BONDHOLDERS REPORT

2019

UNIVERSITY *of* WASHINGTON | TREASURY OFFICE

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2019

BONDHOLDERS REPORT

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University of Washington

2019 BONDHOLDERS REPORT

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

As a preface to reviewing the materials, we suggest starting with the University's Financial Report, which highlights the accomplishments, opportunities and challenges facing the University. The enclosed audited financial statements are as of June 30, 2019, the University's fiscal year end.

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

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

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The information presented in this report is not intended to cover all material information that may be relevant to the outstanding bonds of the University of Washington. The information contained herein has been obtained from University officers, employees, records and other sources believed to be reliable. The University of Washington is under no legal obligation to provide the bondholders report, nor should it be construed that the University will provide such information in whole or in part in the future.

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2019 FINANCIAL REPORT

UNIVERSITY *of* WASHINGTON

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University Facts

	FISCAL YEAR 2019 Academic Year 2018–2019	FISCAL YEAR 2014 Academic Year 2013–2014	FISCAL YEAR 2009 Academic Year 2008–2009
STUDENTS			
Autumn Enrollment (headcount)			
Undergraduate	42,578	37,895	34,076
Graduate	14,498	13,177	11,453
Professional	2,176	2,000	1,847
TOTAL	**59,252**	**53,072**	**47,376**
Professional and Continuing Education – Course and Conference Registrations	81,361	75,412	62,447
Number of Degrees Awarded			
Bachelor's	11,761	9,921	8,458
Master's	4,687	3,925	2,988
Doctoral	915	762	686
Professional	565	563	495
TOTAL	**17,928**	**15,171**	**12,627**
FACULTY [1]	4,369	4,494	4,101
FACULTY AND STAFF[2]	31,439	26,538	24,808
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,579,056	$1,385,743	$ 1,146,135
SELECTED REVENUES *(in thousands of dollars)*			
Net Patient Service and Other Medical-Related Revenues	$ 2,933,682	$ 2,042,029	$ 1,035,731
Gifts, Grants and Contracts	1,643,142	1,439,932	1,149,083
Tuition and Fees [4]	1,052,222	838,796	458,061
Auxiliary Enterprises and Other Revenues	751,650	556,191	323,632
State Appropriations (Operating)	378,656	262,146	384,810
Investment Income (Loss)	339,878	480,645	(469,492)
SELECTED EXPENSES *(in thousands of dollars)*			
Medical-Related [3]	$ 2,457,318	$ 1,831,649	$ 778,583
Instruction, Academic Support, and Student Services	2,070,077	1,515,435	1,278,455
Institutional Support and Physical Plant	849,930	733,194	527,998
Research and Public Service	814,717	807,863	673,322
Auxiliary Enterprises	553,511	285,561	170,602
CONSOLIDATED ENDOWMENT FUND [5] *(in thousands of dollars)*	$ 3,588,000	$ 2,833,000	$ 1,649,000
SQUARE FOOTAGE [6] *(in thousands of square feet)*	27,327	21,836	18,036

1 Prior to 2018, this number represents headcount for core faculty (Professorial, Instructional and Research). Starting in 2018, this number represents full time faculty from all campuses including the Medical Centers.
2 Full time equivalents – restated (historically) using centralized data source and enterprise definitions
3 Includes Valley Medical Center and Northwest Hospital in 2019 and 2014 only
4 Net of scholarship allowances of $159.4 million in 2019, $139.8 million in 2014 and $82.8 million in 2009
5 Stated at fair value
6 Gross square footage, all campuses

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Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the University of Washington (the University), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University of Washington as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member
firm of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

Emphasis of Matters

As discussed in note 1 to the financial statements, the financial statements of the University of Washington, an agency of the state of Washington, are intended to present the financial position, the changes in financial position, and where applicable, cash flows of only the respective portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the state of Washington that are attributable to the transactions of the University of Washington and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2019 and 2018, the changes in its financial position or, where applicable, its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, on July 1, 2017, the University adopted new accounting guidance requiring governments providing postemployment benefits other than pensions (OPEB) to employees of state and local government employers to recognize the OPEB liability, as well as recognize most changes in the OPEB liability within benefits expense. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, on July 1, 2017, the University adopted new accounting guidance requiring governments receiving irrevocable split-interest agreements to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 15, and the schedules of required supplementary information on pages 54 through 56, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

KPMG LLP

Seattle, Washington
October 25, 2019

MANAGEMENT'S DISCUSSION & ANALYSIS

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington ("University") for the fiscal years ended June 30, 2019 and 2018, with comparative financial information for 2017. This discussion has been prepared by management, and since it includes highly summarized data, should be read in conjunction with the financial statements and accompanying notes to financial statements that follow this section.

Financial Highlights for Fiscal Year 2019

The University recorded an increase in net position of $481 million in 2019. This was very similar to the increase of $490 million recorded in 2018. A decrease in the University's operating loss of $108 million in 2019 was mostly offset by similar decreases in revenue from nonoperating sources. The increase in net position for 2018 was offset by a $1.7 billion net position restatement due to the implementation of GASB Statement No. 75, resulting in a total net decrease of $1.2 billion for the year. GASB Statement No. 75 changed the way the University reflects costs associated with other post-employment benefits (OPEB).

Key Financial Results for Fiscal Years 2019, 2018 and 2017

(in millions)	**2019**	**2018**	**2017**
Total operating revenues	$ 5,485	$ 5,172	$ 4,893
Total operating expenses	6,064	5,859	5,666
Operating loss	(579)	(687)	(773)
State appropriations	379	362	342
Gifts	166	167	166
Investment income	340	404	442
Other nonoperating revenues, net	175	244	185
Increase in net position	481	490	362
Net position, beginning of year	5,097	6,267	6,053
Cumulative effect of accounting changes (described below):			
GASB 73 – UW Supplemental Retirement pension	–	–	(215)
GASB 75 – Other post-employment benefits	–	(1,660)	–
GASB 81 – Split interest agreements	–	–	67
Net position, beginning of year as restated	5,097	4,607	5,905
Net position, end of year	**$ 5,578**	**$ 5,097**	**$ 6,267**

Operating Revenues

Operating revenues increased $313 million, or 6%, in 2019 driven primarily by increases in revenue from patient services and student tuition. Net patient services revenue increased $127 million, or 6%, due to strong volumes and improved commercial payer mix. Revenue from student tuition and fees increased $62 million, or 6%, as a result of operating fee increases together with growing student enrollment. Revenue generated from student housing and food services grew $22 million, or 16%, in 2019 reflecting an increase in rentable bed space and associated food sales from three new residence halls that were placed in service during the past two fiscal years. Additionally, revenue from other auxiliary sources increased $57 million in 2019, primarily representing fees collected from Harborview Medical Center to reimburse the University for the cost of strategic projects and shared operational departments which were moved into a shared service model during the year.

Operating Expenses

Operating expenses increased $205 million, or 4%, in 2019. An increase in costs associated with employee salaries of $143 million, primarily due to merit increases and a 1% increase in University FTE's, was partially offset by a $71 million decrease in the cost of employee benefits, primarily due to favorable changes in the actuarial assumptions used to calculate pension and OPEB expense. Also contributing to higher operating expenses was an increase in the cost of supplies and materials of $43 million primarily pertaining to patient services, an increase of $40 million in the cost of purchased services, such as consulting and contract labor, and an increase of $49 million in other operating expenses, such as rent expense and claims costs associated with the University's self-insurance program.

Nonoperating Revenues

Revenues from nonoperating and other sources, net of interest on capital related debt, decreased $117 million, or 10%, in 2019 primarily due to a decrease in investment income of $65 million and a decrease in capital gifts of $106 million. The decrease in capital gifts is primarily the result of an $85 million capital gift received in 2018 from the Bill & Melinda Gates Foundation for the University's Population Health Initiative. The 2019 decreases were partially offset by a $40 million increase in gifts to permanent endowments.

Changes in Accounting Standards

The University implemented GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68" during fiscal year 2017. This statement changed how the University reports its obligation for retiree benefits associated with the University of Washington Supplemental Retirement Plan (UWSRP). With the adoption of GASB Statement No. 73, unrestricted net position was restated at July 1, 2016 by a decrease of $215 million for the difference between the beginning total pension liability and the amount previously reported as the UWSRP pension liability.

The University implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (OPEB) during fiscal year 2018. As a result of implementing Statement No. 75, the University recognized its proportionate share of the state of Washington's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to adopting this Statement the University's financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expense based on cash contributions paid to the OPEB plan administrator. In addition to the reporting changes described above, unrestricted net position was restated at July 1, 2017 by a decrease of $1.7 billion. Financial results for fiscal years 2018 and 2019 reflect application of the accounting changes required by Statement No. 75, but those changes were not applied to fiscal year 2017 results due to the constraints of available information from the Washington State Office of the State Actuary.

The University also implemented GASB Statement No. 81, “Irrevocable Split-Interest Agreements” during fiscal year 2018. This Statement changed the way that governments reflect resources received pursuant to irrevocable split-interest agreements, both at inception and throughout the life of the associated contract. Specifically, where the University has a remainder interest in a trust that is also managed by the University, revenues are no longer recognized when the asset is acquired and upon periodic revaluation, but are instead recorded as a deferred inflow of resources and recognized at termination of the contract. This change resulted in the restatement of July 1, 2016 restricted nonexpendable net position together with an increase in deferred inflows. Additionally, where the University has a lead interest in a trust that is not managed by the University, revenues are now recognized both when the asset is received or communicated to the University, and upon periodic revaluation. These events were previously not reflected in the financial statements of the University. This change also resulted in the restatement of July 1, 2016 restricted nonexpendable net position, together with an increase in investments. The net impact of implementing these accounting changes was an increase in beginning restricted nonexpendable net position of $67 million. All fiscal years presented in this management’s discussion and analysis reflect application of the accounting changes required by Statement No. 81. This is different than the Basic Financial Statements following this section, which reflect these restatements applied as of July 1, 2017.

The University implemented GASB Statement No. 83, “Certain Asset Retirement Obligations” during fiscal year 2019. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments that have legal obligations to perform future tangible asset retirement activities are now required to recognize a liability and offsetting deferred outflow of resources when these costs are incurred and are reasonably estimable. The basis of the estimate is the current value of the future outlays expected to be incurred, and is adjusted annually for inflation and any changes in relevant factors. The deferral is recognized as expense in a systematic and rational manner over the life of the tangible capital asset. The liability is extinguished as retirement costs are paid. The University’s 2015 Decommissioning Funding Plan, prepared in accordance with Washington Administrative Code 246-235-075, estimated disposal and clean-up costs related to all radioactive materials used for research, clinical applications, and education and was used as the basis for recording the initial ARO liability. Prior to adopting this Statement, the University’s financial statements did not reflect any ARO liability or associated deferred outflow, and reported costs associated with these retirement activities as expense at the time of asset disposal. Implementation of this Statement resulted in the recognition of a liability of $8 million, deferred outflow of $4 million and amortization expense of $4 million in fiscal year 2019.

Using the Financial Statements

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

- Independent Auditors’ Report presents an unmodified opinion prepared by our auditors, KPMG LLP.
- Statements of Net Position present the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of the University at a point in time (June 30, 2019 and 2018). Their purpose is to present a financial snapshot of the University. This statement aids the reader in determining the assets available to continue the University’s operations, how much the University owes to employees and vendors, whether the University has any deferred outflows or inflows other than assets or liabilities, and provides a picture of net position and its availability for expenditure by the University.
- Statements of Revenues, Expenses and Changes in Net Position present the total revenues earned and expenses incurred by the University for operating, nonoperating and other related activities, during a period of time (the fiscal years ended June 30, 2019 and 2018). Their purpose is to assess the University’s operating and nonoperating activities.
- Statements of Cash Flows present cash receipts and payments of the University during a period of time (the fiscal years ended June 30, 2019 and 2018). Their purpose is to assess the University’s ability to generate net cash flows and meet its obligations as they come due.
- Notes to the Financial Statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

The University has had a strategic alliance with Valley Medical Center, a Washington public hospital district, since 2011. GASB standards require that this entity be presented as a discrete component unit of the University; therefore, its financial position at June 30, 2019 and 2018, and results of operations for the fiscal years ended June 30, 2019 and 2018, are reported in a separate column for financial statement presentation purposes (see Note 1 to the Financial Statements). The analysis that follows includes the consolidated balances of the University of Washington and its blended component units, but excludes the financial position and results of operations of Valley Medical Center.

Financial Health

STATEMENTS OF NET POSITION

A summarized comparison of the University's assets, liabilities, deferrals and net position as of June 30, 2019, 2018 and 2017 is shown below:

Summarized Statements of Net Position

(in millions)	2019	2018	2017
Current assets	$ 1,574	$ 1,486	$ 1,427
Noncurrent assets:			
Capital assets, net	4,935	4,980	4,737
Investments, net of current portion	5,375	5,105	4,834
Other	525	481	454
Total assets	12,409	12,052	11,452
Deferred outflows	414	244	269
Total assets and deferred outflows	12,823	12,296	11,721
Current liabilities	1,166	1,267	1,315
Noncurrent liabilities:			
Bonds payable	2,353	2,334	2,275
Pensions and OPEB	2,498	2,750	1,422
Other	335	332	287
Total liabilities	6,352	6,683	5,299
Deferred inflows	893	516	155
Total liabilities and deferred inflows	7,245	7,199	5,454
Net position	**$ 5,578**	**$ 5,097**	**$ 6,267**

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

The excess of current assets over current liabilities of $408 million in 2019, and $219 million in 2018, reflects the continuing ability of the University to meet its short-term obligations. Current assets increased $88 million, or 6%, in 2019 due to an increase in accounts receivable of $60 million, driven by patient receivables and pending investment sales, and an increase of $64 million in short-term investments. These amounts were partially offset by a $59 million decrease in cash and cash equivalents. Current assets increased $59 million, or 4%, in 2018 mostly due to an $80 million increase in cash and cash equivalents, partially offset by a $33 million decrease in short-term investments. Current liabilities decreased $101 million, or 8%, in 2019 driven by a $65 million decrease in commercial paper debt together with a $33 million decrease in other operating and vendor payables. Current liabilities decreased $48 million, or 4%, in 2018 due in part to an $87 million decrease in the accrual for investment purchases, a $16 million decrease in the current portion of Revenue Bonds Payable, and a $10 million decrease in the current portion of the self-insurance reserve. These amounts were partly offset by a $23 million increase in commercial paper debt.

Noncurrent assets increased $269 million, or 3%, in 2019 primarily due to an increase in the market value of the University's long-term investments. Noncurrent assets increased $541 million, or 5%, in 2018 driven by an increase in long-term investments of $271 million, and an increase in capital assets of $243 million.

Noncurrent liabilities decreased $230 million, or 4%, in 2019 primarily due to changes in the University's pension and OPEB liabilities. The net pension liability pertaining to the University's proportionate share of the pension plans administered by the Washington Department of Retirement Systems (DRS) decreased $223 million as a result of better than expected investment returns on pension plan assets and a decrease in the University's proportionate share of the statewide PERS 1 liability. The pension liability pertaining to the UWSRP increased $182 million due to lower than expected investment returns on the model portfolio used to calculate retiree benefit eligibility, an unfavorable change to the actuarial assumption regarding the discount rate, and salary growth that was higher than expected. The OPEB liability decreased $211 million due primarily to a reduction in the actuarial assumptions surrounding future healthcare cost trends. Noncurrent liabilities increased $1.4 billion, or 36%, in 2018 primarily due to the initial implementation of GASB Statement No. 75. The ending OPEB liability, recognized for the first time in 2018 due to the requirements of Statement No. 75, was $1.6 billion. In addition, the long-term portion of bonds payable increased $59 million in 2018 due to the net increase in general revenue bonds outstanding. These amounts were partially offset by a $238 million decrease in the University's pension liabilities, primarily those pertaining to the plans administered by the DRS.

Deferred outflows of resources and deferred inflows of resources primarily represent pension and OPEB-related deferrals, and the University's remainder interest in split-interest agreements. The increase in deferred outflows of $170 million, or 70%, in 2019 primarily pertains to the UWSRP and OPEB plans. UWSRP deferred outflows increased $141 million due to the impact of changes in actuarial assumptions regarding the discount rate and investment performance, and differences between expected and actual experience when calculating the plan's ending liability, primarily regarding salary growth. The University's share of OPEB deferred outflows increased $47 million, also due to differences between expected and actual experience. The decrease in deferred outflows of $25 million, or 9%, in 2018 primarily reflected the University's proportionate share of a decrease in the state-wide amounts reported by the DRS due to differences between projected and actual investment earnings on pension plan assets, offset by the first-time deferral of $25 million representing post-measurement date OPEB contributions associated with the implementation of GASB Statement No. 75.

Deferred inflows increased $377 million, or 73%, in 2019. The University's share of deferred inflows associated with the DRS plans increased $83 million due to the impact of changes in actuarial assumptions, and differences between expected and actual experience when calculating the ending liabilities. OPEB deferred inflows increased $312 million, primarily due to changes in actuarial assumptions pertaining to future medical cost trends. The increase in deferred inflows in 2018 included the impact of the University's corresponding proportionate share of an increase in the state-wide difference between projected and actual earnings on pension plan assets. This was accompanied by the first-time deferral of $216 million representing the University's proportionate share of state-wide deferred inflows related to changes in actuarial assumptions used in the 2018 OPEB valuation.

Endowment and Other Investments

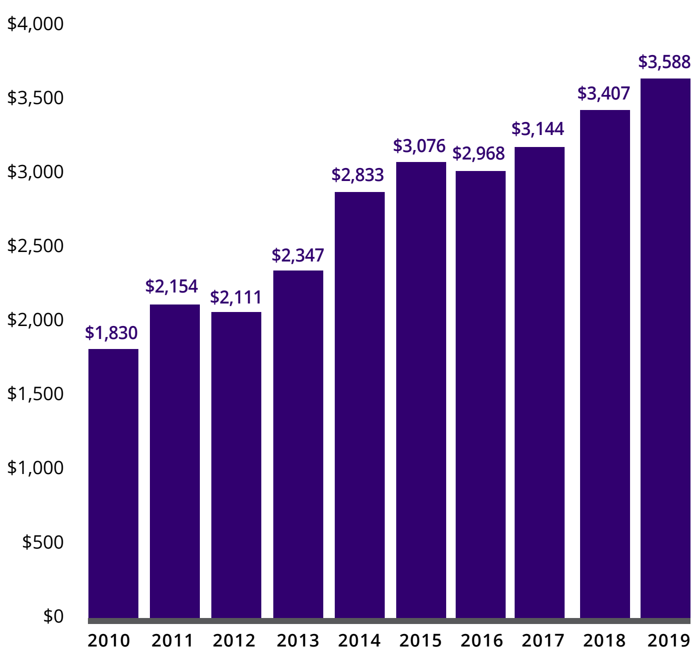
Investment returns provide an important source of revenue for the University's programs. Among the funds invested by the University are endowments, operating reserves, life income trusts, annuities and gifts.

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

Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. Most endowments are commingled in the Consolidated Endowment Fund (CEF), a diversified investment fund. 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 endowment gifts and investment returns. The number of individual endowments in the CEF has grown significantly, from 3,334 at June 30, 2010 to 5,079 at June 30, 2019. The market value of the CEF has similarly increased, from $1.8 billion at June 30, 2010 to $3.6 billion at June 30, 2019.

Consolidated Endowment Fund Market Value
(in millions)



The impact to program support has been substantial with $984 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 in fiscal year 2019 were 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 fees are 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 UWINCO Board, establishes the policy asset allocation judged to be most appropriate for the University from a long-term potential return and risk perspective. The policy asset allocation is reviewed annually for its continuing fit with the University's risk profile and with consideration of the changing dynamics of the capital markets.

The CEF asset allocation is divided into two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2019, 71% of the CEF was invested in Capital Appreciation and 29% in Capital Preservation. Following an expectation that market returns for equities will exceed bonds over the next decade, a medium-term objective is maintained of generally overweighting equity-oriented strategies with a focus on quality companies and downside protection. The University also maintains ample liquidity within Capital Preservation to meet its funding requirements, as well as to take advantage of market dislocations if opportunities arise.

For the fiscal year ending June 30, 2019, the CEF returned +5.8% versus +6.2% for the passive benchmark. The CEF's Private Equity strategy led absolute returns this year. The CEF's Capital Appreciation portfolio outperformed its passive benchmark, while Capital Preservation substantially underperformed its passive benchmark due to the sharp decrease in government bond yields.

A portion of the University's operating funds are invested in the CEF. As of June 30, 2019, these funds comprise $649 million of the CEF market value.

Capital Improvements

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, patients, faculty and staff. Significant capital asset expenditures (greater than $20 million) during fiscal year 2019 included $62 million for the Population Health Facility, and $26 million for the UW Medicine clinical transformation program ("Destination: One").

Key projects placed in service during fiscal year 2019 include:

- Life Sciences Building – $174 million. This five-floor, 169,000 square foot building was constructed with sufficient laboratory and office space to allow the Department of Biology to expand its faculty size in order to address a

Unaudited – see accompanying notes to financial statements

significant increase in undergraduate student demand. The building has approximately 20 research labs, associated offices and conference spaces, 3 undergraduate research/teaching laboratories, growth chambers and imaging facilities.

- Washington Biomedical Research Properties 3.2 – $133 million. This new building provides approximately 165,000 square feet of biomedical research facilities, with a primary care clinic, diabetes clinic, an ophthalmology clinic focused on retinal diseases, and associated clinical research space. Research activities are expected to include new programs, and the expansion of existing programs, including microbiology, global health, kidney research, immunology, biomedical informatics, neurosciences, protein design, and gastrointestinal and behavioral assays.
- Bill & Melinda Gates Center for Computer Science & Engineering (Gates Center) - $107 million. The Gates Center contains classroom, office and collaborative spaces, expanded research labs, a 250-seat auditorium, and a flexible event space. The facility will enable the Paul G. Allen School of Computer Science & Engineering to double its annual degree production. It includes a Maker Space, an undergraduate commons, a wet lab for research in molecular information systems, a 3,000 square foot robotics lab, workrooms for the interdisciplinary computer animation capstone, and interview rooms where industry representatives can meet with students.
- McCarty Hall – $95 million, and Madrona Hall – $53 million. Phase 4a of the Housing Master Plan included demolition of the existing McCarty Hall and construction of a new McCarty Hall along with Madrona and Willow Halls. Willow Hall was available for occupancy in June 2018, whereas McCarty and Madrona Halls opened in September 2018. McCarty Hall has over 330 student rooms, all including private baths, and is home to The MILL which is a state-of-the-art Maker Space and wet lab. Madrona Hall has over 220 student rooms, and is home to the Learning Resource Center which offers students study rooms and lecture halls, as well as providing office space.

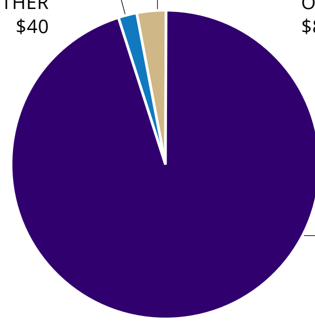
Debt

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

The University's debt portfolio consists primarily of fixed-rate debt in the form of General Revenue Bonds, Lease Revenue Bonds and state-issued General Obligation Bonds. As of June 30, 2019, the University had $2.3 billion of bonds and notes payable outstanding, an increase of 1% from June 30, 2018. Debt outstanding on the Metropolitan Tract is not included in these amounts (see Note 7).

In February 2019, the University issued $100 million of tax-exempt General Revenue bonds with an all-in true interest cost of 6.73%. Proceeds were used to fund construction of various facilities including Housing and Food Services residence halls (Phase 4a), the Northwest Hospital Childbirth Center, the Intercollegiate Athletics Ballpark, and the Life Sciences Building.

Bonds and Notes Payable
(in millions)

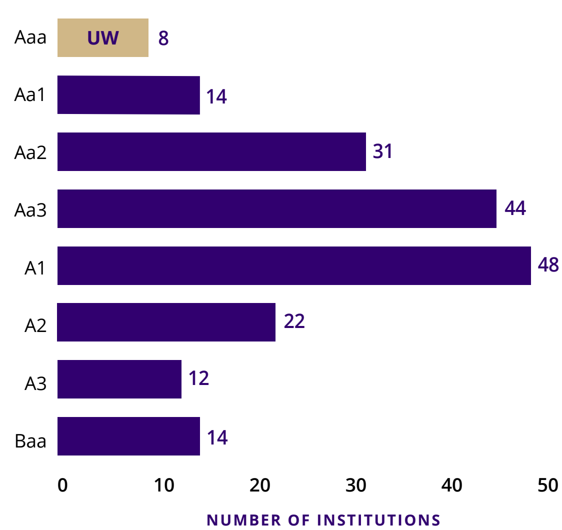


The University has a $250 million commercial paper program, which is typically used to fund project expenditures until long-term funding is secured. As of June 30, 2019, there was $25 million in commercial paper outstanding.

The Board of Regents typically authorizes the long-term debt (excluding commercial paper) issuance on a fiscal year basis, and for fiscal year 2020 has authorized $102 million. Any increase would require additional approval by the Board.

During fiscal year 2019, both Moody's (Aaa, Negative Watch) and Standard and Poor's (AA+, Stable) reaffirmed the University's credit ratings. These ratings carry substantial advantages for the University: continued and wider access to capital markets, lower interest rates on bonds, and the ability to negotiate favorable bond terms. The University's short-term credit ratings were also affirmed at P-1 (Moody's) and A-1+ (Standard and Poor's).

Moody's Fiscal Year 2018
Public College and University Rating Distribution
(As of the June 2019 Moody's Median Report)



Unaudited – see accompanying notes to financial statements

Net Position

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

The University reports its "equity" in four categories:

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

The University's net position at June 30, 2019, 2018 and 2017 is summarized as follows:

Categories of Net Position

(in millions)	2019	2018	2017
Net investment in capital assets	$ 2,489	$ 2,484	$ 2,455
Restricted:			
Nonexpendable	1,878	1,722	1,603
Expendable	2,192	2,129	1,859
Unrestricted	(981)	(1,238)	350
Total net position	**$ 5,578**	**$ 5,097**	**$ 6,267**

Net investment in capital assets was largely unchanged in 2019. This balance typically increases as debt is paid off, or when the University funds fixed asset purchases without the use of external financing, for example by using internal reserves. This balance decreases as assets are depreciated. The small increase in 2019 reflects a nearly equal decrease in both the carrying value of net capital assets, and the outstanding balance of capital asset-related debt. This category of net position increased $29 million, or 1%, in 2018, representing greater additions to net capital assets during 2018 than the associated increase in capital asset-related debt. This was a result of continued capital spend on previously approved projects combined with a reduced pace for new debt issuances.

Restricted nonexpendable net position increased $156 million, or 9%, in 2019 primarily as a result of receiving $135 million in new endowment gifts during the year. This category of net position increased $119 million, or 7%, in 2018 due to receiving $96 million of new endowment gifts, together with an increase in the market value of underwater endowment investments.

Restricted expendable net position increased $63 million, or 3%, in 2019. This category is primarily affected by new operating and capital gifts, and earnings or losses on restricted investments, including endowments. Unrealized and realized gains in the market value of the CEF contributed $31 million to the increase for the year, with the remainder being comprised of the excess of new operating and capital gifts compared to spending of gifts received in prior years. This category of net position increased $270 million, or 15%, in 2018. Unrealized gains of $219 million were the primary reason for the increase in 2018, partially offset by $77 million of realized losses. Additionally, unspent capital gifts increased $73 million in 2018 as a result of gifts received from the Bill & Melinda Gates Foundation for the University's Population Health Initiative.

Unrestricted net position increased $257 million, or 21%, in 2019. Operating losses associated with unrestricted activities were $358 million and interest expense on capital asset related debt was $89 million. These amounts were more than offset by state operating appropriations of $379 million and investment income related to unrestricted investments of $294 million. These results are an improvement over the prior year, primarily due to the $108 million decrease in operating loss resulting, in part, from the reduction in the University's proportionate share of statewide OPEB expense, and the $81 million increase in investment income on unrestricted investments. This category of net position decreased $1.6 billion in 2018, primarily due to the impact of restating fiscal year 2018 beginning net position as a result of implementing GASB Statement No. 75. The change in accounting treatment required by Statement No. 75 reduced fiscal year 2018 beginning unrestricted net position by $1.7 billion. Excluding the impact of this accounting change, unrestricted net position increased $72 million, or 21%, in 2018. Operating losses associated with unrestricted activities were $435 million and interest expense on capital asset-related debt was $77 million. These amounts were more than offset by $362 million of state operating appropriations, and $213 million of investment income on unrestricted investments.

As of June 30, 2019, Unrestricted Net Position reflects a deficit of $981 million due to implementation of GASB Statement No. 68 (pensions) during fiscal year 2015, and the implementation of Statement No. 75 (OPEB) during fiscal year 2018. These statements require the University to record its proportionate share of the state of Washington's actuarially determined liabilities for pension and OPEB. As a result of these implementations, Unrestricted Net Position is negative despite historically positive operating results.

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

Unrestricted Net Position Excluding Pensions and OPEB

(in millions)	2019	2018	2017
Unrestricted net position, as reported	$ (981)	$ (1,238)	$ 350
Impact of GASB 68 - Pensions	584	706	762
Impact of GASB 75 - OPEB	1,817	1,764	–
Unrestricted net position, excluding pensions and OPEB	**$ 1,420**	**$ 1,232**	**$ 1,112**

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, 2019, 2018 and 2017 follows:

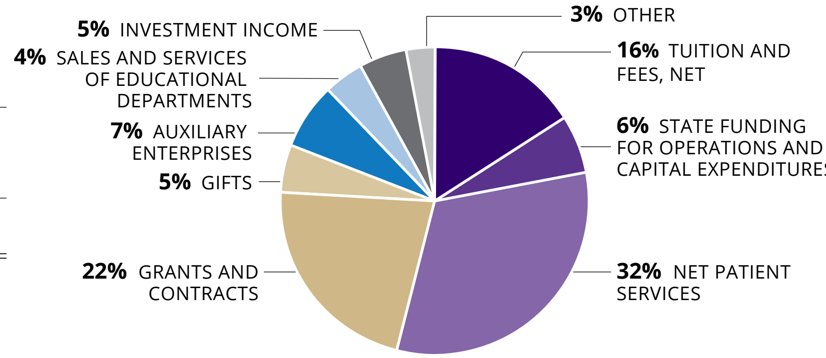
Operating Results

(in millions)	2019	2018	2017
Tuition and fees, net	$ 1,052	$ 990	$ 942
Net patient services	2,136	2,008	1,869
Grants and contracts	1,426	1,409	1,359
Other operating revenues	871	765	723
Total operating revenues	5,485	5,172	4,893
Salaries and benefits	3,732	3,661	3,519
Other Operating Expenses	2,332	2,198	2,147
Operating Loss	**(579)**	**(687)**	**(773)**
State appropriations	379	362	342
Gifts	166	167	166
Investment income	340	404	442
Other nonoperating revenues	264	321	262
Interest on capital asset-related debt	(89)	(77)	(77)
Increase in Net Position	**$ 481**	**$ 490**	**$ 362**

The University's operating loss decreased to $579 million in 2019, from $687 million in 2018. State appropriations are shown as nonoperating revenue, pursuant to GASB standards. If state appropriations were classified as operating revenue, the operating loss would have been $200 million in 2019, and $325 million in 2018.

The University has a diversified revenue base. No single source generated more than 32% of the total fiscal year 2019 revenues of $6.6 billion.

Sources of Funds



The following table summarizes revenues from all sources for the years ended June 30, 2019, 2018 and 2017:

Revenues from All Sources

(in millions)	2019		2018		2017	
Net patient services	$ 2,136	32%	$ 2,008	31%	$1,869	31%
Grants and contracts	1,492	22%	1,468	23%	1,422	23%
Tuition and fees, net	1,052	16%	990	15%	942	15%
Auxiliary enterprises	483	7%	403	6%	374	6%
State funding for operations	379	6%	362	6%	342	6%
Investment income	340	5%	404	6%	442	7%
Gifts	331	5%	398	6%	289	5%
Sales and services of educational departments	260	4%	243	4%	217	4%
State funding for capital projects	25	0%	26	0%	64	1%
Other	136	3%	124	3%	144	2%
Total revenue – all sources	**$ 6,634**	**100%**	**$ 6,426**	**100%**	**$6,105**	**100%**

Patient Services–UW Medicine

The financial statements of the University include the operations of the School of Medicine (SOM), three hospitals, associated physician group and clinics, Airlift Northwest, and the University's share of two joint ventures. These entities, together with Harborview Medical Center (not included in the University's financial statements – see Note 14) and shared services providing IT, accounting, financial services and human resources comprise UW Medicine. UW Medicine is governed and administered as an enterprise of the University whose mission is to improve the health of the public. UW Medicine also strives to facilitate the education of physicians and other health care providers, support research activities in collaboration with the SOM and render other services designed to achieve the "Triple Aim" which is to improve the healthcare experience for the individual, improve health of the population, and provide more affordable care.

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

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

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

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

UW Neighborhood Clinics (Neighborhood Clinics) is a network of clinics with 15 neighborhood locations throughout the greater Puget Sound area, providing primary, urgent and selected specialty care with a staff of 120 healthcare providers.

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

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

Joint Ventures – The University is also a participant in 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.

UW Medicine Shared Services is comprised of a number of functions within the University, established for the purpose of providing scalable administrative and information technology (IT) support services for UW Medicine. These functions include UW Medicine IT Services (ITS), UW Medicine Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, UW Medicine Contracting, and the University of Washington Consolidated Laundry.

In combination, these organizations (not including VMC) contributed $2.1 billion in net patient services revenue in fiscal year 2019 and $2.0 billion in fiscal year 2018. UWMC generated 62% of this revenue in 2019 and 59% in 2018. UWMC admissions were 18,948 in 2019, a decrease of 2% from the prior year. Admissions were 19,350 in 2018, which was a 2% increase from the prior year. Despite the 2019 decrease, patient services revenue increased during the year primarily due to strong volumes in surgery cases, solid organ transplants, pharmacy and cardiology, as well as a stronger commercial payer mix than the prior year. The increase in net patient services revenue during 2018 was primarily due to strong volumes in inpatient stays, surgery cases, cardiology, pharmacy and solid organ transplants.

Grant and Contract Revenue

One of the largest sources of revenue (22%) continues to be grants and contracts. Grant and contract revenue is received from federal sponsors, by far the largest component, and also from state, local and nongovernmental sources. Total grant and contract revenue increased $24 million in 2019, compared to an increase of $46 million in 2018.

Federal grant and contract revenue decreased $7 million, or 1%, in 2019 due primarily to two large projects that ended part way through the current fiscal year. Refurbishing work on the R/V Thomas G. Thompson research vessel to extend the vessel's useful life another 20 to 25 years was completed in September, 2018. The University also completed a major genome sequencing contract in the first half of the current fiscal year. Federal grant and contract revenue increased $23 million, or 2%, in 2018 primarily driven by genome sequencing and HIV clinical service delivery projects within the National Institutes of Health and the Centers for Disease Control and Prevention.

State and local grant and contract revenue increased $13 million, or 12%, in 2019 primarily due to the Washington State Need Grant, which increased $9 million as a result of increased support from the state legislature as well as a higher number of eligible students. State and local grant and contract revenue increased $10 million, or 10%, in 2018 largely due to a $9 million contract with the Washington State Department of Early Learning to implement a regional evaluation system, offer high-quality professional development opportunities to early learning professionals, and implement evidence-based curriculum training.

Nongovernmental grant and contract revenue increased $10 million, or 4%, in 2019. Contributing to this growth was a 20% boost in clinical trial activity within the School of Medicine, as well as increased spending related to a $10 million, four-year grant from the Paul Allen Family Foundation to create the Allen Discovery Center for Cell Lineage Tracing. The Center will focus on developing the first global maps of cell lineage in complex organisms, which will help to advance research in disciplines such as developmental biology, neuroscience, cancer biology and regenerative medicine. Nongovernmental grant and contract revenue increased $18 million, or 7%, in 2018 primarily due to The Bill & Melinda Gates Foundation's continued support of the University's Institute for Health Metrics and Evaluation.

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

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

Facility and administrative expenses necessary to support grants and contracts are reimbursed by sponsors, along with direct costs, by an indirect cost recovery. The 2019 and 2018 indirect cost recovery rate for research grants was approximately 30 cents on every direct expenditure dollar.

Primary Nongrant Funding Sources

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

Operating Support for Instruction

(in millions)	2019		2018		2017	
Operating tuition and fees	$ 716	50%	$ 675	50%	$ 639	50%
Fees for self-sustaining educational programs	336	24%	315	23%	303	23%
Subtotal - tuition and fees	1,052	74%	990	73%	942	73%
State operating appropriations	379	26%	362	27%	342	27%
Total educational support	**$ 1,431**	**100%**	**$1,352**	**100%**	**$1,284**	**100%**

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

Revenue from tuition and fees, net of scholarship allowances, increased $62 million in 2019, compared to an increase of $48 million in 2018. The increases for both years were partially due to the state allowing a 2.2% operating fee increase in resident undergraduate tuition. Other tuition categories also contributed to these increases. Nonresident undergraduate operating fees increased 3% in 2019, most graduate and professional operating fees increased 2%, and other program rates increased 0-10%.

Most fee-based program rates increased 0-10%. These fee increases were consistent with those implemented during 2018. Revenue growth for both years was also partly due to increases in student enrollment. Full-time equivalent (FTE) enrollment in 2019 in undergraduate tuition-and fee-based programs increased 0.4% in the resident student category, and by 5.2% in the nonresident student category. FTE enrollment in graduate and professional tuition- and fee-based programs increased 2.7% in the resident student category and by 3.7% in the nonresident student category. In 2018 FTE enrollment in undergraduate tuition-and fee-based programs increased 1.5% in the resident student category, and by 2.9% in the nonresident student category. FTE enrollment in graduate and professional tuition- and fee-based programs increased 0.7% in the resident student category and by 3.1% in the nonresident student category.

Gifts, Endowments and Investment Revenues

Net investment income for the years ended June 30, 2019, 2018 and 2017 consisted of the following:

Net Investment Income

(in millions)	2019	2018	2017
Interest and dividends, net	$ 72	$ 72	$ 68
Metropolitan Tract net income	26	16	23
Seattle Cancer Care Alliance change in equity	24	17	15
Realized Gains	169	62	48
Unrealized Gains	49	237	288
Net investment income	**$ 340**	**$ 404**	**$ 442**

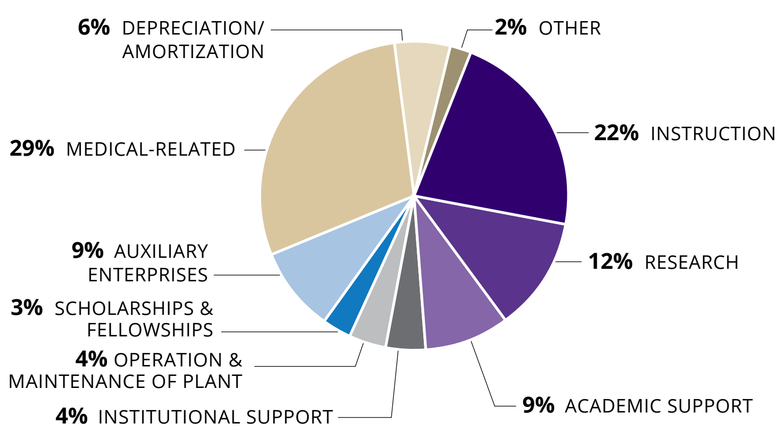
Net investment income decreased $64 million, or 16%, in 2019 compared to a decrease of $38 million, or 9%, in 2018. Increases in realized gains were more than offset by decreases in unrealized gains in both years. Returns on the CEF were +13.6% in fiscal year 2017, but decreased to +9.6% in 2018 and +5.8% in 2019.

Gifts are a key and necessary source of support for a variety of purposes, including current operating activities. Gifts support scholarships and research, capital improvements, and are used to fund permanent endowments for various academic and research purposes. Current use gifts in 2019 were largely unchanged from 2018. Capital gifts decreased $106 million in 2019, after a similar increase in 2018 that was driven by $85 million in support received from the Bill & Melinda Gates Foundation to benefit the University's Population Health Initiative. Gifts to permanent endowments increased $40 million in 2019, compared to an increase of $10 million in 2018.

Expenses

Two primary functions of the University, instruction and research, comprised 34% of total operating expenses in 2019. These dollars provided instruction to over 69,000 students and funded nearly 5,500 research awards. Medical-related expenses, such as those related to patient care, also continue to be one of the largest individual components, accounting for 29% of the University's total operating expenses in 2019.

Uses of Funds



A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2019, 2018 and 2017 follows:

Operating Expenses by Function

(in millions)	2019		2018		2017	
Educational and general instruction	$ 1,320	22%	$ 1,268	22%	$ 1,204	21%
Research	749	12%	785	13%	768	14%
Public service	66	1%	49	1%	39	1%
Academic support	540	9%	512	9%	507	9%
Student services	54	1%	53	1%	49	1%
Institutional support	226	4%	251	4%	240	4%
Operation and maintenance of plant	252	4%	201	3%	206	4%
Scholarships and fellowships	155	3%	149	3%	137	2%
Auxiliary enterprises	554	9%	495	8%	495	9%
Medical-related	1,776	29%	1,712	29%	1,658	29%
Depreciation/amortization	372	6%	384	7%	363	6%
Total operating expenses	**$ 6,064**	**100%**	**$ 5,859**	**100%**	**$ 5,666**	**100%**

Overall, the University's operating expenses increased $205 million, or 4%, in 2019 and $193 million, or 3%, in 2018. Approximately 62% of amounts incurred for operating expenses in both 2019 and 2018 were related to faculty and staff compensation and benefits.

In 2019, expense associated with faculty and staff salaries increased $143 million, or 5%, primarily due to merit increases and a 1% increase in University FTE's.

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

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

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

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

In 2018, expense associated with faculty and staff salaries increased $80 million, or 3%, as the impact from employee merit increases during the year was somewhat offset by an overall 1% reduction in University FTE's.

Benefits expense increased $61 million, or 7%, in 2018 primarily due to the implementation of GASB Statement No. 75. The difference between cash funding paid to the plan administrator, which was the basis for recording OPEB expense in the prior year, and OPEB expense reflecting application of Statement No. 75, was an increase in expense of approximately $100 million. This increase in benefits expense was partially offset by a $28 million reduction in expense associated with the defined-benefit pension plans administered by the DRS due to better than expected earnings on plan investments, and an $11 million reduction in pension expense associated with the UWSRP.

Supplies and materials expense increased $41 million, or 8%, in 2018 primarily due to increased costs of $21 million associated with drugs and medical supplies used at UW Medicine, together with a combination of other, smaller, increases associated with SOM and the University's blended component units.

Economic Factors That May Affect the Future

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

STATE OPERATING AND CAPITAL APPROPRIATIONS

The state of Washington, which provided approximately 6% of the University's total revenues in fiscal year 2019, continues to experience moderate economic growth and commensurate increases in state tax collections. In recent biennia, however, additional state tax collections and new revenue have largely been consumed by court-mandated increases to K-12 education funding (McCleary v. Washington). As part of the 2019-21 compromise budget package, which was passed during the 2019 legislative session and is effective for fiscal years 2020 and 2021, the legislature approved HB 2158, which created a dedicated source of funding for higher education through an increase to Business and Occupation (B&O) taxes on professional services. In addition to funding foundational support allocations to public colleges and universities, this revenue will maintain the legislature's commitment to fully-fund the State Need Grant program (re-named the "Washington College Grant" program) by fiscal

Unaudited – see accompanying notes to financial statements

year 2021, and will make significant investments in science, technology, engineering and math (STEM) enrollments across all three University campuses. Looking forward, state economic and revenue forecasts reflect a strong state economy, and projections for future state revenue collections continue to increase with each forecast.

During the 2013-15 biennium, the University committed to freezing resident undergraduate tuition rates in 2014 and 2015 in exchange for increases in state funding in both years. In the 2015-17 biennium, the state approved a new tuition policy that reduced resident undergraduate tuition rates to 5% below the 2015 rates in 2016, and to 15% below the 2015 rates in 2017. The state provided funds to offset the lost tuition revenue in both years. The same tuition policy allowed for future increases tied to a rolling average of median hourly wage in the state. Under this current policy, the state allowed resident undergraduate tuition to increase by just over 2% in 2018 and again in 2019. While the legislature can always modify its policy, it has so far chosen to maintain it through the 2019-21 biennium, so the expectation is that resident undergraduate tuition increases will continue to be limited to approximately 2% each year for the near future. The University's Board of Regents continues to have broad tuition and fee setting authority for categories other than resident undergraduate tuition.

The University's fiscal year 2020 general operating appropriation from the state (excluding certain amounts appropriated for specific purposes) is expected to total nearly $398 million. This amount is an increase from approximately $368 million in 2019 and $353 million in 2018. Recent increases are largely attributable to targeted investments in foundational support and STEM enrollments included in HB 2158. The University also received new appropriations for compensation, medical education, hospital and dental clinic safety net support, and targeted research investments.

After failing to pass a biennial state capital budget during their 2017 legislative session, the state approved a compromise 2017-19 biennial capital budget when they reconvened in 2018. Therefore, some projects that were slated to receive funding for the beginning of 2018 were delayed by several months. State funding for capital appropriations continues to be constrained, but the state's 2019-21 biennial capital budget provided state bonding capacity or other funding for several critical capital projects that the University requested for the 2019-21 biennium. These include a health sciences education building, STEM-related buildings across all three campuses, and seismic upgrades. The state also provided significant funding for the University to expand mental health services through a new behavioral health teaching facility.

UW MEDICINE

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

The ability to increase profitability will depend, in part, on successfully executing UW Medicine strategies. In general, these strategies are intended to improve financial performance through the reduction of costs and streamlining how UW Medicine provides clinical care, as well as mitigating the recent negative reimbursement trends being experienced within the market. Successfully managing costs and efficiently delivering care will be paramount due to a continued focus on patient volumes shifting from inpatient to outpatient settings, demand for care that is more convenient, affordable and accessible, and migration to value based payment models.

Embright

UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance in 2017 to expand access to high quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. UW Medicine, MultiCare and LifePoint Health formed the Pacific Northwest Clinically Integrated Network, LLC dba Embright, following approval by the University's Board of Regents in October 2018. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright aims to enable the partners to develop care delivery models that will improve patient care and the patient experience at a more affordable cost. Together, the founding organizations represent 14 hospitals, more than 6,500 providers and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols and care pathways, standardized processes and care management services for complex patients. UW Medicine currently has an equity ownership interest of 45% in Embright at June 30, 2019.

Investments in Information Technology

In July 2018, the University Board of Regents granted approval to proceed with the UW Medicine clinical transformation program, called Destination: One. This multi-year program aims to improve patient engagement, physician and practitioner experience and to achieve business and operating efficiencies through development of foundational systems and improved staffing workflows. Patient engagement is expected to be enhanced through development of a single online patient portal for activities between the patient and UW Medicine. More online service opportunities and easy navigation are expected to create additional opportunities for communication between the patient and their care team. UW Medicine is anticipated to achieve business and operating efficiencies through simplification and standardization across operations and IT, resulting in revenue cycle improvements and optimized resource utilization. Total program costs are estimated to be $180 million, of which $129 million will be financed through the University's Internal Lending Program. Destination: One is expected to be fully implemented in October, 2020.

Northwest Hospital Integration

In February 2018, the University Board of Regents granted approval to proceed with the dissolution and subsequent integration of Northwest Hospital into UW Medical Center. As changes in the national and regional healthcare environment evolve, adopting a new model of one hospital on two campuses will provide additional opportunities for cost savings, improved coordination of care, and a better patient experience. Upon dissolution of the Northwest Hospital corporation, Northwest Hospital assets and debts will be assumed by UW Medical Center and Northwest Hospital staff will become University employees. Full integration is planned to occur on January 1, 2020.

OTHER

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University. Employer pension funding rates for the Public Employees Retirement System (PERS) pension plans were unchanged during fiscal year 2019, but will be increasing 1% during fiscal year 2020, from 12.70% to 12.86% of covered salary. Likewise, the monthly employer base rate paid by the University for employee healthcare was mostly unchanged during 2019, but will be increasing 3% in 2020, from $916 to $939 per active employee. Both rates are likely to continue increasing over the next few years.

