extent caused by the performance or failure of performance of duties for the University and in connection with the University’s use and occupancy of the Premises. The University shall provide WBRP a certificate of insurance from its captive insurer. If permitted under applicable law and the regulations of the University and its captive insurer, the certificate of insurance shall, upon request of WBRP or the Ground Lessor, name WBRP, the Ground Lessor and the lender or trustee of any Financing as additional insureds.

### 13. INDEMNIFICATION AND WAIVERS.

**13.1 University Indemnification.** The University agrees to indemnify, defend and hold WBRP harmless from and against any and all demands, claims, liabilities, losses, costs, expenses, actions, causes of action, damages or judgments, and all reasonable expenses incurred in investigating or resisting the same (including, without limitation, reasonable attorneys’ fees and disbursements) to the extent arising or alleged to arise from: (a) injury to person or to property occurring within or about the Premises or any other improvements on the Premises arising from negligent or tortious acts or omissions of the University, its regents, officers, employees, agents or students; (b) the University’s, its regents’, officers’, employees’, agents’ or students’ negligent or tortious acts or omissions relating to the construction, repair, restoration, rebuilding, use or occupancy of the Premises, or any other improvement on the Premises; (c) a material breach or default by the University in the performance of any of its obligations under this Lease; or (d) the University’s violation of any applicable law or statute relating to the Premises, or any other improvement on the Premises or their use or occupation; provided, however, that WBRP shall not be released from and shall indemnify, defend, protect and hold the University harmless from all damages, liabilities, judgments, actions, claims, attorneys’ fees, consultants’ fees, payments, costs and expenses to the extent arising from matters for which WBRP is obligated to indemnify the University as provided in this Lease. If the University is required to defend any action or proceeding pursuant to this section to which action or proceeding WBRP is made a party and WBRP reasonably believes that the interests of the University and WBRP conflict or are divergent, then WBRP shall also be entitled to appear, defend, or otherwise take part in the matter involved, at its election, by counsel of its own choosing, and to the extent WBRP is indemnified under this section, the University shall bear the cost of WBRP’s separate defense, including reasonable attorneys’ fees.

The provisions of this Section 13.1 shall also be made fully applicable to all subtenants of the University at the Premises in any sublease by the University. The defense and indemnification obligations set forth above shall also run directly from the University and any subtenant of the University for the benefit of WBRP and Ground Lessor (with a similar indemnification included in all subleases for the direct benefit of WBRP and Ground Lessor), and Ground Lessor is and shall be a third party beneficiary of such defense and indemnification obligations with a right to enforce such obligations directly against the University and/or any subtenant of the University.

Except for reckless or intentionally tortious acts or omissions, willful misconduct or gross negligence of WBRP or its employees or agents or through material breach of WBRP’s obligations under this Lease, the University hereby agrees that: (i) WBRP shall not be liable for injury to the University’s business or any loss of income therefrom for damage to the goods, wares, merchandise or other property of the University, the University’s employees, agents, contractors, invitees, subtenants or any other person in or about the Premises, or any other improvements on the Premises, (ii) WBRP shall not be liable for injury to the person of the University, the University’s employees, agents, contractors, invitees or subtenants, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, whether said damage or injury results from conditions arising from the Premises or from other sources or places, and (iii) WBRP shall not be liable for

any damages arising from any act or omission of any other tenant in the Premises or any other third party.

**13.2 WBRP Indemnification.** WBRP agrees to indemnify, defend and hold the University harmless from and against any and all demands, claims, liabilities, losses, costs, expenses, actions, causes of action, damages or judgments, and all reasonable expenses incurred in investigating or resisting the same (including, without limitation, reasonable attorneys' fees and disbursements) to the extent arising or alleged to arise from: (a) WBRP's, its employees', agents', or invitees' negligent or tortious acts or omissions relating to the entry upon or in the Premises, or any other improvement on the Premises; (b) a material breach or default by WBRP in the performance of any of its obligations under this Lease; or (c) WBRP's violation of any applicable law or statute relating to the Premises, or any other improvement on the Premises or their use or occupation; provided, however, that the University shall not be released from and shall indemnify, defend, protect and hold WBRP harmless from all damages, liabilities, judgments, actions, claims, attorneys' fees, consultants' fees, payments, costs and expenses to the extent arising from matters for which the University is obligated to indemnify WBRP as provided in this Lease. If WBRP is required to defend any action or proceeding pursuant to this section to which action or proceeding the University is made a party and the University reasonably believes that the interests of WBRP and the University conflict or are divergent, then the University shall also be entitled to appear, defend, or otherwise take part in the matter involved, at its election, by counsel of its own choosing, and to the extent the University is indemnified under this section, WBRP shall bear the cost of the University's separate defense, including reasonable attorneys' fees.

**13.3 Waiver of Claims Covered by Insurance.** Each party waives all right of recovery against the other for any loss or damage covered by its respective first party commercial insurance policies for all perils insured thereunder and, in the event of any commercially insured loss, neither party's insurance carrier shall have a subrogation claim against the other party; provided, however, that this waiver of subrogation shall not apply if the effect is to void such insurance coverage.

**13.4 Assignment of Indemnification Recoveries under Ground Lease.** To the extent that any funds recovered by WBRP under the indemnification provided by Ground Lessor pursuant to Section 6.12 of the Ground Lease, exceed any amounts then owing by the University hereunder, WBRP assigns the entire amount of such excess to University.

#### 14. ASSIGNMENT AND SUBLETTING.

**14.1 No Assignment by WBRP.** WBRP shall not sell, transfer, convey or assign its interest in this Lease, the Premises, or any part thereof or interest therein without (i) consent of the University, which may be granted or withheld in its sole discretion, (ii) consent of Ground Lessor, which shall be governed by the Ground Lease, and (iii) an opinion from nationally recognized bond counsel that any such sale, transfer, conveyance or assignment by WBRP of all or any portion of its interest in this Lease, the Premises or any portion thereof or interest therein will not have an adverse effect on the tax exempt status of the Bond Financing (a "**Permitted Transfer**") and any attempted sale, transfer, conveyance or assignment in violation of the consent requirements under this Section 14.1 shall constitute an event of default by WBRP

under this Lease. If requested by the University and with consent of the lender of the Bond Financing, WBRP shall make a Permitted Transfer to an entity designated by the University, provided that: (i) WBRP is fully released in writing from any further obligations under this Lease, the Ground Lease, any Financing then in effect, and every other agreement that may still be in effect with respect to the Premises; (ii) the University executes an agreement reasonably satisfactory to WBRP defending and indemnifying WBRP from any further losses or liabilities under any such agreements or as a result of WBRP having participated in the Project (except for any loss or liability caused by a breach under any agreement relating to the Project that could reasonably have been avoided by WBRP, WBRP's gross negligence, or WBRP's intentional misconduct); and (iii) the University pays WBRP a severance fee in the amount equal to the additional Base Rent that would otherwise have been payable under Section 6.2.1.3 for the two year period following such Permitted Transfer if such transfer occurs in the first 18 years of the Lease Term, and a one-year period if such Permitted Transfer occurs thereafter.

**14.2 No Encumbrances by WBRP.** WBRP shall not have the right to mortgage, pledge, encumber or assign this Lease in whole or in part or any interest therein except in connection with the Financing, the terms of which and any amendments thereto must have prior concurrence of the University, except as provided in Section 6.10.3.

**14.3 Assignments or Encumbrances by the University.** The University shall not assign or encumber the Premises or this Lease or any interest therein, whether voluntarily or by operation of law, if it would violate the terms of the Ground Lease or any restriction pursuant to the Bond Financing. WBRP may refuse to consent to any assignment or encumbrance which would conflict with WBRP's obligations under the Ground Lease, or Bond Financing (including any Trust Indenture) or which has been disapproved by Ground Lessor or the Bond Trustee (to the extent that the Financing is not being fully satisfied or defeased). The University shall deliver the following to WBRP, Ground Lessor and Bond Trustee, as applicable, in connection with any such request:

(a) True and complete copy of the proposed assignment or loan documents in connection with any encumbrance, and all side letters or other agreements pertaining thereto;

(b) Current financial statements, including income and expense statements and balance sheets, or other adequate financial information, for the then current year-to-date and two most recent years for the prospective assignee; and

(c) Current credit report from a recognized credit agency identifying the credit history of the prospective assignee.

WBRP's decision with regard to acceptance or rejection of an assignment or encumbrance shall be given in writing within thirty (30) days after delivery of the items specified in this Section 14.3. In the WBRP's sole discretion, no assignment or encumbrance shall be approved which would, in the opinion of nationally recognized bond counsel, violate any tax covenant under the Bond Financing, nor shall WBRP be required to consent to any assignment for any use which contravenes any other tenant lease, agreement, mortgage, governmental restriction or any business activity of WBRP related to the Premises. Any assignee shall

expressly assume all liability of the University under this Lease for that portion of the Premises assigned and the University shall not be released from further liability under this Lease unless WBRP specifically agrees to such release in writing, in its sole discretion or as directed by the Bond Trustee (and the Ground Lessor).

**14.4 Subleasing by University; Continued Responsibility.** The University reserves the right to sublease all or any portion of the Premises to the extent that such subleasing is not prohibited by the Ground Lease or any Financing Documents and, with respect to any sublease other than to a governmental entity or 501(c)(3) organization, only so long as WBRP and the Bond Trustee have received an opinion reasonably acceptable to them from nationally recognized bond counsel that any such for-profit sublease by the University will not have an adverse effect on WBRP's 501(c)(3) status or the tax exempt status of any Bond Financing; provided, however, the University shall not be released from liability under this Lease following any sublease of the Premises; provided, further, that in the event of a default by any sublessee, WBRP shall give the University written notice of the default (if WBRP is actually aware of the default), shall accept cure of the default by the University within the same time period as is afforded such sublessee under its sublease, or if no time period be given for cure of such default, within thirty (30) days after receipt by the University of such notice and shall permit the University to reenter and repossess the Premises for the then unexpired portion of the Term subject to all of the provisions of this Lease. Any amounts required to be paid by WBRP under Section 9.2 of the Ground Lease in connection with any sublease shall be remitted by the University to WBRP as and when paid by the relevant sublessee. All subleases must contain provisions allowing for termination without penalty in the event that the Premises are conveyed by WBRP to the University following full payment or defeasance of the Bonds.

**14.5 No Private Use or Payment and No Private Loan Financing.** WBRP and the University intend to designate a portion of the Bonds as governmental tax-exempt Bonds (the "Governmental Bonds"), a portion of the Bonds as "qualified 501(c)(3) bonds" (the "501(c)(3) Bonds" and together with the Governmental Bonds, the "Tax-Exempt Bonds"), and a portion of the Bonds as taxable Bonds. WBRP and the University shall certify to Bond Trustee through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably expected to be in existence on the date the Tax-Exempt Bonds are delivered, that the Premises acquired with the proceeds of the Governmental Bonds will not be used in a manner that would cause the Governmental Bonds to be "*private activity bonds*" within the meaning of Section 141 of the Internal Revenue Code ("*Code*") and the regulations promulgated thereunder, and that the Premises acquired with the 501(c)(3) Bonds will not be used in any manner that would cause the 501(c)(3) Bonds to not constitute "*qualified 501(c)(3) bonds*" under Section 145 of the Code and the regulations promulgated thereunder. Moreover, WBRP covenants and agrees that it will make such use of the proceeds of the Governmental Bonds, including interest or other investment income derived from Governmental Bond proceeds, regulate the use of the Premises acquired, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Governmental Bonds will not be "*private activity bonds*" within the meaning of Section 141 of the Code and the regulations promulgated thereunder. WBRP further covenants and agrees that it will make such use of the proceeds of the 501(c)(3) Bonds, including interest or other investment income derived from 501(c)(3) Bond proceeds, regulate the use of the Premises acquired, directly or indirectly, with such proceeds, and take

such other and further action as may be required so that the 501(c)(3) Bonds will be "*qualified 501(c)(3) bonds*" within the meaning of Section 141 of the Code and the regulations promulgated thereunder. The University covenants that it will make use of the Premises so that the Governmental Bonds will not be "*private activity bonds*" within the meaning of Section 141 of the Code and the regulations promulgated thereunder, and so that the 501(c)(3) Bonds will be "*qualified 501(c)(3) bonds*" pursuant to Section 145 of the Code and the regulations promulgated thereunder.

## 15. DESTRUCTION.

**15.1 Insured Damage.** If, during the Term, the Premises is partially or totally destroyed by any casualty that is covered by the insurance described in Section 12.1, rendering the Premises partially or totally inaccessible or unusable WBRP shall, if requested by the University or required under the Financing Documents or the Ground Lease, restore the Premises to substantially the same condition as they were in immediately before such destruction, if (i) the insurance proceeds available to WBRP (including any deductible, which is payable by the University as Additional Rent pursuant to Section 6.3.1.5 hereof) equals or exceeds the cost of such restoration, (ii) such restoration can be completed within a period which is not longer than eighteen (18) months from the date of such destruction, (iii) such restoration is permitted under then existing laws to be done in such a manner as to return the Premises to substantially the same condition as they were in immediately before such destruction, and (iv) such restoration is permitted (a) under the Ground Lease and (b) by the Bond Trustee. WBRP will advise the University and applicable party under any Financing with respect to the preceding conditions and, accordingly, whether such restoration of the Premises can proceed, on or before that date which is ninety (90) days after the date of destruction. If the foregoing conditions cannot be met, such destruction shall be treated as "*Uninsured Damage*" in accordance with the provisions of Section 15.2. All insurance proceeds payable in connection with such damage or destruction shall be paid to the Bond Trustee as its interests may appear, who shall disburse such proceeds to WBRP from time to time as the restoration work progresses; provided, however, that WBRP shall complete such restoration as soon as reasonably practical, but in any event within eighteen (18) months from the date of such damage or destruction. To the extent insurance proceeds cover Additional Tenant Improvements paid for by the University and are identifiable, such proceeds shall be subject to the provisions of 12.1.1 hereof.

**15.2 Uninsured Damage; Termination of Lease.** If, during the Term, the Premises of the Project is partially or totally destroyed by any casualty and the conditions set forth in Section 15.1 cannot be met, WBRP shall provide written notice to the University and the Bond Trustee within ninety (90) days after the date of destruction. Such notice shall describe the extent of the destruction and which of the condition(s) cannot be met. Unless WBRP, the University, Ground Lessor and the Bond Trustee agree otherwise at that time, any and all available insurance proceeds shall be applied in accordance with Section 6.7 of the Ground Lease. If, however, WBRP is required to repair or rebuild Uninsured Damage pursuant to the terms of the Ground Lease or any Financing, WBRP shall be obligated to do so in accordance with the terms of the Ground Lease or Financing, and all costs incurred by WBRP for such repairs or restoration not covered by insurance shall be paid by the University as Additional Rent under Section 6.3.1.5 unless accounted for under Section 10.4.

**15.3 No Abatement of Rent.** Subject to Section 15.2, if the Premises shall be rendered partially or wholly untenable as a result of damage or destruction of the Premises or the Project, and regardless of whether the Premises are reconstructed and repaired, Rent shall not be abated in any manner, and the University shall continue to pay Base Rent and Additional Rent throughout the entire remaining term of this Lease, without any offset, deduction, suspension, or other abatement. The University's payment obligations under this Section 15.3 shall not prevent the University from making claims against WBRP or from exercising its rights under Section 11.

**15.4 Damage during Last Five Years of Term.** In the event damage or destruction of the Premises occurs during the last five (5) Lease Years of the Term and restoration or repair either (i) is not required and the University elects not to repair or restore or (ii) not permitted under any Financing Documents, the University may terminate this Lease and cause WBRP to terminate the Ground Lease pursuant to Section 7 of the Ground Lease. In such event, the University (i) shall pay to WBRP an amount equal to the amounts payable on the Financing that are not covered by insurance and (ii) nonetheless be obligated to pay the remaining installments of Rent as they become due.

**15.5 No Repair or Restoration.** If the event repair or restoration is not required, the University hereby assumes WBRP's obligations under the last paragraph of Section 7.1.2 of the Ground Lease. Ground Lessor is a third party beneficiary of this Section 15.5 with a right to enforce such obligation against the University.

## 16. CONDEMNATION.

**16.1 Condemnation of Substantially All of the Premises.** If during the Term there is a taking or damaging of all or substantially all of the Premises by the exercise of any governmental power, whether by legal proceedings or otherwise, by a governmental agency with jurisdiction or a transfer by WBRP either under threat of condemnation or while legal proceedings for condemnation are pending (a "**Condemnation**") such that the use of the Premises by the University is not economically sound, as reasonably determined by the University, and as a result thereof, WBRP has a right to terminate the Ground Lease, which right is acknowledged by the Ground Lessor or determined by a court if disputed, this Lease and any duty to pay Base Rent and Additional Rent shall, subject to the rights of the Bond Trustee, automatically terminate on the date the condemnor has the right to possession of the property being condemned, and any duty to pay Additional Rent shall continue only so long as WBRP continues to incur expenses that constitute any Additional Rent components reimbursable by the University. The University's allocation of the award with respect to taking of the Premises shall first be applied to any amounts owed to the Bond Trustee, if required by the Financing Documents, and applied at the direction of the Bond Trustee, or at the direction of the WBRP in accordance with the Trust Indenture relating to any Bond Financing. To the extent WBRP receives any net condemnation proceeds that are not applied in accordance with the previous sentence and not applied to pay ongoing Additional Rent (including reimbursable expenses to WBRP for its attorneys' fees and costs in responding to such condemnation proceeding) or to cure any defaults under this Lease, the University shall be entitled to receive such condemnation proceeds. The University shall also have the right to claim and recover from the condemnor compensation for the loss of any of the University's personal property, fixtures and improvements to the extent such improvements were funded directly by the University or

indirectly through proceeds of any Financing which have been repaid by WBRP as a function of University's Base Rent payments. In addition, the personal property, fixtures and improvements funded in the manner set forth in the preceding sentence, shall be the exclusive claim of the University and shall not be claimed by any other party. The University shall also have the right to claim and recover from the condemnor compensation for moving expenses and any other damages provable and suffered by the University in connection with the Condemnation.

**16.2 Partial Condemnation.** If only a part of the Premises shall be taken in connection with a Condemnation and the remainder of the Premises not so taken in the reasonable judgment of the University is economically sound, or, in any event, if the Ground Lessor has not acknowledged and a court has not determined that WBRP has the right to terminate the Ground Lease as a result of such partial condemnation, then this Lease shall continue in full force and effect as to the remainder of the Premises, and all of the terms herein provided shall continue in effect and Rent shall continue hereunder without abatement except to the extent that the Ground Rent component of Base Rent is reduced in accordance with any reduction of Ground Rent under the Ground Lease.

## 17. DEFAULT AND REMEDIES.

**17.1 Default by the University.** The occurrence of any one of the following events shall constitute a material breach and default under this Lease by the University:

(a) The University shall have failed to pay an installment of Rent or other payment when due, where such failure shall continue for a period of ten (10) business days after written notice from WBRP.

(b) The University shall have failed to perform any other provision of this Lease if the failure to perform is not cured within thirty (30) days after written notice of such default has been given by WBRP to the University. If the default cannot reasonably be cured within thirty (30) days, the University shall not be in default under this Lease if the University shall within the 30-day period commence such cure and thereafter in good faith diligently and continuously prosecutes such cure to completion (and in any event completes such cure within 120 days of the default).

**17.2 Remedies.** In the event of default of this Lease by the University, WBRP shall have the following rights and remedies:

(a) To sue for Rent or any amounts due hereunder or any damages suffered by WBRP as a result of such default.

(b) To remedy any nonmonetary default of the University and to enter upon the Premises to do any work or other things therein, and in such event all reasonable expenses of WBRP in remedying such default, the cost of which shall be payable by the University to WBRP on demand.

(c) To maintain the University's right to possession and continue this Lease in effect whether or not the University has abandoned the Premises.

If WBRP has made demand upon the University to cure such default and the University has failed to accomplish such cure within 30 days thereafter, then WBRP may, unless prohibited from doing so by any lender under the Financing then in effect, terminate this Lease by giving an additional notice of termination to the University, which termination shall not take effect until 30 days after such notice of termination has been given.

**17.3 Re-Entry.** In the event of any default by the University, WBRP shall also have the right, without terminating the Lease, to reenter the Premises and to remove all persons and property from the Premises and take whatever actions may be necessary or advisable to relet, protect or preserve the Premises. Any property so removed may be stored in a public warehouse or other suitable place or otherwise disposed of in WBRP's discretion at the expense and for the account of the University. WBRP shall not be responsible for any damages or losses suffered by the University as a result of such reentry, removal, storage or other disposition. In case of such re-entry, WBRP may relet the Premises upon such terms as are commercially reasonable and for a term which may expire either before or after the expiration of the Lease Term but not for a term longer than the stated maturity of the Bond Financing. In re-letting the Premises, WBRP shall restrict possible replacement tenants to those whose occupancy would have no adverse effect on the tax-exempt status of interest payable on the Bonds, but within such category of qualified tenants WBRP shall take reasonable measures to seek a maximum rental rate for reletting. Upon reletting the University shall be immediately liable to pay to WBRP the cost and expense of reletting and of such reasonable alterations and repairs as may be incurred by WBRP in readying the Premises for reletting. WBRP shall provide notice to the University of any amount by which rentals from such reletting are less than the Rent due hereunder and the due dates of such rent. The deficiency amount for each such Rent payment shall be paid by the University on or before the due date for such Rent payment.

**17.4 Interest.** Unless otherwise stated in this Lease, any Rent or other sums due from the University or advanced by WBRP that become delinquent hereunder shall bear interest from the date of such delinquency at the default rate of the Financing (or the default rate under the Ground Lease, if the default affects the payment of rent under the Ground Lease), calculated at the time of such nonpayment by the University or advance by WBRP, provided that the applicable grace period has expired. Such interest shall be treated as an Additional Rent Component due and owing immediately and continuing to accrue until paid or collected.

**18. QUIET ENJOYMENT.** WBRP represents and warrants that WBRP has a leasehold interest in the Leased Property, the right to occupy and possess the Premises to the extent provided in the Reciprocal Easements Agreement, and has the right to enter into this Lease. Upon paying the Rent and keeping the covenants and terms of this Lease on its part to be kept and performed, the University shall have peaceful and uninterrupted possession of the Premises (to the extent of WBRP's rights under the Ground Lease and the Reciprocal Easements Agreement during the Term of this Lease, and any extensions thereof).

**19. SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT; ESTOPPEL CERTIFICATES.**

**19.1 Subordination and Non-Disturbance.** This Lease shall be subordinate to the deeds of trust executed in connection with the Financing, provided however that the

subordination of this Lease shall be conditioned upon a non-disturbance agreement with the beneficiary of any deed of trust: (a) not to disturb the University's possession and other rights so long as the University continues to perform its obligations; and (b) in the event such beneficiary acquires WBRP's leasehold estate in this Lease through foreclosure proceedings, deed in lieu of foreclosure or otherwise, to accept the University under lease terms identical to those of this Lease.

**19.2 Attornment.** In the event any proceedings are brought for termination of the Ground Lease (in the case of Ground Lessor), or proceeding for foreclosure, or in the event of the exercise of the power of sale under any permitted deed of trust (in the case of the Financing), the University shall attorn to the purchaser and recognize the Ground Lessor/purchaser as landlord under this Lease.

**19.3 Right to Estoppel Certificates.** Each party, within fifteen (15) days after notice from the other party, shall execute and deliver to the other party, in recordable form, a certificate stating that this Lease is unmodified and in full force and effect, or in full force and effect as modified and stating the modifications. Failure to deliver the certificate within such 15-day period shall be conclusive upon the party failing to deliver the certificate for the benefit of the party requesting the certificate and any successor to the party requesting the certificate, that this Lease is in full force and effect and has not been modified except as may be represented by the party requesting the certificate. If requested by Ground Lessor, the University will also execute and deliver to the Ground Lessor a similar certificate within thirty (30) days after notice.

**20. PREPAYMENT; EARLY TERMINATION.**

**20.1 Prepayment.** The University shall have the option to prepay all or a portion of the Base Rent described in Section 6.2.1.2 of this Lease ("Monthly Rent") by prepaying or setting aside in a defeasance trust account as described in Section 10.02 of the Indenture principal components of Monthly Rent, in \$5,000 increments for periods to be determined by the University (as represented by the principal portion of Monthly Rent due each year as set forth in EXHIBIT C), redemption premium, if any, and the interest thereon due and payable to the date set for redemption. Notice of such intent to prepay shall be given to WBRP in writing not less than thirty (30) days in advance of the intended prepayment date. By 10:00 a.m. Pacific time on the date set for such prepayment, the University shall pay or cause to be paid from a defeasance trust account to WBRP in cash or same-day available funds, an amount equal to the principal portion of Monthly Rent to be prepaid, together with interest thereon to the later of [first call date] or the date of prepayment. Upon such prepayment, the principal and interest components of Monthly Rent allocable to the defeased Bonds shall be deemed satisfied.

**20.2 Termination in Compliance with Federal Tax Law Requirements.** Upon full payment and retirement or defeasance of all outstanding Bonds, WBRP or the then owner of the Premises will, as required under applicable federal tax law, (i) convey unencumbered fee simple title to the Improvements to the University by statutory warranty deed (but otherwise without recourse or warranty) and in their then-existing condition and (ii) assign its interest in the Ground Lease and Reciprocal Easements Agreement in accordance with Section 9.1.1 of the Ground Lease (which requires the University's affirmative assumption of the

Ground Lease), whereupon this Lease shall terminate. In the event WBRP defaults on its payments on the Bonds, the University has the exclusive option to purchase the Premises (i.e., WBRP's leasehold interest, its interests under the Reciprocal Easements Agreement and the Improvements) financed with the Bonds and additions to the Premises for the amount of the outstanding Bonds and accrued interest to the date of default. The University shall have (a) not less than 90 days from the date it is notified by WBRP of the default in which to exercise the option, and (b) not less than 90 days from the date it exercise the option to purchase WBRP's interest in the Premises.

**21. INTENTIONALLY OMITTED.**

**22. THE UNIVERSITY'S COMPLIANCE WITH GROUND LEASE.**

**22.1 Assumption of Particular Obligations under Ground Lease.** Any subtenant of WBRP is required under the Ground Lease to assume certain obligations of WBRP with respect to the Premises, including but not limited to obligations relating to care and maintenance, insurance, condemnation, indemnification, lien protection, and other matters, and to avoid taking any actions that would violate the terms of the Ground Lease. Consequently, although WBRP shall also remain obligated to perform such obligations under the Ground Lease, the University hereby specifically agrees that it shall also comply with the obligations of WBRP under the following provisions of the Ground Lease, as such provisions relate to the Premises, and as qualified by Section 22.2 below.

<i>Section</i>	<i>Description</i>
<b>1.3</b>	Use of Premises
<b>2.4</b>	Early Termination Right (by Ground Lessor)
<b>3.5</b>	Obtaining Ground Lessor Approvals for Certain Alterations
<b>3.6</b>	Compliance with Plans, Laws, and Permits
<b>3.7</b>	Maintaining Property Free of Liens
<b>3.8</b>	Progress Reports
<b>3.9</b>	As-Built Drawings
<b>3.14</b>	Surrender Upon Termination
<b>Article 5</b>	Impositions and Operating Expenses (the University pays as Additional Rent Components)
<b>7.1</b>	WBRP's Obligation to Repair or Restore (the University pays as Additional Rent Components)
<b>Article 8</b>	Repairs, Maintenance, and Alterations (the University pays as Additional Rent Components)
<b>9.2.1</b>	Subleases by the University Under the Facilities Lease
<b>Article 15</b>	Compliance with Reciprocal Easements and Maintenance Agreement
<b>Article 17</b>	Signage

**22.2 Inconsistencies between Ground Lease Provisions and Lease.** Certain provisions of the Ground Lease have not been included in the list of applicable provisions above because they have effectively been "wrapped into" or overridden by the provisions contained in this Lease. Nevertheless, in the event of any irreconcilable conflict between the provisions of this Lease and the provisions of the Ground Lease, the provisions of this Lease shall control.

**22.3 Overall Compliance with the Ground Lease and Reciprocal Easements Agreement.** In addition to specifically assuming the foregoing obligations under the Ground Lease, the University shall not take any action or omit to take any action that would constitute a violation or breach of the Ground Lease or the Reciprocal Easements Agreement, or cause WBRP to be in violation of the Ground Lease or Reciprocal Easements Agreement.

**23. SALES TAX DEFFERAL.**

**23.1 Application for Sales Tax Deferral.** Retail sales tax otherwise applicable to portions of construction of the Improvements and any other work requested by the University may be eligible for deferral pursuant to RCW 82.63 or otherwise (the "*Sales Tax Deferral*") as a result of the intended use of the Premises by the University. The University and WBRP shall cooperate to prepare and process applications with the Washington State Department of Revenue (or any other applicable governmental agency) for a deferral of state and local sales and use taxes with respect to the construction of the Improvements or any future construction for which a Sales Tax Deferral may be available. The University and WBRP shall make application for a Sales Tax Deferral prior to receipt of the building permit for the Improvements. To the extent WBRP realizes cost savings because of a Sales Tax Deferral, WBRP shall pass the economic benefit to the University in accordance with the applicable Financing Documents including, if applicable, a credit against Base Rent payments otherwise owing by the University.

**23.2 University's Obligation for Deferred Tax.** If a Sales Tax Deferral is granted, and if, for any reason, any part of the retail sales tax so deferred is subsequently required to be repaid, the University shall promptly pay the same, together with any interest, penalties, or other charges that are or become due in connection therewith, and the University shall indemnify and hold WBRP harmless from any and all costs, expenses, losses, damages, liability and claims arising out of or related to any retail sales tax deferral for the Improvements and any other work requested by the University.

**23.3 Annual Survey.** The University shall on an annual basis report to WBRP the nature of the University's use of the Premises and the extent to which such use does not qualify for a Sales Tax Deferral and complete the annual survey required by RCW 82.63.020. The University shall, after consultation with WBRP, be responsible for reporting any non-qualifying use to the State of Washington Department of Revenue and paying any tax resulting from the non-qualifying use and shall deliver copies of the same to WBRP concurrently with its delivery of the same to the State of Washington Department of Revenue. As between WBRP and the University, the University shall be solely responsible for paying for any tax resulting from any non-qualifying use.

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**23.4 Department of Revenue Audits.** WBRP will, but at no cost or expense to WBRP unless reimbursed by the University, reasonably cooperate with and assist the University in any challenges or audits to a Sales Tax Deferral benefit. In any contest regarding a Sales Tax Deferral benefit, the University shall be the main contact with the Department of Revenue; provided, however, that the University shall promptly provide WBRP with copies of any correspondence between the University and the Department of Revenue and WBRP shall have the right to be present at any and all meetings or proceedings relating to any such contest. WBRP and the University shall promptly notify each other of any such challenges or audits that they become aware of and will promptly forward to one another any correspondence regarding any such challenge or audit. The University shall have the right to contest or review any proceedings regarding a Sales Tax Deferral benefit, which may be instituted either during or after the Term of this Lease. WBRP will on a timely basis execute all reasonably necessary instruments submitted by the University to WBRP for execution in connection with any such protest, appeal or other proceedings, provided, however, that the same are reasonably acceptable to WBRP. If any proceeding may only be instituted and maintained by WBRP, then WBRP shall do so at the University's cost upon the request of the University. WBRP shall not settle any appeal or other proceeding with respect to such Sales Tax Deferral without obtaining the University's prior written approval in each instance (not to be unreasonably withheld, conditioned or delayed). WBRP shall not abandon any appeal without first offering to the University the right to prosecute such appeal at the University's expense, which election the University shall make by written notice to WBRP within 15 days after notice by WBRP of its intent to so abandon its appeal. The University shall be entitled to any resulting refund obtained by reason of any such proceeding or otherwise, whether obtained during or after the expiration of the Term and whether obtained by WBRP or the University. The University shall indemnify and hold WBRP harmless from any and all costs, expenses, losses, damages, liability and claims arising out of or related to WBRP's compliance with the provisions of this Section 23.4, including, without limitation, as result of the execution of any instruments provided to WBRP by the University for execution. The University's indemnity obligations hereunder, however, shall be limited to the extent of the University's authority to provide such indemnification under applicable law.

**23.5 Survival.** The provisions of this Section 23 shall survive the expiration or termination of this Lease.

#### **24. MISCELLANEOUS.**

**24.1 Notices.** Any notice or document required or permitted to be delivered hereunder from one party to the other shall be in writing and shall be deemed given when personally delivered, delivered by facsimile with confirmation of receipt or delivered by private courier service or three (3) days after being deposited in the United States mail, in registered or certified form, return receipt requested, to the other party's address or facsimile number as set forth in Section 1 or such other address or facsimile number as shall have been last designated by notice in writing from one party to the other. The address to which any notice, demand or other writing may be given, made or sent to either party may be changed by written notice given by such party as above provided.

**24.2 Force Majeure.** WBRP and the University shall not be deemed in default with respect to the performance of any of the terms, conditions and covenants of this Lease if WBRP's or the University's failure to perform shall be due to any strike, lockout, war, sabotage, or Act of God or other cause beyond the reasonable control of WBRP or the University, providing such cause is not due to the willful act or neglect of WBRP or the University. In the event either party is delayed or prevented from performing any of its respective obligations under this Lease due to force majeure, then the time period for performance of such obligations shall be extended for the period of such delay.

**24.3 No Brokerage Commission.** WBRP and the University have negotiated this Lease directly and neither party has been represented by a real estate agent in connection with this transaction. WBRP and the University hereby represent and warrant to each other that neither party has knowledge of any leasing commission or other fee claimed or payable as a result of the lease of the Premises by WBRP to the University. Each party agrees to indemnify, defend and hold the other harmless from claims for leasing commissions or other fees asserted by any third party, including reasonable attorneys' fees and costs incurred by the other in defending against any such claims.

**24.4 Attorneys' Fees.** In the event of litigation between WBRP and the University in connection with this Lease, reasonable attorneys' fees, court costs and expenses of litigation or appeal incurred by the party prevailing in such litigation and appeal shall be paid by the non-prevailing party.

**24.5 Non-Discrimination.** WBRP and the University both certify that they will not discriminate in employment on the basis of race, color, religion, sex, national origin, veteran status or physical or mental disability in regard to any position for which the employee is qualified, in compliance with (a) Presidential Executive Order 11246, as amended, including the Equal Opportunity Clause contained therein; (b) Section 503 of the Rehabilitation Act of 1973, as amended, and the Vietnam Era Veterans Readjustment Act of 1974, as amended, and the Affirmative Action Clauses contained therein; and (c) the Americans with Disabilities Act of 1990, as amended. Each party agrees it will not maintain facilities which are segregated on the basis of race, color, religion or national origin in compliance with Presidential Executive Order 11246, as amended, and will comply with the Americans with Disabilities Act of 1990, as amended, regarding its programs, services, activities and employment practices.

**24.6 Prevailing Wage.** WBRP shall require its contractors to pay prevailing wages and conform with any applicable requirements of the prevailing wage statute and regulations thereunder.

**24.7 Lease Not a Debt.** The University's obligation hereunder to make Rent payments under this Lease is payable solely from General Revenues of the University. This Lease and the rental obligations hereunder shall not constitute an obligation of the State of Washington, moral or otherwise, for which the State of Washington is obligated to levy or pledge any form of taxation. Neither this Lease nor the rental obligations hereunder constitute a pledge of the full faith and credit of the State of Washington within the meaning of the Constitution of the State of Washington or within the meaning of any statutory debt limitation or

restriction. The University acknowledges that its failure to pay Rent under this Lease shall constitute an Event of Default under this Lease.

**24.8 Severability.** If any provision of this Lease shall be held to be invalid, illegal or unenforceable, the remaining provisions shall in no way be affected or impaired thereby.

**24.9 Impartial Construction.** The language in all parts of this Lease shall be in all respects construed as a whole according to its fair meaning, and shall not be construed strictly for or against either party by reason of the authorship of any provision hereof.

**24.10 Entire Agreement.** The provisions of this Lease along with any exhibits and attachments hereto constitute the entire agreement between WBRP and the University regarding the lease of the Premises. This Lease supersedes any prior or contemporaneous oral or other agreement between WBRP and the University regarding the subject matter of this Lease. Any amendment or modification of this Lease must be in writing and signed by both parties.

**24.11 Authority to Execute.** Each individual executing this Lease on behalf of WBRP or the University respectively, represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of such entity, and that this Lease shall be binding upon said entity in accordance with its terms.

**24.12 Successors and Assigns.** All provisions hereof are to be construed as both covenants and conditions as though the words importing such covenants and conditions were used in each separate section hereof. Subject to any provisions in this Lease restricting assignment or subletting by the parties in Section 14 hereof, this Lease shall be binding upon and inure to the benefit of the heirs, legal representatives, assigns, and successors of the respective parties. This Lease shall not become binding upon the parties until it has been executed and acknowledged by both WBRP and the University.

**24.13 Amendments.** Any amendments to this Lease must be executed in writing by the parties hereto and consented to in writing by Ground Lessor (such consent to be subject to the standards set forth in Section 9.2 of the Ground Lease). No amendment adversely affecting Ground Lessor's rights shall be effective unless consented to in writing by Ground Lessor.

**24.14 Time of Essence.** Time is of the essence of this Lease.

**24.15 Captions.** The captions of the sections of this Lease are for convenience only and shall not be deemed to be relevant in resolving any question of interpretation or construction of any section of this Lease. Exhibits attached hereto, and addenda and schedules initialed by the parties are deemed by attachment to constitute part of this Lease and are incorporated herein. Whenever herein the singular number is used, the same shall include the plural, and the neuter gender shall include the feminine and masculine genders.

**24.16 Waivers.** No waiver of any right under this Lease shall be effective unless contained in a writing signed by a duly authorized officer or representative of the party

sought to be charged with the waiver and no waiver of any right arising from any breach or failure to perform shall be deemed to be a waiver of any future right or any other right arising under this Lease.

**24.17 Counterparts.** This Lease may be executed in counterparts and each counterpart shall constitute an original document and all such counterparts shall constitute but one and the same instrument.

**24.18 Governing Law.** This Lease shall be governed by the laws of the State of Washington.

*[Remainder of Page Left Intentionally Blank — Signature Page Follows]*



**EXHIBIT A**

**Legal Description of Leased Property**

PARCEL C OF CITY OF SEATTLE LOT BOUNDARY ADJUSTMENT NO. 3011433,  
RECORDED UNDER RECORDING NO. 20101020900007.

**EXHIBIT B**

**Description of Improvements**

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**EXHIBIT C**

**Calculation of Base Rent**

**EXHIBIT D**

**Preliminary Project Development Budget**

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## EXHIBIT E

### Work Letter/Communication and Cooperation between WBRP and the University

1. Terminology. Any capitalized terms used but not defined herein shall have the meanings given to them in this Lease.

2. Development Management Agreement. WBRP has entered into a Development Management Agreement with the Development Manager, under which Development Manager is committing to perform certain management services relating to the design, permitting, construction and construction management of the Improvements and any other improvements. The University concurs in the selection of City Investors LLC as Development Manager and hereby acknowledges its concurrence of all of the terms and conditions of such Development Management Agreement.

3. WBRP's Construction Consultant Agreement. Following execution of this Lease, WBRP is also entering into a Construction Consultant Agreement, under which WBRP's Construction Consultant is committing to perform certain advisory services in connection with review of plans and specifications, administration of the Development Management Agreement and the General Construction Contract, and submissions and approvals of monthly disbursements under the Bond Financing. The University shall have the right to concur in the selection of WBRP's Construction Consultant and the terms and conditions of WBRP's Construction Consultant Agreement.

4. Architect's Agreement and Other Consulting Agreements. WBRP has entered into an agreement for architectural services with Perkins & Will, Inc., as well as several other contracts for the services of other consultants with respect to the Project, including surveyors, insurance brokers, and soils engineers. Development Manager shall take undertake lead responsibility for negotiating such contracts, and WBRP shall provide a copy of each such proposed contract to the University at least 5 business days prior to execution (and earlier, if possible) so that the University will have a reasonable opportunity to review, comment upon and concur in the execution by WBRP of such contract. If the University has not notified WBRP in writing of its comments to such proposed contract within 5 business days after having received it for review and concurrence (or by such later deadline as WBRP may have specified upon delivering the proposed contract), the University shall be deemed to have concurred.

5. General Construction Contract. WBRP expects to enter into a General Construction Contract with Sellen Construction Co., Inc., as approved by the University and the Development Manager. Such General Construction Contract shall be on a cost plus a fee basis with a guaranteed maximum price. Development Manager shall undertake lead responsibility for negotiating the General Construction Contract, and WBRP shall provide copies of such proposed General Construction Contract to the University at least 5 business days prior to execution (and earlier, if possible) so that the University will have a reasonable opportunity to review, comment and concur in the execution by WBRP of such General Construction Contract. If the University has not notified WBRP in writing of its comments to such proposed contract within 5 business

days after having received it for review and concurrence (or by such later deadline as WBRP may have specified upon delivering the proposed contract), the University shall be deemed to have concurred.

6. Schedule for Design and Construction. The Project Development Schedule attached hereto as **Exhibit E-1**, as revised from time to time in accordance with the terms of the Development Management Agreement, identifies target dates for achieving the matters set forth therein. In order to ensure to the greatest extent practicable that the Project is designed, permitted and completed on or before the dates set forth in the Project Schedule, WBRP and the University shall each proceed with all necessary due diligence and in good faith to complete such matters as require action or approval on the part of WBRP and the University.

#### 7. Decisions Relating to Space Programming, Specifications, Improvements.

7.1 Solicitation of Input from the University. WBRP shall promptly solicit the University's views and opinions on all requirements, specifications, designations, or decisions or that must be made or submitted relating to the laboratories, offices and other spaces, including space programming, windows and doors, surfaces and textures, electrical, plumbing, and mechanical fixtures and installations, data communications, fixtures and furnishings, and all other Tenant Improvements to be installed for the benefit of the University (collectively, the "**UW Requirements**"). For all purposes under this Exhibit E, the University designates Jill Morelli as its representative. WBRP shall also solicit the University's views and opinions before undertaking any substantial modification of the Development Management Agreement, General Construction Contract, Architect's Agreement, or other agreement, including but not limited to modifications that commit substantial portions of the construction contingency line item of the Project Development Budget or that materially increase the guaranteed maximum price under the General Construction Contract.

