2018 BONDHOLDERS REPORT

UNIVERSITY *of* WASHINGTON | TREASURY OFFICE

2018
BONDHOLDERS REPORT

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University of Washington

2018 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, 2018, 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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UNIVERSITY *of* WASHINGTON

2018 FINANCIAL REPORT

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University Facts

	FISCAL YEAR 2018 Academic Year 2017–2018	FISCAL YEAR 2013 Academic Year 2012–2013	FISCAL YEAR 2008 Academic Year 2007–2008
STUDENTS			
Autumn Enrollment (headcount)			
Undergraduate	41,670	36,785	32,355
Graduate	14,059	12,782	10,591
Professional	2,126	1,999	1,803
TOTAL	**57,855**	**51,566**	**44,749**
Professional and Continuing Education – Course and Conference Registrations	79,503	74,922	56,097
Number of Degrees Awarded			
Bachelor's	11,179	9,782	8,181
Master's	4,514	3,906	2,904
Doctoral	820	763	622
Professional	551	566	504
TOTAL	**17,064**	**15,017**	**12,211**
FACULTY [1]	4,380	4,356	3,984
FACULTY AND STAFF [2]	30,932	26,315	24,468
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,350,767	$ 1,122,933	$ 1,010,941
SELECTED REVENUES *(in thousands of dollars)*			
Net Patient Service and Other Medical-Related Revenues [3]	$ 2,710,758	$ 1,971,451	$ 968,215
Gifts, Grants, and Contracts	1,627,139	1,458,196	1,115,974
Tuition and Fees [4]	989,912	808,053	419,690
Auxiliary Enterprises and Other Revenues	660,442	473,167	312,515
Investment Income	404,412	341,241	77,379
State Appropriations (Operating)	362,267	218,165	388,485
SELECTED EXPENSES *(in thousands of dollars)*			
Medical-Related [3]	$2,335,063	$ 1,785,696	$ 748,832
Instruction, Academic Support and Student Services	1,981,058	1,426,386	1,193,775
Research and Public Service	834,139	803,980	654,468
Institutional Support and Physical Plant	836,674	687,481	524,900
Auxiliary Enterprises	494,956	203,615	161,807
CONSOLIDATED ENDOWMENT FUND [5] *(in thousands of dollars)*	$3,407,000	$2,347,000	$ 2,161,000
SQUARE FOOTAGE [6] *(in thousands of square feet)*	25,700	21,773	18,535

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 2018 and 2013 only
4 Net of scholarship allowances of $154,854,000 in 2018, $135,354,000 in 2013 and $69,027,000 in 2008
5 Stated at fair value
6 Gross square footage, all campuses

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

KPMG

Emphasis of Matters

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

As discussed in note 1 to the financial statements, on July 1, 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 14, and the schedules of required supplementary information on pages 49 through 51, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University'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, WA
October 19, 2018

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

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

Financial Highlights for Fiscal Year 2018

The University recorded a decrease in net position of $1.2 billion in fiscal year 2018, compared to an increase of $214 million in fiscal year 2017. GASB Statement No. 75, which was implemented in 2018, changed the way the University reflects costs associated with other post-employment benefits (OPEB), was the primary reason for this decrease in net position. Positive operating results helped to partially offset the impact from this accounting change, and contributed $490 million in 2018, compared to $362 million in 2017.

Key Financial Results for Fiscal Years 2018 and 2017

(in millions)	2018	2017
Total operating revenues	$ 5,172	$ 4,893
Total operating expenses	5,859	5,666
Operating loss	(687)	(773)
State appropriations	362	342
Gifts	167	166
Investment income	404	442
Other nonoperating revenues, net	244	185
Increase in net position	490	362
Cumulative effect of accounting changes (described below):	6,267	6,053
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	4,607	5,905
Net position, end of year	**$ 5,097**	**$ 6,267**

OPERATING REVENUES

Operating revenues increased $279 million, or 6%, in 2018 driven by strong gains associated with each of the University's core missions. Student tuition and fees increased $48 million as a result of operating fee increases together with growing student enrollment. Net patient services revenue increased $139 million due to greater patient volumes and case acuity. Grant and contract revenue increased $50 million, driven by a $23 million increase in revenue from Federal sponsors, and an $18 million increase from nongovernmental sponsors, most notably the Bill & Melinda Gates Foundation.