STATEMENTS OF NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNIT	
	June 30,		June 30,	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018	2019	2018
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 85,516	$ 144,136	$ 35,373	$ 48,186
INVESTMENTS, CURRENT PORTION (NOTE 6)	616,484	552,641	67,198	41,431
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $21,673 AND $19,447) (NOTE 5)	817,762	738,743	86,924	83,950
OTHER CURRENT ASSETS	54,675	50,482	24,246	53,314
TOTAL CURRENT ASSETS	1,574,437	1,486,002	213,741	226,881
NONCURRENT ASSETS:				
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	72,843	67,655	–	–
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	5,375,352	5,104,848	545	1,377
METROPOLITAN TRACT (NOTE 7)	168,292	152,233	–	–
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF $1,656 AND $4,339) (NOTE 4)	60,737	63,541	–	–
OTHER NONCURRENT ASSETS	221,994	197,948	152,759	81,399
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF $4,898,154 AND $4,607,053) (NOTE 8)	4,935,336	4,979,731	385,901	380,445
TOTAL NONCURRENT ASSETS	10,834,554	10,565,956	539,205	463,221
TOTAL ASSETS	12,408,991	12,051,958	752,946	690,102
DEFERRED OUTFLOWS OF RESOURCES (NOTE 12)	414,063	244,041	16,119	12,491
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$12,823,054**	**$12,295,999**	**$ 769,065**	**$ 702,593**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 750,853	$ 784,036	$ 124,460	$ 108,245
UNEARNED REVENUES	188,702	188,077	–	–
OTHER CURRENT LIABILITIES	85,285	158,082	–	–
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-11)	141,368	136,517	10,550	10,208
TOTAL CURRENT LIABILITIES	1,166,208	1,266,712	135,010	118,453
NONCURRENT LIABILITIES:				
U.S. GOVERNMENT GRANTS REFUNDABLE	43,346	45,535	–	–
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-11)	2,644,445	2,620,587	338,374	299,262
PENSION LIABILITIES (NOTE 15)	1,143,483	1,184,852	–	–
OTHER POST-EMPLOYMENT BENEFITS (NOTE 16)	1,354,177	1,565,213	–	–
TOTAL NONCURRENT LIABILITIES	5,185,451	5,416,187	338,374	299,262
TOTAL LIABILITIES	6,351,659	6,682,899	473,384	417,715
DEFERRED INFLOWS OF RESOURCES (NOTE 12)	893,069	516,323	23,849	25,031
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	7,244,728	**7,199,222**	**497,233**	**442,746**
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	2,489,083	2,483,814	102,937	87,817
RESTRICTED:				
NONEXPENDABLE	1,877,816	1,721,927	–	–
EXPENDABLE	2,192,163	2,128,692	3,525	8,240
UNRESTRICTED	(980,736)	(1,237,656)	165,370	163,790
TOTAL NET POSITION	5,578,326	5,096,777	271,832	259,847
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$12,823,054**	**$12,295,999**	**$ 769,065**	**$ 702,593**

See accompanying notes to financial statements.
Dollars in thousands

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNIT	
	Year ended June 30,		Year ended June 30,	
REVENUES	2019	2018	2019	2018
OPERATING REVENUES:				
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $159,390 AND $154,854)	$ 1,052,222	$ 989,912	$ –	$ –
NET PATIENT SERVICE REVENUES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $29,140 AND $29,411)	2,135,733	2,008,317	622,824	598,633
FEDERAL GRANTS AND CONTRACTS	1,041,103	1,048,088	–	–
STATE AND LOCAL GRANTS AND CONTRACTS	115,969	103,267	–	–
NONGOVERNMENTAL GRANTS AND CONTRACTS	268,449	257,966	–	–
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	260,176	242,886	–	–
AUXILIARY ENTERPRISES:				
HOUSING AND FOOD SERVICES	152,965	131,369	–	–
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $8,014 AND $7,590)	93,304	91,924	–	–
OTHER AUXILIARY ENTERPRISES	236,906	179,574	–	–
OTHER OPERATING REVENUE	128,391	118,497	55,033	38,092
TOTAL OPERATING REVENUES	**5,485,218**	**5,171,800**	**677,857**	**636,725**
EXPENSES				
OPERATING EXPENSES (NOTE 13):				
SALARIES	2,879,442	2,736,630	347,820	315,905
BENEFITS	852,888	924,253	84,177	75,902
SCHOLARSHIPS AND FELLOWSHIPS	155,158	149,378	–	–
UTILITIES	67,977	59,884	6,024	5,179
SUPPLIES AND MATERIALS	631,511	588,476	90,764	83,246
PURCHASED SERVICES	884,334	844,729	81,907	73,613
DEPRECIATION/AMORTIZATION	372,435	384,004	37,202	33,167
OTHER	220,485	171,442	33,429	36,082
TOTAL OPERATING EXPENSES	**6,064,230**	**5,858,796**	**681,323**	**623,094**
OPERATING INCOME (LOSS)	**(579,012)**	**(686,996)**	**(3,466)**	**13,631**
NONOPERATING REVENUES (EXPENSES)				
STATE APPROPRIATIONS	378,656	362,267	–	–
GIFTS	165,831	166,721	–	–
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $8,700 AND $10,790)	339,878	404,412	7,787	2,468
INTEREST ON CAPITAL ASSET-RELATED DEBT	(88,498)	(76,642)	(14,853)	(14,258)
PELL GRANT REVENUE	51,790	51,097	–	–
PROPERTY TAX REVENUE	–	–	23,258	22,722
OTHER NONOPERATING REVENUES	8,363	4,749	(689)	15,723
NET NONOPERATING REVENUES	**856,020**	**912,604**	**15,503**	**26,655**
INCOME BEFORE OTHER REVENUES	**277,008**	**225,608**	**12,037**	**40,286**
CAPITAL APPROPRIATIONS	24,797	26,399	–	–
CAPITAL GRANTS, GIFTS AND OTHER	44,260	142,573	–	–
GIFTS TO PERMANENT ENDOWMENTS	135,484	95,890	–	–
TOTAL OTHER REVENUES	**204,541**	**264,862**	**–**	**–**
INCREASE IN NET POSITION	**481,549**	**490,470**	**12,037**	**40,286**
NET POSITION				
NET POSITION – BEGINNING OF YEAR (NOTE 1)	5,096,777	4,606,307	259,795	219,561
NET POSITION – END OF YEAR	**$ 5,578,326**	**$ 5,096,777**	**$ 271,832**	**$ 259,847**

See accompanying notes to financial statements.
Dollars in thousands

STATEMENTS OF CASH FLOWS

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	2019	2018
STUDENT TUITION AND FEES	$ 1,007,157	$ 958,966
PATIENT SERVICES	2,097,521	1,989,098
GRANTS AND CONTRACTS	1,454,338	1,376,235
PAYMENTS TO SUPPLIERS	(661,940)	(567,439)
PAYMENTS FOR UTILITIES	(69,370)	(59,381)
PURCHASED SERVICES	(903,559)	(832,124)
OTHER OPERATING DISBURSEMENTS	(220,428)	(169,606)
PAYMENTS TO EMPLOYEES	(2,870,989)	(2,732,923)
PAYMENTS FOR BENEFITS	(858,285)	(823,136)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(155,158)	(149,378)
LOANS ISSUED TO STUDENTS	(16,009)	(17,148)
COLLECTION OF LOANS TO STUDENTS	16,624	18,614
AUXILIARY ENTERPRISE RECEIPTS	482,011	401,799
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	248,804	260,364
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	902,277	904,189
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(920,315)	(901,659)
OTHER RECEIPTS	109,276	116,012
NET CASH USED BY OPERATING ACTIVITIES	**(358,045)**	**(227,517)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	360,803	362,267
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	51,790	51,097
PRIVATE GIFTS	130,496	132,796
PERMANENT ENDOWMENT RECEIPTS	135,484	95,890
DIRECT LENDING RECEIPTS	236,348	237,500
DIRECT LENDING DISBURSEMENTS	(233,837)	(241,317)
OTHER	8,897	4,700
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**689,981**	**642,933**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	184,003	186,339
STATE CAPITAL APPROPRIATIONS	23,704	24,228
CAPITAL GRANTS AND GIFTS RECEIVED	38,068	141,648
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(314,652)	(622,412)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(225,447)	(116,809)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(89,443)	(90,401)
OTHER	(2,885)	(1,205)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(386,652)**	**(478,612)**

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM INVESTING ACTIVITIES	**2019**	**2018**
PROCEEDS FROM SALES OF INVESTMENTS	11,323,460	10,549,300
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(11,425,292)	(10,493,626)
INVESTMENT INCOME	97,928	87,623
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	**(3,904)**	**143,297**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(58,620)**	**80,101**
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	144,136	64,035
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 85,516**	**$ 144,136**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (579,012)	$ (686,996)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	372,435	384,004
CHANGES IN ASSETS, LIABILITIES AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:		
RECEIVABLES	(31,151)	(52,983)
OTHER ASSETS	(28,711)	(20,093)
PENSION AND OPEB RELATED DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES	202,777	387,381
PENSION LIABILITIES	(41,368)	(237,559)
OPEB LIABILITY	(211,036)	(95,235)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	(48,309)	59,732
UNEARNED REVENUE	625	(7,776)
OTHER LONG-TERM LIABILITIES	5,090	40,541
U.S. GOVERNMENTAL GRANTS REFUNDABLE	(2,189)	(4,373)
LOANS TO STUDENTS	2,804	5,840
NET CASH USED BY OPERATING ACTIVITIES	**$ (358,045)**	**$ (227,517)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
STOCK GIFTS	$ 36,844	$ 31,729
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	24,231	17,332
NET UNREALIZED GAINS	41,208	237,197
EXTERNALLY MANAGED TRUSTS	8,109	112,821
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ 110,392**	**$ 399,079**

See accompanying notes to financial statements.
Dollars in thousands

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

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

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

Harborview Medical Center (HMC), a component unit of King County, Washington, is a related party to the University, but is not reflected as part of the financial reporting entity (see note 14).

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

BLENDED COMPONENT UNITS

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

MEDICAL ENTITIES

Northwest Hospital & Medical Center (NWH)

NWH is a Washington nonprofit corporation formed in 1949, whose sole corporate member is the University. Northwest Hospital is a 281 licensed-bed, full-service medical facility primarily serving the healthcare needs of residents of King and Snohomish counties in Washington. NWH had operating revenues of $378.7 million and $370.8 million for the years ended June 30, 2019 and 2018, respectively.

The Association of University Physicians dba UW Physicians (UWP)

UWP is a Washington nonprofit corporation formed in 1983 for the exclusive benefit of the University of Washington School of Medicine (SOM). UWP employs SOM faculty and bills and collects for their clinical services as an agent for SOM. UWP had operating revenues of $309.7 million and $329.8 million for the years ended June 30, 2019 and 2018, respectively.

UW Medicine Neighborhood Clinics (Neighborhood Clinics)

Neighborhood Clinics is a Washington nonprofit corporation formed in 1996 exclusively for charitable, scientific and educational purposes for the benefit of SOM, UWP and its affiliated medical centers, HMC and UWMC. Neighborhood Clinics was organized to coordinate and develop patient care in a community clinical setting. Neighborhood Clinics enhances the academic environment of SOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of $32.0 million and $27.9 million for the years ended June 30, 2019 and 2018, respectively.

REAL ESTATE ENTITIES

The entities listed below are nonprofit corporations that were formed for the purposes of acquiring and constructing certain real properties for the benefit of the University to help fulfill its educational, medical and scientific research missions. The entities issue tax-exempt and taxable bonds to finance these activities.

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

As of June 30, 2019 and 2018, these entities had net capital assets of $348.5 million and $360.5 million, respectively, and long-term debt of $354.5 million and $370.8 million, respectively. These amounts are reflected in the University's financial statements.

DISCRETELY PRESENTED COMPONENT UNIT

Valley Medical Center

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

JOINT VENTURES

The University, together with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center, are members of the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA holds a one-third interest in the joint venture. The University accounts for its interest in the SCCA under the equity method of accounting. As of June 30, 2019 and 2018, the University's investment in the SCCA totaled $183.4 million and $159.1 million, respectively. The University's investment in the SCCA is included in Other Noncurrent Assets in its Statements of Net Position. The University reported investment income of $24.2 million and $17.3 million for its share of the joint venture for the years ended June 30, 2019 and 2018, respectively.

The University and Seattle Children's Hospital established Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care and charitable, educational, and scientific missions. CUMG employs SOM faculty physicians, and bills and collects for their services as an agent for SOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (see note 5) as of June 30, 2019 and 2018 includes amounts due from CUMG of $16.6 million and $17.6 million, respectively.

BASIS OF ACCOUNTING

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

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

On July 1, 2017, the University adopted GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* (OPEB), which established new actuarial methods and discount rate standards for the measurement and recognition of the cost of postemployment benefits provided to the employees of state and local governmental employers. This Statement replaced the requirements of GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions."* As a result of implementing Statement No. 75, the University recognized its proportionate share of the state of Washington's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to adopting this Statement the University's financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expense based on employer contributions paid to the OPEB plan administrator. In addition to the reporting changes described above, implementation of this Statement resulted in the restatement of fiscal year 2018 beginning Unrestricted Net Position, reducing it by $1.7 billion.

On July 1, 2017, the University adopted GASB Statement No. 81, *"Irrevocable Split-Interest Agreements."* Irrevocable split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. This Statement changed the way that governments reflect resources received pursuant to irrevocable split-interest agreements, both at inception and throughout the life of the associated contract. Specifically, when the University has a remainder interest in a trust that is also managed by the University, revenues are no longer recognized when the asset is received and upon periodic revaluation, but are instead deferred and recognized at termination of the contract. This change resulted in the restatement of fiscal year 2018 beginning Restricted Nonexpendable Net Position, reducing it by $47.2 million, together with an increase in Deferred Inflows. When the University has a lead interest in a trust that is not managed by the University, revenues are now recognized both when the asset is received and upon periodic revaluation. These events were previously not reflected in the financial statements of the University. Revenue will also continue to be recognized as periodic payments are received, as was the case prior to implementation of GASB 81. This change also resulted in the restatement of fiscal year 2018 beginning Restricted Nonexpendable Net Position, increasing it by $112.8 million, together with an increase in Investments. The net impact of implementing these accounting changes was an increase in beginning Restricted Nonexpendable Net Position of $65.6 million.

With the adoption of GASB Statements No. 75 and No. 81, net position was restated at July 1, 2017. Below is a reconciliation of total net position as previously reported at June 30, 2017, to the restated net position.

(Dollars in thousands)

NET POSITION AT JUNE 30, 2017, AS PREVIOUSLY REPORTED	$ 6,201,106
ADOPTION OF GASB STATEMENT NO. 75	(1,660,447)
ADOPTION OF GASB STATEMENT NO. 81	65,648
NET POSITION AT JULY 1, 2017, AS RESTATED	**$ 4,606,307**

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

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

ACCOUNTING STANDARDS IMPACTING THE FUTURE

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

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

In June 2018, the GASB issued Statement No. 89, *"Accounting for Interest Cost Incurred before the End of a Construction Period,"* which will be effective for the fiscal year ending June 30, 2021. This Statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will no longer be included in the capitalized cost of capital assets reported by the University. This Statement will be applied on a prospective basis, and interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated. The University estimates that implementation of this Statement will result in approximately $10.0 million of additional interest expense being recognized annually.

In August 2018, the GASB issued Statement No. 90, *"Majority Equity Interests,"* which will be effective for the fiscal year ending June 30, 2020. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. When a majority equity interest meets the definition of an investment as defined by GASB, the equity interest is required to be reported as an investment for financial reporting purposes and is required to be measured using the equity method of accounting. Majority equity interests that do not meet the definition of an investment are required to be reported as a component unit. This Statement also provides guidance for valuing the acquisition of assets and liabilities of wholly-owned equity interests that remain legally separate, and brings this reporting in line with existing standards that apply to acquisitions that do not remain legally separate. Review of the University's equity interests has not revealed any majority interests that would fall within the scope of this Statement.

In December 2018, the GASB issued Statement No. 91, *"Conduit Debt Obligations,"* which will be effective for the fiscal year ending June 30, 2022. This Statement provides a single method for reporting conduit debt obligations of issuers. The Statement clarifies the existing definition of a conduit debt obligation, creates standards for accounting for commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improves related financial statement disclosures. The Statement provides guidance for arrangements when capital assets are acquired with proceeds of conduit debt obligations used by a third party that is obligated to pay the debt service. The University has not issued conduit debt; therefore, implementation of this Statement will have no impact on the University's financial statements.

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 (see Remediation Liabilities, note 9) by reviewing the current status of known polluted sites and developing estimates of cleanup costs. These estimates are subject to change due to improvements in technology, inflation, changes in the scope of work, and the pursuit of reimbursement from other responsible parties.

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

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

The self-insurance reserve (see note 17) is estimated through an externally prepared actuarial calculation using individual case-basis valuations and statistical analyses. Considerable variability is inherent in such estimates.

OTHER ACCOUNTING POLICIES

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

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

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

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

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

Interest incurred on capital asset-related debt was $91.7 million and $91.8 million for the years ended June 30, 2019 and 2018, respectively. The University capitalized $3.2 million and $15.2 million of this cost for the years ended June 30, 2019 and 2018, 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.

Asset Retirement Obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. AROs are measured at the current value of the estimated costs required to dispose of the asset. AROs are included in Long-Term Liabilities on the University's Statements of Net Position (see Remediation Liabilities, note 9), and represent costs related to two cyclotrons used for research, clinical applications, and education. Disposal of these assets must be accomplished in accordance with Washington Administrative Code Chapter 246, "Department of Health". The University used the decommissioning guidance provided by the U.S. Nuclear Regulatory Commission to estimate the disposal costs. The assets identified have estimated remaining useful lives of 10 and 15 years. The University has issued a statement of intent to the Washington Department of Health to request funding from the state legislature to fund the decommissioning of these assets. The University has no assets restricted for payment of these obligations. The University has not recognized an obligation for costs that would be incurred in the event that the University relinquished its license from the Department of Health and ceased use of radioactive materials in its operations as the likelihood of this occurring is remote.

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

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

Other Post Employment Benefits (OPEB). The total OPEB liability is measured as the University's proportionate share of the state of Washington total OPEB liability, with proportionate share determined based on the relationship of the University's healthcare-eligible headcount to the total healthcare-eligible headcount for the state. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate required by GASB Statement No. 75 for OPEB plans that do not have assets residing in a qualified trust. OPEB expense is recognized for subsidies earned during the period, interest on the total OPEB liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for healthcare-eligible employees. Contributions made to the plan subsequent to the measurement date and prior to the University's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the total OPEB liability is June 30 of the prior fiscal year.

Split-Interest Agreements. Under such agreements, donors make gifts to the University but the University is not the sole beneficiary and receives either a lead interest (distributions during the term of the agreement) or a remainder interest (distribution of assets remaining at the end of the agreement). Charitable trusts, charitable gift annuities, pooled income funds and beneficial interests in charitable trusts are examples of split-interest gifts. Where the University holds a remainder interest in a trust that is also administered by the University, an asset related to these agreements is recorded at fair market value, a deferred inflow is recorded for the remainder value, and a liability is recorded equal to the present value of expected future distributions to the income beneficiaries. The liability is calculated using discount rates ranging from 3.2% to 7.5%. Additionally, donors have established and funded trusts which are administered by organizations other than the University. Under the terms of these trusts, the University has the irrevocable right to receive all or a portion of the income earned on the trust assets in perpetuity. The University does not control the assets held by the outside trusts but recognizes an interest in the trusts, based on the fair value of the assets contributed to the trusts, mostly as permanently restricted contributions. Fluctuation in the fair value of these assets are recorded annually as revenue and impact Restricted Nonexpendable Net Position.

Compensated Absences. University employees accrue annual leave at rates based on length of service, and for sick leave at the rate of one day per month. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal compensation rate for any balance that exceeds 480 hours, or for any balance upon retirement or death. Annual leave accrued at June 30, 2019 and 2018 was $132.5 million and $127.0 million, respectively, and is included in Accounts Payable and Accrued Liabilities in the University's Statements of Net Position. Sick leave accrued at June 30, 2019 and 2018 was $51.3 million and $49.6 million, respectively, and is included in Long-Term Liabilities (see note 9) in the University's Statements of Net Position.

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

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

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

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

Financial Assistance. Financial assistance provides patient care without charge to patients who meet certain criteria under the financial assistance policy. Records are maintained to identify and monitor the level of financial assistance provided. These records include charges foregone for services and supplies furnished under the financial assistance policy to the uninsured and the underinsured. Collection of these amounts is not pursued and, as such, they are not reported as net patient service revenue. The cost of financial assistance provided is calculated based on the aggregate relationship of costs to charges. The estimated cost of financial assistance provided during the years ended June 30, 2019 and 2018 was $21.9 million.

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

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

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

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

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

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

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

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

NOTE 2:

Cash and Cash Equivalents

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

NOTE 3:

Deposit with State of Washington

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

NOTE 4:

Student Loans Receivable

As of June 30, 2019 and 2018, net student loans of $60.7 million and $63.5 million, respectively, consist of $43.3 million and $48.5 million, respectively, from federal programs, and $17.4 million and $15.0 million, respectively, from University programs. For the years ended June 30, 2019 and 2018, interest income from student loans was $1.6 million and $1.7 million, 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, 2019 and 2018 were as follows:

(Dollars in thousands)	**2019**	**2018**
NET PATIENT SERVICES	$ 360,301	$ 319,956
GRANTS AND CONTRACTS	186,498	204,602
INVESTMENTS	86,013	57,092
DUE FROM OTHER AGENCIES	94,723	86,993
SALES AND SERVICES	46,188	34,816
STATE APPROPRIATIONS	26,635	7,688
TUITION	11,735	12,563
ROYALTIES	2,937	3,090
OTHER	24,405	31,390
SUBTOTAL	839,435	758,190
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(21,673)	(19,447)
TOTAL	**$ 817,762**	**$ 738,743**

NOTE 6:

Investments

INVESTMENTS – GENERAL

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

The University holds significant amounts of investments that are measured at fair value on a recurring basis. The University is required to provide the following information according to the three-tier fair value hierarchy which is based on the observability of the inputs used in the valuation techniques to measure the fair value of certain financial assets and liabilities. The three-tier hierarchy ranks the quality and reliability of the information used to determine fair values and is summarized as follows:

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.
- Level 3 Inputs – Inputs that are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

TABLE 1 – INVESTMENTS *(Dollars in thousands)*

		Fair Value Measurements Inputs		
INVESTMENTS BY FAIR VALUE LEVEL	**2019**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 948,192	$ 26,758	$ 921,434	$ –
U.S. GOVERNMENT AGENCY	388,414	11,068	377,346	–
MORTGAGE BACKED	247,486	–	247,486	–
ASSET BACKED	278,752	–	278,752	–
CORPORATE AND OTHER	449,450	76,355	373,095	–
TOTAL FIXED INCOME SECURITIES	**2,312,294**	**114,181**	**2,198,113**	**–**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	603,348	598,195	5,153	–
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	132	–	–	132
REAL ESTATE	10,268	4,311	–	5,957
OTHER	16,080	7,039	880	8,161
TOTAL EQUITY SECURITIES	**629,828**	**609,545**	**6,033**	**14,250**
EXTERNALLY MANAGED TRUSTS	**130,795**	**–**	**–**	**130,795**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**3,072,917**	**$ 723,726**	**$ 2,204,146**	**$ 145,045**

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

INVESTMENTS BY FAIR VALUE LEVEL	2018	Fair Value Measurements Inputs Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 652,611	$ 3,967	$ 648,644	$ –
U.S. GOVERNMENT AGENCY	545,478	10,879	534,599	–
MORTGAGE BACKED	231,974	–	231,974	–
ASSET BACKED	175,449	–	175,449	–
CORPORATE AND OTHER	495,926	72,390	423,536	–
TOTAL FIXED INCOME SECURITIES	**2,101,438**	**87,236**	**2,014,202**	**–**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	719,261	711,232	8,029	–
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	27,224	–	25,885	1,339
REAL ESTATE	10,097	5,016	–	5,081
OTHER	11,385	6,917	–	4,468
TOTAL EQUITY SECURITIES	**767,967**	**723,165**	**33,914**	**10,888**
EXTERNALLY MANAGED TRUSTS	**122,686**	**–**	**–**	**122,686**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**2,992,091**	**$ 810,401**	**$ 2,048,116**	**$ 133,574**

INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)	
GLOBAL EQUITY INVESTMENTS	1,311,637
ABSOLUTE RETURN STRATEGY FUNDS	622,479
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	369,888
REAL ASSET FUNDS	193,341
OTHER	48,228
TOTAL INVESTMENTS MEASURED USING NAV	**2,545,573**
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	5,537,664
CASH EQUIVALENTS AT AMORTIZED COST	119,825
TOTAL INVESTMENTS	**$ 5,657,489**

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

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

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

2019	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,495,365	$ 14,523	MONTHLY TO ANNUALLY	15-180 DAYS
ABSOLUTE RETURN STRATEGY FUNDS	651,054	13,190	QUARTERLY TO ANNUALLY	30-90 DAYS
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	451,191	387,288	N/A	–
REAL ASSETS FUNDS	164,931	67,229	N/A	–
OTHER	69,189	38,916	QUARTERLY TO ANNUALLY	30-95 DAYS
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,831,730**			

2018	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,311,637	$ 22,308	MONTHLY TO ANNUALLY	15-180 DAYS
ABSOLUTE RETURN STRATEGY FUNDS	622,479	–	QUARTERLY TO ANNUALLY	30-90 DAYS
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	369,888	347,263	N/A	–
REAL ASSETS FUNDS	193,341	55,105	N/A	–
OTHER	48,228	850	QUARTERLY TO ANNUALLY	30-95 DAYS
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,545,573**			

1. **Global Equity:** This investment category includes public equity investments in separately managed accounts, long-only comingled funds, unconstrained limited partnerships, and passive market indices. As of June 30, 2019 and 2018, approximately 79% and 72%, respectively, of the value of the investments in this category can be redeemed within 90 days. As of June 30, 2019 and 2018, approximately 92% can be redeemed within one year.
2. **Absolute Return:** This category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and/or hedges against market downturns. As of June 30, 2019 and 2018, approximately 72% and 88%, respectively, of the value of the investments in this category can be redeemed within one year.
3. **Private equity:** This category includes buyout, venture, and special situations funds. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the majority of underlying assets of the funds will be liquidated over the next 7 to 10 years.
4. **Real assets:** This category includes real estate, natural resources, and other hard assets. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the majority of underlying assets of the funds will be liquidated over 7 to 10 years.
5. **Other:** This category consists of opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. As of June 30, 2019 and 2018, approximately 25% and 15%, respectively, of the value of the investments in this category can be redeemed or anticipate distribution within one year. The remaining balance of these investments contain restrictions on redemption within one year or will be distributed as underlying investments are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 10 years.

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2019 and 2018, the Invested Funds Pool totaled $1.9 billion and $1.8 billion, respectively. The Invested Funds Pool also owns units in the Consolidated Endowment Fund (CEF) which was valued at $649.0 million and $643.1 million at June 30, 2019 and 2018, respectively. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 0.75% in fiscal years 2019 and 2018. University Advancement received 3.0% of the average balances in endowment operating and gift accounts in fiscal years 2019 and 2018. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

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

Under the CEF spending policy approved by the Board of Regents, quarterly distributions to programs are based on an annual percentage rate of 4.0%, applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1.0% supporting campus-wide fundraising and stewardship activities (0.8%) and offsetting the internal cost of managing endowment assets (0.2%).

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value was $30 thousand and $0.4 million at June 30, 2019 and 2018, respectively.

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 $169.0 million and $62.3 million in fiscal years 2019 and 2018, 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 (depreciation) of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the years ended June 30, 2019 and 2018 was $220.7 million and $299.5 million, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2019 and 2018, the University had outstanding commitments to fund alternative investments of $521.1 million and $425.5 million, respectively. These commitments are expected to be called over a multi-year time frame, generally 2-5 years depending on the type of fund. The University believes it has adequate liquidity and funding sources to meet these obligations.

DERIVATIVES

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

Total return swaps involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The notional amount and fair value of investment derivative instruments outstanding as of June 30, 2019 and 2018, categorized by type, are as follows:

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

Notional Amount as of June 30			Fair Value as of June 30			Change in Fair Value		
DESCRIPTION	**2019**	**2018**	**ASSET CLASSIFICATION**	**2019**	**2018**	**INCOME CLASSIFICATION**	**2019**	**2018**
OPTIONS PURCHASED–PUTS	$ –	$ 161	INVESTMENTS	$ –	$ 137	INVESTMENT INCOME	$ –	$ (24)
SWAPS FIXED INCOME–LONG	113,705	119,807	INVESTMENTS	113,705	119,010	INVESTMENT INCOME	–	(797)
SWAPS FIXED INCOME SHORT	(113,705)	(119,001)	INVESTMENTS	(115,748)	(115,391)	INVESTMENT INCOME	(2,043)	3,610

As of June 30, 2019 and 2018, the University had outstanding futures contracts with notional amounts totaling $189.6 million and $115.5 million, respectively. As of June 30, 2019, accumulated unrealized gains on these contracts totaled $0.9 million. As of June 30, 2018, accumulated unrealized losses on these contracts totaled $0.3 million. These accumulated unrealized gains and losses are included in Investments on the Statements of Net Position. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price.

Credit exposure represents exposure to counterparties relating to financial instruments, where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2019 or 2018. 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 2.86 years and 1.74 years at June 30, 2019 and 2018, respectively.

CREDIT RISK

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

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

Duration and credit risk figures at June 30, 2019 and 2018 exclude $41.5 million and $16.3 million, respectively, of fixed income securities held by component units. These amounts make up 1.79% and 0.77%, respectively, of the University's fixed income investments, and are not included in the duration figures detailed in Table 4.

The composition of fixed income securities at June 30, 2019 and 2018, along with credit quality and effective duration measures, is summarized as follows:

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

2019

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

2018

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURY SECURITIES	$ 648,644	$ –	$ –	$ –	$ 648,644	1.85
U.S. GOVERNMENT AGENCY	540,529	–	–	–	540,529	2.85
MORTGAGE BACKED	–	164,675	42,247	25,052	231,974	1.99
ASSET BACKED	–	147,713	1,134	26,602	175,449	0.71
CORPORATE AND OTHER	–	368,800	31,830	87,938	488,568	1.14
TOTAL	**$ 1,189,173**	**$ 681,188**	**$ 75,211**	**$ 139,592**	**$ 2,085,164**	**1.74**

*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 both June 30, 2019 and 2018 of $1.5 billion.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	2019	2018
CHINESE RENMINBI (CNY)	$ 270,614	$ 232,898
EURO (EUR)	206,129	161,709
JAPANESE YEN (JPY)	167,433	141,518
INDIAN RUPEE (INR)	160,397	154,962
BRITISH POUND (GBP)	89,330	78,660
BRAZIL REAL (BRL)	88,404	78,752
CANADIAN DOLLAR (CAD)	59,636	97,112
SWEDISH KRONA (SEK)	43,459	21,674
SOUTH KOREAN WON (KRW)	42,714	58,605
HONG KONG DOLLAR (HKD)	41,264	55,290
ARGENTINE PESO (ARS)	37,831	19,925
SWISS FRANC (CHF)	35,895	41,690
TAIWANESE DOLLAR (TWD)	30,491	33,151
RUSSIAN RUBLE (RUB)	27,666	30,289
AUSTRALIAN DOLLAR (AUD)	26,747	24,972
MEXICAN PESO (MXN)	26,487	33,643
REMAINING CURRENCIES	138,330	193,283
TOTAL	**$ 1,492,827**	**$ 1,458,133**

NOTE 7:

Metropolitan Tract

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

The balances included on the Statements of Net Position as of June 30, 2019 and 2018 of $168.3 million and $152.2 million, respectively, represent the asset value net of operating liabilities and long-term debt on the property. The asset value is comprised primarily of land, buildings, building improvements and operating assets.

As of June 30, 2019 and 2018, total debt outstanding on the Metropolitan Tract was $30.6 million and $31.3 million, respectively. This debt will be repaid by income generated from the properties. The debt was issued in 2015 to refund commercial paper and to acquire the leasehold on the Cobb Building. These amounts are reflected in the balances for Metropolitan Tract on the Statements of Net Position, and are therefore not included in Note 9 or Note 11.

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

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

NOTE 8:

Capital Assets

Capital asset activity for the years ended June 30, 2019 and 2018 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2017	Additions/ Transfers	Retirements	Balance as of June 30, 2018	Additions/ Transfers	Retirements	Balance as of June 30, 2019
LAND	$ 144,211	$ 413	$ –	$ 144,624	$ 1,694	$ –	$ 146,318
INFRASTRUCTURE	310,088	1,265	55	311,298	3,139	51	314,386
BUILDINGS	6,151,073	286,982	2,606	6,435,449	628,548	33,611	7,030,386
FURNITURE, FIXTURES AND EQUIPMENT	1,476,943	106,634	67,257	1,516,320	101,004	56,461	1,560,863
LIBRARY MATERIALS	364,491	14,253	1,989	376,755	16,656	2,060	391,351
CAPITALIZED COLLECTIONS	7,248	117	–	7,365	313	–	7,678
INTANGIBLE ASSETS	208,528	12,462	302	220,688	2,505	7,761	215,432
CONSTRUCTION IN PROGRESS	349,699	221,651	4,562	566,788	(430,200)	4,255	132,333
INTANGIBLES IN PROCESS	10,510	(2,190)	823	7,497	27,246	–	34,743
TOTAL COST	**9,022,791**	**641,587**	**77,594**	**9,586,784**	**350,905**	**104,199**	**9,833,490**
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION:							
INFRASTRUCTURE	120,556	8,708	55	129,209	8,400	–	137,609
BUILDINGS	2,600,309	218,775	2,597	2,816,487	239,383	26,330	3,029,540
FURNITURE, FIXTURES AND EQUIPMENT	1,193,473	116,503	58,535	1,251,441	105,014	53,419	1,303,036
LIBRARY MATERIALS	273,171	14,140	1,521	285,790	12,559	1,585	296,764
INTANGIBLE ASSETS	98,248	25,878	–	124,126	7,079	–	131,205
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	**4,285,757**	**384,004**	**62,708**	**4,607,053**	**372,435**	**81,334**	**4,898,154**
CAPITAL ASSETS, NET	**$ 4,737,034**	**$ 257,583**	**$ 14,886**	**$ 4,979,731**	**$ (21,530)**	**$ 22,865**	**$ 4,935,336**

NOTE 9:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

Long-term liability activity for the years ended June 30, 2019 and 2018 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2017	Additions/ Transfers	Reductions	Balance as of June 30, 2018	Additions/ Transfers	Reductions	Balance as of June 30, 2019	Current Portion as of June 30, 2018	Current Portion as of June 30, 2019
BONDS PAYABLE:									
UNAMORTIZED PREMIUM ON BONDS	$ 109,199	$ –	$ 13,890	$ 95,309	$ –	$ 13,919	$ 81,390	$ 13,920	$ 10,275
REVENUE BONDS PAYABLE (NOTE 11)	2,112,330	133,785	77,250	2,168,865	100,000	61,375	2,207,490	61,375	63,014
UNAMORTIZED PREMIUM ON BONDS	157,204	22,800	17,106	162,898	8,132	17,288	153,742	17,535	16,515
TOTAL BONDS PAYABLE	**2,378,733**	**156,585**	**108,246**	**2,427,072**	**108,132**	**92,582**	**2,442,622**	**92,830**	**89,804**
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER –CAPITAL ASSET RELATED (NOTE 11)	26,639	6,537	5,620	27,556	15,870	5,413	38,013	5,507	5,428
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	1,479	86	134	1,431	153	90	1,494	1,351	1,458
CAPITAL LEASE OBLIGATIONS (NOTE 10)	12,829	216	2,943	10,102	–	2,451	7,651	2,556	2,214
TOTAL NOTES PAYABLE AND CAPITAL LEASES	**40,947**	**6,839**	**8,697**	**39,089**	**16,023**	**7,954**	**47,158**	**9,414**	**9,100**
OTHER LONG-TERM LIABILITIES:									
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	54,683	8,214	5,712	57,185	6,290	5,839	57,636	5,712	5,840
REMEDIATION LIABILITIES (NOTE 1)	21,000	–	–	21,000	12,153	–	33,153	1,000	900
HMC ITS FUNDING (NOTE 14)	30,258	3,025	3,564	29,719	–	5,897	23,822	11,500	11,100
SICK LEAVE (NOTE 1)	46,771	6,066	3,202	49,635	5,151	3,514	51,272	4,061	3,358
SELF-INSURANCE (NOTE 17)	78,484	42,033	8,307	112,210	22,178	34,225	100,163	12,000	21,266
OTHER NONCURRENT LIABILITIES	19,206	2,133	145	21,194	8,793	–	29,987	–	–
TOTAL OTHER LONG-TERM LIABILITIES	**250,402**	**61,471**	**20,930**	**290,943**	**54,565**	**49,475**	**296,033**	**34,273**	**42,464**
TOTAL LONG-TERM LIABILITIES	**$ 2,670,082**	**$ 224,895**	**$ 137,873**	**$ 2,757,104**	**$ 178,720**	**$ 150,011**	**$ 2,785,813**	**$ 136,517**	**$ 141,368**

DISCRETE COMPONENT UNIT

Long-term liability activity for the years ended June 30, 2019 and 2018 is summarized as follows:

	Balance as of July 1, 2017	Additions/ Transfers	Reductions	Balance as of June 30, 2018	Additions/ Transfers	Reductions	Balance as of June 30, 2019	Current Portion as of June 30, 2018	Current Portion as of June 30, 2019
VALLEY MEDICAL CENTER *(Dollars in thousands)*									
LIMITED TAX GENERAL OBLIGATION BONDS	$ 238,359	$ –	$ 8,509	$ 229,850	$111,580	$ 10,235	$ 331,195	$ 8,260	$ 8,350
REVENUE BONDS	14,318	–	1,725	12,593	–	1,820	10,773	1,870	1,960
BUILD AMERICA BONDS	61,155	–	–	61,155	–	61,155	–	–	–
NOTES PAYABLE & OTHER	5,555	561	244	5,872	1,402	318	6,956	78	240
TOTAL LONG-TERM LIABILITIES	**$ 319,387**	**$ 561**	**$ 10,478**	**$ 309,470**	**$112,982**	**$ 73,528**	**$ 348,924**	**$ 10,208**	**$ 10,550**

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments as of June 30 2019, are as follows:

CAPITAL LEASES

Year *(Dollars in thousands)*	**Future Payments**
2020	$ 2,383
2021	2,118
2022	1,896
2023	1,494
2024	119
TOTAL MINIMUM LEASE PAYMENTS	8,010
LESS: AMOUNT REPRESENTING INTEREST COSTS	359
PRESENT VALUE OF MINIMUM PAYMENTS	**$ 7,651**

OPERATING LEASES

The University has entered into certain lease agreements that are considered to be operating leases, primarily for leased building space. For the years ended June 30, 2019 and 2018, the University recorded rent expense of $89.9 million and $87.5 million, respectively, for these leases.

Future lease payments as of June 30, 2019 are as follows:

Year *(Dollars in Thousands)*	
2020	$ 79,502
2021	67,778
2022	58,767
2023	51,196
2024	36,325
2025-2029	103,765
2030-2034	50,179
2035-2039	56,001
2040-2044	64,783
2045-2049	74,928
2050-2054	86,685
2055-2059	111,549
2060-2064	79,392
TOTAL MINIMUM LEASE PAYMENTS	**$ 920,850**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2019 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 1.55% to 8.00%. As of June 30, 2019, substantially all of the University's debt was public debt. Amounts from direct borrowings and direct placements were not material. Debt service requirements as of June 30, 2019 were as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*

	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON GENERAL REVENUE BONDS		NOTES PAYABLE AND OTHER	
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2020	$ 10,275	$ 3,824	$ 63,014	$ 104,242	$ 6,886	$ 814
2021	10,765	3,305	66,640	101,362	21,071	623
2022	11,230	2,753	69,685	98,194	2,848	468
2023	11,790	2,162	69,345	97,858	1,252	354
2024	12,300	1,556	68,965	94,646	1,278	302
2025 – 2029	25,030	2,004	377,725	418,903	3,632	905
2030 – 2034	–	–	380,060	325,543	2,293	198
2035 – 2039	–	–	428,960	229,038	247	17
2040 – 2044	–	–	495,565	112,504	–	–
2045 – 2049	–	–	187,531	40,027	–	–
TOTAL PAYMENTS	**$ 81,390**	**$ 15,604**	**$ 2,207,490**	**$ 1,622,317**	**$ 39,507**	**$ 3,681**

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

ISSUANCE ACTIVITY

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

On February 15, 2018, the University issued $133.8 million in General Revenue & Refunding Bonds, 2018, at a premium of $22.8 million. The proceeds were used to fund various projects such as Phase 4A of the Housing Master Plan, and construction of the Life Sciences Building. In addition, proceeds were used to pay off $125.9 million in commercial paper. The 2018 bonds have a coupon rate of 5.00%. The average life of the 2018 General Revenue Bonds is 15.6 years with final maturity on April 1, 2048.

COMMERCIAL PAPER PROGRAM

The University has a commercial paper program with a maximum borrowing limit of $250.0 million, payable from University general revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2019 and 2018, the University had $25.0 million and $90.0 million, respectively, in outstanding commercial paper.

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

During fiscal year 2018, the University issued $178.0 million of commercial paper debt. The University refunded $125.9 of commercial paper debt with General Revenue Bonds, Series 2018, and repaid $6.1 million with University funds and $23.0 million with state appropriated funds during the same period.

SUBSEQUENT DEBT ACTIVITY

On September 12, 2019, the University issued $15.0 million of commercial paper debt. The proceeds will be used to fund a portion of the Destination: One project.

CREDIT LINE

As of June 30, 2019 and 2018, the University had a master financing agreement with JPMorgan Chase Bank to serve as a non-revolving credit line (LOC) for the financing of short-term assets, including personal property, to be drawn on from time to time in an aggregate amount not to exceed $30.0 million. Outstanding borrowings on the credit line as of June 30, 2019 and 2018 totaled $5.1 million and $7.1 million, respectively.

NOTE 12:

Deferred Outflows and Deferred Inflows of Resources

The composition of deferred outflows and deferred inflows of resources as of June 30, 2019 and 2018 are summarized as follows:

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

2019	Pensions	OPEB	Split-Interest Agreements	Other	Total
DEFERRED OUTFLOWS OF RESOURCES	$ 310,096	$ 72,092	$ –	$ 31,875	$ 414,063
DEFERRED INFLOWS OF RESOURCES	311,507	535,079	46,483	–	893,069
2018	**Pensions**	**OPEB**	**Split-Interest Agreements**	**Other**	**Total**
DEFERRED OUTFLOWS OF RESOURCES	$ 189,227	$ 24,771	$ –	$ 30,043	$ 244,041
DEFERRED INFLOWS OF RESOURCES	248,192	223,156	44,975	–	516,323

NOTE 13:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2019 and 2018 are summarized as follows:

OPERATING EXPENSES *(Dollars in thousands)*	2019	2018
INSTRUCTION	$ 1,320,209	$ 1,267,799
RESEARCH	748,976	785,223
PUBLIC SERVICE	65,741	48,916
ACADEMIC SUPPORT	540,359	511,931
STUDENT SERVICES	54,351	51,950
INSTITUTIONAL SUPPORT	225,471	251,569
OPERATION & MAINTENANCE OF PLANT	252,024	201,101
SCHOLARSHIPS & FELLOWSHIPS	155,158	149,378
AUXILIARY ENTERPRISES	553,511	494,956
MEDICAL-RELATED	1,775,995	1,711,969
DEPRECIATION/AMORTIZATION	372,435	384,004
TOTAL OPERATING EXPENSES	**$ 6,064,230**	**$ 5,858,796**

Instruction

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

Research

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

Public Service

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

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

Academic Support

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

Student Services

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

Institutional Support

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

Operation and Maintenance of Plant

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

Scholarships and Fellowships

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

Auxiliary Enterprises

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

Medical-related

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

Depreciation/Amortization

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

NOTE 14:

Related Parties

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center located in Seattle, is a component unit of King County, Washington. It has been managed by the University under a management contract between King County and the University since 1967. In February 2016, the University and King County entered into a Hospital Services Agreement. The agreement has a ten-year term and may be renewed by the parties for two successive ten-year terms.

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

The University is responsible for the operations of HMC, including the provision of medical, dental and management services. All of the individuals employed at HMC, including physicians, are employees of the University. HMC expenses, including payroll, are reimbursed to the University from HMC fund sources.

HMC revenues and expenses are not recognized in the University's financial statements. As of June 30, 2019, the University's financial statements included accounts receivable from HMC of $39.9 million, HMC investments of $4.1 million and current accrued liabilities and long-term liabilities of $39.9 million and $23.8 million, respectively, related to HMC. As of June 30, 2018, the University's financial statements included accounts receivable from HMC of $32.5 million, HMC investments of $3.8 million and current accrued liabilities and long-term liabilities of $32.6 million and $29.7 million, respectively, related to HMC.

Under an annual agreement, HMC provides strategic funding to Neighborhood Clinics. Funding from HMC to Neighborhood Clinics was $12.4 million and $11.3 million during fiscal years 2019 and 2018, respectively, and is included in Other Operating Revenue in the Statements of Revenues, Expenses and Changes in Net Position.

UW Medicine information technology operates as a self-sustaining activity of the University (ITS department). The ITS department records enterprise-wide information technology capital assets that are purchased for use by UW Medicine entities. The HMC ITS funding reflected in long-term liabilities (see note 9) of $23.8 million and $29.7 million at June 30, 2019 and 2018, respectively, represents HMC's funding of the enterprise-wide information technology capital assets that will be included in the recharge rates of the ITS department over the useful life of the assets.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2019 and 2018, the UWF transferred $153.5 million and $132.5 million, respectively, to the University in gifts and grants received on its behalf; these are included in the financial statements of the University. The remaining amounts retained by the UWF are not significant to the University's financial statements.

The University of Washington Alumni Association is a tax-exempt entity that was established to connect and celebrate alumni and to support the University's mission. The Alumni Association received $4.2 million and $4.0 million from the University in support of its operations in fiscal years 2019 and 2018, respectively. These amounts were expensed by the University.

NOTE 15:

Pension Plans

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

As of June 30, 2019 and 2018, the University's share of the total unfunded liability associated with the defined-benefit pension plans administered by the DRS was $549.4 million and $772.4 million, respectively. As of June 30, 2019 and 2018, the liability associated with the defined benefit pension plan administered by the University was $594.0 million and $412.5 million, respectively, but does not reflect assets segregated in a separate investment account to pay future retiree benefits of $327.7 million and $261.1 million, respectively. For the years ended June 30, 2019 and 2018, total pension expense recorded by the University related to both the DRS and University plans was $50.8 million and $92.3 million, respectively.

PLANS ADMINISTERED BY DRS

PLAN DESCRIPTION

Public Employees' Retirement System

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

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

Teachers' Retirement System

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

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

Law Enforcement Officers' and Fire Fighters' Retirement System

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

VESTING AND BENEFITS PROVIDED

PERS Plan 1 and TRS Plan 1

PERS Plan 1 and TRS Plan 1 provide retirement, disability and death benefits. Both plans are closed to new entrants. All members were vested after the completion of five years of eligible service. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest-paid consecutive service months. The retirement benefit may not exceed 60% of the AFC.

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

PERS Plan 2/3 and TRS Plan 2/3

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

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

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

LEOFF Plan 2

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

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

FIDUCIARY NET POSITION

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

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

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

ACTUARIAL ASSUMPTIONS

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The University's 2019 pension liabilities are based on an OSA valuation performed as of June 30, 2017, with the results rolled forward to the measurement date of June 30, 2018. Likewise, the University's 2018 pension liabilities are based on a valuation performed as of June 30, 2016, with the results rolled forward to the measurement date of June 30, 2017. The following actuarial assumptions have been applied to all prior periods included in the measurement:

2019	
INFLATION	2.75% TOTAL ECONOMIC INFLATION, 3.50% SALARY INFLATION
SALARY INCREASE	EXPECTED TO GROW BY PROMOTIONS AND LONGEVITY IN ADDITION TO SALARY INFLATION ASSUMPTION OF 3.50%
INVESTMENT RATE OF RETURN	7.40%

2018	
INFLATION	3.0% TOTAL ECONOMIC INFLATION, 3.75% SALARY INFLATION
SALARY INCREASE	EXPECTED TO GROW BY PROMOTIONS AND LONGEVITY IN ADDITION TO SALARY INFLATION ASSUMPTION OF 3.75%
INVESTMENT RATE OF RETURN	7.50%

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the 2007-2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the 2007-2012 Experience Study Report and the 2015 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report.

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

The long-term expected rates of return of 7.40% and 7.50% as of June 30, 2018 and 2017, respectively, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

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

	2019 *(Measurement Date 2018)*		2018 *(Measurement Date 2017)*	
Asset Class	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
FIXED INCOME	20.00%	1.70%	20.00%	1.70%
TANGIBLE ASSETS	7.00%	4.90%	5.00%	4.90%
REAL ESTATE	18.00%	5.80%	15.00%	5.80%
GLOBAL EQUITY	32.00%	6.30%	37.00%	6.30%
PRIVATE EQUITY	23.00%	9.30%	23.00%	9.30%

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

DISCOUNT RATE

The discount rate used to measure the total pension liabilities as of June 30, 2019 and 2018 was 7.40% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liability for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.40% and 7.50% future investment rate of return on pension plan investments was assumed as of June 30, 2018 and 2017, respectively. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liability for PERS 1 and TRS 1, respectively, as provided for in chapter 41.45 of the RCW).