7.2 The University's Qualified Right to Dictate Design Decisions. Following consultation with the University, WBRP shall accept direction from the University as to all requirements, specifications, designations, or decisions relating to the Improvements, shall promptly communicate (if not already communicated by the University) all such UW Requirements directly to Development Manager, Architect, General Contractor, or other appropriate party, and shall adopt such UW Requirements in all contracts, exhibits, budgets, plans, specifications, change orders, or other legally effective documents relating to design, construction, or financing of the Project so long as WBRP determines, in its reasonable discretion and based on the advice of the WBRP's Construction Consultant, Development Manager, General Contractor, the lenders under the Financings, the underwriter of the Bonds, bond counsel, and any other construction or finance professionals with whom WBRP may elect to consult, that all of the following are satisfied:

7.2.1 The UW Requirements are constructible and consistent with all applicable building codes, the MUP, and the building permits granted for the Improvements (or if not, Development Manager is seeking amendments to the MUP or building permits so as to achieve consistency with the UW Requirements);

7.2.2 The Improvements can be constructed in accordance with all UW Requirements at a cost that does not exceed the amounts allowed in the appropriate line items of the Project Development Budget and General Construction Contract currently in effect (including use of an appropriate portion of contingency), as such budget and contracts may have been amended from time to time, (or if not, Development Manager and WBRP are, with UW's approval, seeking amendments to the Project Budget and change orders to the General Construction Contract to provide the necessary additional construction funds or have approved commitment of previously unutilized contingency funds therefor and there remains a sufficient remaining amount of unutilized contingency to cover other unbudgeted costs reasonably anticipated to arise over the remaining construction period);

7.2.3 The amount of Project Funds committed and available to WBRP is sufficient to cover the cost of constructing the Improvements in accordance with the UW Requirements, including any increases in the Project Development Budget and in the guaranteed maximum price under the General Construction Contract that are being proposed; and

7.2.4 There is no element of the UW Requirements that will cause an event of default to exist or occur under the Ground Lease or any Financing that has been committed or is then in place, or that unreasonably jeopardize the prospects for WBRP to obtain tax exempt Bond Financing in a sufficient amount to cover the costs of complying with the UW Requirements, or that will jeopardize the tax-exempt character of such Bonds.

7.3 Decision Deadlines; Additional Costs for Missed Deadlines. To the extent that any deadline is imposed upon WBRP to respond to the Development Manager, General Contractor, Architect, or any other design or construction professional with respect to any requirements, specifications, designations, or other decisions required under the terms of the Development Management Agreement, the General Construction Contract, or other applicable agreement or exhibit attached thereto, the University agrees that it will respond to WBRP, with copies to Development Manager, General Contractor, or Architect, as appropriate, on or before such deadline. If failure to meet such deadline will constitute a material event of default under such agreement, WBRP shall have the right, but not the obligation, to exercise its best discretion to respond to the appropriate party prior to the deadline, notwithstanding the University's failure to timely communicate the UW Requirements relating to such designation or decision. The University further agrees that if any additional costs, penalties, default interest, late charges, or other economic consequences are imposed upon WBRP for missing such deadline, then if the University fails to meet such deadline and as a result of the University's failure, WBRP misses such deadline and suffers such cost or other economic consequence, the University shall be obligated to pay, reimburse, or indemnify WBRP from and against all such additional cost resulting from such missed deadline as provided in Section 6.2.2. Conversely, if economic consequences are imposed for failing to meet a deadline and (i) such failure results from WBRP's inaction, then the amount of economic consequences may be set off against the Base Rent Component payable under Section 6.2.1.3 of the Lease until satisfied, or (ii) such failure results from inaction by any third party engaged by WBRP, then the University may pursue its rights under Section 11 of the Lease.

## 8. Communication among WBRP, the University, Development Manager, and WBRP's Construction Consultant.

8.1 Notices from Development Manager to WBRP. To ensure that the University is fully apprised of decisions required of WBRP pursuant to the Development Management Agreement and to give the University an opportunity to advise and direct WBRP as to such decisions, various sections of the Development Management Agreement require Development Manager to provide to the University, to WBRP's Construction Consultant, and to certain other parties a copy of all notices, plans and specifications, change orders, invoices, documents, requests for decisions, or other agreements or submissions required to be delivered or delivered by Development Manager to WBRP, with such copies delivered to the University and WBRP's Construction Consultant simultaneously with delivery to WBRP. In addition, the University and WBRP's Construction Consultant, among others have the right, but not the obligation, to attend all weekly construction meetings, and to participate in all decisions to protect the University's interest under this Lease. WBRP shall make a diligent effort to assure that Development Manager provides all such notices and submissions to the University and WBRP's Construction Consultant concurrently with delivery thereof to WBRP.

8.2 Submissions by WBRP or WBRP's Construction Consultant to Development Manager. To ensure full communication with the University, WBRP shall provide to the University, and shall require WBRP's Construction Consultant to provide to the University, a copy of all notices, plans, specifications, designations, approvals, disapprovals, decisions, responses, change orders, responses, and or other agreements or submissions required to be delivered by WBRP to Development Manager, with such copies delivered to the University simultaneously with delivery to Development Manager.

8.3. Notices by the University to WBRP. Based on the foregoing provisions giving the University the qualified right to direct decisions about the Improvements, and to improve the efficiency of communications about UW Requirements relating thereto, the University shall have the right (but not the obligation) to provide to Development Manager and WBRP's Construction Consultant a copy of all notices, plans, specifications, designations, approvals, disapprovals, decisions, responses, change orders, responses, and or other agreements or submissions required to be delivered or delivered by the University to WBRP under this Lease or this Exhibit, with such copies delivered to Development Manager and WBRP's Construction Consultant simultaneously with delivery to WBRP. Such notices and communications shall be sent to the Development Manager at the address shown in the Development Management Agreement by the same means specified in Section 22 of the Development Management Agreement (i.e., messenger, overnight courier, mail or facsimile).

9. Cooperation in Financing and Draws. The University shall cooperate with WBRP in closing the Bond Financing, and in administering all construction disbursements thereunder. The University shall execute such estoppel certificates and other documents as may reasonably be requested of it by the Bond Trustee or other party.

10. Dispute Resolution Process. To the extent that any dispute between WBRP and the University under this Exhibit E is subject to alternative dispute resolution under the Ground

Lease, WBRP and the University agree to submit to alternative dispute resolution as provided in the Ground Lease.

WBRP Initials: \_\_\_\_\_

The University's Initials: \_\_\_\_\_



**GROUND LEASE  
(Phase 3.2)**

between

**CITY INVESTORS XII L.L.C., as LESSOR**

and

**WBRP 3.2, as LESSEE**

**Dated: July 30, 2010**

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Exhibit E	-	Preliminary Title Report
Exhibit F	-	Terms of Reciprocal Easement and Maintenance Agreement
Exhibit G	-	Form of Memorandum of Lease

**GROUND LEASE**

THIS GROUND LEASE (this "Lease") is made and entered into as of July 30, 2010, by and between CITY INVESTORS XII L.L.C., a Washington limited liability company ("Lessor"), and WBRP 3.2, a Washington non-profit corporation ("WBRP").

**RECITALS**

A. Lessor is the owner of certain real property situated in the City of Seattle, King County, Washington, more particularly described on Exhibit A attached hereto (the "Property"). There is currently located on the Property certain existing improvements commonly known as the Pierce Building (the "Existing Improvements").

B. WBRP desires to lease the Property from Lessor and sublease the Property (including the Existing Improvements) to the University of Washington (the "University") pursuant to a Sublease Agreement of even date herewith (the "Phase 3.2 Sublease"). At some time in the future, and subject to the terms and conditions set forth below, WBRP may also desire to construct new buildings and other improvements on the Property and to lease the Property as improved, initially to the University for biomedical research, clinical treatment and related uses pursuant to a facilities lease to be executed between WBRP and the University (the "Phase 3.2 Facilities Lease").

C. Lessor is willing to lease the Property to WBRP, subject to the terms and conditions set forth below.

D. Simultaneously herewith, Lessor has also entered into a ground lease (the "Phase 3.1 Ground Lease") with WBRP 3.1, a Washington non-profit corporation (the "Phase 3.1 Ground Lessee"), with respect to certain real property adjacent to the Property and legally described in Exhibit B attached hereto (the "Phase 3.1 Property"). The Phase 3.1 Property Ground Lessee has leased the Phase 3.1 Property to the University pursuant to a facilities lease executed between the Phase 3.1 Ground Lessee and the University concurrently herewith (the "Phase 3.1 Facilities Lease"). The Phase 3.1 Ground Lessee or its permitted assignee intends to construct buildings and other improvements on the Phase 3.1 Property for lease initially to the University for biomedical research, clinical treatment and related uses (the "Phase 3.1 Project").

E. Also, simultaneously herewith, Lessor has entered into a ground lease (the "Phase 3.3 Ground Lease") with WBRP 3.3, a Washington non-profit corporation (the "Phase 3.3 Ground Lessee"), with respect to certain real property adjacent to the Property and the Phase 3.1 Property and legally described in Exhibit C attached hereto (the "Phase 3.3 Property"). The Phase 3.3 Ground Lessee has subleased the Phase 3.3 Property to the University pursuant to a sublease executed between the Phase 3.3 Ground Lessee and the University concurrently herewith (the "Phase 3.3 Sublease"). In the future, the Phase 3.3 Ground Lessee or its permitted assignee may construct buildings and other improvements on the Phase 3.3 Property for lease initially to the University for biomedical research, clinical treatment and related uses (the "Phase 3.3 Project").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, Lessor and WBRP hereby agree as follows:

**ARTICLE 1.**

**LEASE; USE**

**Section 1.1 Leased Property.** Subject to the terms, provisions and conditions hereinafter set forth, Lessor hereby leases to WBRP, and WBRP hereby leases from Lessor, the Property, including the Existing Improvements (the term "Property" when used herein shall include the Existing Improvements, any New Improvements (defined in Section 3.1 below) or other improvements hereinafter constructed by WBRP, but shall not include (i) WBRP's (or its subtenant's) moveable furniture, fixtures and equipment; (ii) other personal property of WBRP or its subtenants not permanently affixed to the Property; or (iii) the personal property contained on the schedule of WBRP's or subtenants' property attached hereto as Exhibit D, as it may be supplemented or amended from time to time (collectively "WBRP's Property,") but which shall exclude such equipment relating to major building systems (i.e., HVAC, electrical, access and security) as is necessary for the proper and normal operation of the Property, all of which shall remain on the Property and become the property of the Lessor upon expiration or earlier termination of this Lease).

**Section 1.2 Condition of Property.** WBRP acknowledges that except as specifically provided herein and except as provided in Section 8.5 with respect to Hazardous Substances: (i) neither Lessor nor any agent or affiliate of Lessor has made any representation or warranty with respect to the condition of the Property or the suitability of the Property or the Existing Improvements for the conduct of WBRP's business or any renovation or redevelopment contemplated by WBRP, and (ii) the Property and the Existing Improvements are accepted by WBRP "As Is," in its present condition and without any representation or warranty of Lessor with respect to the condition thereof or the suitability for WBRP's intended use.

**Section 1.3 Use.** WBRP shall have the right to use the Property for general office and administrative uses, parking and loading facilities, biomedical and biotechnical research and development, clinical use, including patient visits and treatments, laboratory uses (including vivarium), and similar clinical, research and development uses as are permitted by laws, ordinances, zoning codes and regulations applicable to the Property. No other use may be made of the Property without the prior written consent of Lessor, which consent shall not be unreasonably withheld. However, the following uses are prohibited (unless expressly approved in writing by Lessor, which approval may be withheld or conditioned in the sole discretion of Lessor): research involving non-human primates; weapons production or development; overnight stays or other in-patient hospital use, drug, alcohol or other dependency treatment; and research requiring facilities higher than a bio-safety level III laboratory. Furthermore, so long as the University is a subtenant of the Property, WBRP shall cause the University to comply with the written policies implemented by the University relating to research involving animals, as it may be amended from time to time, a copy of which has been provided to Lessor. Any vivarium within the Property will only be located where shown on the Plans approved by Lessor in accordance with Section 3.1 below.

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Notwithstanding the foregoing, prior to the development of New Improvements on the Property, WBRP shall have the right to use the Property and the Existing Improvements on an interim basis for any and all uses permitted under applicable law and applicable land use and zoning codes, other than for uses expressly prohibited under the first paragraph of this Section 1.3. During such time, any Pre-Development Subleases shall be subject to the provisions of Section 9.2.2 below.

## ARTICLE 2.

### TERM; EXTENSION RIGHTS

**Section 2.1 Effective Date and Term.** The effective date of this Lease (the "Effective Date") shall be the date set forth in the opening paragraph of this Lease and all obligations of Lessor and WBRP hereunder shall be binding on the parties on the Effective Date. The initial term of this Lease shall commence on the Effective Date and expire on the last day of the forty-fifth (45<sup>th</sup>) year after the earlier of (a) the date the first temporary certificate of occupancy is issued permitting the University or its subtenants to occupy any portion of the Phase 3.1 Property following construction of the Phase 3.1 Project in accordance with the terms of the Phase 3.1 Ground Lease, or (b) June 1, 2015. By virtue of the operation of this provision, the term of this Lease, the Phase 3.1 Ground Lease and the Phase 3.3 Ground Lease shall be the same, and shall be determined in reference to the timing for completion of the Phase 3.1 Project in accordance with Section 2.1 of the Phase 3.1 Ground Lease.

**Section 2.2 Certification.** Upon the request of either party following either the issuance of the first temporary certificate of occupancy permitting the University or its subtenants to occupy any portion of the Phase 3.1 Property following construction of the Phase 3.1 Project or June 1, 2015, Lessor and WBRP shall enter into a supplement to this Lease in recordable form confirming the expiration date for the initial term of this Lease and such other dates and information as the parties may reasonably request.

**Section 2.3 WBRP's Right to Extend.** WBRP shall have the right to extend the term of this Lease by giving notice and making payments as required in Section 2.3.1 below and provided the conditions set forth in Section 2.3.2 below are satisfied.

**2.3.1 Exercise of Extension Rights; Extension Fees.** WBRP may extend the term of this Lease to May 31, 2063 (the "First Extension"). To exercise the First Extension, WBRP must give written notice of exercise of the First Extension to Lessor on or before December 31, 2015. For the exercise of the First Extension to be effective, the notice of exercise of the First Extension must be accompanied by a payment by WBRP to Lessor of an extension fee of \$913,932.66 (the "First Extension Fee").

If and only if WBRP has exercised the First Extension, then WBRP may extend the term of this Lease to May 31, 2068 (the "Second Extension"). To exercise the Second Extension, WBRP must give written notice of exercise of the Second Extension to Lessor on or before December 31, 2019. For the exercise of the Second Extension to be effective, the notice of exercise of the Second Extension must be accompanied by a payment by WBRP to Lessor of an extension fee of \$215,579.97 (the "Second Extension Fee").

The First Extension Fee and the Second Extension Fee shall be fully earned by Lessor when paid.

In the event a notice required by this Section 2.3.1 is not timely given, the extension rights of WBRP under this Section 2.3 shall automatically terminate without further notice or demand from Lessor.

**2.3.2 Condition to Exercise.** WBRP may exercise each extension right, and such extension shall become effective, if and only if, at the time of exercise of the extension right:

(a) there does not exist an Event of Default (as defined in Section 10.1 below) by WBRP under this Lease;

(b) the University is currently a tenant in the Property pursuant to either the Phase 3.2 Sublease or a Phase 3.2 Facilities Lease and has unconditionally exercised its right to extend the term of such lease to be co-extensive with the then extended term of this Lease; and

(c) the terms of the Phase 3.1 Ground Lease and (if not earlier terminated) the Phase 3.3 Ground Lease have simultaneously been extended for the same term as provided by and in accordance with the terms of the Phase 3.1 Ground Lease and the Phase 3.3 Ground Lease (such that, at all times, the expiration date of this Lease, the Phase 3.1 Ground Lease and the Phase 3.3 Ground Lease remains the same).

**2.3.3 Terms and Conditions.** During any extended term, this Lease shall continue on the same terms and conditions as set forth herein.

**2.3.4 Deemed Exercise.** As provided for in the Phase 3.2 Sublease and/or the Phase 3.2 Facilities Lease, the University may provide to Lessor its notice to exercise the corresponding extension options under the Phase 3.2 Sublease and/or the Phase 3.2 Facilities Lease, as applicable. Receipt of the University's notice by Lessor (and receipt by Lessor of the applicable extension fee) shall be deemed an exercise by WBRP of the extension right hereunder, provided each of the conditions set forth in Sections 2.3.2 have been satisfied.

### Section 2.4 Early Termination by Lessor.

**2.4.1 Phase 3.1 Lease Termination.** This Lease shall automatically terminate in the event the Phase 3.1 Ground Lease terminates in accordance with the provisions of Section 2.4 of the Phase 3.1 Ground Lease or Section 3.10.4 of the Phase 3.1 Ground Lease. The termination date of this Lease shall be simultaneous with the termination of the Phase 3.1 Ground Lease under Section 2.4 of the Phase 3.1 Ground Lease or Section 3.10.4 of the Phase 3.1 Ground Lease.

If this Lease terminates pursuant to the provisions of this Section 2.4.1 due to a termination of the Phase 3.1 Ground Lease under Section 2.4 of the Phase 3.1 Ground Lease, WBRP shall pay to Lessor as an early termination fee (the "Section 2.4.1 Early Termination Fee") an amount equal to the Rent and other Impositions that would be due and payable by

WBRP under this Lease for the thirty-six (36) month period following early termination of this Lease. The Section 2.4.1 Early Termination Fee shall be due on the later of (a) twenty (20) days following the termination of this Lease, or (b) ten (10) days following WBRP's receipt of an invoice from Lessor of the amount due, together with Lessor's calculation thereof. If WBRP disputes in good faith the amount due as specified by Lessor, WBRP shall pay the amount WBRP determines in good faith is due and the disputed amount shall be resolved in the manner set forth in Section 20 below.

For purposes of clarification of Section 2.4.1 Early Termination Fee shall not be due if this Lease terminates due to a termination of the Phase 3.1 Ground Lease under Section 3.10.4 of the Phase 3.1 Ground Lease.

**2.4.2 Failure to Develop New Improvements.** If WBRP has not obtained permits, arranged financing and commenced construction of New Improvements consistent with the Phase III Property Master Plan Report prepared by Perkins+Will dated March 27, 2009 (the "Master Plan") on the Property by December 31, 2017, Lessor shall have the right to terminate this Lease. However, before Lessor may terminate this Lease, Lessor must provide notice of its intent to exercise this termination right to WBRP and the University (the "First Notice of Intent to Terminate"), which Lessor may issue at any time after December 31, 2017 if WBRP has not obtained permits, arranged financing and commenced construction of such New Improvements as of the date of the issuance of the Notice of Intent to Terminate.

The First Notice of Intent to Terminate shall also specify whether it applies only to this Lease and the Property, or whether it also applies to the Phase 3.3 Lease and the Phase 3.3 Property.

WBRP shall have a period of three (3) months from the date of the First Notice of Intent to Terminate (the "First Cure Period") to avoid termination of this Lease by obtaining firm approval by the Board of Regents of the University (in the form of a binding resolution or other formal action) approving the development such New Improvements on the Property for lease to the University under a Phase 3.2 Facilities Lease and authorizing WBRP to commence the permitting and design of such New Improvements.

If the Board of Regents of the University does not provide firm approval for the development of such New Improvements on the Property for lease to the University prior to expiration of the First Cure Period, then upon expiration of the First Cure Period, this Lease will expire with the same force and effect as if the expiration of the First Cure Period was the expiration of the term of this Lease.

If the Board of Regents of the University provides firm approval for the development of such New Improvements on the Property for lease to the University but WBRP has not obtained permits, arranged financing and commenced construction of such New Improvements within twelve (12) months of the expiration of the First Cure Period, Lessor shall have a second right to terminate the Lease under this Section 2.4.2. However, before Lessor may terminate this Lease pursuant to this second termination right, Lessor must provide notice of its intent to exercise this second termination right to WBRP and the University (the "Second Notice of Intent to Terminate"), which Lessor may issue at any time after the expiration of the 12-month

period if WBRP has not obtained permits, arranged financing and commenced construction of such New Improvements as of the date of the issuance of the Second Notice of Intent to Terminate.

WBRP shall have a period of three (3) months from the date of the Second Notice of Intent to Terminate (the "Second Cure Period") to avoid termination of this Lease by obtaining permits, arranging financing and commencing construction of the New Improvements. If WBRP obtains permits, arranges financing and commences construction of New Improvements prior to expiration of the Second Cure Period, this Lease shall remain in full force and effect and the termination rights of Lessor under this Section 2.4.2 shall terminate. If WBRP does not obtain permits, arrange financing and commence construction of New Improvements prior to expiration of the Second Cure Period, then upon expiration of the Second Cure Period, this Lease will terminate with the same force and effect as if the expiration of the Second Cure Period was the expiration of the term of this Lease.

If this Lease terminates under this Section 2.4.2 upon expiration of the Second Cure Period, WBRP shall pay to Lessor as an early termination fee (the "Section 2.4.2 Early Termination Fee") an amount equal to the Rent and other Impositions that would be due and payable by WBRP under this Lease for the twenty-four (24) month period following termination of this Lease. The Section 2.4.2 Early Termination Fee shall be due on the later of (a) thirty (30) days following the termination of this Lease, (b) twenty (20) days following WBRP's receipt of an invoice from Lessor of the amount due, together with Lessor's calculation thereof. If WBRP disputes in good faith the amount due as specified by Lessor, WBRP shall pay the amount WBRP determines in good faith is due and the disputed amount shall be resolved in the manner set forth in Section 20 below.

In addition, if this Lease terminates pursuant to the provisions of this Section 2.4.2 at a time when a master use permit has not been issued for New Improvements consistent with the Master Plan (regardless of whether such termination was upon expiration of the First Cure Period or the Second Cure Period), and if such master use permit is not issued within ninety (90) days following such lease termination, WBRP shall pay to Lessor as a supplemental early termination fee (the "Supplemental Early Termination Fee") an amount equal to \$1,000,000. The Supplemental Early Termination Fee, if due, shall be paid by WBRP to Lessor within one hundred (100) days of the termination of this Lease under this Section 2.4.2.

**2.4.3 Matters Relating to Early Termination.** Upon termination of this Lease under this Section 2.4 or under Section 2.5 below, Lessee shall succeed to all of WBRP's interest in all work product, permits, entitlements and designs associated with the development or potential development of New Improvements on the Property (at no cost to Lessor), other than customary fees and charges of third parties, if any. In addition, and consistent with the provisions of Section 3.13 of this Lease, Lessor shall also become the owner of all improvements on the Property, including that portion of the Shared Underground Facilities located on the Property.

**Section 2.5 Early Termination by WBRP.** At any time after the later of the December 31, 2015 or the issuance of the first temporary certificate of occupancy permitting the University or any of its subtenants to occupy any portion of the Phase 3.1 Project following



construction of both the Phase 3.1 Project and the Shared Underground Facilities, and provided WBRP has not commenced the construction of any New Improvements on the Property, WBRP shall have the right to terminate this Lease. Termination shall be effected by a termination notice (the "Termination Notice") from WBRP to Lessor. The Termination Notice shall specify the date upon which WBRP's termination of this Lease will be effective (the "Termination Date"). On the Termination Date, this Lease will terminate with the same force and effect as if the Termination Date was the expiration of the term of this Lease.

If this Lease terminates pursuant to the provisions of this Section 2.5 at a time when a master use permit has not been issued for New Improvements consistent with the Master Plan, and if such master use permit is not issued within ninety (90) days following such Lease termination, WBRP shall pay to Lessor a surrender fee (the "Surrender Fee") in an amount of \$1,000,000. The Surrender Fee, if due, shall be paid by WBRP to Lessor within one hundred (100) days of the Termination Date.

### ARTICLE 3.

#### CONSTRUCTION

**Section 3.1 Approval of Plans.** Lessor and WBRP acknowledge that the Property is not currently in a condition suitable for WBRP's intended use, and that WBRP may desire in the future to construct New Improvements (defined below) for lease to the University under a Phase 3.2 Facilities Lease for biomedical research, clinical treatment and related uses. WBRP may also desire to make further renovations in the future. Lessor consents to the development and construction of such New Improvements and other future renovation and/or reconstruction subject to the provisions of this Article 3.

Any alteration, modification, rehabilitation, renovation or reconstruction of the Property, (i) the cost of which is expected to exceed \$4,000,000, or (ii) which will materially alter the exterior appearance or the structural or seismic strength or load bearing capacity of the New Improvements, or (iii) result (singularly, or in combination with any prior alterations or renovations) in a reduction of 5,000 or more net rentable square feet of the Property is referred to herein as a "Major Improvement". Prior to commencement of any Major Improvements, Lessor shall have the right to review and approve WBRP's plans and specifications for the Major Improvements (the "Plans"). No Major Improvement shall be constructed on the Property unless the Plans therefor have been reviewed and approved by Lessor as provided herein. The Plans for any Major Improvement shall be prepared by a licensed architect selected by WBRP and reasonably approved by Lessor. WBRP shall not replace the Architect for any Major Improvement without Lessor's prior written consent. Following Lessor's approval of the Plans for any Major Improvement, any subsequent material modification, replacement, alteration, or addition thereto shall also require Lessor's approval.

With respect to any alteration, rehabilitation, renovation or reconstruction of all or any portion of the Property, the cost of which is expected to exceed \$50,000, but which does not constitute a Major Improvement and thus for which Lessor's approval of the Plans is not required, WBRP shall nevertheless give written notice to Lessor in advance of the commencement of such alteration, rehabilitation, renovation or reconstruction (which written

notice shall described with reasonable specificity the work to be undertaken and the permits and approvals required for such work). The provisions of this Article 3 (other than those provisions solely applicable to Major Improvements) shall apply to such work, notwithstanding that Lessor's approval of such work is not required hereunder.

**Section 3.2 Evidence of Funding.** Prior to commencement of any Major Improvement, WBRP shall provide Lessor with evidence satisfactory to Lessor that all funding necessary for the construction of the Major Improvement has been secured or committed.

**Section 3.3 Contractor; Builder's Risk Insurance.** WBRP shall contract with an experienced, qualified architect ("Architect") and general contractor ("Contractor"), both to be approved by Lessor, for any Major Improvement. Once approved, WBRP shall not replace the Architect or Contractor without Lessor's prior written consent. WBRP or the Contractor shall obtain and maintain in force at all times during which construction is in progress on the Property builder's risk insurance as required under Section 6.2.4.

**Section 3.4 Permits.** All master use permits, building permits and other permits, licenses, permissions, consents, and approvals required to be obtained from governmental agencies or third parties in connection with any construction shall be acquired by and at the sole cost and expense of WBRP. Lessor agrees to cooperate reasonably with WBRP as required to apply for and obtain all such permits and approvals, provided Lessor incurs no significant cost or expense in connection therewith.

#### Section 3.5 Approvals, Consents in General.

**3.5.1 Procedure for Review and Approval.** All plans for Major Improvements submitted to Lessor for approval shall be reviewed by Lessor and approved or disapproved in a written notice to WBRP within fifteen (15) business days after submittal, and sooner if possible (provided that if the Major Improvements involve changes in structural or seismic elements of the Property, major changes to HVAC, life safety or similar major building systems, the 15-business day period for plan review shall be extended to twenty (20) business days). Any subsequent changes or revisions to such plans, all designations of professionals and contracting parties (architects, general contractors, etc.), and any other submissions that do not involve newly-submitted Plans shall be reviewed by Lessor and approved or disapproved in a written notice to WBRP within ten (10) business days after submittal, and sooner if possible. WBRP shall, upon receipt of Lessor's reasonable objections, modify the Plans or other designations, taking into account Lessor's objections, and resubmit such revised Plans or designations for approval by Lessor in accordance with this Section 3.5. Such process of submittal, review and comment by Lessor, and resubmittal by WBRP shall continue until such time as the Plans or designations submitted by WBRP have been approved by Lessor, or are deemed approved as provided herein. Failure to approve or disapprove within the time limits set forth herein shall be deemed approval.

**3.5.2 Standards for Granting Approval.** Lessor agrees that all approvals or consents by Lessor under this Article 3: (i) shall, as provided in Section 21.14, not be unreasonably withheld or delayed; (ii) shall be deemed given if not denied in a written notice delivered to WBRP within the time specified for response herein; and (iii) if such approval or

consent is denied or conditioned, such denial or conditional approval or consent must be in writing and must specify with particularity the matters to which Lessor objects. Lessor further agrees that it shall not unreasonably withhold approval of plans and specifications for any Major Improvements when: (i) they offer a weather-tight shell with a neat and attractive exterior appearance that is consistent with the Plans approved by Lessor for the New Improvements, (ii) they comply with all applicable federal, state, and local laws, regulations, and ordinances, including applicable building codes and seismic requirements, and (iii) the structural components of such proposed Major Improvements are designed to meet floor loads and other structural criteria that would reasonably be anticipated to be sufficient for most users of biotech lab space under a bio safety level II or level III classification (and, for any Major Improvements undertaken after completion of the initial New Improvements, they do not decrease the structural or seismic strength or load bearing capacity initially approved by Lessor for such initially approved New Improvements). Lessor agrees that it shall not unreasonably withhold approval of the selection of an architect or contractor so long as such professional is a reputable licensed and well-qualified professional firm with substantial experience in designing improvements similar to the New Improvements contemplated hereunder, and in the case of the contractor, is bonded as required under applicable state law.

**3.5.3 Representatives for Responding and Granting Approval.** Each party shall designate one or more individuals to give consents and approvals on behalf of such party hereunder (which designation may be changed from time to time by such party upon written notice issued to the other party). The consent or approval of such designated individual shall be binding upon such party and all managers, members, partners, or other agents of such party. The initial designee of Lessor for such purposes is Ada Healey. The initial designee of WBRP is John Finke. However, WBRP reserves the right to enter into a Tenant's Consultant Agreement with a consultant selected by Tenant and reasonably approved by Lessor ("Tenant's Consultant"), a copy of which shall be provided to Lessor, and WBRP may grant limited authority to Tenant's Consultant to make certain field decisions, submittals, or approvals during the period during which the New Improvements or other Major Improvements are being constructed.

**Section 3.6 Compliance with Plans, Laws and Permits.** All construction shall be undertaken and completed in compliance with the approved Plans, all laws, codes, regulations and ordinances and all applicable permits and entitlements. Lessor shall have the right to inspect such work to confirm such compliance (provided such inspection shall be for Lessor's use only, and shall not constitute any approval of or assurance from Lessor with respect to such compliance).

**Section 3.7 Liens.** WBRP shall keep the Property free from any liens arising out of work performed, materials furnished to or obligations incurred by WBRP. Any mechanic's or materialmen's liens filed against the Property for work claimed to have been done for or materials claimed to have been furnished to WBRP, shall be discharged by WBRP, by bond or otherwise, within sixty (60) days after the filing of such lien, at the sole cost and expense of WBRP. Should WBRP fail to discharge any lien of the nature described in this Section 3.7, Lessor may, at Lessor's election, pay such claim or post a bond or otherwise provide security to eliminate the lien as a claim against title and the cost thereof shall be immediately due from WBRP as a reimbursable item under this Lease.

**Section 3.8 Progress Reports.** Subject to the qualification in Section 3.10.3, from and after the commencement of construction of any Major Improvements and through the completion date thereof, WBRP shall provide to Lessor monthly progress reports consisting of, at a minimum: (a) the then current construction schedule prepared by the Contractor (including the expected completion date); (b) a summary of all change orders approved by WBRP subsequent to the preceding monthly progress report; and (c) notice of any laborer's or materialmen's liens filed against the Property.

**Section 3.9 As-Built Drawings.** Within three (3) months following the completion date for construction of any modification or alteration of the Property exceeding a cost of \$250,000 and for which architectural or engineering plans have been prepared, including but not limited to any Major Improvement, WBRP shall deliver to Lessor two (2) copies of complete as-built drawings, and including a digital/electronic copy of such as-built drawings. Lessor acknowledges that if City Investors has supervised construction of the New Improvements pursuant to the Development Agreement through the completion of such New Improvements or supervised construction of any subsequent alterations or renovations under a similar contract for development services, then City Investors shall perform this obligation on behalf of the WBRP (but at WBRP's cost as provided in the Phase 3.2 Development Agreement (as defined in Section 3.10.4) or similar contract).

**Section 3.10 New Improvements.** Lessor and WBRP acknowledge that at the inception of this Lease, WBRP anticipates at some time in the future to undertake a Major Improvement to build a new building and other improvements consistent with the Master Plan to permit the Property to be used for bio-medical research, clinical treatment, administrative offices and related purposes (collectively, the "New Improvements"). With respect to the development of such New Improvements, Lessor and WBRP agree as follows:

**3.10.1 Phase 3.2 Facilities Lease.** Prior to the commencement of construction of any New Improvements on the Property, WBRP shall have entered into a Phase 3.2 Facilities Lease with the University. The Phase 3.2 Facilities Lease shall be in form and content satisfactory to Lessor, and shall provide for payment from the University to WBRP sufficient to satisfy all of WBRP's obligations under this Lease and all obligations of WBRP with respect to any financing obtained to construct such New Improvements. Lessor shall not unreasonably withhold its approval of a Phase 3.2 Facilities Lease substantially in the same form as the Facilities Lease for the Phase 3.1 Project. The Phase 3.2 Facilities Lease when executed by WBRP and the University and approved by Lessor shall replace and supersede in its entirety the Phase 3.2 Sublease.

**3.10.2 Shell and Core, Tenant Improvements and Related Facilities.** The New Improvements shall consist of a shell and core for a new building plus tenant improvements to be installed initially for the University as the tenant under the Phase 3.2 Facilities Lease. The design of the shell and core elements of the new building, the location of such building on the Property, and the access routes to the parking and loading facilities shall all be subject to Lessor approval pursuant to Section 3.2 above. The New Improvements shall be of the same general standard, quality and overall appearance as other new research-related facilities in the South Lake Union area of Seattle. Lessor may not unreasonably withhold or delay its approval of the plans and specifications for the New Improvements provided such New Improvements are



generally consistent with the plans and specifications upon which the master use permit for the development of the New Improvements was issued (such master use permit to be sought under the Phase 3.2 Development Agreement).

Once approved, any changes in the Plans for the New Improvements shall require the approval of Lessor under Section 3.1 above.

**3.10.3 Financing.** Lessor acknowledges WBRP's intention to finance the construction of the Phase 3.2 Project with tax exempt financing utilizing bonds ("Bonds"). Lessor's approval of the final terms of the financing relating to the Bonds shall also be required, but such approval shall not be unreasonably withheld or delayed.

**3.10.4 Development Services.** WBRP is retaining City Investors LLC, a Washington limited liability company, and an affiliate of Lessor ("City Investors") to provide development management services with respect to the New Improvements pursuant to a Development Management Agreement of even date herewith (the "Phase 3.2 Development Agreement"). So long as such Phase 3.2 Development Agreement remains in effect, all approvals and consents given by City Investors under the Phase 3.2 Development Agreement shall also constitute the approval of Lessor under this Lease, and all approvals and consents given by Lessor under this Lease shall also constitute the approval of City Investors under the Phase 3.2 Development Agreement. In addition, for so long as City Investors is providing development management services under the Phase 3.2 Development Agreement or under any other agreement by which City Investors provides development management services to WBRP or any of WBRP's subtenants with respect to the Property, WBRP shall have no obligation to provide progress reports to Lessor under Section 3.8 above. For so long as the Phase 3.2 Development Agreement remains in full force and effect, WBRP may not assign this Lease pursuant to Section 9.1 below unless, simultaneously with such assignment, WBRP also assigns and the permitted assignee of this Lease also assumes, all obligations of WBRP under the Phase 3.2 Development Agreement.

**3.10.5 Shared Underground Facilities.** Pursuant to the terms of the Phase 3.1 Ground Lease, and in connection with the construction of the Phase 3.1 Project, the Phase 3.1 Ground Lessee is expected to construct the parking and loading facilities, access and circulation ramps, utility vaults and similar features for both the Phase 3.1 Project and for the New Improvements anticipated to be developed in the future on the Property (collectively, the "Shared Underground Facilities").

Lessor's approval of the Plans and financing for the Shared Underground Facilities under the Phase 3.1 Ground Lease shall also constitute Lessor's consent to the development of the Shared Underground Facilities under this Lease.

The Shared Underground Facilities shall be subject to a Reciprocal Easement and Maintenance Agreement for the benefit of and encumbering both the Phase 3.1 Property and the Property as described further in Section 15 below. Lessor and WBRP agree to execute and record the Reciprocal Easement and Maintenance Agreement on the Property following the completion of construction of the Phase 3.1 Project.

The Shared Underground Facilities shall not constitute a New Improvement for purposes of this Lease, including the provisions of Section 2.4 above. New Improvements under this Lease shall be the buildings or other improvements expected to be constructed on and above the portion of the Shared Underground Facilities on the Property.

Upon expiration or earlier termination of this Lease, the ownership of the portion of the Shared Underground Facilities constructed on the Property shall revert to Lessor in accordance with the terms of Section 3.13 of this Lease (subject to the terms of the Reciprocal Easement and Maintenance Agreement).

**Section 3.11 No Requirement to Develop New Improvements.** Nothing in this Lease shall require WBRP to construct or develop New Improvements on the Property (but WBRP may avail itself of the termination rights in Section 2.5 and shall be subject to Lessor's termination rights as provided in Section 2.4), and Lessor shall have no claims in damages or otherwise due to the failure of WBRP to develop New Improvements (provided that if WBRP elects to develop New Improvements, all such development shall be subject to the terms and conditions of this Lease). However (i) WBRP may not develop New Improvements on the Property unless the Phase 3.1 Project (and the Shared Underground Facilities) have been or are simultaneously being developed on the Phase 3.1 Property, and (ii) the Phase 3.3 Ground Lessee may not develop new improvements on the Phase 3.3 Property unless the Phase 3.1 Project (and the Shared Underground Facilities) and the New Improvements have been or are simultaneously being developed on the Phase 3.1 Property. In addition, if WBRP has not commenced the construction of New Improvements on the Property on or before December 31, 2017, Lessor may seek to exercise its early termination rights as provided in Section 2.4.2 above.

**Section 3.12 Disputes.** Any disputes between Lessor and WBRP regarding Lessor's approval of Plans and similar matters with respect to the development and construction of the New Improvements or any Major Improvement shall not be a reason to stop or suspend planning or permitting of the New Improvements and shall be resolved by dispute resolution in accordance with Section 20.1 below.

**Section 3.13 Ownership of Improvements.** During the term of this Lease, the New Improvements and all other improvements located on the Property, including without limitation, all additions, alterations, and improvements thereto or replacements thereof and all appurtenant fixtures, machinery, and equipment installed therein, and also including the portion of the Shared Underground Facilities on the Property, shall be and remain the property of WBRP. At the expiration or earlier termination of this Lease, the Property, all New Improvements, all other improvements and all additions, alterations, and improvements thereto or replacements thereof and all appurtenant fixtures, machinery, and equipment installed therein and also including the portion of the Shared Underground Facilities on the Property (excluding WBRP's Property), shall become the property of Lessor, and at no cost to Lessor. With respect to the Shared Underground Facilities, the portion of the Shared Underground Facilities on the Property shall be the property of WBRP during the term of this Lease, but any portion of the Shared Underground Facilities constructed on the Phase 3.1 Property shall not be the property of WBRP, but shall be the property of the owner of the Phase 3.1 Property and/or the Phase 3.1 Ground Lessee (but subject to easements for the benefit of the Property and WBRP as provided in the Reciprocal Easement and Maintenance Agreement).

**Section 3.14 Surrender Upon Termination.** Upon expiration or earlier termination of this Lease, WBRP shall remove WBRP's Property and shall surrender the Property, and equipment relating to mechanical and security systems (i.e., HVAC, plumbing, electrical, access cards) as is necessary for the proper and normal operation of the Property for its then current and permitted use to Lessor in a reasonable and functional condition, except for environmental defects that existed in the Property upon the Effective Date and continue in existence and except for ordinary wear and tear and obsolescence that has occurred over the term of this Lease. WBRP shall not remove from the Property any appurtenant fixtures, machinery, or equipment permanently attached to or used in connection with operation of the Property, or any additions to or replacements thereof made during the term of this Lease, it being the intent of the parties that upon expiration or earlier termination of this Lease, Lessor shall receive an operating Property. All operating manuals, computer programs and software, maintenance records, warranties and other personal property, tangible or intangible, necessary for operation of the Property or the systems within the Property shall be delivered to Lessor upon expiration or sooner termination of this Lease without cost to Lessor, except for any transfer costs required to be paid to third parties. WBRP's Property not removed by WBRP at expiration or other termination of this Lease shall be considered abandoned and Lessor may dispose of such property in accordance with the law governing abandoned property then in effect at WBRP's cost, but WBRP shall not have any obligation to remove fixtures or equipment permanently affixed to the Property and shall not be liable for any costs thereof. All transfers are made without representation, recourse or warranty.

WBRP shall also have the obligation to demolish and remove the laboratory support improvements (including vivarium, if any) constructed on the P-1 level of the Shared Underground Facilities to the extent required in accordance with the terms of the Reciprocal Easement and Maintenance Agreement.

**Section 3.15 Condition of Property.** WBRP assumes full responsibility for the design, construction and condition of the Property, the New Improvements, and any other improvements constructed on the Property during the term of this Lease and WBRP hereby fully releases Lessor from any and all liability relating thereto, except for any Existing Hazardous Substances which remain the responsibility of Lessor in accordance with Section 8.5 below.

**Section 3.16 Demolition of Existing Improvements.** WBRP may, at its option, demolish and remove from the Property any and all of the Existing Improvements, provided that such demolition does not violate the terms of any Building Leases. All of the indemnity, insurance and similar provisions of this Lease shall apply to such demolition activities, and WBRP shall give Lessor at least 15 days prior written notice before commencing any such demolition activities. Prior to commencing such demolition, WBRP shall provide Lessor with evidence of availability of funds sufficient to pay for all anticipated demolition costs. All demolition shall be conducted in compliance with applicable law and all debris shall be removed from the Property and disposed of in accordance with all legal requirements; provided, however, that Lessor shall be obligated to remediate any Existing Hazardous Substances in accordance with Section 8.5.2. The right of demolition set forth in this Section 3.16 shall apply only to the Existing Improvements (improvements existing on the Property as of the date of this Lease) and shall not apply or extend to any New Improvements.

## ARTICLE 4.

### RENTAL

**Section 4.1 Commencement of Rent Payments.** Beginning on the Rent Commencement Date, WBRP shall pay to Lessor annual rent (the "Rent") in the amounts determined in accordance with this Section 4, such Rent to be paid in equal monthly installments on or before the first (1<sup>st</sup>) day of each month.

**Section 4.2 Initial Rent.** Beginning on the Rent Commencement Date, and continuing until the last day of the Fifth Lease Year, Rent will be due and payable at the rate of \$707,287.50 per annum (\$58,940.63 per month).

**Section 4.3 Sixth Lease Year.** Beginning on the first day of the Sixth Lease Year, Rent shall increase to \$819,746.16 per annum (\$68,312.18 per month) (representing a 15.9% increase over the Rent in effect for the Fifth Lease Year).