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

The following table presents the University's proportionate net pension liabilities calculated using the discount rates of 7.40% and 7.50% as of June 30, 2018 and 2017, respectively, as well as what the net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

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

	2019			2018		
Plan	1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
PERS 1	$ 450,287	$ 366,403	$ 293,743	$ 487,796	$ 400,426	$ 324,746
PERS 2/3	800,058	174,913	(337,635)	980,851	364,073	(141,285)
TRS 1	8,826	7,061	5,534	7,555	6,076	4,795
TRS 2/3	6,642	1,066	(3,464)	6,099	1,796	(1,699)
LEOFF 2	(610)	(4,590)	(7,837)	648	(2,995)	(5,963)

EMPLOYER CONTRIBUTION RATES

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The following table presents the contribution rates and required contributions for each DRS plan in which the University participates for the years ended June 30:

(Dollars in Thousands)	PERS 1	PERS 2/3[a]	TRS 1	TRS 2/3[a]	LEOFF 2
2019					
CONTRIBUTION RATE	12.70%	12.70%	15.20%	15.20%	8.93%
CONTRIBUTIONS MADE	$ 57,744	$ 83,159	$ 1,244	$ 1,290	$ 427
2018					
CONTRIBUTION RATE	12.70%	12.70%	15.20%	15.20%	8.93%
CONTRIBUTIONS MADE	$ 54,839	$ 79,047	$ 1,006	$ 1,053	$ 392

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

UNIVERSITY PROPORTIONATE SHARE

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by the University as of June 30, 2019 was June 30, 2018. Employer contributions received and processed by the DRS during the fiscal year ended June 30, 2018 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in their June 30, 2018 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by the University as of June 30, 2018 was June 30, 2017, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2017 used as the basis for determining each employer's proportionate share of the collective pension amounts. The following table presents the University's proportionate share for each DRS plan:

PROPORTIONATE SHARE	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
YEAR ENDED JUNE 30, 2019	8.20%	10.24%	0.24%	0.24%	0.23%
YEAR ENDED JUNE 30, 2018	8.44%	10.48%	0.20%	0.19%	0.22%

UNIVERSITY AGGREGATED BALANCES

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

(Dollars in Thousands)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2019						
NET PENSION LIABILITY	$ 366,403	$ 174,913	$ 7,061	$ 1,066	$ –	$ 549,443
NET PENSION ASSET	–	–	–	–	4,590	4,590
2018						
NET PENSION LIABILITY	$ 400,426	$ 364,073	$ 6,076	$ 1,796	$ –	$ 772,371
NET PENSION ASSET	–	–	–	–	2,995	2,995

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

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

PROPORTIONATE SHARE OF PENSION EXPENSE *(Dollars in thousands)*	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
YEAR ENDED JUNE 30, 2019	$ 20,434	$ (830)	$ 2,035	$ 822	$ (455)	$ 22,006
YEAR ENDED JUNE 30, 2018	23,229	55,060	1,747	927	(144)	80,819

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*						
2019	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
CHANGE IN ASSUMPTIONS	$ –	$ 2,046	$ –	$ 18	$ 3	$ 2,067
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	21,440	–	501	246	22,187
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	–	–	1,155	–	1,155
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [a]	57,744	83,159	1,244	1,290	427	143,864
TOTAL	**$ 57,744**	**$ 106,645**	**$ 1,244**	**$ 2,964**	**$ 676**	**$ 169,273**
2018						
CHANGE IN ASSUMPTIONS	$ –	$ 3,867	$ –	$ 21	$ 4	$ 3,892
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	36,889	–	448	132	37,469
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	10,216	–	1,038	276	11,530
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [b]	54,839	79,047	1,005	1,053	392	136,336
TOTAL	**$ 54,839**	**$ 130,019**	**$ 1,005**	**$ 2,560**	**$ 804**	**$ 189,227**

(a) Recognized as a reduction of the net pension liability as of June 30, 2020
(b) Recognized as a reduction of the net pension liability as of June 30, 2019

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*						
2019	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 14,561	$ 107,335	$ 302	$ 901	$ 803	$ 123,902
CHANGE IN ASSUMPTIONS	–	49,779	–	428	659	50,866
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	30,624	–	79	107	30,810
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	3,086	–	–	42	3,128
TOTAL	**$ 14,561**	**$ 190,824**	**$ 302**	**$ 1,408**	**$ 1,611**	**$ 208,706**
2018						
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 14,943	$ 97,053	$ 257	$ 650	$ 672	$ 113,575
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	11,974	–	92	114	12,180
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	–	–	–	239	239
TOTAL	**$ 14,943**	**$ 109,027**	**$ 257**	**$ 742**	**$ 1,025**	**$ 125,994**

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

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES (a) *(Dollars in thousands)*						
YEAR	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
2020	$ 637	$ (15,371)	$ 30	$ 261	$ (132)	$ (14,575)
2021	(3,183)	(36,038)	(63)	14	(252)	(39,522)
2022	(9,551)	(66,352)	(215)	(346)	(515)	(76,979)
2023	(2,464)	(24,982)	(54)	(31)	(166)	(27,697)
2024	–	(9,658)	–	96	(52)	(9,614)
THEREAFTER	–	(14,937)	–	272	(245)	(14,910)
TOTAL	**$ (14,561)**	**$ (167,338)**	**$ (302)**	**$ 266**	**$ (1,362)**	**$ (183,297)**

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

PLANS ADMINISTERED BY UNIVERSITY OF WASHINGTON

University of Washington Retirement Plan

PLAN DESCRIPTION

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

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

The number of participants in the UWRP as of June 30, 2019 and 2018 was 17,528 and 16,815, respectively.

FUNDING POLICY

Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches 100% of employee contributions. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employer contributions for the years ended June 30, 2019 and 2018 were $126.0 million and $122.8 million, respectively.

University of Washington Supplemental Retirement Plan

PLAN DESCRIPTION

UWSRP, a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership requires participation in the UWRP.

NUMBER OF PARTICIPANTS	June 30, 2019	June 30, 2018
ACTIVE EMPLOYEES	6,132	7,046
INACTIVE EMPLOYEES RECEIVING BENEFITS	853	696
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	188	4

VESTING AND BENEFITS PROVIDED

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the years ended June 30, 2019 and 2018 were $7.5 million and $6.1 million, respectively.

TOTAL PENSION LIABILITY (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS, TRS, and LEOFF2), which have trusted assets and, therefore, are reported as a net pension liability. As of June 30, 2019 and 2018, the University had set aside $327.7 million and $261.1 million, respectively, to pay future UWSRP retiree benefits. These assets are physically segregated in a separate investment account, and included in investments, net of current portion on the Statements of Net Position.

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY (TPL) *(Dollars in thousands)*	
BALANCE AS OF JULY 1, 2017	**$ 438,753**
SERVICE COST	14,788
INTEREST ON TPL	16,127
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	(33,952)
CHANGE IN ASSUMPTIONS	(17,105)
BENEFIT PAYMENTS	(6,130)
BALANCE AS OF JUNE 30, 2018	**412,481**
SERVICE COST	11,823
INTEREST ON TPL	16,277
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	102,713
CHANGE IN ASSUMPTIONS	58,228
BENEFIT PAYMENTS	(7,482)
BALANCE AS OF JUNE 30, 2019	**$ 594,040**

The June 30, 2019 TPL is based on an actuarial valuation performed as of June 30, 2018 using the entry age actuarial cost method. Update procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement date of June 30, 2019.

The June 30, 2018 TPL is based on an actuarial valuation performed as of June 30, 2016 using the entry age actuarial cost method. Update procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement date of June 30, 2018.

UWSRP pension expense for the years ended June 30, 2019 and 2018 was $28.8 million and $11.5 million, respectively.

ACTUARIAL ASSUMPTIONS

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on the University. The professional judgments used in determining these assumptions are important, and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the University's financial statements. The following table shows significant assumptions used to measure the TPL as of June 30:

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL PENSION LIABILITY *(Dollars in thousands)*		
	2019	**2018**
INFLATION	2.75%	2.75%
SALARY CHANGES	4.25%	4.25%
SOURCE OF MORTALITY ASSUMPTIONS	RP-2000 COMBINED HEALTHY TABLE, WITH GENERATIONAL MORTALITY IMPROVEMENTS USING SCALE BB	RP-2000 COMBINED HEALTHY TABLE, WITH GENERATIONAL MORTALITY IMPROVEMENTS USING SCALE BB
DATE OF EXPERIENCE STUDY	APRIL 2016	APRIL 2016
DISCOUNT RATE	3.50%	3.87%
SOURCE OF DISCOUNT RATE	BOND BUYER'S 20 BOND INDEX AS OF 6/30/2019	BOND BUYER'S 20 BOND INDEX AS OF 6/30/2018
TPL MEASUREMENT AT DISCOUNT RATE	$ 594,040	$ 412,481
TPL DISCOUNT RATE INCREASED 1%	$ 518,334	$ 361,760
TPL DISCOUNT RATE DECREASED 1%	$ 685,507	$ 473,624

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

Material assumption changes during the measurement period ending June 30, 2018 included updating the GASB 73 discount rate from 3.58% to 3.87% ("Change in assumption" which decreased the TPL). Additionally, actual returns for CREF investments were higher than expected ("Difference between expected and actual experience" which also decreased the TPL).

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*		
2019		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	89,874
CHANGE IN ASSUMPTIONS		50,949
TOTAL	**$**	**140,823**

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*		
2019		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	72,181
CHANGE IN ASSUMPTIONS		30,620
TOTAL	**$**	**102,801**
2018		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	85,844
CHANGE IN ASSUMPTIONS		36,354
TOTAL	**$**	**122,198**

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*		
Year		
2020	$	721
2021		721
2022		721
2023		721
2024		721
THEREAFTER		34,417
TOTAL	**$**	**38,022**

NOTE 16:

Other Post Employment Benefits (OPEB)

PLAN DESCRIPTION

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

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

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

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

The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The dollar amount of the explicit subsidy increased to $168 per member per month beginning in calendar year 2019. It was set at $150 per member per month for the first half of fiscal year 2019 and for all of fiscal year 2018.

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

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

NUMBER OF PARTICIPANTS	2019 *(Measurement Date: 2018)*	2018 *(Measurement Date: 2017)*
ACTIVE EMPLOYEES	33,070	32,648
INACTIVE EMPLOYEES RECEIVING BENEFITS	8,995	8,626
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	1,600	1,612

ACTUARIAL ASSUMPTIONS

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

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*		
	2019	**2018**
INFLATION	2.75%	3.00%
HEALTHCARE COST TREND	TREND RATE ASSUMPTIONS VARY SLIGHTLY BY MEDICAL PLAN. INITIAL RATE IS APPROXIMATELY 8.00%, REACHING AN ULTIMATE RATE OF APPROXIMATELY 4.50% IN 2080.	TREND RATE ASSUMPTIONS VARY SLIGHTLY BY MEDICAL PLAN. INITIAL RATE IS APPROXIMATELY 7.00%, REACHING AN ULTIMATE RATE OF APPROXIMATELY 5.00% IN 2080.
SALARY INCREASE	3.50% PLUS SERVICE-BASED SALARY INCREASES	3.75%, PLUS SERVICE-BASED SALARY INCREASES
SOURCE OF MORTALITY ASSUMPTIONS	RP-2000 COMBINED HEALTHY TABLE AND COMBINED DISABLED TABLE, WITH FUTURE IMPROVEMENTS IN MORTALITY PROJECTED USING 100 PERCENT SCALE BB AND UPDATED BASED ON RESULTS OF THE 2007-2012 EXPERIENCE STUDY REPORT	RP-2000 COMBINED HEALTHY TABLE AND COMBINED DISABLED TABLE, WITH FUTURE IMPROVEMENTS IN MORTALITY PROJECTED USING 100 PERCENT SCALE BB AND UPDATED BASED ON RESULTS OF THE 2007-2012 EXPERIENCE STUDY REPORT
DATE OF EXPERIENCE STUDY	2007-2012 EXPERIENCE STUDY REPORT	2007-2012 EXPERIENCE STUDY REPORT
DISCOUNT RATE	3.87%	3.58%
SOURCE OF DISCOUNT RATE	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/18 (MEASUREMENT DATE)	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/17 (MEASUREMENT DATE)
POST-RETIREMENT PARTICIPATION PERCENTAGE	65.00%	65.00%
TOL MEASUREMENT AT DISCOUNT RATE	$1,354,177	$1,565,213
TOL DISCOUNT RATE INCREASED 1%	$1,136,776	$1,298,594
TOL DISCOUNT RATE DECREASED 1%	$1,632,819	$1,909,753
TOL MEASUREMENT AT HEALTHCARE COST TREND RATE	$1,354,177	$1,565,213
TOL HEALTHCARE COST TREND RATE INCREASED 1%	$1,676,694	$1,968,827
TOL HEALTHCARE COST TREND RATE DECREASED 1%	$1,111,648	$1,264,476

Material assumption changes during the measurement periods ending June 30, 2018 and 2017 include updating the forecasts of healthcare cost trends, as well as updating the discount rates, as required by GASB 75.

CHANGES IN THE TOTAL OPEB LIABILITY

The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The TOL for the state of Washington as of June 30, 2018 was determined by an actuarial valuation, conducted by the OSA, using data as of January 1, 2017. The measurement dates for the TOL reported at June 30, 2019 and 2018 are the same as the valuation dates. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine the University's proportionate share of the statewide TOL is the relationship of University active, healthcare-eligible employee headcount to the corresponding statewide total.

The University's proportionate share percentage was 26.7% and 26.9% as of June 30, 2019 and 2018, respectively.

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

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*	
BALANCE AS OF JULY 1, 2017	**$ 1,685,909**
SERVICE COST	106,112
INTEREST ON TOL	49,703
CHANGE IN ASSUMPTIONS	(242,454)
BENEFIT PAYMENTS	(25,330)
CHANGE IN PROPORTIONATE SHARE	(8,727)
BALANCE AS OF JUNE 30, 2018	**1,565,213**
SERVICE COST	84,665
INTEREST ON TOL	58,207
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	53,132
CHANGE IN ASSUMPTIONS	(370,652)
BENEFIT PAYMENTS	(24,584)
CHANGE IN PROPORTIONATE SHARE	(11,804)
BALANCE AS OF JUNE 30, 2019	**$ 1,354,177**

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

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

PROPORTIONATE SHARE OF OPEB EXPENSE *(Dollars in Thousands)*	
	OPEB
YEAR ENDED JUNE 30, 2019	$ 78,429
YEAR ENDED JUNE 30, 2018	127,921

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in Thousands)*	
2019	**OPEB**
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$ 47,228
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY	24,864
TOTAL	**$ 72,092**
2018	
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY	$ 24,771

DEFERRED INFLOWS OF RESOURCES *(Dollars in Thousands)*	
2019	**OPEB**
CHANGE IN ASSUMPTIONS	$ 516,622
CHANGE IN PROPORTIONATE SHARE	18,457
TOTAL	**$ 535,079**
2018	
CHANGE IN ASSUMPTIONS	$ 215,515
CHANGE IN PROPORTIONATE SHARE	7,641
TOTAL	**$ 223,156**

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

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(a) (Dollars in Thousands)*	
YEAR	**OPEB**
2020	$ (64,443)
2021	(64,443)
2022	(64,443)
2023	(64,443)
2024	(64,443)
THEREAFTER	(165,636)
TOTAL	**$ (487,851)**

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

NOTE 17:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2019 and 2018 were $240.1 million and $105.9 million, respectively. These expenditures will be funded from institutional reserves, debt proceeds and state appropriations.

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

The University is also involved in various other claims and legal actions arising in the ordinary course of business. University management believes that any liabilities arising from these matters will not have a material impact on the University's financial statements.

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

The self-insurance reserve is estimated using an actuarial calculation. The reserve is included in Long-Term Liabilities in the Statements of Net Position. Changes in the self-insurance reserve for the years ended June 30, 2019 and 2018 are noted below:

(Dollars in thousands)	**2019**	**2018**
RESERVE AT BEGINNING OF FISCAL YEAR	$ 112,210	$ 78,484
INCURRED CLAIMS AND CHANGES IN ESTIMATES	22,178	42,033
CLAIM PAYMENTS	(34,225)	(8,307)
RESERVE AT END OF FISCAL YEAR	**$ 100,163**	**$ 112,210**

REGULATORY COMPLIANCE

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

Between April 4 and April 12, 2018, the Washington State Department of Health on behalf of the Centers for Medicare and Medicaid Services (CMS) conducted a survey at UW Medical Center. In a letter dated May 15, 2018, CMS informed UW Medical Center that based on the results of the survey, UW Medical Center was not in compliance with certain Medicare Conditions of Participation. The deficiencies identified within the survey relate primarily to UW Medical Center's relationship with the SCCA inpatient hospital located within the same building as UW Medical Center, including related policies, clinical areas, support services and personnel sharing between the two organizations. CMS has informed UW Medical Center that unless an acceptable plan of correction is in place by January 30, 2020, UW Medical Center's Medicare provider agreement could be terminated. CMS has discretion to extend that termination date. UW Medical Center is cooperating with CMS and has submitted a Plan of Correction (the Plan) in response to the CMS survey and is taking steps to comply with the components of the Plan. CMS is currently reviewing the proposed Plan. When CMS approves the Plan, UW Medicine management will take necessary actions to comply with that Plan so UW Medical Center continues to participate in the Medicare program.

NOTE 18:

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

(Dollars in thousands) **Statements of Net Position – June 30, 2018**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 1,486,002	$ (24,968)	$ 1,315,967	$ 195,003	$ 161,358	$ 33,645
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	5,586,225	(133,929)	5,537,440	182,714	157,842	24,872
CAPITAL ASSETS, NET	4,979,731	–	4,503,524	476,207	115,728	360,479
TOTAL ASSETS	12,051,958	(158,897)	11,356,931	853,924	434,928	418,996
DEFERRED OUTFLOWS OF RESOURCES	244,041	–	237,148	6,893	6,893	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$12,295,999**	**$ (158,897)**	**$11,594,079**	**$ 860,817**	**$ 441,821**	**$ 418,996**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 1,266,712	$ (8,099)	$ 1,139,878	$ 134,933	$ 97,011	$ 37,922
TOTAL NONCURRENT LIABILITIES	5,416,187	(146,270)	5,040,769	521,688	145,217	376,471
TOTAL LIABILITIES	6,682,899	(154,369)	6,180,647	656,621	242,228	414,393
DEFERRED INFLOWS OF RESOURCES	516,323	–	516,323	–	–	–
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	7,199,222	(154,369)	6,696,970	656,621	242,228	414,393
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,483,814	–	2,362,957	120,857	106,672	14,185
RESTRICTED:						
NONEXPENDABLE	1,721,927	–	1,719,547	2,380	2,380	–
EXPENDABLE	2,128,692	–	2,128,081	611	611	–
UNRESTRICTED	(1,237,656)	(4,528)	(1,313,476)	80,348	89,930	(9,582)
TOTAL NET POSITION	5,096,777	(4,528)	4,897,109	204,196	199,593	4,603
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$12,295,999**	**$ (158,897)**	**$11,594,079**	**$ 860,817**	**$ 441,821**	**$ 418,996**

(Dollars in thousands) Statements of Revenues, Expenses and Changes in Net Position – Year Ended June 30, 2019	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 1,052,222	$ –	$ 1,052,222	$ –	$ –	$ –
PATIENT SERVICES	2,135,733	(27,632)	1,475,975	687,390	687,390	–
GRANT REVENUE	1,041,103	–	1,041,103	–	–	–
OTHER OPERATING REVENUE	1,256,160	(114,732)	1,252,882	118,010	66,453	51,557
TOTAL OPERATING REVENUES	**5,485,218**	**(142,364)**	**4,822,182**	**805,400**	**753,843**	**51,557**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	5,691,795	(107,027)	5,000,164	798,658	776,318	22,340
DEPRECIATION / AMORTIZATION	372,435	–	335,556	36,879	16,754	20,125
TOTAL OPERATING EXPENSES	**6,064,230**	**(107,027)**	**5,335,720**	**835,537**	**793,072**	**42,465**
OPERATING INCOME (LOSS)	**(579,012)**	**(35,337)**	**(513,538)**	**(30,137)**	**(39,229)**	**9,092**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	378,656	–	378,656	–	–	–
GIFTS	165,831	–	165,204	627	627	–
INVESTMENT INCOME	339,878	(2,761)	335,087	7,552	7,552	–
OTHER NONOPERATING REVENUES (EXPENSES)	(28,345)	33,576	(47,132)	(14,789)	(962)	(13,827)
NET NONOPERATING REVENUES (EXPENSES)	**856,020**	**30,815**	**831,815**	**(6,610)**	**7,217**	**(13,827)**
INCOME BEFORE OTHER REVENUES	**277,008**	**(4,522)**	**318,277**	**(36,747)**	**(32,012)**	**(4,735)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	69,057	(2,000)	68,156	2,901	2,901	–
GIFTS TO PERMANENT ENDOWMENTS	135,484	–	135,484	–	–	–
TOTAL OTHER REVENUES	**204,541**	**(2,000)**	**203,640**	**2,901**	**2,901**	**–**
INCREASE IN NET POSITION	**481,549**	**(6,522)**	**521,917**	**(33,846)**	**(29,111)**	**(4,735)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,096,777	(4,528)	4,897,109	204,196	199,593	4,603
NET POSITION – END OF YEAR	**$ 5,578,326**	**$ (11,050)**	**$ 5,419,026**	**$ 170,350**	**$ 170,482**	**$ (132)**

(Dollars in thousands) Statements of Revenues, Expenses and Changes in Net Position – Year Ended June 30, 2018	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 989,912	$ –	$ 989,912	$ –	$ –	$ –
PATIENT SERVICES	2,008,317	(8,362)	1,331,023	685,656	685,656	–
GRANT REVENUE	1,409,321	–	1,409,321	–	–	–
OTHER OPERATING REVENUE	764,250	(123,249)	740,306	147,193	76,613	70,580
TOTAL OPERATING REVENUES	**5,171,800**	**(131,611)**	**4,470,562**	**832,849**	**762,269**	**70,580**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	5,474,792	(99,445)	4,827,842	746,395	727,133	19,262
DEPRECIATION / AMORTIZATION	384,004	–	351,293	32,711	18,132	14,579
TOTAL OPERATING EXPENSES	**5,858,796**	**(99,445)**	**5,179,135**	**779,106**	**745,265**	**33,841**
OPERATING INCOME (LOSS)	**(686,996)**	**(32,166)**	**(708,573)**	**53,743**	**17,004**	**36,739**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	362,267	–	362,267	–	–	–
GIFTS	166,721	–	165,910	811	811	–
INVESTMENT INCOME	404,412	(2,895)	398,948	8,359	8,359	–
OTHER NONOPERATING REVENUES (EXPENSES)	(20,796)	35,977	(45,389)	(11,384)	(572)	(10,812)
NET NONOPERATING REVENUES (EXPENSES)	**912,604**	**33,082**	**881,736**	**(2,214)**	**8,598**	**(10,812)**
INCOME BEFORE OTHER REVENUES	**225,608**	**916**	**173,163**	**51,529**	**25,602**	**25,927**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	168,972	(360)	168,871	461	461	–
GIFTS TO PERMANENT ENDOWMENTS	95,890	–	95,890	–	–	–
TOTAL OTHER REVENUES	**264,862**	**(360)**	**264,761**	**461**	**461**	**–**
INCREASE IN NET POSITION	**490,470**	**556**	**437,924**	**51,990**	**26,063**	**25,927**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	4,606,307	(5,084)	4,459,185	152,206	173,530	(21,324)
NET POSITION – END OF YEAR	**$ 5,096,777**	**$ (4,528)**	**$ 4,897,109**	**$ 204,196**	**$ 199,593**	**$ 4,603**

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

(Dollars in thousands) **Statements of Cash Flows – Year Ended June 30, 2018**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (227,517)	$ –	$ (241,349)	$ 13,832	$ 21,701	$ (7,869)
NONCAPITAL FINANCING ACTIVITIES	642,933	–	629,142	13,791	13,791	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(478,612)	–	(423,927)	(54,685)	(17,160)	(37,525)
INVESTING ACTIVITIES	143,297	–	93,158	50,139	(277)	50,416
NET INCREASE IN CASH AND CASH EQUIVALENTS	**80,101**	**–**	**57,024**	**23,077**	**18,055**	**5,022**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	64,035	–	33,342	30,693	29,165	1,528
CASH AND CASH EQUIVALENTS – END OF YEAR	**$ 144,136**	**$ –**	**$ 90,366**	**$ 53,770**	**$ 47,220**	**$ 6,550**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

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

(Amounts determined as of the measurement date)

PERS 1 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

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

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

(Amounts determined as of the measurement date)

PERS 2/3 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

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

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

(Amounts determined as of the measurement date)

TRS 1 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

Unaudited – see accompanying notes to financial statements

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

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

(Amounts determined as of the measurement date)

TRS 2/3 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

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

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

(Amounts determined as of the measurement date)

LEOFF 2 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

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

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

Unaudited – see accompanying notes to financial statements

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*

	2019	2018
TOTAL OPEB LIABILITY – BEGINNING	$ 1,565,213	$ 1,685,909
SERVICE COST	84,665	106,112
INTEREST ON TOL	58,207	49,703
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	53,132	–
CHANGE IN ASSUMPTIONS	(370,652)	(242,454)
BENEFIT PAYMENTS	(24,584)	(25,330)
CHANGE IN PROPORTIONATE SHARE	(11,804)	(8,727)
TOTAL OPEB LIABILITY – ENDING	**$ 1,354,177**	**$ 1,565,213**
OPEB COVERED-EMPLOYEE PAYROLL	$ 2,493,991	$ 2,529,127
TOTAL OPEB LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	54.30%	61.89%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2019

Plans administered by DRS

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

Additional Considerations on ADC for All Plans:

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2017 and ending June 30, 2019, the contribution rates that the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. This is the second of three biennia over which this increase is expected to be phased-in for PERS 1, PERS 2/3, TRS 1, and TRS 2/3.

For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC, except that the CRC reflect the adopted contribution rates for the time period shown. These might differ from the contribution rates produced for the ADC.

Plans administered by the University

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

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

Material assumption changes during the fiscal year 2018 measurement period include updating the GASB 73 discount rate from 3.58% to 3.87% ("Change in assumption" which decreased the TPL). Additionally, actual returns for CREF investments, which are used in determining a member's "assumed income", were materially higher during the measurement period at 12.32% versus the assumed return of 6.25% ("Difference between expected and actual experience" which decreased the TPL).

OPEB Plan administered by the Healthcare Authority of Washington State

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

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

Material assumption changes during the fiscal year 2017 measurement period relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 2.85% for the June 30, 2016 measurement date, to 3.58% for the June 30, 2017 measurement date.

Unaudited – see accompanying notes to financial statements

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* As of October 25, 2019

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The 2019 UW Financial Report and reports from previous years are available at annualreport.uw.edu

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

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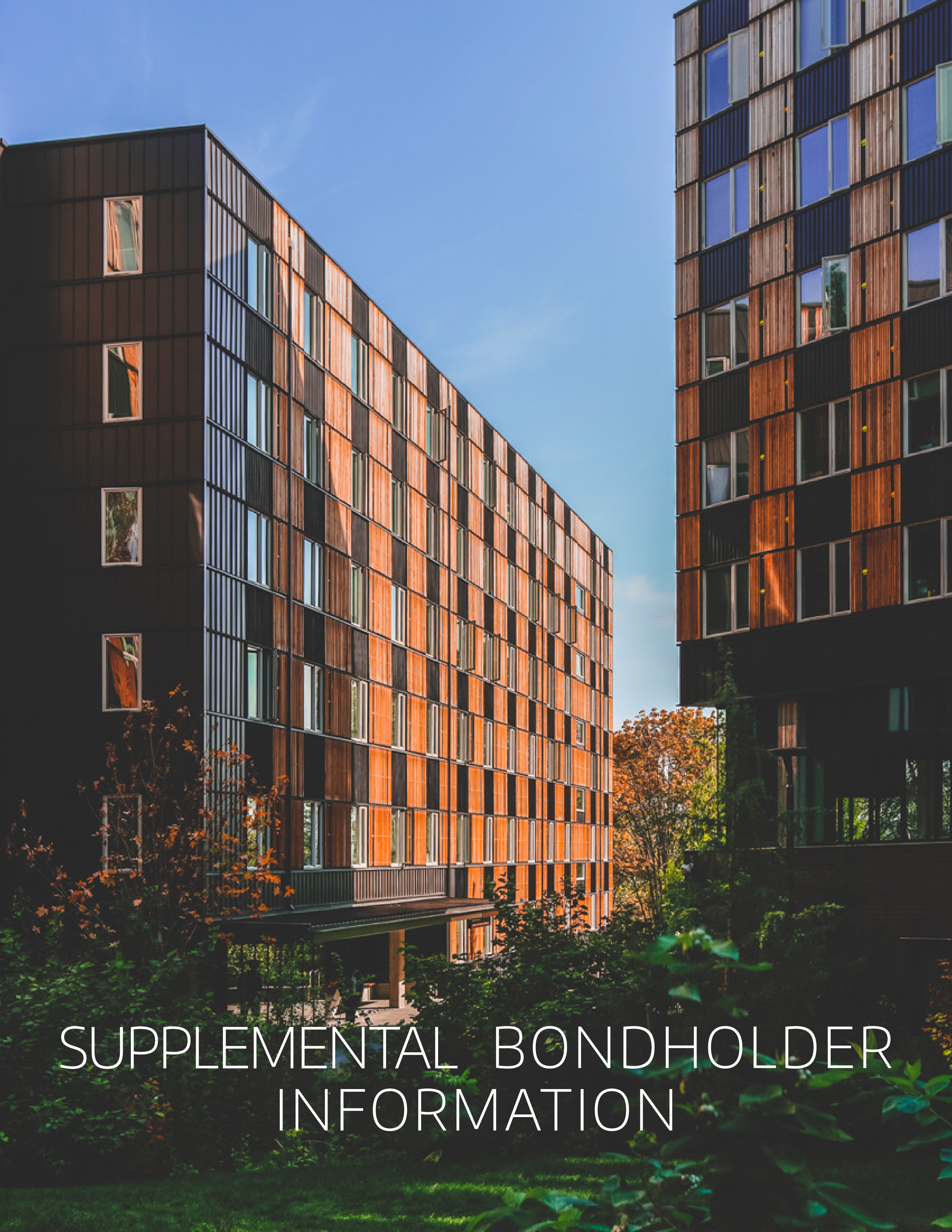
UNIVERSITY *of* WASHINGTON



SUPPLEMENTAL BONDHOLDER INFORMATION

OFFICIAL STATEMENT DISCLOSURES

OS DISCLOSURE OBLIGATION	LOCATION IN BONDHOLDERS REPORT
The audited financial statements of the University for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board.	Section 2 (UW Financial Report)
The amount of University revenue and other debt outstanding in that fiscal year.	Revenue: Section 2 (UW Financial Report - SRECNP) Debt: Section 3 (Supplemental Bondholder Information), Section 2 (UW Financial Report - Notes 9 - 11)
Student enrollment information for that fiscal year, of the type provided in the table entitled "Applications, Students and Enrollment" under the heading "ADMISSIONS, STUDENT ENROLLMENT AND FACULTY INFORMATION" and distribution of undergraduate enrollment among University campuses.	Section 3 (Supplemental Bondholder Information)
Information regarding the number of faculty, tenure rate and percent holding terminal degrees for that fiscal year, of the type provided in the table entitled "FACULTY DATA."	Section 3 (Supplemental Bondholder Information)
Information regarding room and board fees, autumn opening occupancy and occupancy for that fiscal year, of the type provided in the table entitled "HOUSING AND DINING DATA."	Section 3 (Supplemental Bondholder Information)
General Revenues and General Revenue components for that fiscal year, of the type provided in the table entitled "GENERAL REVENUES" under the headings General Revenue (Exclusions from Total Revenue) and General Revenue (By Component) and for the line item General Net Position.	Section 4 (General Revenues)
Grant and contract revenues for that fiscal year, and amount or percentage of grant and contract revenues from federal sources.	Section 2 (UW Financial Report - SRECNP)
Information regarding the amount or percentage of revenues from Medicare or Medicaid payments in that fiscal year.	Section 3 (Supplemental Bondholder Information)
Operating expenses by type of expenditure in that fiscal year.	Section 2 (UW Financial Report - MD&A)
Expenditures of State capital and operating appropriations to the University for such fiscal year, of the type provided in the table entitled "Expenditures of State Appropriations to the University by Type."	Section 2 (UW Financial Report - SRECNP)
Medical center patient activity statistics for such fiscal year.	Section 3 (Supplemental Bondholder Information)
Medical center financial information for such fiscal year.	Section 3 (Supplemental Bondholder Information)
Value of investments, including operating fund investments currently referred to as Invested Funds (IF) and the Consolidated Endowment Fund (CEF), for that fiscal year.	Section 3 (Supplemental Bondholder Information)
A narrative description of any material changes to the University's investment policy or CEF distribution policy during the preceding fiscal year.	Section 3 (Supplemental Bondholder Information)
Gift revenue for that fiscal year.	Section 2 (UW Financial Report - SRECNP)
University revenue by source for that fiscal year, of the type provided in the chart titled "University Total Revenue by Source, Fiscal Year 2018."	Section 2 (UW Financial Report - MD&A)
Total University expenditures by category for that fiscal year.	Section 2 (UW Financial Report - MD&A and SRECNP)
University total net assets and unrestricted net assets, of the type presented under the heading "UNIVERSITY OF WASHINGTON—Other University Financial Information—University Net Assets."	Section 2 (UW Financial Report - SNA)
A description of any material changes to the University's obligations with respect to its pension plans, of the type presented under the heading "LABOR, RISK MANAGEMENT AND RETIREMENT INFORMATION."	Section 2 (UW Financial Report - Note 15)
A description of any material changes to the University's obligations with respect to other post-employment benefits, of the type presented under the heading "OTHER UNIVERSITY INFORMATION—Other Post-Employment Retirement Benefits ("OPEB")."	Section 2 (UW Financial Report - Note 16)
Amount of the University's self-insurance reserve, of the type presented under the heading "OTHER UNIVERSITY INFORMATION—Risk Management."	Section 2 (UW Financial Report - Note 17)

APPLICATIONS, STUDENTS & ENROLLMENT

	AUTUMN QUARTER (1) 2018 FY19	AUTUMN QUARTER (1) 2019 FY20
UNDERGRADUATE		
Freshmen		
Applied	50,965	51,847
Accepted	26,490	28,506
Percent Accepted to Applied	52%	55%
Enrolled	8,571	8,465
Percent Enrolled to Accepted	32%	30%
Transfers		
Applied	9,123	8,728
Accepted	5,041	4,779
Percent Accepted to Applied	55%	55%
Enrolled	3,264	3,034
Percent Enrolled to Accepted	65%	63%
Total Undergraduate FTE (2)		
Bothell	5,060	5,046
Seattle	31,004	30,901
Tacoma	4,291	4,363
Total All Campuses	40,355	40,310
Totals Undergraduate Headcount		
Bothell	5,411	5,364
Seattle	32,594	32,570
Tacoma	4,573	4,610
Total All Campuses	42,578	42,544
Additional Enrollment Statistics		
Percent Non-Resident Students	34%	34%
Percent Retention (Freshman to Sophomore)	92%	92%
Mean GPA	3.73	3.74
Median GPA	3.81	3.83
% of Class Reporting GPA Data	100%	100%
Mean Combined SAT Scores	1293	1289
Median Combined SAT Scores	1320	1320
% of Class Reporting SAT Data	76%	81%
GRADUATE		
Applied	34,421	32,328
Accepted	11,153	10,731
Percent Accepted to Applied	32%	33%
Enrolled	4,656	4,772
Percent Enrolled to Accepted	42%	44%
Graduate FTE	15,170	15,244
Graduate Headcount	14,498	14,628

(1) Unless otherwise noted, all figures include Seattle, Tacoma and Bothell campuses.
(2) Full-time equivalent (“FTE”) defined as an undergraduate carrying 12 credits or a graduate student carrying 10 credit hours. FTE exceeds headcount enrollment when students take more credit hours than the credit hour threshold equating to one FTE.

APPLICATIONS, STUDENTS & ENROLLMENT CONTINUED

	AUTUMN QUARTER [1]	
	2018 FY19	2019 FY20
PROFESSIONAL		
Law		
Applied	2,946	2,555
Accepted	778	711
Enrolled	174	164
Law Headcount	477	482
Pharmacy		
Applied	403	344
Accepted	151	155
Enrolled	108	106
Pharmacy Headcount	407	421
Dentistry		
Applied	486	448
Accepted	105	100
Enrolled	63	61
Dental Headcount	269	265
Medicine		
Applied	9,024	8,190
Accepted	337	339
Enrolled	271	270
Medicine Headcount	1,023	1,041
Total Professional FTE	3,980	4,105
Total Professional Headcount	2,176	2,209
Tuition and Fees (full academic year)		
Undergraduate Resident	$11,207	$11,465
Undergraduate Non-Resident	$36,558	$38,166
Graduate Resident	$16,590	$16,977
Graduate Non-Resident	$28,881	$29,562
Business Masters Resident	$34,323	$35,334
Business Masters Non-Resident	$50,046	$51,531
Law Resident	$35,988	$37,050
Law Non-Resident	$47,190	$48,588
Pharmacy Resident	$31,482	$32,712
Pharmacy Non-Resident	$52,263	$54,324
Medical Resident	$36,801	$37,887
Medical Non-Resident	$66,753	$68,082
Dentistry Resident	$48,270	$48,285
Dentistry Non-Resident	$73,842	$73,857
University FTE		
Undergraduate	40,355	40,310
Graduate	15,170	15,244
Professional	3,980	4,105
Total University FTE	59,505	59,659
University Headcount		
Undergraduate	42,578	42,544
Graduate	14,498	14,628
Professional	2,176	2,209
Total University Headcount	59,252	59,381

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

FACULTY & OTHER DATA

	AUTUMN QUARTER (1) 2018 FY19	2019 FY20
FACULTY DATA (1)		
Number of faculty	4,369	4,864
Tenure rate (%)	35%	43%
Percent holding terminal degree (Ph.D., MD, DDS)	82%	81%
HOUSING AND DINING		
Room and Board (2)	$11,925	$12,554
Autumn Opening Occupancy (3)	8,365	8,491
Occupancy (4)	109%	111%

(1) Faculty data reflects full-time faculty across Seattle, Bothell, Tacoma campuses. In all years, headcount associated with temporary faculty categories is excluded.
(2) Room and Board pricing is the weighted average of all residence hall double rooms in inventory for a full academic year. Dining amount is for a representative meal plan.
(3) Autumn opening occupancy is used to calculate capacity.
(4) Numbers reflect as-built capacity and 10th day occupancy. Occupancy that exceeds 100 percent is the result of housing three students in a room designed for two.

MEDICAL CENTERS [1]

	Year Ending June 30,	
	2018	2019
UW MEDICAL CENTER, NORTHWEST AND VALLEY FINANCIAL INFORMATION ($000)		
UW Medical Center		
Total Operating Revenue	$ 1,260,010	$ 1,412,923
Operating Margin	(1.7%)	4.6%
Net Income	$ (16,645)	$ 75,304
Northwest		
Total Operating Revenue	$ 370,770	$ 374,908
Operating Margin	(7.7%)	(12.2%)
Net Income	$ (21,010)	$ (39,993)
Valley		
Total Operating Revenue	$ 636,725	$ 677,857
Operating Margin	(0.1%)	(2.7%)
Net Income	$ 40,234	$ 12,037
UW MEDICAL CENTER, NORTHWEST AND VALLEY PATIENT STATISTICS		
UW Medical Center		
Admissions	19,350	18,948
Outpatient Visits	353,718	364,006
Emergency Visits	28,279	28,765
Northwest		
Admissions	9,935	9,767
Outpatient Visits	169,370	166,707
Emergency Visits	33,651	32,587
Valley		
Admissions	18,409	18,271
Outpatient Visits	624,802	670,132
Emergency Visits	85,098	85,305
MEDICARE/MEDICAID PAYMENT		
Percent of Total Clinical Revenue	**42%**	**40%**

(1) Only UW Medical Center revenues are currently included in General Revenues for the University. Commencing January 1, 2020, UW Medical Center Northwest campus revenues are included in General Revenues.

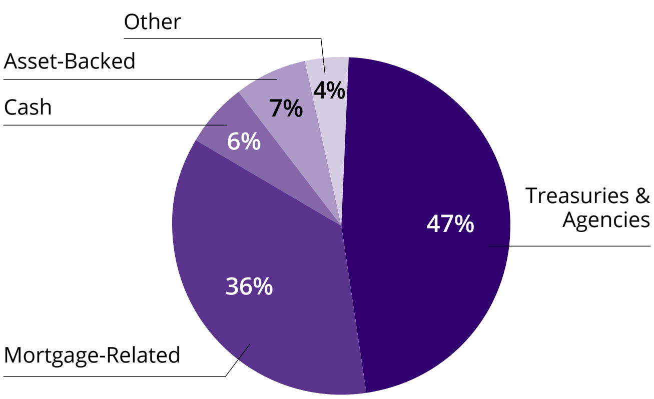
CONSOLIDATED ENDOWMENT AND INVESTED FUNDS

MARKET VALUES AND RETURNS *($ in millions)*

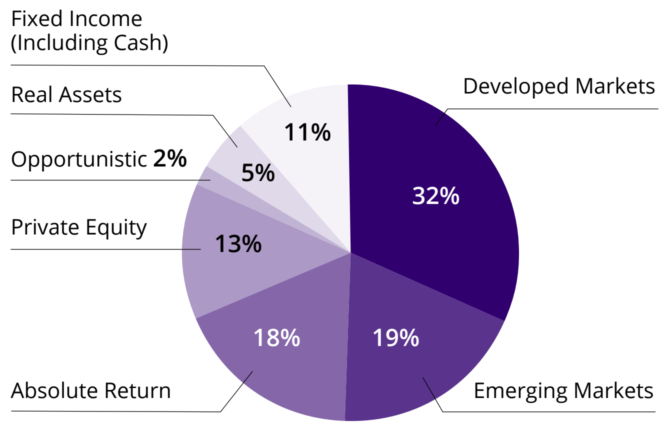
INVESTED FUNDS (IF) [1]	Year Ending June 30,	
	2018	2019
Total Market Value	$1,788	$1,634
Annualized One-Year Return	0.9%	3.8%

CONSOLIDATED ENDOWMENT FUND (CEF) [2]	Year Ending June 30,	
	2018	2019
Total Market Value	$3,407	$3,588
Annualized One-Year Return	9.6%	5.8%

IF PORTFOLIO BREAKDOWN
$1,634 million
(as of 06/30/2019)



CEF PORTFOLIO BREAKDOWN
$3,588 million
(as of 06/30/2019)



ENDOWMENT RETURN & SPENDING	Year Ending June 30,	
	2018	2019
Total Annual Return on Endowment	$301	$202
Amount of Annual Return Spent	$152	$163
Effective Actual Annual Spending Rate	4.8%	4.8%

CEF SPENDING POLICY

In February 2019, the Board of Regents approved a total spending reduction from five percent to four percent. The spending reduction is being phased in as follows:

	TOTAL SPENDING	PROGRAM DISTRIBUTIONS	ADMINISTRATIVE FEE
Fiscal Year 2019	5.00%	4.00%	1.00%
Fiscal Year 2020	4.90%	3.92%	0.98%
Fiscal Year 2021	4.70%	3.76%	0.94%
Fiscal Year 2022 & thereafter	4.50%	3.60%	0.90%

(1) Represents the Short- and Intermediate-term Pools. Excludes Long-term Pool and Capital Assets Pool.
(2) Includes the Long-term Pool.

Note: Totals may not sum due to rounding.

UNIVERSITY LIQUIDITY

(UNAUDITED)($000)

	Year Ending June 30, 2019
Daily Liquidity [1]	
Money Market Funds [2]	$ 100,183
Weekly Liquidity [3]	
U.S. Treasuries and Agencies	1,192,115
Fixed Income	379,313
Total Weekly Liquidity	1,571,428
Total Daily & Weekly Liquidity [4]	**$ 1,671,611**

(1) Investments that can be liquidated on a same-day basis, if sale executed prior to 10:00 AM PST.
(2) Includes Bank of America balance of $37 million.
(3) Investments that can be liquidated within two to seven days.
(4) Excludes $659 million in the Long-term Pool and $313 million in Supplemental Retirement Fund.

FUTURE DEBT SERVICE

as of June 30, 2019

($000)	FISCAL YEAR					
	2020	2021	2022	2023	2024	2025-2050
TOTAL UNIVERSITY DEBT SERVICE						
State General Obligation Bonds	$ 14,099	$ 14,070	$ 13,983	$ 13,952	$ 13,856	$ 27,034
State Certificates of Participation	$ 2,955	$ 2,756	$ 1,583	$ 289	$ 291	$ –
Revenue Bonds						
General Revenue Bonds (1)	$ 136,856	$ 137,763	$ 137,780	$ 133,721	$ 133,693	$ 2,558,390
Lease Revenue Bonds (2)	$ 32,204	$ 32,042	$ 31,900	$ 31,782	$ 28,221	$ 391,297
Subtotal: General Revenue Debt Service	**$ 186,113**	**$ 186,630**	**$ 185,245**	**$ 179,744**	**$ 176,061**	**$ 2,976,720**
Commercial Paper (3)	$ 95	–	–	–	–	–
Equipment Leases & Others (4) (5)	$ 5,053	$ 4,854	$ 3,344	$ 2,717	$ 1,316	$ 6,417
Total General Revenue Debt Service	**$ 191,261**	**$ 191,483**	**$ 188,589**	**$ 182,461**	**$ 177,377**	**$ 2,983,137**
AFFILIATED ENTITIES						
Northwest Hospital (5)	$ 354	–	–	–	–	–
Total Debt Service All Obligations	**$ 191,616**	**$ 191,483**	**$ 188,589**	**$ 182,461**	**$ 177,377**	**$ 2,983,137**

(1) General Revenue Bonds Series 2009, 2009B, 2010A&B, 2011A, 2012AB&C, 2013, 2015ABC&D, 2016A&B, 2018, 2019A.
(2) Series 2010B WBRP 3, 2013 WBRP, 2014A WBRP, and 2015A WBRP 3.2.
(3) Reflects known interest as of June 30, 2019 to be paid on outstanding commercial paper of $25 million.
(4) Includes capital leases other than leases included as Lease Revenue Bonds.
(5) Prior to January 1, 2020, Northwest Hospital debt is included within Northwest Hospital. Effective January 1, 2020, Northwest Hospital debt is included in Other.

Note: For additional outstanding debt information, see Section 2 (UW Financial Report, Notes 9 - 11).

SUPPLEMENTAL FINANCIAL REPORTS

UNIVERSITY OF WASHINGTON

Supplementary Information

June 30, 2019 and 2018

(With Independent Auditors’ Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report on Supplementary Information

The Board of Regents
University of Washington:

We have audited the financial statements of the business-type activities and discretely presented component unit of the University of Washington (the University), an agency of the state of Washington, as of and for the years ended June 30, 2019 and 2018, and have issued our report thereon dated October 25, 2019, which contained unmodified opinions on those financial statements that collectively comprise the University's basic financial statements. Our audit was performed for the purpose of forming opinions on the financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 25, 2019.

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

This report is intended solely for the information and use of the Board of Regents and management of the University of Washington and rating agencies and bondholders who have previously received the financial statements of the University of Washington as of and for the years ended June 30, 2019 and 2018, and our unmodified opinions thereon, for use in evaluating those financial statements, and is not intended to be, and should not be used for any other purpose.

KPMG LLP

Seattle, WA
October 25, 2019

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UNIVERSITY OF WASHINGTON

Reconciliations of Total University Revenue to General Revenue

Years ended June 30, 2019 and 2018

(Dollars in thousands)

		2019	2018
General revenue:			
Total revenue	$	6,634,277	6,425,908
Less:			
State appropriations		378,656	362,267
Grant and contract direct costs		1,207,662	1,196,554
Gifts		165,831	166,721
Revenues of component units		676,205	705,687
Student activities fees and U-Pass fees		46,652	44,907
Student technology fees, student building fees, and student loan funds		78,553	74,728
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		274,178	368,191
Capital appropriations		24,797	26,399
Capital grants, gifts and other		44,260	142,573
Other nonoperating revenues		8,365	4,749
Gifts to permanent endowments		135,484	95,890
Total general revenue	$	3,593,634	3,237,242
General revenue components:			
Student tuition and fees (less student activities fees, U-Pass fees, technology fees, building fees, and loan funds)	$	939,245	882,236
Grant and contract indirect costs		269,649	263,865
Invested funds distribution and net invested funds unrealized gains and losses (note 2)		65,700	36,221
Sales and services of educational departments		260,176	242,886
Patient services		1,475,975	1,331,023
Auxiliary systems		466,231	383,503
Other operating revenues		116,658	97,508
Total general revenue	$	3,593,634	3,237,242

See accompanying notes to supplementary information.

UNIVERSITY OF WASHINGTON

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

June 30, 2019 and 2018

(Dollars in thousands)

		2019	2018
Total University unrestricted net position per financial statements	$	(980,736)	(1,237,656)
Less:			
Student and activities fees		24,648	25,625
Net position (deficit) of component units:			
Association of University Physicians		152,606	145,250
UW Neighborhood Clinics		(1,933)	(2,243)
Northwest Hospital		(90,862)	(53,077)
Real estate entities		(3,757)	(9,582)
Total to be excluded, net		80,702	105,973
General net position, including pensions and other post-employment benefits (OPEB)		(1,061,438)	(1,343,629)
Impact of GASB 68 – Pensions		584,284	706,142
Impact of GASB 75 – OPEB		1,817,162	1,763,597
General net position, excluding GASB 68 pensions and OPEB *	$	1,340,008	1,126,110

* There are other noncash adjustments to Unrestricted Net Position not shown here

See accompanying notes to supplementary information.

(1) Basis of Presentation

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

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

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

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

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

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

As of June 30, 2019 and 2018, Unrestricted Net Position reflects a deficit due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* during fiscal year 2015, and the implementation of GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) during fiscal year 2018. These Statements require the University to record its proportionate share of the state of Washington's actuarially determined liabilities for pensions and OPEB. The University's Unrestricted Net Position, excluding the impacts of GASB Statements No. 68 and 75, is reflected on the Reconciliations of Total University of Washington Unrestricted Net Position to General Net Position.

(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.

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

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington Housing and Food Services, a department of the University of Washington, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University of Washington Housing and Food Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Housing and Food Services as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

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Emphasis of Matters

As discussed in note 1, the financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2019 and 2018, the changes in its financial position or its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1, on July 1, 2017, the University of Washington Housing and Food Services adopted new accounting guidance requiring governments providing postretirement benefits other than pensions (OPEB) to employees of state and local government employers to recognize the OPEB liability, as well as recognize most changes in the OPEB liability within benefits expense. Our opinion is not modified with respect to this matter.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 11, and the schedules of required supplementary information on pages 45 through 49, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
October 23, 2019

Discussion and Analysis Prepared by Management

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Housing and Food Services (HFS) as of and for the years ended June 30, 2019, 2018 and 2017. This discussion has been prepared by HFS management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington (University), as of June 30, 2019 and 2018, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Overview of the Financial Statements

The financial statements of HFS include the statements of net position; the statements of revenue, expenses, and changes in net position; the statements of cash flows; and notes to financial statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for state and local governments.

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

(Continued)

Summary Statements of Net Position

		2019	2018	2017
Assets:				
Current assets	$	101,269,553	104,782,261	85,557,983
Noncurrent assets		635,018,836	637,787,392	507,360,386
Total assets		736,288,389	742,569,653	592,918,369
Deferred outflows		4,055,091	2,863,478	3,372,565
Total assets and deferred outflows	$	740,343,480	745,433,131	596,290,934
Liabilities:				
Current liabilities	$	42,860,025	46,622,216	47,533,692
Noncurrent liabilities		698,568,424	705,338,179	546,265,369
Total liabilities		741,428,449	751,960,395	593,799,061
Deferred inflows		10,592,340	5,222,978	701,091
Net position:				
Net investment in capital assets		(41,741,796)	(40,660,015)	(31,416,235)
Unrestricted		30,064,487	28,909,773	33,207,017
Total net position		(11,677,309)	(11,750,242)	1,790,782
Total liabilities and net position	$	740,343,480	745,433,131	596,290,934

Current assets consist primarily of cash, accounts receivable, inventory, prepaid expenses, and receivables from other University departments. Current assets were $58.4 million and $58.2 million more than current liabilities at June 30, 2019 and 2018, respectively. Total current assets as of June 30, 2019 decreased 3.4%, or $3.5 million, in 2019 due to large draws on cash for capital projects and Internal Lending Program (ILP) funding being largely offset by an increase in accounts receivable. Current assets increased 22.5%, or $19.2 million, in 2018 due to an increase in cash resulting from collections of residence hall room rents, conferences services, and related food services.