**Section 4.4 Eleventh Lease Year.** Beginning on the first day of the Eleventh Lease Year, annual Rent shall be increased to equal the greater of (a) \$950,085.84 (\$79,173.82 per month) (representing a 15.9% increase over the Rent in effect for the Tenth Lease Year), or (b) 9% multiplied by the Land Value (defined in Section 4.9.3).

**Section 4.5 Further Ten Year Rent Cycles With Five Year Rent Bumps.** For the entire term of the Lease (including any extensions as provided in Section 2.3 above), Rent shall continue to be calculated in 10-year cycles using the same standards as applied to the calculation of Rent set forth above. Thus, at the beginning of each 10-year rent cycle (the Eleventh Lease Year, the Twenty-First Lease Year, the Thirty-First Lease Year, the Forty-First Lease Year and, if applicable, the Fifty-First Lease Year), Rent shall be increased to equal the greater of (a) the Rent at the end of the prior 10-year rent cycle, increased by 15.9%, or (b) 9% multiplied by the Land Value. Similarly, at the beginning of the sixth year of each 10-year rent cycle (the Sixteenth Lease Year, the Twenty-Sixth Lease Year, the Thirty-Sixth Lease Year, the Forty-Sixth Lease Year and if applicable, the Fifty-Sixth Lease Year), Rent shall be increased by 15.9% over the Rent in effect for the first five (5) years of such 10-year rent cycle.

**Section 4.6 Payment.** All rent shall be payable in lawful money of the United States of America, and shall be payable without offset, deduction or counterclaim and without notice or demand at the address of Lessor specified in Article 14 below or at such other address as Lessor may designate from time to time to WBRP in writing. At Lessor's request, all payment of Rent shall be by wire transfer or similar form of payment in immediately available funds.

### Section 4.7 Defined Terms and Calculations.

**4.7.1 Lease Year.** For purposes of this Lease, a Lease Year shall be the 12-month period commencing on May 1 of each year and expiring on April 30 of the next succeeding year, with the First Lease Year being the period from May 1 2010 to April 30, 2011. Lessor and WBRP acknowledge that the First Lease Year commences on a date prior to the Effective Date of this Lease. Lessor and WBRP acknowledge that the Rent Commencement

Date and the measurement of each Lease Year may differ from the periods used to determine the term of this Lease under Section 2.1 above.

**4.7.2 Rent Commencement Date.** The Rent Commencement Date shall be May 1, 2010. Because the Effective Date of this Lease is after May 1, 2010, Tenant shall pay Rent to Lessor for the period between May 1 2010 and July 31, 2010 in the amount of \$176,821.89, such amount to be paid on or before August 16, 2010. The Rent due for the month of August, 2010 in the amount of \$58,940.63 shall also be paid to Lessor on or before August 16, 2010.

**4.7.3 Land Value.** Land Value shall be the fair market value of the Property, assuming the Property was unencumbered and excluding (i) the value of all buildings and other improvements on the Property, and (ii) additional density permitted on the Property due to the rezoning of the Property prior to the Effective Date to increase allowable building heights from 85 feet to 120 feet. The Land Value shall be the fair market value of the Property as of the date the Land Value will be used in the calculation of the Rent (i.e., the first day of the Eleventh Lease Year, the first day of the Twenty-First Lease Year, the first day of the Thirty-First Lease Year, the first day of the Forty-First Lease Year, and, if applicable, the first day of the Fifty-First Lease Year.

For all circumstances where the Land Value is to be determined, Lessor and WBRP shall first attempt in good faith to mutually agree upon the Land Value. However, if Lessor and WBRP have not mutually agreed upon the Land Value within one hundred twenty (120) days prior to the date the Land Value will be used in the calculation of Rent, then each party shall select its own Appraiser and each Appraiser shall prepare and deliver to Lessor and WBRP within sixty (60) days prior to the date the Land Value will be used in the calculation of Rent such Appraiser's written opinion of the Land Value (such opinions of value to be exchanged simultaneously). If the two Appraisers' opinions of Land Value differ by ten percent (10%) or less of the lower of the two values, then they shall be added together, divided by two, and the quotient thereof shall be the Land Value for the purposes of this Section 4. If the two Appraisers' opinions of Land Value differ by more than ten percent (10%), then within fifteen (15) days of the delivery of the Appraisers' decisions, the two Appraisers shall mutually select a third Appraiser. Within thirty (30) days after the appointment of the third Appraiser, the third Appraiser shall make its determination of Land Value (which may not exceed the highest of the two prior appraisals or be lower than the lowest of the two prior appraisals) in a written report delivered to Lessor and WBRP and such determination shall be binding on the parties. If either Lessor or WBRP shall fail to timely select its initial Appraiser, or should the two (2) Appraisers selected by Lessor and WBRP fail to timely select the third Appraiser, if required, either Lessor or WBRP shall have the right to petition for the appointment of such Appraiser by the Presiding Judge of the Superior Court of King County. Each party shall pay all expenses of its own Appraiser and the cost of the third Appraiser shall be split equally between Lessor and WBRP. In the event that the Land Value has not been finally determined by the date such Land Value is to be used to calculate Rent, then WBRP shall pay Rent at the rate for the preceding Lease Year increased by 15.9% and, upon final determination of the Rent, WBRP shall promptly pay to Lessor, the difference between the Rent paid and the adjusted Rent due, if any. For purposes of this Section 4.7.3, "Appraiser" shall mean an appraiser who is a designated member (MAI) of the

Appraisal Institute (or its successor), with at least ten (10) years experience in appraising commercial real estate in the Seattle metropolitan area.

**Section 4.8 Net Rent.** It is the intent of Lessor and WBRP that the Rent specified herein shall be absolutely net to Lessor, so that this Lease shall yield, net, free from all charges and deductions, to Lessor, the Rent specified herein each Lease Year during the term of this Lease.

**Section 4.9 Rent Subordination.** In the event WBRP elects to finance all or a portion of the costs to construct the New Improvements pursuant to Bonds issued under Section 11.2 below, and for so long as such Bonds remain outstanding, the rights of Lessor to receive payments of Rent under this Lease and the other monetary obligations of WBRP to pay operating expenses and Impositions and to reimburse Lessor for insurance costs shall be subordinate to the then currently due payments under the Bonds, and Lessor shall be entitled to payment of Rent and payment and/or performance of WBRP's other monetary obligations hereunder only if all payments are current under the Bonds and there exist no other defaults under the documents relating to the Bonds that may be cured by the payment of money (a "Monetary Bond Default"), and then only to the extent excess funds are available from WBRP or with respect to the Property to do so.

Lessor's subordination hereunder shall become effective immediately upon its receipt of notice from the trustee under the Bonds that a Monetary Bond Default exists under any of the Bond documents, and in that instance, shall remain in effect unless and until such Bond trustee has confirmed in a written notice to Lessor that all Monetary Bond Defaults have been cured. Lessor shall have the right to require that the documents governing the Bond Documents obligate the trustee to provide a detailed accounting of any Monetary Bond Defaults, and to provide notice that all Monetary Bond Defaults have been cured within ten (10) days after such cure has been accomplished. Lessor's subordination hereunder shall also become effective if WBRP is using all available net operating income attributable to the Property, including from the Facilities Lease or other subleases, to make payments required under the Bond Documents and there exists insufficient remaining net operating income to make payments due to Lessor hereunder, despite the fact that no Monetary Bond Default may have occurred. If subordination of Rent and other monetary obligations becomes effective, it shall not be a default hereunder if all or a portion of the Rent and other monetary obligations hereunder are not paid in accordance with the provisions set forth above, and such unpaid amounts shall be deferred (with interest at the prime commercial borrowing rate of Bank of America, N.A. or its successor (also called the "reference rate") plus three hundred basis points (3%), computed monthly) and shall be payable on the earlier of (a) as excess funds are available from WBRP or with respect to the Property (after payments under the Bonds are current), or (b) upon repayment or defeasance of the Bonds.

## ARTICLE 5.

### IMPOSITIONS AND OPERATING EXPENSES

**Section 5.1 Definition of Impositions.** The term "Impositions" shall mean all real estate taxes, water and sewer charges, charges for public utilities, local improvement or special benefit district assessments directly benefiting the Property, or other charges which shall or may

during the term of this Lease be assessed, levied, charged, confirmed or imposed by any public authority upon or accrue or become due or payable out of or on account of or become a lien on the Property or any part thereof, or the New Improvements or other improvements now or hereafter comprising a part thereof or the use or occupancy of the Property or improvements. The term "Impositions" shall not include any income tax, estate, succession, inheritance or transfer tax, gross receipts tax, business and occupation tax, withholding, profit or revenue tax or charge levied upon the rents payable to Lessor under the terms of this Lease (except to the extent such tax is imposed on Lessor in lieu of real property ad valorem taxes on the Property), any corporate franchise tax or corporate license fee that may be levied upon or against Lessor or any successor or corporate landlord or any similar obligations assessed against or imposed on Lessor by any governmental body.

**Section 5.2 WBRP's Payment of Impositions.** Beginning on the Rent Commencement Date, WBRP shall pay when due, subject to the further provisions hereof, all Impositions assessed against the Property, except that:

**5.2.1** All Impositions that are payable by WBRP pursuant hereto for the fiscal year or tax year in which the Effective Date occurs, as well as during the year in which the term of this Lease expires shall be prorated on an actual per diem basis so that WBRP and Lessor each shall pay their respective proportionate share of such Impositions that are payable in the year in which the Effective Date occurs and in the year in which the term of this Lease expires; and

**5.2.2** Where any Imposition that WBRP is obligated to pay in whole or in part is permitted by law to be paid in installments, WBRP may pay such Imposition in installments as and when such installments become due, and WBRP shall only be obligated to pay those installments to the extent due and payable during the term of this Lease, pro rated as provided above if necessary.

**5.2.3** Because the Effective Date of this Lease is after the Rent Commencement Date, Tenant shall reimburse Lessor for all Impositions paid by Lessor for periods from and after the Rent Commencement Date, such amount or amounts to be reimbursed from time to time by WBRP to Lessor within ten (10) days of an invoice from Lessor to WBRP of the amounts due. For Impositions paid other than monthly, the amount of such Impositions shall be prorated between WBRP and Lessor.

**Section 5.3 Tax Contests.** Either WBRP or Lessor may contest the validity or amount (including the assessed valuation upon the Property) of any Imposition for which either is responsible in whole or in part, and which such party in good faith believes is excessive, improper or invalid. In such event, the payment thereof may be deferred during the pendency of such contest, if diligently prosecuted but in no event shall WBRP allow a lien for any unpaid taxes which it is contesting attach to the Property. Each party agrees to join at the other's request in any such contest to the extent such joinder is prerequisite to such prosecution under statute, regulation or administrative practice. In connection with a judicial or administrative challenge to any assessment, WBRP may take advantage of any stay in collection available under statute, regulation, or court or administrative order or rules. Nothing herein contained, however, shall be so construed as to allow such items to remain unpaid for such length of time as shall permit the Property, or any part thereof, to be sold by any governmental, city or municipal authority for the

nonpayment of the same. Within ten (10) days after the amount of such contested item is finally determined to be due, the party liable for such Imposition shall pay the amounts so determined, together with the penalties, interest and expenses associated with such contest.

**Section 5.4 Operating Expenses.** WBRP shall pay or cause to be paid costs of any kind relating to the use, operation, maintenance, repair and replacement of the Property, including without limitation all charges for gas, electricity, light, heat, power, water, sewer, security, telephone, communications and other services used, rendered or supplied upon or in connection with the Property, or levied or charged against the Property beginning on the Effective Date and continuing throughout the term of this Lease.

**Section 5.5 High Technology Sales Tax Deferral.** WBRP shall be entitled to pursue at WBRP's sole cost and expense deferral of sales tax on the New Improvements or any other improvements, alterations or additions sought by WBRP, to the extent permitted by and pursuant to the terms of Chapter 82.63 RCW or other applicable law. Lessor agrees to cooperate with WBRP in WBRP's efforts to obtain the benefit of any applicable sales tax deferral and, upon WBRP's request, to cause City Investors, in its capacity as development manager for the New Improvements, to assemble all construction cost and other construction data needed for such application, and to prepare (to the extent that it can do so) all applications, forms, schedules, and other documents required for application for such sales tax deferral. All such materials shall be prepared by City Investors in draft form at least forty-five (45) days prior to the date of issuance of the building permit for the New Improvements (or such other time as reasonably necessary to provide WBRP sufficient time to apply for a deferral under the applicable law). WBRP shall then review all such applications and documents, complete such additional information as City Investors was unable to complete, and make such other revisions as WBRP deems appropriate, and then may sign and submit such application.

## ARTICLE 6.

### INSURANCE

**Section 6.1 Acquisition of Insurance Policies.** WBRP shall, at its sole cost and expense, procure and maintain, or cause to be procured and maintained, during the term of this Lease the insurance described in this Article 6 (or its then available equivalent), which insurance shall be subject to Lessor's review and approval, which approval shall be consistent with the requirements set forth herein and shall otherwise not be unreasonably withheld.

**Section 6.2 Types of Required Insurance.** WBRP shall procure and maintain the following:

**6.2.1 Commercial General Liability Insurance.** Commercial general liability insurance covering all claims with respect to injuries or damages to persons or property sustained in, on or about the Property and the appurtenances thereto, including the sidewalks and alleyways adjacent thereto, which shall contain a "breach of warranty" and a cross-liability clause, with limits of liability no less than Five Million Dollars (\$5,000,000) per occurrence and in the aggregate, with coverage on an occurrence basis with respect to the Property. Coverage will extend to the indemnification by WBRP to Lessor as set forth in this Lease. Any deductible



or self-insured retention must be disclosed and is subject to approval of the Lessor. Such policy limits shall be reviewed annually and may be reasonably adjusted by Lessor upon notice to WBRP, considering levels of inflation, risk and magnitude of loss, premium expenses, and other relevant factors. Such commercial general liability shall include Lessor as an additional named insured.

**6.2.2 Physical Property Damage Insurance.** Subject to the provisions of Section 6.4 and Section 6.5, physical property damage insurance covering all real and personal property, but excluding property owned by subtenants and paid for by subtenants or paid for by WBRP for which subtenants have reimbursed WBRP, located on or in, or constituting a part of, the Property, in an amount equal to at least one hundred percent (100%) of the new replacement cost of all such property (or such lesser amount as Lessor may approve in writing). Such insurance shall: (a) be provided on a special-form property coverage as may be customary for like properties in the vicinity of the Property from time to time during the term of this Lease; (b) cover explosion of steam and pressure boilers and similar apparatus located in the Property; (c) be subject in each case to deductibles no greater than those customary in the locality of the Property for like properties (d) include coverage for demolition and increased cost of construction due to operation of building laws; (e) provide for replacement cost building valuation; and (f) waive any coinsurance penalties. Such physical property damage insurance shall also include earth movement and flood coverage and loss due to all acts of terrorism (collectively, the "Special Coverages") to the extent such coverages are included within the commercial real estate insurance program maintained by Lessor and entities controlled by or under common control of Lessor (the "Lessor Group") (and subject to reasonable and appropriate limits or as otherwise commercially available in the insurance marketplace). Such physical property damage insurance shall include Lessor as additional insured, and, for so long as University is a subtenant occupying the entire Property, the University.

**6.2.3 Rent Interruption and Other Insurance.** If at any time during the Lease, WBRP subleases the Property or any portion thereof to any subtenant other than the University, prior to entering into such Lease, WBRP shall obtain and maintain twelve (12) months of rental interruption coverage with respect to such sublease for so long as such sublease is in effect, the cost of which may be passed on to such subtenant. Such rent interruption insurance shall include Lessor as an additional insured. Notwithstanding the foregoing, rent interruption insurance shall not be required with respect to Pre-Development Subleases entered into prior to the commencement of construction of New Improvements in accordance with the provisions of Section 9.2.2 below.

**6.2.4 Builder's Risk Insurance.** Subject to the provisions of Section 6.5, during construction of any Major Improvements (defined in Section 3.1), builder's risk insurance upon the entire work on the Property in the amount of one hundred percent (100%) replacement value thereof against "all risks" of physical loss or damage to the property insured, including earth movement and flood (and subject to reasonable and appropriate limits or as otherwise commercially available in the insurance marketplace). Such builder's risk insurance shall include Lessor as additional insured, and, for so long as University is a subtenant occupying the entire Property, the University.

**Section 6.3 Terms of Insurance.** WBRP shall provide to Lessor certificates of insurance and copies of policies obtained by WBRP hereunder promptly upon the request of Lessor. All policies of insurance required under Section 6.2 shall: (a) be written as primary policies not contributing with and not in excess of coverage that Lessor may carry; (b) contain an endorsement providing that such insurance may not be materially changed or amended with respect to Lessor except after twenty (20) days' prior written notice from the insurer to Lessor, and may not be cancelled with respect to Lessor except after thirty (30) days' prior written notice from insurance company to Lessor (ten (10) days for nonpayment of premium); (c) expressly provide, if available, that Lessor shall not be required to give notice of accidents or claims and that Lessor shall have no liability for premiums; and (d) be written by insurance companies having a A.M Best's rating of "A- VII" or equivalent, which insurance companies shall otherwise be reasonably acceptable to Lessor.

**Section 6.4 Lessor's Acquisition of Physical Property Damage and Other Insurance.** Upon the written request of WBRP, Lessor agrees to procure on behalf of WBRP the physical property damage insurance required under Sections 6.2.2 and 6.2.4 above. Lessor shall procure such insurance as part of the overall commercial real estate insurance program for the Lessor Group, and with coverages and deductibles consistent with such overall insurance program. Such physical property damage insurance shall also include Special Coverages to the extent covered under the overall commercial real estate insurance program for the Lessor Group, and subject to reasonable and appropriate limits or as otherwise commercially available in the insurance marketplace.

If Lessor procures such physical property damage insurance at the request of WBRP, WBRP agrees to reimburse Lessor for the premiums and other costs incurred by Lessor to do so (which costs will also include a portion of the commission or other compensation paid by Lessor to its outside insurance brokers to arrange for such insurance). Such reimbursement shall be due within thirty (30) days after a demand from Lessor to WBRP as an operating expense under Section 5.4 above, and amounts not paid when due shall bear interest at the Default Rate from the due date until paid.

To the extent such physical property damage insurance is procured as part of the overall commercial real estate insurance program for the Lessor Group, the premiums and other insurance costs to be allocated to and paid by WBRP hereunder shall be as determined in good faith by Lessor's outside insurance brokers or risk management department.

Notwithstanding the foregoing, if the physical property damage insurance procured by Lessor hereunder includes Special Coverages, the reimbursement obligation of WBRP hereunder with respect to the premiums and other costs of such Special Coverages shall not exceed 125% of the premiums and other costs required to be reimbursed by WBRP for the physical property damage coverage excluding Special Coverages. By way of example, if the premiums and other costs allocated to WBRP for the physical property damage insurance excluding Special Coverages is \$40,000, the premiums and other costs reimbursable by WBRP for Special Coverages shall not exceed \$50,000 (125% of \$40,000).

WBRP shall give Lessor at least sixty (60) days' notice if WBRP elects to have Lessor procure the physical property damage insurance hereunder. Once such election has been made, it

shall continue until WBRP gives Lessor written notice confirming that WBRP will procure such physical property damage insurance directly, which notice shall be effective upon the expiration of the coverage period for the physical property damage insurance previously procured by Lessor.

If WBRP at any time during the term of this Lease fails to procure or maintain insurance required hereunder or to pay the premiums therefor, (including physical property damage insurance if WBRP has not elected to have Lessor procure such insurance), Lessor shall have the right to procure the same and to pay any and all premiums thereon, and any amounts paid by Lessor in connection with the acquisition of insurance shall be immediately due and payable as an immediately reimbursable item, and WBRP shall pay to Lessor upon demand the full amount so paid and expended by Lessor, together with interest thereon at the Default Rate from the date of such expenditure by Lessor until repayment by WBRP.

**Section 6.5 Interim Insurance.** Notwithstanding the provisions of Sections 6.1, 6.2, 6.3 and 6.4 above, from the Effective Date until the issuance of the first temporary certificate of occupancy permitting the Property (with the New Improvements) to be occupied by WBRP and/or the University following the construction of New Improvements, and at WBRP's request, Lessor (or City Investors under the Development Agreement) shall procure and maintain the insurance required under Section 6.2.2 and 6.2.4 above, provided the costs incurred by Lessor and/or City Investors to procure and maintain such insurance (including commissions or other compensation paid by Lessor to its outside insurance brokers to arrange such insurance) shall be an operating expense under Section 5.4 above and fully reimbursable by WBRP to Lessor within thirty (30) days after demand and/or a reimbursable expense under the Development Agreement.

**Section 6.6 Insurance Proceeds and Other Funds Held in Trust.** All insurance proceeds or condemnation proceeds (as provided in Article 12) relating to damage to or destruction of the Property and/or the improvements:

(i) where the total amount of proceeds is less than or equal to Two Hundred Thousand Dollars (\$200,000), shall be paid to WBRP and shall be applied in the manner provided herein; or

(ii) where the total amount of proceeds exceeds Two Hundred Thousand Dollars (\$200,000) shall be paid to WBRP and/or any Leasehold Mortgagee and shall be held in trust and shall be applied for the purpose of defraying the cost of repairing, restoring, replacing, or rebuilding any structure or improvement on or in the Property as provided in Section 6.7 hereof; or if the damaged or destroyed structure or improvement is not repaired, restored, replaced, or rebuilt as hereinafter provided, said funds shall be disposed of as provided in Section 6.7. Any of such funds in the hands of WBRP and/or the Leasehold Mortgagee at the end of the term of this Lease hereof shall be disposed of as set forth in Section 6.7.

**Section 6.7 Application of Proceeds of Physical Damage Insurance.** In the case of any loss covered by insurance policies described in Section 6.2.2, the application of insurance proceeds from damage or loss to property shall be determined in accordance with Article 7 hereof and, in the event of any such repair, replacement, restoration, or rebuilding, the proceeds of the insurance collected shall be applied to the cost of such work upon receipt of certificates of

satisfactory progress and completion by the licensed architect or engineer in charge of the work. Upon completion of such repair, replacement, restoration, or rebuilding in accordance with the provisions of this Lease, and the full payment therefor, any remaining insurance proceeds with respect to the damage or destruction involved, and not used, shall be paid to the first position Leasehold Mortgagee to the extent required under the documents governing such Leasehold Mortgagee, and otherwise to WBRP. If insurance proceeds are not used for repair, replacement or reconstruction, such proceeds shall be distributed as follows: (i) First, to any Leasehold Mortgagee to the extent required under the documents governing such Leasehold Mortgagee; (ii) Second, to pay the costs to remove uninhabitable structures and restore the Property to a buildable condition and remove all debris therefrom (for such purposes, a buildable condition shall require the removal of all improvements (including foundations) that have been damaged and would not be usable for a new development, but would not require removal of foundations, pilings, etc., that remain in good condition and can be used for a new development, and would not include the reconstruction of any utilities, improvements, foundations or other structures); and (iii) Third, to Lessor and WBRP and divided between them according to their respective interests in the Property (taking into consideration the remaining term of this Lease, the remaining useful life of the improvements on the Property and Lessor's reversionary right in such improvements at the end of the term of this Lease).

**Section 6.8 Special Coverages; Sublimits.** In the event (i) Lessor provides insurance for Special Coverages pursuant to the provisions of Section 6.4, above, (ii) such insurance includes sublimits applicable to the overall commercial real estate portfolio for the Lessor Group, and (iii) a loss occurs which is covered by such Special Coverages, Lessor shall only be obligated to make available a percentage of available insurance proceeds for such loss based upon the loss to the Property in relation to the loss to the overall commercial real estate portfolio covered for the Lessor Group by such Special Coverages. By way of example, if the commercial real estate portfolio for the Lessor Group includes earth movement insurance with a \$50,000,000 sublimit, an earthquake occurs which results in a \$10,000,000 loss to the Property and a \$100,000,000 loss to the overall commercial real estate portfolio for the Lessor Group, only \$5,000,000 of the \$50,000,000 in total earth movement insurance proceeds would be required to be made available with respect to the Property ( $[\$10,000,000 \div \$100,000,000] \times \$50,000,000$ ). Such proceeds shall also be reduced by a prorata portion of any applicable deductible related to such loss.

**Section 6.9 Insurance Appraiser.** The determinations required under this Article 6 and Article 7 shall be made by an independent qualified insurance appraiser selected by Lessor and WBRP and Leasehold Mortgagee. If such parties cannot agree on the insurance appraiser within thirty (30) days after the date of such damage or destruction, then the Leasehold Mortgagee shall appoint an insurance appraiser for any determinations needed under Article 6 and 7 (and if no Leasehold Mortgagee then exists, upon application by either party to the Presiding Judge of the King County Superior Court). The costs and fees of the insurance appraiser shall be paid 50% by Lessor and 50% by WBRP.

**Section 6.10 Waiver of Subrogation.** Lessor and WBRP hereby release each other from any and all liability or responsibility (to the other or anyone claiming through or under the other by way of subrogation or otherwise) for any loss or damage to real or personal property on the Property caused by fire or any other insured peril, even if such fire or other casualty shall have been caused by the fault or negligence of the other party or anyone for whom such party may be

responsible. Lessor and WBRP shall each procure insurance policies with such a waiver of subrogation and with a clause or endorsement to the effect that any such release shall not adversely affect or impair said policies or prejudice the right of the releaser to recover thereunder; provided, however, if policies with such a clause or endorsement shall not be obtainable or shall be obtainable only at a premium over that chargeable without such waiver, the party seeking such policy shall notify the other thereof, and the latter shall have ten (10) days thereafter either: (a) to procure such insurance in companies reasonably satisfactory to the other party, or (b) to agree to pay such additional premium. If neither (a) nor (b) is done, this section shall have no effect during such time as such policies shall not be obtainable or the party in whose favor a waiver of subrogation is desired shall refuse to pay the additional premium. If such policies shall at any time be unobtainable, but shall be subsequently obtainable, neither party shall be subsequently liable for a failure to obtain such insurance until a reasonable time after a party learns of the availability of the insurance. This Section 6.10 is intended, and shall be deemed, to apply only with respect to the property insurance required under Section 6.2.2 or any similar insurance held by Lessor.

**Section 6.11 WBRP's Indemnification.** WBRP agrees to indemnify, defend and hold Lessor harmless from and against any and all demands, claims, liabilities, losses, costs, expenses, actions, causes of action, damages or judgments, and all reasonable expenses incurred in investigating or resisting the same (including, without limitation, reasonable attorneys' fees and disbursements) to the extent arising or alleged to arise from: (a) injury to person or to property occurring within or about the Property, the New Improvements, or any other improvements on the Property; (b) WBRP's, its employees', agents', invitees' or subtenant's negligent or tortious acts or omissions relating to the construction, repair, restoration, rebuilding, use or occupancy of the Property, the New Improvements, or any other improvement on the Property; (c) a breach or default by WBRP in the performance of any of its obligations under this Lease; or (d) WBRP's violation of any applicable law or statute relating to the Property, the New Improvements, or any other improvement on the Property or their use or occupation; provided, however, that Lessor shall not be released from and shall indemnify, defend, protect and hold WBRP harmless from all damages, liabilities, judgments, actions, claims, attorneys' fees, consultants' fees, payments, costs and expenses to the extent arising from matters for which Lessor is obligated to indemnify WBRP as provided in this Lease. If WBRP is required to defend any action or proceeding pursuant to this section to which action or proceeding Lessor is made a party and Lessor reasonably believes that the interests of WBRP and Lessor conflict or are divergent, then Lessor shall also be entitled to appear, defend, or otherwise take part in the matter involved, at its election, by counsel of its own choosing, and to the extent Lessor is indemnified under this section, WBRP shall bear the cost of Lessor's separate defense, including reasonable attorneys' fees. Notwithstanding the foregoing, WBRP's indemnity shall not apply to any matter where the University has indemnified Lessor directly.

Lessor hereby approves the indemnification provisions in the Phase 3.2 Sublease. All other subleases shall contain an indemnification provision at least as beneficial as the provisions set forth herein, and such indemnification shall also run to the benefit of and be fully enforceable by Lessor (and Lessor's employees and agents).

Except for reckless or intentionally tortious acts or omissions, willful misconduct or gross negligence of Lessor or its employees or agents or through material breach of Lessor's

obligations under this Lease, WBRP hereby agrees that: (i) Lessor shall not be liable for injury to WBRP's business or any loss of income therefrom for damage to the goods, wares, merchandise or other property of WBRP, WBRP's employees, agents, contractors, invitees, subtenants or any other person in or about the Property, the New Improvements or any other improvements on the Property, (ii) Lessor shall not be liable for injury to the person of WBRP, WBRP's employees, agents, contractors, invitees or subtenants, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, whether said damage or injury results from conditions arising from the Property or from other sources or places, and (iii) Lessor shall not be liable for any damages arising from any act or omission of any other tenant in the New Improvements or any other third party.

**Section 6.12 Lessor's Indemnification.** Lessor agrees to indemnify, defend and hold WBRP harmless from and against any and all demands, claims, liabilities, losses, costs, expenses, actions, causes of action, damages or judgments, and all reasonable expenses incurred in investigating or resisting the same (including, without limitation, reasonable attorneys' fees and disbursements) to the extent arising or alleged to arise from: (a) Lessor's, its employees', agents', or invitees' negligent or tortious acts or omissions relating to the entry upon or in the Property, the New Improvements, or any other improvement on the Property; (b) a material breach or default by Lessor in the performance of any of its obligations under this Lease; or (c) Lessor's violation of any applicable law or statute relating to the Property, the New Improvements, or any other improvement on the Property or their use or occupation; provided, however, that WBRP shall not be released from and shall indemnify, defend, protect and hold Lessor harmless from all damages, liabilities, judgments, actions, claims, attorneys' fees, consultants' fees, payments, costs and expenses to the extent arising from matters for which WBRP is obligated to indemnify Lessor as provided in this Lease. If Lessor is required to defend any action or proceeding pursuant to this section to which action or proceeding WBRP is made a party and WBRP reasonably believes that the interests of Lessor and WBRP conflict or are divergent, then WBRP shall also be entitled to appear, defend, or otherwise take part in the matter involved, at its election, by counsel of its own choosing, and to the extent WBRP is indemnified under this section, Lessor shall bear the cost of WBRP's separate defense, including reasonable attorneys' fees.

## ARTICLE 7.

### DAMAGE OR DESTRUCTION OF IMPROVEMENTS

**Section 7.1 WBRP's Obligation to Repair.** In the event of damage to or destruction of the New Improvements or any other improvements on or to the Property to be covered by the insurance described in Article 6:

**7.1.1 Damage of Less Than Twenty-Five Percent (25%) of Replacement Cost.** If the cost of repairing or reconstructing the New Improvements or other improvements to Restored Condition (defined below) is not in excess of twenty-five percent (25%) of the then new replacement cost of the improvements, as is determined by the insurance appraiser provided for in Article 6, and such repairs or reconstruction of any such damage or destruction to a Restored Condition can be made under then existing laws, ordinances, statutes or regulations of any governmental authorities applicable thereto (or can be so made with minor and nonmaterial

changes to the former condition and form of property damaged or destroyed), WBRP shall effect, and funds derived from insurance acquired pursuant to Article 6 shall be made available to effect, such repair and reconstruction of the structure or improvement so damaged or destroyed to a Restored Condition. For purposes hereunder, Restored Condition shall mean: (i) the exterior of the New Improvements shall be restored to the substantial equivalent of the condition of the exterior that existed immediately prior to such damage or destruction (or, if construction was in process at the time of such destruction, to the exterior condition that was being constructed, as depicted in the Plans previously approved by Lessor), and (ii) the interior of the New Improvements shall be restored to a shell condition substantially equivalent to the shell condition that existed immediately prior to such damage or destruction, and if WBRP desires to improve the interior beyond a shell condition, to a condition that meets the standards set forth in Section 3.5.2, above, and provides a net rentable area within the improvements no less than the net rentable area immediately prior to such damage or destruction. The foregoing restoration obligation shall apply even if applicable insurance proceeds are not sufficient to cover all costs of restoration, and WBRP shall be responsible for all insurance deductibles.

All such work shall be carried out in accordance with plans and specifications prepared by a licensed architect or architects approved by Lessor (acting reasonably) if such an architect is reasonably required given the scope and nature of the work and by a licensed contractor approved by Lessor (acting reasonably). If such work constitutes a Major Improvement, such work shall also be subject to the provisions of Section 3 above. The funds derived from the insurance with respect to the damage shall be made available to WBRP and/or the architect and contractor as the work progresses and is certified as acceptable by said architect or contractor on a monthly basis, such funds to be made available to pay for work and materials to the extent completed and delivered (calculated either on the basis of the percentage of the total work and materials to be completed and delivered or based on receipted invoices).

**7.1.2 Damage in Excess of Twenty-Five Percent (25%).** If the cost of repairing or reconstructing said damage or destruction to a Restored Condition is in excess of the twenty-five percent (25%) provided in Section 7.1.1, or if such reconstruction or rebuilding to a Restored Condition cannot be made under then existing laws, ordinances, statutes or regulations of any governmental authority applicable thereto (and cannot be so made with minor and nonmaterial changes to the former condition and form of the property damaged or destroyed, or with such other changes as may be proposed by WBRP which do not detract from the value of the improvements and which are approved by Lessor, acting reasonably), and in any such event, the parties hereto are unable during a period of ninety (90) days after the determination of the insurance surveyor with respect to such damage or destruction to agree in writing on a construction program, then the Term shall end as of the date of such damage or destruction and unutilized insurance proceeds shall be distributed in accordance with Section 6.7; provided, however, if such reconstruction or rebuilding to a Restored Condition can be made under such existing laws, ordinances, statutes and regulations (or can be so made with minor and nonmaterial changes to the former condition and form of the property damaged or destroyed; or with such other changes as may be proposed by WBRP which do not detract from the value of the improvements and which are approved by Lessor, acting reasonably), but the cost of so repairing or reconstructing such damage or destruction is in excess of the twenty-five percent (25%) provided for in Section 7.1.1, WBRP shall have the absolute right to treat such damage as under Section 7.1.1 as if the damage or destruction met the description thereof set forth in the

first sentence of that Section if WBRP (i) gives notice to that effect to Lessor within ninety (90) days after the determination of the insurance surveyor with respect to said damage or destruction; and (ii) provides reasonable evidence of the availability the funds required or that will be required to effect such repair or restoration, whereupon the provisions of said Section 7.1.1 shall be fully applicable to such damage or destruction.

In the event this Lease terminates as a result of damage or destruction WBRP shall be obligated to remove all uninhabitable structures and restore the Property to a buildable condition and remove all debris therefrom (and regardless of whether or not insurance proceeds are available to cover the costs to do so pursuant to Section 6.7 above). For such purposes, a buildable condition shall require the removal of all improvements (including foundations) that have been damaged and would not be useable for a new development, but would not require removal of foundations, pilings, etc. that remain in good condition and can be used for a new development and would not require the reconstruction of any utilities, improvements, foundations or other structures.

**Section 7.2 Prompt Repair.** If WBRP is obligated or elects to repair, replace, reconstruct or rebuild any structures, improvements or other property as hereinabove provided, the same shall be effected at WBRP's cost and expense (which may be paid in whole or in part from insurance proceeds available as above provided) and WBRP shall diligently commence and continuously carry out such repair, replacement, reconstruction or rebuilding, to full completion as soon as possible, except to the extent of delays due to strikes, lockouts, shortages of labor or materials, governmental restrictions, fire, casualty, riot, act of God, act of the public enemy, or other causes beyond the reasonable control of WBRP after the exercise of reasonable diligence. If the terms of any Leasehold Mortgage require the application of any material portion of any physical property damage insurance proceeds to reduce obligations secured by such Leasehold Mortgage, then WBRP shall have a reasonable period of time (not longer than 18 months following the determination of the insurance surveyor with respect to such damage or destruction) to obtain financing reasonably required to satisfy the requirements of this paragraph and the notice periods of Section 7.1.2 shall be adjusted accordingly. Prior to commencement of construction of such repair or replacement, any proceeds of such insurance remaining after such application by a Leasehold Mortgagee shall be held in escrow and such escrowed funds shall constitute security to Lessor for the performance of WBRP's obligations under this Lease until actual commencement of such construction.

**Section 7.3 Damage During Last Five Years of Term.** If there occurs during the last five (5) Lease Years of the term of this Lease (as may have been extended in accordance with Section 2.3 above), damage or destruction to any structure or improvement on or in the Property and the costs of repairing, restoring, replacing, or rebuilding the same exceed twenty-five percent (25%) of the then replacement cost of the improvements, as determined by the insurance appraiser provided for in Article 6, then WBRP may elect to terminate this Lease and, in such event, WBRP shall give notice to Lessor of its election within sixty (60) days after the determination by the insurance appraiser of the amount of damage, this Lease shall thereupon terminate as of the date of such notice, and any insurance proceeds shall be distributed in accordance with Section 6.7.

**Section 7.4 Damage to Existing Improvements.** In the event of damage or destruction to the Existing Improvements, WBRP shall have no obligation to repair or reconstruct



such damage or destruction, but in the event WBRP does not elect to repair or reconstruct such Existing Improvements, WBRP shall remove all uninhabitable structures and restore the Property to a buildable condition and remove all debris therefrom (regardless whether or not insurance proceeds are available to cover the costs to do so). All available insurance proceeds shall be payable to WBRP (or any Leasehold Mortgagee as applicable). In no event will this Lease terminate or Rent be adjusted in any manner due to damage or destruction of the Existing Improvements.

#### ARTICLE 8.

##### REPAIRS, MAINTENANCE AND ALTERATIONS

**Section 8.1 Repairs and Maintenance to Property.** Throughout the term of this Lease, WBRP shall keep the New Improvements and other improvements hereafter situated upon the Property, including, without limitation, the structural and exterior portions, roofing and covering material, foundations, exterior walls, plumbing, electrical systems, heating and ventilation systems and security system in good and safe condition and in good order and repair (ordinary wear and tear, and casualty loss, excepted), and WBRP shall conform to and comply with all valid ordinances, regulations or laws affecting the Property, the New Improvements or any other improvements on the Property or the use thereof. Lessor covenants and agrees that WBRP shall have the right to contest, at WBRP's sole cost and expense, any asserted or alleged violation of such ordinances, regulations or laws of any kind or character and by whomsoever asserted or alleged in the name of WBRP or Lessor, as WBRP may deem appropriate. Notwithstanding the foregoing, WBRP's obligation with respect to maintenance and repair of the New Improvements shall not include any obligation to replace any obsolete equipment, but WBRP shall nevertheless maintain in accordance with this section all equipment and, consistent with prudent maintenance practices, cause such equipment to be in working order upon expiration or earlier termination of this Lease, taking into account the age of such equipment.

Lessor shall have no obligation whatsoever to keep, maintain, alter, remodel, improve, repair, decorate or paint the New Improvements, or any other improvements hereafter situated upon the Property. It is the intention of the parties that WBRP and not Lessor shall have the full responsibility and obligation for the repair and maintenance of the New Improvements and other improvements hereafter situated upon the Property and WBRP waives, to the full extent allowed by law, any right or remedy against Lessor based upon the condition of the New Improvements, or any other improvements hereafter situated upon the Property or any failure by Lessor or WBRP to repair or maintain the New Improvements or any such other improvements.

**8.1.1 Repairs and Maintenance of Existing Improvements.** During any time when the Existing Improvements or any portion thereof are occupied by tenants or other permitted occupants, WBRP shall keep the Existing Improvements in the same condition existing on the Effective Date, ordinary wear and tear excepted, consistent with the terms of any occupancy agreements. During any time when the Existing Improvements are not occupied, WBRP shall secure the Existing Improvements from unauthorized use or occupancy.

**Section 8.2 Alterations Not Requiring Consent.** WBRP shall have the right, from time to time, upon advanced notice to but without the consent of Lessor, to make non-material

additions, alterations renovations, replacements and changes (hereinafter sometimes referred to collectively as "alterations") in or to the Existing Improvements, the New Improvements and other improvements located on the Property (including, without limitation, parking areas, sidewalks and landscaping). WBRP shall keep Lessor advised of all alterations and shall provide Lessor with schematic drawings of areas of the Property as modified by any alterations. As used herein, "non-material alterations" shall mean or include changes of interior demising walls, painting, carpeting or floor covering within the New Improvements or other improvements.

**Section 8.3 Alterations Requiring Consent.** Notwithstanding Section 8.2 above, any Major Improvements (as defined in Section 3.1) shall be subject to the provisions of Section 3 above.

**Section 8.4 No Authority to Bind Lessor's Interest.** It is the intent of the parties that neither WBRP nor any of WBRP's agents, employees, representatives, contractors or subcontractors shall have any power or authority to do any act or thing or to make any contract or agreement which shall result in the creation of any mechanic's or materialmen's lien or claim upon or against Lessor or Lessor's fee simple interest in the Property. This Section does not create additional duties or consequences beyond those set forth in Section 3.7.

##### Section 8.5 Hazardous Substances.

**8.5.1 Existing Conditions.** Lessor represents and warrants that it has provided to WBRP all Phase I, Phase II, or other environmental assessments, asbestos or lead paint studies or investigations, or other reports and investigations in its possession relating to the environmental condition of the Property and the existence of any Hazardous Substances in, on, or under the Property. Lessor further represents and warrants that it has no actual knowledge of the existence or likely existence of any Hazardous Substances on, in, or under the Property except as identified in the reports that have been given to WBRP. Any hazardous substances currently in existence on or within the Property are referenced to herein as the "Existing Hazardous Substances."

**8.5.2 Remediation of Existing Hazardous Substances.** If in connection with the construction and development of the New Improvements, Existing Hazardous Substances are discovered on the Property, or on adjacent property having originated from the Property, which must be remediated (including asbestos which must be removed before demolishing any existing structures), Lessor agrees at Lessor's cost to remediate such Existing Hazardous Substances to meet the requirements of Environmental Law in light of the intended use of the Property. Lessor's obligations with respect thereto shall be limited to the incremental costs directly associated with such remediation (including testing, reporting and monitoring requirements), but shall not include the costs that otherwise would be incurred in connection with the construction of the New Improvements in the absence of such Existing Hazardous Substances. By way of example, if Existing Hazardous Substances are discovered in an area of the Property that is required to be excavated in any event in connection with the construction of the New Improvements, WBRP will remain responsible for the normal excavation and disposal costs, and Lessor shall be responsible for the additional costs of excavation and disposal (including testing, reporting and monitoring) due to the presence of Existing Hazardous Substances.

In connection with the remediation of Existing Hazardous Substances, Lessor agrees to seek a no-further action ("NFA") determination from the Washington Department of Ecology with respect to any clean-up conducted by Lessor. WBRP acknowledges and agrees that receipt of an NFA may require Lessor to execute and record against the Property one or more restrictive covenants restricting use of the Property, including without limitation such restrictions as: prohibiting the taking of groundwater from the Property except for monitoring and sampling, limiting site uses to industrial or commercial uses, and/or requiring future remediation of areas not excavated or remediated. WBRP agrees to consent to any such restrictions, provided such restrictions do not unreasonably interfere with WBRP's intended use and enjoyment of the Property and do not materially increase the costs of construction of the New Improvements.

**8.5.3 Lessor's Indemnity; Release.** Lessor shall indemnify, defend and hold harmless WBRP and its officers, directors, agents, employees, successors, assigns, affiliates, subsidiaries and parent companies (if any) (collectively, the "Indemnified Parties") from and against any third-party claims for the cleanup, investigation, testing or removal of the Existing Hazardous Substances. Subject to such indemnification, and Lessor's obligation to remediate pursuant to Section 8.5.2 above, WBRP agrees to accept the Property in "as-is" environmental condition, and further agrees to waive and release any and all claims (including, without limitation, diminution in value of its leasehold estate and damages for loss or restriction of use or lost profits) against Lessor for any claims, losses, damages, judgments or liabilities arising out of the Existing Hazardous Substances. However, nothing in this Section 8.5.3 shall constitute a release of any unrelated third parties that may have legal responsibility for the existence or presence of Hazardous Substances on the Property.

**8.5.4 WBRP Compliance and Indemnity.** WBRP shall comply with all federal, state and local laws, ordinances, rules and regulations relating to the handling, use, generation, accumulation, storage, transportation, disposal, treatment or sale of all Hazardous Substances in, on or under the Property or the New Improvements and first arising on or after the date of this Lease with respect to the use or occupancy of the Property by WBRP or its subtenants and their successors and assigns (the "New Hazardous Substances").

WBRP shall give notice to Lessor promptly after learning of any release of any New Hazardous Substances on or at the Property, or the New Improvements or, if caused by WBRP or any subtenant, on the surrounding environment in each case that constitutes a violation of any Environmental Laws or presents any danger to human health or safety. This notice shall include a description of measures taken or proposed to be taken by WBRP to obtain and/or remedy the release and any resulting damage to property, persons or the environment. At WBRP's own expense, WBRP shall promptly take all steps necessary to contain and remedy any release of New Hazardous Substances in, on or under the Property, the New Improvements or surrounding environment by WBRP or its agents, employees, invitees or subtenants, and all resultant damage or injury to property, persons and the environment, all in accordance with Environmental Laws. Upon termination of this Lease, WBRP shall remove all New Hazardous Substances not in existence on the Property or surrounding properties on the Effective Date and shall decontaminate, decommission and, in the case of infectious or biological hazards, sterilize all areas in the Property, the New Improvements in which New Hazardous Substances were generated, stored, accumulated, released, or otherwise present, to a level not toxic to humans or animals and otherwise in accordance with Environmental Laws. WBRP shall indemnify, defend

and hold Lessor harmless from any and all claims, demands, damages, costs, fees, penalties, and charges asserted against, imposed upon, and incurred by Lessor (including fees and costs of attorneys, consultants, laboratory testing charges and personal injury claims) as a result of any of the following actions or omissions of WBRP, or its employees, agents, invitees or subtenants that constitutes a violation of any Environmental Laws or presents any danger to human health or safety: (i) the handling, use, generation, accumulation, storage, transportation, disposal, treatment and/or sale of New Hazardous Substances at the Property, or New Improvements; (ii) the release of any New Hazardous Substance on or at the Property, or New Improvements; (iii) the failure to comply with any Environmental Laws; (iv) the failure to remove all New Hazardous Substances or the failure to decontaminate, decommission, or, in the case of infectious or biological hazards, sterilize all areas in the Property in which any of New Hazardous Substances were generated, stored, handled, accumulated, released or otherwise present, to a level not toxic to humans or animals and otherwise in accordance with Environmental Laws; and (v) the failure to comply with any other requirement of this Section 8.5. Notwithstanding the foregoing, WBRP's indemnity shall not apply to any matter where the University has indemnified Lessor directly.

**8.5.5 Defined Terms.** As used in this Lease, a "Hazardous Substance" means any matter including petroleum products and by-products, asbestos, infectious waste and any other materials, which is now or hereafter designated as a hazardous substance pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, *et seq.*, or that is now or hereafter regulated by applicable Environmental Laws; and "Environmental Laws" mean any federal, state or local law, rule or regulation pertaining to health, industrial hygiene or environmental conditions of the Property, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), 42 U.S.C. Section 9601 *et seq.*, as amended by the Superfund Amendments and Reauthorization Act of 1986 (PL 99-499), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, *et seq.*, the Toxic Substance Control Act, 15 U.S.C. Section 2601, *et seq.*, and the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"), 42 U.S.C. Section 6901, *et seq.*, and the Washington State Model Toxics Control Act (ch. 70.105D RCW).

**8.5.6 Subtenants.** The provisions of Section 8.5.4 shall also be fully applicable to all subtenants at the Property (including the University under the Phase 3.2 Sublease or the Phase 3.2 Facilities Lease), and the indemnification set forth in Section 8.5.4 above shall also run directly from such subtenants for the benefit of Lessor (with a similar indemnification included in all subleases for the direct benefit of Lessor). A bio-hazards handling and management plan prepared by the University or any other subtenant in the Property who handles New Hazardous Substances at the Property shall be provided to Lessor annually. All handling or management of New Hazardous Substances and biohazards shall include a disposal program (including all manifests regarding disposal in appropriate disposal facilities) in full compliance with applicable law. Lessor shall be entitled, at Lessor's expense, to review all records regarding all handling, management and disposal of New Hazardous Substances upon request.

Upon request by Lessor, WBRP and/or applicable subtenants will also provide to Lessor copies of all permits, authorizations or entitlements obtained or required to be obtained with respect to the handling of New Hazardous Substances at the Property, and complete copies of all

compliance reports or similar information required to be maintained or filed in connection with such permits, authorizations and entitlements.

## ARTICLE 9.

### ASSIGNMENT AND SUBLETTING

**Section 9.1 WBRP's Right to Assign.** Subject to the prior written consent of Lessor, and subject to Lessor's right of first opportunity as described in Section 9.7 below, WBRP shall have the right to assign its entire interest in this Lease (but not just a portion thereof) to any other party if: (i) at the time of assignment WBRP is not in default under any of its obligations under this Lease; (ii) the proposed assignee agrees in writing to be bound by and assume the terms of this Lease; and (iii) the proposed assignee is a qualified 501(c)(3) non-profit organization organized for purposes similar to those of WBRP and operating in a similar manner or, in Lessor's reasonable judgment, financially capable of performing WBRP's obligations under this Lease and is an experienced owner, operator and/or manager of projects similar in kind to the Property. WBRP shall provide Lessor with at least thirty (30) days prior written notice of any proposed assignment hereunder, including the identity of the proposed assignee. WBRP shall provide Lessor with such additional information as Lessor shall reasonably request regarding the proposed assignee, its financial status and experience. Provided the conditions set forth in clauses (i) through (iii) above are fully satisfied with respect to a full assignment of WBRP's interest in this Lease, then Lessor agrees to release the assignor from liability for the duties and obligations of WBRP hereunder arising from and after the effective date of such assignment. All costs and fees reasonably incurred by Lessor in connection with reviewing any request by WBRP for Lessor's consent to or approval of any assignment, nondisturbance agreement or similar transaction contemplated under Article 9 shall be reimbursed by WBRP to Lessor promptly upon demand.

In the event WBRP assigns its entire interest in this Lease in accordance with this Section 9.1 at a time when the Development Agreement is still in full force and effect, the assignment shall also include the Development Agreement, and the assignee of WBRP's interest in this Lease shall also assume all of WBRP's obligations under the Development Agreement.

**9.1.1 Assignment to the University.** WBRP shall also have the right to assign its entire interest in this Lease (but not just a portion thereof) to the University, provided that the University agrees in writing to be bound by and to assume the terms of this Lease (with the form of such assignment and assumption to be reasonably acceptable to Lessor). Upon such assignment and assumption, and at the request of WBRP, the Phase 3.2 Sublease or the Phase 3.2 Facilities Lease, as applicable, may terminate. WBRP and Lessor acknowledge that in the event the Bonds issued under Section 11.2 below to finance all or a portion of the costs to construct the New Improvements are "63-20" bonds, WBRP intends to transfer its rights to the New Improvements and assign this Lease to the University upon the full repayment and retirement of such Bonds.

Upon full assignment of WBRP's interest in this Lease to the University and the full assumption thereof by the University, Lessor agrees to release WBRP from liability for the duties and obligations of WBRP hereunder arising from and after the effective date of such assignment. All costs and fees reasonably incurred by Lessor in connection with reviewing any

assignment and approving the form of assignment and assumption by the University shall be reimbursed by WBRP to Lessor promptly upon demand.

**Section 9.2 Sublease to the University.** Simultaneously herewith, WBRP has entered into the Phase 3.2 Sublease with the University, and in connection with the future development of New Improvements, WBRP expects to enter into the Phase 3.2 Facilities Lease with the University. Lessor has approved the form of the Phase 3.2 Sublease and Lessor agrees not to unreasonably withhold its consent to a Phase 3.2 Facilities Lease substantially similar to the facilities lease between the Phase 3.1 Ground Lease and the University referenced in the 3.1 Ground Lease (and upon execution of the Phase 3.2 Facilities Lease by WBRP and the University and the approval of the Phase 3.2 Facilities Lease by Lessor, the Phase 3.2 Sublease shall terminate). With respect to the Phase 3.2 Sublease and any Phase 3.2 Facilities Lease (a) WBRP agrees not to amend, revise or alter the Phase 3.2 Sublease or the Phase 3.2 Facilities Lease or grant any waivers thereunder without the prior written consent of Lessor (such consent not to be unreasonably withheld provided such amendment, revision, alteration or waiver does not shorten the term, reduce the monetary or other obligations of the University under the Phase 3.2 Sublease or the Phase 3.2 Facilities Lease in a manner that adversely affects WBRP's ability to perform its economic and other obligations hereunder or reduces any indemnification or performance obligations of the University under the Phase 3.2 Sublease or Phase 3.2 Facilities Lease), (b) WBRP shall promptly provide Lessor with copies of all correspondence and communication between WBRP and the University regarding any demands for performance or alleged defaults under such Phase 3.2 Sublease or Phase 3.2 Facilities Lease or changes in permitted uses, and (c) the University shall not have the right to assign or transfer the Phase 3.2 Sublease or the Phase 3.2 Facilities Lease or further sublet the Property or any portion thereof except as set forth herein.

**9.2.1 Subleases of New Improvements by the University Under the Facilities Lease.** Following the construction of New Improvements and the lease of such New Improvements to the University under the Phase 3.2 Facilities Lease, Lessor's written consent shall be required for certain subleases by the University. Lessor's consent shall not be required for (i) any sublease by the University to a nonprofit entity or organization (including by way of example, the Fred Hutchinson Cancer Research Center or Children's Hospital) with whom the University has or has contracted to have a research, co-research, joint venture, or other cooperative arrangement for biomedical or biotechnical research and development or for any other party whose occupancy of a portion of the Property is required under the grant or funding source for such research (a "Research Partner"), nor (ii) or not more than 2,500 square feet relating to any food service, so long as the University remains fully and unconditionally liable under the Facilities Lease and such sublease is consistent with, and subtenant agrees in writing to be bound by, the terms of this Lease. In addition, Lessor's consent shall not be required for any sublease by the University to another nonprofit entity or organization for a use consistent with the provisions of Section 1.3 above, provided such sublease (singularly or in combination with other subleases to nonprofit entities or organizations not qualifying as a Research Partner) does not exceed 50,000 net rentable square feet in the Property, and so long as the University remains fully and unconditionally liable under the Facilities Lease and such sublease is consistent with, and subtenant agrees in writing to be bound by, the terms of this Lease.

Lessor's consent to a sublease with a party other than as provided in the immediately preceding paragraph (including a sublease to a for-profit entity or organization) may be withheld

or conditioned by Lessor in Lessor's reasonable discretion. Lessor may condition such consent by requiring such sublease to be at market rates and by requiring the University to pay to Lessor 100% of all sublease rent and other sublease consideration which the University receives with respect to such sublease that is in excess of the University's Deemed Base Rent (as defined below). However, prior to paying such excess to Lessor, the University may deduct from such excess the reasonable and customary expenses directly incurred by the University attributable to such sublease, including subleasing commissions, legal fees, subtenant improvement costs, and other economic concessions provided by the University in connection with the sublease (all which shall be itemized to Lessor at Lessor's request). For purposes hereof, Deemed Base Rent shall be (a) the monthly Base Rent payable by the University to WBRP under the Facilities Lease for the month immediately following the closing of the Permanent Financing (as set forth in the Facilities Lease) (i.e., overall base rent under the Facilities Lease taking into account ground rent under this Lease, debt service payments on the Permanent Financing, and the fee to WBRP), plus (b) \$5.00 per square foot. Such Deemed Base Rent shall be adjusted to take into account increases in the ground rent due under this Lease, but otherwise shall remain fixed for the term of this Lease (e.g., no adjustments will be made due to changes in debt service on Permanent Financing, even if such Permanent Financing is refinanced or partially or wholly repaid). By way of example, if the monthly Base Rent payable by the University under the Facilities Lease immediately following the closing of the Permanent Financing equates to a rental rate of \$62 per square foot per year, and the sublease rate equates to a rental rate of \$70 per square foot per year, Deemed Base Rent would be \$67 per square foot (\$62 plus \$5), and the \$3 per square foot sublease "profit" shall be paid to Lessor. Once established following the closing of the Permanent Financing, the \$67 per square foot Deemed Base Rate would only be adjusted due to increases in the ground rent under this Lease, and otherwise would remain fixed.

Notwithstanding the foregoing, for all subleases by the University (whether or not such sublease requires the consent of Lessor), such sublease shall require the subtenant thereunder to maintain commercial general liability insurance meeting at least the standards set forth in Section 6.2.1, above, and naming Lessor as an additional named insured.

**9.2.2 Subleases Prior to Development.** The provisions of Section 9.2.1 above relating to subleases by the University of New Improvements under the Phase 3.2 Facilities Lease shall not be applicable to subleases entered into for interim uses prior to the development of New Improvements on the Property ("Pre-Development Subleases"). Thus, the University may enter into Pre-Development Subleases without the consent of Lessor, and the University may retain one hundred percent (100%) of all sublease rent and other sublease consideration from such Pre-Development Subleases. All Pre-Development Subleases must be for a legally permitted use, must be expressly subordinate to the terms of this Lease, and must be terminable without penalty upon not more than sixty (60) days notice. Copies of all Pre-Development Subleases shall be provided to Lessor within ten (10) days of mutual execution. All Pre-Development Subleases shall require the subtenant thereunder to maintain commercial general liability insurance meeting commercially reasonable standards and naming Lessor as an additional named insured.

Simultaneously herewith, WBRP has subleased the Existing Improvements on the Property to Lessor under a Master Lease and Site Management Agreement, and pursuant to

which Lessor shall continue to be the landlord to any existing tenants as provided in such Master Lease.

**Section 9.3 Other Subleases by WBRP.** Upon the expiration or earlier termination of the Phase 3.2 Sublease or the Phase 3.2 Facilities Lease, WBRP shall have the right to enter into subleases of all or portions of the Property, subject to the prior written consent of Lessor, such consent not to be unreasonably withheld so long as: (i) WBRP remains fully and unconditionally liable under this Lease; (ii) such sublease is consistent with, and such subtenant has agreed in writing to be bound by, the terms of this Lease. Notwithstanding the foregoing, if WBRP seeks to sublease all or any portion of the Property during any period of time when Rent Subordination is in effect in accordance with Section 4.9 above, WBRP will use all reasonable and diligent efforts to secure one or more subtenants who, while constituting governmental or non-profit entities who will not cause the tax-exempt Bonds to lose their tax exempt character, will pay rent sufficient to continue to pay Rent under this Lease, and to the extent two or more otherwise qualified parties are prepared to sublease all or a portion of the Property, WBRP will give preferences to the sublessee whose proposed rent schedule will permit the highest amount of Rent possible to continue to be paid under this Lease. WBRP also agrees to consider in a timely manner and in good faith recommendations from Lessor with respect to potential qualified sublessees in the event of a termination or expiration of the Phase 3.2 Sublease or the Phase 3.2 Facilities Lease.

In the event the New Improvements are financed in whole or in part with the proceeds of tax-exempt Bonds in accordance with Section 11.2 below, Lessor acknowledges that any future subtenant will need to be a tax-exempt entity or have certain non-profit uses in order to maintain the tax exemption under the Bonds, and such restrictions will limit the possible group of qualified subtenants if the Phase 3.2 Sublease or the Phase 3.2 Facilities Lease expires or is terminated.

If WBRP seeks to enter into a sublease of all or portions of the Property at a time when both the Phase 3.2 Sublease and the Phase 3.2 Facilities Lease are no longer in effect, eighty percent (80%) of any sums or other economic consideration received by WBRP as a result of such sublease, however denominated, which exceeds (a) the total sums WBRP is required to pay to Lessor under this Lease, plus (b) any current payments due under any Bonds issued pursuant to Section 11.2 below or any other Leasehold Mortgage then in effect, plus (c) any commissions, tenant improvement allowances or other concessions paid by WBRP in connection with such sublease, shall be paid to Lessor as additional rent under this Lease, and without reducing any other obligations of WBRP hereunder. If WBRP seeks to enter into a sublease of all or portions of the Property at a time when the Facilities Lease is no longer in effect and any Bonds issued pursuant Section 11.2 below and any other loan secured by a Leasehold Mortgage have been paid in full, Lessor shall also have the option upon notice to WBRP to terminate this Lease.

**Section 9.4 Terms of Subleases.** All subleases shall be subject and subordinate in all respects to the terms of this Lease, and shall be for a term or terms not exceeding the term of this Lease. The permitted uses under any sublease shall not conflict with the uses permitted under this Lease.



**Section 9.5 WBRP's Right to Mortgage.** Notwithstanding the foregoing provisions of this Article 9, WBRP shall have the right to mortgage or grant a deed of trust against or otherwise encumber WBRP's interest in this Lease, the estate created by this Lease, and the New Improvements, to a Leasehold Mortgage, as provided in Article 11.

**Section 9.6 Estoppel Certificates.** Lessor and WBRP from time to time shall execute and deliver to each other or to any person whom the requesting party may reasonably designate, an estoppel certificate consisting of statements, if true, that: (a) this Lease is in full force and effect, with Rent paid through the date of the certificate; (b) this Lease has not been modified or amended (or setting forth all modifications and amendments); (c) to the best of such party's knowledge and belief, the other party is not then in default; and (d) such other matters as the requesting party may reasonably request.

**Section 9.7 Right of First Opportunity (Sale of WBRP Interest).** During the term of this Lease, subject to any rights of first opportunity or other rights or options given to the University or any Leasehold Mortgagee, WBRP grants Lessor the right of first opportunity to purchase WBRP's interest in this Lease, the New Improvements and all other improvements located on the Property (collectively, "WBRP's Interest"), only so long as no indebtedness then exists under any Leasehold Mortgage or the proceeds of sale will be sufficient to retire such indebtedness or, in the written opinion of counsel who has issued the opinion of bond counsel for any tax-exempt Bonds related to such Leasehold Mortgage, a mechanism exists that would enable Lessor to satisfy, retire, or defease any Bonds or other indebtedness relating to such Leasehold Mortgage without causing any such Bonds to lose their exemption from federal income tax and without causing any recapture of income under federal or state tax laws, and otherwise subject to the terms and conditions set forth herein. If WBRP wishes to sell WBRP's Interest, WBRP shall provide Lessor written notice stating the terms upon which WBRP is willing to sell. Lessor shall have sixty (60) days after receipt of the notice in which to arrange for such opinion of counsel to be delivered and to exercise its right of first opportunity with respect to WBRP's Interest by delivering written notice of exercise to WBRP. Upon exercise of the right of first opportunity, WBRP's Interest shall be sold to Lessor on the terms described in the notice or on such other terms as Lessor and WBRP may mutually agree. If Lessor does not exercise its right of first opportunity as provided herein, WBRP may offer to sell WBRP's Interest to a third party on the same terms as described in its notice to Lessor (or on terms which are clearly more favorable to a seller) but with a purchase price no lower than ninety-five percent (95%) of the price described in the notice to Lessor. If WBRP has not entered into a contract to sell WBRP's Interest within six (6) months after WBRP's notice to Lessor, or if WBRP has not closed the sale of WBRP's Interest within six (6) months after entering into any such contract to sell, then any further transaction shall again be subject to Lessor's right of first opportunity. Lessor's right to first opportunity shall not apply to a foreclosure sale, trustee sale or deed in lieu of foreclosure with respect to any Leasehold Mortgage or the subsequent sale of WBRP's Interest by the Leasehold Mortgagee under such Leasehold Mortgage following such foreclosure sale, trustee sale or deed in lieu of foreclosure. Notwithstanding the foregoing, in the event of a transfer by a Leasehold Mortgagee following a foreclosure sale, trustee sale or deed in lieu of foreclosure as contemplated above, Lessor's right of first opportunity shall continue to apply to WBRP's Interest following any such transfer. The right of first opportunity granted under this Section 9.7 shall not apply in any assignment by WBRP to the University or any non-profit organization designated by the University to receive a full assignment of this Lease in accordance with Section 9.1.

**Section 9.8 Right of First Opportunity (Sale of Lessor Interest).** During the term of this Lease, Lessor grants WBRP a right of first opportunity to purchase the Property. If Lessor desires to sell the Property, Lessor will provide WBRP with notice of its intent to sell. The notice will include an all cash price for the Property (the "Offer Price"). WBRP shall have thirty (30) days after receipt of such notice by written notice to Lessor to exercise its right of first opportunity to purchase the Property for the Offer Price. If WBRP does not exercise the right of first opportunity, then Lessor shall have a period of eighteen (18) months from the date of expiration of the right of first offer in which to effect a sale of the Property at a price not less than ninety percent (90%) of the Offer Price. If WBRP does not exercise the right of first opportunity but Lessor does not sell the Property for a price not less than ninety percent (90%) of the Offer Price within the 18-month period from the date of expiration of the right of first opportunity, the right of first opportunity shall be reinstated and Lessor must provide WBRP with a new Offer Price and a new thirty (30) day right of first opportunity period before Lessor may sell the Property. If WBRP does not exercise the right of first opportunity and Lessor thereafter sells the Property within the 18 month period as provided herein, the right of first opportunity shall terminate in its entirety (i.e., it will not survive or be applicable to a future sale of the Property by the purchaser from Lessor).

If WBRP exercises the right of first opportunity, the purchase transaction shall close within sixty (60) days of the exercise of the right of first opportunity. At the closing, WBRP shall deliver the purchase price to Lessor and Lessor shall (i) deed the Property to WBRP or its designee by Special Warranty Deed, subject to all matters of record (other than debt secured by a lien on the Lessor's interest in Property); and (ii) assign to WBRP or its designee the Lessor's interest in this Lease. Transfer taxes, closing costs and escrow fees shall be paid in accordance with customary practices in King County, Washington, for similar commercial real estate transactions. Lessor shall be responsible for the premium for a standard coverage policy of title insurance and WBRP shall be responsible for the additional premium for any extended coverage title insurance that WBRP desires with respect to the transaction. Rent under this Lease shall be prorated through the date of closing.

The right of first opportunity shall not apply to (a) transfers of less than fifty percent (50%) of the interests in Lessor, (b) the contribution of the Property to a new entity in exchange for a more than fifty percent (50%) interest in such entity, (c) a transfer of the Property or interests in Lessor for estate planning purposes or upon the death of a natural person, (d) a portfolio sale of properties that includes the Property (defined to be a sale of two or more properties in South Lake Union to the same buyer), or (e) a foreclosure sale, trustee's deed or deed in lieu of foreclosure, provided that in the event of a transaction described in (a), (b) or (c) above, the right of first opportunity would continue to apply to the first subsequent sale of the Property. The right of first opportunity is and at all times shall be subordinate to any mortgages or deeds of trust that may be placed on the Property by Lessor. The right of first opportunity is personal to WBRP and not assignable except to an assignee of WBRP's entire interest in this Lease in accordance with Section 9.1 above.

ARTICLE 10.

DEFAULT

**Section 10.1 Events of WBRP Default.** Each of the following shall be deemed an Event of Default by WBRP and a material breach of this Lease:

**10.1.1** Failure by WBRP to pay any installment of Rent or to pay Impositions (to the extent WBRP is obligated to pay same), insurance premiums, reimbursable items or other sums of money herein stipulated to be paid by WBRP if such failure shall continue for a period of ten (10) days after notice thereof has been delivered to WBRP; provided, however that such failure to pay Rent and other monetary obligations shall not constitute an Event of Default for so long as a default exists under the documents governing the Bonds and the subordination provisions of Section 4.9 are in effect; or

**10.1.2** Failure by WBRP to perform or observe any other terms, covenants, conditions, agreements and provisions of this Lease if such failure shall continue for a period of thirty (30) days after notice thereof has been delivered to WBRP (and if the University is a subtenant, to the University), except that if any such failure cannot reasonably be cured within such thirty (30) day period and WBRP has promptly commenced to cure such failure, then no Event of Default shall exist and Lessor shall not have the right to terminate this Lease or WBRP's right to possession pursuant to Sections 10.2.1 and/or 10.2.2 for so long as WBRP pursues in good faith and with continued due diligence the cure of such failure, and provided such cure is completed within a period of one hundred twenty (120) days after notice thereof has been delivered to WBRP (and if the University is a subtenant, to the University).

**Section 10.2 Lessor Remedies for WBRP Default.** If any event of default occurs hereunder, Lessor may, at any time thereafter prior to the curing thereof and without waiving any other rights hereunder, in addition to any other remedy which Lessor may have hereunder or by law or equity, either cumulatively or in the alternative, do one or more of the following:

**10.2.1** Subject to the provisions of Article 11 hereof with respect to the rights of any Leasehold Mortgagee, terminate this Lease by giving WBRP ten (10) days' written notice thereof (with a copy of said notice also given to any Leasehold Mortgagee as provided in Article 11 hereof), in which event this Lease and the leasehold estate created hereby and all interest of WBRP and all parties claiming by, through or under WBRP shall automatically terminate upon the effective date of such notice with the same force and effect and to the same extent as if the effective date of such notice were the day originally fixed in Article 1 hereof for the expiration of the term of this Lease, and Lessor, its agents or representatives, shall have the right, without further demand or notice, to reenter and take possession of the Property, reserving Lessor's right to seek damages.

**10.2.2** Subject to the provisions of Article 11 hereof with respect to the rights of any Leasehold Mortgagee, terminate WBRP's right to possession of the Property and enjoyment of the rents, issues and profits therefrom, without terminating this Lease or the leasehold estate created hereby, reenter and take possession of the Property and remove all persons and property therefrom, with or without process of law, without being deemed guilty of any manner of

trespass and without prejudice to any remedies for any breaches of covenants (including the payment of rent), then existing or thereafter occurring, and lease, manage and operate the Property and collect the rents, issues and profits therefrom, all for the account of Lessor for application against and credit to the satisfaction of WBRP's obligations hereunder the net rental thus received (after deducting therefrom all reasonable costs and expenses of repossessing, leasing, managing and operating the Property). Lessor shall use reasonable good faith efforts to mitigate the injury, loss or damages accruing from any such default of WBRP.

**10.2.3** Cure any such default or any portion thereof for the account of and at the expense of WBRP either concurrently with, or at any time before or after, the exercise of any other remedy granted herein or by law, in which event all costs and expenses reasonably paid or incurred by Lessor in connection with the curing of such default shall be due and payable by WBRP to Lessor immediately.

**10.2.4** Lessor shall not be deemed to have terminated this Lease or WBRP's liability hereunder by any act of Lessor, including without limitation, any repossession, reentry or reletting, unless Lessor expressly notifies WBRP in writing that it elects to terminate this Lease; nor shall any legal action taken by Lessor against WBRP by and of itself terminate this Lease or WBRP's liability hereunder (regardless of any cause of action or prayers for relief therein contained) unless judgment is entered therein terminating this Lease.

**10.2.5** If WBRP fails to remove WBRP's Property within thirty (30) days after receipt of written notice of the termination of this Lease, then Lessor may remove the same at WBRP's expense, or may treat such property as having been abandoned and, subject to the rights of any third parties, said property shall become the property of Lessor and Lessor may use, sell or otherwise dispose of all such property in such manner as Lessor deems reasonably advisable.

**10.2.6** Unless otherwise specifically provided herein, any sum payable to Lessor hereunder which is not paid when due (but not Rent or other monetary obligations that are deferred due while the Rent subordination is effective pursuant to Section 4.9) shall bear interest at the Default Rate from the date the same becomes due until paid. As used herein, the term "Default Rate" shall mean the publicly announced prime lending rate of Bank of America, N.A., or its successor, changing from time to time, plus five hundred (500) basis points (5%).

**Section 10.3 Cumulative Remedies; No Waiver of Default.** No remedy herein or otherwise conferred upon or reserved to Lessor shall be considered exclusive of any other remedy, but the same shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute; and every power and remedy given by this Lease to Lessor may be exercised from time to time and as often as occasion may arise which may be deemed expedient by Lessor, as the case may be. No delay or omission by Lessor to exercise any right or power arising from any default under this Lease shall impair any such right or power. No waiver of any breach of any covenant or provision of this Lease shall be construed to be a waiver of any other or subsequent breach of the same or of any other covenant or provision.

**Section 10.4 Provision for Attorneys' Fees.** If WBRP or Lessor defaults in the performance of or otherwise breaches any of the terms, covenants, conditions, agreements, or

provisions contained in this Lease and Lessor or WBRP employs attorneys in connection with the enforcement of this Lease, then the nonprevailing party shall pay the prevailing party its reasonable attorneys' fees and costs, whether or not suit is commenced, including any costs on appeal.

## ARTICLE 11.

### RIGHTS OF LEASEHOLD MORTGAGEE

**Section 11.1 Leasehold Mortgages.** WBRP, and its permitted successors and assigns, shall have the unrestricted right to mortgage its interests under this Lease, subject, however, to the terms, conditions and limitations of this Section 11.1. As used herein,

"Leaschold Mortgage" shall mean any mortgage or deed of trust on the Leasehold Estate created by this Lease;

"Leasehold Mortgagee" shall mean the holder of the beneficial interest under a Leasehold Mortgage, and in the case of any Bonds issued in connection with such Leasehold Mortgage, the trustee under the indenture governing such Bonds;

"Purchase Money Leasehold Mortgage" shall mean any Leasehold Mortgage granted to WBRP (or WBRP's successors) in connection with the sale of WBRP's interest in this Lease;

"Leasehold Estate" shall mean the estate of WBRP created by this Lease upon and subject to all the terms and conditions of this Lease but expressly excluding Lessor's fee simple interest in the land described on Exhibit A (it being the intent and understanding of Lessor and WBRP that Lessor's fee simple interest in the land shall not be subject or subordinate to any Leasehold Mortgage); and

"Lending Institution" shall mean a national bank, insurance company, pension fund, major financial lending institution, or other entity generally recognized or regularly used as a source of construction and/or permanent mortgage financing or as a trustee under tax-exempt bond financing and such Lending Institution, at the time of becoming a Leasehold Mortgagee, has total assets of at least Two Hundred Fifty Million Dollars (\$250,000,000) and net worth of at least Fifty Million Dollars (\$50,000,000) as evidenced by its last annual audited statement.

Any such Leasehold Mortgage shall be subject and subordinate to the rights of Lessor hereunder in accordance with all the terms and conditions of this Lease.

**11.1.1 Conditions For Special Protections for Leasehold Mortgagees.** The right of WBRP to mortgage its interests under this Lease shall be subject to fulfillment of all of the following conditions:

(a) WBRP shall notify Lessor of the existence and identity of any Leasehold Mortgagee and provide Lessor with a copy of all recorded instruments constituting the Leasehold Mortgage and the promissory note and loan agreement secured

thereby. No Leasehold Mortgagee shall have the rights or benefits mentioned in this Section 11.1, nor shall the provisions of this Section 11.1 be binding upon Lessor, unless and until the name and address of the Leasehold Mortgagee shall have been delivered in writing to Lessor, which notice shall be joined in or confirmed in writing by WBRP, notwithstanding any other form of notice, actual or constructive.

(b) The Leasehold Mortgagee is either a Lending Institution or the holder of a Purchase Money Leasehold Mortgage.

**11.1.2 Protection of Leasehold Mortgagees.** If WBRP, or WBRP's successors or assigns, shall mortgage this Lease in compliance with the provisions of this Section 11.1, then so long as any such Leasehold Mortgage shall remain unsatisfied of record, the following provisions shall apply:

(a) **Termination of Lease Only with Leasehold Mortgagee Consent or Full Compliance with Leasehold Protections.** No cancellation, surrender or modification of this Lease shall be effective as to any Leasehold Mortgagee unless consented to in writing by such Leasehold Mortgagee or accomplished after full compliance by Lessor with all of the provisions of this Section 11.1.

(b) **Concurrent Notices to Leasehold Mortgagees; Rights to Cure.** Lessor, upon providing WBRP any notice of: (i) default under this Lease, (ii) a termination of this Lease, or (iii) a matter on which Lessor may predicate or claim a default, shall at the same time provide a copy of such notice to every Leasehold Mortgagee of which Lessor has been provided notice in accordance with Section 11.1.1(a). No such notice by Lessor to WBRP shall be deemed to have been duly given unless and until a copy thereof has been so provided to every Leasehold Mortgagee of which Lessor has been provided notice in accordance with Section 11.1.1(a). From and after the date such notice has been given to Leasehold Mortgagee, such Leasehold Mortgagee shall have the same period, after the giving of such notice upon it, for remedying any default or acts or omissions which are the subject matter of such notice, or causing the same to be remedied, as is given WBRP after the giving of such notice to WBRP, plus in each instance the additional periods of time specified in subsections (c) and (d) of this Section 11.1.2, to remedy, commence remedying or cause to be remedied the defaults or acts or omissions which are specified in such notice. Lessor shall accept such performance by or at the instigation of such Leasehold Mortgagee as if the same had been done by WBRP. WBRP authorizes each Leasehold Mortgagee to take any such action at such Leasehold Mortgagee's option and does hereby authorize entry upon the Property by the Leasehold Mortgagee for such purpose.

(c) **Special Notice and Cure Periods for Leasehold Mortgagees.** Anything contained in this Lease to the contrary notwithstanding, if any default shall occur which entitles Lessor to terminate this Lease, Lessor shall have no right to terminate this Lease unless, following the expiration of the period of time given WBRP to cure such default or the act or omission which gave rise to such default, Lessor shall notify every Leasehold Mortgagee (a "Termination Notice") of Lessor's intent to so terminate at least thirty (30) days in advance of the proposed effective date of such termination if such default is capable of being cured by the payment of money, and at least ninety (90) days in advance of the



proposed effective date of such termination if such default is not capable of being cured by the payment of money (the "Termination Notice Period"). Any notice to be given by Lessor to a Leasehold Mortgagee pursuant to any provision of this Section 11.1.2 shall be deemed properly addressed if sent to the Leasehold Mortgagee who provided a notice referred to in Section 11.1.1 unless notice of a change of Leasehold Mortgage ownership has been given to Lessor in writing. The provisions of Section 11.1.2(d) shall apply only if, during such 30- or 90- day Termination Notice Period, any Leasehold Mortgagee shall:

(i) Notify Lessor of such Leasehold Mortgagee's desire to nullify such notice;

(ii) Pay or cause to be paid all Rent and other payments then due and in arrears and which may become due during the Termination Notice Period as specified in the Termination Notice to such Leasehold Mortgagee; and

(iii) Comply or in good faith, with reasonable diligence and continuity, commence to comply with all nonmonetary requirements of this Lease then in default and reasonably susceptible of being complied with by such Leasehold Mortgagee; provided, however, that such Leasehold Mortgagee shall not be required during such Termination Notice Period to cure or commence to cure any default consisting of WBRP's failure to satisfy and discharge any lien, charge or encumbrance against the WBRP's interest in this Lease or the Property junior in priority to the lien of the mortgage held by such Leasehold Mortgagee.

**(d) Extended Cure Period While Leasehold Mortgagee Attempts to Acquire Leasehold Interest.**

(i) If Lessor shall elect to terminate this Lease by reason of any default of WBRP, and Leasehold Mortgagee shall have proceeded in the manner provided for by Section 11.1.2(c), the specified date for the termination of this Lease as fixed by Lessor in its Termination Notice shall be extended for a period of six (6) months, provided that such Leasehold Mortgagee shall, during such six (6) month period:

(A) Pay or cause to be paid the Rent, and other monetary obligations of WBRP under this Lease as the same become due, and continue its good faith efforts to perform all of WBRP's other obligations under this Lease, including during any period during which the Leasehold Mortgagee is entitled to possession of the Property the obligation to operate and maintain the Improvements and the Property in accordance with Article 8, excepting (A) obligations of WBRP to satisfy or otherwise discharge any lien, charge or encumbrance against WBRP's interest in this Lease or the Leasehold Estate junior in priority to the lien of the Leasehold Mortgage held by such Leasehold Mortgagee, and (B) past nonmonetary obligations then in default and not reasonably susceptible of being cured by such Leasehold Mortgagee; and

(B) If not enjoined or stayed, take steps to acquire or sell WBRP's interest in this Lease by foreclosure of the Leasehold Mortgage or other appropriate means and prosecute the same with due diligence.

(ii) If at the end of such six (6) month period such Leasehold Mortgagee is complying with Section 11.1.2(d)(i), this Lease shall not then terminate, and the time for completion by such Leasehold Mortgagee of its proceedings shall continue so long as such Leasehold Mortgagee is enjoined or stayed and thereafter for so long as such Leasehold Mortgagee proceeds to complete steps to acquire or sell WBRP's interest in this Lease by foreclosure of the Leasehold Mortgage or by other appropriate means with reasonable diligence and continuity. Nothing in this Section 11.1.2(d), however, shall be construed to extend this Lease beyond the original term hereof, nor to require a Leasehold Mortgagee to continue such foreclosure proceedings after the default has been cured. If the default shall be cured and the Leasehold Mortgagee shall discontinue such foreclosure proceedings, this Lease shall continue in full force and effect as if WBRP had not defaulted under this Lease.

(iii) If a Leasehold Mortgagee is complying with this Section 11.1.2(d), upon the acquisition of WBRP's Leasehold Estate herein by such Leasehold Mortgagee or its designee or any other purchaser at a foreclosure sale or otherwise and the discharge of any lien, charge or encumbrance against WBRP's interest in this Lease or the Property which is junior in priority to the lien of the Leasehold Mortgage held by such Leasehold Mortgagee and which WBRP is obligated to satisfy and discharge by reason of the terms of this Lease, this Lease shall continue in full force and effect as if WBRP had not defaulted under this Lease.

(iv) For the purposes of this Section 11.1.2 the making of a Leasehold Mortgage shall not be deemed to constitute an assignment or transfer of this Lease or the Leasehold Estate, nor shall any Leasehold Mortgagee, as such, be deemed to be an assignee or transferee of this Lease or of the Leasehold Estate so as to require such Leasehold Mortgagee, as such, to assume the performance of any of the terms, covenants or conditions on the part of WBRP to be performed hereunder, but the purchaser at any sale of this Lease and of the Leasehold Estate in any proceedings for the foreclosure of any Leasehold Mortgage, or the assignee or transferee of this Lease and of the Leasehold Estate under any instrument of assignment or transfer in lieu of the foreclosure of any Leasehold Mortgage, shall be deemed to be an assignee or transferee within the meaning of this Section 11.1.2 and shall be deemed to have agreed to perform all of the terms, covenants and conditions on the part of WBRP to be performed hereunder from and after the date of such purchase and assignment. If the Leasehold Mortgagee shall become holder of the Leasehold Estate and if the Property shall have been or become materially damaged on, before or after the date of such purchase and assignment, the Leasehold Mortgagee or such designee shall be obligated to repair, replace or reconstruct the improvements only to the extent of the net insurance proceeds received by the Leasehold Mortgagee or such designee by reason of such damage. However, should such net insurance proceeds be insufficient to repair, replace or reconstruct the improvements to the extent required by Section 7.1 and should the Leasehold Mortgagee or such designee choose not to fully reconstruct the improvements to the extent required by Section 7.1, such failure shall entitle Lessor to terminate this Lease, and the net insurance proceeds shall be distributed to the parties in accordance with Section 6.7.

(v) Any Leasehold Mortgagee or other acquirer of the Leasehold Estate pursuant to foreclosure, assignment in lieu of foreclosure or other proceedings may, upon acquiring WBRP's Leasehold Estate, without further consent of Lessor, sell and



assign the Leasehold Estate on such terms and to such persons and organizations as are acceptable to such Leasehold Mortgagee or acquirer and thereafter be relieved of all obligations under this Lease; provided that the assignor shall have complied with all the requirements described in Section 11.1.2(d)(i)(A) above; and further provided such assignee has delivered to Lessor its written agreement to be bound by all of the provisions of this Lease, including any and all restrictions on further assignments, alienation, subletting, and further transfers of its interests hereunder.

(vi) Notwithstanding any other provisions of this Lease, any sale of this Lease and of the Leasehold Estate in any proceedings for the foreclosure of any Leasehold Mortgage, or the assignment or transfer of this Lease and of the Leasehold Estate in lieu of the foreclosure of any Leasehold Mortgage, shall be deemed to be a permitted sale, transfer or assignment of this Lease and of the Leasehold Estate.

(e) **Lessor's Obligation to Enter Lease With Leasehold Mortgagee After Termination.** In the event of the termination of this Lease as a result of WBRP's default, Lessor shall, in addition to providing the notices of default and termination as required by Sections 11.1.2(b) and (c), provide each Leasehold Mortgagee with written notice that the Lease has been terminated ("Final Termination Notice," which shall be provided to each Leasehold Mortgagee within thirty (30) days after Lessor has terminated the Lease), together with a statement of all sums which would at that time be due under this Lease but for such termination, and of all other defaults, if any, then known to Lessor. Lessor agrees to enter into a new lease ("New Lease") of the Property with the first position Leasehold Mortgagee or its designee for the remainder of the term of this Lease, effective as of the date of termination, at the same Rent and upon the terms, covenants and conditions of this Lease; provided:

(i) Such Leasehold Mortgagee shall make written request upon Lessor for such New Lease within thirty (30) days after the date such Leasehold Mortgagee receives Lessor's Final Termination Notice if any default specified in such notice can be cured by the payment of money or within sixty (60) days after the date such Leasehold Mortgagee receives Lessor's Final Termination Notice if no such default is capable of being cured by the payment of money.