Noncurrent assets consist of land, buildings, building improvements, equipment, construction in process, University of Washington Supplemental Retirement Plan (UWSRP) pension investment, and amounts due from University Transportation Services. Noncurrent assets as of June 30, 2019 were largely in line with the prior year period as buildings were completed under the Housing Master Plan and commenced depreciation. Noncurrent assets increased 25.7%, or $130.4 million, in 2018 due to continuing construction under the Housing Master Plan.

Current liabilities consist of accounts payable, accrued interest, accrued expenses, unearned revenue, deposits, amounts due to other University departments, and the current portion of debt payments. Current liabilities decreased by 8.1%, or $3.8 million, in 2019, primarily due to a decrease in the amounts due to other University departments related to the funding of residence hall construction and a decrease in prepaid conference revenue. This is offset by an increase in accounts payable and the short-term portion of ILP debt resulting from additional borrowing related to Phase 4a of the Housing Master Plan. Current liabilities as of June 30, 2018 were largely in line with the prior year period due to a decrease in accounts payable resulting from the new residence hall housing construction nearing completion being largely offset by an increase in the short-term portion of ILP debt from additional borrowing.

Noncurrent liabilities consist of the long-term portion of ILP debt, the pension liability, and the other postemployment benefits (OPEB) liability. Total long-term debt decreased 0.3%, or $2.1 million, in 2019, compared to an increase of 26.5%, or $140.8 million, in 2018. Construction loan draws on ILP debt continued to increase long-term debt in 2018, which peaked in 2019. The debt balance began to decrease in 2019 when debt service payments commenced on the Phase 4a borrowing. The pension liability decreased 14.2% and 21.5%, or $1.7 million and $3.3 million, in 2019 and 2018, respectively. The decreases are primarily due to decreases in HFS's proportionate share of the PERS 1 and PERS 2/3 pension plans, which were favorably impacted by stronger than expected investment returns on pension plan assets during the corresponding measurement periods. The OPEB liability decreased from 13.7%, or $3.0 million, in 2019, due to an increase in the discount rate used in measurement calculations. The OPEB liability was initially recorded July 1, 2017 at a balance of $22.8 million (note 1). From July 1, 2017 to June 30, 2018, the OPEB liability decreased 5.2%, or $1.2 million, due to an increase in the discount rate used in measurement calculations.

The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the year. Total net position increased by 0.6% in 2019. The continued strong demand for campus housing resulted in positive net operating income. The increase in revenue related to the addition of new residence halls was partially offset by higher costs for depreciation and building operation costs, such as utilities and supplies. Nonoperating expenses included additional interest expense related to new construction and a one-time debt financing cost. In 2018, total net position decreased 756.2%, or $13.5 million, primarily due to a $22.8 million reduction in net position resulting from implementation of GASB Statement No. 75 (note 1), partially offset by positive net operating income and nonoperating insurance claim proceeds.

Unrestricted net position includes HFS's share of retirement plan liabilities and assets. The plans disclosed in notes 6 and 7 provided a net deficit of $33.7 million and $34.6 million as of June 30, 2019 and 2018, respectively.

Statements of Revenue, Expenses, and Changes in Net Position

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

In general, operating revenue is earned from providing housing, food service, and related services to students and conference guests. Operating revenue is also generated in the form of educational sponsorship, and as vending commissions. Operating expenses are incurred to provide services and resources, primarily consisting of salaries and benefits, cost of food, building operation expenses, and administrative overhead.

Nonoperating revenue is not generated by goods and services. Under GASB reporting principles, investment income and expenses are classified as nonoperating activities. Also included as nonoperating items are energy rebates, insurance proceeds, and interest expense. HFS also recognized a net gain on capital asset transfers related to arrangements with other University departments, where ownership of constructed assets was transferred upon project completion.

The following is a condensed view of the statements of revenue, expenses, and changes in net position for the fiscal years ended June 30:

	2019	2018	2017
Operating revenue	$ 153,893,439	136,155,268	130,879,431
Operating expenses	(126,507,181)	(112,741,416)	(105,870,844)
Net operating income	27,386,258	23,413,852	25,008,587
Net nonoperating expense	(28,179,969)	(14,201,819)	(21,093,127)
Net gain (loss) on capital asset transfers	866,644	—	(7,121,289)
Change in net position	72,933	9,212,033	(3,205,829)
Net position, beginning of year	(11,750,242)	1,790,782	6,557,147
Effect of accounting change	—	(22,753,057)	(1,560,536)
Net position, end of year	$ (11,677,309)	(11,750,242)	1,790,782

(Continued)

Revenue from All Sources

The following table summarizes revenue from all sources for the years ended June 30:

	2019	2018	2017
Residence halls and single-student apartment rent	$ 86,975,288	73,081,691	70,450,236
Residence halls and retail food services	48,235,300	45,870,914	44,076,785
Conferences and guest rent	8,611,036	8,089,531	6,892,929
Leases	3,073,408	2,945,721	3,611,600
Family housing rent	2,296,881	2,214,403	2,206,020
Forfeitures and miscellaneous fees	2,034,547	1,530,529	1,400,124
Educational sponsorship	949,000	949,000	949,000
Vending machines	673,514	693,672	620,521
Laundry	698,220	523,690	464,167
Parking revenue	71,909	72,156	92,433
Energy rebates	899,512	15,463	53,183
Investment income	788,303	687,784	741,272
Insurance claim proceeds	528,159	6,444,002	—
Net gain on capital asset disposals	—	11,081	—
Net gain on capital asset transfers	866,644	—	—
Other	274,336	183,961	115,616
Total revenue – all sources	$ 156,976,057	143,313,598	131,673,886

HFS's largest revenue source is residence hall and single-student room rent and food services, which comprised 86.1% of revenue from all sources in 2019, compared to 83.0% in 2018. During 2019, residence hall and single-student rent increased by 19.0%, or $13.9 million, food services increased by 5.2%, or $2.4 million, and conference services increased by 6.4%, or $0.5 million, over the prior year. During 2018, residence hall and single-student rent increased by 3.7%, or $2.6 million, food services increased by 4.1%, or $1.8 million, and conference services increased by 17.4%, or $1.2 million. The increases for both periods are primarily due to continuing strong demand for student housing and increasing room rates. The number of conference attendees on campus also continued to grow, especially in the summer months of 2018, which positively impacted both fiscal years.

Nonoperating revenue decreased $4.1 million in 2019 compared to 2018 and increased $6.4 million in 2018 compared to 2017, primarily due to insurance claim proceeds of $6.4 million that were recorded in 2018 (note 1).

(Continued)

Expenses and Expense Transfers

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

		2019	2018	2017
Salaries and related benefits	$	35,900,246	34,880,282	32,008,663
Depreciation		30,892,109	24,215,339	20,740,567
Cost of food and merchandise		18,524,378	17,479,405	16,814,086
Noncapitalized equipment		10,729,122	7,744,928	8,535,518
Utilities		9,066,746	8,156,718	7,913,046
Indirect expenses		7,509,205	7,379,407	7,006,001
Contract services		5,988,488	5,280,561	5,513,424
Supplies		3,354,522	2,950,169	2,977,583
Repairs and maintenance		2,769,266	3,006,609	2,661,815
Institutional overhead		1,489,429	1,554,896	1,533,128
Interest expense on capital asset – related debt		28,788,379	21,360,149	21,843,929
Financing cost		1,601,476	—	20,020
Net loss on capital asset disposals		6,088	—	23,633
Net loss on capital asset transfers		—	—	7,121,289
Other		283,670	93,102	167,013
Total expenses and expense transfers	$	156,903,124	134,101,565	134,879,715

Salaries and benefits expense increased by 2.9% and 9.0%, or $1.0 million and $2.9 million, in 2019 and 2018, respectively. The increase for both periods is primarily due to labor rate increases and additional headcount required to operate expanded housing and food service venues.

Depreciation expense increased by 27.6%, or $6.7 million, in 2019, compared to an increase of 16.8%, or $3.5 million in 2018. One new building, including furnishings, was placed in service in June 2018 and two additional buildings with furnishings were placed in service in 2019.

Noncapitalized equipment increased by 38.5%, or $3.0 million, in 2019 resulting from the completion of Phase 4a of the Housing Master Plan. Noncapitalized equipment decreased by 9.3%, or $0.8 million, in 2018 due to preconstruction cost and design of the Housing Master Plan that were incurred in 2017.

In 2019, nonoperating expenses increased primarily due to increases in interest expense and financing costs related to ILP debt for Phase 4a of the Housing Master Plan in the beginning of the year. Nonoperating costs were higher in 2017 than in 2018 due to asset transfer losses in 2017.

Economic Factors and Significant Events

System Wide Considerations

As a self-sustaining auxiliary enterprise of the University of Washington, HFS operates as a self-contained entity without funding from nonoperating sources.

A change in property zoning classifications in the University District have made student-focused housing projects, particularly high-rise projects, financially feasible for competitors. As a result of this up-zoning, a number of high-rise projects are under construction, or are in their initial planning phases.

Mass transit improvements are ongoing in the greater Seattle area. The Northgate light rail expansion project is underway, which includes the opening of the UW Tower station and light rail access to communities north of campus. This phase is expected to open to passengers in 2021.

The current Director of Dining is transitioning to a role at a new university in September 2019. An interim management plan is being developed and a search for a replacement will commence at the discretion of the Assistant Vice President for Student Life and Executive Director, Housing & Food Services.

Management of payment card industry (PCI) compliance has been moved to a centralized University office with a new cost structure implemented on July 1, 2019. The internal fees associated with this new office are approximately 300% higher than the prior fee structure. This will affect all HFS business lines, as card payments are a growing portion of sales tender.

The campus pizza contract with Pagliacci Pizza is set to expire in 2020. UW Dining is exploring all options for pizza offerings on campus.

Housing Operation

Autumn quarter 2019 will open with occupancy at 110.7% of as-built capacity. Expanded capacity included 707 overflow spaces and approximately 115 students in temporary lounge space. There are 35 students projected to be on the wait list. Privately managed off-campus facilities coordinated through UW Real Estate are showing similar strength in demand.

The McMahon 8 dining center located in McMahon Hall is transitioning to a new maker's space in partnership with the School of Engineering and Digital Arts & Experimental Media (DXARTS). Cost of the renovation and ongoing operations are shared between these campus partners.

Stevens Court exterior renovations are nearing completion after a number of years. These renovations stem from faulty installation of the stucco siding and have been covered by insurance proceeds.

Haggett Hall continues to run at half-capacity as a bed-flow mitigation strategy. HFS plans to vacate the building and ready it for demolition at the end of the 2019–20 academic year. Bed counts will transfer to Oak Hall, which is part of the Housing Master Plan Phase 4b and new for autumn 2020.

Due to changes in the University academic schedule (longer June instruction period), HFS Conference Services lost a large portion of summer revenue associated with housing Seattle area interns. This was realized in summer 2019 and is forecasted to occur again in summer 2020.

Updates to the Housing Master Plan

HFS developed a Housing Master Plan to develop residence halls and single-student apartments in four phases. The development of these residence halls creates a richer on-campus community, alleviating the current excess demand within student housing and providing additional bed capacity (surge space) to support

(Continued)

replacement of existing residence halls. This additional capacity allows HFS to replace existing facilities while continuing to meet current housing demand. As of June 30, 2019 and 2018, costs incurred related to the Housing Master Plan totaled approximately $749.4 million and $701.5 million, respectively. These costs were included in construction in process, completed building costs, and furniture and fixtures as of June 30, 2019 and 2018. Total projected cost of the Housing Master Plan was $795.5 million and $730.0 million as of June 30, 2019 and 2018, respectively. The Board of Regents approved borrowing under the ILP of up to $760.8 million for Phases 1-4a of the Housing Master Plan as of June 30, 2018 (note 4). The Board of Regents approved a cash-funded investment of $65.5 million for Phase 4b of the Housing Master Plan as of June 30, 2019.

Phase 1, which consisted of four new facilities, was completed in September 2012. Phase 2, which consisted of two new facilities, was completed in January 2014. Phase 3, which also consisted of two new facilities, was completed in July 2015 and opened to students the following autumn quarter. The completion of Phase 3 marks the end of the west campus development phase of the Housing Master Plan. As a result, net bed space has increased by approximately 400. The final phase of the Housing Master Plan focused on north campus redevelopment and has been divided into two parts – Phase 4a and 4b.

Phase 4a consisted of three facilities and opened to students in autumn 2018. Of these three new facilities, one was placed in service in June 2018, and was available for use in the summer conference season. System as-built bed space increased by approximately 1,743 as a result of Phase 4a.

Phase 4b was approved by the Board of Regents in February 2019 and consists of one facility, Oak Hall, and the renovation of Denny Fields. The budget for this phase is $65.5 million and will be funded from HFS cash reserves. Oak Hall will open to students in autumn 2020, increasing system net beds by 350.

Debt service is being paid to the ILP for all Phase 1, 2, 3, and 4a buildings. ILP loans for all Housing Master Plan phases are now closed, as debt service on Phase 4a began in September 2018. The debt service coverage ratio was 1.45 and 1.57 as of June 30, 2019 and 2018, respectively.

Residence Hall Dining Operation

Continued programs, such as free beverages for dining plan holders, late night hours, and bundled Husky Meals, continued to encourage student engagement and direct sales back to Residential Dining Operations. As a result, overall sales in these venues increased $2.6 million and $2.0 million in 2019 and 2018, respectively.

Center Table in Willow Hall has replaced McMahon 8 as the primary dining center on north campus. Center Table is a state-of-the-art dining center offering eight food service platforms, including Select, a food sensitive, allergen-free kitchen. Pagliacci has been moved to an adjacent location allowing for containment of gluten allergens and greater flexibility in operating hours.

A policy change to the dining plan selection method for certain students living in dining optional housing has reduced autumn 2019 dining plan participation. The anticipated revenue impact is $0.7 million for the 2019–20 academic year, with 50% of this loss impacting four residential dining units on west campus – the District Market, Local Point, Pagliacci – Local Point, and Husky Grind – Mercer.

District Market – North, an express market to be located in Oak Hall, will open in autumn 2020. No other residential dining changes are planned for 2019–20.

Retail Dining Operation

Overall retail sales decreased by $0.1 million in 2019 and increased by just $7 thousand in 2018. Supplier disruptions, campus-wide snow closures, and delayed new venue openings contributed to the declining sales in 2019. Several retail venues were closed in 2018, which contributed to the lack of growth in the prior year. Operating costs were largely in line with prior years and contributed to net operating losses of $0.8 million being recorded both in 2019 and 2018.

UW Dining sushi offerings were impacted by the abrupt closure of supplier, Blue C Sushi, in January 2019. Blue C Sushi provided both fresh made and "grab-and-go" products sold throughout campus venues. The product line was very popular on campus and UW Dining is working to secure another supplier.

Campus retail operations were suspended for 4.5 days in February 2019 due to University-wide snow closures. The revenue impact was approximately $0.5 million in 2019.

UW Dining opened two new food venues this year, Microsoft Café and Evolutionary Grounds. Both venues are located in new buildings and experienced delayed openings due to construction and building readiness issues. Both venues are protected from operating losses through agreements negotiated with the venues' respective sponsoring departments.

UW Dining plans to open and operate a third Starbucks Licensed Store as a mobile truck in autumn 2019. A fourth Starbucks venue is a brick and mortar store planned for the new Population Health facilities planned to open in autumn 2020. Per the Starbucks sponsorship agreement, the University is obligated to open a fifth location by 2023. At this point in time, HFS has not been identified as the operator of the fifth venue.

No additional new retail venues are planned for 2019–20.

HFS received Starbucks and Coca-Cola educational sponsorship funds totaling $0.9 million in both fiscal years 2019 and 2018.

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

Statements of Net Position

June 30, 2019 and 2018

Assets and Deferred Outflow of Resources		**2019**	**2018**
Current assets:			
Cash and cash equivalents in the University Invested Funds Pool	$	94,526,544	99,135,162
Accounts receivable, net		2,394,895	1,098,404
Prepaid expense		470,033	372,032
Inventory		757,218	1,026,218
Due from other University departments		3,120,863	3,150,445
Total current assets		101,269,553	104,782,261
Noncurrent assets:			
Due from other University departments		3,241,140	3,241,140
Capital assets, less accumulated depreciation (note 2)		630,078,437	633,234,337
Other assets (note 6)		1,699,259	1,311,915
Total noncurrent assets		635,018,836	637,787,392
Deferred outflows of resources		4,055,091	2,863,478
Total assets and deferred outflows of resources	$	740,343,480	745,433,131
Liabilities, Deferred Inflow of Resources, and Net Position			
Current liabilities:			
Accounts payable	$	1,812,634	2,618,326
Accrued interest		2,583,771	1,782,429
Other accrued expenses		2,779,458	2,707,918
Unearned revenue		7,008,526	9,258,372
Deposits		4,961,360	4,936,200
Due to other University departments		4,859,039	9,288,735
Internal lending program (ILP) payable, current portion (notes 3 and 4)		18,440,237	15,635,236
Lease payable, current portion (notes 3 and 5)		415,000	395,000
Total current liabilities		42,860,025	46,622,216
Noncurrent liabilities:			
Internal lending program (ILP) payable, less current portion (notes 3 and 4)		668,776,832	670,471,229
Pension liability (note 6)		10,286,796	11,982,825
Other postemployment benefits (OPEB) liability (note 7)		18,609,796	21,574,125
Lease payable, less current portion (notes 3 and 5)		895,000	1,310,000
Total noncurrent liabilities		698,568,424	705,338,179
Total liabilities		741,428,449	751,960,395
Deferred inflows of resources		10,592,340	5,222,978
Net position:			
Net investment in capital assets		(41,741,796)	(40,660,015)
Unrestricted		30,064,487	28,909,773
Total net position		(11,677,309)	(11,750,242)
Total liabilities, deferred inflows of resources, and net position	$	740,343,480	745,433,131

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2019 and 2018

		2019	2018
Operating revenue:			
Residence halls and single-student apartment rent	$	86,975,288	73,081,691
Residence halls and retail food services		48,235,300	45,870,914
Conferences and guest rent		8,611,036	8,089,531
Leases		3,073,408	2,945,721
Family housing rent		2,296,881	2,214,403
Forfeitures and miscellaneous fees		2,034,547	1,530,529
Educational sponsorship		949,000	949,000
Vending machines		673,514	693,672
Laundry		698,220	523,690
Parking revenue		71,909	72,156
Other		274,336	183,961
Total operating revenue		153,893,439	136,155,268
Operating expenses:			
Salaries and related benefits		35,900,246	34,880,282
Depreciation		30,892,109	24,215,339
Cost of food and merchandise		18,524,378	17,479,405
Noncapitalized equipment		10,729,122	7,744,928
Utilities		9,066,746	8,156,718
Indirect expenses		7,509,205	7,379,407
Contract services		5,988,488	5,280,561
Supplies		3,354,522	2,950,169
Repairs and maintenance		2,769,266	3,006,609
Institutional overhead		1,489,429	1,554,896
Other		283,670	93,102
Total operating expenses		126,507,181	112,741,416
Net operating income		27,386,258	23,413,852
Nonoperating revenue (expenses):			
Energy rebates		899,512	15,463
Investment income		788,303	687,784
Insurance claim proceeds		528,159	6,444,002
Interest expense on capital asset-related debt		(28,788,379)	(21,360,149)
Financing costs		(1,601,476)	—
(Loss) gain on capital asset disposals		(6,088)	11,081
Total nonoperating expenses		(28,179,969)	(14,201,819)
Net gain on capital asset transfers		866,644	—
Change in net position		72,933	9,212,033
Net position, beginning of year (as restated in 2018)		(11,750,242)	(20,962,275)
Net position, end of year	$	(11,677,309)	(11,750,242)

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Cash received from student housing fees	$	85,404,910	72,701,131
Cash received from residence hall food services		48,344,341	45,868,364
Cash received from conference services		7,295,504	9,476,754
Cash received from leases		2,960,675	2,641,737
Cash received from facility rentals		2,844,473	2,479,672
Cash received from vending commissions		664,793	683,743
Cash received from educational sponsorship		949,000	949,000
Cash received from others		274,484	185,240
Cash paid for interfund and debit card activities		(1,323,624)	(109,411)
Cash paid to suppliers		(51,266,847)	(44,346,429)
Cash paid for employee salaries, wages, and benefits		(33,717,336)	(31,566,263)
Cash paid for indirect expenses		(8,919,973)	(8,316,124)
Net cash provided by operating activities		53,510,400	50,647,414
Cash flows from capital and related financing activities:			
Purchases of capital assets		(28,149,042)	(152,519,262)
Borrowing on internal lending program		16,584,265	156,872,308
Interest paid on capital debt		(30,499,443)	(27,869,126)
Principal payments on capital debt		(17,401,990)	(13,718,446)
Proceeds from insurance on capital assets		528,159	6,444,002
Net cash used in capital and related financing activities		(58,938,051)	(30,790,524)
Cash flows from investing activity:			
Interest received		819,033	657,054
Net decrease (increase) in cash and cash equivalents		(4,608,618)	20,513,944
Cash and cash equivalents, beginning of year		99,135,162	78,621,218
Cash and cash equivalents, end of year	$	94,526,544	99,135,162
Reconciliation of operating income to net cash provided by operating activities:			
Net operating income	$	27,386,258	23,413,852
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		30,892,109	24,215,339
Changes in operating assets and liabilities:			
Accounts receivable		(1,296,491)	1,056,809
Prepaid expense and other assets		(98,001)	769,027
Inventory		269,000	(234,961)
Due to/from other University departments		163,314	307,024
Accounts payable		(782,690)	(235,307)
Unearned revenue		(2,249,846)	512,722
Accrued expenses		71,540	96,383
Deposits		25,160	346,399
Retirement plan deferred resources and liabilities		(869,953)	400,127
Net cash provided by operating activities	$	53,510,400	50,647,414
Supplemental disclosures of cash flow information:			
Capitalized interest	$	2,444,324	6,391,418
Amortization of deferred premium on refunded bonds		66,480	66,480
Net gain on capital asset transfers		866,644	—
Capital assets in accounts payable and due to other University departments		2,984,320	5,294,086

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

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

(b) Basis of Accounting

The financial statements have been prepared in accordance with generally accepted accounting principles. The statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All internal activities have been eliminated. The financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2019 and 2018, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

On July 1, 2017, HFS adopted GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* (OPEB), which establishes new actuarial methods and discount rate standards for the measurement and recognition of the cost of postemployment benefits provided to the employees of state and local governmental employers. This Statement replaces the requirements of GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions."* As a result of implementing Statement No. 75, HFS has recognized its proportionate share of the state of Washington's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to adopting this statement, the HFS financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expense based on cash contributions paid to the OPEB plan administrator. In addition to the reporting changes described above, implementation of this statement resulted in the restatement of fiscal year 2018 beginning unrestricted net position, reducing it by $22,753,057.

With the adoption of GASB Statement No. 75, net position was restated at July 1, 2017. Below is a reconciliation of total net position as previously reported at June 30, 2017 to the restated net position:

Net position at June 30, 2017, as previously reported	$	1,790,782
Adoption of GASB Statement No. 75		(22,753,057)
Net position at July 1, 2017, as restated	$	(20,962,275)

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

Investments

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

	2019	2018
Cash and cash equivalents	3.7 %	4.7 %
U.S. Treasury and agency securities	68.2	66.5
Mortgage-related securities	10.3	10.1
Asset-backed debt securities	10.6	8.6
Corporate and other fixed income	7.2	10.1
Total	100.0 %	100.0 %

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

(d) Accounts Receivable

HFS has established an allowance for doubtful accounts related to receivables, which are estimated to be uncollectible. The allowance is based on historical experience of HFS and current economic circumstances with respect to the collectibility of accounts receivable. Student accounts are considered past due if they are unpaid for 30 days after the due date. Other customer accounts are considered past due if they are unpaid for 60 days after the due date. The balance of the allowance account was $33,794 and $57,840 as of June 30, 2019 and 2018, respectively.

(e) Inventory

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

(f) Prepaid Expense

Prepaid expense consists primarily of building insurance, which is typically amortized over one year.

(g) Due from Other University Departments

Due from other University departments, current, consists primarily of accrued lease revenue (note 5) of $3,073,408 and $2,945,721 as of June 30, 2019 and 2018, respectively.

Due from other University departments, noncurrent, relates to an agreement with University Transportation Services, where HFS has constructed surplus parking stalls in anticipation of planned parking stall demolition. The obligation represents a surplus of parking stalls, which are expected to be offset with the planned demolition of parking stalls at Haggett Hall in summer 2020. The amount due from Transportation Services was $3,241,140 as of both June 30, 2019 and 2018.

(h) Capital Assets

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

Interest expense is capitalized during the time a project is under construction and begins upon the issuance of debt to finance the construction of a capital asset. Capitalized construction-related interest was $2,444,324 and $6,391,418 during the years ended June 30, 2019 and 2018, respectively.

(i) Deferred Outflows of Resources

The balance of deferred outflows of resources is related to the following retirement benefit plans as of June 30:

		2019	2018
Public Employees' Retirement System pension plans (note 6)	$	2,194,869	2,449,049
University of Washington Supplemental Retirement Plan (note 6)		844,625	45,599
Other postemployment benefits (OPEB) (note 7)		1,015,597	368,830
Total	$	4,055,091	2,863,478

(j) Unearned Revenue

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

(k) Deposits

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

(l) Deferred Inflows of Resources

The balance of deferred inflows of resources is related to the following retirement benefit plans as of June 30:

		2019	2018
Public Employees' Retirement System pension plans (note 6)	$	2,726,154	1,618,820
University of Washington Supplemental Retirement Plan (note 6)		549,432	633,605
Other postemployment benefits (OPEB) (note 7)		7,316,754	2,970,553
Total	$	10,592,340	5,222,978

(m) Net Position

Net position consists of the following components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the net outstanding debt balances related to capital assets, net of unamortized debt expenses. The negative balance as of June 30, 2019 and 2018 is due to the inclusion of existing debt on the old Mercer, Lander, Terry and McCarty Halls, all of which were demolished, while additional debt was incurred for the demolition and redevelopment.

Unrestricted – Consists of assets and liabilities that do not meet the definition of "net investment in capital assets."

(n) Operating and Nonoperating Revenue and Expenses

In general, operating revenue is earned from providing housing, food service, and related services primarily to students and conference guests. The majority of operating revenue consists of room and board services to students. Revenue is recognized as the food service is provided, the appropriate housing period occurs, or the conference takes place. Operating expenses are those expenses incurred to provide services and resources, primarily consisting of salaries and benefits, cost of food, building operation expenses, and administrative overhead.

Nonoperating revenue is recognized for receipts under the energy rebate program associated with Housing Master Plan construction, as well as investment income, insurance claim proceeds, gain on sales of net assets, and other revenue sources that are not associated with HFS's primary operations. Nonoperating expense includes interest expense, financing costs, and losses on asset disposals and transfers.

(o) Institutional Overhead

The University allocates certain general and administrative charges to those departments for which services are performed. This institutional overhead charge, which is based on a percentage of division revenue, totaled $1,489,429 and $1,554,896 for the years ended June 30, 2019 and 2018, respectively.

(p) Indirect Expenses

Administrative expenses, such as salaries and benefits, contract services, and supplies, are reported as indirect expense. These administrative costs totaled $7,509,205 and $7,379,407 for the years ended June 30, 2019 and 2018, respectively.

(q) Insurance Claim Proceeds

Insurance claim proceeds are recognized when realized or realizable, generally upon cash receipt.

During fiscal year 2018, HFS received insurance payments totaling $6,430,475 for a loss incurred at the Stevens Court complex. During fiscal year 2019, HFS received insurance payments totaling $559,566 for a loss incurred at the Laurel Village Community Center.

The Stevens Court loss was caused by faulty construction of the exterior siding, which allowed water to infiltrate the stucco siding over multiple years. The damage was identified during routine renovations. The insurance proceeds will offset the cost of replacing the siding at all four affected buildings in the Stevens Court complex. Repairs on the first building began in June 2018 and were completed in August 2018. Repairs on the second building began in June 2019 and were completed in August 2019. Repairs on the remaining two buildings are scheduled to begin in June 2020 and are expected to be completed in August 2020.

(r) Net Gain on Capital Asset Transfers

The net gain on capital asset transfers from other University departments primarily consists of a gain of $1,200,000 on an asset transfer from the College of Engineering. The College of Engineering contributed funding towards the construction of the wet lab within the new McCarty Hall maker space. Ownership of the completed asset was transferred to HFS in 2019.

This gain was partially offset by the transfer of completed basketball courts to UW Recreation, with a constructed cost of $333,356. Basketball courts owned by UW Recreation had to be moved in order to accommodate the new buildings for Phase 4 of the Housing Master Plan. HFS rebuilt the courts in a new location in order to make the other department whole and recorded a loss on the transfer of the asset to UW Recreation.

(s) Income Taxes

As a part of the University, the operations of HFS are exempt from federal income taxes, except to the extent of unrelated business income. HFS did not incur unrelated business income tax during 2019 or 2018, and accordingly, the financial statements do not include a provision for federal income taxes.

(t) Use of Estimates

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

(u) Other Accounting Policies

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

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

Other Post-Employment Benefits (OPEB). The total OPEB liability is measured as HFS's proportionate share of the University's total OPEB liability, with proportionate share determined based on the relationship of HFS's healthcare-eligible headcount to the total healthcare-eligible headcount for the University. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate required by GASB Statement No. 75 for OPEB plans which do not have assets residing in a qualified trust. OPEB expense is recognized for subsidies earned during the period, interest on the total OPEB liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for healthcare-eligible employees. Contributions made to the plan subsequent to the measurement date and prior to HFS's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the total OPEB liability is June 30 of the prior fiscal year.

(2) Capital Assets

Capital asset activity for the years ended June 30, 2019 and 2018 is summarized as follows:

	Balance at June 30, 2018	Additions/ transfers	Retirements/ transfers	Balance at June 30, 2019
Capital assets not being depreciated:				
Land	$ 6,775,215	—	—	6,775,215
Construction in progress	150,645,801	26,397,302	(164,508,742)	12,534,361
Total capital assets not being depreciated	157,421,016	26,397,302	(164,508,742)	19,309,576
Capital assets being depreciated:				
Building and building improvements	636,382,092	165,375,386	—	801,757,478
Equipment	4,975,035	478,350	(187,911)	5,265,474
Total capital assets being depreciated	641,357,127	165,853,736	(187,911)	807,022,952
Less accumulated depreciation:				
Building and building improvements	161,662,017	30,472,339	—	192,134,356
Equipment	3,881,789	419,770	(181,824)	4,119,735
Total accumulated depreciation	165,543,806	30,892,109	(181,824)	196,254,091
Capital assets, net	$ 633,234,337	161,358,929	(164,514,829)	630,078,437

	Balance at June 30, 2017	Additions/ transfers	Retirements/ transfers	Balance at June 30, 2018
Capital assets not being depreciated:				
Land	$ 6,775,215	—	—	6,775,215
Construction in progress	84,813,708	154,382,766	(88,550,673)	150,645,801
Total capital assets not being depreciated	91,588,923	154,382,766	(88,550,673)	157,421,016
Capital assets being depreciated:				
Building and building improvements	547,831,419	88,550,673	—	636,382,092
Equipment	5,572,032	101,059	(698,056)	4,975,035
Total capital assets being depreciated	553,403,451	88,651,732	(698,056)	641,357,127
Less accumulated depreciation:				
Building and building improvements	137,861,598	23,800,419	—	161,662,017
Equipment	4,148,406	414,920	(681,537)	3,881,789
Total accumulated depreciation	142,010,004	24,215,339	(681,537)	165,543,806
Capital assets, net	$ 502,982,370	218,819,159	(88,567,192)	633,234,337

North campus construction projects for new McCarty Hall and Madrona Hall were substantially completed in July 2018 and August 2018, respectively. These buildings represented $147,820,720 of the $150,645,801 balance of construction in progress as of June 30, 2018. The total cost of the two residence halls totaled $164,508,742, which was transferred from construction in progress to building and building improvements during the year ended June 30, 2019.

(3) Noncurrent Liabilities

Noncurrent liability activity for the years ended June 30, 2019 and 2018 is summarized as follows:

		Balance at June 30, 2018	Additions	Reductions	Balance at June 30, 2019
Noncurrent liabilities:					
ILP payable	$	686,106,465	18,185,741	(17,075,137)	687,217,069
Pension liability		11,982,825	—	(1,696,029)	10,286,796
OPEB liability		21,574,125	—	(2,964,329)	18,609,796
Lease payable		1,705,000	—	(395,000)	1,310,000
Total noncurrent liabilities		721,368,415	18,185,741	(22,130,495)	717,423,661
Current portion		(16,030,236)			(18,855,237)
Noncurrent portion	$	705,338,179			698,568,424

		Balance at June 30, 2017		Additions		Reductions		Balance at June 30, 2018
Noncurrent liabilities:								
ILP payable	$	542,645,750	$	156,872,308	$	(13,411,593)	$	686,106,465
Pension liability		15,259,701		—		(3,276,876)		11,982,825
OPEB liability		—		23,101,955		(1,527,830)		21,574,125
Lease payable		2,080,000		—		(375,000)		1,705,000
Total noncurrent liabilities		559,985,451	$	179,974,263	$	(18,591,299)		721,368,415
Current portion		(13,720,082)						(16,030,236)
Noncurrent portion	$	546,265,369					$	705,338,179

(4) The Internal Lending Program

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

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

On April 22, 2008, the University issued General Revenue Refunding Bonds (2008 Bonds) to refund certain outstanding bonds of the University. A portion of the proceeds from the sale of the 2008 Bonds was used for the purpose of refunding HFS's 1996 Junior Lien Revenue Bonds with a premium. Related to this, HFS is obligated to the ILP in the amount of $6,761,250 and $8,750,000 as of June 30, 2019 and 2018, respectively. The final payment is due in the fiscal year ending 2022. The average interest rate is 3.75%. The balance of the premium was $158,540 and $211,400 as of June 30, 2019 and 2018, respectively.

In December 2008, HFS drew funds from the ILP in a total amount of $6,348,067 to purchase the Cavalier Apartments property for future housing development plans. The final payment is due in the fiscal year ending 2034. The interest rate is 4.5%. Related to this, HFS is obligated to the ILP in the amount of $4,618,488 and $4,837,745 as of June 30, 2019 and 2018, respectively.

In October 2010, the University issued General Revenue & Refunding Bonds, 2010A & B. A portion of the proceeds was used to partially refund the 2002 Housing and Dining Revenue & Refunding Bonds with a premium. Related to this, HFS is obligated to the ILP in the amount of $6,631,463 and $7,018,165 as of June 30, 2019 and 2018, respectively. The final payment is due in the fiscal year ending 2032. The interest rate is 4.5%. The balance of the premium was $40,879 and $54,499 as of June 30, 2019 and 2018, respectively.

In March 2012, the University issued General Revenue & Refunding Bonds, 2012A & B. A portion of the proceeds was used to fully refund the 2002 and 2004 Housing and Dining Revenue & Refunding Bonds. The amount refunded was $15,595,000, with no gain or loss. Related to this, HFS is obligated to the ILP in the amount of $7,502,336 and $8,488,912 as of June 30, 2019 and 2018, respectively. The final payments are due in the fiscal years ending 2022 and 2029. The interest rate is 4.5% for the GRB 2012A. The interest rate is 4.06% for GRB 2012B.

From May 2009 through January 2016, the Board of Regents approved borrowing for HFS under the ILP of up to $760,775,515 for the four phases of the Housing Master Plan to build residence halls and single student apartments. The total draws to fund the project as of June 30, 2019 and 2018 were $690,142,868 and $671,957,127, respectively. Phase 1a was completed in 2011 and phases 1b, 2a, 2b, and 3 were completed in each of the succeeding four fiscal years. Repayment of borrowings for each phase of the project began in the autumn after each phase was completed. Debt repayments for Phase 4a of the project began in autumn 2018. Related to this, HFS is obligated to the ILP in the amount of $642,300,140 and $636,487,095 as of June 30, 2019 and 2018, respectively. The final payments are due between the fiscal years ending 2042 and 2049. The interest rate is 4.5%.

In July 2016, due to the transfer of the Nordheim Court Apartments from UW Real Estate (note 5), HFS is obligated to the ILP in the amount of $19,203,974 and $20,258,649 as of June 30, 2019 and 2018, respectively. The final payment is due in the fiscal year ending 2032. The interest rate is 4.5%.

The ILP agreements require HFS to maintain certain financial performance ratios. If these requirements were violated, future financing from the ILP could be ceased or minimized. As of June 30, 2019 and 2018, HFS met all requirements of the agreement.

Debt service requirements at June 30, 2019 were as follows:

	Principal	Interest	Total
2020	$ 18,440,237	30,577,542	49,017,779
2021	19,300,344	29,722,250	49,022,594
2022	20,116,925	28,832,887	48,949,812
2023	18,153,985	27,960,929	46,114,914
2024	18,989,416	27,127,059	46,116,475
2025–2029	108,467,327	121,720,003	230,187,330
2030–2034	125,763,661	95,044,038	220,807,699
2035–2039	146,143,364	64,949,387	211,092,751
2040–2044	155,413,021	29,310,900	184,723,921
2045–2049	56,229,370	5,262,255	61,491,625
	687,017,650	460,507,250	1,147,524,900
Add unamortized premium	199,419		
	$ 687,217,069		

(5) Leases

Lease Payments

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

The total principal obligation under this agreement was $1,310,000 and $1,705,000 as of June 30, 2019 and 2018, respectively, and is expected to be repaid in installments of approximately $480,000 (including imputed interest of approximately 5%) per year through 2022. Minimum future payments under this agreement at June 30, 2019 were as follows:

	Principal	Interest	Total
2020	$ 415,000	68,775	483,775
2021	435,000	46,987	481,987
2022	460,000	24,150	484,150
	$ 1,310,000	139,912	1,449,912

Lease Revenue

The University and Community Development Properties (CDP), a nonprofit organization, entered into a lease agreement whereby CDP issued bonds to undertake a comprehensive redevelopment of the Commodore Duchess and Radford Court properties for student housing. In July 2011 and 2012, the University took over the Nordheim Court, Commodore Duchess, and Radford Court properties from CDP. In July 2016, the Nordheim Court property was restructured to be the direct responsibility of HFS in order to offer University programs to residents that could not be administered by a third-party property manager.

The Commodore Duchess and Radford Court properties (the Apartments) are owned by the University and are managed by UW Real Estate with an outside property manager. The University refunded the CDP bonds with loan proceeds from the Internal Lending Program (ILP). In accordance with the ILP financing agreement, HFS will be obligated to pay debt service on this loan only in the event that funds from the Apartments are insufficient. The Apartments have been self-sustaining in the current and prior years. The outstanding debt under this agreement was $31,745,035 and $33,650,720 as of June 30, 2019 and 2018, respectively.

The University receives an annual payment from the Apartments, which it designates to HFS. Revenue from these properties was $3,073,408 and $2,945,721 for the years ended June 30, 2019 and 2018, respectively.

(6) Pension Plan

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

(a) Plan Descriptions of the DRS Plans

(i) Public Employees’ Retirement System (PERS)

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

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

(b) Vesting and Benefits Provided

(i) PERS Plan 1

PERS Plan 1 provides retirement, disability and death benefits. The plan is closed to new entrants. All members were vested after the completion of five years of eligible service. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest-paid consecutive service months. The retirement benefit may not exceed 60% of the AFC.

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

(ii) PERS Plan 2/3

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

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

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

(c) Fiduciary Net Position

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

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

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

(d) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). HFS's 2019 proportionate share of the pension liability is based on an OSA valuation performed as of June 30, 2017, with the results rolled forward to the measurement date of June 30, 2018. Likewise, HFS's 2018 pension liability is based on a valuation performed as of June 30, 2016, with the results rolled forward to the measurement date of June 30, 2017. The following actuarial assumptions have been applied to all prior periods included in the measurement:

2019 (measurement date 2018)	
Inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.50%
Investment rate of return	7.40%

2018 (measurement date 2017)	
Inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.75%
Investment rate of return	7.50%

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

The actuarial assumptions used in the June 30, 2017 valuations were based on the results of 2007–2012 *Experience Study Report* and the *2017 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

The actuarial assumptions used in the June 30, 2016 valuations were based on the results of 2007–2012 *Experience Study Report* and the *2015 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report.

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

The long-term expected rate of return of 7.40% and 7.50% as of June 30, 2019 and 2018, respectively, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

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

	2019 (measurement date 2018)		2018 (measurement date 2017)	
	Target allocation	Long-term expected real rate of return arithmetic	Target allocation	Long-term expected real rate of return arithmetic
Asset class:				
Fixed income	20.00 %	1.70 %	20.00 %	1.70 %
Tangible assets	7.00	4.90	5.00	4.90
Real estate	18.00	5.80	15.00	5.80
Global equity	32.00	6.30	37.00	6.30
Private equity	23.00	9.30	23.00	9.30

For the measurement dates of June 30, 2018 and 2017, the inflation component used to create the above table was 2.20%, and it represents WSIB's most recent long-term estimate of broad economic inflation.

(e) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2019 and 2018 was 7.40% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which the HFS participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.40% and 7.50% future investment rate of return on pension plan investments was assumed as of June 30, 2018 and 2017, respectively. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1, as provided for in Chapter 41.45 of the RCW).

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

The following table presents the HFS's proportionate net pension liability calculated using the discount rates of 7.40% and 7.50% as of June 30, 2018 and 2017, respectively, as well as what the net pension liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

		1% Decrease	Discount rate at 7.4%	1% Increase
			(Dollars in thousands)	
Plan as of June 30, 2019:				
PERS 1	$	5,972	4,859	3,896
PERS 2/3		10,735	2,347	(4,530)

		1% Decrease	Discount rate at 7.5%	1% Increase
			(Dollars in thousands)	
Plan as of June 30, 2018:				
PERS 1	$	6,268	5,146	4,173
PERS 2/3		12,836	4,765	(1,849)

(g) Employer Contribution Rates

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that was set at 0.18% for both 2019 and 2018. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The contribution rates and required contributions for each DRS plan in which HFS participates are shown in the table below:

Description	PERS Plan 1	PERS Plan 2/3[a]
	(Dollars in thousands)	
Contributions as June 30, 2019:		
Contribution rate	12.70 %	12.70 %
Contributions made	$ 769	$ 1,111
Contributions as June 30, 2018:		
Contribution rate	12.70 %	12.70 %
Contributions made	$ 727	$ 1,061

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

(h) HFS Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by HFS as of June 30, 2019 was June 30, 2018. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2018 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in their June 30, 2018 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension plan liability recorded by HFS as of June 30, 2018 was June 30, 2017, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2017 used as the basis for determining each employer's proportionate share of the collective pension amounts. HFS's proportionate share for each DRS plan is shown in the table below:

	Proportionate share	
	PERS 1	PERS 2/3
Year ended June 30, 2019	0.11 %	0.14 %
Year ended June 30, 2018	0.11 %	0.14 %

(i) HFS Aggregated Balances

HFS's aggregated balances of net pension liabilities as of June 30 2019 and 2018, are presented in the table below:

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
June 30, 2019:				
Net pension liability	$	4,859	2,347	7,206
June 30, 2018:				
Net pension liability	$	5,146	4,765	9,911

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

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

		Proportionate share of pension expense		
Description		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
As of June 30, 2019	$	442	95	537
As of June 30, 2018	$	79	830	909

Description		Deferred outflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
June 30, 2019:				
Change in assumptions	$	—	27	27
Difference between expected and actual experience		—	288	288
HFS's contributions subsequent to the measurement date of the collective net pension liability[a]		769	1,111	1,880
Total	$	769	1,426	2,195

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

Description		PERS 1	PERS 2/3	Total
June 30, 2018:				
Change in assumptions	$	—	51	51
Difference between expected and actual experience		—	483	483
Change in HFS's proportionate share		—	128	128
HFS's contributions subsequent to the measurement date of the collective net pension liability[b]		727	1,061	1,788
Total	$	727	1,723	2,450

(b) Recognized as a reduction of the net pension liability as of June 30, 2019

Description		Deferred inflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
June 30, 2019:				
Difference between projected and actual earnings on plan investments, net	$	193	1,440	1,633
Change in assumptions		—	668	668
Difference between expected and actual experience		—	411	411
Change in HFS's proportionate share		—	14	14
Total	$	193	2,533	2,726

Description		Deferred inflows of resources PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
June 30, 2018:				
Difference between projected and actual earnings on plan investments, net	$	192	1,270	1,462
Difference between expected and actual experience		—	157	157
Total	$	192	1,427	1,619

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

Year		Amortization of deferred inflows and deferred outflows of resources[a] PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
2020	$	9	(178)	(169)
2021		(42)	(489)	(531)
2022		(127)	(894)	(1,021)
2023		(33)	(339)	(372)
2024		—	(134)	(134)
Thereafter		—	(184)	(184)
Total	$	(193)	(2,218)	(2,411)

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

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

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

(i) 403(b) Plan Description

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

(ii) 403(b) Funding Policy

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

(l) University of Washington Supplemental Retirement Plan

(i) Plan Descriptions

The University of Washington Supplemental Retirement Plan (UWSRP), a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. HFS also participates in this plan. The UWSRP was closed to new participants effective March 1, 2011. As of June 30, 2019, 32 active and 4 inactive HFS employees were receiving benefits. As of June 30, 2018 35 active and 3 inactive HFS employees were receiving benefits.

(ii) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the years ended June 30, 2019 and 2018 were $39 thousand and $31 thousand, respectively.

(Continued)

(iii) Total Pension Liability (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the HFS reports their share of the total UWSRP pension liability. This is different from the DRS plans which have trusted assets and, therefore, are reported as a net pension liability. As of June 30, 2019 and 2018, HFS has set aside $1,699,259 and $1,311,914, respectively, to pay future UWSRP retiree benefits associated with HFS employees. These assets are reported as other assets on the Statements of Net Position.

		June 30, 2019	June 30, 2018
		(Dollars in thousands)	
Schedule of changes in total pension liability:			
Beginning balance	$	2,073	2,161
Service cost		61	74
Interest on TPL		85	81
Difference between expected and actual experience		533	(170)
Change in assumptions		302	(86)
Change in proportion		66	44
Benefit payments		(39)	(31)
Ending balance	$	3,081	2,073

The June 30, 2019 TPL is based on an actuarial valuation performed as of June 30, 2018 using the entry age actuarial cost method. Update procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement date of June 30, 2019.

The June 30, 2018 TPL is based on an actuarial valuation performed as of June 30, 2016 using the entry age actuarial cost method. Update procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement date of June 30, 2018.

HFS's share of UWSRP pension expense for the fiscal years ended June 30, 2019 and 2018 was $164 thousand and $58 thousand, respectively.

(iv) Actuarial Assumptions

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

	June 30, 2019 (Dollars in thousands)
Significant assumptions used to measure the total pension liability:	
Inflation	2.75 %
Salary changes	4.25 %
Source of mortality assumptions	RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB
Date of experience study	April 2016
Discount rate	3.50 %
Source of discount rate	Bond Buyer's 20 bond index as of June 30, 2019
TPL measurement at discount rate	$ 3,081
TPL discount rate increased 1%	$ 2,688
TPL discount rate decreased 1%	$ 3,555

	June 30, 2018 (Dollars in thousands)
Significant assumptions used to measure the total pension liability:	
Inflation	2.75 %
Salary changes	4.25 %
Source of mortality assumptions	RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB
Date of experience study	April 2016
Discount rate	3.87 %
Source of discount rate	Bond Buyer's 20 bond index as of June 30, 2018
TPL measurement at discount rate	$ 2,073
TPL discount rate increased 1%	$ 1,818
TPL discount rate decreased 1%	$ 2,380

Material assumption changes during the measurement period ending June 30, 2019 include updating the GASB Statement No. 73 discount rate from 3.87% to 3.50% and updated investment assumptions ("Change in assumption," which both increased the TPL). Additionally, actual returns investments of 5.00% were less than the assumed return of 6.50%, and the actual salary growth exceeded the estimate of 4.25% ("Difference between expected and actual experience," which also increased the TPL).

Material assumption changes during the measurement period ending June 30, 2018 include updating the GASB Statement No. 73 discount rate from 3.58% to 3.87% ("Change in assumption," which decreased the TPL). Additionally, actual returns for investments, which are used in determining a member's "assumed income," were materially higher during the measurement period at 12.32% versus the assumed return of 6.25% ("Difference between expected and actual experience," which also decreased the TPL).

(v) Deferred Outflows and Deferred Inflows of Resources

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

		2019	2018
		(Dollars in thousands)	
Deferred outflows of resources:			
Difference between expected and actual experience	$	466	—
Change in assumptions		264	—
Change in proportionate share		115	46
Total	$	845	46
Deferred inflows of resources:			
Difference between expected and actual experience	$	374	431
Change in assumptions		159	183
Change in proportionate share		16	20
Total	$	549	634

(Continued)

Amortization of deferred inflows and deferred outflows of resources		
Year:		
2020	$	18
2021		18
2022		18
2023		18
2024		18
Thereafter		206
Total	$	296

(7) Other Postemployment Benefits (OPEB)

(a) Plan Description

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

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

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

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

- The explicit subsidy, permitted under RCW 41.05.085, is a straightforward, set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The dollar amount of the explicit subsidy was set at $168 per member per month from January through June 2019. Previously the explicit subsidy was set at $150 per member per month, from July 2018 through December 2018, and for fiscal year 2018.

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

The table below shows HFS's PEBB membership data as of June 30:

	2019 (Measurement date 2018)	2018 (Measurement date 2017)
Active employees	454	450
Inactive employees receiving benefits	124	119
Inactive employees entitled to, but not receiving, benefits	22	22

(b) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on HFS. The professional judgments used by the Washington State Office of the State Actuary (OSA) in determining these assumptions are important, and can significantly impact the resulting actuarial estimates. Differences between actual results and these assumptions could have a significant impact on HFS's financial statements.