(ii) Such Leasehold Mortgagee shall pay or cause to be paid to Lessor at the time of the execution and delivery of such New Lease, any and all sums which would at the time of execution and delivery thereof be due pursuant to this Lease (including interest as required under the terms of this Lease) but for such termination, and, in addition thereto, all reasonable expenses, including reasonable attorneys' fees, which Lessor shall have incurred by reason of such termination and the execution and delivery of the New Lease and which have not otherwise been received by Lessor from WBRP or other parties in interest under WBRP.

(iii) Such Leasehold Mortgagee or such designee shall agree to remedy any of WBRP's defaults of which said Leasehold Mortgagee was notified by Lessor's Final Termination Notice and which are reasonably capable of being so cured by Leasehold Mortgagee or such designee.

(iv) Any New Lease made pursuant to this Section 11.1.2(e) shall have the same priority with respect to any mortgage or other lien, charge or encumbrance on the fee of the Property as this Lease, and the WBRP under such New Lease shall have the same right, title and interest in and to the Property and any improvements thereon as WBRP had under this Lease as of the date of the New Lease.

(f) **New Lease with Most Senior Leasehold Mortgagee.** If more than one Leasehold Mortgagee shall request a New Lease pursuant to Section 11.1.2(e)(i), Lessor shall enter into such New Lease with the Leasehold Mortgagee whose Leasehold Mortgage is prior in lien. Lessor, without liability to WBRP or any Leasehold Mortgagee with an adverse claim, may rely upon a mortgagee title insurance policy issued by a responsible title insurance company doing business within the county in which the Property are located as the basis for determining the appropriate Leasehold Mortgagee who is entitled to such New Lease and the Leasehold Mortgagee which executes the New Lease shall indemnify, defend and hold Lessor harmless from and against any claims by WBRP or other Leasehold Mortgagees with respect to such determination.

(g) **Leasehold Mortgagee's Ability to Cure Defaults.** Nothing herein contained shall require any Leasehold Mortgagee as a condition to its exercise of rights hereunder to cure any default of WBRP which by its terms is not reasonably susceptible of being cured by such Leasehold Mortgagee or such designee in order to comply with the provisions of Sections 11.1.2(c), and (d) or as a condition of entering into the New Lease provided for by Section 11.1.2(e). The financial condition of any Leasehold Mortgagee or successor to WBRP's interest under this Lease or a New Lease shall not be a consideration in the determination of the reasonable susceptibility of cure of a default. No default or Event of Default, the cure of which, and no obligation of WBRP, the performance of which, requires possession of the Property shall be deemed reasonably susceptible of cure of performance by any Leasehold Mortgagee or successor to WBRP's interest under this Lease or a New Lease not in possession of the Property, provided such holder is otherwise complying with the requirements described in Section 11.1.2(d)(i) above, nor shall any Leasehold Mortgagee be required to cure the bankruptcy, insolvency or any related or similar condition of WBRP.

(h) **Condemnation Proceeds.** WBRP's share, as provided by Section 12.3 of this Lease, of the proceeds arising from an exercise of the power of eminent domain shall, subject to the provisions of such Section 12.3, be disposed of as provided for by any Leasehold Mortgage.

(i) **Leasehold Mortgagee's Rights to Insurance.** A Standard Mortgagee Loss Payee Clause naming each Leasehold Mortgagee may be added to any and all insurance policies required to be carried by WBRP hereunder on condition that the insurance proceeds are to be applied in the manner specified in this Lease and the Leasehold Mortgage shall so provide; except that the Leasehold Mortgage may provide a manner for the disposition of such proceeds, if any, otherwise payable directly to WBRP (but not such proceeds, if any, which are supposed to be payable jointly to the Lessor and WBRP) pursuant to the provisions of this Lease.

(j) **Leasehold Mortgagee's Right to Intervene.** Lessor shall give each Leasehold Mortgagee of which Lessor has notice prompt notice of any arbitration or legal proceedings between Lessor and WBRP involving obligations under this Lease. Each such Leasehold Mortgagee shall have the right to intervene in any such proceedings and be made a party to such proceedings, and the parties hereto do hereby consent to such intervention. No Leasehold Mortgagee which intervenes in any such proceeding shall be entitled to receive an award of attorneys' fees from Lessor. Any intervening Leasehold Mortgagee shall be bound by the outcome of such proceedings. In the event that any Leasehold Mortgagee shall not elect to intervene or become a party to any such proceedings, Lessor shall give the Leasehold Mortgagee notice of, and a copy of any award or decision made in any such proceedings, which shall be binding on all Leasehold Mortgagees not intervening after receipt of notice of such proceedings.

(k) **No Merger of Leasehold Estate and Fee Interest.** So long as any Leasehold Mortgage is in existence, unless all Leasehold Mortgagees shall otherwise expressly consent in writing or Lessor shall have terminated this Lease in accordance with the terms hereof, the fee title to the Property and the Leasehold Estate of WBRP therein created by this Lease shall not merge but shall remain separate and distinct, notwithstanding the acquisition of said fee title and said Leasehold Estate by Lessor or by WBRP or by a third party, by purchaser or otherwise.

(l) **Notices to Leasehold Mortgagees.** Notices from Lessor to the Leasehold Mortgagee shall be mailed to the address furnished Lessor pursuant to Section 11.1.1 and those from the Leasehold Mortgagee to Lessor shall be mailed to the address designated pursuant to the provisions of Article 14. Such notices, demand and requests shall be given in the manner described in Article 14 and shall in all respects be governed by the provisions of that Article.

(m) **Reservation of Rights to Correct Mistakes.** No payment made to Lessor by a Leasehold Mortgagee shall constitute agreement that such payment was, in fact, due under the terms of this Lease; and any Leasehold Mortgagee having made any payment to Lessor pursuant to Lessor's wrongful, improper or mistaken notice or demand shall be entitled to the return of any such payment or portion thereof provided written demand therefor shall have been delivered not later than one (1) year after the date of such payment.

(n) **Bankruptcy of Lessor or WBRP.** In the event of any proceeding by either Lessor or WBRP under the United States Bankruptcy Code (Title 11 U.S.C.) as now or hereafter in effect:

(i) If this Lease is rejected in connection with a bankruptcy proceeding by WBRP or a trustee in bankruptcy for WBRP, such rejection shall be deemed an assignment by WBRP to the Leasehold Mortgagee (or if there is more than one Leasehold Mortgagee, to the one highest in priority) of the Leasehold Estate and all of WBRP's interest under this Lease, in the nature of an assignment in lieu of foreclosure, and this Lease shall not terminate and the Leasehold Mortgagee shall have all the rights of the Leasehold Mortgagee under this Article 11 as if such bankruptcy proceeding had not occurred, unless such Leasehold Mortgagee shall reject such deemed assignment by notice in writing to Lessor within thirty (30) days following rejection of this Lease by WBRP or WBRP's trustee in bankruptcy. If

any court of competent jurisdiction shall determine that this Lease shall have been terminated notwithstanding the terms of the preceding sentence as a result of rejection by WBRP or the trustee in connection with any such proceeding, the rights of any Leasehold Mortgagee to a New Lease from Lessor pursuant to Section 11.1.2(e) hereof shall not be affected thereby.

(ii) If this Lease is rejected by Lessor or by Lessor's trustee in bankruptcy:

(A) WBRP shall not have the right to treat this Lease as terminated except with the prior written consent of all Leasehold Mortgagees; and the right to treat this Lease as terminated in such event shall be deemed assigned to each and every Leasehold Mortgagee, whether or not specifically set forth in any such Leasehold Mortgage, so that the concurrence in writing of WBRP and each Leasehold Mortgagee shall be required as a condition to treating this Lease as terminated in connection with such proceeding.

(B) If this Lease is not treated as terminated in accordance with Section 11.1.2(n)(i) above, then this Lease shall continue in effect upon all the terms and conditions set forth herein, including Rent, but excluding requirements that are not then applicable or pertinent to the remainder of the term hereof. Thereafter, WBRP or its successors shall be entitled to any offsets against rent payable hereunder for any damages arising from such rejection and any such offset properly made shall not be deemed a default under this Lease. The lien of any Leasehold Mortgage then in effect shall extend to the continuing possessory rights of WBRP following such rejection with the same priority with respect to each such Leasehold Mortgage as it would have enjoyed had such rejection not taken place.

(o) **Leasehold Mortgagee Protections Do Not Diminish Claims Against WBRP.** The rights of a Leasehold Mortgagee hereunder shall not diminish any right or claim of Lessor against WBRP.

**11.1.3 Assignment by Leasehold Mortgagee.** Notwithstanding any other provision of this Lease, if any Leasehold Mortgagee or other successor in interest shall acquire title to WBRP's interest in this Lease by foreclosure or other sale pursuant to a Leasehold Mortgage thereon or by assignment in lieu of foreclosure or by an assignment from a designee or wholly owned subsidiary corporation of such Leasehold Mortgagee, or under a New Lease pursuant to this Section 11.1, such Leasehold Mortgagee may assign such lease and shall thereupon be released from all liability for the performance or observance of the covenants and conditions in such lease contained on the WBRP's part to be performed and observed from and after the date of such assignment; provided that the assignee of such Leasehold Mortgagee shall have assumed such lease in accordance with Section 9.1; and, further provided that, if such Leasehold Mortgagee acquired its Leasehold Mortgage after completion of construction of the New Improvements, then such assignor shall be released only as follows:

(a) As a condition to such release, such assignor, at the time of such assignment, shall have complied with all the requirements described in Section 11.1.2(d)(i) above; and

(b) Such release shall not include any claims or obligations which arose during the period of possession by such assignor.

**Section 11.2 Tax Exempt Financing.** WBRP may elect to finance all or a portion of the costs to construct the New Improvements, or to refinance the costs of such construction, pursuant to tax-exempt bonds secured by the payment of rent under the Facilities Lease. Tax-exempt financing through the issuance of such bonds shall be permitted under this Lease, and the trustee of such bonds shall be a Leasehold Mortgagee under the provisions of Section 11.1 above.

**Section 11.3 Fee Mortgage.** Nothing contained herein shall impair the right of Lessor to mortgage or otherwise encumber its fee interest in the Property or its interest in this Lease, provided that each such mortgage or encumbrance shall be subject to this Lease and WBRP's rights and leasehold estate hereunder.

## ARTICLE 12.

### CONDEMNATION

**Section 12.1 Total Taking.** Lessor and WBRP agree that should the whole of the Property (i.e., both the Leasehold Interest therein and Lessor's fee simple interest) be taken (which term when used in this Article 12 shall include any conveyance in avoidance or settlement of condemnation or eminent domain proceedings) by the government of the United States, State of Washington, or any other government or power whatsoever, or by any corporation under the right of eminent domain, or should the whole of the Property and improvements be condemned by any court, city, state, county or governmental authority or office, department or bureau of the city, county, state, or United States, then this Lease shall terminate as of the date of taking of possession by the condemning authorities (following any applicable legal action and all appeals with respect to such right of possession) and the award will be allocated and distributed on the basis of a current valuation of each such party's interest in the Property.

**Section 12.2 Partial Taking.** Lessor and WBRP agree that should the fee simple title to a part of the Property be taken by the government of the United States, State of Washington, or any other government or power whatsoever, or by any corporation under the right of eminent domain, or should a part of the Property be condemned by any court, city, state, county or governmental authority or office, department or bureau of the city, county, state or United States, then in such event this Lease shall nevertheless continue in effect as to the remainder of the Property unless in Lessor's and WBRP's judgment so much of the Property shall be so taken or condemned as to make it economically unsound to attempt to use the remainder for the uses and purposes contemplated herein, in which latter event this Lease shall terminate as of the date of taking of possession by the condemning authority in the same manner as if the whole of the Property had been thus taken or condemned; provided, however, that if a Leasehold Mortgage then encumbers the Property this Lease shall not terminate without the prior written consent of the Leasehold Mortgagee. In the event of such taking or condemnation of a portion of the Property where this Lease is not terminated thereby under the provisions of the first sentence of this Section 12.2, Rent payable during the remainder of the term of this Lease after taking of possession by said condemning authority shall be reduced on a just and proportionate basis considering the relative value and square footage of the portion of the Property thus taken or

condemned as compared to the remainder thereof and taking into consideration the extent, if any, to which WBRP's use of the remainder of the Property shall have been impaired or interfered with by reason of such partial taking or condemnation.

**Section 12.3 Award.** If a part of the Property and improvements be taken under the power of eminent domain, or by condemnation proceedings and this Lease is terminated by reason of such partial taking, and no Work (as hereinafter defined) will have to be performed as a result thereof, then the award will be distributed to Lessor and WBRP in accordance with Section 12.1. If a part of the Property and improvements be taken under the power of eminent domain or by condemnation proceedings and this Lease is not terminated by reason of such partial taking, the award, including that made by reason of the taking of a portion (and the damages to the balance) of the improvements and appurtenances placed thereon by WBRP shall be distributed as follows:

**12.3.1** If the balance of said award or awards (including compensation for the New Improvements or other improvements or portions thereof taken, and damages, if any, to the parts of the New Improvements and other improvements not so taken) (herein sometimes referred to as "Condemnation Proceeds") shall be in an amount of Two Hundred Thousand Dollars (\$200,000) or less, such Condemnation Proceeds shall be paid to WBRP for application by WBRP to the Work (unless otherwise required by any Leasehold Mortgagee), or if an amount in excess of Two Hundred Thousand Dollars (\$200,000) shall be held and disbursed in accordance with Article 6.

**12.3.2** WBRP shall commence and thereafter proceed with reasonable diligence to repair, alter and restore the remaining part of the New Improvements or other improvements so as to constitute a functional commercial use, subject to such changes or alterations as WBRP and Lessor may reasonably agree to make (the "Work"); provided, that the obligation of WBRP to so repair and restore shall be limited to the Condemnation Proceeds. Should the cost of the Work be estimated by an architect reasonably acceptable to Lessor and WBRP to be in excess of the Condemnation Proceeds and WBRP fails to commence to repair, alter and restore the remaining part of New Improvements or other improvements within ninety (90) days after the amount of the Condemnation Proceeds is determined, Lessor shall have the option to terminate this Lease by giving written notice thereof to WBRP, subject, however, to the rights of any Leasehold Mortgagee as set forth in Section 11.1 and the right of WBRP to provide evidence reasonably satisfactory to Lessor that WBRP has secured financing sufficient to make up any shortfall. In the event of a termination of this Lease as a result of WBRP's failure to commence and perform the Work this Lease shall terminate and come to an end as though the date of the taking were the expiration date of the term of the Lease and the Condemnation Proceeds shall be allocated between Lessor and WBRP in the same manner as provided in Section 12.1.

**Section 12.4 Temporary Taking.** If the whole or any part of the Property or of WBRP's interest in this Lease shall be taken in condemnation proceedings or by any right of eminent domain for a temporary use or occupancy, the term of this Lease shall not be reduced or affected in any way and WBRP shall continue to pay in full the Rent. Except only to the extent that WBRP is prevented from so doing pursuant to the terms of the order of the condemning authority, WBRP shall continue to perform and observe all of the other covenants, agreements, terms, and provisions of this Lease as though such taking had not occurred. In the event of any such taking as in this Section 12.4 referred to, WBRP shall be entitled to receive the entire amount

of any award made for such taking whether such award is paid by way of damages, rent or otherwise, unless such period of temporary use or occupancy shall extend beyond the expiration date of the term of this Lease in which case such award, after payment to Lessor therefrom of the estimated cost of restoration of the Property to the extent that any such award is intended to compensate for damage to the Property, shall be apportioned by Lessor and WBRP as of such date of expiration in the same ratio that the part of the entire period for such compensation is made falling before the date of expiration and that part falling after, bear to such entire period.

**Section 12.5 Rights of Leasehold Mortgagee.** If any Leasehold Mortgages encumber the leasehold estate at the time of such taking, the Leasehold Mortgagees shall, to the extent permitted by law, be made a party to any condemnation proceeding, if any so desire.

**Section 12.6 Taking of Land Only.** Notwithstanding the other provisions of this Article 12, if the only portion of the Property taken is a portion of the Property not improved with buildings or other structures, then (a) upon such taking, Rent shall be reduced based upon the square footage of the land taken in relation to the square footage of the Property, and (b) 100% of the award shall be paid to Lessor.

#### ARTICLE 13.

##### WARRANTY OF PEACEFUL POSSESSION

Lessor represents and warrants that it is the sole fee simple owner of the Property and that the only exceptions to Lessor's title that might take priority or affect the Leasehold Interest granted hereunder are those shown on the Preliminary Title Commitment attached as Exhibit E. Lessor further represents and warrants that it has full power and authority to enter into this Lease without the need for the consent or approval of any other party, and that all necessary consents from managers and members of Lessor have been duly obtained, and that the person signing this Lease on behalf of Lessor has been duly authorized to do so. Subject to WBRP's performance of its duties and obligations hereunder, Lessor covenants and warrants that WBRP shall and may peaceably and quietly have, hold, occupy, use, and enjoy, all of the Property during the entire term of this Lease, and may exercise all of its rights hereunder, subject only to the provisions of this Lease.

#### ARTICLE 14.

##### NOTICE

Any notice, communication or reply (herein for convenience called "notice") in this instrument provided or permitted to be given, made or accepted by either party to any other party must be in writing and shall, unless otherwise in this instrument expressly provided, be given or be served by depositing the same in the United States mail, postage paid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same in person to such party, or by delivering the same by facsimile transmission with prompt telephonic confirmation of receipt. Notice shall be effective, unless otherwise stated in this Lease, upon delivery, or three (3) days following deposit in the U.S. mail in the manner set

forth above, or confirmation of delivery by facsimile transmission. For purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

If to Lessor, to:	City Investors XII L.L.C. 505 Union Station 505 Fifth Avenue South, Suite 900 Seattle, Washington 98104 Attention: Ada Healey Telephone: (206) 342-2010 Facsimile: (206) 342-3010
with a copy to:	Foster Pepper PLLC 1111 Third Avenue, Suite 3400 Seattle, Washington 98101 Attention: Michael D. Kuntz Telephone: (206) 447-4400 Facsimile: (206) 447-9700
If to WBRP, to:	WBRP 3.1 1213 Third Avenue, Suite 1403 Seattle, Washington 98101 Attention: John S. Finke Telephone: (206) 448-5244 Facsimile: (206) 448-5246
with a copy to:	Hillis Clark Martin & Peterson, P.S. 1221 Second Avenue, Suite 500 Seattle, Washington 98101 Attention: Steven R. Rovig Telephone: (206) 623-1745 Facsimile: (206) 623-7789
and a copy to:	Board of Regents of the University of Washington Real Estate Office 4333 Brooklyn Avenue NE Campus Box 359446 Seattle, Washington 98195 Telephone: (206) 616-3400 Facsimile: (206) 685-1547
and a copy to:	K&L Gates LLP 222 SW Columbia Street, Suite 1400 Portland, Oregon 97201 Attention: R. Gibson Masters Telephone: (503) 226-5799 Facsimile: (503) 553-6299

The parties shall have the right from time to time at any time to change their respective addresses, by providing written notice to the other party.

**ARTICLE 15.**

**COMPLIANCE WITH RECIPROCAL EASEMENT AND MAINTENANCE AGREEMENT**

Prior to the bond financing for the Phase 3.1 Project (including the Shared Underground Facilities), the Property shall become subject to a Reciprocal Easement and Maintenance Agreement creating the easements and establishing certain rights and obligations as described in Exhibit F attached hereto. WBRP and Lessor each consents to the recording of such Reciprocal Easement and Maintenance Agreement, and agrees that upon such recording, the rights of WBRP under this Lease shall be entitled to the benefits of and subject to the terms and conditions of such Reciprocal Easement and Maintenance Agreement. WBRP further agrees that upon the recording of such Reciprocal Easement and Maintenance Agreement, WBRP will perform or cause to be performed all of the duties and obligations of the Phase 3.2 Owner under such Reciprocal Easement and Maintenance Agreement for and during the term of this Lease. The obligations of WBRP to perform such duties and obligations of the Phase 3.2 Owner under such Reciprocal Easement and Maintenance Agreement shall constitute an assignment and delegation of such duties and obligations as contemplated by and as permitted under such Reciprocal Easement and Maintenance Agreement.

**ARTICLE 16.**

**ENTIRE CONTRACT AND NONWAIVER**

No variations, modifications, or changes herein shall be binding upon any party hereto unless executed by it or by a duly authorized officer or a duly authorized agent of the particular party. Lessor acknowledges that WBRP may be required to obtain the prior written consent of Leasehold Mortgagees or the University to any amendment hereof. No waiver or waivers of any breach or default of any breaches or defaults by either party of any term, condition, or liability of or performance by the other party of any duty or obligation hereunder including, without limitation, the acceptance by Lessor or payment by WBRP of any Rent at any time or in any manner other than as herein provided shall be deemed a waiver thereof, nor shall any such waiver or waivers be deemed or construed to be a waiver or waivers of subsequent breaches or defaults of any kind, character, or description under any circumstance.

**ARTICLE 17.**

**SIGNAGE**

WBRP shall have the right, at WBRP's cost and expense, to install, maintain, repair and replace on the Property all signage that WBRP deems necessary or appropriate in connection with WBRP's use of the Property, including exterior signage on the New Improvements or other improvements, and interior signage for any tenants under the Facilities Lease or any other sublease entered by WBRP in accordance with the terms hereof. All such signage shall be in

conformance with applicable governmental regulations and pursuant to all required permits. Unless otherwise instructed by Lessor, all exterior signage shall be removed by WBRP and at WBRP's sole cost and expense upon expiration or earlier termination of this Lease, and WBRP shall repair all damage to the buildings and other improvements associated with such removal.

**ARTICLE 18.**

**BINDING AGREEMENT**

This Lease shall be binding upon and shall inure to the benefit of Lessor and WBRP and their respective heirs, successors, permitted assigns and legal representatives.

**ARTICLE 19.**

**NO MERGER OF TITLE**

Except upon expiration of the term of this Lease or upon termination of this Lease pursuant to an express right to do so herein, there shall be no merger of this Lease nor of the leasehold estate created by this Lease with the fee estate in the Property or any part thereof by reason of the fact that the same person may acquire or own or hold, directly or indirectly, (a) this Lease or the leasehold estate created by this Lease or any interest in this Lease or in any such leasehold estate (including the New Improvements or any other improvement hereafter situated upon the Property), and (b) the fee estate in the Property or any part thereof or any interest in such fee estate (including the New Improvements or any other improvement hereafter situated upon the Property), unless and until all persons having any interest in this Lease or the leasehold estate created by this Lease, including but limited to any assignee of Lessor or WBRP, and also including any Leasehold Mortgagees and subtenants, shall join in a written instrument affecting such merger and shall duly record the same.

**ARTICLE 20.**

**DISPUTE RESOLUTION/ARBITRATION**

**Section 20.1 Dispute Resolution for Construction Matters.**

**20.1.1 Applicability; Joinder; Statute of Limitations.** All disputes, controversies and claims arising out of or relating to the construction of the New Improvements or other Major Improvements, Lessor's approval of Plans, and similar construction-related matters and any dispute regarding the determination of the Section 2.4.1 Early Termination Fee, the Section 2.4.2 Early Termination Fee or the Surrender Fee (each a "Matter in Dispute") shall be settled by the dispute resolution process as set forth in this Section 20.1. All statutes of limitations which would otherwise be applicable and any limitations upon claims set forth in this Agreement shall apply to any arbitration proceeding under this Section 20.1.

**20.1.2 Senior Management.** If a Matter in Dispute arises, the aggrieved party shall promptly notify the other party to this Agreement in writing of the dispute, and if such Matter in Dispute is based on an alleged continuing breach that can be cured or for which damages can be mitigated or otherwise jeopardizes the progress of the Project, such notification

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shall in any event be issued within thirty (30) days after the dispute arises. If the parties shall have failed to resolve the Matter in Dispute within fifteen (15) days after delivery of such notice, each party shall nominate a senior officer of its management with authority to bind such party to meet at a mutually agreed location to attempt to resolve the Matter in Dispute. Should the senior officers be unable to resolve the Matter in Dispute within fifteen (15) days of their nomination, the parties shall submit the Matter in Dispute to mediation as provided in Section 20.1.3 below as a condition precedent to pursuing other alternative dispute procedures.

**20.1.3 Mediation.** If a Matter in Dispute is submitted to mediation as provided under Section 20.1.2 above, the parties shall in good faith seek to agree upon a mediator to mediate the Matter in Dispute. In the event that the parties cannot mutually agree upon a mediator within fifteen (15) days from the date of the first written request for mediation made by either party, then either party may bring a motion requesting the Superior Court of the State of Washington in King County to select the mediator and the court-selected mediator shall determine what rules shall govern the mediation, provided, however, in no event shall such mandatory mediation be binding.

**20.1.4 Arbitration.** Should mediation fail to resolve the Matter in Dispute, such Matter in Dispute shall be decided by arbitration (rather than by litigation) in King County, Washington, by one arbitrator, who must be a person with substantial experience in the development or refurbishment of large commercial buildings in the City of Seattle, in accordance with the American Arbitration Association Construction Industry Arbitration Rules in effect as of the date of this Agreement (the "Arbitration Rules"), except as may be otherwise set forth in this Agreement and except that the arbitration shall be conducted under the auspices of the arbitrator rather than the American Arbitration Association. The issue of whether a claim is subject to arbitration shall be determined by the arbitrator. The agreement to arbitrate set forth in this Agreement shall be specifically enforceable under applicable law in any court having jurisdiction thereof.

The arbitration shall be commenced by delivery to the other party of a written demand for arbitration, which shall include a statement of the basis for the claim(s)/dispute(s). The demand for arbitration must be delivered no later than by the date when the initiation of legal or equitable proceedings would otherwise be barred by the applicable statute of limitation.

Lessor and WBRP, within five (5) business days of delivery of the arbitration demand, shall each designate a representative who is not an officer, employee or director of the parties. Those two representatives shall attempt to agree on the arbitrator. If, within five (5) business days of the designation of the two representatives (or expiration of the time for designation of representatives, whichever occurs first), the two representatives have not reached agreement on the arbitrator, then either party may, on six (6) business days notice, request the Superior Court of the State of Washington in King County to designate the arbitrator. Unless otherwise agreed by Lessor and WBRP, the arbitrator shall be a person with substantial experience in the development or refurbishment of large commercial buildings in the City of Seattle, with experience in arbitration of construction and property development disputes on at least two prior transactions involving projects with construction budgets in excess of \$10,000,000.

The arbitrator's fees and costs shall be borne equally by the parties during the course of the arbitration. However, the arbitrator shall require that the prevailing party be reimbursed for such fees as part of the arbitration award.

Notwithstanding any language above to the contrary, discovery in any arbitration shall be governed by the rules of procedure and evidence that would apply to cases litigated in the Superior Court of King County, Washington, unless Lessor and WBRP otherwise agree. The arbitrator shall convene a preliminary hearing within ten (10) business days of her/his designation to address scheduling, discovery and other matters under the Arbitration Rules.

The award rendered by the arbitrator shall be final and binding, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof.

If the Matter in Dispute is with respect to the determination of the Section 2.4.1 Early Termination Fee, the Section 2.4.2 Early Termination Fee or the Surrender Fee, the arbitration shall be conducted under the American Arbitration Association Commercial Arbitration Rules rather than the Construction Arbitration Rules.

**Section 20.2 Other Disputes.** Except as expressly set forth in Section 20.1 above, no disputes between Lessor and WBRP shall be subject to arbitration, and all such disputes shall be resolved by judicial process in accordance with applicable law.

## ARTICLE 21.

### MISCELLANEOUS

**Section 21.1 Applicable Law.** This Lease shall be construed and enforced in accordance with the laws of the State of Washington.

**Section 21.2 Construction.** The parties acknowledge that this Lease has been jointly drafted by Lessor and WBRP, following negotiations between them and their respective legal counsel. This Lease shall be construed according to the fair intent of the language as a whole, and not for or against either party.

**Section 21.3 Pronouns.** Pronouns, wherever used herein, and of whatever gender, shall include natural persons and partnerships, corporations and associations of every kind and character, and the singular shall include the plural and the plural the singular of all nouns and pronouns herein wherever applicable.

**Section 21.4 Severability.** If any term, covenant, or condition of this Lease (or part thereof) or the application thereof to any person or circumstance is, to any extent, invalid or unenforceable, the remainder of this Lease (and/or the remainder of any such term, covenant or condition), or the applicability of such term, covenant or condition to persons or circumstances other than those to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition (or part thereof) of this Lease shall be valid and be enforced to fullest extent permitted by law.

**Section 21.5 Relationship of Parties.** Nothing contained in this Lease shall be construed to create, nor shall either party represent the existence of, a partnership, a joint venture, an association, a corporation, a trust or other entity, nor to constitute either party the agent of the other.

**Section 21.6 Captions.** The table of contents, the index and the title or headings to the Articles and Sections of this Lease are not a part hereof and shall have no effect on the construction or interpretation of any term and provisions contained herein.

**Section 21.7 Recordation.** This Lease shall not be recorded, but simultaneously herewith, the parties hereto shall execute a Memorandum of Lease in the form attached hereto as Exhibit G and cause the same to be recorded in the real property records of King County, Washington.

**Section 21.8 Commissions.** Lessor and WBRP acknowledge and confirm that Washington Advisory Group, LLC ("WBRP's Broker") has acted as WBRP's Broker with respect to this Lease. WBRP shall be responsible for paying any commissions due WBRP's Broker in connection with this Lease. Each party represents and warrants to the other that it has engaged no other broker, agent or finder in connection with the negotiations leading to this Lease. WBRP and Lessor each hereby indemnify, defend and hold the other party harmless from and against any and all claims for commissions or fees from any other brokers, agents or finders arising by or through the actions of the indemnifying party.

**Section 21.9 Authority.** Each party hereto warrants that it has the authority to enter into this Lease and to perform its obligations hereunder and that all necessary corporate action to authorize this transaction has been taken, and the signatories, by executing this Lease, warrant that they have the authority to bind the respective parties.

**Section 21.10 Further Documents.** Upon request, the parties will execute such further documents as may be necessary in order to carry out the intent of this Lease.

**Section 21.11 Time of Essence.** Time is expressly declared to be of the essence of this Lease.

**Section 21.12 Amendments.** Any amendments, additions or modifications to this Lease shall be in writing, signed by Lessor and WBRP. Neither WBRP nor Lessor shall be bound by any verbal or implied agreements.

**Section 21.13 Computation of Time.** The word "day" means "calendar day" herein, and the computation of time shall include all Saturdays, Sundays and holidays for purposes of determining time periods specified herein.

**Section 21.14 Approvals, Consents.** Wherever in this Lease the approval or consent of a party is required, such approval or consent shall not be unreasonably withheld or delayed, except where expressly stated to the contrary in this Lease.

**Section 21.15 Single Purpose Entity.** The sole business and purpose of WBRP shall be to act as the ground lessee under this Lease, and sublease the Property to the University under the

Facilities Lease (or, upon expiration or earlier termination of the Facilities Lease, other approved subtenants as provided herein). WBRP shall engage in no other primary business or activity without the prior written consent of Lessor, such consent which may be withheld or conditioned in Lessor's sole discretion.

**Section 21.16 Exhibits.** Exhibit A through Exhibit G attached hereto are hereby incorporated herein and made a part of this Lease, and the term "Lease" shall include all exhibits hereto.

**Section 21.17 Personal Liability.** No personal liability or personal responsibility is assumed by, nor shall at any time be asserted or enforceable against any officer, director, employee or agent of Lessor or WBRP on account of this Lease or on account of any covenant, undertaking or agreement of such party under this Lease.

(signatures follow)

IN WITNESS WHEREOF, this Lease is made and entered into in multiple original counterparts, on the day and year first above written.

LESSOR: CITY INVESTORS XII L.L.C., a Washington limited liability company

By: City Investors LLC, a Washington limited liability company, managing member

By: [Signature]  
Its: Vice President

WBRP: WBRP 3.2, a Washington non-profit corporation

By: [Signature]  
John Finke, its Vice President

STATE OF WASHINGTON  
COUNTY OF KING

ss.

I certify that I know or have satisfactory evidence that Ada M. Healey is the person who appeared before me, and said person acknowledged that said person signed this instrument, on oath stated that said person was authorized to execute the instrument and acknowledged it as the Vice President of City Investors LLC, a limited liability company, the managing member of CITY INVESTORS XII L.L.C., a limited liability company, to be its free and voluntary for the uses and purposes mentioned in the instrument.

Dated this 30th day of July, 2010.



[Signature]  
(Signature of Notary)

Michael D Kuntz  
(Legibly Print or Stamp Name of Notary)  
Notary public in and for the State of Washington,  
residing at Wood Point  
My appointment expires 1-11-14

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**FIRST AMENDMENT TO GROUND LEASE  
(Phase 3.2)**

THIS FIRST AMENDMENT TO GROUND LEASE (this "Amendment") is made and entered into as of this 1<sup>st</sup> day of December, 2010, by and between CITY INVESTORS XII L.L.C., a Washington limited liability company ("Lessor") and WBRP 3.2, a Washington non-profit corporation ("WBRP"), with respect to that certain Ground Lease between Lessor and WBRP dated as of July 30, 2010 (the "Phase 3.2 Lease"). Capitalized terms not defined herein shall have the meanings set forth in the Phase 3.2 Lease.

**RECITALS**

A. Lessor is the owner of certain real property situated in the City of Seattle, King County, Washington, more particularly described in the Phase 3.2 Lease as the Phase 3.2 Property.

B. Lessor has processed with the City of Seattle a lot boundary adjustment to alter the size and configuration of the Phase 3.1 Property, the Phase 3.2 Property and the Phase 3.3 Property to facilitate development of the Phase 3.1 Project, the Phase 3.2 Project and the Phase 3.3 Project (which lot boundary adjustment was recorded on October 20, 2010 under Recording Number 20101020900007) (the "Lot Boundary Adjustment").

C. Lessor, WBRP, Washington Biomedical Research Facilities 3, a Washington non-profit corporation (formerly known as WBRP 3.1), WBRP 3.3, a Washington non-profit corporation, City Investors LLC, a Washington limited liability company, and The Board of Regents of the University of Washington entered into that certain Mutual Cooperation Agreement dated as of July 30, 2010 (the "Mutual Cooperation Agreement") pursuant to which the parties agreed to modify certain provisions of the Phase 3.1 Lease, the Phase 3.2 Lease and the Phase 3.3 Lease upon the recording of the Lot Boundary Adjustment.

D. Therefore WBRP and Lessor desire to amend the Phase 3.2 Lease to reflect the altered size and configuration of the Phase 3.2 Property, to adjust the Rent as provided in the Mutual Cooperation Agreement and to make certain other amendments to the Phase 3.2 Lease.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, Lessor and WBRP hereby agree as follows:

**AGREEMENT**

1. Replacement of Legal Descriptions. Exhibit A to the Phase 3.2 Lease shall be deleted and Exhibit A-1 to this Amendment shall be substituted in lieu thereof as the legal description of the Phase 3.2 Property, and all references to Exhibit A in the Phase 3.2 Lease shall be deemed references to Exhibit A-1. Exhibit B to the Phase 3.2 Lease shall be deleted and Exhibit B-1 to this Amendment shall be substituted in lieu thereof as the legal description of the Phase 3.1 Property, and all references to Exhibit B in the Phase 3.2 Lease shall be deemed references to Exhibit B-1. Exhibit C to the Phase 3.2 Lease shall be deleted and Exhibit C-1 to this Amendment shall be substituted in lieu thereof as the legal description of the Phase 3.3 Property, and all references to Exhibit C in the Phase 3.2 Lease shall be deemed references to Exhibit C-1.

2. Adjustment of Rent. Section 4.2, Section 4.3 and Section 4.4 of the Phase 3.2 Lease are hereby deleted in their entirety and replaced with the following:

**"Section 4.2 Initial Rent.** Beginning on the Rent Commencement Date, and continuing until the last day of the Fifth Lease Year, Rent will be due and payable at the rate of \$713,182.50 per annum (\$59,431.88 per month).

**Section 4.3 Sixth Lease Year.** Beginning on the first day of the Sixth Lease Year, Rent shall increase to \$826,578.52 per annum (\$68,881.54 per month) (representing a 15.9% increase over the Rent in effect for the Fifth Lease Year).

**Section 4.4 Eleventh Lease Year.** Beginning on the first day of the Eleventh Lease Year, annual Rent shall be increased to equal the greater of (a) \$958,004.50 per annum (\$79,833.71 per month) (representing a 15.9% increase over the Rent in effect for the Tenth Lease Year), or (b) 9% multiplied by the Land Value (defined in Section 4.9.3)."

3. Adjustment of Extension Fees. The parties agree that the First Extension Fee and the Second Extension Fee are intended to be a pro rata share of an aggregate extension fee for the Phase 3.1 Lease, the Phase 3.2 Lease and the Phase 3.3 Lease based on the relative square footage of land in each of the Phase 3.1 Property, the Phase 3.2 Property and the Phase 3.3 Property. Accordingly, Section 2.3.1 of the Phase 3.2 Lease is hereby deleted in its entirety and replaced with the following:

**"2.3.1 Exercise of Extension Rights; Extension Fees.** WBRP may extend the term of this Lease to May 31, 2063 (the "First Extension"). To exercise the First Extension, WBRP must give written notice of exercise of the First Extension to Lessor on or before December 31, 2015. For the exercise of the First Extension to be effective, the notice of exercise of the First Extension must be accompanied by a payment by WBRP to Lessor of an extension fee of \$921,580.86 (the "First Extension Fee").

If and only if WBRP has exercised the First Extension, then WBRP may extend the term of this Lease to May 31, 2068 (the "Second Extension"). To exercise the Second Extension, WBRP must give written notice of exercise of the Second Extension to Lessor on or before December 31, 2019. For the exercise of the Second Extension to be

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effective, the notice of exercise of the Second Extension must be accompanied by a payment by WBRP to Lessor of an extension fee of \$217,384.04 (the "Second Extension Fee").

The First Extension Fee and the Second Extension Fee shall be fully earned by Lessor when paid.

In the event a notice required by this Section 2.3.1 is not timely given, the extension rights of WBRP under this Section 2.3 shall automatically terminate without further notice or demand from Lessor."

4. Further Assurances. WBRP and Lessor each agrees to execute and deliver such further documents as may be necessary to carry out the intent of this Amendment.

5. Amendment to Memorandum of Lease. WBRP and Lessor hereby agree to execute, deliver and record the First Amendment to Memorandum of Ground Lease attached hereto as Exhibit D to conform the Memorandum of Ground Lease of the Phase 3.2 Lease as modified by this Amendment.

6. Consent of Lender. WBRP represents and warrants to Lessor that all necessary approvals and consents required by WBRP's lender in connection with this Amendment, if any, have been obtained. WBRP shall provide copies of all such consents to Lessor, at no cost to Lessor.

7. Consent to Amendment to the Facilities Lease. Lessor hereby consents to amendments to the Facilities Lease and other documents related thereto to the extent such amendments are related to the matters set forth herein, provided that WBRP shall provide complete copies of all such amendments to Lessor upon their mutual execution, at no cost to Lessor.

8. Continued Effect. Except as specifically modified hereby, the Phase 3.2 Lease is and shall remain in full force and effect.

9. Invalidity. If any provision of this Amendment shall be held to be invalid, illegal or unenforceable, the remaining provisions shall in no way be affected or impaired thereby.

10. Authority. Each individual executing this Amendment on behalf of WBRP or Lessor respectively, represents and warrants that s/he is duly authorized to execute and deliver this Amendment on behalf of such entity, and that this Amendment shall be binding upon said entity in accordance with its terms.

11. Counterparts. This Amendment may be executed in counterparts and each counterpart shall constitute an original document and all such counterparts shall constitute but one and the same instrument.

[Remainder of page intentionally left blank; signatures follow]

[Signature page to First Amendment to Ground Lease (Phase 3.2)]

IN WITNESS WHEREOF, this Amendment is made and entered into in multiple original counterparts, on the day and year first above written.

LESSOR: CITY INVESTORS XII L.L.C., a Washington limited liability company

By: City Investors LLC, a Washington limited liability company, managing member

By: [Signature]  
Its: Vice President

WBRP: WBRP 3.2, a Washington non-profit corporation

By: [Signature]  
Its: VICE PRESIDENT

- Exhibits
- Exhibit A-1 Revised Legal Description of Phase 3.2 Property
- Exhibit B-1 Revised Legal Description of Phase 3.1 Property
- Exhibit C-1 Revised Legal Description of Phase 3.3 Property
- Exhibit D Form of Memorandum of First Amendment to Phase 3.2 Ground Lease

APPENDIX B

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTAL INFORMATION FOR THE YEARS  
ENDED JUNE 30, 2014 AND 2013 FOR THE UNIVERSITY

(SEE ATTACHED)

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**UNIVERSITY OF WASHINGTON**

Supplementary Information

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
Suite 2900  
1918 Eighth Avenue  
Seattle, WA 98101

## **Independent Auditors' Report on Supplementary Information**

The Board of Regents  
University of Washington:

We have audited the financial statements of the business-type activities of the University of Washington, an agency of the State of Washington, as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon dated October 31, 2014, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to October 31, 2014.

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

This report is intended solely for the information and use of the Board of Regents and management of the University of Washington and rating agencies and bondholders who have previously received the financial statements of the University of Washington as of and for the years ended June 30, 2014 and 2013, and our unmodified opinion thereon, for use in evaluating those financial statements, and is not intended to be and should not be used for any other purpose.

**KPMG LLP**

November 14, 2014

**UNIVERSITY OF WASHINGTON**

Reconciliation of Total University Revenue to General Revenue

Years ended June 30, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
General revenue:		
Total revenue	\$ 4,953,409	4,601,792
Less:		
State appropriations	262,146	218,165
Grant and contract direct costs	1,080,088	1,109,871
Gifts	117,071	101,823
Revenues of component units	161,247	171,238
Student activities fees and U-Pass fees	43,539	40,082
Student technology fees, student building fees, student loan funds	71,576	66,726
Trust and endowment income, net unrealized gains on noninvested funds investments, metro tract net operating income, component unit investment income, and other restricted investment income	440,903	324,901
Capital appropriations	7,693	47,123
Capital grants, gifts and other	26,156	26,763
Other nonoperating revenues (expenses)	42,816	(19,780)
Gifts to permanent endowments	55,541	57,882
Total general revenue	\$ <u>2,644,633</u>	<u>2,456,998</u>
General revenue components:		
Student tuition and fees (less student activities fees, U-Pass fees, technology fees, building fees, and loan funds)	\$ 733,815	711,056
Grant and contract indirect costs	242,773	246,502
Invested funds distribution and net invested funds unrealized gains and losses (note 2)	39,742	16,340
Sales and services of educational departments	212,592	198,320
Auxiliary systems and patient services	1,332,929	1,194,740
Other operating revenues	82,782	90,040
Total general revenue	\$ <u>2,644,633</u>	<u>2,456,998</u>

See accompanying notes to supplementary information.