	June 30, 2019
	(Dollars in thousands)
Significant assumptions used to measure the total OPEB liability (TOL):	
Inflation	2.75 %
Healthcare cost trend rate	Trend rate assumptions vary slightly by medical plan. Initial rate is 8.00%, reaching an ultimate rate of approximately 4.50% in 2080.
Salary increase	3.50%, including Service-Based Salary Increases
Source of mortality assumptions	RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100% scale BB and updated based on results of the 2007-2012 Experience Study Report
Date of experience study	2007-2012 Experience Study Report
Discount rate	3.87 %
Source of discount rate	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2018 (Measurement Date)
Post-Retirement Participation Percentage	65 %
TOL measurement at discount rate	$ 18,610
TOL discount rate increased 1%	$ 15,622
TOL discount rate decreased 1%	$ 22,439
TOL measurement at healthcare cost trend rate	$ 18,610
TOL healthcare cost trend rate increased 1%	$ 23,042
TOL healthcare cost trend rate decreased 1%	$ 15,277

	June 30, 2018
	(Dollars in thousands)
Significant assumptions used to measure the total OPEB liability (TOL):	
Inflation	3.00 %
Healthcare cost trend rate	Trend rate assumptions vary slightly by medical plan. Initial rate is 7.00%, reaching an ultimate rate of approximately 5.00% in 2080.
Salary increase	3.75%, including Service-Based Salary Increases
Source of mortality assumptions	RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100% scale BB and updated based on results of the 2007-2012 Experience Study Report
Date of experience study	2007-2012 Experience Study Report
Discount rate	3.58 %
Source of discount rate	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2017 (Measurement Date)
Post-Retirement Participation Percentage	65 %
TOL measurement at discount rate	$ 21,574
TOL discount rate increased 1%	$ 17,899
TOL discount rate decreased 1%	$ 26,323
TOL measurement at healthcare cost trend rate	$ 21,574
TOL healthcare cost trend rate increased 1%	$ 27,137
TOL healthcare cost trend rate decreased 1%	$ 17,429

Material assumption changes during the measurement period include updating the forecasts of healthcare cost trends, as well as updating the discount rate as of each measurement date, as required by GASB 75. The discount rate for the ending TOL in 2019 was 3.87%, compared to 3.58% for the ending TOL in 2018, and 2.85% for the beginning TOL in 2018. The increase in discount rate reduced the TOL for both years.

(Continued)

(c) Changes in the Total OPEB Liability

The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The TOL for the state of Washington as of June 30, 2018 was determined by an actuarial valuation, conducted by the OSA, using data as of January 1, 2017. The measurement dates for the TOL reported at June 30, 2019 and 2018 are the same as the valuation dates. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as HFS. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. The allocation method used to determine HFS's proportionate share of the University's TOL is the relationship of HFS' active, healthcare-eligible employee headcount to the corresponding University total. This proportionate share percentage was 1.37% and 1.38% as of June 30, 2019 and 2018, respectively.

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

		June 30, 2019	June 30, 2018
		(Dollars in thousands)	
Schedule of changes in total OPEB liability:			
Beginning balance	$	21,574	23,102
Service cost		1,164	1,463
Interest		800	685
Difference between expected and actual experience		730	—
Change in assumptions		(5,094)	(3,342)
Benefit payments		(338)	(349)
Change in proportionate share		(226)	15
Ending balance	$	18,610	21,574

(d) OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

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

		2019	2018
		(Dollars in thousands)	
Proportionate share of OPEB expense	$	1,078	1,763
Deferred outflows of resources:			
Differences between expected and actual experience in the measurement of the total OPEB liability	$	649	—
HFS contributions subsequent to the measurement date of the collective total OPEB liability		342	341
Change in proportion		25	28
Total	$	1,016	369
Deferred inflows of resources:			
Changes in assumptions	$	7,100	2,971
Change in proportion		217	—
Total	$	7,317	2,971

Amounts reported as deferred inflows and deferred outflows of resources will be recognized in OPEB expense as follows:

		2019
		(Dollars in thousands)
Amortization of deferred inflows and deferred outflows of resources[a]		
Year:		
2020	$	(738)
2021		(738)
2022		(738)
2023		(738)
2024		(738)
Thereafter		(2,953)
Total	$	(6,643)

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

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2019

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

PERS 1

(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Housing and Food Services' proportion of the net pension liability	0.11 %	0.11 %	0.11 %	0.11 %	0.10 %
Housing and Food Services' proportionate share of the net pension liability	$ 4,859	5,146	6,063	5,838	5,126
Housing and Food Services' covered-employee payroll	14,256	13,407	13,177	12,416	10,839
Housing and Food Services' proportionate share of the net pension liability as a percentage of covered-employee payroll	34.08 %	38.38 %	46.01 %	47.02 %	47.29 %
Plan fiduciary net position as a percentage of the total pension liability	63.22 %	61.24 %	57.03 %	59.10 %	61.19 %

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

PERS 1

(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	$ 16	21	23	29	28
Contributions in relation to the contractually required contribution	16	21	23	29	28
Contribution deficiency (excess)	—	—	—	—	—
Housing and Food Services' covered-employee payroll	14,804	14,256	13,407	13,177	12,416
Contributions as a percentage of covered-employee payroll	0.11 %	0.15 %	0.17 %	0.22 %	0.22 %

See accompanying independent auditors' report.

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2019

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

PERS 2/3

(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Housing and Food Services' proportion of the net pension liability	0.14 %	0.14 %	0.14 %	0.14 %	0.13 %
Housing and Food Services' proportionate share of the net pension liability	$ 2,347	4,765	7,035	4,928	2,530
Housing and Food Services' covered-employee payroll	14,256	13,444	13,051	12,239	10,721
Housing and Food Services' proportionate share of the net pension liability as a percentage of covered-employee payroll	16.46 %	35.44 %	53.90 %	40.27 %	23.60 %
Plan fiduciary net position as a percentage of the total pension liability	95.77 %	90.97 %	85.82 %	89.20 %	93.29 %

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

PERS 2/3

(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	$ 1,901	1,801	1,503	1,448	1,127
Contributions in relation to the contractually required contribution	1,900	1,803	1,505	1,462	1,127
Contribution deficiency (excess)	1	(2)	(2)	(13)	—
Housing and Food Services' covered-employee payroll	14,850	14,256	13,444	13,051	12,239
Contributions as a percentage of covered-employee payroll	12.80 %	12.64 %	11.18 %	11.10 %	9.21 %

See accompanying independent auditors' report.

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2019

Schedule of Changes in the Total Pension Liability
UW Supplemental Retirement Plan

(Dollars in thousands)

		2019	2018	2017
Total pension liability – beginning	$	2,073	2,161	2,550
Service cost		61	74	98
Interest		85	81	74
Differences between expected and actual experience		533	(170)	(369)
Changes in assumptions		302	(86)	(141)
Change in proportionate share		66	44	(26)
Benefit payments		(39)	(31)	(25)
Total pension liability – ending	$	3,081	2,073	2,161
UWSRP covered-employee payroll	$	4,083	3,817	3,947
Total pension liability as percentage of covered-employee payroll		75.5 %	54.3 %	54.8 %

Schedule of Changes in the Total OPEB Liability

(Dollars in thousands)

		2019	2018
Total pension liability – beginning	$	21,574	23,102
Service cost		1,164	1,463
Interest		800	685
Difference between expected and actual experience		730	—
Changes in assumptions		(5,094)	(3,342)
Benefit payments		(338)	(349)
Change in proportionate share		(226)	15
Total pension liability – ending	$	18,610	21,574
OPEB covered-employee payroll	$	34,274	34,860
Total OPEB liability as percentage of covered-employee payroll		54.3 %	61.9 %

See accompanying independent auditors’ report.

Plans Administered by DRS

Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW.

Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2017, and ending June 30, 2019, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. This is the second of three biennia over which this increase is expected to be phased-in for PERS 1 and PERS 2/3.

For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC except the CRC reflect the adopted contribution rates for the time period shown, which might differ from the contribution rates produced for the ADC.

Plans Administered by the University

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

Material assumption changes during the measurement period ending June 30, 2019 include updating the GASB Statement No. 73 discount rate from 3.87% to 3.50% and updated investment assumptions ("Change in assumption," which both increased the TPL). Additionally, actual returns investments of 5.00% were less than the assumed return of 6.50%, and the actual salary growth exceeded the estimate of 4.25% ("Difference between expected and actual experience," which also increased the TPL).

Material assumption changes during the measurement period ending June 30, 2018 include updating the GASB Statement No. 73 discount rate from 3.58% to 3.87% ("Change in assumption," which decreased the TPL). Additionally, actual returns for investments, which are used in determining a member's "assumed income," were materially higher during the measurement period at 12.32% versus the assumed return of 6.25% ("Difference between expected and actual experience," which also decreased the TPL).

OPEB Plan Administered by the Healthcare Authority of Washington State

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

Material assumption changes during the period consist of an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index from 2.85% for the June 30, 2016 measurement date to 3.58% for the June 30, 2017 measurement date. There was a further increase to 3.87% for the June 30, 2018 measurement date.

See accompanying independent auditors' report.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Financial Statements and Schedules

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington Department of Intercollegiate Athletics (the Department) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements for the years then ended, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Department of Intercollegiate Athletics as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2019 and 2018, the changes

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in its financial position or its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, on July 1, 2017, the Department adopted new accounting guidance requiring governments providing postretirement benefits other than pensions (OPEB) to employees of state and local government employers to recognize the OPEB liability, as well as recognize most changes in the OPEB liability within benefits expense. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 11, and the schedules of required supplementary information on pages 42 through 45, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The supplementary information included on pages 46 through 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Seattle, Washington
October 29, 2019

Discussion and Analysis Prepared by Management

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Department of Intercollegiate Athletics (ICA) as of and for the years ended June 30, 2019, 2018, and 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements present only the University of Washington Department of Intercollegiate Athletics and do not purport to, and do not, present fairly the financial position of the University of Washington (the University) as of June 30, 2019 and 2018, the changes in its financial position or its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Using the Financial Statements

ICA's financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to 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. The financial health of ICA can be measured by reviewing the summaries and explanations that follow.

Statements of Net Position Summary

The following statements of net position summary shows ICA's total assets, total pension deferred outflows of resources, total liabilities, total pension deferred inflows of resources, and net position as of June 30, 2019, 2018, and 2017:

Statements of Net Position Summary

	2019	2018	2017
		(In thousands)	
Current assets	$ 26,666	27,331	21,994
Noncurrent assets:			
Capital assets, net	307,827	320,133	333,592
Other	107,377	100,669	91,803
Total assets	441,870	448,133	447,389
Pension deferred outflows of resources	3,482	1,456	1,627
OPEB deferred outflows of resources	1,672	202	—
Total assets and deferred outflows of resources	$ 447,024	449,791	449,016

Statements of Net Position Summary (continued)

		2019	2018	2017
			(In thousands)	
Current liabilities	$	35,115	35,505	31,815
Noncurrent liabilities		269,245	272,411	266,939
Total liabilities		304,360	307,916	298,754
Pension deferred inflows of resources		2,484	2,147	1,150
OPEB deferred inflows of resources		4,374	1,640	—
Net position		135,806	138,088	149,112
Total liabilities, deferred inflows of resources, and net position	$	447,024	449,791	449,016

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

- Current assets consist of cash and cash equivalents, accounts receivable, and prepaid expenses. Current assets were $8.4 million less than current liabilities at the end of 2019. Current assets were $8.2 million less than current liabilities in both 2018 and 2017, respectively. The negative working capital is due to unearned income of $24.6 million, $22.4 million, and $20.8 million largely related to ticket sales for the 2019, 2018, and 2017 football seasons, respectively. The unearned income for 2019 will be recorded as revenue in 2020 and the unearned income for 2018 and 2017 were recorded as revenue in 2019 and 2018, respectively. Increases and decreases in current assets occur due to the timing of payments and receipts from operations.
- Noncurrent assets consist primarily of long-term investments, endowments, and capital assets. Noncurrent assets were $5.6 million and $4.6 million less at the end of 2019 and 2018 due to an increase in accumulated depreciation on capital assets offset by an increase in endowments and other assets of $6.7 million and $8.9 million, respectively. As of June 30, 2019 and 2018, there was $14.8 million and $14.7 million of noncurrent assets in long-term investment funds in which these investments can be used to meet ICA's long-term obligations.
- Current liabilities decreased by $390 thousand during 2019 to a total of $35.1 million largely due to decreases in accounts payable and the principal payment on the Internal Lending Program (ILP) loan with the University, offset by an increase in unearned income. Current liabilities increased by $3.7 million during 2018 to a total of $35.5 million largely due to the $1.6 million increase in unearned income and $1.5 million increase in accounts payable, primarily related to the money owed for tickets for the Chik-Fil-A kickoff football game in September 2018.
- Noncurrent liabilities decreased by $3.2 million in 2019 due to principal payments on the ILP loan and the Husky Stadium scoreboard lease. Noncurrent liabilities increased by $5.5 million in 2018 due to an increase in other post-employment benefit (OPEB) liabilities related to implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, offset by principal payments to the ILP of the University.

- The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the year. The total net position decreased by $2.1 million during 2019 mainly due to receiving less contributions and a smaller gain on investments than 2018. The total net position decreased by $11.0 million during 2018 mainly due to the accrual of the $12.4 million OPEB liability associated with the implementation of GASB Statement No. 75.

ICA's Net Position or "Equity"

The following table is a summary of the net position or "equity" for ICA at June 30, 2019, 2018, and 2017:

		2019	2018	2017
			(In thousands)	
Net investment in capital assets	$	63,508	70,643	79,412
Restricted:				
Nonexpendable		68,555	64,174	59,142
Expendable		23,002	20,074	16,459
Unrestricted		(19,108)	(16,803)	(5,901)
Total net position	$	135,957	138,088	149,112

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

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

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

- Net investment in capital assets decreased by \$7.1 million and \$8.8 million in 2019 and 2018 to a total of \$63.5 million and \$70.6 million, respectively. This balance increases as debt is paid off or when ICA funds fixed asset purchases without financing. The balance decreases as assets are depreciated.
- Restricted nonexpendable net position increased by \$4.4 million and \$5.0 million in 2019 and 2018, respectively. The increase in 2019 and 2018 is mainly due to an increase in contributed endowments of \$4.3 million and \$4.9 million, respectively.
- Restricted expendable net position increased by \$2.9 million and \$3.6 million in 2019 and 2018 due to an increase in the market value of endowments and the creation of numerous new restricted gift budgets.
- Unrestricted net position decreased by \$2.3 million in 2019 mainly due to lower contributions and a smaller gain on investments than 2018. Unrestricted net position decreased by \$10.9 million in 2018. On July 1, 2017, ICA adopted GASB Statement No. 75. Implementation of this standard resulted in the restatement of beginning fiscal year 2018 unrestricted net position, reducing it by \$12.4 million.

Endowments and Other Investments

- The fair market value of ICA's endowments was \$87.8 million, \$82.5 million, and \$74.1 million at June 30, 2019, 2018, and 2017, respectively. The increase in 2019 and 2018 is due to additional endowment contributions of \$4.3 million and \$4.9 million and higher fair market values than in 2018 and 2017, respectively.
- ICA had \$14.8 million, \$14.7 million, and \$14.5 million of long-term investments, not including endowments, in the University of Washington's Consolidated Endowment Fund (CEF) at June 30, 2019, 2018, and 2017, respectively. In fiscal year 2019 and 2018, ICA had a market-related gain of \$134 thousand and \$641 thousand. In 2018, ICA withdrew \$463 thousand from the CEF to fund a coach's deferred salary compensation.
- Short-term investments in the Invested Funds Pool used as operating funds for ICA yielded returns of 0.75% in 2019, 0.75% in 2018, and 1% in 2017.

Capital Improvements and Related Debt

- In 2019 and 2018, there was a net decrease of \$12.3 million and \$13.4 million in net capital assets, primarily related to the depreciation of capital assets exceeding the acquisition of capital assets during the year.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present how ICA's operating and nonoperating items resulted in changes in net position. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The following summary shows the revenues, expenses, and changes in net position for the years ended June 30, 2019, 2018, and 2017:

Revenues, Expenses, and Changes in Net Position Summary

		2019	2018	2017
			(In thousands)	
Operating revenues	$	115,714	111,781	111,705
Operating expenses		(133,097)	(129,350)	(126,340)
Operating loss		(17,383)	(17,569)	(14,635)
Nonoperating revenues, net		8,175	12,959	12,321
Other revenues		7,077	5,997	6,858
Increase in net position		(2,131)	1,387	4,544
Net position, beginning of year		138,088	149,112	147,935
Effect of accounting change		—	(12,411)	(3,367)
Net position, end of year	$	135,957	138,088	149,112

Revenues from All Sources

The following table summarizes revenues from all sources for the years ended June 30, 2019, 2018, and 2017:

Revenues from All Sources Summary

		2019	2018	2017
			(In thousands)	
Gate ticket sales	$	54,558	52,298	52,659
NCAA/conference distributions		37,205	35,944	35,905
Sponsorships, trademarks, and licensing		16,874	16,436	16,276
Concessions, souvenirs, parking, boat moorage		3,696	3,985	3,699
Other operating revenue		3,381	3,118	3,166
Contributions (noncapital)		10,144	12,882	9,217
Investment income, net		3,783	3,382	3,050
Gain on investments		1,319	4,295	6,827
University funded tuition waivers		4,152	3,835	3,743
Capital gifts		2,752	1,075	1,731
Settlement agreement		—	—	1,030
Endowment gifts		4,325	4,922	5,127
Total revenue – all sources	$	142,189	142,172	142,430

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

- Gate ticket sales continue to be a large source of revenue for ICA. Totals here include revenue received through seat-related contributions, which are no longer considered tax-deductible after the passage of the Tax Cuts and Jobs Act of 2017. Ticket sales increased by $2.3 million in 2019 from 2018 due to an increases in ticket prices and the $4.1 million guarantee for the Chik-Fil-A kickoff football game. Ticket sales increased by $3.4 million in 2018 from 2017 due to an increase in football season ticket sales. This was offset by a $3.7 million decrease in seat-related contributions related to the 2017 collection cycle for the Don James Center premium area in Husky Stadium.
- NCAA/conference distributions increased $1.3 million in 2019 due to an increase of $1.0 million in the distribution received from the Pac-12 for the television network share and $300 thousand for the Pac-12 Network share. The increase in 2018 of $39 thousand was also due to an increase in the distribution received from the Pac-12 for the television network share and the Pac-12 Network share.
- Contributions related to noncapital gifts decreased by $2.7 million in 2019 from 2018. In 2018, donors gave at a higher level due to annual giving incentives associated with the football seat reallocation process, which occurs once every five years. Contributions related to noncapital gifts increased by $3.7 million in 2018 from 2017 due to annual giving incentives associated with the football seat reallocation process, which occurs once every five years.
- Investment income increased by $401 thousand and $332 thousand in 2019 and 2018, respectively. Investment income is earned on the following two categories:
  - Investment income in the CEF increased by $353 thousand and $338 thousand in 2019 and 2018 mainly due to an increase in the balance held in the CEF during these periods.
  - Short-term investments received 0.75% distributions in 2019, 0.75% in 2018, and 1.00% in 2017. Due to increase ticket sales and contributions in the recent year, the average investment balances were higher than in 2018 and 2017, which resulted in a positive return.
- In 2019 and 2018, there was a decrease in gain on investments of $3.0 million and $2.5 million, respectively, due to the decreased value of long-term investments and endowment funds.
- Capital gifts were $2.8 million in 2019, $1.1 million in 2018, and $1.7 million in 2017, respectively. The increase in 2019 is mainly related to gifts received for the Softball Performance Center. The slight decrease in 2018 is due to a decrease in the remaining pledges due for the football stadium.
- In 2017, there was a settlement agreement reached with a former coach, which resulted in $1.0 million in settlement agreement revenue.
- Endowment gifts decreased by $597 thousand and $205 thousand in 2019 and 2018 due to less endowments being established.

Expenses and Losses

The following table summarizes expenses and losses for the years ended June 30, 2019, 2018, and 2017:

Expenses and Losses Summary

	2019	2018	2017
		(In thousands)	
Salaries and wages	$ 39,266	35,828	36,382
Payroll taxes and employee benefits	9,368	8,977	8,322
Athletic student aid	14,462	13,417	13,212
Guarantees paid to visiting teams	1,631	2,587	2,523
Team travel	8,145	7,103	6,413
Day of game	8,843	8,727	8,454
Direct facilities, maintenance, and utilities	5,069	5,612	4,645
Advertising	2,808	2,801	2,793
Uniforms and supplies	6,772	7,151	7,001
Training table	3,415	3,352	2,853
Department relations	852	670	620
Banquets and special events	576	431	422
Depreciation	15,652	15,825	15,710
Noncapitalized equipment and repairs	1,386	2,558	1,748
Institutional overhead	2,767	2,555	2,417
Other operating expenses	12,085	11,756	12,825
Total operating expenses	133,097	129,350	126,340
Loss on disposal of capital assets	2	38	2
Financing cost on ballpark	1	3	—
Interest expense	11,220	11,393	11,543
Total nonoperating expenses and losses	11,223	11,434	11,545
Total	$ 144,320	140,784	137,885

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

- Salaries and wages increased by $3.4 million in 2019 from 2018 due to contract increases in football and men's basketball, merit increases for professional and classified staff, and incentive bonuses paid to coaching staff. Salaries and wages decreased by $554 thousand in 2018 from 2017 due to severance payments made to former staff in 2017, offset by merit increases for professional and classified staff, and incentive bonuses paid to coaching staff.

- Payroll taxes and employee benefits increased by $391 thousand in 2019 from 2018. Payroll taxes and employee benefits increased by $655 thousand in 2018 from 2017 primarily due to increases in payroll taxes and the cost of employee benefits. Since payroll taxes and employee benefits are a percentage of salaries and wages, the changes detailed above in salaries and wages for 2019 directly impact the changes in payroll taxes and employee benefits. The percentages charged to ICA on professional and contract staff salaries went from 32.4% in 2017, 32.5% in 2018 to 34.1% in 2019. The percentages charged on classified staff salaries went from 37.9% in 2017, 40.1% in 2018 to 40.5% in 2019. The percentages charged on hourly staff and overtime went from 17.9% in 2017, 20.7% in 2018 to 20.9% in 2019.
- Athletic student aid increased by $1.0 million in 2019 from 2018 due to in-state and out-of-state tuition rates increasing by 2.2% and 3.0%, respectively, as well as an NCAA rule change which now makes it permissible to award additional scholarships and still honor the scholarships of medically disqualified student athletes. Athletic student aid increased by $205 thousand in 2018 from 2017 due to in-state and out-of-state tuition rates increasing by 2.2% in 2018.
- Guarantees paid to visiting teams fluctuate due to the difference in the nonconference football game schedule.
- Team travel increased by $1.0 million in 2019 from 2018 due to the football team's opening game in Atlanta, Georgia and their participation in the Rose Bowl. Team travel increased by $690 thousand in 2018 from 2017 due to the football team's opening game in Rutgers, New Jersey and their participation in the Fiesta Bowl.
- Day of game increased by $116 thousand in 2019 from 2018 due to increased amount of discretionary tickets for the Chik-Fil-A Kickoff game and the Rose Bowl. Day of game increased by $273 thousand in 2018 from 2017 due to a change in the Federal Transit Administration's Charter Bus Service Regulations, which increased fan bus transportation costs at football games.
- Direct facilities, maintenance, and utilities decreased by $543 thousand and increased $967 thousand in 2019 and 2018 due to decreases in utility costs and contract payments to vendors in 2019 and increases in utility costs and contract payments to vendors in 2018.
- Uniforms and supplies decreased by $379 thousand in 2019 and increased $150 thousand in 2018. The decrease in 2019 is due to purchasing fewer Nike items in the final year of ICA's apparel sponsorship contract and a decrease in general supply purchases. The increase in 2018 is mainly due to an increase in general supply purchases.
- Department relations and banquets and special events increased by a total of $327 thousand in 2019 due to the Hall of Fame ceremony, which is hosted every other year, as well as Rose Bowl events.
- Noncapitalized equipment and repairs decreased by $1.2 million in 2019 and increased $810 thousand in 2018. The decrease is due to taking on fewer noncapitalized facility enhancement projects. The increase in 2018 was due to an increase in noncapitalized facility enhancement projects.
- Institutional overhead increased by $212 thousand due to an increase in the calculation tied to higher gate revenue in 2019 than in 2018. Institutional overhead increased by $138 thousand due to an increase in the calculation tied to higher gate revenue in 2018 than in 2017.
- Other expenses increased $52 thousand in 2019 mainly due to paying a new 5% gift assessment on nonseated related contributions. Other expenses decreased $1.1 million in 2018 primarily due to a $1.3 million write-off of a receivable from the University in 2017.

- Interest expense included in other operating expenses above decreased by $173 thousand in 2019 and $150 thousand in 2018 due to lower interest payments for the Husky ballpark and Husky Stadium financed projects.

Operating Loss

There was an operating loss of approximately $17.4 million and $17.6 million in 2019 and 2018, respectively. There was sufficient nonoperating revenues from contributions, investment income, and University funded tuition waivers to cover the operating losses for 2019 and 2018.

Economic Factors Affecting the Future

The greatest factor that determines the amount of gate revenues and contributions for Intercollegiate Athletics is having winning seasons for the football team. Football revenue supports the operations of all 22 Intercollegiate Athletic programs. An economic downturn would also have a negative financial impact on athletic programs given our reliance on fundraising. NCAA deregulation can have a significant impact on increasing department expenses. In addition, the national market for coaching salaries has risen at an accelerated pace, which can cause substantial increases in department expenses at times of coaching changes.

Intercollegiate Athletics' apparel sponsorship agreement with adidas, which begins on July 1, 2019, will help mitigate the risks noted above. In 2020, the impact will be an increase of $10.1 million in sponsorship revenue for Intercollegiate Athletics, due to the signing bonus of $3 million, increase in cash of $3.7 million, and an increase in the product allotment of uniform and athletic supplies of $3.5 million.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Net Position

June 30, 2019 and 2018

Assets and Deferred Outflows of Resources		2019	2018
Current assets:			
Cash in the University of Washington Invested Funds Pool (note 2)	$	20,177,226	21,241,892
Accounts receivable		4,822,593	5,200,348
Prepaid expenses		1,666,181	888,261
Total current assets		26,666,000	27,330,501
Noncurrent assets:			
Investments:			
University of Washington Consolidated Endowment Fund (note 3)		14,798,846	14,665,030
Endowments (note 3)		87,757,133	82,514,211
UWSRP (note 8)		4,158,466	3,134,263
Advances to University for capital projects		662,732	355,638
Capital assets, net (note 4)		307,826,714	320,133,059
Total noncurrent assets		415,203,891	420,802,201
Total assets		441,869,891	448,132,702
Pension deferred outflows of resources (note 8)		3,482,469	1,456,192
OPEB deferred outflows of resources (note 9)		1,672,000	202,000
Total assets and deferred outflows of resources	$	447,024,360	449,790,894
Liabilities, Deferred Inflows of Resources, and Net Position			
Current liabilities:			
Accounts payable	$	1,501,377	3,351,926
Accrued salaries and vacation payable		3,837,378	3,404,513
Admission taxes payable		1,024,747	981,132
Accrued interest payable		189,980	162,765
Unearned income		24,641,811	22,378,835
Capitalized equipment lease payable, current portion (note 6)		918,917	897,756
Internal lending program payable, current portion (note 5)		3,000,472	4,327,707
Total current liabilities		35,114,682	35,504,634
Noncurrent liabilities:			
Capitalized equipment lease payable, net of current portion (note 6)		2,888,767	3,807,685
Internal lending program payable, net of current portion (note 5)		237,510,112	240,456,742
Pension liabilities (note 8)		10,475,948	9,116,700
Other post-employment benefit (OPEB) liabilities (note 9)		11,070,000	11,730,000
Pac-12 Management Fee payable		7,300,000	7,300,000
Total noncurrent liabilities		269,244,827	272,411,127
Total liabilities		304,359,509	307,915,761
Pension deferred inflows of resources (note 8)		2,484,649	2,146,950
OPEB deferred inflows of resources (note 9)		4,223,000	1,640,000
Net position:			
Net investment in capital assets		63,508,446	70,643,169
Restricted:			
Nonexpendable (note 3)		68,555,222	64,173,772
Expendable:			
Expendable endowment principal (note 3)		1,138,345	1,128,052
Expendable endowment gains		18,063,566	17,212,387
Other expendable		3,799,953	1,733,927
Unrestricted		(19,108,330)	(16,803,124)
Total net position		135,957,202	138,088,183
Total liabilities, deferred inflows of resources, and net position	$	447,024,360	449,790,894

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2019 and 2018

	2019	2018
Operating revenue:		
Gate ticket sales	$ 54,558,201	52,298,217
NCAA/conference distributions	37,205,156	35,943,656
Sponsorships	15,752,484	15,531,407
Concessions, souvenirs, parking, and boat moorage	3,695,839	3,985,052
Trademarks and licensing	1,121,273	904,670
Facility income	2,551,182	2,259,177
Other	829,843	858,817
Total operating revenue	115,713,978	111,780,996
Operating expenses:		
Salaries and wages	39,265,604	35,827,725
Payroll taxes and employee benefits	9,368,036	8,976,716
Athletic student aid	14,462,438	13,416,662
Guarantees paid to visiting teams	1,631,364	2,587,358
Team travel	8,145,480	7,102,595
Day of game expenses	8,843,106	8,726,616
Direct facilities, maintenance, and utilities	5,068,880	5,611,880
Advertising	2,807,685	2,800,915
Uniforms and supplies	6,772,332	7,150,964
Training table	3,415,443	3,352,297
Department relations	851,925	670,004
Banquets and special events	575,369	431,463
Depreciation	15,652,367	15,824,623
Noncapitalized equipment and repairs	1,385,756	2,557,760
Institutional overhead	2,766,579	2,554,984
Medical expenses	1,488,414	1,319,102
Fund-raising, marketing, and promotions	327,951	354,286
Recruiting	789,425	651,912
Equipment	—	5,447
Other	9,479,388	9,426,831
Total operating expenses	133,097,542	129,350,140
Operating loss	(17,383,564)	(17,569,144)
Nonoperating revenues (expenses):		
Contributions	10,143,538	12,882,147
Investment income on Invested Funds	73,903	25,587
Investment income on CEF	3,709,297	3,355,856
Gain on investments	1,319,158	4,295,044
Loss on disposal of capital assets	(1,783)	(38,450)
University funded tuition waivers	4,151,964	3,834,747
Financing cost on Ballpark	(543)	(3,180)
Interest expense	(11,220,125)	(11,393,085)
Total nonoperating revenues	8,175,409	12,958,666
Loss before other revenues	(9,208,155)	(4,610,478)
Other revenues:		
Capital gifts	2,751,925	1,075,086
Gifts to permanent endowments	4,325,249	4,922,099
Total other revenues	7,077,174	5,997,185
(Decrease) increase in net position	(2,130,981)	1,386,707
Net position:		
Net position at beginning of year, as restated in 2018 (note 1(b))	138,088,183	136,701,476
Net position at end of year	$ 135,957,202	138,088,183

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Cash Flows

Years ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Gate ticket sales	$	56,869,903	53,693,259
NCAA/conference distributions		37,205,156	35,943,656
Sponsorships		10,085,249	9,920,146
Concessions and souvenirs		3,681,102	3,996,624
Trademarks and licensing		1,121,273	904,670
Facility income		2,670,141	2,002,734
Other		789,548	838,752
Payments to suppliers		(51,656,206)	(48,073,230)
Payments to employees		(38,827,251)	(35,300,889)
Payments for benefits		(9,244,366)	(8,401,042)
Payments for athletic aid		(14,448,703)	(13,421,536)
Net cash (used in) provided by operating activities		(1,754,154)	2,103,144
Cash flows from noncapital financing activities:			
Contributions, excluding permanent endowments and capital		10,128,906	12,882,147
Contributions to permanent endowments		4,325,249	4,922,099
Settlement agreement		650,000	—
Interest paid on Pac-12 MMR		(162,765)	(220,121)
University funded tuition waivers		4,151,964	3,834,747
Net cash provided by noncapital financing activities		19,093,354	21,418,872
Cash flows from capital and related financing activities:			
Capital gifts received		2,751,925	1,075,086
Acquisition and construction of capital assets		(3,654,899)	(2,189,812)
Proceeds from Internal Lending Program		54,858	321,175
Financing paid on capital debt		(543)	(3,180)
Principal paid on capital debt		(5,226,479)	(5,011,076)
Interest paid on capital debt		(11,030,145)	(11,230,320)
Net cash used in capital and related financing activities		(17,105,283)	(17,038,127)
Cash flows from investing activities:			
Purchases of investments		(5,081,781)	(5,253,405)
Sale of investments		—	463,424
Investment income		3,783,198	3,385,699
Net cash used in investing activities		(1,298,583)	(1,404,282)
Net (decrease) increase in cash and cash equivalents		(1,064,666)	5,079,607
Cash and cash equivalents at beginning of year		21,241,892	16,162,285
Cash and cash equivalents at end of year	$	20,177,226	21,241,892
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(17,383,564)	(17,569,144)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		15,652,367	15,824,623
Other changes in assets and liabilities:			
Decrease in accounts receivable		(257,612)	(667,521)
(Decrease) Increase in prepaid expenses		(777,920)	410,161
(Decrease) Increase in accounts payable		(1,512,852)	2,595,585
Increase in unearned income		2,262,976	1,571,531
Decrease in accrued salaries and vacation payable		432,865	530,133
Increase in pension liability		(667,029)	(1,179,358)
Decrease in OPEB liability		453,000	757,000
Increase (Decrease) in admissions taxes payable		43,615	(169,866)
Net cash (used in) provided by operating activities	$	(1,754,154)	2,103,144
Supplemental disclosures of noncash activities:			
Donated supplies and team travel costs	$	2,815,000	2,813,576
Donated advertising		2,807,685	2,800,915
Pac-12 Management Fee and interest		189,980	162,765

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

(b) Basis of Presentation

The financial statements of the Department have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The Department is reporting as a special purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the Department presents a management's discussion and analysis, 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 present only the University of Washington ICA and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2019 and 2018, the changes in its financial position, or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

On July 1, 2017, ICA adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), which establishes new actuarial methods and discount rate standards for the measurement and recognition of the cost of postemployment benefits provided to the employees of state and local governmental employers. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. As a result of implementing Statement No. 75, ICA has recognized its proportionate share of the state of Washington's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to adopting this Statement, ICA's financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expense based on cash contributions paid to the OPEB plan administrator. With the adoption of GASB Statement No. 75, net position was restated at July 1, 2017. Below is a reconciliation of the total net position as previously reported at June 30, 2017, to the restated net position.

Net position at June 30, 2017, as previously reported	$	149,112,476
Effect of accounting change		(12,411,000)
Net position at July 1, 2017, as restated	$	136,701,476

(c) Capital Assets

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

(d) Advances to University for Capital Projects

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

(e) Unearned Income

Funds received from the sale of tickets for games to be played subsequent to June 30, 2019 and 2018 are unearned. The Department's receipts are recognized as income in the period in which the games are played. At June 30, 2019 and 2018, unearned income consists of the following:

		2019	2018
Advance sales of football tickets	$	23,165,143	20,185,984
Advance sales for men's and women's basketball		883,093	908,829
Other unearned income		593,575	1,284,022
	$	24,641,811	22,378,835

(f) Operating Activities

The Department defines operating activities, as reported on the Statements of Revenues, Expenses and Changes in Net Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Certain other revenues used for operations, such as contributions, University funded tuition waivers and investment income, are recorded as nonoperating revenues.

(g) Contributions

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

(h) Sponsorships

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

The Department recorded $5.6 million and $5.6 million in sponsorship revenue for these transactions in the years ended June 30, 2019 and 2018, respectively.

(Continued)

(i) Income Taxes

As a part of the University, the Department is exempt from federal income taxes, except to the extent of unrelated business taxable income. Unrelated business tax was not significant to the financial statements taken as a whole at June 30, 2019 and 2018.

(j) Use of Estimates

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

ICA's share of pension and other post-employment benefit plan assets, liabilities, deferrals and expenses, are based on actuarial valuations prepared by an external actuary. The results of an actuarial valuation are estimates based on historical data, actuarial assumptions, and the demographics of the employee and retiree populations.

(k) Other Accounting Policies

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

Single Employer Pension Plan (UW Supplemental Retirement Plan). The total pension liability is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. The discount rate used is the yield or index rate for 20-year tax-exempt general obligation municipal bonds with average credit rating AA/Aa or higher rating. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. The measurement date for the UW Supplemental Retirement Plan total pension liability is June 30, 2019 and 2018. The ICA reports its proportionate share of the related pension amounts in the accompany financial statements.

Other Post-Employment Benefits (OPEB). The total OPEB liability is measured as the University's proportionate share of the state of Washington total OPEB liability, with proportionate share determined based on the relationship of the University's healthcare-eligible headcount to the total healthcare-eligible headcount for the state. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate required by GASB Statement No. 75 for OPEB plans which do not have assets residing in a qualified trust. OPEB expense is recognized for subsidies earned during the period, interest on the total OPEB liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for healthcare-eligible employees. Contributions made to the plan subsequent to the measurement date and prior to the University's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the total OPEB liability is June 30 of the prior fiscal year. The ICA reports its proportionate share of the related OPEB amounts in the accompany financial statements.

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

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

Pooled Investments held on behalf of ICA by the University are recorded at ICA's share of the carrying value of the University of Washington Cash and Liquidity Pools. These funds are available to the ICA on demand without prior notice or penalty. The Cash and Liquidity Pools were invested as follows at June 30, 2019 and 2018:

	2019	2018
Cash and cash equivalents	3.7 %	4.7 %
Treasuries and agencies	68.3	66.5
Mortgage related securities	10.3	10.1
Asset-backed debt securities	10.5	8.6
Corporate and other fixed income	7.2	10.1
Total	100.0 %	100.0 %

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

(Continued)

(3) Investments

The Department purchases or sells units in the University's Consolidated Endowment Fund (CEF) on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed by the University based on the number of units held. The Department records its permanent endowments at fair value. Net appreciation/depreciation in the fair value is recorded as gain or loss on investments in the Statements of Revenue, Expenses, and Changes in Net Assets. For the investment portion of the CEF funds, the principal balance can be withdrawn at the end of each quarter. The Department earned investment income on these investment funds based on the performance of the University's CEF funds net of investment management and University administrative fees. The total return on the investments portion of the CEF funds for the years ended June 30, 2019 and 2018 was approximately 5.8% and 9.6%, respectively. During fiscal year 2011, the Board of Regents adopted a long-term spending policy for the CEF. Under the current policy, quarterly distributions to programs are based on an annual percentage rate of 4.0%, applied to the five-year rolling average of the CEF's market valuation. The administrative fee of 1.0% supporting campus wide fund-raising and stewardship activities (0.8%) and offsetting the internal cost of managing endowment assets (0.2%) continues, but is now based on a five-year average value similar to program distributions. The Department's endowments represent 2.85% and 2.6% of the CEF balance as of June 30, 2019 and 2018, respectively.

At June 30, 2019 and 2018, the fund balance of the Endowment and Expendable Endowment funds stated at fair value comprised the following:

		2019	2018
Expendable endowments:			
Graham*	$	460,688	456,523
Spence*		677,657	671,529
Endowments (including expendable gains)		86,618,788	81,386,159
Total	$	87,757,133	82,514,211

* Expenditure of principal is permitted under certain circumstances.

The Department received $4,325,249 and $4,922,099 in endowment gifts in 2019 and 2018, respectively, which are invested in the CEF.

(a) Fair Value of Financial Instruments

(i) Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department has the ability to access at the measurement date. As of June 30, 2019 and 2018, the Department did not carry any Level 1 assets or liabilities.

Level 2 – Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. At June 30, 2019 and 2018, the Department did not carry any Level 2 assets or liabilities.

Level 3 – Inputs are unobservable inputs for the asset or liability. As of June 30, 2019 and 2018, the Department did not carry any Level 3 assets or liabilities.

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

Valuation techniques utilized in the fair value measurement of assets and liabilities presented on the Department's Statements of Financial Position were not changed from previous practice during the reporting period.

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

The following table presents information about the Department's financial assets that are measured at fair value on a recurring basis using net asset value per share as a practical expedient at June 30, 2019 and 2018.

		June 30	
		2019	**2018**
Assets:			
Investments measured at net asset value:			
Pooled investments in the CEF	$	14,798,846	14,665,030
Endowment and expendable endowment fund investments in the CEF		87,757,133	82,514,211
Total	$	102,555,979	97,179,241

The Department participates in pooled investments in the CEF and has the ability to redeem its investment at net asset value at June 30, 2019 and 2018.

(4) Capital Assets

Capitalized asset activity for the years ended June 30, 2019 and 2018 is summarized as follows:

	Balance at June 30, 2018	Additions/ (transfers)	Retirements	Balance at June 30, 2019
Buildings	$ 453,186,852	3,535,452	—	456,722,304
Furniture, fixtures, and equipment	14,776,274	657,708	(292,300)	15,141,682
Construction in progress*	1,089,371	(845,355)	—	244,016
Total	469,052,497	3,347,805	(292,300)	472,108,002
Less accumulated depreciation:				
Buildings	136,257,322	14,781,527	—	151,038,849
Furniture, fixtures, and equipment	12,662,116	870,840	(290,517)	13,242,439
Total accumulated depreciation	148,919,438	15,652,367	(290,517)	164,281,288
Capital assets, net	$ 320,133,059	(12,304,562)	(1,783)	307,826,714

* Nondepreciable

	Balance at June 30, 2017	Additions/ (transfers)	Retirements	Balance at June 30, 2018
Buildings	$ 452,627,171	559,681	—	453,186,852
Furniture, fixtures, and equipment	14,093,263	879,887	(196,876)	14,776,274
Construction in progress*	124,571	964,800	—	1,089,371
Total	466,845,005	2,404,368	(196,876)	469,052,497
Less accumulated depreciation:				
Buildings	121,422,918	14,834,404	—	136,257,322
Furniture, fixtures, and equipment	11,830,323	990,219	(158,426)	12,662,116
Total accumulated depreciation	133,253,241	15,824,623	(158,426)	148,919,438
Capital assets, net	$ 333,591,764	(13,420,255)	(38,450)	320,133,059

* Nondepreciable

(5) Internal Lending Program

In February 2012, ICA began drawing money from the Internal Lending Program (ILP) for the costs related to renovating Husky Stadium. The Board of Regents at their November 18, 2010 meeting approved ICA to use the ILP for up to $250 million in project and capitalized interest costs for the renovation of Husky Stadium. On November 11, 2011, the Board of Regents approved to increase ICA's use of the ILP to $261.5 million for the costs of renovating Husky Stadium and adding a Sports Medicine and Sport Performance Center. Any amounts drawn from the ILP greater than $261.5 million will be funded by the Department. At the end of June 2019, ICA has a remaining principal balance of $240.5 million payable to the ILP relating to the construction of the Husky Stadium renovation and Husky Ballpark.

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

Under the terms of the ILP, rate adjustments will apply to all outstanding debt obligations, including debt issued prior to the ILP implementation. The ILP lending rate will be reviewed annually, and a preliminary indication of a rate adjustment will be announced to ILP participants 12 months in advance of the effective date. The interest rate is 4.5%. Final rate adjustments require approval by the Board of Regents.

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

		Principal	Interest
Years ending June 30:			
2020	$	3,000,472	10,759,262
2021		3,138,314	10,616,185
2022		3,282,487	10,466,536
2023		3,433,284	10,310,011
2024		4,609,785	10,126,488
2025–2029		38,344,436	45,986,161
2030–2034		47,999,404	36,356,046
2035–2039		60,085,453	24,301,104
2040–2044		75,214,719	9,210,780
2045		1,402,230	5,245
	$	240,510,584	168,137,818

Internal Lending Program activity for the years ended June 30, 2019 and 2018 is summarized as follows:

Balance as of June 30, 2017	$	248,521,539
Additions		321,175
Reductions		(4,058,265)
Balance as of June 30, 2018		244,784,449
Additions		54,858
Reductions		(4,328,723)
Balance as of June 30, 2019	$	240,510,584

(6) Capital Lease

Future minimum lease payments under capital lease and the present value of the net minimum lease payments as of June 30, 2019 are as follows:

		Future payments
Years ending June 30:		
2020	$	997,934
2021		997,934
2022		997,934
2023		997,934
2024		—
Total minimum lease payments		3,991,736
Less amount representing interest cost		184,051
Present value of minimum payments	$	3,807,685

Equipment under capital lease is as follows:

		Balance at June 30, 2018	Additions	Retirements	Balance at June 30, 2019
Equipment	$	7,665,337	—	(66,994)	7,598,343
Less accumulated depreciation:					
Equipment		7,607,765	56,950	(66,994)	7,597,721
Leased capital assets, net	$	57,572	(56,950)	—	622

		Balance at June 30, 2017	Additions	Retirements	Balance at June 30, 2018
Equipment	$	7,665,337	—	—	7,665,337
Less accumulated depreciation:					
Equipment		7,491,105	116,660	—	7,607,765
Leased capital assets, net	$	174,232	(116,660)	—	57,572

(7) Related-Party Transactions

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

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

In addition, the Department purchases operating and other services from the University and is allocated institutional overhead from the University for services provided and payment for utility costs. The institutional overhead allocated from the University for fiscal year 2019 and 2018 was $2,766,579 and $2,554,984, respectively.

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

(8) Pension Plans

(a) Pension Plans

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

(b) Plan Administered by DRS

(i) Public Employees' Retirement System

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

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

(c) Vesting and Benefits Provided

(i) PERS Plan 1

PERS Plan 1 provides retirement, disability and death benefits. Both plans are closed to new entrants. All members were vested after the completion of five years of eligible service. Retirement benefits are determined as 2% of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest-paid consecutive service months. The retirement benefit may not exceed 60% of the AFC.

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

(ii) PERS Plan 2/3

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

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

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

(d) Fiduciary Net Position

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

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

DRS publishes an annual report for retirement plans, which is available at https://drs.wa.gov/administration/annual-report/default.htm.

(e) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). ICA's 2019 and 2018 proportionate share of the pension liability is based on an OSA valuation performed as of June 30, 2017, with the results rolled forward to the measurement date of June 30, 2018. The following actuarial assumptions have been applied to all prior periods included in the measurement:

	2019	2018
Inflation	2.75% total economic inflation, 3.50% salary inflation	3.0% total economic inflation, 3.75% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.50%	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.75%
Investment rate of return	7.40%	7.50%

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of the 2007–2012 Experience Study Report and the 2015 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

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

The long-term expected rate of return of 7.40% and 7.50% as of June 30, 2019 and 2018, respectively, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

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

	June 30, 2019 (measurement date June 30, 2018)		**June 30, 2018 (measurement date June 30, 2017)**	
	Target allocation	**% Long-term expected real rate of return arithmetic**	**Target allocation**	**% Long-term expected real rate of return arithmetic**
Asset class:				
Fixed income	20.00 %	1.70 %	20.00 %	1.70 %
Tangible assets	7.00	4.90	5.00	4.90
Real estate	18.00	5.80	15.00	5.80
Global equity	32.00	6.30	37.00	6.30
Private equity	23.00	9.30	23.00	9.30

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

(Continued)

(f) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2019 and 2018 was 7.40% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which ICA participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.40% future investment rate of return on pension plan investments was assumed. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1, as provided for in Chapter 41.45 of the RCW).

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

The following table presents the ICA's net pension liability calculated using the discount rate of 7.40%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.40%) or one-percentage-point higher (8.40%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)

(Dollars in thousands)

		2019			2018		
		1% Decrease	**Discount rate at 7.4%**	**1% Increase**	**1% Decrease**	**Discount rate at 7.5%**	**1% Increase**
Plan:							
PERS 1	$	2,438	1,983	1,590	2,638	2,166	1,756
PERS 2/3		4,364	954	(1,842)	5,385	1,999	(776)

(h) Employer Contribution Rates

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

Description		PERS Plan 1	PERS Plan 2/3[i]
		(Dollars in thousands)	
Contributions as June 30, 2019:			
Contribution rate		12.70 %	12.70 %
Contributions made	$	334	481
Contributions as June 30, 2018:			
Contribution rate		12.70 %	12.70 %
Contributions made	$	297	431

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

(i) ICA Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by ICA as of June 30, 2019 was June 30, 2018. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2018 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in their June 30, 2018 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by ICA as of June 30, 2018 was June 30, 2017, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2017 used as the basis for determining each employer's proportionate share of the collective pension amounts. ICA's proportionate share for each DRS plan is shown in the table below.

	Proportionate share	
	PERS 1	PERS 2/3
Plan:		
Year ended June 30, 2019	0.04 %	0.06 %
Year ended June 30, 2018	0.05	0.06

(j) ICA Aggregated Balances

ICA's aggregated balances of net pension liabilities and net pension asset as of June 30, 2019 and 2018 is presented in the table below.

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
2019:				
Net pension liability	$	1,983	954	2,937
2018:				
Net pension liability	$	2,166	1,999	4,164

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

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

		Proportionate share of pension expense		
Description		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
As of June 30, 2019	$	113	(26)	87
As of June 30, 2018		83	316	399

		Deferred outflows of resources		
Description		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
2019:				
Change in assumptions	$	—	11	11
Difference between expected and actual experience		—	117	117
ICA contributions subsequent to the measurement date of the collective net pension liability[a]		334	480	814
Total	$	334	608	942

Description		Deferred outflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
2018:				
Change in assumptions	$	—	21	21
Difference between expected and actual experience		—	203	203
ICA contributions subsequent to the measurement date of the collective net pension liability[a]		297	431	728
Total	$	297	655	952

[a] Amounts will be recognized as a reduction of the net position liability as of June 30, 2019 and June 30, 2018.