**UNIVERSITY OF WASHINGTON**

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

June 30, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Total University unrestricted net position per financial statements	\$ 1,738,643	1,598,927
Less:		
Auxiliary fund balances:		
Student and activities fees	19,280	18,542
Component units:		
Association of University Physicians	85,788	93,345
UW Neighborhood Clinics	10,705	9,449
Real estate entities	<u>7,879</u>	<u>17,981</u>
Total to be excluded	<u>123,652</u>	<u>139,317</u>
General net position	<u>\$ 1,614,991</u>	<u>1,459,610</u>

See accompanying notes to supplementary information.



# UNIVERSITY OF WASHINGTON

## Notes to Supplementary Information

June 30, 2014 and 2013

### (1) **Basis of Presentation**

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

- a) Appropriations to the University by the State of Washington (State) from the State's General Fund;
- b) Each fund the purpose of which has been restricted in writing by the terms of the gift or grant under which such fund has been donated, or by the donor thereof;
- c) Fees imposed upon students as a condition of enrollment at the University, including but not limited to services and activities fees, building fees (Building Fees) and technology fees; and
- d) Revenues and receipts attributable to the Metro Tract Revenue, which are appropriated to the University by the State.

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

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

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

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## UNIVERSITY FACTS

	FISCAL YEAR 2014 Academic Year 2013-2014	FISCAL YEAR 2009 Academic Year 2008-2009	FISCAL YEAR 2004 Academic Year 2003-2004
<b>STUDENTS</b>			
<b>Autumn Enrollment<sup>1</sup></b>			
Undergraduate	37,895	34,076	32,355
Graduate	13,177	11,453	10,591
Professional	2,000	1,847	1,803
<b>TOTAL</b>	<b>53,072</b>	<b>47,376</b>	<b>44,749</b>
Extension course and conference registrations	75,412	62,447	39,263
<b>Number of Degrees Awarded</b>			
Bachelor's	9,921	8,458	8,517
Master's	3,925	2,988	2,797
Doctoral	762	686	530
Professional	563	495	475
<b>TOTAL</b>	<b>15,171</b>	<b>12,627</b>	<b>12,319</b>
<b>FACULTY</b> <sup>1</sup> (Professorial, Instructional, Research)	4,497	4,101	3,553
<b>FACULTY AND STAFF</b> <sup>2</sup>	26,538	24,808	19,611
<b>RESEARCH FUNDING – ALL SOURCES</b> (in thousands of dollars)	\$ 1,385,000	\$ 1,150,000	\$ 954,000
<b>SELECTED REVENUES</b> (in thousands of dollars)			
Patient Service and Other Medical-Related Revenues <sup>3</sup>	\$ 2,042,029	\$ 1,035,731	\$ 720,692
Gifts, Grants, and Contracts	1,392,561	1,123,751	957,863
Tuition and Fees <sup>4</sup>	838,796	458,061	304,189
Auxiliary Enterprises and Other Revenues	556,191	323,632	248,931
Investment Income (loss)	480,645	(469,492)	219,831
State Appropriations	262,146	384,810	309,618
<b>SELECTED EXPENSES</b> (in thousands of dollars)			
Medical Related <sup>5</sup>	\$ 1,831,649	\$ 949,186	\$ 729,003
Instruction, Academic Support, and Student Services	1,377,126	1,207,061	806,749
Research and Public Service	807,863	673,322	576,607
Institutional Support and Physical Plant	425,004	321,020	248,986
Auxiliary Enterprises	285,561	170,602	124,020
<b>CONSOLIDATED ENDOWMENT FUND</b> <sup>5</sup> (in thousands of dollars)	\$ 2,833,000	\$ 1,649,000	\$ 1,208,000
<b>SQUARE FOOTAGE</b> <sup>6</sup> (in thousands of square feet)	21,836	18,036	17,493

<sup>1</sup> Headcount

<sup>2</sup> Full time equivalents

<sup>3</sup> Includes Valley Medical Center and Northwest Hospital (2014 only)

<sup>4</sup> Net of scholarship allowances of \$139,776,000 in 2014, \$82,813,000 in 2009 and \$46,519,000 in 2004

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

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



KPMG LLP  
Suite 2900  
1918 Eighth Avenue  
Seattle, WA 98101

## INDEPENDENT AUDITORS' REPORT

The Board of Regents  
University of Washington:

We have audited the accompanying financial statements of the business-type activities of the University of Washington (the University), an agency of the state of Washington, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, as well as its discretely presented component units as of and for the years ended June 30, 2014 and 2013.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

As discussed in note 1, the financial statements of the University of Washington, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the University of Washington and its discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014 and 2013, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.



### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended, and the financial position of its discretely presented component units as of June 30, 2014 and 2013, and the changes in their financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

### Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**KPMG LLP**

Seattle, Washington  
October 31, 2014

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington (University) for the years ended June 30, 2014 and 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes that follow this section.

### Financial Highlights for Fiscal Year 2014

The University recorded an increase in net position of \$478 million in fiscal year 2014; \$55 million more than the fiscal year 2013 increase of \$423 million. This is primarily related to an increase in investment income of \$140 million in fiscal year 2014, a result of increased investment market values during the year. The University adjusts the carrying value of investments to market value each year, with the change recorded as investment income or loss. Revenues from tuition and patient services continued to show growth during 2014, while revenues from research activities decreased slightly.

#### Key Financial Results for Fiscal Years 2014, 2013 and 2012

(in millions)	2014	2013	2012
Total operating revenues	\$ 3,914	\$ 3,783	\$ 3,522
Total operating expenses	4,384	4,121	3,911
Operating loss	(470)	(338)	(389)
State appropriations	262	218	218
Investment income	481	341	34
Gifts	191	178	152
Other nonoperating revenue (expense), net	14	24	(1)
Increase in net position	478	423	14
Net position, beginning of year	6,165	5,742	5,728
<b>Net position, end of year</b>	<b>\$ 6,643</b>	<b>\$ 6,165</b>	<b>\$ 5,742</b>

Operating revenues minus operating expenses typically result in an operating loss in the University's financial statements. Nonoperating items, however, including state support, investment income, and gifts have typically enabled the University to reflect an increase in the net position, or "equity" each year. This surplus has been reinvested within the University to add a margin of educational excellence, upgrade the University's facilities and provide a prudent reserve for contingencies such as the recent period of economic instability.

### Economic Factors Affecting the Future

A number of contingencies face the University over the next few years. The slow economic recovery is a primary source of uncertainty.

The state of Washington, which provided 5% of the University's total revenues in fiscal year 2014, continues to emerge from the recession. The effect of required increases to K-12 funding over the next several years, together with other economic factors such as slow growth and insufficient tax revenues, could result in added uncertainty for other state programs, including higher education.

The University's 2015 general operating appropriation from the state (excluding amounts appropriated for specific purposes) is approximately \$246 million, a slight decrease from 2014, which was \$40 million higher than the prior year.

In exchange for biennial increases in state funding, the University committed to freezing tuition rates for resident undergraduate students. The University's Board of Regents continues to have broad tuition and fee setting authority, including undergraduate resident tuition. State funding for capital appropriations continues to be under pressure, though some state bonding capacity was provided this biennium for critical renovation projects.

Since 2009, Federal ARRA funding for basic research and activities in the health sciences has totaled \$368 million. The University has \$15 million of unspent ARRA awards that will be expended in fiscal year 2015 or later. The federal budget remains under significant pressure; ongoing federal funding for research could be impacted.

Rising benefit costs, particularly for healthcare and pensions, continue to impact the University as well. Employer pension funding rates for the state pension increased 28% to 9.2% of covered salary during fiscal year 2014, and are likely to continue increasing over the next few years.

In March 2010, healthcare reform was passed by the U.S. Congress and signed into law by President Obama. While the major changes in coverage took effect beginning in 2014, there may be significant changes by the state and federal government to implementation plans for healthcare reform still occurring in this next fiscal year. Thus, the environment in which healthcare organizations currently operate is dynamic and uncertain.

### Using the Financial Statements

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

On January 1, 2010, the University affiliated with Northwest Hospital & Medical Center (Northwest Hospital). GASB standards require that this entity be presented as a discrete component unit; therefore, its financial position at June 30, 2014 and 2013, and the results of its operations for the years ended June 30, 2014 and 2013, are included with Valley Medical Center in a separate column for financial statement presentation purposes (see Note 1 and Note 18 to the Financial Statements).

On July 1, 2011, the University affiliated with Valley Medical Center, a Washington public hospital district which owns and operates a 321-bed full-service acute care hospital and 45 clinics located throughout southeast King County. Valley Medical Center

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

is also being reflected as a discrete component unit; therefore its financial position and the results of its operations are included with Northwest Hospital in a separate column for financial statement presentation purposes (see Note 1 and Note 18 to the Financial Statements).

The analysis presented below includes the consolidated balances of the University of Washington and its blended component units (see Note 1), but excludes the financial position and results of operations of its discrete component units (Northwest Hospital and Valley Medical Center), unless otherwise noted.

### Financial Health

#### STATEMENTS OF NET POSITION

The Statements of Net Position present the financial condition of the University at the end of the last two fiscal years and report all assets, liabilities and deferrals of the University. A summarized comparison of the University's assets, liabilities, deferred outflows and net position as of June 30, 2014, 2013 and 2012, follows:

(in millions)	2014	2013	2012
Current Assets	\$ 1,537	\$ 1,459	\$ 1,161
Noncurrent assets:			
Capital assets, net	4,045	3,976	3,618
Other	4,317	3,732	3,624
Total assets	9,899	9,167	8,403
Deferred Outflows	14	-	-
Total Assets and Deferred Outflows	9,913	9,167	8,403
Current liabilities	872	729	728
Noncurrent liabilities	2,398	2,273	1,933
Total liabilities	3,270	3,002	2,661
<b>Net position</b>	<b>\$ 6,643</b>	<b>\$ 6,165</b>	<b>\$ 5,742</b>

The excess of current assets over current liabilities of \$665 million in 2014 and \$730 million in 2013 reflects the continuing ability of the University to meet its short-term obligations. Current assets consist primarily of cash, short-term investments and accounts receivable. Current assets increased \$78 million in 2014, due primarily to a year-end receivable from Sound Transit for revenue to mitigate capital costs associated with relocating University research activities impacted by the Light Rail tunnel beneath campus. Current assets increased \$298 million in 2013, due to increases in the value of cash and short-term investments. The short-term portion of the University's investment portfolio can fluctuate based upon changes in investment mix and the expected short-term needs for University funds.

Long-term investments, a component of noncurrent assets, increased \$591 million during 2014 and \$91 million during 2013, as a result of market value changes during each year for the University's investments. Realized and unrealized gains in fiscal year 2014 totaled \$398 million, versus \$264 million of realized and unrealized gains in 2013.

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

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

The University's net position at June 30, 2014, 2013 and 2012 is summarized as follows:

(in millions)	2014	2013	2012
Net investment in capital assets	\$ 2,018	\$ 2,038	\$ 2,113
Restricted:			
Nonexpendable	1,257	1,183	1,116
Expendable	1,629	1,345	1,162
Unrestricted	1,739	1,599	1,351
<b>Total net position</b>	<b>\$ 6,643</b>	<b>\$ 6,165</b>	<b>\$ 5,742</b>

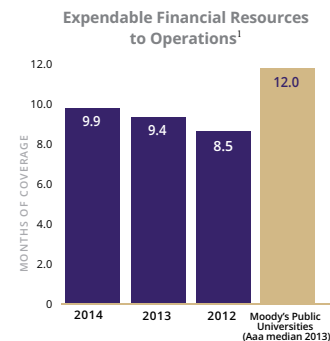
Net investment in capital assets decreased \$20 million, or 1%, in 2014, and \$75 million, or 4%, in 2013. This balance increases as debt is paid off or when the University funds fixed asset purchases without financing. This balance decreases as assets are depreciated.

Restricted nonexpendable net position increased \$74 million, or 6%, in 2014, and \$67 million, or 6%, in 2013. For both years the increase reflects the receipt of new endowment gifts, and the recovery of unrealized losses on underwater endowments due to increases in market values during the year.

Restricted expendable net position increased \$284 million, or 21%, in 2014, and \$183 million, or 16%, in 2013. This category is primarily affected by new operating and capital gifts, and earnings or losses on restricted investments, including endowments. The increase in market value for the Consolidated Endowment Fund was the main reason for the increase during both years.

Unrestricted net position increased by \$140 million, or 9%, in 2014, due primarily to unrealized earnings on the Diversified Investment Pool, and revenue from Sound Transit to mitigate capital costs associated with relocating University research activities impacted by the Light Rail tunnel beneath campus. Unrestricted net position increased \$248 million or 18%, in 2013, due in part to auxiliary and medical-related margins, as well as overall conservative spending.

The ratio of expendable financial resources to operations (as defined by Moody's Investors Service) measures the strength of net position as the coverage of annual operating expenses by financial resources that are ultimately expendable. This ratio, illustrated in the chart below, shows that in 2014 the University had enough expendable resources from various sources to fund operations for a period of 9.9 months.



#### Endowment and Other Investments

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

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

The CEF has experienced considerable growth over the past 10 years due to new gifts and endowment returns. The number of individual endowments in the CEF has grown to 4,211 and the market value of the CEF has doubled, rising from \$1.4 billion at June 30, 2005 to \$2.8 billion at June 30, 2014.

The impact to program support has been substantial, with \$783 million distributed over the past 10 years touching every part of the University. Programs supported by endowment returns include academic programs, scholarships, fellowships, professorships, chairs and research activities. Under the Board of Regents' approved long-term spending policy for the CEF, quarterly distributions to programs are made based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. An additional 1% is distributed to support fundraising and stewardship activities (0.80%) and investment management (0.20%). Similar to program distributions, the fee is based on the endowment's five-year average market value.

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 University of Washington Investment Committee (UWINCO), establishes the policy asset allocation judged to be most appropriate for the University from a long-term potential return and risk perspective. The policy asset allocation is reviewed annually for its continuing fit with the University's risk profile and with consideration of the changing dynamics of the capital markets.

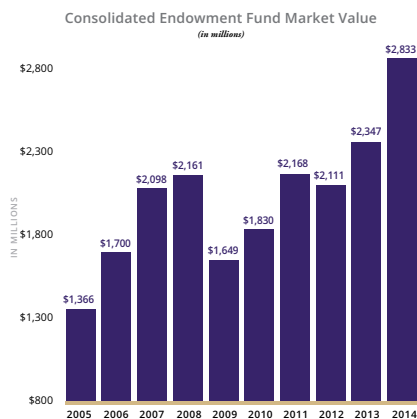
The CEF asset allocation includes two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2014, 75% of the CEF was invested in Capital Appreciation and 25% in Capital Preservation.

For the fiscal year ended June 30, 2014, the CEF earned an investment return of +15.8%, representing strong absolute performance but underperforming a passive blended benchmark (70% MSCI ACWI and 30% BC Govt Bond). Individual CEF strategy performance was mixed, but relative performance was most negatively impacted by Emerging Markets, which experienced another difficult year with geopolitical instability and slowing growth in China. Emerging Markets, however, have begun turning around and remain the top-performing asset class over the past decade. Intermediate-term returns for the CEF have improved substantially as the 2008-09 global financial crisis rolls off, resulting in a five-year average of +11.2%. Performance over the ten-year period remains solid, with the CEF returning an annual average of +8.0%.

<sup>1</sup> The sum of Unrestricted Net Position and Restricted Expendable Net Position, divided by Total Operating Expenses (Operating Expenses plus interest expense). The result is multiplied by 12 to arrive at months of coverage. Net Position amounts include Northwest Hospital and Valley Medical Center.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

A portion of the University's operating funds are invested in the CEF. As of June 30, 2014 these funds comprise \$669 million of the CEF market value.

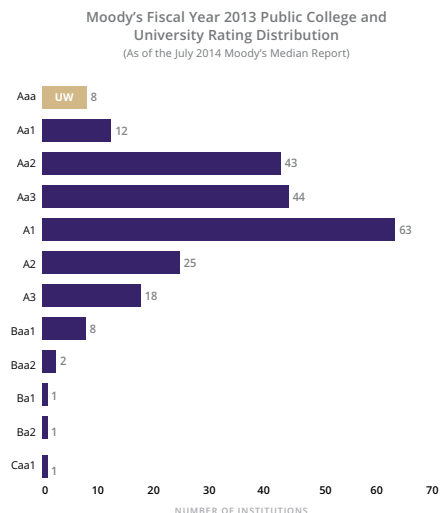


### Debt and Related Capital Improvements

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

Credit ratings are a reflection of the University's strength. During fiscal year 2014, the University was rated Aaa (the highest rating) by Moody's Investors Service and AA+ (with a positive outlook) by Standard & Poor's. These strong ratings carry substantial advantages for the University: continued and wider access to capital markets when the University issues debt, lower interest rates on bonds and the ability to negotiate favorable bond terms.

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



In September 2013, the University issued \$146 million of General Revenue Bonds with an average coupon rate of 4.96%.

In January 2014, the University refunded Lease Revenue bonds with an average interest rate of 5.07%, with \$29 million in tax-exempt bonds with an average interest rate of 4.37%.

During fiscal year 2014, debt-related capital expenditures included \$63 million for the renovation and expansion of Husky Stadium, \$52 million for the construction of new student housing and \$38 million for the construction of a new academic building at the UW Bothell Campus.

Key projects substantially completed in 2014 include:

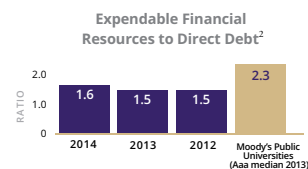
Major renovation of Husky Stadium, including demolition and relocation of the stadium's original lower seating bowl and significant upgrades to other areas including a new south grandstand. The project also included development of a Football Operations Support Building, relocation of the track and other related improvements, and coordination with the construction for the Sound Transit Station and Tunnel.

New residence hall and apartments built as part of Phase 2 of the Housing Master Plan.

New academic building at the UW Bothell Campus which includes a mix of instructional spaces, laboratory facilities, faculty offices and support spaces for at least 600 new student FTEs.

During fiscal year 2013, debt-related capital expenditures included \$147 million for the renovation and expansion of Husky Stadium, \$116 million for construction of new student housing, \$24 million for the expansion of UWMC, and \$19 million for the renovation of the Husky Union Building.

One measure of the University's ability to repay debt is the ratio of expendable resources to debt. The 2014 ratio of expendable financial resources to debt (as defined by Moody's) shows that the University has sufficient expendable resources to pay its long-term debt obligations 1.6 times over.

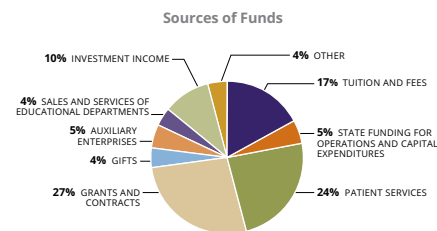


### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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, 2014, 2013 and 2012 follows:

(in millions)	2014	2013	2012
Total operating revenues	\$ 3,914	\$ 3,783	\$ 3,522
Total operating expenses	4,384	4,121	3,911
Operating loss	(470)	(338)	(389)
Nonoperating revenues, net of expenses	859	630	317
Other revenues	89	131	86
Increase in net position	478	423	14
Net position, beginning of year	6,165	5,742	5,728
<b>Net position, end of year</b>	<b>\$ 6,643</b>	<b>\$ 6,165</b>	<b>\$ 5,742</b>

The University has a diversified revenue base. No single source generated more than 27% of the total fiscal year 2014 revenues of \$5.0 billion.



The following table summarizes revenues from all sources for the years ended June 30, 2014, 2013 and 2012:

(in millions)	2014	2013	2012
Tuition and fees	\$ 839	\$ 808	\$ 681
Patient services	1,207	1,162	1,098
Grants and contracts	1,327	1,364	1,353
Sales and services of educational departments	213	198	186
Auxiliary enterprises	261	184	161
State funding for operations	262	218	218
Gifts	191	178	152
Investment income	481	341	34
State funding for capital projects	8	47	6
Other	164	122	95
<b>Total revenue - all sources</b>	<b>\$ 4,953</b>	<b>\$ 4,622</b>	<b>\$ 3,984</b>

Beginning in fiscal year 2014, UW Medicine information technology began operating as a self-sustaining activity of the University (ITS department). Capital and operating costs are being recorded centrally and recovered through user fees charged to the consumers

<sup>2</sup> The sum of Unrestricted Net Position and Restricted Expendable Net Position, divided by total capital lease obligations, bonds and notes payable outstanding. Includes Northwest Hospital and Valley Medical Center.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

of technology resources, primarily UWMC and Harborview Medical Center (HMC). As a result, the University has recorded \$60 million of user fees for services provided to external parties, primarily HMC, which are reflected as Auxiliary Enterprises revenue in fiscal year 2014.

### Grant Revenue

The largest source of revenue (27%) continues to be grants and contracts. This revenue decreased \$37 million, or 3% in 2014, compared to an increase of \$11 million, or 1%, in 2013. Revenues generated by Federal ARRA research funding decreased to \$12 million in fiscal year 2014, compared to \$32 million in 2013, and contributed to the overall decrease in grant revenue.

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 (F&A) expenses necessary to support grants and contracts are reimbursed by sponsors, along with direct costs, by an indirect cost recovery. The current F&A, or indirect cost recovery, for research grants is approximately 29 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 increased during fiscal year 2014, but is still significantly below historical levels.

### Operating Support for Instruction

(in millions)	2014	2013	2012
State operating appropriations	\$ 262 24%	\$ 218 21%	\$ 218 24%
Operating Tuition and fees	594 54%	547 53%	461 51%
Fees for self-sustaining educational programs	245 22%	261 26%	220 25%
<b>Total educational support</b>	<b>\$1,101 100%</b>	<b>\$1,026 100%</b>	<b>\$899 100%</b>

Noncapital state appropriations are considered nonoperating revenue under GASB Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities," 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.

Tuition and fees, net of scholarship allowances, increased to \$839 million in 2014, from \$808 million in 2013 and \$681 million in 2012. The increases were primarily due to increased enrollment in 2014 and 2013, and a 16% increase in average undergraduate resident tuition rates during 2013.

Tuition increases were partially offset by the increase in scholarships and fellowships, and scholarship allowances of \$2 million in 2014, \$36 million in 2013, and \$49 million in 2012.

Self-sustaining educational programs (Fee-Supported Programs) include the following amounts for each of the fiscal years 2014, 2013 and 2012: UW Educational Outreach (the continuing education branch of the University), \$96 million, \$98 million and \$85 million, respectively, summer quarter tuition \$42 million, \$48 million and \$47 million, respectively, and for Business School and School of Medicine programs \$45 million, \$40 million and \$38 million, respectively.

### Patient Services-UW Medicine

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

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

**UW Medical Center (UWMC)** is a 450-bed hospital that provides comprehensive healthcare services to the Puget Sound community and patients from throughout the Pacific Northwest. UWMC also serves as the major clinical, teaching and research site for students and faculty in the Health Sciences at the University. Over 18,000 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 (NICU) and the Organ Transplantation program.

Strategic growth initiatives were implemented in fiscal year 2014 with the expansion of primary care and urgent care, the opening of the Eastside Specialty Center and other clinics, as well as continued progress on Phase 2 of the UW Medical Center Montlake Tower.

Fiscal year 2013 marked the completion of Phase 1 of the UW Medical Center Montlake Tower. This project included updating and expanding the NICU from 36 to 50 beds, adding an additional 30 Oncology beds as well as state of the art interventional radiology and hybrid operating and interventional procedure rooms.

**Valley Medical Center (VMC)** is a 321-bed acute care hospital and network of 45 clinics, treats nearly 17,000 inpatients per year, and is the oldest and largest public district hospital in the state of Washington. VMC joined UW Medicine in July 2011. VMC's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are presented in a discrete column together with NWH on the financial statements of the University.

**Northwest Hospital & Medical Center (NWH)** is a full-service medical facility with 281 beds, and treats approximately 10,000 inpatients per year. NWH joined UW Medicine in January 2010. NWH's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are presented in a discrete column together with VMC on the financial statements of the University.

**UW Neighborhood Clinics (UWNC)** is a network of primary-care clinics with nine neighborhood locations throughout the greater Seattle area, providing primary and selected specialty care with a staff of nearly 85 healthcare providers. The revenues, expenses, assets and liabilities of UWNC are included in the University's financial statements.

**UW Physicians (UWP)** is the physician practice group for more than 1,800 faculty physicians and healthcare providers associated with UW Medicine. The revenues, expenses, assets and liabilities of UWP are included in the University's financial statements.

**Airlift Northwest** is the preeminent provider of air medical transport services in the Pacific Northwest. The revenues, expenses, assets and liabilities of Airlift Northwest are included in the University's financial statements.

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

In combination, these organizations (not including VMC and NWH) contributed \$1,207 million in patient services revenue in fiscal year 2014, \$1,162 million in fiscal year 2013 and \$1,098 million in 2012. UWMC generated 77% of this revenue in 2014, 76% in 2013 and 77% in 2012. UWMC admissions were approximately 18,000 in 2014, a slight increase from 2013 which was a 1.1% decrease from 2012. Average patient length of stay, however, remained the same as in 2013 at 6.9 days, up from 6.7 days in 2012.

Considerable progress has been made in implementing the Epic Electronic Medical Record (EMR) system throughout UW Medicine, with over 85 specialty clinics completed in May 2014. This milestone allowed UW Medicine to qualify for Medicare and Medicaid financial incentives, avoid penalties, and improve the quality and safety of care for patients through more timely and complete access to their records. To further enhance patient safety, UW Medicine also implemented bar-coded electronic medication administration in all high risk inpatient units at UWMC.

Charity care decreased as a result of the Medicaid expansion and implementation of the Healthcare Exchanges effective January 1, 2014. The number of uninsured patients served at UW Medicine declined and was accompanied by an increase in Medicaid patients. VMC operating results were negatively impacted in fiscal year 2013 by expenses associated with implementation of the EMR, and a reduction in tax levy revenues.

### Gifts, Endowments and Investment Revenues

Net investment returns for the years ended June 30, 2014, 2013 and 2012 consisted of the following:

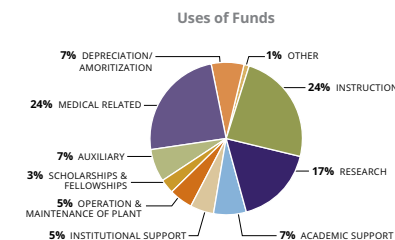
(in millions)	2014	2013	2012
Interest and dividends	\$ 73	\$ 71	\$ 63
Metropolitan Tract net income	8	6	7
Investment in Seattle Cancer Care Alliance	12	8	7
Net appreciation (depreciation) of fair value of investments	398	264	(35)
Investment expenses	(10)	(8)	(8)
<b>Net investment income</b>	<b>\$ 481</b>	<b>\$ 341</b>	<b>\$ 34</b>

Net appreciation includes both realized and unrealized gains and losses. The unrealized gains, however, are not available until the underlying securities have been sold. Net investment income increased by \$140 million in 2014, compared to an increase of \$307 million in 2013. The change in realized and unrealized gains and losses was the major factor in the variance each year.

Donor support increased by \$13 million, or 7%, to \$191 million in 2014 from \$178 million in 2013. Gifts are a key and necessary source of support for a variety of purposes including capital improvements, scholarships, research, and endowments for various academic and research positions.

### Expenses

Two primary functions of the University, instruction and research, comprised 41% of total operating expenses. These dollars provided instruction to more than 53,000 students and funded 5,300 research awards. Medical-related expenses, such as those related to patient care, also continue to be one of the largest individual components.





## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2014, 2013 and 2012 follows:

(in millions)	2014	2013	2012
Operating expenses:			
Educational and general instruction	\$ 1,037	\$ 988	\$ 936
Research	766	756	777
Public service	42	48	40
Academic support	297	261	248
Student services	43	36	37
Institutional support	224	201	192
Operation and maintenance of plant	201	207	174
Scholarships and fellowships	138	141	108
Auxiliary enterprises	286	204	195
Medical-related	1,042	999	961
Depreciation/amortization	308	280	243
<b>Total operating expenses</b>	<b>\$4,384</b>	<b>\$4,121</b>	<b>\$3,911</b>

Academic support increased \$36 million, or 14%, during fiscal year 2014 due primarily to increased support of activities in the Schools of Medicine and Dentistry, and the College of the Environment. These costs include startup costs to establish new labs and hiring of new employees.

Auxiliary enterprises increased \$82 million, or 40%, during fiscal year 2014 due primarily to the addition of ITS self-sustaining activities. Technology services provided to external parties, primarily HMC, during the year totaled \$63 million, and are being recovered through offsetting user fees reflected in Other Auxiliary Enterprises revenue. Costs incurred by Intercollegiate Athletics for its football program, related to additional game day services and noncapital improvements made to Husky Stadium and the Husky Ballpark, also contributed to the increase during 2014.

Overall, the University's operating expenses increased by \$263 million, or 6%, over 2013. Salaries expense increased \$132 million, or 7% due to employee merit increases and the addition of ITS department salaries of \$40 million. Benefits expense increased by \$52 million, or 8%, due to increased salary expenditures together with a mandated increase to the University's PERS pension contributions during the year. Purchased Services expense increased \$45 million, or 7%, due in part to costs incurred by the School of Oceanography for research activities aboard the R/V Thompson, and to consulting fees associated with implementation of a new enterprise HR/payroll system. Depreciation expense increased by \$28 million, or 10%, driven by several large capital additions that were placed into service during the year including renovations to Husky Stadium, new residence halls and apartments, and the new academic building on the UW Bothell campus.

In 2013, the University's operating expenses increased by \$210 million, or 5%, over 2012. Salaries expense increased \$55 million, or 3%, reflecting a modest increase in staffing. Benefits expense increased by \$14 million, or 2%, offset slightly by a reduction in the University's healthcare contribution rate during the year. Purchased services increased \$45 million, or 8%, driven by a \$20 million increase in consulting fees incurred by UWMC in support of IT projects, \$12 million increase in expenses related to subcontracts (primarily research related) and \$ 7 million increase in non-capitalizable expenses for pollution remediation. Depreciation/amortization expense increased \$37 million, or 15%, driven by several large capital additions that were placed into service during the year.

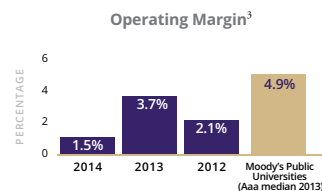
### Operating Loss

The University's operating loss increased to \$470 million in 2014 from \$338 million in 2013. The 2013 operating loss was a decrease from \$389 million in 2012.

State appropriations are shown as nonoperating revenue, pursuant to GASB standards. If state appropriations were classified as operating revenue, the operating loss would be as follows for 2014, 2013 and 2012, respectively: \$208 million, \$120 million, and \$170 million. The University continues to rely on nonoperating revenues such as gift revenues and investment income distributions, in addition to state appropriations, to fund its operations.

### Operating Margin

Moody's measures the net result of revenue and expense activity by including several nonoperating revenues in the margin. The 2014 operating margin decreased to 1.5% from 3.7% in 2013. Operating margin calculations include an estimated return on the University's investments rather than actual investment income. Therefore, variances in investment performance in a given year will not impact the operating margin.



<sup>3</sup> Operating loss, (including interest expense, operating appropriations, nonoperating federal grants, an assumed 5% spending rate on investments and nonpermanent endowment gifts), divided by operating revenues (less scholarship expenses, and including operating appropriations, nonoperating federal grants, an assumed 5% return on investments and nonpermanent endowment gifts). Excludes Northwest Hospital and Valley Medical Center.



## STATEMENTS OF NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNITS <sup>1</sup>	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>CURRENT ASSETS:</b>				
CASH AND CASH EQUIVALENTS (NOTE 2)	\$ 79,128	\$ 78,206	\$ 57,027	\$ 53,349
INVESTMENTS, CURRENT PORTION (NOTE 6)	785,435	769,607	13,324	23,666
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF \$73,372 AND \$77,553) (NOTE 5)	640,270	574,352	105,596	98,073
INVENTORIES	28,361	31,658	9,397	9,466
OTHER CURRENT ASSETS	4,189	5,227	36,532	40,734
<b>TOTAL CURRENT ASSETS</b>	<b>1,537,383</b>	<b>1,459,050</b>	<b>221,876</b>	<b>225,288</b>
<b>NONCURRENT ASSETS:</b>				
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	57,383	58,392	-	-
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	3,959,384	3,368,726	69,903	79,775
METROPOLITAN TRACT (NOTE 7)	112,570	112,461	-	-
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF \$8,431 AND \$8,158) (NOTE 4)	72,498	70,392	-	-
OTHER NONCURRENT ASSETS	114,192	122,203	83,581	56,694
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF \$3,329,980 AND \$3,111,454) (NOTE 8)	4,044,796	3,975,957	489,680	510,947
<b>TOTAL NONCURRENT ASSETS</b>	<b>8,360,823</b>	<b>7,708,131</b>	<b>643,164</b>	<b>647,416</b>
<b>TOTAL ASSETS</b>	<b>9,898,206</b>	<b>9,167,181</b>	<b>865,040</b>	<b>872,704</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
UNAMORTIZED LOSS ON BOND REFUNDING	14,359	-	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 9,912,565</b>	<b>\$ 9,167,181</b>	<b>\$ 865,040</b>	<b>\$ 872,704</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>				
<b>CURRENT LIABILITIES:</b>				
ACCOUNTS PAYABLE	\$ 163,212	\$ 156,527	\$ 26,399	\$ 24,602
ACCRUED LIABILITIES	348,266	298,857	104,293	98,760
COMMERCIAL PAPER (NOTE 11)	50,000	25,000	-	-
UNEARNED REVENUES	165,926	127,492	-	8,023
FUNDS HELD FOR OTHERS	34,975	30,206	-	-
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-11)	109,591	91,332	12,414	12,662
<b>TOTAL CURRENT LIABILITIES</b>	<b>871,970</b>	<b>729,414</b>	<b>143,106</b>	<b>144,047</b>
<b>NONCURRENT LIABILITIES:</b>				
U.S. GOVERNMENT GRANTS REFUNDABLE	52,426	49,555	-	-
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-11)	2,345,620	2,223,161	399,554	412,175
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>2,398,046</b>	<b>2,272,716</b>	<b>399,554</b>	<b>412,175</b>
<b>TOTAL LIABILITIES</b>	<b>3,270,016</b>	<b>3,002,130</b>	<b>542,660</b>	<b>556,222</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
PROPERTY TAXES	-	-	8,585	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>3,270,016</b>	<b>3,002,130</b>	<b>551,245</b>	<b>556,222</b>
<b>NET POSITION</b>				
NET INVESTMENT IN CAPITAL ASSETS	2,018,077	2,038,495	84,800	93,222
<b>RESTRICTED:</b>				
NONEXPENDABLE	1,257,297	1,182,986	1,775	1,773
EXPENDABLE	1,628,532	1,344,643	8,511	8,537
UNRESTRICTED	1,738,643	1,598,927	218,709	212,950
<b>TOTAL NET POSITION</b>	<b>6,642,549</b>	<b>6,165,051</b>	<b>313,795</b>	<b>316,482</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 9,912,565</b>	<b>\$ 9,167,181</b>	<b>\$ 865,040</b>	<b>\$ 872,704</b>

<sup>1</sup> See Note 18  
See accompanying notes to basic financial statements.  
Dollars in thousands

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

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNITS <sup>1</sup>	
	Year ended June 30, 2014	Year ended June 30, 2013	Year ended June 30, 2014	Year ended June 30, 2013
<b>REVENUES</b>				
<b>OPERATING REVENUES:</b>				
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF \$139,776 AND \$135,354)	\$ 838,796	\$ 808,053	\$ -	\$ -
PATIENT SERVICES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF \$16,487 AND \$26,699)	1,206,918	1,162,389	752,980	741,581
FEDERAL GRANTS AND CONTRACTS	1,020,052	1,057,829	-	-
STATE AND LOCAL GRANTS AND CONTRACTS	82,787	93,891	-	-
NONGOVERNMENTAL GRANTS AND CONTRACTS	172,652	158,998	-	-
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	212,592	198,320	-	-
AUXILIARY ENTERPRISES:	-	-	-	-
HOUSING AND FOOD SERVICES	102,239	91,133	-	-
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF \$6,745 AND \$6,301)	55,098	47,481	-	-
OTHER AUXILIARY ENTERPRISES	103,227	45,861	-	-
OTHER MEDICAL-RELATED REVENUE	36,575	28,593	45,556	38,888
OTHER OPERATING REVENUE	83,035	90,372	-	-
<b>TOTAL OPERATING REVENUES</b>	<b>3,913,971</b>	<b>3,782,920</b>	<b>798,536</b>	<b>780,469</b>
<b>EXPENSES</b>				
<b>OPERATING EXPENSES (NOTE 12):</b>				
SALARIES	2,026,646	1,894,510	349,967	339,083
BENEFITS	661,999	610,338	98,400	102,389
SCHOLARSHIPS AND FELLOWSHIPS	138,309	140,897	-	-
UTILITIES	53,128	55,068	8,639	8,769
SUPPLIES AND MATERIALS	419,262	395,251	135,963	129,762
PURCHASED SERVICES	675,474	630,249	126,871	134,048
DEPRECIATION/AMORTIZATION	308,190	280,099	51,018	52,028
OTHER	101,368	114,737	18,468	19,930
<b>TOTAL OPERATING EXPENSES</b>	<b>4,384,376</b>	<b>4,121,149</b>	<b>789,326</b>	<b>786,009</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(470,405)</b>	<b>(338,229)</b>	<b>9,210</b>	<b>(5,540)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
STATE APPROPRIATIONS	262,146	218,165	-	-
GIFTS	117,071	101,823	112	224
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF \$9,511 AND \$8,326)	480,645	341,241	7,390	7,519
INTEREST ON CAPITAL ASSET-RELATED DEBT	(91,535)	(57,200)	(26,731)	(22,620)
PELL GRANT REVENUE	47,370	45,655	-	-
PROPERTY TAX REVENUE	-	-	16,342	16,254
OTHER NONOPERATING REVENUES (EXPENSES)	42,816	(19,780)	(9,038)	(2,937)
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>858,513</b>	<b>629,904</b>	<b>(11,925)</b>	<b>(1,560)</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES</b>	<b>388,108</b>	<b>291,675</b>	<b>(2,715)</b>	<b>(7,100)</b>
CAPITAL APPROPRIATIONS	7,693	47,123	-	-
CAPITAL GRANTS, GIFTS AND OTHER	26,156	26,763	26	8,340
GIFTS TO PERMANENT ENDOWMENTS	55,541	57,882	2	-
<b>TOTAL OTHER REVENUES</b>	<b>89,390</b>	<b>131,768</b>	<b>28</b>	<b>8,340</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>477,498</b>	<b>423,443</b>	<b>(2,687)</b>	<b>1,240</b>
<b>NET POSITION</b>				
NET POSITION - BEGINNING OF YEAR	6,165,051	5,741,608	316,482	315,242
<b>NET POSITION - END OF YEAR</b>	<b>\$ 6,642,549</b>	<b>\$ 6,165,051</b>	<b>\$ 313,795</b>	<b>\$ 316,482</b>

<sup>1</sup> See Note 18  
See accompanying notes to basic financial statements.  
Dollars in thousands



## STATEMENTS OF CASH FLOWS

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
STUDENT TUITION AND FEES	\$ 833,239	\$ 754,131
PATIENT SERVICES	1,194,212	1,148,870
GRANTS AND CONTRACTS	1,277,865	1,276,506
PAYMENTS TO SUPPLIERS	(410,053)	(395,116)
PAYMENTS FOR UTILITIES	(53,401)	(55,051)
PURCHASED SERVICES	(671,535)	(630,170)
OTHER OPERATING DISBURSEMENTS	(103,259)	(114,101)
PAYMENTS TO EMPLOYEES	(2,020,124)	(1,892,338)
PAYMENTS FOR BENEFITS	(593,696)	(543,668)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(138,309)	(140,897)
LOANS ISSUED TO STUDENTS	(22,846)	(24,716)
COLLECTION OF LOANS TO STUDENTS	23,609	23,520
OTHER MEDICAL CENTER RECEIPTS	36,575	28,593
AUXILIARY ENTERPRISE RECEIPTS	275,284	191,732
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	208,774	196,927
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	696,509	670,350
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(690,165)	(688,722)
OTHER RECEIPTS	92,984	78,870
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(64,337)</b>	<b>(115,280)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
STATE APPROPRIATIONS	262,852	237,068
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	47,370	45,655
PRIVATE GIFTS	96,579	90,323
PERMANENT ENDOWMENT RECEIPTS	55,541	57,882
DIRECT LENDING RECEIPTS	243,000	240,350
DIRECT LENDING DISBURSEMENTS	(244,254)	(238,113)
OTHER	161	(19,571)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>461,249</b>	<b>413,594</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
PROCEEDS FROM CAPITAL DEBT	213,976	438,385
STATE CAPITAL APPROPRIATIONS	5,848	47,504
CAPITAL GRANTS AND GIFTS RECEIVED	25,678	24,818
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(365,724)	(624,457)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(103,012)	(142,933)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(99,785)	(67,939)
OTHER	4,008	(7,207)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(319,011)</b>	<b>(331,829)</b>

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
	2014	2013
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
PROCEEDS FROM SALES OF INVESTMENTS	4,667,652	6,408,348
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(4,815,180)	(6,417,393)
INVESTMENT INCOME	70,549	70,608
<b>NET CASH (USED BY) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(76,979)</b>	<b>61,563</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	<b>922</b>	<b>28,048</b>
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	78,206	50,158
<b>CASH AND CASH EQUIVALENTS-END OF THE YEAR</b>	<b>\$ 79,128</b>	<b>\$ 78,206</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
OPERATING LOSS	\$ (470,405)	\$ (338,229)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	308,190	280,099
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	(13,734)	(78,751)
INVENTORIES	3,297	18
OTHER ASSETS	(6,401)	(10,872)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	21,256	(1,098)
UNEARNED REVENUE	38,434	(27,466)
OTHER LONG-TERM LIABILITIES	54,261	62,218
U.S. GOVERNMENTAL GRANTS REFUNDABLE	2,871	154
LOANS TO STUDENTS	(2,106)	(1,353)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (64,337)</b>	<b>\$ (115,280)</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
STOCK GIFTS	\$ 20,492	\$ 11,500
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	12,239	7,508
NET UNREALIZED GAINS	339,155	191,376
<b>TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>	<b>\$ 371,886</b>	<b>\$ 210,384</b>

See accompanying notes to basic financial statements.  
Dollars in thousands

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1:

#### Summary of Significant Accounting Policies

##### FINANCIAL REPORTING ENTITY

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

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

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

Component units are legally separate organizations for which the University is financially accountable. These entities may be reported in the financial statements of the primary government in one of two ways: the component units' amounts may be blended with the amounts reported by the primary government, or they may be shown in a separate column, depending on the application of the criteria of Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity: Omnibus." All component units of the University meet the criteria for blending except Northwest Hospital & Medical Center and Valley Medical Center. They are reported discretely, since they have separate boards of directors and they do not provide services exclusively to the University.