Description		Deferred inflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
2019:				
Difference between expected and actual earnings on plan investments, net	$	79	586	665
Change in assumptions		—	272	272
Difference between expected and actual experience		—	167	— 167
Change in University’s proportionate share		—	76	76
Total	$	79	1,101	1,180
2018:				
Difference between expected and actual earnings on plan investments, net	$	81	533	614
Difference between expected and actual experience		—	66	66
Change in University’s proportionate share		—	9	9
Total	$	81	608	689

Amounts reported as deferred outflows of resources, as of June 30, 2019, exclusive of contributions made after the measurement date, and deferred inflows of resources will be recognized in pension expense as follows:

Year		Amortization of deferred inflows and deferred outflows of resources[a]		
		PERS Plan 1	PERS Plan 2/3	Total
			(Dollars in thousands)	
2020	$	3	(130)	(127)
2021		(17)	(205)	(222)
2022		(52)	(363)	(415)
2023		(13)	(137)	(150)
2024		—	(54)	(54)
Thereafter		—	(84)	(84)
Total	$	(79)	(973)	(1,052)

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

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

(i) 403(b) Plan Description

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

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

(ii) 403(b) Funding Policy

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

(m) University of Washington Supplemental Retirement Plan

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

Number of participants:

	June 30	
	2019	**2018**
Active employees	78	85
Inactive employees receiving benefits	11	8
Inactive employees entitled to, but not receiving, benefits	2	—

(i) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal years ended June 30, 2019 and 2018 were $95,000 and $74,000, respectively.

(ii) Total Pension Liability (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS), which have trusted assets and, therefore, are reported as a net pension liability. The allocation method used to determine ICA’s proportionate share of the University’s TPL is based on its unit allocation of what is funded through the benefit load process. As of June 30, 2019 and 2018, ICA has set aside $4,158,466 and $3,134,263, respectively, to pay future UWSRP retiree benefits. These assets are reported as Investments on the Statements of Net Position.

		June 30	
		2019	**2018**
		(Dollars in thousands)	
Schedule of changes in total pension liability:			
Beginning balance	$	4,952	5,112
Service cost		150	178
Interest on TPL		206	194
Difference between expected and actual experience		1,304	(408)
Change in assumptions		739	(205)
Change in proportion		283	155
Benefit payments		(95)	(74)
Ending balance	$	7,539	4,952

The TPL is based on an actuarial valuation performed as of June 30, 2018. Update procedures performed by the OSA were used to roll forward the TPL to the measurement date of June 30, 2019 and 2018.

ICA’s share of UWSRP pension expense for the fiscal years ended June 30, 2019 and 2018 was $493,620 and $138,282, respectively.

(iii) *Actuarial Assumptions*

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on the University. The professional judgments used in determining these assumptions are important, and can significantly impact the resulting actuarial estimates.

Differences between actual results compared to these assumptions could have a significant effect on the ICA's financial statements.

	June 30	
	2019	**2018**
	(Dollars in thousands)	
Significant assumptions used to measure the total pension liability:		
Inflation	2.75 %	2.75%
Salary changes	4.25 %	4.25%
Source of mortality assumptions	RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB	RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB
Date of experience study	April 2016	April 2016
Discount rate	3.50 %	3.87%
Source of discount rate	Bond Buyer's 20 bond index as of June 30, 2019	Bond Buyer's 20 bond index as of June 30, 2018
TPL measurement at discount rate	$ 7,539	4,952
TPL discount rate increased 1%	6,578	4,343
TPL discount rate decreased 1%	8,700	5,686

(iv) Deferred Inflows and Outflows of Resources

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

		2019	2018
		(Dollars in thousands)	
Deferred inflows of resources:			
Difference between expected and actual experience	$	916	1,031
Change in assumptions		389	436
Total	$	1,305	1,467
Deferred outflows of resources:			
Difference between expected and actual experience	$	1,141	—
Change in assumptions		647	—
Change in proportion		752	513
Total	$	2,540	513

		UWSRP
		(Dollars in thousands)
Amortization of deferred inflows of resources (a):		
Year:		
2020	$	(137)
2021		(137)
2022		(137)
2023		(137)
2024		(137)
Thereafter		(550)
Total	$	(1,235)

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

(9) Other Post-Employment Benefits (OPEB)

(a) Plan Description

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

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

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

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

The explicit subsidy, permitted under RCW 41.05.085, is a straightforward, set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The dollar amount of the explicit subsidy was set at $168 and $150 per member per month for fiscal years 2019 and 2018, respectively.

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

The table below shows the ICA's PEBB membership data as of June 30, 2019 and 2018:

	2019 (measurement date 2018)	2018 (measurement date 2017)
Active employees	270	245
Inactive employees receiving benefits	74	65
Inactive employees entitled to, but not receiving, benefits	13	12

(b) Actuarial Assumptions

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

Significant Assumptions Used to Measure the Total OPEB Liability (TOL)

(Dollars in thousands)

	June 30, 2019	June 30, 2018
Inflation	2.75 %	3.00 %
Healthcare cost trend rate	Trend rate assumptions vary slightly by medical plan. Initial rate is 8.00%, reaching an ultimate rate of approximately 4.50% in 2080.	Trend rate assumptions vary slightly by medical plan. Initial rate is 7.00%, reaching an ultimate rate of approximately 5.00% in 2080.
Salary increase	3.5%, including Service-Based Salary Increases	3.75%, including Service-Based Salary Increases
Source of mortality assumptions	RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100 percent scale BB and updated based on results of the 2007-2012 Experience Study Report	RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100 percent scale BB and updated based on results of the 2007-2012 Experience Study Report
Date of experience study	2007–2012 Experience Study Report	2007–2012 Experience Study Report
Discount rate	3.87 %	3.58 %
Source of discount rate	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2018 (Measurement Date)	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2017 (Measurement Date)
Post-Retirement Participant Percentage	65 %	65%
TOL measurement at discount rate	$ 11,070	11,730
TOL discount rate increased 1%	9,293	9,732
TOL discount rate decreased 1%	13,348	14,312
TOL measurement at healthcare cost trend rate	11,070	11,730
TOL healthcare cost trend rate increased 1%	13,707	14,755
TOL healthcare cost trend rate decreased 1%	9,088	9,476

Material assumption changes during the measurement period include updating the discount rate as of each measurement date, as required by GASB 75. The discount rate used for the beginning TOL was 3.58% and the discount rate used for the ending TOL was 3.87%, resulting in a reduction of the TOL.

(c) Changes in the Total OPEB Liability

The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The TOL for the state of Washington as of June 30, 2018 was determined by an actuarial valuation, conducted by the OSA, using data as of January 1, 2017. The measurement dates for the TOL reported at June 30, 2019 and 2018 are the same as the valuation dates. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as ICA. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine ICA's proportionate share of the University's TOL is the relationship of ICA's active, healthcare-eligible employee headcount to the corresponding University total. ICA's proportionate share percentage was 0.82% in 2019 and 0.75% in 2018.

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

Schedule of Changes in Total OPEB Liability

(Dollars in thousands)

	June 30	
	2019	**2018**
Beginning balance	$ 11,730	12,601
Service cost	692	795
Interest	476	372
Difference between expected and actual experience	434	—
Change in assumptions	(3,030)	(1,817)
Benefit payments	(201)	(190)
Changes in proportionate share	969	(31)
Ending balance	$ 11,070	11,730

(d) OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

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

		2019	2018
		(Dollars in thousands)	
Proportionate share of OPEB expense	$	641	959
Deferred outflows of resources:			
Differences between expected and actual experience in the measurement of the total OPEB liability	$	386	—
University contributions subsequent to the measurement date of the collective total OPEB liability		203	202
Changes in proportion		1,083	—
Total	$	1,672	202
Deferred inflows of resources:			
Change in assumptions	$	4,223	1,615
Changes in proportion		—	25
Total	$	4,223	1,640

Amounts reported as deferred inflows of resources will be recognized in OPEB expense as follows:

Amortization of Deferred Inflows and Deferred Outflows of Resources (a)

(Dollars in thousands)

		OPEB
Year:		
2020	$	(306)
2021		(306)
2022		(306)
2023		(306)
2024		(306)
Thereafter		(1,224)
Total	$	(2,754)

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

(13) Commitments and Contingencies

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

The Department has entered into employment contracts with certain employees expiring in years 2019 through 2025 that provide for certain salary guarantees and commitments. The annual salary payments will be funded through the Department. At June 30, 2019, the total commitment for all contracts for each the next five years and in the aggregate is as follows:

	Guaranteed amount
Year ending June 30:	
2020	$ 23,498,253
2021	17,610,762
2022	12,580,456
2023	11,550,580
2024	8,811,487
Thereafter	3,490,008
	$ 77,541,546

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2019

Unaudited – See accompanying independent auditors' report.

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

PERS 1

(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Intercollegiate Athletics' proportion of the net pension liability	0.040 %	0.050 %	0.047 %	0.051 %	0.051 %
Intercollegiate Athletics' proportionate share of the net pension liability	$ 1,983	2,166	2,501	2,645	2,547
Intercollegiate Athletics' covered-employee payroll	5,819	5,643	5,429	5,625	5,385
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll	34.09 %	38.38 %	46.01 %	47.02 %	47.30 %
Plan fiduciary net position as a percentage of the total pension liability	63.22 %	61.24 %	57.03 %	59.10 %	61.19 %

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

PERS 1

(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	$ 7	9	10	12	12
Contributions in relation to the contractually required contribution	7	9	10	12	12
Contribution deficiency (excess)	—	—	—	—	—
Intercollegiate Athletics' covered-employee payroll	6,043	5,819	5,643	5,429	5,625
Contributions as a percentage of covered-employee payroll	0.11 %	0.15 %	0.17 %	0.22 %	0.22 %

(Continued)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2019

Unaudited – See accompanying independent auditors' report.

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

PERS 2/3

(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Intercollegiate Athletics' proportion of the net pension liability	0.06 %	0.06 %	0.06 %	0.06 %	0.06 %
Intercollegiate Athletics' proportionate share of the net pension liability	$ 954	1,999	2,854	2,135	1,215
Intercollegiate Athletics' covered-employee payroll	5,795	5,640	5,295	5,302	5,147
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll	16.46 %	35.44 %	53.90 %	40.27 %	23.61 %
Plan fiduciary net position as a percentage of the total pension liability	95.77	90.97	85.82	89.20	93.29

Schedule of Contributions
(As of current fiscal year-end)
PERS 2/3
(Dollar amounts in thousands)

	2019	2018	2017	2016	2015
Contractually required contribution	$ 773	732	631	588	488
Contributions in relation to the contractually required contribution	773	733	631	593	488
Contribution deficiency (excess)	—	(1)	—	(5)	—
Intercollegiate Athletics' covered-employee payroll	6,037	5,795	5,640	5,295	5,302
Contributions as a percentage of covered-employee payroll	12.80 %	12.64 %	11.18 %	11.10 %	9.21 %

(Continued)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2019

Unaudited – See accompanying independent auditors’ report.

Schedule of Changes in Total Pension Liability

UW Supplemental Retirement Plan

(Dollars in thousands)

		2019	2018	2017
Total pension liability – beginning	$	4,952	5,112	5,503
Service cost		150	178	232
Interest on TPL		207	194	176
Difference between expected and actual experience		1,303	(408)	(873)
Change in assumptions		739	(205)	(333)
Change in proportion		283	155	467
Benefit payments		(95)	(74)	(60)
Total pension liability – ending	$	7,539	4,952	5,112
Total pension liability – ending	$	7,539	4,952	5,112
UWSRP covered-employee payroll		9,993	9,120	9,335
Total pension liability as percentage of covered-employee payroll		75.44 %	54.30 %	54.80 %

Schedule of Changes in Total OPEB Liability

(Dollars in thousands)

		2019	2018
Total OPEB liability – beginning	$	11,730	12,601
Service cost		692	795
Interest on OPEB		476	372
Difference between expected and actual experience		434	—
Change in assumptions		(3,030)	(1,817)
Change in proportion		969	(31)
Benefit payments		(201)	(190)
Total OPEB liability – ending	$	11,070	11,730
Total OPEB liability – ending	$	11,070	11,730
UWSRP covered-employee payroll		20,388	18,954
Total pension liability as percentage of covered-employee payroll		54.29 %	61.88 %

Plans Administered by DRS

Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019 and 2018. OSA calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation and sets it equal to the expected benefit payments from the plan. Consistent with the state's funding policy defined in Chapters 2.10.90 and 2.12.60 RCW, the Legislature makes biennial appropriations to ensure the fund is solvent so it can make the necessary benefit payments. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2016, and ending June 30, 2019 and 2018, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased in over three biennia for PERS Plans 1, 2 and 3.

For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC except the CRC reflect the adopted contribution rates for the time period shown, which might differ from the contribution rates produced for the ADC.

Plans Administered by the University

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

Material assumption changes during the measurement period ending June 30, 2019 include updating the GASB 73 discount rate from 3.87% to 3.50% (Change in assumption, which both increased the TPL). Additionally, actual returns for TIAA and CREF investments of 5.00% were less that the assumed return of 6.50% and actual salary growth exceeded the estimate of 4.25% (Difference between expected and actual experience, which also increased the TPL).

OPEB Plan administered by the Healthcare Authority of Washington State

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

Since OPEB benefits are funded on a pay-as-you go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58% for the as of June 30, 2017 measurement date and 3.87% for the as of June 30, 2018 measurement date.

Schedule 2

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating and Other Revenue by Specific Function

Year ended June 30, 2019

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Administration and other	Total
Gate ticket sales revenue:							
Ticket sales for home events	$ 25,593,394	2,827,200	298,500	237,016	723,315	—	29,679,425
Admission taxes	(1,218,738)	(134,597)	(14,221)	(11,327)	(34,547)	—	(1,413,430)
Ticket-processing fees	960,899	162,390	4,325	12,561	55,944	—	1,196,119
	25,335,555	2,854,993	288,604	238,250	744,712	—	29,462,114
Seat related gifts	18,947,741	1,928,471	12,675	—	—	—	20,888,887
University's share of gate revenue for away games	4,100,000	50,000	—	12,460	44,740	—	4,207,200
Total gate ticket sales revenue	48,383,296	4,833,464	301,279	250,710	789,452	—	54,558,201
NCAA/conference distributions:							
PAC-12 television share	17,688,881	3,125,192	—	—	—	—	20,814,073
PAC-12 Rose/other bowl shares	7,477,259	—	—	—	—	—	7,477,259
Bowl participation	2,475,223	—	—	—	—	—	2,475,223
NCAA MBB tournament	—	1,521,955	—	—	—	—	1,521,955
Football Pac-12 Championship Game	51,936	—	—	—	—	—	51,936
MBB PAC-12 tournament	—	15,453	—	—	—	—	15,453
Pac-12 Network share	2,474,067	436,600	—	—	—	—	2,910,667
Other	—	—	—	—	—	1,938,590	1,938,590
Total NCAA/conference distributions	30,167,366	5,099,200	—	—	—	1,938,590	37,205,156
Royalties, advertisements, and sponsorships:							
Sponsorships	30,000	10,000	—	49,673	83,883	9,956,243	10,129,799
Donated advertising	—	—	—	—	—	2,807,685	2,807,685
Trademarks and licensing	—	—	—	—	—	1,121,273	1,121,273
Donated supplies	878,200	202,000	180,000	620,500	766,300	168,000	2,815,000
Total royalties, advertisements, and sponsorships	908,200	212,000	180,000	670,173	850,183	14,053,201	16,873,757
Contributions	814,341	751,564	106,899	1,132,015	1,179,480	6,159,239	10,143,538
Capital gifts	—	—	—	—	—	2,751,925	2,751,925
Gifts to permanent endowments	—	—	—	—	—	4,325,249	4,325,249
Gain on investments	—	—	—	—	—	1,319,158	1,319,158
Investment income, net	—	—	—	—	—	3,783,200	3,783,200
University funded tuition waivers	—	—	—	—	—	4,151,964	4,151,964
Concessions, souvenirs, parking, and boat moorage	2,745,601	144,789	37,489	17,773	39,922	710,265	3,695,839
Facility income	—	—	—	—	—	2,551,182	2,551,182
Other	45,100	—	—	222,931	182,480	379,332	829,843
Total revenue	$ 83,063,904	11,041,017	625,667	2,293,602	3,041,517	42,123,305	142,189,012

See accompanying independent auditors' report.

Schedule 2

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating and Other Revenue by Specific Function

Year ended June 30, 2018

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Administration and other	Total
Gate ticket sales revenue:							
Ticket sales for home events	$ 25,819,048	2,895,328	239,916	238,001	744,957	—	29,937,250
Admission taxes	(1,229,140)	(137,979)	(11,463)	(11,359)	(35,566)	—	(1,425,507)
Ticket-processing fees	680,395	146,426	3,770	7,171	55,828	—	893,590
	25,270,303	2,903,775	232,223	233,813	765,219	—	29,405,333
Seat related gifts	20,701,290	1,639,828	27,375	—	—	—	22,368,493
University's share of gate revenue for away games	400,000	90,000	—	12,976	21,415	—	524,391
Total gate ticket sales revenue	46,371,593	4,633,603	259,598	246,789	786,634	—	52,298,217
NCAA/conference distributions:							
PAC-12 television share	16,836,361	2,972,173	—	—	—	—	19,808,534
PAC-12 Rose/other bowl shares	7,396,394	—	—	—	—	—	7,396,394
Bowl participation	2,439,050	—	—	—	—	—	2,439,050
NCAA MBB tournament	—	1,412,238	—	—	—	—	1,412,238
Football Pac-12 Championship Game	194,167	—	—	—	—	—	194,167
MBB PAC-12 tournament	—	26,583	—	—	—	—	26,583
Pac-12 Network share	2,266,667	400,000	—	—	—	—	2,666,667
Other	—	—	—	—	—	2,000,023	2,000,023
Total NCAA/conference distributions	29,132,639	4,810,994	—	—	—	2,000,023	35,943,656
Royalties, advertisements, and sponsorships:							
Sponsorships	—	—	—	70,328	68,667	9,777,921	9,916,916
Donated advertising	—	—	—	—	—	2,800,915	2,800,915
Trademarks and licensing	—	—	—	—	—	904,670	904,670
Donated supplies	878,200	202,000	180,000	625,700	761,100	166,576	2,813,576
Total royalties, advertisements, and sponsorships	878,200	202,000	180,000	696,028	829,767	13,650,082	16,436,077
Contributions	1,579,945	75,788	101,945	783,867	826,379	9,514,223	12,882,147
Capital gifts	—	—	—	—	—	1,075,086	1,075,086
Gifts to permanent endowments	—	—	—	—	—	4,922,099	4,922,099
Gain on investments	—	—	—	—	—	4,295,044	4,295,044
Investment income, net	—	—	—	—	—	3,381,443	3,381,443
University funded tuition waivers	—	—	—	—	—	3,834,747	3,834,747
Concessions, souvenirs, parking, and boat moorage	3,011,164	149,754	32,857	13,760	38,910	738,607	3,985,052
Facility income	—	—	—	—	—	2,259,177	2,259,177
Other	89,497	—	—	187,848	198,816	382,656	858,817
Total revenue	$ 81,063,038	9,872,139	574,400	1,928,292	2,680,506	46,053,187	142,171,562

See accompanying independent auditors' report.

Schedule 3

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating Expenses and Other Deductions by Specific Function

Year ended June 30, 2019

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Postseason activity	Administration	Facilities maintenance and event management	Department relations and visiting recruits	Total
Operating expenses:										
Salaries and wages	$ 12,423,153	3,746,973	1,176,494	2,905,353	3,628,487	621,478	12,361,190	2,241,460	10,016	39,114,604
Payroll taxes and employee benefits	2,295,982	833,318	374,294	871,177	1,083,703	50,457	3,225,587	784,518	—	9,519,036
Athletic student aid	3,904,884	569,903	647,907	2,838,048	5,183,141	—	1,300,127	—	18,428	14,462,438
Guarantees paid to visiting teams	700,000	712,424	137,500	65,440	16,000	—	—	—	—	1,631,364
Team travel	1,807,017	805,660	336,942	1,082,347	1,611,309	2,155,914	286,369	—	59,922	8,145,480
Day of game expenses	2,054,627	329,117	245,247	258,311	318,648	54,396	708,517	659,324	4,214,919	8,843,106
Direct facilities, maintenance, and utilities	157,587	—	—	76,454	91,350	—	3,311,246	1,432,243	—	5,068,880
Donated advertising	—	—	—	—	—	—	2,807,685	—	—	2,807,685
Uniforms and supplies	1,296,498	108,297	58,515	424,512	596,353	145,342	1,042,871	285,752	14,192	3,972,332
Donated supplies	878,200	202,000	180,000	620,500	766,300	—	153,000	—	—	2,800,000
Institutional overhead	—	—	—	—	—	—	2,766,579	—	—	2,766,579
Medical expenses	28,466	5,283	3,900	22,212	31,964	—	1,385,173	—	11,416	1,488,414
Fund-raising, marketing, and promotions	—	—	—	—	5,560	—	322,391	—	—	327,951
Recruiting	—	—	—	—	—	—	—	—	789,425	789,425
Equipment	—	—	—	—	—	—	—	—	—	—
Training table	1,279,011	193,119	26,476	157,645	276,957	121,730	276,303	—	1,084,202	3,415,443
Department relations	66,123	5,863	1,800	51,015	42,918	80,562	110,930	3,798	488,916	851,925
Banquets and special events	7,768	—	4,540	66,649	34,997	—	286,561	—	174,854	575,369
Depreciation	—	—	—	—	—	—	15,652,367	—	—	15,652,367
Noncapitalized equipment and repairs	—	—	—	—	—	—	—	1,385,756	—	1,385,756
Other	830,019	280,116	213,774	751,359	688,408	31,100	5,495,595	21,952	1,167,065	9,479,388
Total operating expenses	27,729,335	7,792,073	3,407,389	10,191,022	14,376,095	3,260,979	51,492,491	6,814,803	8,033,355	133,097,542
Other deductions:										
Loss on disposal of capital assets	—	—	—	—	—	—	—	1,783	—	1,783
Financing cost on Ballpark	—	—	—	—	—	—	543	—	—	543
Interest expense	—	—	—	—	—	—	11,220,125	—	—	11,220,125
Total other deductions	—	—	—	—	—	—	11,220,668	1,783	—	11,222,451
Total operating expenses and other deductions	$ 27,729,335	7,792,073	3,407,389	10,191,022	14,376,095	3,260,979	62,713,159	6,816,586	8,033,355	144,319,993

See accompanying independent auditors' report.

Schedule 3

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating Expenses and Other Deductions by Specific Function

Year ended June 30, 2018

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Postseason activity	Administration	Facilities maintenance and event management	Department relations and visiting recruits	Total
Operating expenses:										
Salaries and wages	$ 11,167,417	3,247,745	1,099,552	2,738,497	3,271,816	553,051	11,519,156	2,205,301	25,190	35,827,725
Payroll taxes and employee benefits	2,079,408	707,867	323,139	736,922	890,836	45,168	3,443,093	750,283	—	8,976,716
Athletic student aid	3,704,192	576,910	599,684	2,572,505	4,771,678	—	1,106,493	—	85,200	13,416,662
Guarantees paid to visiting teams	1,625,000	773,000	73,680	72,000	43,678	—	—	—	—	2,587,358
Team travel	1,335,072	717,787	334,226	891,433	1,434,537	2,141,040	180,558	—	67,942	7,102,595
Day of game expenses	2,354,244	337,337	197,535	249,160	359,053	72,880	713,473	630,523	3,812,411	8,726,616
Direct facilities, maintenance, and utilities	170,070	—	—	60,573	89,573	—	4,042,606	1,249,058	—	5,611,880
Donated advertising	—	—	—	—	—	—	2,800,915	—	—	2,800,915
Uniforms and supplies	1,385,537	163,546	55,730	541,960	559,438	148,327	1,168,490	321,948	5,988	4,350,964
Donated supplies	878,200	202,000	180,000	625,700	761,100	—	153,000	—	—	2,800,000
Institutional overhead	—	—	—	—	—	—	2,554,984	—	—	2,554,984
Medical expenses	20,656	3,150	3,720	21,249	27,008	—	1,238,230	—	5,089	1,319,102
Fund-raising, marketing, and promotions	—	—	—	—	10,060	—	344,226	—	—	354,286
Recruiting	—	—	—	—	—	—	—	—	651,912	651,912
Equipment	—	—	—	—	—	—	—	5,447	—	5,447
Training table	1,388,543	156,884	21,250	201,524	298,195	101,082	288,301	—	896,518	3,352,297
Department relations	16,670	9,842	—	44,344	41,254	(11,178)	72,726	1,262	495,084	670,004
Banquets and special events	—	—	(2,194)	72,202	36,769	—	136,879	—	187,807	431,463
Depreciation	—	—	—	—	—	—	15,824,623	—	—	15,824,623
Noncapitalized equipment and repairs	—	—	—	—	—	—	—	2,557,760	—	2,557,760
Other	811,383	283,435	171,238	567,863	636,896	151,145	5,815,147	47,689	942,035	9,426,831
Total operating expenses	26,936,392	7,179,503	3,057,560	9,395,932	13,231,891	3,201,515	51,402,900	7,769,271	7,175,176	129,350,140
Other deductions:										
Loss on disposal of capital assets	—	—	—	—	—	—	—	38,450	—	38,450
Financing cost on Ballpark	—	—	—	—	—	—	3,180	—	—	3,180
Interest expense	—	—	—	—	—	—	11,393,085	—	—	11,393,085
Total other deductions	—	—	—	—	—	—	11,396,265	38,450	—	11,434,715
Total operating expenses and other deductions	$ 26,936,392	7,179,503	3,057,560	9,395,932	13,231,891	3,201,515	62,799,165	7,807,721	7,175,176	140,784,855

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Basic Financial Statements

June 30, 2019

(With Independent Auditors' Report Thereon)

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The University of Washington
UW Medicine Advisory Board:

We have audited the accompanying financial statements of UW Medicine Clinical Enterprise – UW Division (the Group), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Emphasis of Matter

As discussed in note 1, the financial statements of the Group, which are divisions, departments and component units of the University of Washington (the University), are intended to present the net position, the changes in net position, and the cash flows of only that portion of the business-type activities of the University that are attributable to the transactions of the Group. They do not purport to, and do not, present fairly the net position of the University as of June 30, 2019, the changes in its net position, or its cash flows for the year ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with 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 Group as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 16, and the schedules of required supplementary information on pages 62 through 64, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Group's basic financial statements. The combining financial statements included on pages 65-66 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

KPMG LLP

Seattle, Washington
October 11, 2019

The following discussion and analysis provides an overview of the financial position and activities of the UW Medicine Clinical Enterprise – UW Division (the Group), for the years ended June 30, 2019 and 2018. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the basic financial statements and accompanying notes that follow this section.

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

Using the Financial Statements

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

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

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

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

Financial Highlights for Fiscal Year 2019

The Group reported income from operations of $25,485 and an increase in net position of $44,100 for the year ended June 30, 2019 compared to an operating loss of $44,035 and a decrease in net position of $41,854 for the year ended June 30, 2018. In fiscal year 2019, the Group experienced strong volumes, including solid organ transplants, an increase in contract pharmacy revenues and equity earnings from Seattle Cancer Care Alliance (SCCA) as compared to the prior year. The Group had greater labor and supplies expenses as a result of increased volumes. In fiscal year 2019, operating income included a $29,963 reduction in operating expenses as a result of post retirement obligations actuarial change in assumptions adjustments.

(Dollar amounts in thousands)

	2019	2018
Operating revenues:		
Net patient service revenues	$ 1,731,198	1,597,571
UWP billing revenues, net	299,780	279,097
Other revenue	250,773	206,125
Total operating revenues	2,281,751	2,082,793
Operating expenses:		
Salaries, wages, and benefits	1,194,579	1,129,795
Other post employment benefits	16,384	25,024
Other	1,045,303	972,009
Total operating expenses	2,256,266	2,126,828
Income (loss) from operations	25,485	(44,035)
Nonoperating revenues (expenses):		
Investment income, net	2,564	4,800
Interest expense	(17,207)	(17,627)
Other, net	22,845	14,886
Nonoperating revenues (expenses), net	8,202	2,059
Income (loss) before capital contributions and other transfers	33,687	(41,976)
Capital contributions and other transfers	10,413	122
Increase (decrease) in net position	44,100	(41,854)
Net position, beginning of year, as issued	97,015	470,074
Change in reporting entity	(18,779)	—
Cumulative effect of change in accounting principle	—	(331,205)
Net position, beginning of year, as adjusted	78,236	138,869
Net position, end of year	$ 122,336	97,015

(Continued)

(Dollar amounts in thousands)

The following chart represents key statistics of the Group:

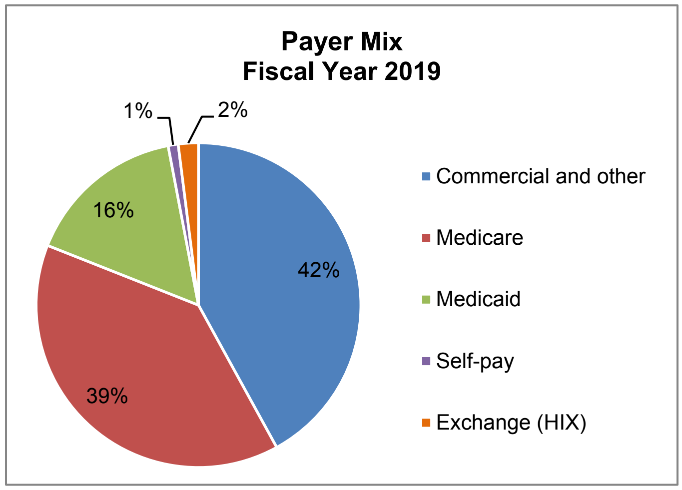
	2019	2018
Licensed beds	810	810
Admissions	28,715	29,285
Patient days	188,740	185,221
Average length of stay	7	6
Case mix index (CMI) – UW Medical Center	2	2
Case mix index (CMI) – Northwest Hospital	2	2
Surgery cases	28,141	28,100
Emergency room visits	61,352	61,930
Primary and urgent care clinic visits	425,071	432,073
Specialty care clinic visits	478,946	463,428
Births	2,936	3,008
Solid organ transplants	436	399
RVU volume	7,413,800	7,035,100
Airlift flights	3,746	3,669
Full-time equivalents (FTEs)	8,994	8,668

Operating Revenues

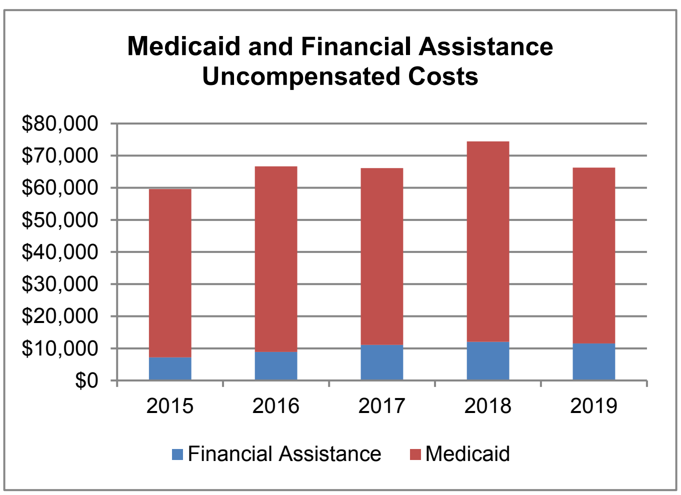
Operating revenues consist primarily of net patient service revenues, UWP billing revenues, net, and other revenue. Net patient service revenues are recorded based on standard billing rates less contractual adjustments, financial assistance, and a provision for uncollectible accounts. The Group has agreements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

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

The Group's payer mix is a key factor in the overall financial operating performance. The chart to the right illustrates payer mix for 2019 by gross patient service revenue. For the years ended June 30, 2019 and 2018, Commercial revenue represented 42% and 41%, Medicare revenue represented 39% and 38%, Medicaid revenue represented 16% and 17%, and Exchange revenue represented 2% and 3%, respectively. Self-pay revenue represented 1% for both fiscal years.



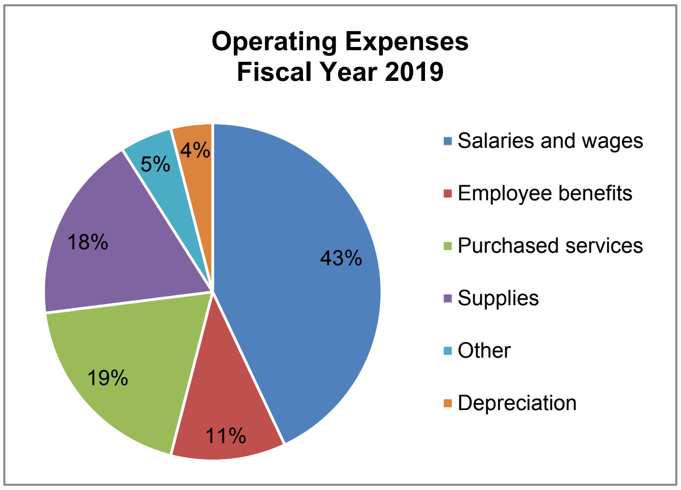
As a result of the Affordable Care Act, UW Medical Center and Northwest Hospital experienced a decrease in uninsured patients after January 1, 2014, as many patients who previously qualified for financial assistance now qualified for Medicaid coverage. However, UW Medical Center and Northwest Hospital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



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

For the years ended June 30, 2019 and 2018, the Group's total operating revenues were $2,281,751 and $2,082,793, which was comprised of $1,731,198 and $1,597,571 in net patient service revenues, $299,780 and $279,097 in UWP billing revenues, net, and $250,773 and $206,125 in other revenues, respectively.

The increase in operating revenues between fiscal years 2019 and 2018 was driven by greater volumes, case acuity, and price increases, which increased net patient service revenues, as well as an increase in relative value units (RVUs) which increased UWP billing revenues. Greater contract pharmacy revenue and an increase in revenues for services provided to non-Group entities increased other revenue in fiscal year 2019.



Operating Expenses

Operating expenses were $2,256,266 for the fiscal year 2019 compared to $2,126,828 for the fiscal year 2018. The composition of fiscal year 2019 operating expenses is illustrated in the chart to the left.

Salaries and wages expense increased $71,301 from $895,068 in fiscal year 2018 to $966,369 in fiscal year 2019. The increase in salaries and wages expense in the current year is primarily attributed to an increase in FTEs and employee merit increases at UW Medical Center and expansion of shared service functions. In addition, UWP salaries and wages increased as a result of administrative staff FTE additions due to volumes and annual merit and step increases, as well as an increase in physician incentives for additional Northwest Hospital clinical departments.

Employee benefits and other post employment benefits expense decreased $15,157 from $259,751 in fiscal year 2018 to $244,594 in fiscal year 2019. The decrease in benefits expense in fiscal year 2019 is a result of favorable post retirement obligation changes in actuarial assumptions of $29,963 for University employees within the Group, which offset the increase in the University benefit load rate. Between fiscal year 2018 and fiscal year 2019, the University benefit load rate for professional employees increased 1.6% from 32.5% to 34.1% due to employer pension contributions and the benefit load rate for classified employees increased 0.4% from 40.1% to 40.5% as a result of healthcare expenses.

In fiscal year 2020, the University benefit load rate for professional employees is 32.1% and 41.2% for classified employees.

Purchased services expense, consisting of professional fees, consulting fees, and clinical department funding, increased $28,666 from $409,507 in fiscal year 2018 to $438,173 in fiscal year 2019. The increase in purchased services expense is attributed to an increase in the School clinical department expense, representing fees paid to physicians providing services to the Group but not employed by the Group, Northwest Hospital physician fee expense, and residents expense.

Supplies expense includes medical and surgical supplies, pharmaceutical supplies, and nonmedical supplies. In total, these expenses increased $34,888 from $375,004 in fiscal year 2018 to $409,892 in fiscal year 2019. The increase in supplies expenses is a result of greater costs for pharmaceutical, contract pharmacy, cardiovascular, and organs and bone marrow acquisition expenses as a result of volumes and acuity.

Other expense includes insurance, taxes, rent and other expenses. Other expenses increased $10,405 from $99,200 in fiscal year 2018 to $109,605 in fiscal year 2019. The increase in other expenses is attributed to an increase in collection fees, rent and other expense related to new departments within Shared Services.

(Continued)

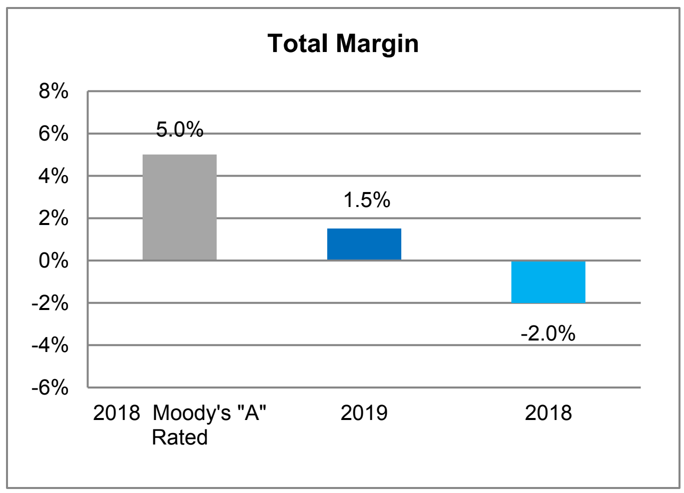
Depreciation expense decreased $665 from $88,298 in fiscal year 2018 to $87,633 in fiscal year 2019. The decrease between fiscal years was attributed to moderate capital spending and assets becoming fully depreciated.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, interest expense, intergovernmental transfer expense, equity earnings from the investment in SCCA, and funding from and to other UW Medicine entities, as well as the state of Washington. Net nonoperating revenues (expenses) increased $6,143 from $2,059 in fiscal year 2018 to $8,202 in fiscal year 2019. In 2019, nonoperating revenues increased as a result of strong equity earnings from SCCA, which was approximately $7,200 greater than the prior year.

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue that has been realized in the form of net income (income before capital contributions and other transfers) and is a common measure of total hospital profitability. Total margin for the fiscal years 2019 and 2018 compared to Moody's median is illustrated in the chart to the right.



(Dollar amounts in thousands)

Financial Analysis

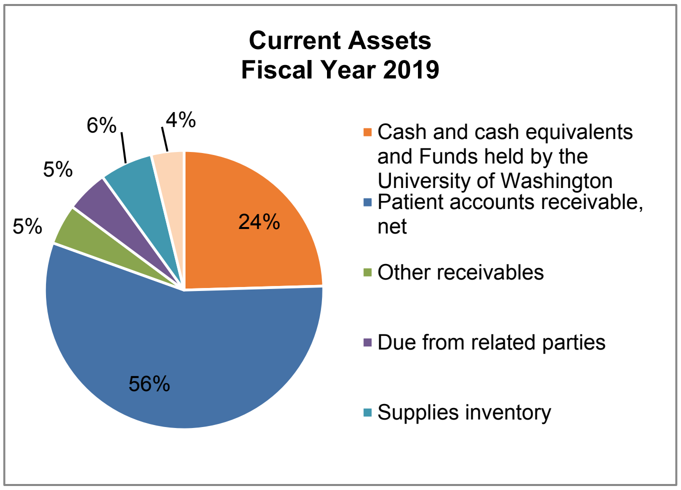
Statements of Net Position

The table below is a presentation of certain condensed financial information derived from the Group's statements of net position as of June 30, 2019 and 2018:

		2019	2018
Current assets	$	445,696	402,909
Noncurrent assets:			
Capital assets, net of accumulated depreciation		724,210	727,708
Funds held by the University of Washington		113,649	127,373
Investments		157,131	152,599
Investment in Seattle Cancer Care Alliance		183,380	159,149
Other assets		37,580	32,446
Total assets		1,661,646	1,602,184
Deferred outflows of resources		110,083	85,201
Total assets and deferred outflows of resources	$	1,771,729	1,687,385

		2019	2018
Current liabilities	$	439,622	421,981
Other noncurrent liabilities		489,371	453,598
Pension liabilities		243,368	302,823
Other post employment benefits		280,069	306,185
Total liabilities		1,452,430	1,484,587
Deferred inflows of resources		196,963	105,783
Net position		122,336	97,015
Total liabilities and net position	$	1,771,729	1,687,385

Total assets and deferred outflow of resources were $1,771,729 at June 30, 2019 compared to $1,687,385 at June 30, 2018 representing an increase of $84,344. During fiscal year 2019, total assets includes an increase in the investment in SCCA as a result of the Group's proportionate share of its earnings and an increase in patient accounts receivable as a result of increased volumes and a delay in commercial payer payments in June. Current liabilities increased $17,641 from $421,981 at June 30, 2018 to $439,622 at June 30, 2019 as a result of timing of vendor payables, accrued salaries, wages and employee benefits as a result of increased FTEs and wages, and physician distribution, clinical medicine fund and department payables. Pension liabilities decreased $59,455 from $302,823 at June 30, 2018 to $243,368 at June 30, 2019 and deferred inflows of resources related to pensions increased $28,454 from $55,047 at June 30, 2018 to $83,501 at June 30, 2019 as a result of updated actuarial assumptions related to the pension plans. OPEB liability decreased $26,116 from $306,185 at June 30, 2018 to $280,069 at June 30, 2019 as a result of updated actuarial assumptions.



Current Assets

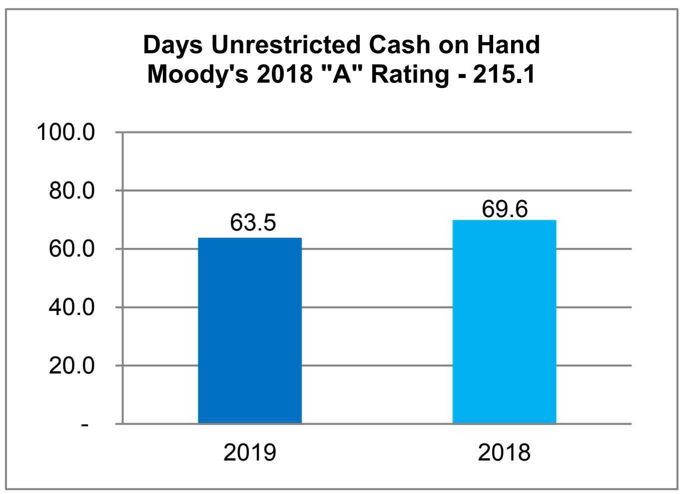
Current assets consist of cash and cash equivalents, and other current assets that are expected to be converted to cash within a year. Current assets also include patient accounts receivable valued at the estimated net realizable amount due from patients and insurers.

Fiscal year 2019 composition of current assets is illustrated in the chart to the left.

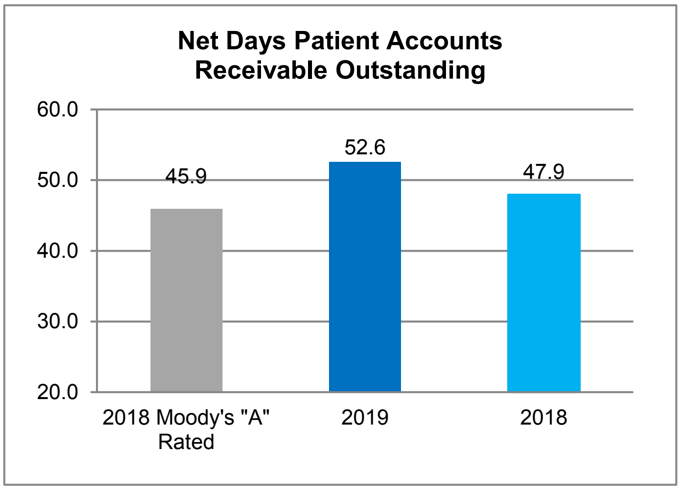
Cash and cash equivalents represent both cash and funds held by the University on behalf of the Group that are considered cash equivalents. Cash and cash equivalents decreased $2,674 from $112,085 at June 30, 2018 to $109,411 at June 30, 2019.

Days unrestricted cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days unrestricted cash on hand (including funds held by the University and investments, which are classified as noncurrent funds) as of June 30 for fiscal years 2019 and 2018 as compared to Moody's median rating are illustrated in the chart to the right.

The Group's total days unrestricted cash on hand decreased 6.1 days from 69.6 days at June 30, 2018 to 63.5 days at June 30, 2019. Despite positive operating income, the decrease in 2019 was a result of funding capital expenditures of $67,507 for the Group, an increase in account receivable and greater operating expenses as a result of increased labor and supplies expense.



Net patient accounts receivable were $249,340 as of June 30, 2019 compared to $209,830 as of June 30, 2018, an increase of $39,510. In 2019, the increase in net patient accounts receivable was driven by greater patient care volumes and timing of cash collections by commercial payers.



Net days patient accounts receivable outstanding illustrates an organization’s ability to convert net patient service revenues to cash. Net days patient accounts receivable outstanding as of June 30 for fiscal years 2019 and 2018 as compared to Moody’s median rating are illustrated in the chart to the left.

The Group’s total net days patient accounts receivable outstanding increased 4.7 days from 47.9 days at June 30, 2018 to 52.6 days at June 30, 2019. The increase in net days patient accounts receivable outstanding in fiscal year 2019 was driven by greater patient care volumes and timing of cash collections by commercial payers.

As of June 30, 2019 and 2018, 49% and 45% of the gross patient accounts receivable balance are due from Commercial payers, governmental payers (Medicare and Medicaid) comprised 44% and 47%, and Self-pay payers comprised 5% and 6%, respectively.

Other receivables consist of amounts due from external parties for supplies and services. Other receivables decreased $2,022 from $22,911 at June 30, 2018 to $20,889 at June 30, 2019. In fiscal year 2019, the decrease is due to the timing of payment from external parties.

Due from related parties consists of amounts due for services provided to Harborview, VMC, and the School. Due from related parties increased $3,868 from $17,869 at June 30, 2018 to $21,737 at June 30, 2019. The increase in 2019 relates to the timing of payments between the Group, Harborview, and the School.

Noncurrent Assets

Capital assets, net of accumulated depreciation decreased $3,498 during the fiscal year 2019 from $727,708 at June 30, 2018 to $724,210 at June 30, 2019. In fiscal year 2019, the decrease was primarily due to continued depreciation of depreciable assets offset by moderate capital spending.

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

Funds held by the University represent funds invested with the University classified as a noncurrent asset by the Group. Through the University’s investment program, the Group receives a rate of return representative of a portion of fund performance. For both fiscal years 2019 and 2018, the program generated a rate of return of 0.75% on the Group’s assets. Noncurrent funds held by the University decreased $13,724 in fiscal year 2019 from $127,373 at June 30, 2018 to $113,649 at June 30, 2019 as a result of utilizing these funds for operations.

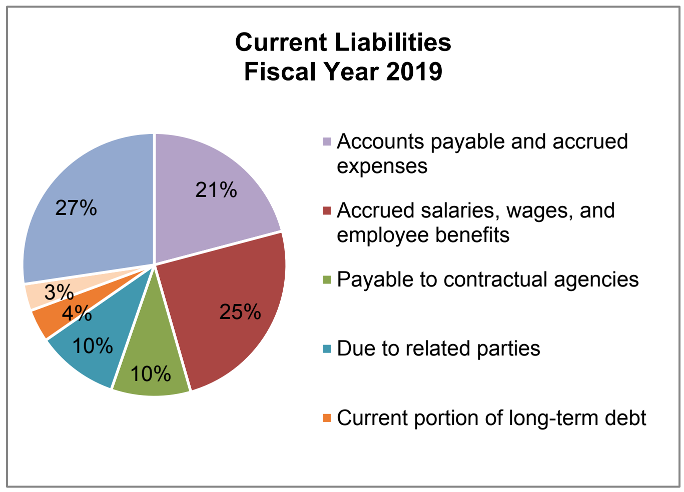
Investments represents investments held by the Group for capital improvements and replacements, those restricted for certain other purposes and investments held for the benefit of the School. Investments increased

$4,532 from $152,599 at June 30, 2018 to $157,131 at June 30, 2019. The increase in investments was a result of funds generated from operations during fiscal year 2019.

Investment in SCCA represents UW Medical Center's interest in SCCA, representing a 33.3% ownership. UW Medical Center accounts for its interest in the SCCA using the equity method of accounting. Investment in SCCA increased $24,231 from $159,149 at June 30, 2018 to $183,380 at June 30, 2019. Changes in the investment value reflect UW Medical Center's proportionate interest in the change in net assets of SCCA. The increase in 2019 was attributable to SCCA's positive operational and investment performance.

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within a year. Total current liabilities were $439,622 and $421,981 at June 30, 2019 and 2018, respectively. Fiscal year 2019 composition of current liabilities is illustrated in the chart to the right.



Accounts payable and accrued expenses increased $13,675 from $78,138 at June 30, 2018 to $91,813 at June 30, 2019. Changes in accounts payable and accrued expenses are primarily the result of timing of payments to vendors.

Accrued salaries, wages, and employee benefits increased $6,133 from $102,308 at June 30, 2018 to $108,441 at June 30, 2019. Changes in accrued salaries, wages, and employee benefits are primarily driven by the number of employees, employee merit and fringe benefit rate increases and compensated absences accruals.

Due to related parties consists of amounts due for services provided to the Group by the School, the University and other affiliates. Due to related parties decreased $9,700 from $53,865 at June 30, 2018 to $44,165 at June 30, 2019. The decrease in 2019 was driven by timing of payments between related parties.

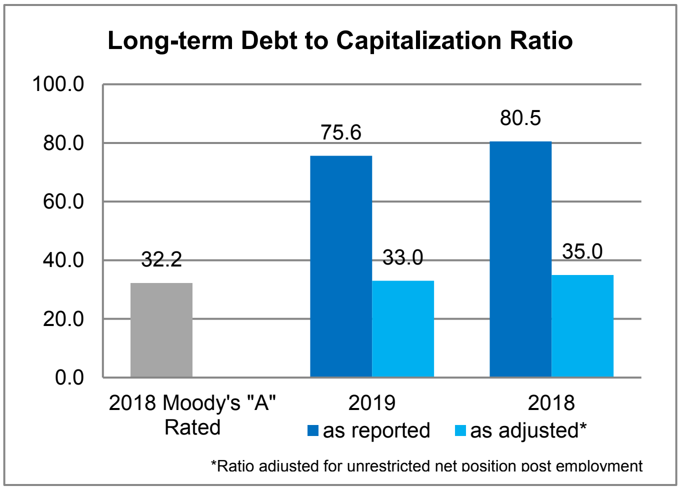
The Group has a long-term due to related parties balance of $90,663 at June 30, 2019 compared to $60,940 at June 30, 2018, an increase of $29,723. This balance represents amounts due for services provided to Northwest Hospital by the University. The increase in long-term due to related parties in 2019 was driven by agreed upon delayed settlements from Northwest Hospital to the University.