##### BLENDED COMPONENT UNITS

The following entities are presented as blended component units because they provide service exclusively or almost exclusively to the University. Financial information for these affiliated organizations is available from their respective administrative offices.

##### The Association of University Physicians dba UW Physicians

(UWP) was established as a tax-exempt entity for the exclusive benefit of the University of Washington School of Medicine (UWSOM). UWP employs UWSOM faculty and bills and collects for their clinical services as an agent for UWSOM. UWP had operating revenues of \$174,283,000 and \$173,566,000 in 2014 and 2013, respectively.

**UW Medicine Neighborhood Clinics** (Neighborhood Clinics) was established as a tax-exempt entity for the benefit of UWSOM, UWP and its affiliated medical centers, HMC and UWMC, exclusively for charitable, scientific and educational purposes. The Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of \$14,596,000 and \$14,614,000 in 2014 and 2013, respectively.

##### Real estate financing entities

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

- TSB Properties
- Washington Biomedical Research Properties I
- Washington Biomedical Research Properties II
- Washington Biomedical Research Facilities 3

These entities collectively have net capital assets of \$309,075,000 and \$323,144,000 in 2014 and 2013, respectively. They collectively have long-term debt of \$314,400,000 and \$333,450,000 in 2014 and 2013, respectively. These amounts are reflected in the University's financial statements.

##### DISCRETELY PRESENTED COMPONENT UNITS

###### Northwest Hospital

UW Medicine and Northwest Hospital & Medical Center (Northwest Hospital), a 281-bed full-service acute care hospital, entered into an affiliation agreement effective January 1, 2010. The University is the sole corporate member of Northwest Hospital. The audited financial statements of Northwest Hospital are available by contacting Northwest Hospital & Medical Center at 1550 N. 115th Street, Seattle, Washington 98133-9733, Mailstop X-112.

###### Valley Medical Center

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

##### JOINT VENTURES

The University, together with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center established the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA has a one-third interest. The University accounts for its interest in SCCA under the equity method and has recorded \$101,385,000 and \$89,146,000 in Other Assets, together with \$12,239,000 and \$7,508,000 in Investment Income, for its share of the joint venture in 2014 and 2013, 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, charitable, educational,

and scientific missions. CUMG employs UWSOM faculty physicians, and bills and collects for their services as an agent for UWSOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (Note 5) includes amounts due from CUMG of \$20,818,000 and \$17,937,000 in 2014 and 2013, respectively.

##### CHANGES IN REPORTING ENTITY

In fiscal year 2013, the University paid the remaining outstanding principal balance on the Twenty-Fifth Avenue Properties Student Housing Revenue Bonds, 2002, and title to the property known as Nordheim Court was passed to the University. The entity that issued the leased-backed bonds, Twenty-Fifth Avenue Properties, was dissolved and is no longer a component unit of the University.

##### BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with GASB Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments," as amended by GASB Statement No. 35, "Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities." The University is reporting as a special-purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the University presents management's discussion and analysis, statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows and notes to the financial statements. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated. The University reports capital assets net of accumulated

depreciation/amortization (as applicable), and reports depreciation/amortization expense in the Statements of Revenues, Expenses and Changes in Net Position.

On July 1, 2012, the University adopted GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance contained in accounting pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors, which was issued on or before November 30, 1989 and which does not conflict with or contradict existing GASB pronouncements. Implementation of this Statement resulted in a minor footnote revision.

On July 1, 2012, the University adopted GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement provides guidance for accounting and financial reporting of deferred outflows of resources and deferred inflows of resources. GASB Concepts Statement No. 4, "Elements of Financial Statements," introduced and defined these elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards did not include guidance for reporting these financial statement elements, which are distinct from assets and liabilities.

This Statement amended the net asset reporting requirements of Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as Net Position, rather than Net Assets. The impact to the University from implementation of this Statement is limited to renaming the Balance Sheets as "Statements of

Net Position," and renaming the title of Net Assets to "Net Position" on the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position.

On July 1, 2013, the University adopted GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as expenses or revenues, certain items that were previously reported as assets and liabilities. The impact to the University from implementation of this Statement is that all prior bond issuance costs were written off in the Statements of Revenues, Expenses and Changes in Net Position as Interest on Capital Asset-Related Debt in the fiscal year ending June 30, 2014. In addition, all prior losses on refunding of bonds were reported as Deferred Outflows of Resources, and property tax revenues related to Valley Medical Center were reported as Deferred Inflows of Resources, as of June 30, 2014.

On July 1, 2013, the University adopted GASB Statement No. 66, "Technical Corrections — 2012 — an amendment of GASB Statements No. 10 and No. 62." This Statement amends previously issued GASB statements to resolve conflicting guidance. There was no impact to the financial statements of the University as a result of implementing this Statement.

On July 1, 2013, the University adopted GASB Statement No. 67, "Financial Reporting for Pension Plans." This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," and No. 50, "Pension Disclosures," as they relate to pension plans that are administered through trusts that meet certain criteria. Implementation of this Statement required the University to reflect a minor additional disclosure related to the University of

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Washington Retirement Plan, a defined contribution pension plan. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts, such as the University of Washington Supplemental Retirement Plan (Note 15).

On July 1, 2013, the University adopted GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement also specifies the information required to be disclosed by governments that extend or receive nonexchange financial guarantees. The University has not extended or received any nonexchange financial guarantees as of the years ended June 30, 2014 or 2013, therefore there was no impact to the financial statements of the University as a result of implementing this Statement.

### ACCOUNTING STANDARDS IMPACTING THE FUTURE

In June 2012, the GASB approved Statement No. 68, "Accounting and Financial Reporting for Pensions," which will take effect in the fiscal year ending June 30, 2015. This Statement requires governments providing defined benefit pensions to their employees to recognize their long-term obligation for pension benefits as a liability for the first time, along with the associated assets which have been set aside to fund the plan. Since the University participates in several cost sharing pension plans which are administered by the state of Washington Department of Retirement Systems (DRS), this statement will require the University to recognize its proportionate share of the state-wide net pension liability for each of the plans in which it participates. The Statement also eliminates the method of amortizing the liability balances over several years, and instead requires full recognition of the net liability upon implementation. The requirement of GASB Statement No. 68 to record a proportionate share of retirement plan unfunded pension liabilities may negatively impact the University's future unrestricted

net position. The University is currently analyzing the impact of this Statement. Information regarding the funding status of the DRS retirement plans can be found in their financial report (Note 15).

In January 2013, the GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This Statement requires disclosures to be made about government combinations and disposals of government operations, in order to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for financial reporting periods beginning in fiscal year 2015, and will be applied on a prospective basis when applicable.

In November 2013, the GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date," an amendment of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." The purpose of this Statement is to address application of the transition provisions of GASB Statement No. 68 and clarify guidance regarding contributions made by a state or local government employer, or nonemployer contributing entity, to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The University is currently analyzing the impact of this statement.

### USE OF ESTIMATES

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

The University estimates the pollution remediation liability by reviewing the current status of known polluted sites and developing estimates of cleanup costs. These estimates are subject to change due to improvements in technology, inflation,

changes in the scope of work, and the pursuit of reimbursement from other responsible parties.

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

The liability and expense related to the University of Washington Supplemental Retirement Plan (Note 15) are based on an actuarial valuation prepared by an external actuary. The results of an actuarial valuation are estimates based on historical data, actuarial assumptions, and the demographics of the employee population.

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

### OTHER ACCOUNTING POLICIES

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

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

**Inventories.** Inventories are carried at the lower of cost or market value. Consumable inventories, consisting of expendable materials and supplies, are generally valued using the weighted-average method. Merchandise inventories are generally valued using the first-in, first-out method.

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

Interest incurred on capital asset-related debt was \$103,065,000 and \$76,371,000 during 2014 and 2013, respectively. Of those costs, the University capitalized \$11,530,000 and \$19,171,000 during 2014 and 2013, 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 and unspent cash advances on certain grants.

**Split-Interest Agreements.** Under these agreements, donors/beneficiaries receive income for their lifetime or for a stated term, with the University receiving the remaining principal. The University records an asset related to these agreements at fair market value at year-end. The University also records a liability related to the split-interest agreements equal to the present value of expected future distributions; the discount rates applied range from 2.5% to 8.0%.

**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, 2014 and 2013 was \$86,780,000 and \$86,902,000, respectively, and is included in Accrued Liabilities. Sick leave accrued as of June 30, 2014 and 2013 was \$36,174,000 and \$35,878,000, respectively, and is included in Long-Term Liabilities.

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

Third-party payor agreements with Medicare and Medicaid that provide for payments at amounts different from established rates are part of contractual adjustments to net patient services 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 UWMC operations and financial results, see their audited financial statements which are contained in the latest Bondholders Report at <http://f2.washington.edu/treasury/alm/investor-relations>.

**Charity Care.** Based on established rates, the charges for patient services forgone as a result of charity care during the years ended June 30, 2014 and 2013 were \$66,632,000 and \$81,347,000, respectively.

The cost of charity care is estimated based on the ratio of the cost of providing care to the value of the charges forgone. Applying this ratio results in an estimated cost of charity care and uncompensated care of \$25,782,000 and \$32,000,000 in fiscal years 2014 and 2013, respectively.

**State Appropriations.** The state of Washington appropriates funds to the University on both annual and biennial bases. These revenues are reported as non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Position.

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

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

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

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

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

*Unrestricted net position:* Net position not subject to externally imposed restrictions and 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.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 2:

#### Cash and Cash Equivalents

Cash includes cash on hand, petty cash and bank deposits. Most cash, except for cash held at the University 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 (PDPCC).

At June 30, 2014 and 2013, bank balances of \$83,311,000 and \$89,742,000, respectively, were either insured by the FDIC or collateralized under the PDPCC.

### NOTE 3:

#### Deposit with State of Washington

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

### NOTE 4:

#### Student Loans Receivable

Net student loans of \$72,498,000 and \$70,392,000 at June 30, 2014 and 2013, respectively, consist of \$57,870,000 and \$54,943,000 from federal programs and \$14,628,000 and \$15,449,000 from University programs at June 30, 2014 and 2013 respectively. Interest income from student loans for the years ended June 30, 2014 and 2013 was \$1,427,000 and \$1,331,000, respectively. These unsecured loans are made primarily to students who reside in the state of Washington.

### NOTE 5:

#### Accounts Receivable

The major components of accounts receivable as of June 30, 2014 and 2013 were:

(Dollars in thousands)	2014	2013
PATIENT SERVICES, NET	\$ 296,016	\$ 285,378
GRANTS AND CONTRACTS	186,215	189,134
SALES AND SERVICES	27,263	23,444
TUITION	14,751	15,004
DUE FROM OTHER AGENCIES	84,241	42,649
ROYALTIES	27,017	25,201
INVESTMENTS	45,053	37,308
STATE APPROPRIATIONS	6,502	5,364
OTHER	26,584	28,423
<b>SUBTOTAL</b>	<b>713,642</b>	<b>651,905</b>
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(73,372)	(77,553)
<b>TOTAL</b>	<b>\$ 640,270</b>	<b>\$ 574,352</b>

### NOTE 6:

#### Investments

##### INVESTMENTS - GENERAL

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board of Regents establishes investment policy, which is carried out by the Chief Investment Officer. The University of Washington Investment Committee,

comprised of board members and investment professionals, advises on matters relating to the management of the University's investment portfolios. The composition of the carrying amounts of investments by type at June 30, 2014 and 2013 is listed in Table 1.

TABLE 1 - UNIVERSITY INVESTMENTS (Dollars in thousands)

Investment Type	Carrying Value	
	2014	2013
CASH EQUIVALENTS	\$ 16,957	\$ 256,781
FIXED INCOME	1,972,553	1,655,711
EQUITY	1,672,262	1,287,084
NON-MARKETABLE ALTERNATIVES*	349,778	362,632
ABSOLUTE RETURN*	509,476	404,416
REAL ASSETS*	219,069	165,792
MISCELLANEOUS	4,724	5,917
<b>TOTAL INVESTMENTS</b>	<b>\$ 4,744,819</b>	<b>\$ 4,138,333</b>

\* Investment type includes private and other illiquid investments held in the Consolidated Endowment Fund

#### INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2014, the Invested Funds Pool totaled \$1,606,152,000 compared to \$1,564,368,000 at June 30, 2013. The Invested Funds Pool also owns units in the Consolidated Endowment Fund (CEF) valued at \$668,863,000 on June 30, 2014 and \$468,187,000 on June 30, 2013. 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 2% in fiscal years 2014 and 2013. Endowment operating and gift accounts received 3% in both fiscal years 2014 and 2013 with the distributions directed to the University. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the CEF. Individual endowments purchase units in the pool on the basis of a per-unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. RCW 24.55 of the Washington State Code

and the Uniform Prudent Management of Institutional Funds Act allow for total return expenditure under comprehensive prudent standards.

Under the CEF spending policy approved by the Board of Regents, quarterly distributions to programs are based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1% supporting campus-wide fundraising and stewardship activities (0.80%) and offsetting the internal cost of managing endowment assets (0.20%). This policy was effective with the December 2010 quarterly distributions, with the five-year averaging period implemented incrementally.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value is \$4,676,000 and \$18,297,000 at June 30, 2014 and 2013, respectively.

Funds in irrevocable trusts managed by trustees other than the University are not

reported in the financial statements. The fair value of these funds was \$111,831,000 at June 30, 2014 compared to \$49,575,000 at June 30, 2013. The increase in the fair value is largely due to a \$58,000,000 estate gift received in fiscal year 2014. Income received from these trusts, which is included in Investment Income, was \$2,297,000 for the year ended June 30, 2014 and \$2,224,000 for the year ended June 30, 2013.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of \$58,702,000 and \$72,750,000 in 2014 and

2013, 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, 2014 and 2013 was \$397,857,000 and \$264,126,000, respectively.

#### DERIVATIVES

The University's investment policies allow investing in various derivative instruments, including futures, swaps and forwards, to manage exposures within or across the portfolio and to improve the portfolio's risk/return profile. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price.

Total return swaps involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The fair value balances and notional amounts of investment

#### FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2014 and 2013, the University had outstanding commitments to fund alternative investments of \$262,852,000 and \$191,669,000, respectively. These commitments are expected to be called over a multi-year time frame. The University believes it has adequate liquidity and funding sources to meet these obligations.

derivative instruments outstanding at June 30, 2014 and 2013, categorized by type, are as follows:

TABLE 2 - INVESTMENT DERIVATIVES (Dollars in thousands)

DESCRIPTION	Notional Amount		Fair Value as of June 30		Changes in Fair Value			
	2014	2013	ASSET CLASSIFICATION	2014	2013	INCOME CLASSIFICATION	2014	2013
FUTURES CONTRACTS	\$18,049	\$34,462	INVESTMENTS	\$18,815	\$34,278	INVESTMENT INCOME	\$766	\$184

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, 2014 or 2013. 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 1.91 and 2.95 years at June 30, 2014 and 2013, respectively.

#### CREDIT RISK

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

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University Investment Policies limit fixed income exposure to investment grade assets. The Investment Policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The Invested Funds' liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 25% of their portfolios in government and government agency issues. The Investment Policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investment to investment grade credits.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Duration and credit risk figures at June 30, 2014 and 2013 exclude \$49,348,000 and \$53,541,000, respectively, of fixed income securities held outside the CEF and the Invested Funds Pool. These amounts make up 2.48% and 2.80%, respectively, of the University's fixed income investments (including cash equivalents), and are not included in the duration figures detailed in Table 3.

The composition of the fixed income securities at June 30, 2014 and 2013, along with credit quality and effective duration measures is summarized as follows:

TABLE 3 – FIXED INCOME: CREDIT QUALITY AND EFFECTIVE DURATION (Dollars in thousands)

2014						
Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	\$ 877,812	\$ -	\$ -	\$ -	\$ 877,812	1.94
U.S. GOVERNMENT AGENCY	597,761	-	-	-	597,761	1.91
MORTGAGE BACKED	-	103,105	93,889	-	196,994	2.20
ASSET BACKED	-	178,075	8,495	1,281	187,851	0.94
CORPORATE AND OTHER	-	79,195	549	-	79,744	3.03
<b>TOTAL</b>	<b>\$ 1,475,573</b>	<b>\$ 360,375</b>	<b>\$ 102,933</b>	<b>\$ 1,281</b>	<b>\$ 1,940,162</b>	<b>1.91</b>

2013						
Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	\$ 730,492	\$ -	\$ -	\$ -	\$ 730,492	2.42
U.S. GOVERNMENT AGENCY	661,159	-	-	-	661,159	3.41
MORTGAGE BACKED	-	98,779	94,196	9,067	202,042	4.33
ASSET BACKED	-	164,394	9,743	3,908	178,045	2.44
CORPORATE AND OTHER	-	86,585	-	628	87,213	2.51
<b>TOTAL</b>	<b>\$ 1,391,651</b>	<b>\$ 349,758</b>	<b>\$ 103,939</b>	<b>\$ 13,603</b>	<b>\$ 1,858,951</b>	<b>2.95</b>

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

### FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policies permit investments in international equity and other asset classes, which can include foreign currency exposure. The University also enters into foreign currency forward contracts, futures contracts, and options to manage the foreign currency exposure. The University held non-U.S. denominated securities at June 30, 2014 and 2013 of \$1,029,318,000 and \$771,070,000, respectively.

TABLE 4 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	June 30, 2014	June 30, 2013
EURO (EUR)	\$ 156,509	\$ 114,213
CHINESE RENMINBI (RMB)	126,848	73,109
INDIAN RUPEE (INR)	100,451	65,686
JAPANESE YEN (JPY)	65,017	45,735
BRAZILIAN REAL (BRL)	56,611	47,956
RUSSIAN RUBLE (RUB)	56,517	47,302
BRITISH POUND (GBP)	54,281	51,193
HONG KONG DOLLAR (HKD)	50,663	24,285
SOUTH KOREAN WON (KRW)	49,150	29,477
CANADIAN DOLLAR (CAD)	41,888	27,109
SWISS FRANC (CHF)	39,900	36,888
TAIWANESE DOLLAR (TWD)	30,894	23,796
PHILIPPINE PESO (PHP)	18,974	22,737
INDONESIA RUPIAH (IDR)	14,732	19,301
REMAINING CURRENCIES	166,883	142,283
<b>TOTAL</b>	<b>\$1,029,318</b>	<b>\$ 771,070</b>

### NOTE 7:

#### Metropolitan Tract

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

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

remaining lease term was assigned to LHCS Hotel Holding (2002) LLC. The hotel was renamed the Fairmont Olympic Hotel and is now managed by Fairmont Hotels & Resorts.

The balances as of June 30, 2014 and 2013 represent operating assets, net of liabilities, and land, buildings and improvements stated at appraised value as of November 1, 1954. The balances also include subsequent capital additions and improvements at cost, less retirements and accumulated depreciation of \$155,342,000 and \$146,350,000, respectively, and are net of the outstanding balance of the associated commercial paper or line of credit.

In June 2014, the Metropolitan Tract credit line balance of \$8,500,000 was refinanced through the University's commercial paper program (Note 11).

On September 20, 2013, the University exercised its option to terminate its lease

with Unico for the Cobb Building, effective November 1, 2014. On October 28, 2014, the University issued \$34,000,000 in short-term commercial paper, to buy out the leasehold of the Cobb Building and take possession of certain leasehold improvements.

The University has entered into an agreement with Wright Runstad & Company to operate the Rainier Tower and Rainier Square commencing November 1, 2014. In addition, Wright Runstad will undertake pre-development activities relating to the redevelopment of Rainier Square. The University has plans to ground lease the property to Wright Runstad if and when certain development milestones are met. On November 1, 2014, the University selected Unico Properties, LLC to manage the remaining properties in the Metropolitan Tract.

### NOTE 8:

#### Capital Assets

Capital asset activity for the two-year period ended June 30, 2014 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2012	Additions/Transfers	Retirements	Balance at June 30, 2013	Additions/Transfers	Retirements	Balance at June 30, 2014
LAND	\$ 117,614	\$ 9,793	\$ 2,019	\$ 125,388	\$ 1,407	\$ -	\$ 126,795
INFRASTRUCTURE	184,027	9,975	-	194,002	-	-	194,002
BUILDINGS	3,966,688	735,071	14,510	4,687,249	579,650	21,914	5,244,985
FURNITURE, FIXTURES AND EQUIPMENT	1,153,102	120,700	69,633	1,204,169	101,865	82,223	1,223,811
LIBRARY MATERIALS	304,768	12,481	1,645	315,604	11,767	1,708	325,663
CAPITALIZED COLLECTIONS	5,751	1,134	-	6,885	208	-	7,093
INTANGIBLE ASSETS	67,444	5,663	-	73,107	32,360	148	105,319
CONSTRUCTION IN PROGRESS	720,928	(253,342)	-	467,586	(341,016)	4,874	121,696
INTANGIBLES IN PROCESS	6,528	6,893	-	13,421	11,991	-	25,412
<b>TOTAL</b>	<b>6,526,850</b>	<b>648,368</b>	<b>87,807</b>	<b>7,087,411</b>	<b>398,232</b>	<b>110,867</b>	<b>7,374,776</b>
LESS ACCUMULATED DEPRECIATION/AMORTIZATION:							
INFRASTRUCTURE	86,287	4,566	-	90,853	4,498	-	95,351
BUILDINGS	1,634,334	157,299	9,137	1,782,496	175,424	11,261	1,946,659
FURNITURE, FIXTURES AND EQUIPMENT	925,175	93,621	66,762	952,034	107,910	77,150	982,794
LIBRARY MATERIALS	215,917	14,861	1,187	229,591	10,749	1,253	239,087
INTANGIBLE ASSETS	46,728	9,752	-	56,480	9,609	-	66,089
<b>TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION</b>	<b>2,908,441</b>	<b>280,099</b>	<b>77,086</b>	<b>3,111,454</b>	<b>308,190</b>	<b>89,664</b>	<b>3,329,980</b>
<b>CAPITAL ASSETS, NET</b>	<b>\$ 3,618,409</b>	<b>\$ 368,269</b>	<b>\$ 10,721</b>	<b>\$ 3,975,957</b>	<b>\$ 90,042</b>	<b>\$ 21,203</b>	<b>\$ 4,044,796</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9:

#### Long-Term Liabilities

##### UNIVERSITY OF WASHINGTON

Long-term liability activity for the two-year period ended June 30, 2014 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2012	Additions/ Transfers	Reductions	Balance at June 30, 2013	Additions/ Transfers	Reductions	Balance at June 30, 2014	Current Portion 2013	Current Portion 2014
<b>BONDS PAYABLE:</b>									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	\$ 194,614	\$ 11,435	\$ 26,110	\$ 179,939	\$ -	\$ 14,895	\$ 165,044	\$ 14,895	\$ 15,460
REVENUE BONDS PAYABLE (NOTE 11)	1,380,665	299,425	19,975	1,660,115	175,405	70,665	1,764,855	40,900	38,945
UNAMORTIZED PREMIUM ON BONDS	80,705	32,558	11,642	101,621	10,342	10,507	101,456	8,153	10,658
<b>TOTAL BONDS PAYABLE</b>	<b>1,655,984</b>	<b>343,418</b>	<b>57,727</b>	<b>1,941,675</b>	<b>185,747</b>	<b>96,067</b>	<b>2,031,355</b>	<b>63,948</b>	<b>65,063</b>
<b>NOTES PAYABLE AND CAPITAL LEASES:</b>									
NOTES PAYABLE & OTHER - CAPITAL ASSET RELATED (NOTE 11)	29,800	3,337	6,784	26,353	352	2,697	24,008	2,671	2,800
NOTES PAYABLE & OTHER - NONCAPITAL ASSET RELATED (NOTE 11)	967	419	208	1,178	644	-	1,822	387	1,568
CAPITAL LEASE OBLIGATIONS (NOTE 10)	8,620	16,629	3,422	21,827	2,878	4,248	20,457	4,724	4,640
<b>TOTAL NOTES PAYABLE AND CAPITAL LEASES</b>	<b>39,387</b>	<b>20,385</b>	<b>10,414</b>	<b>49,358</b>	<b>3,874</b>	<b>6,945</b>	<b>46,287</b>	<b>7,782</b>	<b>9,008</b>
<b>OTHER LONG-TERM LIABILITIES:</b>									
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	30,227	1,354	79	31,502	5,182	-	36,684	799	41
POLLUTION REMEDIATION LIABILITY (NOTE 1)	6,000	7,000	-	13,000	9,000	-	22,000	-	3,400
DUE TO RELATED PARTY (NOTE 13)	-	-	-	-	16,366	-	16,366	-	5,500
SICK LEAVE (NOTE 1)	34,630	5,842	4,594	35,878	5,203	4,907	36,174	4,548	4,750
SELF-INSURANCE (NOTE 16)	62,919	28,605	11,816	79,708	13,917	26,175	67,450	11,914	18,995
NET PENSION OBLIGATION (NOTE 15)	127,465	38,550	2,643	163,372	38,550	3,027	198,895	2,341	2,834
<b>TOTAL OTHER LIABILITIES</b>	<b>261,241</b>	<b>81,351</b>	<b>19,132</b>	<b>323,460</b>	<b>88,218</b>	<b>34,109</b>	<b>377,569</b>	<b>19,602</b>	<b>35,520</b>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 1,956,612</b>	<b>\$ 445,154</b>	<b>\$ 87,273</b>	<b>\$ 2,314,493</b>	<b>\$ 277,839</b>	<b>\$ 137,121</b>	<b>\$ 2,455,211</b>	<b>\$ 91,332</b>	<b>\$ 109,591</b>

##### DISCRETE COMPONENT UNITS

Long-term liability activity for the two-year period ended June 30, 2014 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2012	Additions/ Transfers	Reductions	Balance at June 30, 2013	Additions/ Transfers	Reductions	Balance at June 30, 2014	Current Portion 2013	Current Portion 2014
<b>VALLEY MEDICAL CENTER</b>									
LIMITED TAX GENERAL OBLIGATION BONDS	\$ 255,462	\$ -	\$ 5,892	\$ 249,570	\$ -	\$ 6,067	\$ 243,503	\$ 6,145	\$ 6,320
REVENUE BONDS	21,388	-	1,230	20,158	-	1,300	18,858	1,520	1,585
BUILD AMERICA BONDS	61,155	-	-	61,155	-	-	61,155	-	-
NOTES PAYABLE & OTHER	1,865	-	765	1,100	1,251	944	1,407	772	534
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 339,870</b>	<b>\$ -</b>	<b>\$ 7,887</b>	<b>\$ 331,983</b>	<b>\$ 1,251</b>	<b>\$ 8,311</b>	<b>\$ 324,923</b>	<b>\$ 8,437</b>	<b>\$ 8,439</b>
<b>NORTHWEST HOSPITAL</b>									
REVENUE BONDS	\$ 78,000	\$ -	\$ 2,000	\$ 76,000	\$ -	\$ 2,600	\$ 73,400	\$ 2,600	\$ 2,800
NOTES PAYABLE & CAPITAL LEASES	18,391	-	1,537	16,854	-	3,209	13,645	1,625	1,175
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>\$ 96,391</b>	<b>\$ -</b>	<b>\$ 3,537</b>	<b>\$ 92,854</b>	<b>\$ -</b>	<b>\$ 5,809</b>	<b>\$ 87,045</b>	<b>\$ 4,225</b>	<b>\$ 3,975</b>

### NOTE 10:

#### Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2014, are as follows:

##### CAPITAL LEASES

Year	(Dollars in thousands)	Future Payments
2015		\$ 5,109
2016		3,839
2017		3,432
2018		2,113
2019		1,627
THEREAFTER		6,096
<b>TOTAL MINIMUM LEASE PAYMENTS</b>		<b>22,216</b>
LESS: AMOUNT REPRESENTING INTEREST COSTS		1,759
<b>PRESENT VALUE OF MINIMUM PAYMENTS</b>		<b>\$ 20,457</b>

Buildings and equipment under capital leases were as follows:

(Dollars in thousands)	Balance at June 30, 2012	Additions	Retirements	Balance at June 30, 2013	Additions	Retirements	Balance at June 30, 2014
EQUIPMENT	\$ 29,062	\$ 16,630	\$ 14,989	\$ 30,703	\$ 2,878	\$ 702	\$ 32,879
REAL ESTATE	9,987	-	-	9,987	-	9,987	-
<b>TOTAL</b>	<b>39,049</b>	<b>16,630</b>	<b>14,989</b>	<b>40,690</b>	<b>2,878</b>	<b>10,689</b>	<b>32,879</b>
<b>LESS ACCUMULATED DEPRECIATION:</b>							
EQUIPMENT	20,996	5,027	14,989	11,034	5,572	702	15,904
REAL ESTATE	9,987	-	-	9,987	-	9,987	-
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>30,983</b>	<b>5,027</b>	<b>14,989</b>	<b>21,021</b>	<b>5,572</b>	<b>10,689</b>	<b>15,904</b>
<b>LEASED CAPITAL ASSETS, NET</b>	<b>\$ 8,066</b>	<b>\$ 11,603</b>	<b>\$ -</b>	<b>\$ 19,669</b>	<b>\$ (2,694)</b>	<b>\$ -</b>	<b>\$ 16,975</b>

##### OPERATING LEASES

The University has certain lease agreements in effect that are considered operating leases, which are primarily for leased building space. During the years ended June 30, 2014 and 2013, the University recorded rent expenses of \$38,791,000 and \$31,303,000, respectively, for these leases. Future lease payments under these leases as of June 30, 2014 are as follows:

##### Years (Dollars in Thousands)

2015	\$ 47,021
2016	38,932
2017	36,282
2018	25,776
2019	23,992
2020 - 2024	79,678
2025 - 2029	30,565
2030 - 2034	21,753
THEREAFTER	62,172
<b>TOTAL MINIMUM LEASE PAYMENTS</b>	<b>\$ 366,171</b>

### NOTE 11:

#### Bonds and Notes Payable

The bonds and notes payable at June 30, 2014 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 1.64% to 6.52%. Debt service requirements at June 30, 2014 were as follows:

Year	BONDS AND NOTES PAYABLE (Dollars in thousands)					
	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON REVENUE BONDS		NOTES PAYABLE AND OTHER	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 15,460	\$ 8,070	\$ 38,945	\$ 84,273	\$ 4,368	\$ 1,000
2016	18,289	7,197	41,335	82,594	3,146	925
2017	17,620	6,305	42,870	80,917	3,007	740
2018	14,300	5,409	42,215	79,198	2,898	616
2019	14,345	4,674	43,530	77,388	2,875	494
2020 - 2024	59,435	14,392	235,955	355,227	8,605	895
2025 - 2029	25,595	2,018	258,830	294,233	571	36
2030 - 2034	-	-	258,770	228,659	200	-
2035 - 2039	-	-	419,030	147,014	160	-
2040 - THEREAFTER	-	-	383,375	37,517	-	-
<b>TOTAL PAYMENTS</b>	<b>\$ 165,044</b>	<b>\$ 48,065</b>	<b>\$1,764,855</b>	<b>\$1,467,020</b>	<b>\$ 25,830</b>	<b>\$ 4,706</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

### PLEGDED REVENUES

The University has pledged \$54,738,000 of future Student Facilities Fees and earnings on invested fees to retire the Student Facilities Refunding Revenue Bonds issued in 2005. Proceeds of the bonds were used to construct student recreational sports facilities. These funds will be committed until the fiscal year ending June 30, 2030. Fiscal year 2014 debt service on these bonds is 18.5% of the associated 2014 pledged revenues.

### ISSUANCE ACTIVITY

On December 5, 2012, the University issued \$299,425,000 in General Revenue & Refunding Bonds, 2012C, at a premium of \$30,721,000. The proceeds were used to fund various projects such as renovation of Husky Stadium, the Husky Union Building, and the Ethnic Cultural Center; implementation of the Housing and Food Services Master Capital Plan (Phases 1-3); expansion of the UW Medical Center; improvements at the University's Bothell and Tacoma campuses; and construction of the new Molecular Engineering Building. In addition, proceeds were used to pay off \$75,000,000 in commercial paper. The 2012C bonds have coupon rates ranging from 2.00% to 5.00% with an average coupon rate of 3.61%. The average life of the 2012C General Revenue bonds is 21.75 years with final maturity on July 1, 2043.

On September 5, 2013, the University issued \$146,410,000 in General Revenue & Refunding Bonds, 2013, at a premium of \$8,589,000. The proceeds were used to fund various projects such as renovation of Husky Stadium, implementation of the

Housing and Food Services Master Capital Plan (Phases 2 and 3) and construction of the Husky Ballpark. In addition, proceeds were used to pay off \$20,000,000 in commercial paper. The 2013 bonds have coupon rates ranging from 1.50% to 5.00% with an average coupon rate of 4.96%. The average life of the 2013 General Revenue bonds is 17.72 years with final maturity on July 1, 2041.

### REFUNDING ACTIVITY

On February 5, 2013, the state of Washington refunded General Obligation Bonds totaling \$11,870,000 (UW portion) with new bond issuances totaling \$11,435,000 and premium of \$1,837,000. The refunded bonds had a coupon rate of 5.00%; the new bonds have an average interest rate of 4.50%. The refunding decreased the total debt service payments to be made over the next five years by \$837,000 and resulted in a total economic gain of \$815,000.

On January 9, 2014, the University, through the Washington Economic Development Finance Authority, refunded Lease Revenue Bonds financing the University's blended component unit, Washington Biomedical Research Properties 1, totaling \$29,590,000 with new bond issuances totaling \$28,995,000 and premium of \$1,752,000. The refunded bonds had coupon rates ranging from 3.95% to 5.375% with an average interest rate of 5.07%; the new bonds have an average interest rate of 4.37%. The refunding decreased the total debt service payments to be made over the next 21.5 years by \$3,488,000 and resulted in a total economic gain of \$2,445,000. The average life of the Washington Economic Development Finance Authority Lease Revenue Refunding Bonds, 2013 is 10.6 years with final maturity on June 1, 2034.

### Combined COP Refunding:

On March 19, 2013, the state of Washington refunded Certificates of Participation (COP) totaling \$2,740,000 with new COP issuances totaling \$2,410,000 (plus premium of \$358,000). The refunding decreased the total debt service payments to be made over the next 12 years by \$338,000 and resulted in a total economic gain of \$368,000.

### COMMERCIAL PAPER PROGRAM

In July 2006, the Board of Regents authorized a commercial paper program with a maximum borrowing limit of \$250,000,000, payable from University general revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2014 and 2013, there was \$58,500,000 and \$25,000,000, respectively, in outstanding commercial paper. \$8,500,000 of this debt was issued to refinance the Metropolitan Tract's line of credit (Note 7), and is therefore reflected as a component of the Metropolitan Tract line on the Statements of Net Position.

During fiscal year 2013, the University issued an additional \$75,000,000 and retired \$75,000,000 of commercial paper debt.

During fiscal year 2014, the University issued an additional \$53,500,000 and retired \$20,000,000 of commercial paper debt.

### SUBSEQUENT DEBT OFFERING

On October 28, 2014, the University issued \$34,000,000 in short-term commercial paper and used the proceeds to buy out the leasehold of the Cobb Building in the University's Metropolitan Tract.

### NOTE 12:

#### Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2014 and 2013 are summarized as follows:

Operating Expenses (Dollars in thousands)	2014	2013
INSTRUCTION	\$ 1,036,506	\$ 987,945
RESEARCH	766,310	756,162
PUBLIC SERVICE	41,553	47,818
ACADEMIC SUPPORT	297,200	261,222
STUDENT SERVICES	43,420	36,322
INSTITUTIONAL SUPPORT	223,955	200,872
OPERATION & MAINTENANCE OF PLANT	201,049	206,510
SCHOLARSHIPS & FELLOWSHIPS	138,309	140,897
AUXILIARY ENTERPRISES	285,561	203,615
MEDICAL-RELATED	1,042,323	999,687
DEPRECIATION/AMORTIZATION	308,190	280,099
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 4,384,376</b>	<b>\$ 4,121,149</b>

#### Instruction

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

#### Research

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

#### Public Service

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

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

#### Academic Support

Academic support includes expenses incurred to provide support services for the institution's primary missions: instruction, research, and public service. The activities

of the University's academic administration, libraries, museums and galleries, and information technology support for academic activities are included in this category.

#### Student Services

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

#### Institutional Support

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

#### Operation and Maintenance of Plant

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

#### Scholarships and Fellowships

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

#### Auxiliary Enterprises

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

#### Medical-related

The medical-related category includes all expenses associated with patient-care operations, including nursing and other professional services, general services, administrative services, and fiscal services. The activities of UWMC, UWP, and Neighborhood Clinics are included in this category (Note 1).

#### 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.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 13:

#### Related Parties

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center located in Seattle, is a component unit of King County, Washington. It has been managed by the University under a management contract between King County and the University since 1967. The current management contract will be in effect through June 30, 2015.

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

HMC revenues and expenses are not recognized in the University's financial statements. The University's financial statements do, however, include accounts receivable from HMC of \$33,015,000 in 2014 and \$23,404,000 in 2013, as well as HMC

investments of \$3,389,000 and \$2,955,000, respectively, and accrued liabilities of \$18,600,000 and \$18,526,000, respectively.

Beginning in fiscal year 2014, UW Medicine information technology began operating as a self-sustaining activity of the University (ITS department). The ITS department began recording enterprise-wide information technology capital assets that are purchased for use by UW Medicine entities. The Due To Related Party reflected in long-term liabilities (Note 9) of \$16,366,000 at June 30, 2014 represents HMC's funding of the enterprise-wide information technology which will be recognized by the ITS department over the useful life of the asset.

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 2014 and 2013, the UWF transferred \$53,510,000 and \$64,813,000, respectively, to the University in gifts and grants received on its behalf; these are included in the financial statements

of the University. The remaining amounts retained by the UWF are not significant to the University's financial statements.

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 \$2,564,000 and \$2,491,000 from the University in support of its operations in fiscal years 2014 and 2013, respectively.

During fiscal year 2013, UWMC provided \$2,100,000 to Northwest Hospital (NWH) to mitigate the negative impact of several state program reductions including the hospital safety net funding. This amount is presented in the Statements of Revenues, Expenses and Changes in Net Position for the University as a reduction of Patient Services revenue and for NWH as an increase in Patient Services revenue. In addition, \$8,321,000 of capital funding was also provided by UWMC to NWH during fiscal year 2013, and is reflected by the University in Other Nonoperating Revenues (Expenses) and by NWH in Capital Grants, Gifts and Other.

### ACTUARIAL STUDY

Actuarial studies, performed every two years by the Washington Office of the State Actuary, calculated that the total OPEB obligation of the state of Washington at January 1, 2013 and 2011 was \$3.7 billion and \$3.5 billion, respectively. The annual required contribution was \$342 million and \$321 million for the state of Washington for 2013 and 2011, respectively. The actuary calculated the OPEB obligation based on individual state employee data, including age, retirement eligibility and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on state-wide historical data.

The actuary's allocation of the cumulative statewide liability related to the University and HMC (an unconsolidated related party), was estimated at approximately \$671 million and \$605 million for 2013 and 2011, respectively. These amounts are not included in the University's financial statements.

The University paid \$288 million and \$289 million for healthcare expenses in 2014 and 2013, respectively, which included its pay-as-you-go portion of the OPEB liability, calculated by the actuary at \$8.6 million and \$6.8 million in 2014 and 2013, respectively.

The State Actuary's report is available at: [osa.leg.wa.gov/Actuarial\\_Services/OPEB/OPEB.htm](http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm)

### NOTE 15:

#### Pension Plans

The University offers two contributory plans: the Washington State Public Employees Retirement System (PERS) plan, a defined-benefit retirement plan; and the University of Washington Retirement Plan (UWRP), a defined-contribution plan. The University of Washington Supplemental Retirement Plan, a defined-benefit plan, is closed to employees who were not active participants on February 28, 2011.

#### PUBLIC EMPLOYEES RETIREMENT SYSTEM

**Plan Description:** The University contributes to PERS, a cost sharing, multiple-employer, defined-benefit pension plan administered by the state of Washington Department of Retirement Systems. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases beginning at age 66 to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living allowance to eligible nonacademic plan members hired on or after October 1, 1977. In addition, PERS Plan 3 has a defined-contribution component, which is fully funded by employee contributions. The authority to establish and amend benefit provisions resides with the legislature.

The Washington State Department of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Department

of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380, or visiting [www.dr.s.wa.gov/administration/](http://www.dr.s.wa.gov/administration/).

**Funding Policy:** The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members were required to contribute 6% of their annual covered salary in fiscal years 2014 and 2013. Contributions for Plan 2 members are determined by the aggregate method, and may vary over time. The contribution rate for Plan 2 employees at June 30, 2014 and 2013 was 4.9% and 4.6%, respectively. Plan 3 members can choose contributions ranging from 5% to 15% of salary, based on the age of the member. The defined-contribution benefit for PERS 3 will depend on the member's contributions, the investment earnings on those contributions, and if an annuity is taken, the age at which the member receives payment. The blended contribution rate for the University at June 30, 2014 and 2013, for each of PERS Plans 1, 2, and 3 was 9.21% and 7.21% respectively.

The University's contributions to PERS for the years ended June 30, 2014, 2013, and 2012 were \$81,662,000, \$62,030,000 and \$59,708,000, respectively, as determined by rates established in accordance with RCW 41.45.

#### 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.

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

The number of participants in the 403(b) plan for the years ended June 30, 2014 and 2013 were 14,993 and 14,495, respectively.

**403(b) Funding Policy:** Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employee and employer contributions for the years ended June 30, 2014 and 2013 were \$97,763,000 and \$90,837,000, respectively.

### NOTE 14:

#### Other Post Employment Benefits (OPEB)

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

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

other demographic factors. The healthcare premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of retirees.

An additional factor in the OPEB obligation is a payment that is required by the state legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). For both calendar years 2014 and 2013, this amount was \$150 per retiree eligible for parts A and B of Medicare. This is also passed through to state agencies through active employee rates charged to the agency.

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



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN (401(A))

The University of Washington Supplemental Retirement Plan (UWSRP), a 401(a) defined-benefit retirement plan, operates in tandem with the 403(b) plan and is closed to new participants.