Physician distribution, clinical medicine fund, and departmental payables consist of receipts collected by UWP that are allocated and distributed to the physicians, clinical medicine fund, and departmental payables for the benefit of the School. The payable increased $2,368 from $117,868 at June 30, 2018 to $120,236 at June 30, 2019. In 2019, the increase in the payables was due to the increase in physician distribution payable as a result of new Northwest Hospital clinical departments.

Noncurrent Liabilities

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

Long-term debt, including current portion, decreased $10,261 from $380,431 at June 30, 2018 to $370,170 at June 30, 2019. In 2019, the decrease in long-term debt were a result of principal payments made in accordance with debt repayment schedules, offset by a slight increase in debt as a result of UW Medicine IT Services Destination One project, which is primarily funded by the University Internal Lending Program.



Long-term debt to capitalization is a ratio used to assess the capital structure of healthcare organizations. The chart to the left shows the long-term debt to capitalization ratio as of June 30 for 2019 and 2018 based on the amounts reported in the financial statements, adjusted for post employment retirement obligations, as compared to Moody's median rating. The Group's long-term debt to capitalization ratio decreased from 80.5% in fiscal year 2018 to 75.6% in fiscal year 2019 as a result of an increase in net position of $44,100 and a decrease in long-term debt.

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

Net Position

Unrestricted net position increased $18,012 from $(252,837) at June 30, 2018 to $(234,825) at June 30, 2019. In 2019 the increase in unrestricted net position was generated by operations. In fiscal year 2019, certain UW Medicine departments moved into Shared Services. As they are now part of the clinical enterprise, the Group recorded post retirement obligations related to these University employees and recorded $18,779 as a result of the change in reporting entity.

Post Employment Obligations

The University has a financial responsibility for pension benefits associated with the Public Employees' Retirement System (PERS) defined-benefit plans and University of Washington Supplemental Retirement Plan defined-benefit plan (as described in note 9), which include those University employees deployed within the Group. Pension liabilities and the respective deferred outflows and inflows of resources are determined by actuarial reports.

In fiscal year 2018, the University and the Group adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (as described in note 9c), which establishes new actuarial methods and discount rate standards for the measurement and recognition of the cost of postemployment benefits provided to the employees of state and local governmental employers, which includes those University employees deployed within the Group.

(Dollar amounts in thousands)

The Group has recognized its proportionate share of the University's actuarially determined pension liabilities, total OPEB liability, deferred inflows of resources and deferred outflows of resources, and expense. All funding obligations to the University are on a pay-as-you-go basis. As the liability increases, the funding obligations will also increase. The following table represents the liabilities, expense and funding contributions associated with post-employment obligations as of June 30, 2019 and 2018:

		2019	2018
Pension liabilities	$	243,368	302,823
Pension expense		12,920	35,307
Pension funding contribution		54,804	48,063
OPEB liability	$	280,069	306,185
OPEB expense		16,384	25,024
OPEB funding contribution		5,142	4,999

Factors Affecting the Future

Economic Uncertainty Facing the Healthcare Industry

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

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

Embright

UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance in 2017 to expand access to high-quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. UW Medicine, MultiCare and LifePoint Health formed the Pacific Northwest Clinically Integrated Network, LLC dba Embright, following University board of regent approval in October 2018. As a clinically integrated network in the Pacific Northwest, owned by healthcare provider organizations, Embright enables the partners to develop care delivery models that will improve patient care and experience at a more affordable cost. Together, the founding organizations represent 14 hospitals, more than 6,500 providers and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols, care pathways, standardized processes and care management services for complex patients. UW Medicine currently has an equity ownership interest of 45% in Embright at June 30, 2019, which is recorded within other assets on the statement of net position.

Investments in Information Technology

In July 2018, the University's board of regents granted approval to proceed with the UW Medicine clinical transformation program, called Destination One. This multi-year program will allow UW Medicine to improve patient engagement, physician and practitioner experience and to achieve business and operating efficiencies through development of foundational systems and improved staffing workflows. Patient engagement will be enhanced through development of a single online patient portal for activities between the patient and UW Medicine. More online service opportunities and easy navigation will create additional opportunities for communication between the patient and their care team. UW Medicine will achieve business and operating efficiencies through simplification and standardization across operations and IT, resulting in revenue cycle improvements and optimized resource utilization. Total program costs are estimated at $180,000, of which $129,000 will be financed through the University's Internal Lending Program (ILP). The remaining portion will be funded by Harborview, UW Medical Center, Northwest Hospital, and SCCA. Destination One will be fully implemented in October 2020.

Northwest Hospital Integration

In February 2018, the University board of regents granted approval to proceed with the dissolution of and subsequent integration of Northwest Hospital into UW Medical Center. As changes in the national and regional healthcare environment evolve, adopting a new model of one hospital with two campuses will provide additional opportunities for cost savings and improved coordination of care and a better patient experience. Effective January 1, 2020, Northwest Hospital assets and liabilities will be assumed by UW Medical Center and the Northwest Hospital staff will become University employees.

(Continued)

Financial Stability Plan / Project FIT

UW Medicine has implemented a three-year plan to improve and transform financial results, known as Project FIT. UW Medicine leadership established site specific and system-wide assumptions to develop a baseline long range plan to compare against financial performance goals and margin targets. Improvement initiatives that are anticipated to positively impact the financial performance have been identified and will be actively monitored and measured as UW Medicine completes the work to operationalize them. Project FIT is intended to improve operating performance over the next three years so that by fiscal year 2020, UW Medicine will be achieving improved margins and cash levels. In November 2017, the University's board of regents granted approval to both proceed with Project FIT as well as to temporarily suspend the ILP requirements for UW Medical Center and Northwest Hospital through June 30, 2019. UW Medicine leadership will continue seeking to identify additional initiatives and work with UW Treasury and Central Administration to advance progress on initiatives requiring support at the University level.

Employee Costs

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University. Employer pension funding rates for the PERS pension plans were unchanged during fiscal year 2019, but will be increasing 1.00% during fiscal year 2020, from 12.70% to 12.86% of covered salary. Likewise, the monthly employer base rate paid by the University and the Group for employee healthcare was mostly unchanged during fiscal year 2019, but will be increasing 3.00% in fiscal year 2020, from $913 to $939 per active employee. Both rates are likely to continue rising over the next few years.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statement of Net Position

June 30, 2019

(Dollar amounts in thousands)

Assets	
Current assets:	
Cash and cash equivalents	$ 45,466
Funds held by the University of Washington	63,945
Patient accounts receivable, less allowance for uncollectible accounts of $17,915	249,340
Other receivables	20,889
Due from related parties	21,737
Supplies inventory	27,340
Restricted investments	1,174
Other current assets	15,805
Total current assets	445,696
Noncurrent assets:	
Capital assets, net of accumulated depreciation	724,210
Funds held by the University of Washington	113,649
Investments	157,131
Donor restricted assets	4,702
Investment in Seattle Cancer Care Alliance	183,380
Other assets	32,878
Total noncurrent assets	1,215,950
Total assets	1,661,646
Deferred outflows of resources:	
Deferred outflows of resources related to pensions	77,010
Deferred outflows of resources related to other post employment benefits	27,160
Other deferred outflows of resources	5,913
Total assets and deferred outflows of resources	$ 1,771,729
Liabilities and Net Position	
Current liabilities:	
Accounts payable and accrued expenses	$ 91,813
Accrued salaries, wages, and employee benefits	108,441
Payable to contractual agencies	42,858
Due to related parties	44,165
Current portion of long-term debt	17,660
Other current liabilities	14,449
Physician distribution, clinical medicine fund, and departmental payables	120,236
Total current liabilities	439,622
Noncurrent liabilities:	
Long-term debt, net of current portion	352,510
Pension liabilities	243,368
Other post employment benefits	280,069
Due to related parties – long-term	90,663
Other noncurrent liabilities	46,198
Total liabilities	1,452,430
Deferred inflows of resources:	
Deferred inflows of resources related to pensions	83,501
Deferred inflows of resources related to other post employment benefits	113,462
Net position:	
Net investment in capital assets	352,185
Nonexpendable, restricted	2,349
Expendable, restricted	2,627
Unrestricted	(234,825)
Total net position	122,336
Total liabilities, deferred inflows of resources, and net position	$ 1,771,729

See accompanying notes to basic financial statements.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2019

(Dollar amounts in thousands)

Operating revenues:		
Net patient service revenues (net of provision for uncollectible accounts of $29,140)	$	1,731,198
UWP billing revenues, net		299,780
Other revenue		250,773
Total operating revenues		2,281,751
Operating expenses:		
Salaries and wages		966,369
Employee benefits		228,210
Other post employment benefits		16,384
Purchased services		438,173
Supplies		409,892
Other		109,605
Depreciation		87,633
Total operating expenses		2,256,266
Income from operations		25,485
Nonoperating revenues (expenses):		
Investment income		2,564
Interest expense		(17,207)
Funding to affiliates		(42,684)
Funding from affiliates		41,281
Other, net		24,248
Nonoperating revenues (expenses), net		8,202
Income before capital contributions and other transfers		33,687
Capital contributions and other transfers		10,413
Increase in net position		44,100
Net position – beginning of year, as issued		97,015
Change in reporting entity		(18,779)
Net position – beginning of the year, as adjusted		78,236
Net position – end of year	$	122,336

See accompanying notes to basic financial statements.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statement of Cash Flows

Year ended June 30, 2019

(Dollar amounts in thousands)

Cash flows from operating activities:	
Cash received for patient care	$ 1,695,090
Cash received for UWP billing revenues	294,660
Cash received for other services	251,326
Cash paid to employees	(1,239,494)
Cash paid to suppliers and others	(958,543)
Net cash provided by operating activities	43,039
Cash flows from noncapital financing activities:	
Funding to affiliates	(40,769)
Funding from affiliates	38,781
Due to related parties – long-term	29,723
Additions to clinical medicine fund and departmental payables	1,269
Other, net	1,235
Net cash provided by noncapital financing activities	30,239
Cash flows from capital and related financing activities:	
Purchases of capital assets	(67,507)
Principal payments on long-term debt	(17,370)
Proceeds from borrowings	7,094
Interest payments on long-term debt	(16,862)
Funding from affiliates for capital purchases and capital contributions	1,109
Net cash used in capital and related financing activities	(93,536)
Cash flows from investing activities:	
Proceeds from sale of investments	52,685
Purchases of investments	(54,834)
Proceeds from funds held by the University and donor restricted assets	13,241
Investment income	6,715
Other	(223)
Net cash provided by investing activities	17,584
Decrease in cash and cash equivalents	(2,674)
Cash and cash equivalents, beginning of year	112,085
Cash and cash equivalents, end of year	$ 109,411
Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	$ 25,485
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	87,633
Provision for uncollectible accounts	29,140
Other	1,473
Investment income	(6,219)
Net increase (decrease) in operating activities:	
Patient accounts receivable	(68,650)
Other receivables	1,921
Due from related parties	(1,368)
Supplies inventory, other current assets and other assets	(3,352)
Pension related deferred inflows, deferred outflows, and net pension liability	(44,139)
OPEB related deferred inflows, deferred outflows and OPEB liability	11,243
Accounts payable and accrued expenses	10,378
Accrued salaries, wages, and employee benefits	4,365
Due to related parties	(9,700)
Payable to contractual agencies and other current liabilities	2,946
Physician distribution payable	1,099
Noncurrent liabilities	784
Net cash provided by operating activities	$ 43,039
Supplemental disclosures of noncash investing, capital, and financing activities:	
Increase in capital assets included in accounts payable	$ 3,297
Increase in capital assets included in noncurrent liabilities	15,871

See accompanying notes to basic financial statements.

(1) Organization

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

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

The UW Medicine Advisory Board (the Board) was established by the University of Washington Board of Regents in July 2018 and effective on September 1, 2018. The Board consists of community leaders appointed by the UW Board of Regents and chaired by a member of the UW Board of Regents. The Board advises and assists the chief executive officer and the dean of the School of Medicine in strategic planning and oversight of programs across the organizations that make up UW Medicine, including Harborview Medical Center, UW Medical Center, Northwest Hospital, Valley Medical Center, the Neighborhood Clinics, UWP, the School and Airlift.

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

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

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

UW Medical Center

UW Medical Center is a 529 licensed-bed hospital and is a division of the University. Authority for specified governance functions of UW Medical Center has been delegated by the UW Board of Regents (the Regents) to the Board as specified in the Board’s bylaws, originally adopted by the Board in 1976 and amended in February 2000. Effective September 2018, UW Medical Center is governed by a board and bylaws established by the UW Board of Regents. UW Medical Center operates under the direction of the executive director, who is accountable to the UW Medical Center Board and UW Medicine’s chief health system officer for management of the facility.

Northwest Hospital

Northwest Hospital is a Washington not-for-profit corporation, incorporated in 1949, whose sole corporate member is the University. Northwest Hospital is a component unit of the University. Northwest Hospital is a 281 licensed-bed, full-service medical facility primarily serving the healthcare needs of the residents of King and Snohomish counties in Washington. Authority for specified governance functions of Northwest Hospital has been delegated to Northwest Hospital's Board of Trustees. Northwest Hospital operates under the direction of the executive director, who is accountable to Northwest Hospital's Board of Trustees and UW Medicine's chief Health System Officer for management of the facility. In February 2018, the University board of regents granted approval to proceed with the dissolution of and subsequent integration of Northwest Hospital into UW Medical Center. Upon dissolution of the Northwest Hospital corporation, Northwest Hospital assets and liabilities will be assumed by UW Medical Center and the Northwest Hospital staff will become University employees. Full integration is planned to occur no later than January 1, 2020.

UWP

UWP, a Washington not-for-profit corporation and component unit of the University, was formed on August 30, 1983, for the exclusive benefit of the School. UWP employs the School faculty and bills and collects for their clinical services as an agent for the School. All revenues after payment of operating expenses and physician salaries are held for the benefit of the School under the Operating Agreement between UWP and the University as presented in note 2(s).

Airlift

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

Neighborhood Clinics

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

UW Medicine Shared Services

UW Medicine Shared Services is comprised of a number of functions within the University, established for the purpose of providing scalable administrative and information technology (IT) support services for UW Medicine. These functions include UW Medicine IT Services (ITS), UW Medicine Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, UW Medicine Contracting, and the University of Washington Consolidated Laundry. In fiscal year 2019, certain UW Medicine departments moved into Shared Services. As a result, the Group recorded post retirement obligations related to these University employees and recorded $18,779 as a result of the change in reporting entity, which is included in the statement of revenues, expenses and changes in net position.

(2) Summary of Significant Accounting Principles

(a) Accounting Standards

The accompanying basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for state and local governments as prescribed by the Government Accounting Standards Board (GASB). The Group uses proprietary fund accounting.

(b) Basis of Accounting

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

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less at the date of purchase, excluding amounts whose use is limited by board designation. As of June 30, 2019, approximately $44,517 was held in cash and $949, was held in cash equivalents. Cash deposits of up to $250 are fully insured by the Federal Depository Insurance Corporation.

(e) Funds Held by the University of Washington

Operating and capital funds for certain entities within the Group are invested directly with the University. The current portion is determined based on funds expected to be used in the next year. All balances are available on demand and are stated at carrying value. In exchange, the University offers a stipulated rate of return determined at the end of the reporting period by the University based on pooled investment performance and the University's reserve fund goals. For fiscal year 2019, the rate returned was 0.75%, representing $1,213 in investment income.

(Dollar amounts in thousands)

The Group has unrestricted access to deposit and withdraw these funds at its discretion and without limitation, and as such, amounts classified as current assets are considered cash and cash equivalents for presentation in the statement of cash flows.

Pooled investments held on behalf of the Group by the University are recorded at the Group's share of the carrying value of the University's cash and liquidity pools. The cash and liquidity pools were invested as follows at June 30, 2019:

Cash and cash equivalents	3.7 %
U.S. treasury and agencies securities	68.3
Mortgage related securities	10.3
Asset backed debt securities	10.5
Corporate and other fixed income securities	7.2
Total	100.0 %

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

(f) Investments

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

(g) Inventories

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

(h) Capital Assets

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

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

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

Interest is capitalized on large construction projects as a cost of the related project, beginning with commencement of construction and ceases when the construction period ends and the related asset is placed in service. Interest capitalized during 2019 was $198 and is recorded in capital assets on the statement of net position.

(i) UW Medicine IT Services

Harborview and SCCA provide advance funding to ITS which entitles Harborview and SCCA access to the enterprise-wide IT software and services. ITS records the funding as unearned revenue. The unearned revenue is reported within other current liabilities and other noncurrent liabilities on the statement of net position based on expected usage. At June 30, 2019, $11,100 is recorded in other current liabilities and $20,800 is recorded in other noncurrent liabilities on the statement of net position.

(j) Compensated Absences

Compensated absences represent the liability for employees with accumulated leave balances earned through various leave programs. These amounts would be payable if an employee terminated employment. Employees earn leave at varying rates depending upon their years of service and the leave plan in which they participate. Annual and sick leave accrued at June 30, 2019 is $58,604. Compensated absences are reported within the accrued salaries, wages, and employee benefits on the statement of net position.

(k) Benefit Costs

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

(l) Aviation Expenses

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

(m) Payable to Contractual Agencies

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

Public hospitals located in the state of Washington designated by the Washington State legislature are reimbursed at the "full cost" of Medicaid inpatient covered services under the public hospital Certified Public Expenditures (CPE) payment method. See note 3(a) for discussion regarding this program.

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

(n) Classification of Revenues and Expenses

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

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

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

(o) Net Patient Service Revenues

The Group has agreements with third-party payers that provide for payments to the Group at amounts that differ from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

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. A summary of the payment arrangements with major third-party payers is as follows:

(i) Medicare

Acute inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on Medicare severity diagnosis-related groupings

(MS-DRGs), as well as reimbursements related to capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for Medicare outpatient services are provided based upon a prospective payment system known as ambulatory payment classifications (APC). APC payments are prospectively established and may be greater than or less than the actual charges for its services. The Medicare program utilizes the prospective payment system known as case mix group (CMG) for rehabilitation services reimbursement. As with MS-DRGs, CMG payments are prospectively established and may be greater than or less than the Group's actual charges for its services. Geropsychiatric services are also paid prospectively using a federal per diem payment rate adjusted for comorbidity and various other adjustment factors.

(ii) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at approximate cost or at prospectively determined rates per discharge. Outpatient services rendered are paid based upon the APC prospective payment system. See note 3(a) for discussion surrounding the Medicaid certified public expenditures program.

(iii) Commercial

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

(iv) Exchange (HIX)

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

(p) Accountable Care Network

UW Medicine has formed an accountable care network (ACN) with other healthcare organizations and healthcare professionals to share financial and clinical responsibility for the healthcare of particular populations of patients. The Group, as part of UW Medicine, is a network member of the UW Medicine ACN and, as such, shares in any risk contract surplus or deficit based on agreed upon contractual terms. Since its inception, the ACN has entered into various contracts, which include provisions for shared risk as well as shared savings based on achieving certain quality and financial benchmarks. The Group, as part of UW Medicine, and the other network members share in the financial risk or savings. At June 30, 2019, the Group has recorded a liability of $1,957 for its portion of the estimated liability related to these risk-sharing arrangements. The liability is reflected in due to related parties on the statement of net position.

(Continued)

(Dollar amounts in thousands)

(q) Financial Assistance

The Group provides care without charge to patients who meet certain criteria under its financial assistance policy. Records are maintained to identify and monitor the level of financial assistance provided. These records include charges foregone for services and supplies furnished under its financial assistance policy to the uninsured and the underinsured. Because the Group does not pursue collection of amounts determined to qualify as financial assistance, these are not reported as net patient service revenues. The charges associated with financial assistance provided by the Group were $64,711 for the year ended June 30, 2019. The cost of financial assistance provided is calculated based on the Group's aggregate relationship of costs to charges. The estimated cost of financial assistance provided for fiscal year ended June 30, 2019 was $21,893.

(r) UWP Accounting for Billing and Collection Services

As a billing agent, UWP bills and collects patient accounts for the benefit of the School. As described in note 2(s), UWP's revenue, by agreement, is limited to operating expenses incurred. Revenue recorded by UWP includes net billings processed on behalf of the School plus investment income and less amounts paid or due to the Clinical Medicine Fund (CMF) and departments.

Accounts receivable from patients, net of allowances for discounts, contractual adjustments and collection losses are assets of the School. The following represents the estimated net patient accounts receivable for which UWP will pursue collection on behalf of the School as of June 30, 2019 and are not reflected on the statement of net position:

Accounts receivable (net of credit balances of $1,634)	$	102,188
Estimated allowances for discounts, contractual adjustments, and collection losses		(59,890)
	$	42,298

The amounts above exclude receivables related to services performed by certain nonmember healthcare professionals for related entities (Harborview, UW Medical Center and Northwest Hospital) that are billed and collected by UWP as a billing agent. Cash collected on these accounts is remitted monthly to affiliates, net of billing service fees.

(s) UWP Billing Activity

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

(Dollar amounts in thousands)

Net billings processed on behalf of the School:		
Professional fee revenue, net	$	359,845
Professional services supplemental payment (PSSP)		5,844
Provider access payment (PAP) program		33,948
Meaningful use incentive payments		2,830
Billing reimbursement		911
		403,378
Investment income		6,219
Total net billings processed and investment income		409,597
Less:		
Amounts paid or due to affiliates		(2,415)
Amounts due to Clinical Medicine Fund and departments		(107,402)
UWP billing revenues, net	$	299,780

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

The payables are comprised of the following at June 30:

Physician Distribution	$	18,667
Clinical Medicine Fund and Department payables		101,569
Total physician distribution, clinical medicine fund and departmental payables	$	120,236

(t) Net Position

The Group's net position is classified in various components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding borrowings used to finance the purchase or construction of those assets. Expendable restricted net position consists of resources that the Group is legally or contractually obligated to expend in accordance with time or purpose restrictions placed by donors and/or external parties. Nonexpendable restricted net position, primarily endowments, represent gifts to the Group's permanent endowment funds, in which the donor or other external party has imposed a restriction that the corpus is not available for expenditure. Unrestricted net position is all other funds available to the Group for any purpose associated with its operations.

(u) Federal Income Taxes

UW Medical Center, Airlift, and UW Medicine Shared Services are divisions and/or departments of the University and are not subject to federal income tax under Section 115 of the Internal Revenue Code (IRC), except for unrelated business income tax. There are no significant tax obligations at June 30, 2019.

Northwest Hospital, UWP, and Neighborhood Clinics are exempt from federal income tax under Section 501(c)(3) of the IRC, except for unrelated business income tax. There are no significant tax obligations at June 30, 2019.

(v) Recently Adopted and Upcoming Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for the fiscal year ending June 30, 2019. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments that have legal obligations to perform future tangible asset retirement activities are required to recognize a liability and offsetting deferred outflow of resources when incurred and reasonably estimable. The basis of the estimate is the current value of the future outlays expected to be incurred, and is to be adjusted annually for inflation and any changes of relevant factors. The deferral is recognized as an expense in a systematic and rational manner over the life of the tangible capital asset. The liability is derecognized as retirement costs are paid. Required disclosures include information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The Group adopted this statement and determined it to be immaterial to these financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which will be effective for the fiscal year ending June 30, 2020. This statement establishes criteria for identifying and reporting fiduciary activities of all state and local governments. Governments with activities meeting the criteria are required to present a statement of fiduciary net position and a statement of changes in fiduciary net position. Custodial assets held for three months or less are exempt from the reporting requirements. The Group is currently analyzing the impact of this statement.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is effective for the fiscal year ending June 30, 2019. The statement requires that additional essential information related to debt be disclosed in the notes to the financial statements, such as unused lines of credit, assets pledged as collateral, significant default and termination events with finance-related consequences, and significant subjective acceleration clauses. It also requires that currently existing disclosure requirements related to long-term debt be provided for direct borrowings and direct placements of debt separately from other debt disclosures. The Group adopted this statement, which is presented in note 7.

(Continued)

(Dollar amounts in thousands)

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the fiscal year ending June 30, 2021. This statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will not be included in the capitalized cost of capital assets reported by the University. This statement will be applied on a prospective basis, and interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated. The Group is currently analyzing the impact of this statement.

(3) Net Patient Service Revenues

Net patient service revenues is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2019, net patient service revenues includes approximately $3,102 relating to prior years’ net Medicare and Medicaid settlements and revised estimates, including disproportionate share reimbursement and the CPE program.

The following are the components of net patient service revenues for the year ended June 30, 2019:

Patient service revenues	$	4,571,614
Less adjustments to patient service revenues:		
Contractual discounts		(2,763,713)
Financial assistance		(47,563)
Provision for uncollectible accounts		(29,140)
Total adjustments to patient service revenues		(2,840,416)
Net patient service revenues	$	1,731,198

(Dollar amounts in thousands)

The Group grants credit without collateral to its patients, most of whom are local residents and who are insured under third-party payer agreements. The mix of gross patient charges and gross receivables from significant third-party payers at June 30, 2019 was as follows:

	2019	
	Patient service charges	Accounts receivable
Medicare	39 %	29 %
Medicaid	16	15
Commercial and other	42	49
Exchange (HIX)	2	2
Self-pay	1	5
Total	100 %	100 %

(a) Medicaid Certified Public Expenditure Reimbursement

UW Medical Center is reimbursed at the "full cost" of Medicaid inpatient covered services under the public hospital CPE payment method. "Full cost" payments are determined using the respective hospital's Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital, and the State claims a federal match on the amount of the related certified public expenditures. According to the Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. UW Medical Center recognized $17,520 in claims payments under this program for the year ended June 30, 2019.

In addition, UW Medical Center receives the federal match portion of Disproportionate Share (DSH) payments, which is the lesser of qualifying Medicaid and financial assistance uncompensated care cost or the hospital's specific limit. UW Medical Center recognized $27,987 in DSH funding under this program for the year ended June 30, 2019.

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

In the event of a shortfall between CPE program payments and the amount determined under the hold harmless provision, the difference is paid to the hospitals as a grant from state only funds. UW Medical Center did not recognize any amounts for state grants for the year ended June 30, 2019. Claims payments, DSH payments, and state grant funds are included in net patient service revenues in the statement of revenues, expenses, and changes in net position.

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

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

As of June 30, 2019, UW Medical Center has an estimated payable for the CPE program of $29,028, which is recorded as a payable to contractual agencies on the statement of net position.

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

The professional services supplemental payment (PSSP) and provider access payment (PAP) are programs managed by the Washington State Healthcare Authority (HCA) and benefit certain public hospitals.

Under the program, UW Medical Center, Harborview, Northwest Hospital, UWP, and Children's University Medical Group (CUMG) receive supplemental Medicaid payments for the physician and other professional services for which they bill. These supplemental payments equal the difference between the standard Medicaid reimbursement and the upper payment limit allowable by federal law. UW Medical Center and Harborview provide the nonfederal share of the supplemental payments that are used to obtain matching federal funds.

UW Medical Center recorded $11,590 for the year ended June 30, 2019, in intergovernmental transfers (IGT) to HCA related to professional claims paid. This is included in funding to affiliates in the statement of revenues, expenses, and changes in net position. There is no requirement that UWP and CUMG PSSP and PAP payments be returned to Harborview and UW Medical Center as a condition for making the IGT's.

HCA used the federal match funds to make PSSP payments to UW Medicine entities and through Medicaid managed care plans for PAP. UW Medical Center and Northwest Hospital recognized $7,315 in supplemental payments for the year ended June 30, 2019. The payments are recorded in net patient service revenues in the statement of revenues, expenses, and changes in net position. UWP recognized $39,792 in supplemental payments for the year ended June 30, 2019, for the benefit of the School and are reflected as part of revenues processed and amounts due to the CMF as shown in note 2(s).

PSSP and PAP funds received through the CMF are combined with other revenue used by the School for the central support of faculty costs. As a result, the School requires less funding from UW Medical Center. UW Medical Center clinical department funding is recorded in purchased services expense in the statement of revenues, expenses and changes in net position and was reduced by $23,752 in fiscal year 2019, due to the PSSP and PAP funds received by the School.

(c) Hospital Safety Net Program

The Hospital Safety Net Assessment Act (HSNA) uses local funds obtained through an assessment levied on Prospective Payment System (PPS) hospitals and federal matching funds to increase Medicaid payments to hospitals. Under this program, PPS program hospitals are assessed a fee on all non-Medicare patient days.

Under the HSNA program, PPS hospitals receive supplemental Medicaid payments, Critical Access Hospitals receive disproportionate share payments, and CPE hospitals receive state grants. The program has an expiration date of June 30, 2023.

UW Medical Center is exempt from the assessment as the hospital is operated by an agency of the State government and also participates in the CPE program. UW Medical Center recognized grant funding related to the HSNA program of $4,455 for the year ended June 30, 2019, which is recorded in other revenue in the statement of revenues, expenses, and changes in net position.

During the year ended June 30, 2019, Northwest Hospital recorded $7,403 related to assessment fee expense that is recorded in other expenses on the statement of revenue, expenses, and changes in net position. At June 30, 2019, Northwest Hospital recorded a payable relating to the safety net assessment of $1,851 and is included in accounts payable and accrued expenses on the statement of net position.

Northwest Hospital recognized increased reimbursements of $9,065 under this program for the year ended June 30, 2019, which is included in net patient service revenues in the statement of revenues, expenses, and changes in net position. At June 30, 2019, Northwest Hospital recorded a receivable relating to increased reimbursements of $629 and is included in other receivables on the statement of net position.

(4) State Appropriation

An appropriation is made by the State to the University on a biennial basis, specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. UW Medical Center is designated as a division of the major program “hospitals” included within the total appropriation. Due to the nature of the designation, these amounts are included in other revenue in the statement of revenues, expenses, and changes in net position. UW Medical Center recognized $6,746 for the fiscal year ended June 30, 2019.

(Dollar amounts in thousands)

(5) Capital Assets

The activity in the Group's capital asset and related accumulated depreciation accounts for the year ended June 30, 2019 are set forth below:

	June 30, 2018	Additions	Transfers	Retirements	June 30, 2019
Capital assets, not being depreciated:					
Land	$ 13,766	—	—	—	13,766
Art	1,542	193	25	—	1,760
Construction in process	18,629	85,742	(52,634)	—	51,737
Total capital assets, not being depreciated	33,937	85,935	(52,609)	—	67,263
Capital assets, being depreciated:					
Land improvements	14,398	—	—	(51)	14,347
Buildings, renovations, and furnishings	930,075	—	26,472	(7,687)	948,860
Fixed equipment	174,441	—	(377)	(7,503)	166,561
Movable equipment	719,744	1,987	26,514	(32,957)	715,288
Total capital assets, being depreciated	1,838,658	1,987	52,609	(48,198)	1,845,056
Total capital assets at historical cost	1,872,595	87,922	—	(48,198)	1,912,319
Less accumulated depreciation for:					
Land improvements	(8,537)	(400)	—	—	(8,937)
Buildings, renovations, and furnishings	(430,933)	(32,610)	—	6,939	(456,604)
Fixed equipment	(132,797)	(5,075)	—	7,682	(130,190)
Movable equipment	(572,620)	(49,548)	(383)	30,173	(592,378)
Total accumulated depreciation	(1,144,887)	(87,633)	(383)	44,794	(1,188,109)
Total capital assets, net	$ 727,708	289	(383)	(3,404)	724,210

Intangible assets, net of accumulated amortization of $15,104 as of June 30, 2019, is included in movable equipment in the capital asset rollforward.

(6) Investments

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

(Dollar amounts in thousands)

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

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

The composition of the carrying amounts of investments, by type, at June 30, 2019, is as follows:

Money market mutual funds	$	3,232
Mutual funds – equity		134,600
Domestic corporate bonds		9,030
U.S. governmental agency securities		5,675
U.S. Treasury securities		4,711
Other		1,057
Total	$	158,305

(a) Credit Risk

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

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

				2019			
Investments		**U.S. Government**	**Investment grade***	**Not investment grade**	**Not rated**	**Total**	**Duration (in years)**
U.S. Treasury securities	$	4,711	—	—	—	4,711	9.64
Domestic corporate bonds		—	7,280	—	1,750	9,030	5.48
U.S. governmental agency		5,675	—	—	—	5,675	4.02
	$	10,386	7,280	—	1,750	19,416	6.38

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

(Dollar amounts in thousands)

(b) Interest Rate Risk

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

(c) Fair Value Hierarchy

The following table sets forth, by level, within the fair value hierarchy, the Group’s investments carried at fair value as of June 30, 2019:

		2019			
		Level 1	**Level 2**	**Level 3**	**Total**
Money market mutual funds	$	3,232	—	—	3,232
Mutual funds		134,600	—	—	134,600
Domestic corporate bonds		—	9,030	—	9,030
U.S. governmental agency securities		—	5,675	—	5,675
U.S. Treasury securities		4,711	—	—	4,711
Other		1,057	—	—	1,057
Total investments at fair value	$	143,600	14,705	—	158,305

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

(d) Investment Income

Investment income includes both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held longer than the current reporting period and are sold in the current period include the net appreciation of these investments reported in the prior periods. UWP investment income is recorded in UWP billing revenues, net as presented in note 2(s), however, the composition of UWP’s investment income is included in amounts presented below. Investment income comprises the following at June 30, 2019:

Dividend and interest income	$	6,614
Net realized gains		2,886
Net unrealized (losses) gains		(717)
Total investment income	$	8,783

(Dollar amounts in thousands)

(7) Long-Term Debt and Capital Leases

Long-term debt, reported as a part of noncurrent liabilities, consists of the following as of June 30, 2019:

UW Medical Center Internal Lending Program Debt:		
Expansion Project, 4.50% interest rate, through 2046	$	260,059
All other debts, 4.04% to 4.96% interest rates, through 2028		33,191
Northwest Hospital note payable to the University, at 4.50% through 2033, secured by an interest in Northwest gross receivables and certain property and equipment		59,533
Northwest Hospital Internal Lending Program Debt:		
Childbirth Center, 4.50% interest rate, through 2041		2,183
Northwest Hospital note payable at 4.65%, annual debt service including interest of $709 through July 2032; secured by a medical office building – direct borrowing		6,937
UW Medicine ITS Internal Lending Program Debt:		
D1 Project, 4.50% interest rate, through 2034		4,926
Capital leases for equipment, 3.00% to 5.00% interest rates, through 2024		2,711
Other note payable		630
Total long-term debt		370,170
Less current portion		(17,660)
Total long-term debt, net of current portion	$	352,510

(a) Long-Term Debt Overview

(i) University Internal Lending Program

The Group obtains capital financing through the University's ILP. The ILP is an internal financing pool intended to lower the University's overall cost of capital and provide a predictable borrowing rate for borrowers within the University. These loans are funded through the issuance of General Revenue bonds and notes. The University's ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary.

(ii) Northwest Hospital

Through UW Medicine, in 2015, Northwest Hospital entered into a financing agreement with the University to obtain funds for the defeasance and advance refunding of the Series 2007 Revenue Bonds. The total amount financed was $71,306, of which the outstanding balance at June 30, 2019 was $59,533. As a result of the above transaction, Northwest Hospital incurred a $6,435 loss on refinancing, which was recorded as a deferred outflow of resources on the statement of net position. The loss is amortized to interest expense using the effective interest method over the remaining term of the note. The unamortized loss on refinancing at June 30, 2019 is $4,957.

(Dollar amounts in thousands)

(b) Long-Term Debt Maturities

The following schedule shows debt service requirements, for the next five years and thereafter, as of June 30, 2019, for both principal and interest:

	Principal	Interest	Total
2020	$ 17,660	16,577	34,237
2021	18,165	15,750	33,915
2022	19,030	14,900	33,930
2023	19,386	14,011	33,397
2024	20,164	13,092	33,256
2025-2029	84,359	52,833	137,192
2030-2034	88,334	32,749	121,083
2035-2039	53,210	15,908	69,118
2040-2044	34,086	7,554	41,640
Thereafter	15,776	750	16,526
Total payments	$ 370,170	184,124	554,294

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

Changes in long-term debt and capital leases during the fiscal year ended June 30, 2019 are summarized below:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Due within one year
UW Medical Center ILP Debt:					
Expansion Project	$ 267,275	—	(7,216)	260,059	7,548
All other debts	38,230	—	(5,039)	33,191	5,265
Note payable – University	62,695	—	(3,162)	59,533	3,307
Northwest Hospital ILP Debt	—	2,183	—	2,183	—
UW Medicine ITS ILP Debt	—	4,926	—	4,926	—
Other note payables	8,004	—	(437)	7,567	460
Capital leases	4,227	—	(1,516)	2,711	1,080
Total noncurrent liabilities	$ 380,431	7,109	(17,370)	370,170	17,660

(8) Risk Management

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

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components. The Group's annual contribution to the professional liability program funding is determined by the University's administration using information from an annual actuarial study. In addition to the University, the participants in the professional liability program include the Group, CUMG, School of Dentistry, the School, and Harborview. In addition to the self-insurance fund contributions, the participants share in the expenses of the Health Science Risk Management Office. The Group's self-insurance coverage is first dollar, and no claim liability is recorded on the Group's balance sheet for professional liability exposures.

The Group's contribution to the professional liability program was $13,199 in fiscal year 2019, and is recorded in other operating expense on the statement of revenues, expenses, and changes in net position.

(9) Pension Plans

University employees can participate in the following state and University sponsored retirement benefit plans.

(a) University of Washington Retirement Plan

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

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

Based on the University's benefit load apportionment, the Group incurred and paid $9,311 in fiscal year 2019, related to annual UWRP funding, which is recorded in employee benefits expense on the statement of revenues, expenses, and changes in net position.

(b) Public Employees' Retirement System Pension Plans

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

(i) Plan Descriptions of the DRS Plans

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

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

(ii) Vesting and Benefits Provided

PERS Plan 1

PERS Plan 1 provides retirement, disability and death benefits. The plan is closed to new entrants. All members were vested after the completion of five years of eligible service. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest-paid consecutive service months. The retirement benefit may not exceed 60% of the AFC.

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional cost-of living allowance (COLA), and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

PERS Plan 2/3

PERS Plan 2/3 provides retirement, disability and death benefits. PERS Plan 2 members are vested after completion of 5 years of eligible service. PERS Plan 3 members are vested in the defined-benefit portion of their plan after 10 years of service or after 5 years of service if 12 months are earned after age 44. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2, and 1% of AFC times the member's years of service for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 65 with at least 5 years of service credit. Retirement before age 65 is considered early retirement. Members are eligible for early retirement with a reduced benefit at age 55 with at least 20 years of service credit. The benefit is reduced by a factor that varies according to age, for each year before age 65.

Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, a COLA (based on the Consumer Price Index) capped at 3% annually, and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

(Dollar amounts in thousands)

(iii) Fiduciary Net Position

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

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

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

(iv) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation conducted by the Washington State Office of the State Actuary (OSA). The Group's 2019 pension liability is based on an OSA valuation performed as of June 30, 2017, with the results rolled forward to the measurement date of June 30, 2018. The following actuarial assumptions have been applied to all prior periods included in the measurement:

Inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation
Investment rate of return	7.40%

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

(Dollar amounts in thousands)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the 2007-2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

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

The long-term expected rate of return of 7.4% as of June 30, 2019, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short term changes that are not expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan are summarized in the following table:

	2019 (Measurement Date: 2018)	
	Target asset allocation	Long-term expected real rate of return arithmetic
Asset class:		
Fixed income	20.0 %	1.7 %
Tangible assets	7.0	4.9
Real estate	18.0	5.8
Global equity	32.0	6.3
Private equity	23.0	9.3

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

(v) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2019 was 7.40%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those

(Continued)

(Dollar amounts in thousands)

assumptions, the fiduciary net position for each pension plan in which the Group participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.40% future investment rate of return on pension plan investments was assumed as of June 30, 2019. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1, as provided for in Chapter 41.45 of the RCW).

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

The following table presents the Group's net pension liability calculated using the discount rate of 7.4%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.4%) or 1-percentage-point greater (8.4%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)

	2019		
	1% Decrease	**Current discount rate**	**1% Increase**
Plan:			
PERS 1	$ 160,543	130,636	104,730
PERS 2/3	288,112	62,990	(121,587)

(vii) Employer Contribution Rates

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

Description	**PERS Plan 1**	**PERS Plan 2/3**[i]
Contributions as June 30, 2019:		
Contribution rate	12.70 %	12.70 %
Contributions made	$ 20,997	30,443

(Dollar amounts in thousands)

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

(viii) The Group's Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by the Group as of June 30, 2019 was June 30, 2018. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2018 have been used as the basis for determining Schedules of Employer and Nonemployer Allocations. The Group's proportionate share for each DRS plan for the year ended June 30, 2019 is shown in the table below.

PERS 1	2.93 %
PERS 2/3	3.69 %

(ix) The Group Aggregated Balances

The Group's aggregated balances of net pension liabilities as of June 30, 2019 are presented in the table below.

Plan		2019
PERS 1	$	130,636
PERS 2/3		62,990
	$	193,626

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

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

	Proportionate share of pension expense		
Description	**PERS Plan 1**	**PERS Plan 2/3**	**Total**
June 30, 2019	7,174	3,140	10,314

(Dollar amounts in thousands)

Deferred Outflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2019:				
Change in assumptions	$	—	737	737
Difference between expected and actual experience		—	7,721	7,721
Change in the Group's proportionate share		—	2,157	2,157
The Group's contributions subsequent to the measurement date of the collective net pension liability [a]		20,997	30,443	51,440
Total	$	20,997	41,058	62,055

[a] Recognized as a reduction of the net pension liability as of June 30, 2020

Deferred Inflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2019:				
Difference between projected and actual earnings on plan investments, net	$	5,191	38,653	43,844
Difference between expected and actual experience		—	11,028	11,028
Change in assumptions		—	17,926	17,926
Total	$	5,191	67,607	72,798

(Dollar amounts in thousands)

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

	Amortization of deferred inflows and deferred outflows of resources (1)		
Year	**PERS Plan 1**	**PERS Plan 2/3**	**Total**
2020	$ 227	(3,929)	(3,702)
2021	(1,135)	(12,496)	(13,631)
2022	(3,405)	(23,502)	(26,907)
2023	(878)	(8,607)	(9,485)
2024	—	(3,088)	(3,088)
Thereafter	—	(5,370)	(5,370)
Total	$ (5,191)	(56,992)	(62,183)

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

(c) Other Post Employment Benefits

(i) Plan Description

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

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

(Dollar amounts in thousands)

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

- The implicit subsidy, set up under RCW 41.05.022, is not a direct payment from the employer on behalf of the retiree. Retirees who are not yet eligible for Medicare benefits may currently continue to participate in the State's non-Medicare community-rated health insurance risk pool. Claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums. Therefore, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. This results in an implicit subsidy since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.
- The explicit subsidy, permitted under RCW 41.05.085, is a straightforward, set dollar amount, which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The dollar amount of the explicit subsidy increased to $168 per member per month beginning in calendar year 2019. It was set at $150 per member per month for the first half of fiscal year 2019.

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

The table below shows the Group's PEBB membership data as of June 30, 2019 (measurement date 2018):

Active employees	6,839
Inactive employees receiving benefits	1,860
Inactive employees entitled to, but not receiving, benefits	331

(ii) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on the Group. The professional judgments used by the OSA in determining these assumptions are important, and can significantly impact the resulting actuarial estimates.

(Dollar amounts in thousands)

Differences between actual results compared to these assumptions could have a significant impact on the Group's financial statements.

Significant Assumptions Used to Measure the Total OPEB Liability (TOL)

		June 30, 2019
Inflation		2.75 %
Healthcare cost trend rate		Trend rate assumption vary slightly by medical plan. Initial rate is 8.00%, reaching an ultimate rate of approximately 4.50% in 2080
Salary increase		3.50% plus service-based salary increases
Source of mortality assumptions		RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100% scale BB and updated based on results of the 2007-2012 Experience Study Report
Date of experience study		2007-2012 Experience Study Report
Discount rate		3.87 %
Source of discount rate		Bond Buyer's General Obligation 20-Bond index as of June 30, 2018 (Measurement Date)
Post retirement participation percentage		65.00 %
TOL measurement at discount rate	$	280,069
TOL discount rate increased 1%		235,106
TOL discount rate decreased 1%		337,697
TOL measurement at healthcare cost trend rate		280,069
TOL healthcare cost trend rate increased 1%		346,771
TOL healthcare cost trend rate decreased 1%		229,909

Material assumption changes during the measurement periods ending June 30, 2018 include updating the discount rate as of each measurement date, as required by GASB Statement No. 75. For the measurement period ending June 30, 2018, the discount rate used for the beginning TOL was 3.58% and a discount rate of 3.87% for the ending TOL resulting in a reduction of the TOL.

(Dollar amounts in thousands)

(iii) Changes in the Total OPEB Liability

The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. The allocation method used to determine the Group's proportionate share of the University's TOL is the relationship of the Group's active, healthcare-eligible employee headcount to the corresponding University total. This proportionate share percentage for the Group was 20.68% as of June 30, 2019.

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

Schedule of Changes in Total OPEB Liability

		June 30, 2019
Beginning balance	$	306,185
Service cost		17,510
Interest		12,038
Difference between expected and actual experience		10,989
Change in assumptions		(76,658)
Benefit payments		(5,084)
Change in proportion		15,089
Ending balance	$	280,069

(iv) OPEB Expense, Deferred Outflow of Resources and Deferred Inflow of Resources

The tables below summarize the Group's OPEB expense, deferred outflows of resources and deferred inflows of resources related to the OPEB plan, together with the related future year impacts to OPEB expense from amortization of those deferred amounts. Note that deferred outflows of resources related to the Group's contributions subsequent to the measurement date are recognized as a reduction of the total OPEB liability in the following year, and are not amortized to OPEB expense. The Group's proportionate share of OPEB expense for the year ended June 30, 2019 was $16,384.

(Dollar amounts in thousands)

The following table presents the deferred outflows of resources and deferred inflows of resources as of June 30, 2019:

Deferred outflows of resources		2019
Differences between expected and actual experience in the measurement of the total OPEB liability	$	9,768
Group's contributions subsequent to the measurement date of the collective total OPEB liability		5,142
Changes in proportion		12,250
Total	$	27,160

Deferred inflows of resources		2019
Change in assumptions	$	106,847
Changes in proportion		6,615
Total	$	113,462

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Amortization of Deferred Outflows and Inflows of Resources [a]		
Year:		
2020	$	(10,160)
2021		(10,160)
2022		(10,160)
2023		(10,160)
2024		(10,160)
Thereafter		(40,644)
Total	$	(91,444)

[a] Negative amounts shown in the table above represent a reduction of expense.

(Dollar amounts in thousands)

(d) University of Washington Supplemental Retirement Plan

(i) Plan Description

The University of Washington Supplemental Retirement Plan (UWSRP), a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership requires participation in the UWRP. The number of Group participants included in the plan are as follows:

	June 30, 2019
Active employees	513
Inactive employees receiving benefits	71
Inactive employees entitled to, but not receiving benefits	16

(ii) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal year ended June 30, 2019 were $627.

(Dollar amounts in thousands)

(iii) Total Pension Liability (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS), which have trusted assets and, therefore, are reported as a net pension liability. The allocation method used to determine the Group's proportionate share of the University's TPL is based on its unit allocation of what is funded through the benefit load process. The University has set aside $327,671 as of June 30, 2019, to pay future UWSRP retiree benefits, of which the Group recorded $27,439 as other assets on its statement of net position.

Schedule of Changes in Total Pension Liability

		June 30, 2019
Beginning balance	$	33,974
Service cost		990
Interest on TPL		1,363
Difference between expected and actual experience		8,601
Change in assumptions		4,875
Change in proportion		566
Benefit payments		(627)
Ending balance	$	49,742

The June 30, 2019 TPL is based on an actuarial valuation performed as of June 30, 2018 using the entry age actuarial cost method. Procedures performed by the OSA were used to roll forward the TPL to the measurement date of June 30, 2019. The TPL is recorded within pension liabilities on the statement of net position.

UWSRP pension expense for the fiscal year ended June 30, 2019 was $2,606 which is reported within employee benefits expense on the statement of revenues, expenses, and changes in net position.

(iv) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on the University. The professional judgments used in determining these assumptions are important and can significantly impact the resulting actuarial estimates.

(Dollar amounts in thousands)

Differences between actual results compared to these assumptions could have a significant effect on the Group's financial statements.

Significant Assumptions Used to Measure the Total Pension Liability

		June 30, 2019
Inflation		2.75 %
Salary Changes		4.25 %
Source of mortality assumptions		RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB
Date of experience study		April 2016
Discount rate		3.50 %
Source of discount rate		Bond Buyer's 20 bond index as of June 30, 2019
TPL measurement at discount rate	$	49,742
TPL discount rate increased 1%		43,404
TPL discount rate decreased 1%		57,403

Material assumption changes during the measurement period ending June 30, 2019 include updating the GASB Statement No. 73 discount rate from 3.87% to 3.50% (Change in assumptions, which increased the TPL). Additionally, actual returns for CREF investments, which are used in determining a member's "assumed income", were less than expected and salary growth exceeded expectations (Difference between expected and actual experience", which also increased the TPL).

(v) *Deferred Outflows and Inflows of Resources*

The tables below summarize the Group's deferred outflows and inflows of resources related to the UWSRP as of June 30, 2019, together with the related future year impacts to pension expense from amortization of those deferred amounts:

Deferred outflow of resources		2019
Difference between expected and actual experience	$	7,526
Change in assumptions		4,266
Change in proportion		3,163
Total	$	14,955

(Dollar amounts in thousands)

Deferred inflows of resources		2019
Difference between expected and actual experience	$	6,046
Change in assumptions		2,564
Change in proportion		2,093
Total	$	10,703

Amortization of Deferred Outflows and Inflows of Resources [a]		
Year:		
2020	$	254
2021		254
2022		254
2023		254
2024		254
Thereafter		2,982
Total	$	4,252

[a] Negative amounts shown in the table above represent a reduction of expense.