The Unfunded Actuarial Accrued Liability (UAL) and Annual Required Contribution (ARC) as of July 1 of the respective years were:

<i>(Dollars in thousands)</i>	2013	2011	2009
UAL	\$ 292,535	\$ 235,048	\$ 218,036
NORMAL COST	\$ 9,529	\$ 10,774	\$ 8,860
AMORTIZATION OF UAL, INCLUDING INTEREST	29,021	19,607	17,220
ARC	\$ 38,550	\$ 30,381	\$ 26,080

<i>Actuarial assumptions (Dollars in thousands)</i>	2013	2011	2009
PAYROLL COVERED BY PLAN	\$1,047,000	\$1,129,000	\$ 976,000
RATE OF RETURN ASSUMPTION	4.25%	4.25%	5.00%
SALARY INCREASES FOR YEARS 1 AND 2	3%	2%	2%
SALARY INCREASE FOR THIRD YEAR	3%	4%	4%
SALARY INCREASES THEREAFTER	3%	4%	4%

The UAL and ARC were established using the entry age normal cost method.

The following table reflects the activity in the Net Pension Obligation for the years ended June 30, 2014, 2013 and 2012:

<i>(Dollars in thousands)</i>	2014	2013	2012
BALANCE AT BEGINNING OF FISCAL YEAR	\$ 163,372	\$ 127,465	\$ 99,124
ARC	38,550	38,550	30,381
PAYMENTS TO BENEFICIARIES	(3,027)	(2,643)	(2,040)
<b>BALANCE AT END OF FISCAL YEAR</b>	<b>\$ 198,895</b>	<b>\$ 163,372</b>	<b>\$ 127,465</b>

### NOTE 16:

#### Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2014 and 2013 were \$176,659,000 and \$156,326,000, respectively. These expenditures will be funded from local funds, 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 OMB Circular A-133, "Audits of States, Local Governments, and

Non-Profit Organizations." The University is also involved in various other claims and legal actions arising in the ordinary course of business. University management believes that any liabilities arising from these matters will not have a material effect on the University's financial statements.

The University is exposed to risk of loss related to tort liability, injuries to employees and loss of property. The University purchases insurance protection for workers' compensation as well as marine, aviation and certain other risks. The University also purchases insurance protection for loss of property at self-sustaining units, bond-financed buildings and where otherwise

**401(a) Plan Description:** This plan provides for a supplemental payment component, which guarantees a minimum retirement benefit based upon a one-time calculation at each eligible participant's retirement date. The University makes direct payments to qualifying retirees when the retirement benefits provided by the 403(b) plan do not meet the benefit goals.

**401(a) Plan Funding:** The University received an actuarial valuation of the UWSRP with a valuation date of July 1, 2013. The previous evaluations were performed in 2011 and 2009. The University has set aside \$177,019,000 and \$148,270,000 as of June 30, 2014 and 2013, respectively, for this liability. These funds do not meet the GASB technical definition of "Plan Assets" since they have not been segregated and restricted in a trust or equivalent arrangement. The UAL shown in the table above, therefore, does not reflect a credit for these amounts.

required by contract; otherwise, the risk of property loss is retained, unfunded. For medical professional, general, employment practices and automobile liability, the University maintains a program of self-insurance reserves and excess insurance coverage. The self-insurance reserve represents the estimated ultimate cost of settling claims resulting from events that have occurred on or before the Statements of Net Position date. The reserve includes the undiscounted amounts that will be required for future payments of claims that have been reported, and claims related to events that have occurred but have not yet been reported.

The self-insurance reserve is estimated through an actuarial calculation and included in Long-Term Liabilities. Changes in the self-insurance reserve for the years ended June 30, 2014, 2013, and 2012 are noted below:

<i>(Dollars in thousands)</i>	2014	2013	2012
RESERVE AT BEGINNING OF FISCAL YEAR	\$ 79,708	\$ 62,919	\$ 50,092
INCURRED CLAIMS AND CHANGES IN ESTIMATES	13,917	28,605	24,839
CLAIM PAYMENTS	(26,175)	(11,816)	(12,012)
<b>RESERVE AT END OF FISCAL YEAR</b>	<b>\$ 67,450</b>	<b>\$ 79,708</b>	<b>\$ 62,919</b>

On October 26, 2012, the Commissioners of Public Hospital District No. 1 filed a lawsuit alleging that Valley Medical Center lacked the authority to assent to the strategic alliance agreement and are seeking to prevent the Board of Trustees formed by the strategic alliance agreement from exercising "legislative responsibilities of the District's

elected commissioners." The King County Superior Court ruled for the University, and the case has been appealed. Although the University cannot predict the result of this appeal, University management believes that the lawsuit will not have a material adverse impact upon the financial position of the University.

During fiscal year 2014, the University entered into a Master Licensing Agreement with Starbucks Corporation. In accordance with this agreement, the University is obligated to build and operate eight Starbucks licensed stores on its campuses. Three stores must be in operation by June 30, 2018, and the remaining stores must be in operation by June 30, 2020. The term of each store's license extends ten years from the date the store is placed in service. In exchange, according to the ten-year Sponsorship Agreement also entered into during fiscal year 2014, Starbucks has agreed to pay the University a sponsorship fee totaling \$10,000,000 through fiscal year 2023.

**NOTES TO FINANCIAL STATEMENTS** (CONTINUED)

**NOTE 17:**

Blended Component Units

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

*(Dollars in thousands)*

Statements of Net Position – June 30, 2014	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>						
<b>CURRENT ASSETS:</b>						
TOTAL CURRENT ASSETS	\$ 1,537,383	\$ (9,073)	\$ 1,467,956	\$ 78,500	\$ 64,357	\$ 14,143
<b>NONCURRENT ASSETS:</b>						
TOTAL OTHER ASSETS	4,316,027	(8,285)	4,233,315	90,997	88,957	2,040
CAPITAL ASSETS, NET	4,044,796	-	3,721,405	323,391	14,316	309,075
TOTAL ASSETS	9,898,206	(17,358)	9,422,676	492,888	167,630	325,258
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>						
UNAMORTIZED LOSS ON BOND REFUNDING	14,359	-	14,359	-	-	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 9,912,565</b>	<b>\$ (17,358)</b>	<b>\$ 9,437,035</b>	<b>\$ 492,888</b>	<b>\$ 167,630</b>	<b>\$ 325,258</b>
<b>LIABILITIES</b>						
TOTAL CURRENT LIABILITIES	\$ 871,970	\$ (26,629)	\$ 810,694	\$ 87,905	\$ 60,664	\$ 27,241
TOTAL NONCURRENT LIABILITIES	2,398,046	-	2,095,946	302,100	-	302,100
<b>TOTAL LIABILITIES</b>	<b>3,270,016</b>	<b>(26,629)</b>	<b>2,906,640</b>	<b>390,005</b>	<b>60,664</b>	<b>329,341</b>
<b>NET POSITION</b>						
NET INVESTMENT IN CAPITAL ASSETS	2,018,077	-	2,007,437	10,640	14,316	(3,676)
<b>RESTRICTED:</b>						
NONEXPENDABLE	1,257,297	-	1,257,297	-	-	-
EXPENDABLE	1,628,532	-	1,628,532	-	-	-
UNRESTRICTED	1,738,643	9,271	1,637,129	92,243	92,650	(407)
<b>TOTAL NET POSITION</b>	<b>6,642,549</b>	<b>9,271</b>	<b>6,530,395</b>	<b>102,883</b>	<b>106,966</b>	<b>(4,083)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 9,912,565</b>	<b>\$ (17,358)</b>	<b>\$ 9,437,035</b>	<b>\$ 492,888</b>	<b>\$ 167,630</b>	<b>\$ 325,258</b>

*(Dollars in thousands)*

Statements of Net Position – June 30, 2013	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
TOTAL CURRENT ASSETS	\$ 1,459,050	\$ (9,587)	\$ 1,384,933	\$ 83,704	\$ 61,368	\$ 22,336
<b>NONCURRENT ASSETS:</b>						
TOTAL OTHER ASSETS	3,732,174	-	3,630,935	101,239	90,137	11,102
CAPITAL ASSETS, NET	3,975,957	-	3,641,225	334,732	11,588	323,144
<b>TOTAL ASSETS</b>	<b>\$ 9,167,181</b>	<b>\$ (9,587)</b>	<b>\$ 8,657,093</b>	<b>\$ 519,675</b>	<b>\$ 163,093</b>	<b>\$ 356,582</b>
<b>LIABILITIES</b>						
TOTAL CURRENT LIABILITIES	\$ 729,414	\$ (28,746)	\$ 662,260	\$ 95,900	\$ 50,194	\$ 45,706
TOTAL NONCURRENT LIABILITIES	2,272,716	-	1,959,076	313,640	-	313,640
<b>TOTAL LIABILITIES</b>	<b>3,002,130</b>	<b>(28,746)</b>	<b>2,621,336</b>	<b>409,540</b>	<b>50,194</b>	<b>359,346</b>
<b>NET POSITION</b>						
NET INVESTMENT IN CAPITAL ASSETS	2,038,495	-	2,031,336	7,159	11,588	(4,429)
<b>RESTRICTED:</b>						
NONEXPENDABLE	1,182,986	-	1,182,986	-	-	-
EXPENDABLE	1,344,643	-	1,344,643	-	-	-
UNRESTRICTED	1,598,927	19,159	1,476,792	102,976	101,311	1,665
<b>TOTAL NET POSITION</b>	<b>6,165,051</b>	<b>19,159</b>	<b>6,035,757</b>	<b>110,135</b>	<b>112,899</b>	<b>(2,764)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 9,167,181</b>	<b>\$ (9,587)</b>	<b>\$ 8,657,093</b>	<b>\$ 519,675</b>	<b>\$ 163,093</b>	<b>\$ 356,582</b>

**NOTE 17 CONTINUED**

*(Dollars in thousands)*

Statements of Revenues, Expenses and Changes in Net Position – Year ended June 30, 2014	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
<b>REVENUES</b>						
<b>OPERATING REVENUES:</b>						
STUDENT TUITION AND FEES	\$ 838,796	\$ -	\$ 838,796	\$ -	\$ -	\$ -
PATIENT SERVICES	1,206,918	(11,316)	1,029,607	188,627	188,627	-
GRANT REVENUE	1,275,491	-	1,275,491	-	-	-
OTHER OPERATING REVENUE	592,766	(77,566)	624,757	45,575	252	45,323
<b>TOTAL OPERATING REVENUE</b>	<b>3,913,971</b>	<b>(88,882)</b>	<b>3,768,651</b>	<b>234,202</b>	<b>188,879</b>	<b>45,323</b>
<b>EXPENSES</b>						
<b>OPERATING EXPENSES:</b>						
OTHER OPERATING EXPENSES	4,076,186	(78,994)	3,915,219	239,961	228,558	11,403
DEPRECIATION / AMORTIZATION	308,190	-	290,367	17,823	1,613	16,210
<b>TOTAL OPERATING EXPENSES</b>	<b>4,384,376</b>	<b>(78,994)</b>	<b>4,205,586</b>	<b>257,784</b>	<b>230,171</b>	<b>27,613</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(470,405)</b>	<b>(9,888)</b>	<b>(436,935)</b>	<b>(23,582)</b>	<b>(41,292)</b>	<b>17,710</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
STATE APPROPRIATIONS	262,146	-	262,146	-	-	-
GIFTS	117,071	-	117,071	-	-	-
INVESTMENT INCOME	480,645	-	468,633	12,012	12,011	1
OTHER NONOPERATING REVENUES (EXPENSES)	(1,349)	-	(5,667)	4,318	23,348	(19,030)
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>858,513</b>	<b>-</b>	<b>842,183</b>	<b>16,330</b>	<b>35,359</b>	<b>(19,029)</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES</b>	<b>388,108</b>	<b>(9,888)</b>	<b>405,248</b>	<b>(7,252)</b>	<b>(5,933)</b>	<b>(1,319)</b>
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	33,849	-	33,849	-	-	-
GIFTS TO PERMANENT ENDOWMENTS	55,541	-	55,541	-	-	-
<b>TOTAL OTHER REVENUES</b>	<b>89,390</b>	<b>-</b>	<b>89,390</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>477,498</b>	<b>(9,888)</b>	<b>494,638</b>	<b>(7,252)</b>	<b>(5,933)</b>	<b>(1,319)</b>
<b>NET POSITION</b>						
NET POSITION – BEGINNING OF YEAR	6,165,051	19,159	6,035,757	110,135	112,899	(2,764)
<b>NET POSITION – END OF YEAR</b>	<b>\$ 6,642,549</b>	<b>\$ 9,271</b>	<b>\$ 6,530,395</b>	<b>\$ 102,883</b>	<b>\$ 106,966</b>	<b>\$ (4,083)</b>

*(Dollars in thousands)*

Statements of Revenues, Expenses and Changes in Net Position – Year ended June 30, 2013	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
<b>REVENUES</b>						
<b>OPERATING REVENUES:</b>						
STUDENT TUITION AND FEES	\$ 808,053	\$ -	\$ 808,053	\$ -	\$ -	\$ -
PATIENT SERVICES	1,162,389	(16,942)	991,483	187,848	187,848	-
GRANT REVENUE	1,310,718	-	1,310,718	-	-	-
OTHER OPERATING REVENUE	501,760	(26,003)	504,327	23,436	332	23,104
<b>TOTAL OPERATING REVENUE</b>	<b>3,782,920</b>	<b>(42,945)</b>	<b>3,614,581</b>	<b>211,284</b>	<b>188,180</b>	<b>23,104</b>
<b>EXPENSES</b>						
<b>OPERATING EXPENSES:</b>						
OTHER OPERATING EXPENSES	3,841,050	(75,298)	3,698,200	218,148	209,455	8,693
DEPRECIATION / AMORTIZATION	280,099	-	262,297	17,802	1,648	16,154
<b>TOTAL OPERATING EXPENSES</b>	<b>4,121,149</b>	<b>(75,298)</b>	<b>3,960,497</b>	<b>235,950</b>	<b>211,103</b>	<b>24,847</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(338,229)</b>	<b>32,353</b>	<b>(345,916)</b>	<b>(24,666)</b>	<b>(22,923)</b>	<b>(1,743)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
STATE APPROPRIATIONS	218,165	-	218,165	-	-	-
GIFTS	101,823	-	101,823	-	-	-
INVESTMENT INCOME	341,241	-	335,200	6,041	6,037	4
OTHER NONOPERATING REVENUES (EXPENSES)	(31,325)	(21,591)	(12,595)	12,261	21,749	(9,488)
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>629,904</b>	<b>(21,591)</b>	<b>633,193</b>	<b>18,302</b>	<b>27,786</b>	<b>(9,484)</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES</b>	<b>291,675</b>	<b>10,762</b>	<b>287,277</b>	<b>(6,364)</b>	<b>4,863</b>	<b>(11,227)</b>
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	73,886	-	73,886	-	-	-
GIFTS TO PERMANENT ENDOWMENTS	57,882	-	57,882	-	-	-
<b>TOTAL OTHER REVENUES</b>	<b>131,768</b>	<b>-</b>	<b>131,768</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>423,443</b>	<b>10,762</b>	<b>419,045</b>	<b>(6,364)</b>	<b>4,863</b>	<b>(11,227)</b>
<b>NET POSITION</b>						
NET POSITION – BEGINNING OF YEAR	5,741,608	8,397	5,616,712	116,499	108,036	8,463
<b>NET POSITION – END OF YEAR</b>	<b>\$ 6,165,051</b>	<b>\$ 19,159</b>	<b>\$ 6,035,757</b>	<b>\$ 110,135</b>	<b>\$ 112,899</b>	<b>\$ (2,764)</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 17 CONTINUED

(Dollars in thousands)

Statements of Cash Flows - Year ended June 30, 2014	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
<b>NET CASH PROVIDED (USED) BY:</b>						
OPERATING ACTIVITIES	\$ (64,337)	\$ -	\$ (54,721)	\$ (9,616)	\$ (29,177)	\$ 19,561
NONCAPITAL FINANCING ACTIVITIES	461,249	-	446,478	14,771	14,771	-
CAPITAL AND RELATED FINANCING ACTIVITIES	(319,011)	-	(298,903)	(20,108)	(875)	(19,233)
INVESTING ACTIVITIES	(76,979)	-	(88,028)	11,049	13,191	(2,142)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>922</b>	<b>-</b>	<b>4,826</b>	<b>(3,904)</b>	<b>(2,090)</b>	<b>(1,814)</b>
CASH AND CASH EQUIVALENTS -						
BEGINNING OF THE YEAR	78,206	-	55,433	22,773	19,128	3,645
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<b>\$ 79,128</b>	<b>\$ -</b>	<b>\$ 60,259</b>	<b>\$ 18,869</b>	<b>\$ 17,038</b>	<b>\$ 1,831</b>

(Dollars in thousands)

Statements of Cash Flows - Year ended June 30, 2013	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
<b>NET CASH PROVIDED (USED) BY:</b>						
OPERATING ACTIVITIES	\$ (115,280)	\$ -	\$ (161,271)	\$ 45,991	\$ (23,738)	\$ 69,729
NONCAPITAL FINANCING ACTIVITIES	413,594	-	389,341	24,253	24,253	-
CAPITAL AND RELATED FINANCING ACTIVITIES	(331,829)	-	(325,546)	(6,283)	216	(6,499)
INVESTING ACTIVITIES	61,563	-	124,128	(62,565)	9,769	(72,334)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>28,048</b>	<b>-</b>	<b>26,652</b>	<b>1,396</b>	<b>10,500</b>	<b>(9,104)</b>
CASH AND CASH EQUIVALENTS -						
BEGINNING OF THE YEAR	50,158	-	28,781	21,377	8,628	12,749
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<b>\$ 78,206</b>	<b>\$ -</b>	<b>\$ 55,433</b>	<b>\$ 22,773</b>	<b>\$ 19,128</b>	<b>\$ 3,645</b>

### NOTE 18:

#### Discrete Component Units

Condensed combining statements for the University's discrete component units are shown below:

(Dollars in thousands)

Statements of Net Position	June 30, 2014			June 30, 2013		
	Total Discrete Component Units	Northwest Hospital	Valley Medical Center	Total Discrete Component Units	Northwest Hospital	Valley Medical Center
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
TOTAL CURRENT ASSETS	\$ 221,876	\$ 71,416	\$ 150,460	\$ 225,288	\$ 81,949	\$ 143,339
<b>NONCURRENT ASSETS:</b>						
TOTAL OTHER ASSETS	153,484	55,393	98,091	136,469	50,845	85,624
CAPITAL ASSETS, NET	489,680	120,566	369,114	510,947	123,243	387,704
<b>TOTAL ASSETS</b>	<b>\$ 865,040</b>	<b>\$ 247,375</b>	<b>\$ 617,665</b>	<b>\$ 872,704</b>	<b>\$ 256,037</b>	<b>\$ 616,667</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>						
TOTAL CURRENT LIABILITIES	\$ 143,106	\$ 64,904	\$ 78,202	\$ 144,047	\$ 62,615	\$ 81,432
TOTAL NONCURRENT LIABILITIES	399,554	83,070	316,484	412,175	88,629	323,546
TOTAL DEFERRED INFLOWS OF RESOURCES	8,585	-	8,585	-	-	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>551,245</b>	<b>147,974</b>	<b>403,271</b>	<b>556,222</b>	<b>151,244</b>	<b>404,978</b>
<b>NET POSITION</b>						
NET INVESTMENT IN CAPITAL ASSETS	84,800	40,704	44,096	93,222	38,227	54,995
<b>RESTRICTED:</b>						
NONEXPENDABLE	1,775	1,775	-	1,773	1,773	-
EXPENDABLE	8,511	697	7,814	8,537	809	7,728
UNRESTRICTED	218,709	56,225	162,484	212,950	63,984	148,966
<b>TOTAL NET POSITION</b>	<b>313,795</b>	<b>99,401</b>	<b>214,394</b>	<b>316,482</b>	<b>104,793</b>	<b>211,689</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 865,040</b>	<b>\$ 247,375</b>	<b>\$ 617,665</b>	<b>\$ 872,704</b>	<b>\$ 256,037</b>	<b>\$ 616,667</b>

(Dollars in thousands)

Statements of Revenues, Expenses and Changes in Net Position	Year Ended June 30, 2014			Year Ended June 30, 2013		
	Total Discrete Component Units	Northwest Hospital	Valley Medical Center	Total Discrete Component Units	Northwest Hospital	Valley Medical Center
<b>REVENUES</b>						
<b>OPERATING REVENUES:</b>						
PATIENT SERVICES	\$ 752,980	\$ 309,734	\$ 443,246	\$ 741,581	\$ 312,206	\$ 429,375
OTHER OPERATING REVENUE	45,556	14,607	30,949	38,888	15,601	23,287
<b>TOTAL OPERATING REVENUE</b>	<b>798,536</b>	<b>324,341</b>	<b>474,195</b>	<b>780,469</b>	<b>327,807</b>	<b>452,662</b>
<b>EXPENSES</b>						
<b>OPERATING EXPENSES:</b>						
OTHER OPERATING EXPENSES	738,308	311,805	426,503	733,981	299,824	434,157
DEPRECIATION / AMORTIZATION	51,018	17,856	33,162	52,028	19,118	32,910
<b>TOTAL OPERATING EXPENSES</b>	<b>789,326</b>	<b>329,661</b>	<b>459,665</b>	<b>786,009</b>	<b>318,942</b>	<b>467,067</b>
<b>OPERATING INCOME (LOSS)</b>	<b>9,210</b>	<b>(5,320)</b>	<b>14,530</b>	<b>(5,540)</b>	<b>8,865</b>	<b>(14,405)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
PROPERTY TAX REVENUE	16,342	-	16,342	16,254	-	16,254
INVESTMENT INCOME	7,390	4,362	3,028	7,519	4,569	2,950
OTHER NONOPERATING EXPENSES	(35,657)	(4,462)	(31,195)	(25,323)	(4,150)	(21,183)
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>(11,925)</b>	<b>(100)</b>	<b>(11,825)</b>	<b>(1,560)</b>	<b>419</b>	<b>(1,979)</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES</b>	<b>(2,715)</b>	<b>(5,420)</b>	<b>2,705</b>	<b>(7,100)</b>	<b>9,284</b>	<b>(16,384)</b>
CAPITAL GRANTS, GIFTS AND OTHER	28	28	-	8,340	8,340	-
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>(2,687)</b>	<b>(5,392)</b>	<b>2,705</b>	<b>1,240</b>	<b>17,624</b>	<b>(16,384)</b>
<b>NET POSITION</b>						
NET POSITION - BEGINNING OF YEAR	316,482	104,793	211,689	315,242	87,169	228,073
<b>NET POSITION - END OF YEAR</b>	<b>\$ 313,795</b>	<b>\$ 99,401</b>	<b>\$ 214,394</b>	<b>\$ 316,482</b>	<b>\$ 104,793</b>	<b>\$ 211,689</b>



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\* As of June 30, 2014

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## APPENDIX C

### BOOK-ENTRY-ONLY SYSTEM

*The information relating to the Book-Entry System in this appendix has been furnished by DTC, and has not been independently verified by the Underwriters, the Issuer or the University. Neither the Underwriters, the Issuer nor the University makes any representation whatsoever as to the accuracy, adequacy or completeness of such information. Language in [brackets] with strike-through has been deleted as permitted by DTC as it does not pertain to the Bonds.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for ~~[each issue of]~~ the Securities, ~~[each]~~ in the aggregate principal amount of such issue, and will be deposited with DTC. ~~[If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]~~

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to

whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

~~[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]~~

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF BOND COUNSEL OPINION

October 7, 2015

WBRP 3.2  
Seattle, Washington

Barclays Capital Inc.  
Seattle, Washington

Citigroup Global Markets Inc.  
Seattle, Washington

Wells Fargo Securities  
Seattle, Washington

Backstrom McCarley Berry & Co., LLC  
San Francisco, California

University of Washington  
Seattle, Washington

Re: WBRP 3.2 Lease Revenue Bonds, Series 2015A - \$107,615,000  
WBRP 3.2 Lease Revenue Bonds, Series 2015B (Taxable) - \$24,455,000

Ladies and Gentlemen:

We have acted as bond counsel to the University of Washington (the “University”) in connection with the issuance by WBRP 3.2, a Washington nonprofit corporation (the “Issuer”), of its Lease Revenue Bonds, Series 2015A and Lease Revenue Bonds, Series 2015B (Taxable) (together the “Bonds”), and have examined a certified transcript of the proceedings taken for the issuance of the Bonds. The Bonds are dated as of their date of delivery, and are in the aggregate principal amount of \$132,070,000. The Issuer is issuing the 2015A Bonds on behalf of the University in accordance with the provisions of Revenue Ruling 63-20 of the U.S. Treasury, as further amended and updated by Revenue Procedure 82-26 of the U.S. Treasury (collectively, the “Ruling”).

The Bonds are being issued pursuant to an Indenture of Trust dated as of October 1, 2015 (the “Indenture”), between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”) to provide funds that will be used by the Issuer, *inter alia*, to finance the costs of designing, permitting, construction and equipping biomedical research facilities on property in Seattle, Washington (defined with more particularity in the Indenture as the “Project”). The Issuer has executed a Federal Tax Certificate dated as of this date (the “Tax Certificate”) regarding the use and investment of the proceeds of the 2015A Bonds. Capitalized terms used in this opinion and not otherwise defined herein have the meanings given such terms in the Indenture.

The 2015A Bonds are subject to optional and mandatory redemption as provided in the Indenture.

The Bonds are non-recourse revenue obligations of the Issuer, payable solely from the Trust Estate pledged under the Indenture. The Issuer has no source of funds available to pay debt service on the Bonds other than the Trust Estate which includes Revenues generated by the Project. The University is not obligated to pay debt service on the Bonds.

In our capacity as Bond Counsel we have examined such documents, records of the Issuer and the University, and other instruments and proceedings as we deemed necessary to enable us to express the opinions set forth below.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding obligations of the Issuer, enforceable in accordance with their terms, subject to laws relating to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and subject to the exercise of judicial discretion in appropriate cases and to the application of equitable principles if equitable remedies are sought.

2. The Indenture has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the Trustee, is a valid and binding obligation of the Issuer, enforceable in accordance with its terms, subject to the limitations set forth in paragraph 1.

3. By official action of the Issuer prior to the issuance of the Bonds, the Issuer has duly authorized and approved the execution and delivery of and the performance by the Issuer of the obligations on its part contained in the Indenture.

4. Interest on the 2015A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the 2015A Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Issuer and the University comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2015A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer and the University have covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the 2015A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2015A Bonds.

The Issuer has not designated the 2015A Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

5. Interest on the 2015B Bonds is not excludable from gross income for federal income tax purposes.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the Issuer or the University to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PACIFICA LAW GROUP LLP



## APPENDIX E

### FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS OF THE ISSUER AND THE UNIVERSITY

#### **Form of Continuing Disclosure Undertaking of the University**

This Continuing Disclosure Undertaking (this “Undertaking”) dated as of October 7, 2015, is hereby made by the University of Washington (the “University”) in connection with the issuance by WBRP 3.2 (the “Issuer”) of its Lease Revenue Bonds, Series 2015A and Lease Revenue Bonds, Series 2015B (Taxable) (collectively the “Bonds”) pursuant to an Indenture of Trust dated as of October 1, 2015, between the Issuer and U.S. Bank National Association (the “Trustee”) (the “Indenture”).

The University covenants and agrees as follows:

SECTION 1. Purpose of the Undertaking. This Undertaking is being executed and delivered by the University for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

**Annual Report** shall mean any Annual Report provided by the University pursuant to, and as described in, Sections 3 and 4 of this Undertaking.

**Beneficial Owner** shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

**Dissemination Agent** shall mean the University, or any successor Dissemination Agent designated in writing by the University and which has filed with the University a written acceptance of such designation.

**Holders** shall mean the registered holders of the Bonds, as recorded in the registration books of the Registrar.

**MSRB** means the Municipal Securities Rulemaking Board or any successors to its functions.

**Notice Event** shall mean any of the following events:

1. Principal and interest payment delinquencies;
2. Nonpayment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material or events affecting the tax-exempt status of the 2015A Bonds;
7. Modifications to the rights of Bond Owners if material;
8. Optional, contingent or unscheduled calls of any Bonds other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856, if material, and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Bonds, if material;

11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Issuer;
13. The consummation of a merger, consolidation, or acquisition of the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement to undertake such an actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of the trustee, if material.

**Official Statement** shall mean the Official Statement dated September 24, 2015, with respect to the Bonds.

**Participating Underwriter** shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

**Rule** shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**State** shall mean the State of Washington.

### SECTION 3. Provision of Annual Reports.

(a) The University shall, or shall cause the Dissemination Agent to, not later than seven months after the end of the University's fiscal year (presently January 31, 2016 for the fiscal year ending June 30, 2015), commencing with the report for the 2015 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Undertaking. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Undertaking; provided that the audited financial statements of the University may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. The University may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB.

(b) Not later than fifteen (15) Business Days prior to said date, the University shall provide the Annual Report to the Dissemination Agent (if other than the University). If the University is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the University shall send a notice to the MSRB stating that the University is unable to provide the Annual Report by the date required in subsection (a), and stating when the University expects to provide the Annual Report.

(c) If the Dissemination Agent is not the University, the Dissemination Agent shall file a report with the University certifying that the Annual Report has been provided pursuant to this Undertaking and stating the date it was provided.

SECTION 4. Content of Annual Reports. The University's Annual Report shall contain or include by reference (without duplication) the following:

1. The audited financial statements of the University for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the University's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.
2. Updates to the following financial and operating data of the University to the extent the updates are not included in the audited financial statements provided under subsection 1:

- The amount of University revenue and other debt outstanding in that fiscal year.
- Student enrollment information for that fiscal year, of the type provided in the table entitled “STUDENT AND ENROLLMENT” under the heading “UNIVERSITY OF WASHINGTON – Admissions, Student Enrollment and Faculty Information” and distribution of undergraduate enrollment among University campuses.
- Information regarding the number of faculty, tenure rate and percent holding terminal degrees for that fiscal year, of the type provided in the table entitled “FACULTY DATA” under the heading “UNIVERSITY OF WASHINGTON – Admissions, Student Enrollment and Faculty Information.”
- Information regarding room and board fees, autumn opening occupancy and occupancy for that fiscal year, of the type provided in the table entitled “HOUSING AND DINING DATA” under the heading “UNIVERSITY OF WASHINGTON – Admissions, Student Enrollment and Faculty Information.”
- General Revenues, and General Revenue components, for that fiscal year, of the type provided in the table entitled “GENERAL REVENUES” under the heading “UNIVERSITY OF WASHINGTON – General Revenues.”
- Grant and contract revenues for that fiscal year, and amount or percentage of grant and contract revenues from federal sources.
- Information regarding the amount or percentage of revenues from Medicare or Medicaid payments in that fiscal year.
- Expenditures of State capital and operating appropriations to the University for such fiscal year, of the type provided in the table entitled “EXPENDITURES OF STATE APPROPRIATIONS TO THE UNIVERSITY BY TYPE” under the heading “UNIVERSITY OF WASHINGTON – Other University Financial Information – State Funding.”
- UWMC, Northwest and Valley financial information and patient activity statistics for such fiscal year, generally of the type provided in the tables under the heading "UW MEDICINE."
- Value of investments, including operating fund investments (currently referred to as “Invested Funds”) and the Consolidated Endowment Fund, for that fiscal year.
- A narrative description of any material changes to the University’s investment policy or CEF distribution policy during the preceding fiscal year.
- Gift revenue for that fiscal year.
- University revenue by source for that fiscal year, of the type provided in the table “UNIVERSITY TOTAL REVENUE BY SOURCE, FISCAL YEAR 2014” under the heading “UNIVERSITY OF WASHINGTON – Other University Financial Information – University Total Revenue by Source.”
- Total University expenditures and percentages of expenditures by category for that fiscal year, of the type presented under the heading “UNIVERSITY OF WASHINGTON – Other University Financial Information – University Expenditures.”
- University total net assets and unrestricted net assets, of the type presented under the heading “UNIVERSITY OF WASHINGTON – Other University Financial Information – University Net Assets.”

- A description of any material changes to the University’s obligations with respect to its pension plans, of the type presented under the heading “OTHER UNIVERSITY INFORMATION – Pension Plans.”
- A description of any material changes to the University’s obligations with respect to other post-employment benefits, of the type presented under the heading “OTHER UNIVERSITY INFORMATION – Other Post-Employment Retirement Benefits (“OPEB”).”
- Amount of the University’s self-insurance reserve, of the type presented under the heading “OTHER UNIVERSITY INFORMATION – Risk Management.”

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the University or related public entities, which are available to the public on the MSRB’s internet website. The University shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Notice Events. The University shall give, or cause to be given, notice of the occurrence of any Notice Events with respect to the Bonds not in excess of ten business days after the occurrence of the event.

SECTION 6. Termination of Reporting Obligation. The University’s obligations under this Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the University shall give notice of such termination in the same manner as for a Notice Event.

SECTION 7. Dissemination Agent. The University may, from time to time, appoint or engage a successor Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Agent, with or without appointing another successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the University pursuant to this Undertaking.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Undertaking, the University may amend this Undertaking, and any provision of this Undertaking may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Undertaking, the University shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the University. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in

quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Undertaking shall be deemed to prevent the University from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Undertaking. If the University chooses to include any information in any Annual Report in addition to that which is specifically required by this Undertaking, the University shall have no obligation under this Undertaking to update such information or include it in any future Annual Report.

SECTION 10. Default. In the event of a failure of the University to comply with any provision of this Undertaking, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the University to comply with its obligations under this Undertaking. A default under this Undertaking shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Undertaking in the event of any failure of the University to comply with this Undertaking shall be an action to compel performance.

SECTION 11. Beneficiaries. This Undertaking shall inure solely to the benefit of the University, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. EMMA; Format for Filing with the MSRB. Until otherwise designated by the MSRB or the Securities and Exchange Commission, any filing required to be made with the MSRB under this Undertaking are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at [www.emma.msrb.org](http://www.emma.msrb.org). All notices, financial information and operating data required by this Undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this Undertaking must be accompanied by identifying information as prescribed by the MSRB.

## Form of Continuing Disclosure Undertaking of the Issuer

The Issuer has provided under the Indenture a written undertaking for the benefit of the Owners and Beneficial Owners of the Bonds as required by Section (b)(5) of the Rule.

SECTION 1. Financial Statements/Operating Data. The Issuer agrees to provide or cause to be provided to the MSRB, the following annual financial information and operating data for the prior fiscal year (commencing in 2016 for the fiscal year ended June 30, 2015):

1. Annual financial statements showing ending fund balances for the Issuer prepared in accordance with generally accepted accounting principles; and
2. Information regarding material changes to the Lease, Rent delinquencies, changes in tenancy of the Premises and any change in Trustee, presented in substantially the form set forth on Exhibit C of the undertaking.

Such information and data described above shall be provided on or before seven months after the end of the Issuer's fiscal year. The Issuer's current fiscal year ends June 30. The Issuer may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the Issuer may cross-reference to other documents available to the public on the MSRB's internet website and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the Issuer shall provide the Issuer's audited annual financial statement prepared in accordance with generally accepted accounting principles, when and if available, to the MSRB.

SECTION 2. Notice Events. The Issuer agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, not in excess of ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Nonpayment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions the issuance by the Internal Revenue service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material or events affecting the status of the 2015A Bonds;
7. Modifications to the rights of Bond Owners, if material;
8. Optional, contingent or unscheduled calls of any Bonds other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856 if material, and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Issuer;
13. The consummation of a merger, consolidation, or acquisition of the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement to undertake such an actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of the trustee, if material.

SECTION 3. Notification Upon Failure to Provide Financial Data. The Issuer agrees to provide or cause to be provided, in a timely manner, to the MSRB, notice of its failure to provide the annual financial information and operating data described above on or prior to the date set forth above.

SECTION 4. Additional Information. In addition to the information required to be provided under the Rule, the Issuer agrees to provide in a timely manner to the MSRB, notice (i) if the University ceases to be the lessee of the Premises, and (ii) if the Lease expires or terminates.

SECTION 5. EMMA; Format for Filings with the MSRB. Until otherwise designated by the MSRB or the SEC, any information or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at [www.emma.msrb.org](http://www.emma.msrb.org). All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

SECTION 6. Termination/Modification. The Issuer's obligations to provide annual financial information and notices of Notice Events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. This section, or any provision hereof, shall be null and void if the Issuer (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this section, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies the MSRB of such opinion and the cancellation of this section.

Notwithstanding any other provision of the Indenture, the Issuer may amend its undertaking, and any provision of its undertaking may be waived, with an approving opinion of nationally recognized bond counsel. In the event of any amendment or waiver, the Issuer shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Notice Event and (ii) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 7. Trustee to Act as Dissemination Agent; Registered Owner's Remedies under this Section. The Trustee, as the agent of the Issuer (the "Dissemination Agent") and not as Trustee for the Bonds, will comply with and carry out the provisions of the undertaking with respect to dissemination of the documents and information provided to it by the Issuer thereunder; provided, however, that the Issuer shall have timely delivered to the Dissemination Agent the documents and information required under the undertaking. Specifically,

1. If by five Business Days prior to the date specified in Section 1 of the agreement for providing the Annual Report to the Repository, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to inquire if the Issuer is in compliance with Section 1.
2. If the Issuer does not provide a written certification to the Dissemination Agent to the effect that an Annual Report has been provided to the Repository by the date required in Section 1, the Dissemination Agent shall send a notice to the Repository in substantially the form attached as Exhibit A.
3. Whenever the Issuer obtains knowledge of the occurrence of a Notice Event in Section 2 that requires a determination of materiality, because of a notice from the Trustee or otherwise, the Issuer shall within five business days determine if such event would constitute material information, within the meaning of such term under federal securities laws, for Bondholders; provided, however, that any other Notice Event shall always be deemed to be material.

4. If the Issuer has determined that knowledge of the occurrence of a Notice Event would be material, or if such Notice Event is otherwise deemed to be material (in each case, a “Material Notice Event”), the Issuer shall promptly notify the Dissemination Agent in writing and provide the notice to be sent to the Repository of such Notice Event or Material Notice Event. Such notice shall instruct the Dissemination Agent to report the occurrence to EMMA.
5. If in response to a request from the Dissemination Agent, the Issuer determines that the Notice Event (other than a Material Notice Event) would not be material, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.
6. If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Notice Event and provided with the notice to be sent to EMMA, the Dissemination Agent shall file a notice of such occurrence with EMMA with a copy to the Issuer. Notwithstanding the foregoing, notice of the occurrence of a Material Notice Event shall be given by the Dissemination Agent within 10 business days of the its receipt from the Issuer of the notice to be sent to EMMA describing such Material Notice Event. Each notice filed with EMMA pursuant to this subsection 6 shall set forth the following information:
  - (a) the category of information being provided;
  - (b) the period covered by any annual financial information/financial statements or operating data;
  - (c) the issues or specific securities to which such document is related (including CUSIP number, Issuer name, state, issue description, dated date, maturity date and coupon rate);
  - (d) the name of the Issuer and any other obligated person other than the Issuer;
  - (e) the name and date of the documents; and
  - (f) contact information for the Disclosure Representative.

Notwithstanding any other provision of the Indenture, failure of the Issuer or the Dissemination Agent, to comply with the provisions of the undertaking shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Owners of a majority in aggregate principal amount of the Bonds Outstanding, shall) or any Registered Owner or Beneficial Owner of Bonds may take such actions as may be necessary and appropriate, to cause the Issuer or the Trustee, as the Dissemination Agent, to comply with their obligations under the undertaking.

Notwithstanding anything to the contrary contained in the undertaking, neither the Dissemination Agent nor the Trustee has undertaken any responsibility thereunder except as specifically described in the undertaking with respect to any reports, notices or disclosures provided to it under the Indenture or otherwise, and has no liability to any person, including any Owner or Beneficial Owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the Issuer or the University shall not be construed to mean that the Dissemination Agent or the Trustee has actual knowledge of any event or condition except as may be provided by written notice from the Issuer.

The Issuer or the Dissemination Agent may terminate this Continuing Disclosure Agreement by giving written notice to the other party at least 30 days prior to such termination. The Dissemination Agent shall be fully discharged at the time any such termination is effective.

SECTION 8. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Continuing Disclosure Agreement as if this Continuing Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Continuing Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their rights, obligations, powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive the termination of this Continuing Disclosure Agreement, the resignation or removal of the Dissemination



Agent and payment of the Bonds. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bondholders, or any other party. The Dissemination Agent shall have no liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from the breach of this Continuing Disclosure Agreement.

The Dissemination Agent agrees to disseminate the information provided to it hereunder in the form delivered by the Issuer. The Dissemination Agent is acting hereunder solely in an agency capacity and as such is merely a conduit for the Issuer, and shall have no liability or responsibility for the form, content, accuracy or completeness of any information furnished hereunder. Any such information may contain a legend to that effect.

The Dissemination Agent shall have no obligation to make disclosure concerning the Bonds, the Project or any other matter except as expressly set out herein, provided that no provision of this Continuing Disclosure Agreement shall limit the duties, trusts, rights, powers or obligations of the Trustee under the Indenture. The fact that the Trustee has or may have any banking, fiduciary or other relationship with the Issuer or any other party in connection with the Project or otherwise, apart from the relationship created by the Indenture and this Continuing Disclosure Agreement, shall not be construed to mean that the Trustee has knowledge or notice of any event or condition relating to the Bonds or the Project except in its respective capacities under such agreements.

No provision of this Continuing Disclosure Agreement shall require or be construed to require the Issuer or the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder.

The Annual Report may contain such disclaimer language as the Issuer may deem appropriate. Any information disclosed hereunder by the Dissemination Agent may contain such disclaimer language as the Dissemination Agent may deem appropriate.

The Issuer hereby agrees to compensate the Dissemination Agent for the services provided and the expenses incurred pursuant to this Continuing Disclosure Agreement, in an amount to be agreed upon from time to time hereunder, and to reimburse the Dissemination Agent upon its request for all reasonable expenses, disbursements and advances incurred by the Dissemination Agent hereunder (including any reasonable compensation and expenses of counsel) except any such expense, disbursement or advance that may be attributable to its negligence or willful misconduct.

The Dissemination Agent may consult with counsel of its choice and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon, it being understood that for purposes of this provision, that such counsel may be counsel to the Issuer.

No provision of this Continuing Disclosure Agreement shall require the Dissemination Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights of powers.

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:  
State:  
Name of Bond Issue:  
Cusip Number:  
Obligated Person:  
Contact Information:  
Date of Issuance:  
Maturity Date:

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report for the period ending December 31, 20\_\_ with respect to the above named Bonds as required by the Continuing Disclosure Agreement, dated as of September \_\_, 2015, among the Issuer and U.S. Bank National Association, as Dissemination Agent. The Issuer has notified the Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, as  
Dissemination Agent

By: \_\_\_\_\_

Title:

cc: WBRP 3.2 (Issuer)



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WASHINGTON



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