(10) Other Retirement Plans

(a) Northwest Hospital Retirement Plans

(i) 401(k) Profit Sharing Plan

All employees of Northwest Hospital are covered by the Northwest Hospital & Medical Center 401(k) Profit Sharing Plan (the 401(k) Plan), a defined-contribution plan. Northwest Hospital, as Plan Sponsor, contributes based on a defined formula, with participants immediately vesting in all employer and employee contributions. Employee contribution rates can vary from 1% to 80% of gross compensation, as defined by the Plan, subject to certain limitations under the IRC. The 401(k) Plan provides for employer matching contributions for each eligible employee who makes 401(k) tax-deferred contributions to this Plan and for each highly compensated employee of Northwest Hospital who makes salary contributions to the 403(b) Retirement Plan sponsored by Northwest Hospital. Northwest Hospital's employee and employer contributions to the 401(k) Plan during the fiscal year ended June 30, 2019 are approximately $9,713 and $5,571, respectively.

(ii) 403(b) Retirement Plan

Highly compensated employees who are not employed by a taxable affiliate of Northwest Hospital and who are not participating in the 401(k) Plan are eligible to participate in the Northwest Hospital & Medical Center 403(b) Retirement Plan (the 403(b) Plan). The 403(b) Plan is a defined-contribution plan, which includes a qualified cash or deferred arrangement. Employee contribution rates can vary from 1% to 80% of gross compensation, as defined by the Plan, subject to certain limitations under the IRC. The Plan does not provide employer contributions. The employee contributions to the 403(b) Plan during the fiscal year ended June 30, 2019 are approximately $2,953.

(b) UWP Pension Plan

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

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

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

Total pension expense was approximately $16,461, net of forfeitures of $526 in fiscal year 2019 and is recorded in employee benefits expense within the statement of revenues, expenses, and changes in net position. The Association had no liability outstanding for pension contributions at June 30, 2019.

(c) Neighborhood Clinics 401(k) Retirement Plan

The Neighborhood Clinics offer a 401(k) plan covering substantially all employees meeting certain age and service requirements, administered by the clinics. The Neighborhood Clinics make annual contributions of 6% of compensation, which starts with 25% vested after two years of service, 50% vested after three years of service, 75% vested after four years of service, and 100% vested after five years of service. Employer contributions were approximately $1,165 for the year ended June 30, 2019 and forfeitures were approximately $225. In addition, the 401(k) plan includes an employee self-elected deferral plan.

(11) Related Parties

The Group has engaged in a number of transactions with related parties. These transactions are recorded by the Group as either revenue or expense transactions because economic benefits are either provided or received by the Group. The Group records cash transfers from related parties that are nonexchange transactions as nonoperating revenue on the statement of revenues, expenses, and changes in net position.

(a) University of Washington

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

(i) UW School of Medicine

The Group purchases a variety of clinical, administrative and teaching services from the School, which include laboratory services, resident programs, direct faculty salaries and clinical department funding. The amounts for these services are shown below (see (h)).

(ii) UW Medicine Central Costs

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

(iii) Other Divisions of the University

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

(b) UW Neighborhood Clinics

Under an annual agreement, the UW Medicine hospitals provide funding to the Neighborhood Clinics for operations and capital purposes. For the year ended June 30, 2019, total funding from the UW Medicine hospitals to the Neighborhood Clinics was $49,123. Approximately $36,221 was provided from entities within the Group and was eliminated from these financial statements. The remaining portion is recorded as other revenue in the statement of revenues, expenses, and changes in net position. The amounts for these transactions are shown below (see (h)).

(c) Northwest Hospital

For the year ended June 30, 2019, Harborview and UW Medical Center provided strategic funding to Northwest Hospital in the amount of $2,952. Funding from UW Medical Center of $1,284 for fiscal year 2019 is eliminated within these financial statements. The remaining portion of strategic funding is recorded as funding from affiliates in the statement of revenues, expenses, and changes in net position.

At June 30, 2019, Northwest Hospital has a payable of $96,090 to the University. This payable is subject to repayment in annual installments of $5,000 over future years, with an installment payment of $5,000 made during the year ended June 30, 2019. On the statement of net position, the current portion of $5,000 is included in due to related parties and the remaining $90,663 is included in due to related parties – long-term in the statement of net position. The amounts for these transactions are shown below (see (h)).

(Dollar amounts in thousands)

(d) Harborview

The Group provides shared services, in the form of scalable administrative and IT support services, to Harborview. These functions include ITS, Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, UW Medicine Contracting, and UW Consolidated Laundry, as well as a number of other administrative functions. The amounts for these shared services transactions are shown below (see (h)).

(e) Seattle Cancer Care Alliance

UW Medical Center is a one-third owner in SCCA and accounts for its interest under the equity method of accounting. Equity earnings from SCCA of $24,231 was recorded in fiscal year 2019 and are included in other nonoperating revenues in the statement of revenues, expenses, and changes in net position. Since inception of SCCA, there have been no cash distributions to owners. The equity earnings recorded by UWMC is a noncash transaction. The following is a summary of the SCCA's financial results for the year ended June 30, 2019:

Assets	$	753,311
Liabilities	$	190,945
Net assets without donor restrictions		552,951
Net assets with donor restrictions		9,415
Total liabilities and net assets	$	753,311
Revenues	$	737,339
Expenses		684,666
Nonoperating revenue		17,779
Excess of revenues over expenses		70,452
Increase in net assets without donor restrictions	$	70,919

SCCA operates a 20-bed unit located within UW Medical Center in which its adult inpatients receive care. The 20-bed unit qualifies as a hospital within a hospital for Medicare reimbursement purposes. SCCA provides medical oversight and management of the inpatient unit. Under agreements, UW Medical Center provides and bills for inpatient care services provided to SCCA patients, including necessary personnel, equipment, and ancillary services. In addition, UW Medical Center purchases administrative and program support services from the SCCA. UW Medical Center estimates the direct expense associated with the hospital within a hospital unit using a ratio of cost to charge ratio methodology. UW Medical Center provides services to SCCA inpatients and includes the reimbursement in net patient service revenues in the statement of revenues, expenses, and changes in net position.

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

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

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

(g) Children's University Medical Group

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

(Dollar amounts in thousands)

(h) Summary of Related Party Transactions

The Group's related party revenue and expense amounts are included in net patient service revenues, other revenue, salaries and wages, benefits, purchased services, and other expense in the statement of revenues, expenses, and changes in net position. The following table summarizes the related party revenue and expense transactions for the year ended June 30, 2019:

(Expense) Revenue Transactions		2019
Services and supplies purchased from the University and its departments and affiliates:		
The School	$	(188,212)
UW Medicine Central Costs		(17,866)
Other University divisions		(73,190)
Services and supplies purchased from Harborview		(6,842)
Services and supplies purchased from VMC		(324)
Services and supplies purchased from SCCA		(16,657)
Services and supplies purchased from Fred Hutch		(18,756)
Services and supplies provided to the University and its departments and affiliates:		
The School		8,698
Other University divisions		1,343
Services and supplies provided to Harborview		133,986
Services and supplies provided to SCCA		72,810
Services and supplies provided to VMC		2,785
Services and supplies provided to CUMG		1,124
Services and supplies provided to SCH		1,737
Services and supplies provided to Fred Hutch		1,611

As of June 30, 2019, the Group had net amounts due from or (due to) related parties, other receivables, and accounts payable and accrued expenses for certain significant transactions as follows:

Net Receivable (Payable)		2019
The University and its departments and affiliates:		
The School	$	(2,690)
Other University divisions		(115,238)
SCCA		6,534
Harborview		4,105
Fred Hutch		(3,096)

(Dollar amounts in thousands)

(i) State of Washington

The state of Washington Medicaid Transformation Demonstration (MTD) program is a five-year contract between the State and CMS authorizing up to $1,500,000 in federal matching funds as incentive to promote innovative, sustainable and systemic changes that improve the overall health of the State. HCA requested intergovernmental transfers from other state and local public entities to finance a portion of the nonfederal share. The Group recorded $29,469 in intergovernmental transfers to the State, which is included in funding to affiliates in the statement of revenues, expenses, and changes in net position.

The state of Washington submitted and received approval for incentive payments under the MTD program of which the Group received $36,836, which is recorded in funding from affiliates in the statement of revenues, expenses and changes in net position. Funds received through this program are not restricted in use.

(12) Commitments and Contingencies

(a) Operating Leases

The Group leases medical office space, aircraft hangar space, and equipment under operating lease arrangements. Total rental expense for fiscal year ended June 30, 2019 for all operating leases was $59,155, which is recorded in other expenses in the statement of revenues, expenses, and changes in net position.

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

2020	$	48,179
2021		37,532
2022		31,430
2023		26,883
2024		14,900
2025-2029		36,309
2030-2034		5,942
2035-2039		6,051
2040-2044		5,041
Thereafter		—
Total	$	212,267

Airlift has entered into contractual arrangements for fixed-wing and rotary-wing aviation services covering eight primary and three back-up aircrafts. The fixed-wing contract expires on April 30, 2023 and the rotary-wing contract expires on September 30, 2020, both of which are included in the future minimum lease payments table above.

(b) Purchase Commitments

The Group has current commitments at June 30, 2019 of approximately $26,169 related to various construction and other projects.

(c) Regulatory Environment

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

Between April 4 and April 12, 2018, the Washington State Department of Health, on behalf of the CMS, conducted a survey at UW Medical Center. In a letter dated May 15, 2018, CMS informed UW Medical Center that based on the results of the survey, UW Medical Center was not in compliance with certain Medicare Conditions of Participation. The deficiencies identified within the survey relate primarily to UW Medical Center's relationship with the SCCA inpatient hospital located within the same building as UW Medical Center, including related policies, clinical areas, support services and personnel sharing between the two organizations. CMS has informed UW Medical Center that unless an acceptable plan of correction is in place by January 30, 2020, UW Medical Center's Medicare provider agreement could be terminated. CMS has discretion to extend that termination date. UW Medical Center is cooperating with CMS and has submitted a Plan of Correction (the Plan) in response to the CMS survey and is taking steps to comply with the components of the Plan. CMS is currently reviewing the proposed Plan. When CMS approves the Plan, UW Medicine management will take necessary actions to comply with that Plan so UW Medical Center continues to participate in the Medicare program.

(d) Litigation

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

(e) Collective Bargaining Agreements

The Group has approximately 74% of its workforce covered by collective bargaining agreements as of June 30, 2019. Nurses and other healthcare and support workers are represented by a number of collective bargaining units. Collective bargaining units have various contract expiration dates.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Schedules of Required Supplementary Information

Year ended June 30, 2019

(Dollar amounts in thousands)

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

Schedule of the Group's Proportionate Share of the Net Pension Liability
(Amounts determined as of the measurement date)

PERS 1 Pension Plan

		2019	2018	2017	2016
The Group's proportion of the net pension liability		2.93 %	2.96 %	2.89 %	2.81 %
The Group's proportionate share of the net pension liability	$	130,636	139,899	155,096	147,106
The Group's covered-employee payroll		375,552	364,515	337,067	351,582
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		34.79 %	38.38 %	46.01 %	41.84 %
Plan fiduciary net position as a percentage of the total pension liability		63.22 %	61.24 %	57.03 %	59.10 %

PERS 2/3 Pension Plan

		2019	2018	2017	2016
The Group's proportion of the net pension liability		3.69 %	3.72 %	3.61 %	3.52 %
The Group's proportionate share of the net pension liability	$	62,990	128,950	181,639	125,761
The Group's covered-employee payroll		374,817	363,873	336,961	312,289
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		16.81 %	35.44 %	53.91 %	40.27 %
Plan fiduciary net position as a percentage of the total pension liability		95.77 %	90.97 %	85.82 %	89.20 %

Schedule of the Group's Contributions
(Amounts determined as of the fiscal year end)

PERS 1 Pension Plan

Contractually required contribution	$	439	553	625	735
Contributions in relation to the contractually required contribution		440	551	618	735
Contribution deficiency (excess)		(1)	2	7	—
The Group's covered-employee payroll		398,000	375,552	364,515	337,067
Contributions as a percentage of covered-employee payroll		0.11 %	0.15 %	0.17 %	0.22 %

PERS 2/3 Pension Plan

Contractually required contribution	$	51,022	47,359	40,679	37,396
Contributions in relation to the contractually required contribution		50,999	47,404	40,721	37,740
Contribution deficiency (excess)		23	(45)	(42)	(344)
University's covered-employee payroll		398,530	374,817	363,873	336,961
Contributions as a percentage of covered-employee payroll		12.80 %	12.64 %	11.18 %	11.10 %

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Schedules of Required Supplementary Information

Year ended June 30, 2019

(Dollar amounts in thousands)

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

Schedule of Changes of Total OPEB Liability

		2019	2018
Beginning balance	$	306,185	336,283
Service cost		17,510	20,758
Interest		12,038	9,723
Difference between expected and actual experience		10,989	—
Change in assumptions		(76,658)	(47,429)
Benefit payments		(5,084)	(4,955)
Change in proportionate share		15,089	(8,195)
Ending balance	$	280,069	306,185
OPEB covered-employee payroll	$	515,803	494,744
Total OPEB liability as percentage of covered-employee payroll		54.30 %	61.89 %

See accompanying independent auditors’ report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Schedules of Required Supplementary Information

Year ended June 30, 2019

(Dollar amounts in thousands)

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

UWSRP Schedule of Changes of Total Pension Liability

		2019	2018	2017
Total beginning pension liability	$	33,974	36,915	41,470
Service cost		990	1,218	1,674
Interest		1,363	1,328	1,270
Differences between expected and actual experience		8,601	(2,796)	(6,303)
Changes in assumptions		4,875	(1,409)	(2,402)
Change in proportion		566	(777)	1,638
Benefit payments		(627)	(505)	(432)
Total ending pension liability	$	49,742	33,974	36,915
UWSRP covered-employee payroll	$	65,941	62,571	67,407
Total pension liability as percentage of covered-employee payroll		75.43 %	54.30 %	54.76 %

See accompanying independent auditors’ report.

Notes to Schedules of Required Supplementary Information
for the year ended June 30, 2019

Plans administered by DRS

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

For cost-sharing plans, OSA calculates the contractually required contributions (CRC) using the same assumptions and methods as the ADC except the CRC reflect the adopted contribution rates for the time period shown, which might differ from the contribution rates produced for the ADC.

Plans administered by the University

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

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

OPEB Plan administered by Healthcare Authority of Washington State

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

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

See accompanying independent auditors’ report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Combining Statement of Net Position

June 30, 2019

(Dollar amounts in thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Current assets:								
Cash and cash equivalents	$ —	11,664	22,361	7,190	4,251	—	—	45,466
Funds held by the University of Washington	26,893	—	—	—	23,363	13,689	—	63,945
Patient accounts receivable, net	193,302	40,305	—	3,682	12,051	—	—	249,340
Other receivables	12,646	2,666	569	1,511	954	2,543	—	20,889
Due from related parties	17,749	2,693	1,229	465	—	26,533	(26,932)	21,737
Supplies inventory	21,613	5,022	—	648	57	—	—	27,340
Restricted investments	—	1,057	117	—	—	—	—	1,174
Other current assets	14,521	2,452	3,666	72	483	6,163	(11,552)	15,805
Total current assets	286,724	65,859	27,942	13,568	41,159	48,928	(38,484)	445,696
Noncurrent assets:								
Capital assets, net of accumulated depreciation	527,525	100,272	1,855	12,886	4,600	77,072	—	724,210
Funds held by the University of Washington	113,649	—	—	—	—	—	—	113,649
Investments	—	46,641	110,490	—	—	—	—	157,131
Donor restricted assets	1,953	2,749	—	—	—	—	—	4,702
Investment in Seattle Cancer Care Alliance	183,380	—	—	—	—	—	—	183,380
Other assets	28,176	978	—	179	417	16,485	(13,357)	32,878
Total noncurrent assets	854,683	150,640	112,345	13,065	5,017	93,557	(13,357)	1,215,950
Total assets	1,141,407	216,499	140,287	26,633	46,176	142,485	(51,841)	1,661,646
Deferred outflows of resources:								
Deferred outflows of resources related to pensions	53,208	—	—	—	2,726	21,076	—	77,010
Deferred outflows of resources related to other post employment benefits	11,844	—	—	—	1,641	13,675	—	27,160
Other deferred outflows of resources	—	5,913	—	—	—	—	—	5,913
Total assets and deferred outflows of resources	$ 1,206,459	222,412	140,287	26,633	50,543	177,236	(51,841)	1,771,729
Current liabilities:								
Accounts payable and accrued expenses	$ 48,838	17,064	3,484	2,185	1,857	18,567	(182)	91,813
Accrued salaries, wages, and employee benefits	54,358	22,282	5,863	1,658	1,777	22,503	—	108,441
Payable to contractual agencies	37,587	5,271	—	—	—	—	—	42,858
Due to related parties	24,232	10,786	8,829	7,935	3,755	15,458	(26,830)	44,165
Current portion of long-term debt	13,554	4,041	—	65	—	—	—	17,660
Other current liabilities	1,132	453	336	382	1,046	22,652	(11,552)	14,449
Physician distribution, clinical medicine fund, and departmental payables	—	—	120,236	—	—	—	—	120,236
Total current liabilities	179,701	59,897	138,748	12,225	8,435	79,180	(38,564)	439,622
Noncurrent liabilities:								
Long-term debt, net of current portion	281,980	65,039	—	565	—	4,926	—	352,510
Pension liabilities	179,722	—	—	—	6,774	56,872	—	243,368
Other post employment benefits	205,425	—	—	—	5,502	69,142	—	280,069
Due to related parties – long-term	217	90,663	—	—	—	—	(217)	90,663
Other noncurrent liabilities	1,234	3,826	1,539	2,890	38	49,731	(13,060)	46,198
Total liabilities	848,279	219,425	140,287	15,680	20,749	259,851	(51,841)	1,452,430
Deferred inflows of resources:								
Deferred inflows of resources related to pensions	64,251	—	—	—	2,296	16,954	—	83,501
Deferred inflows of resources related to other post employment benefits	84,985	—	—	—	2,099	26,378	—	113,462
Net position:								
Net investment in capital assets	231,991	31,192	—	12,256	4,600	72,146	—	352,185
Nonexpendable, restricted	—	2,349	—	—	—	—	—	2,349
Expendable, restricted	1,953	674	—	—	—	—	—	2,627
Unrestricted	(25,000)	(31,228)	—	(1,303)	20,799	(198,093)	—	(234,825)
Total net position	208,944	2,987	—	10,953	25,399	(125,947)	—	122,336
Total liabilities, deferred inflows of resources, and net position	$ 1,206,459	222,412	140,287	26,633	50,543	177,236	(51,841)	1,771,729

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2019

(Dollar amounts in thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Operating revenue:								
Net patient service revenues	$ 1,319,149	358,075	—	—	54,517	—	(543)	1,731,198
UWP billing revenues, net	—	—	310,213	—	—	—	(10,433)	299,780
Other revenue	93,774	16,833	—	65,389	1,450	320,461	(247,134)	250,773
Total operating revenues	1,412,923	374,908	310,213	65,389	55,967	320,461	(258,110)	2,281,751
Operating expenses:								
Salaries and wages	404,831	174,138	218,310	20,013	15,003	134,074	—	966,369
Employee benefits	102,360	38,760	33,716	7,271	4,521	41,582	—	228,210
Other post employment benefits	12,014	—	—	—	333	4,037	—	16,384
Purchased services	408,981	92,990	28,735	22,992	29,008	101,162	(245,695)	438,173
Supplies	330,774	65,892	952	5,244	2,663	8,288	(3,921)	409,892
Other	28,441	30,660	28,149	10,510	2,463	17,876	(8,494)	109,605
Depreciation	47,101	14,673	351	1,730	961	22,817	—	87,633
Total operating expenses	1,334,502	417,113	310,213	67,760	54,952	329,836	(258,110)	2,256,266
Income (loss) from operations	78,421	(42,205)	—	(2,371)	1,015	(9,375)	—	25,485
Nonoperating revenues (expenses):								
Investment income	1,033	1,333	—	—	192	6	—	2,564
Interest expense	(13,637)	(3,520)	—	(50)	—	—	—	(17,207)
Funding to affiliates	(16,373)	—	—	—	—	(38,595)	12,284	(42,684)
Funding from affiliates	—	5,452	—	—	—	46,113	(10,284)	41,281
Other, net	25,860	(1,053)	—	525	393	(1,477)	—	24,248
Nonoperating revenues (expenses), net	(3,117)	2,212	—	475	585	6,047	2,000	8,202
Income (loss) before capital contributions and transfers	75,304	(39,993)	—	(1,896)	1,600	(3,328)	2,000	33,687
Capital contributions and other transfers	783	401	—	2,500	—	8,729	(2,000)	10,413
Increase (decrease) in net position	76,087	(39,592)	—	604	1,600	5,401	—	44,100
Net position – beginning of the year, as issued	132,857	42,579	—	10,349	23,799	(112,569)	—	97,015
Change in reporting entity	—	—	—	—	—	(18,779)	—	(18,779)
Net position – beginning of the year, as adjusted	132,857	42,579	—	10,349	23,799	(131,348)	—	78,236
Net position – end of year	$ 208,944	2,987	—	10,953	25,399	(125,947)	—	122,336

See accompanying independent auditors' report.

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

FINANCIAL REPORT

JUNE 30, 2019

C O N T E N T S

petersonsullivan LLP
Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
University of Washington
Seattle, Washington

We have audited the accompanying financial statements of the University of Washington Metropolitan Tract, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Metropolitan Tract as of June 30, 2019 and 2018, and the changes in its financial net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of a Matter

As discussed in Note 2, the financial statements present only the financial position and changes in financial net position of the University of Washington Metropolitan Tract and do not purport to, and do not, present fairly the financial position of the University of Washington as of June 30, 2019 and 2018, or the changes in its financial net position, including its net pension obligations (and other post-retirement benefit obligations) and related deferred inflows and outflows, for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The details of property on page 17 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Peterson Sullivan LLP

September 20, 2019

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

STATEMENTS OF NET POSITION

June 30, 2019 and 2018
(Amounts in Thousands)

ASSETS	2019	2018
Current Assets		
Cash held in trust	$ 3,943	$ 2,485
Funds held by the University	71,905	60,633
Security deposits - residential	55	52
Due from Fairmont Olympic Hotel	2,173	881
Accounts receivable, net of allowance	397	676
Other current assets	465	442
Total current assets	78,938	65,169
Property, net	116,330	116,022
Straight-Line Rent Adjustment	12,652	9,454
Total assets	$ 207,920	$ 190,645
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,558	$ 2,220
Leasehold excise tax payable	1,803	1,907
Security deposits - residential	55	52
Unearned rent revenue	1,254	1,084
Current portion of long-term debt	781	766
Total current liabilities	6,451	6,029
Security Deposits - Commercial	3,424	1,849
Long-Term Debt, net of current portion	29,753	30,534
Total liabilities	39,628	38,412
NET POSITION		
Invested in Capital Assets, net of related debt	85,796	84,722
Unrestricted	82,496	67,511
Total net position	168,292	152,233
Total liabilities and net position	$ 207,920	$ 190,645

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended June 30, 2019 and 2018
(Amounts in Thousands)

	2019	2018
Operating Revenues		
Office rent	$ 48,610	$ 46,302
Retail rent	4,445	4,592
Fairmont Olympic Hotel rent	6,388	6,480
Residential rent	3,044	3,060
Parking	2,926	3,012
Rainier Square rent	565	217
Other rent	608	593
Other income	108	54
Total operating revenues	66,694	64,310
Operating Expenses		
Property operating expenses	13,331	13,042
General and administrative	6,802	7,690
Taxes	6,344	6,804
Property management	2,124	2,083
Total operating expenses	28,601	29,619
Operating income before depreciation	38,093	34,691
Depreciation	12,491	12,459
Net operating income	**25,602**	**22,232**
Other Revenues (Expenses)		
Rainier Square extension payment (refund)	174	(395)
Loss on disposal of property		(5,918)
Interest income	460	379
Interest expense	(1,032)	(1,053)
Total other revenues (expenses)	(398)	(6,987)
Net income	**25,204**	**15,245**
Transfers		
Transfers from UW Real Estate Office	855	730
Distribution to UW Facilities Bond Retirement Account	(10,000)	(10,000)
Total transfers	(9,145)	(9,270)
Change in net position	16,059	5,975
Total Net Position, beginning of year	152,233	146,258
Total Net Position, end of year	$ 168,292	$ 152,233

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

(Amounts in Thousands)

	2019	2018
Cash Flows From Operating Activities		
Cash received from tenants	$ 62,378	$ 62,635
Payments made to vendors	(17,675)	(21,433)
Payments made to the University to reimburse for employees	(2,885)	(2,451)
Payments for leasehold excise taxes	(6,448)	(6,745)
Net cash flows from operating activities	35,370	32,006
Cash Flows From Capital and Related Financing Activities		
Improvements made to long-lived assets	(12,331)	(9,514)
Principal repayments to University Treasury Department	(766)	(3,627)
Interest paid	(1,032)	(1,053)
Cash received from (paid to) property manager	174	(395)
Net cash flows from capital and related financing activities	(13,955)	(14,589)
Cash Flows From Noncapital Financing Activities		
Funds received from UW Real Estate Office	855	730
Distribution to UW Facilities Bond Retirement Account	(10,000)	(10,000)
Net cash flows from noncapital financing activities	(9,145)	(9,270)
Cash Flows From Investing Activity		
Interest received	460	379
Net change in cash	**12,730**	**8,526**
Cash, beginning of year	63,118	54,592
Cash, end of year	$ 75,848	$ 63,118

Cash in the statements of cash flows is reported in the statements of assets, liabilities, and net position as follows:		
Cash held in trust	$ 3,943	$ 2,485
Funds held by the University	71,905	60,633
Total	$ 75,848	$ 63,118

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

STATEMENTS OF CASH FLOWS
(Continued)
For the Years Ended June 30, 2019 and 2018
(Amounts in Thousands)

	2019	2018
Reconciliation of Net Operating Income to Net		
Cash Flows from Operating Activities		
Net operating income	$ 25,602	$ 22,232
Adjustments to reconcile net operating income to		
net cash flows from operating activities		
Depreciation	12,491	12,459
Construction of tenant improvements in lieu of rental income	(272)	
Changes in operating assets and liabilities		
Security deposits - residential	(3)	(2)
Due from Fairmont Olympic Hotel	(1,292)	(114)
Accounts receivable	279	(341)
Other current assets	(23)	(179)
Straight-line rent adjustment	(3,198)	(1,080)
Accounts payable and accrued expenses	142	(1,060)
Leasehold excise tax payable	(104)	59
Unearned rent revenue	170	(138)
Security deposits payable (residential and commercial)	1,578	170
Net cash flows from operating activities	$ 35,370	$ 32,006
Noncash Activity		
Purchase of improvements not paid for with cash at year-end	$ 196	$ 236

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Metropolitan Tract Ownership and Operation

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

Properties

The University owns the Rainier Tower, Financial Center, IBM Building, Skinner Building, and Puget Sound Plaza. The buildings include approximately 1.6 million square feet of office space and 100,000 square feet of retail space located at street level. The Financial Center and IBM Building have underground parking garages and the Puget Sound Plaza is connected to a multi-level parking structure also owned by the University. The University also owns the 91-unit Cobb apartment building.

In 2014, the University entered into a property management agreement with Unico Properties LLC ("Unico") to manage all of the office buildings, except the Rainier Tower, and the Cobb Building. Unico subcontracts with Blanton Turner, a residential property manager, to manage the Cobb Building. Wright Runstad Limited Partnership, an entity controlled by Wright Runstad Company ("Wright Runstad"), was contracted to manage the Rainer Tower due to its proximity to the Rainier Square Site (see below and Note 7).

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

Rainier Square Site

The Rainier Square was a three-story building completed in 1980 and consisted of 112,000 square feet of retail space. The property underperformed, and in the early 2000s, it was deemed a development site. In May 2014, the University entered into an agreement with WRC Fourth Avenue LLC ("WRC"), an entity controlled by Wright Runstad, to redevelop the Rainier Square Site ("the Predevelopment Agreement"). The Predevelopment Agreement commenced on November 1, 2014, and provided WRC the rights to enter into two separate ground leases on the Rainier Square Site with the University, a hotel ground lease, and a mixed-use office/residential tower ground lease. The Predevelopment Agreement may be extended up to six years and terminates upon natural expiration or upon the consummation of both ground leases. On September 12, 2017, the University signed a ground lease with RSQ Tower LLC (an entity controlled by Wright Runstad) ("the RSQ Tower Lease"), which resulted in the demolition of the original Rainier Square building and the commencement of the development of a 58-story mixed-use retail, office, and residential building called the Rainier Square Tower (see Note 7). As no ground lease has been signed for the remaining portion of the Rainier Square Site, the Predevelopment Agreement, as modified, is still in effect.

Olympic Hotel

On January 18, 1980, the Board of Regents entered into a lease ("the Hotel Lease") with the Olympic Hotel property (including a garage), which expires in 2040. The hotel was operated as the Four Seasons Olympic Hotel until July 31, 2003. On August 1, 2003, the remaining lease term was assigned to LHCS Hotel Holding (2002), LLC. The hotel was renamed the Fairmont Olympic Hotel and is managed by Fairmont Hotels and Resorts, Inc. On September 18, 2007, Legacy REIT, a publicly traded Canadian real estate investment trust and parent company of LHCS Hotel Holding (2002), LLC, was purchased by Cadbridge Investors, LP, a limited partnership majority owned by Cadim (a division of the Caisse de depot et placement du Quebec). The Hotel Lease tenant and management remained the same. On June 1, 2015, the University consented to the assignment of the Hotel Lease from LHCS Hotel Holding (2002), LLC to IC/RCDP Seattle Hotel, an entity owned by affiliates of Cadim, Rockwood IX REIT, Inc., and an affiliate of DiNapoli Capital Partners, LLC.

In June 2019, the University renewed the Hotel Lease with the current tenant by amending and restating the lease with a new expiration date of June 30, 2075. The garage premises expiration date remains September 30, 2040. The new lease preserves the same rent structure while updating terminology and benchmarks commensurate to the contemporary hotel industry. In addition, the new lease requires substantial upfront renovations as well as establishes a clear framework for periodic capital improvements in the hotel over time. The amended and restated lease did not impact the financial statements of the Metropolitan Tract. Future minimum rent depicted at Note 5 has been updated to reflect the new lease.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

These financial statements present only the financial position and changes in financial net position of the Metropolitan Tract and do not purport to, and do not, present the financial position of the University of Washington or the changes in its financial net position, including its net pension obligations (and other post-retirement benefit obligations) and related deferred inflows and outflows. The financial statements have been prepared in accordance with governmental accounting principles generally accepted in the United States. The financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

Significant revenue recognition and related expense policies are as follows:

- Office, retail, and residential revenues are recognized (on a straight-line basis) each month based on tenant leases in place. Certain rents are also based on a percentage of sales and are charged in addition to base rent.

- Hotel rent comprises minimum monthly payments as calculated under the Hotel Lease, in addition to a percentage of tenant revenues as calculated at the end of the calendar year. Management of the Metropolitan Tract estimated and accrued the percentage rent for the period from January to June 2019. Historically, there have been no significant adjustments from the estimated amount recognized and actual amounts calculated at the end of each lease year.

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

- During the year ended June 30, 2018, rent revenues from the Rainier Square Site were recognized on a monthly basis as outlined by the Predevelopment Agreement, and the RSQ Tower Lease.

- During the year ended June 30, 2019, rent revenues from the Rainier Square Site were recognized (on a straight-line basis) each month as outlined in the RSQ Tower Lease.

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

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

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

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

Cash Held in Trust

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

Funds Held by the University

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

The University annually allocates investment earnings to the departments with qualifying funds in the invested funds pool based on relative amounts invested at a rate determined and approved by the University. For the years ended June 30, 2019 and 2018, the rate determined by the University was 0.75% for both years. Principal amounts invested in the pool are guaranteed by the University.

Security Deposits

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

In lieu of a security deposit, commercial tenants are permitted to obtain letters of credit to serve as their security deposit. At June 30, 2019 and 2018, these letters of credit amounted to $0.9 million and $1.4 million, respectively.

Accounts Receivable

Accounts receivable are due from tenants for rent and other reimbursements. The Metropolitan Tract considers all accounts greater than 90 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is generally written off against the allowance. These receivables are generally unsecured and do not bear interest. At June 30, 2019 and 2018, the balance of allowance for uncollectible accounts amounted to $119 thousand and $137 thousand, respectively.

Due from Fairmont Olympic Hotel

This amount represents a receivable from the Fairmont Olympic Hotel for leasehold improvement taxes payable to the State of Washington for 2018, and the percentage rent due for January through June 2019. A corresponding payable for the leasehold improvement taxes is included in leasehold excise tax payable.

Straight-Line Rent Adjustment

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

Property and Depreciation

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

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

The Metropolitan Tract reviews long-lived assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable. There were no such impairments during the years ended June 30, 2019 or 2018.

Leasehold Excise Tax Payable

Leasehold excise tax is payable on a quarterly basis to the State of Washington. The current liability represents taxes collected on contract rent, as defined by the Washington State Department of Revenue, during April to June of 2019 and 2018.

Net Position

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

Unearned Rent Revenue

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

Transfer from UW Real Estate Office

This amount represents funds that were transferred from the University's Real Estate Office to the Metropolitan Tract.

Distribution to UW Facilities Bond Retirement Account

During each of the years ended June 30, 2019 and 2018, $10 million was distributed from the Metropolitan Tract to the University's Facilities Bond Retirement Account. The distribution is determined annually based on cash available after consideration of future operating and capital expenses, and adequacy of reserves.

Property Management Fees

Property management fees are included with operating expenses and represent costs paid to Unico, Wright Runstad, and Blanton Turner for services rendered on the properties. The fees are based on a percentage of tenant rent recognized at each property. Total fees paid to Unico and Wright Runstad were $420 thousand and $213 thousand, respectively, for the year ended June 30, 2019. Total fees paid to Unico and Wright Runstad were $419 thousand and $230 thousand, respectively, for the year ended June 30, 2018. Blanton Turner serves as a sub-contractor to Unico for the Cobb Building under the University's property management agreement with Unico.

Lease Commissions

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

Income Taxes

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

Use of Estimates

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

Subsequent Events

Management of the Metropolitan Tract has evaluated subsequent events through the date these financial statements were available to be issued, which was September 20, 2019.

Note 3. Property

Property activity for the years ended June 30, 2019 and 2018, is summarized as follows (amounts in thousands):

	Balance at June 30, 2018	Additions	Transfers and Adjustments	Disposals	Balance at June 30, 2019
Property, not being depreciated					
Land	$ 9,974	$ -	$ -	$ -	$ 9,974
Construction in progress	3,881	12,040	(10,570)		5,351
Total property not being depreciated	13,855	12,040	(10,570)		15,325
Property, being depreciated					
Land improvements	793				793
Buildings	77,877				77,877
Tenant improvements	67,320	696	4,296	(1,251)	71,061
Modernizations	136,246	36	6,274		142,556
Furniture, fixtures, and equipment	377	27			404
Total property being depreciated	282,613	759	10,570	(1,251)	292,691
Less: accumulated depreciation					
Land improvements	793				793
Buildings	63,088	1,300			64,388
Tenant improvements	50,496	4,939		(1,251)	54,184
Modernizations	65,988	6,215			72,203
Furniture, fixtures, and equipment	81	37			118
Total accumulated depreciation	180,446	12,491		(1,251)	191,686
Property, net	$ 116,022	$ 308	$ -	$ -	$ 116,330

	Balance at June 30, 2017	Additions	Transfers and Adjustments	Disposals	Balance at June 30, 2018
Property, not being depreciated					
Land	$ 9,974	$ -	$ -	$ -	$ 9,974
Construction in progress	4,282	9,118	(9,519)		3,881
Total property not being depreciated	14,256	9,118	(9,519)		13,855
Property, being depreciated					
Land improvements	793				793
Buildings	95,504			(17,627)	77,877
Tenant improvements	66,892	70	870	(512)	67,320
Modernizations	131,598	224	5,292	(868)	136,246
Furniture, fixtures, and equipment	276	118		(17)	377
Total property being depreciated	295,063	412	6,162	(19,024)	282,613
Less: accumulated depreciation					
Land improvements	793				793
Buildings	73,753	1,299		(11,964)	63,088
Tenant improvements	49,177	5,130	(3,351)	(460)	50,496
Modernizations	60,662	5,993	10	(677)	65,988
Furniture, fixtures, and equipment	49	37		(5)	81
Total accumulated depreciation	184,434	12,459	(3,341)	(13,106)	180,446
Property, net	$ 124,885	$ (2,929)	$ (16)	$ (5,918)	$ 116,022

During the year ended June 30, 2018, the Metropolitan Tract disposed of $19,024 thousand of buildings, tenant improvements, modernizations, and furniture with $13,106 of accumulated depreciation. Demolition of the Rainier Square building resulted in the disposal of $17,627 thousand in assets, and accumulated depreciation was $11,964 thousand. The remaining disposals are related to assets that were no longer in the buildings.

During the year ended June 30, 2019, the Metropolitan Tract disposed of $1,251 thousand of tenant improvements that were fully depreciated and no longer in the buildings.

Note 4. Long-Term Debt

In 2014, the University's Treasury Department issued general revenue bonds, which provided $33.6 million to the Metropolitan Tract and financed the acquisition of the Cobb Building from Unico. The outstanding balance as of June 30, 2019 and 2018, was $30.5 million and $31.3 million, respectively. The effective interest rate over the 30-year term of the loan is 3.49% and the loan matures in December 2044. The loan is unsecured but is expected to be repaid through revenues generated by the Metropolitan Tract properties.

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

	2019	2018
Beginning balance	$ 31,300	$ 34,927
Reductions	(766)	(3,627)
Total	30,534	31,300
Less: current portion	(781)	(766)
Non-current portion	$ 29,753	$ 30,534

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

	Principal	Interest	Total
2020	$ 781	$ 1,017	$ 1,798
2021	796	1,002	1,798
2022	811	985	1,796
2023	831	965	1,796
2024	856	943	1,799
2025 - 2029	4,675	4,313	8,988
2030 - 2034	5,510	3,478	8,988
2035 - 2039	6,584	2,420	9,004
2040 - 2044	7,920	1,083	9,003
2045	1,770	33	1,803
	$ 30,534	$ 16,239	$ 46,773

Note 5. Future Minimum Rent

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

2020	$	49,699
2021		43,080
2022		37,781
2023		35,072
2024		28,894
Thereafter		192,304
	$	386,830

The base rental income on the Fairmont Olympic Hotel is subject to change on an annual basis as set forth in the lease. At the end of each lease year, the annual rent is adjusted for a percentage of revenues, not below an annual minimum of $3.976 million.

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

2020	$	3,976
2021		3,976
2022		3,976
2023		3,976
2024		3,976
Thereafter		201,440
	$	221,320

Note 6. Related Party Transactions

The University rents office space in the Metropolitan Tract, and the leases expire at various dates through 2020. The amounts paid for the years ended June 30, 2019 and 2018, were $3.0 and $2.9 million, respectively.

Note 7. Rainier Square Site Redevelopment

Predevelopment Agreement

As described in Note 1, the terms of the Predevelopment Agreement with WRC, an entity controlled by Wright Runstad, required WRC to make certain payments to the University to extend the termination date of the Predevelopment Agreement. WRC extended the terms of the Predevelopment Agreement relating to the RSQ Tower Lease through September 2017, when the RSQ Tower Lease was executed, for a total of $1.5 million. The Predevelopment Agreement remains in place to govern the remaining portion of the Rainier Square Site (see the last paragraph of this footnote). The Predevelopment Agreement required the University to refund up to $250 thousand of the fixed rent that WRC paid the University, as well as a prorated amount in the year the lease was signed. WRC requested, and the University refunded, $409 thousand during the year ended June 30, 2018.

RSQ Tower Lease

The RSQ Tower Lease commenced on September 12, 2017, and the existing Rainier Square building was demolished during the year ended June 30, 2018. The financial statements for the year ended June 30, 2018, reflect the disposal of all depreciated and undepreciated assets related to the original Rainier Square building.

The RSQ Tower Lease has an 80-year term, requires RSQ Tower LLC to complete development of the approved building in four years, is unsubordinated, and requires minimum ground rent during construction and 8% of adjusted gross revenue from the project thereafter. Minimum rents for the first five years of the lease are to be $413 thousand per year, increasing to $1,652 thousand per year for the next five years, and continuing after, and adjusted each tenth lease year to 60% of the average annual percentage rents for the previous five lease years, added to the minimum rent payment (beginning with $1,652 thousand). Expected minimum rents are as follows for the years ending June 30 (amounts in thousands):

2020	$	413
2021		413
2022		413
2023		1,446
2024		1,652
Thereafter		120,884
	$	125,221

As of June 30, 2019, the building is on target for substantial completion by late 2020, as required per the RSQ Tower Lease. In the event that RSQ Tower LLC fails to achieve substantial completion within this time period, and provided that other actions also take place, the University has the right to terminate the lease. As such, management of the Metropolitan Tract has determined that recognizing current and future ground rent on a straight-line basis for this lease was appropriate during the year ended June 30, 2019, as there is persuasive evidence that construction completion will occur by the deadline of September 2021. Management of the Metropolitan Tract determined that such evidence did not exist as of June 30, 2018, so the lease was not recognized on a straight-line basis until the current year.

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

Remaining Rainier Square Site Development

WRC continues to hold the right to enter into a ground lease with the University for the southwest portion of the block that holds the Rainier Square Site and Rainier Tower. As of June 30, 2019, a ground lease has not been executed.

WRC paid $174 thousand during the year ended June 30, 2019 to the University for to extend the Predevelopment Agreement as associated with this site.

SUPPLEMENTARY INFORMATION

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

DETAILS OF PROPERTY

June 30, 2019

(Amounts in Thousands)

	Cobb Building	Skinner Building	Puget Sound Plaza	IBM Building	Rainier Tower	Financial Center	Fairmont Olympic Hotel	Fairmont Olympic Garage	Total
Buildings, tenant improvements, and modernizations									
Buildings	$ 752	$ 2,037	$ 9,113	$ 8,413	$ 25,252	$ 16,984	$ 12,535	$ 2,791	$ 77,877
Tenant improvements		8,380	13,784	11,849	24,063	12,985			71,061
Modernizations	43,820	23,131	20,871	16,132	22,333	16,269			142,556
Construction in progress	58	149	1,054	618	2,713	759			5,351
Furniture, fixtures, and equipment	310	3	11	30	5	45			404
	44,940	33,700	44,833	37,042	74,366	47,042	12,535	2,791	297,249
Less: accumulated depreciation and amortization									
Buildings	(752)	(2,037)	(8,974)	(8,413)	(18,408)	(13,162)	(10,083)	(2,559)	(64,388)
Tenant improvements		(7,077)	(10,224)	(9,254)	(17,708)	(9,921)			(54,184)
Modernizations	(12,295)	(13,963)	(12,791)	(10,119)	(13,103)	(9,932)			(72,203)
Furniture, fixtures, and equipment	(61)	(1)	(5)	(17)		(34)			(118)
	(13,108)	(23,078)	(31,994)	(27,803)	(49,219)	(33,049)	(10,083)	(2,559)	(190,893)
Net investment	$ 31,832	$ 10,622	$ 12,839	$ 9,239	$ 25,147	$ 13,993	$ 2,452	$ 232	106,356
Land									9,974
Land improvements									793
Less: accumulated depreciation									(793)
Net land and land improvements									9,974
Net investment including land and land improvements									$ 116,330

STUDENT SERVICES AND FACILITIES FEES – SEATTLE CAMPUS

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

FINANCIAL REPORT

JUNE 30, 2019

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
University of Washington
Seattle, Washington

We have audited the accompanying statements of cash receipts, cash disbursements, and changes in cash balances of Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2019 and 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts, cash disbursements, and changes in cash balances of the Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2019 and 2018, on the cash basis of accounting described in Note 1.

Basis of Accounting

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

Peterson Sullivan LLP

October 23, 2019

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

STATEMENTS OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Receipts		
Student Services and Facilities Fees - Seattle campus	$ 30,208,402	$ 28,687,441
Interest income	213,250	192,848
Total cash receipts	30,421,652	28,880,289
Debt Service		
Principal - ILP - IMA Bonds	(1,897,500)	(1,807,500)
Principal - ILP - Student Facilities Renovation	(2,497,686)	(2,387,983)
Interest - ILP - IMA Bonds	(1,523,813)	(1,614,187)
Interest - ILP - Student Facilities Renovation	(4,753,570)	(4,862,973)
Total debt service payments	(10,672,569)	(10,672,643)
Cash receipts available after debt service	19,749,083	18,207,646
Other Cash Disbursements		
Hall Health Center	6,615,060	6,602,888
Recreation	2,851,947	2,666,633
Student Parent Resource Center	1,353,873	1,318,873
Student Activities and Union Facilities	1,082,914	982,914
Associated Students of the University of Washington	1,055,871	1,025,844
Ethnic Cultural Center and Theatre Complex	1,012,355	981,648
Student Counseling Center	906,340	800,054
Graduate and Professional Student Senate	442,570	439,505
Q-Center	395,971	339,142
Campus Sustainability Fund	348,208	383,347
Student Publications	318,533	318,533
Student Legal Services	274,834	208,901
Classroom Support Services	175,405	174,737
Student Veteran Life	118,795	172,775
Intellectual House	114,984	109,371
D-Center	97,847	92,040
Peer Health Education Group	70,714	70,714
Services and Activities Committee Operations	32,785	36,502
Total other cash disbursements	17,269,006	16,724,421
Excess of cash receipts over cash disbursements before transfers	2,480,077	1,483,225
Transfers		
Transfer to Recreation for capital projects		(750,000)
Change in cash balances	2,480,077	733,225
Cash Balance, beginning of year	25,686,567	24,953,342
Cash Balance, end of year	$ 28,166,644	$ 25,686,567

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

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

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

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

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

Financial Statement Presentation

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

Cash Receipts

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

The University annually allocates investment earnings to the departments with qualifying funds in the invested funds pool based on relative amount invested at a rate determined and approved by the University. For the years ended June 30, 2019 and 2018, the rate determined by the University was 0.75% for both years. Principal amounts invested in the pool are guaranteed by the University.

Transfers

During the year ended June 30, 2019, $168,666 of funding for capital improvements and equipment purchases was allocated to various recipients and is included together with operations funding, in their cash disbursement totals.

During the year ended June 30, 2018, $750,000 was transferred from the IMA Bond Fees (included in Student Services and Facilities Fees) to Recreation for capital projects.

Note 2. Uncollected Fees and Future Disbursements

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

In a prior year, the SAF Committee signed a memorandum of understanding with Student Publications to allocate $615,000 of Student Services and Facilities Fees in order to fund a majority of Student Publications' historical operating deficit; in 2015, $615,000 was transferred to Student Publications. The amount is to be repaid over a period of time to be determined by Student Publications' ability to repay the debt (not to exceed 30 years). Through June 30, 2019, no repayments have been made.

Student Services and Facilities Fees that were uncollected (and are therefore receivable) were $1,829,407 and $1,762,543 on the last business day of the years ended June 30, 2019 and 2018, respectively.

In June 2019, the Board of Regents accepted proposed disbursements for the year ending June 30, 2020, totaling $18,179,394.

Note 3. Internal Lending Program – IMA Bonds

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

At June 30, 2019, the principal amount of the debt outstanding was $28,578,750 at an interest rate of 4.50%. The interest rate is reviewed each year and is subject to adjustment by the Board of Regents. There have been no changes to the interest rate since the current rate of 4.50% became effective on July 1, 2016. The final loan payment is due in June 2030.

Borrowings are being repaid by the IMA Bond Fees, which are included in the Student Services and Facilities Fees cash receipts at both June 30, 2019 and 2018.

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

	Principal	Interest	Total
2020	$ 1,992,083	$ 1,428,938	$ 3,421,021
2021	2,091,667	1,329,333	3,421,000
2022	2,196,250	1,224,750	3,421,000
2023	2,305,833	1,114,938	3,420,771
2024	2,420,417	999,646	3,420,063
2025 - 2029	14,053,750	3,056,229	17,109,979
2030	3,518,750	189,521	3,708,271
	$ 28,578,750	$ 9,343,355	$ 37,922,105

Note 4. Internal Lending Program – Student Facilities Renovation

Student Services and Facilities Fees has borrowings available from the University's Internal Lending Program of $126,000,000, $8,000,000, and $16,000,000 for the renovation of the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively. At June 30, 2019, the principal amount of the debt outstanding on these borrowings was $85,261,776, $6,149,123, and $12,855,118 for the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively (total of $104,266,017). The interest rate is reviewed each year and is subject to adjustment by the Board of Regents. There have been no changes to the interest rate since the current rate of 4.50% became effective on July 1, 2016. Loan payments began in October 2011 for the Hall Health Center with a 30-year amortization and term. Loan payments began in October 2012 for the Husky Union Building and the Ethnic Cultural Center, also with 30-year amortizations and terms. The final loan payments are due in September 2042. The renovation activity is not included in these financial statements.

Borrowings are being repaid by the Student Facilities Renovation Fees, which are included in the Student Services and Facilities Fees cash receipts at both June 30, 2019 and 2018.

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

	Principal	Interest	Total
2020	$ 2,612,429	$ 4,638,526	$ 7,250,955
2021	2,732,444	4,518,512	7,250,956
2022	2,857,972	4,392,984	7,250,956
2023	2,989,267	4,261,689	7,250,956
2024	3,126,593	4,124,363	7,250,956
2025 - 2029	17,924,096	18,330,684	36,254,780
2030 - 2034	22,437,309	13,817,471	36,254,780
2035 - 2039	28,086,929	8,167,851	36,254,780
2040 - 2043	21,498,978	1,628,720	23,127,698
	$ 104,266,017	$ 63,880,800	$ 168,146,817

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

2018	2.7 to 1
2019	2.9 to 1

Note 5. Subsequent Events

Student Services and Facilities Fees has evaluated subsequent events through the date these financial statements were available to be issued, which was October 23, 2019.