OPERATING EXPENSES

Operating expenses increased $193 million, or 3%, in 2018 mostly driven by increased costs associated with employee salaries and benefits. Salaries expense increased $80 million due to merit increases, and benefits expense increased $61 million primarily due to the implementation of GASB Statement No. 75 which requires the University to begin reporting costs associated with OPEB benefits as they are earned instead of based on cash funding.

NONOPERATING REVENUES

Revenues from nonoperating and other sources increased $42 million, or 4%, in 2018 primarily due to $20 million of additional state operating appropriations and an $85 million capital gift from the Bill & Melinda Gates Foundation for the University's Population Health Initiative. These were offset, however, by a $37 million decrease in investment income for the year, and a $38 million decrease in capital appropriations as a result of having no state capital budget for the first six months of fiscal year 2018. The University adjusts the carrying value of investments to market value each year, with the change recorded as investment income or loss.

Governmental Accounting Standards Board (GASB) principles require that revenues from state appropriations, investment income and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating. As a result, the University will typically reflect an operating loss on its Statements of Revenues, Expenses and Changes in Net Position.

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). Prior to implementing this Statement, the UWSRP pension liability was being ratably accrued over several years, and UWSRP pension expense was equal to the actuarially determined Annual Required Contribution. Under Statement No. 73, the University must record the total pension liability, and most changes in the total pension liability are now reflected in pension expense in the period of the change, while others are reported as Deferred Inflows or Deferred Outflows of Resources, and amortized to expense over future periods. 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 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 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. Fiscal year 2018 financial results reflect application of the accounting changes required by Statement No. 75, but those changes have not been applied to fiscal year 2017 amounts 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 changes 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 will no longer be recognized when the asset is acquired and upon periodic revaluation, but will instead be recorded as a deferred inflow of resources and recognized at termination of the contract. This change has resulted in the restatement of July 1, 2016 restricted non-expendable 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 will now be 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 has also resulted in the restatement of July 1, 2016 restricted non-expendable net position, together with an increase in investments. The net impact of implementing these accounting changes has been an increase in beginning restricted non-expendable net position of $67 million. Fiscal years 2017 and 2018 in this management's discussion and analysis both 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 due to the single-year presentation.

Using the Financial Statements

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

- Independent Auditors' Report presents an unmodified opinion prepared by our auditors, KPMG LLP, on the fairness in all material respects of our financial statements.
- Statements of Net Position present the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of the University at a point in time (June 30, 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 year ended June 30, 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 year ended June 30, 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, 2018, and results of operations for the year ended June 30, 2018, are reported in a separate column for financial statement presentation purposes (see Note 1 to the Financial Statements). The analysis which 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, 2018 and 2017, is shown below:

Summarized Statements of Net Position

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

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

The excess of current assets over current liabilities of $219 million in 2018, and $112 million in 2017, reflects the continuing ability of the University to meet its short-term obligations. Current assets increased $59 million,or 4%, in 2018 mostly due to an $80 million increase in cash, offset by a $33 million decrease in short term investments. Current liabilities decreased $48 million, or 4%, during the year, due in part to an $87 million decrease in the accrual for investment purchases not yet settled, $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 were partly offset by a $23 million increase in commercial paper debt.

Noncurrent assets increased $541 million, or 5%, in 2018 driven by an increase in long-term investments of $271 million as a result of strong investment returns during the year, an increase in capital assets of $243 million, and a $17 million increase in the University's equity interest in the Seattle Cancer Care Alliance.

Noncurrent liabilities increased $1.4 billion, or 36%, during 2018 primarily due to 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 during the year by $59 million due to the net increase in general revenue bonds outstanding. These were offset by a decrease in the University's pension liabilities of $238 million during the year, primarily those representing the University's proportionate share of the pension plans administered by the Washington Department of Retirement Systems (DRS). The DRS net pension liability was favorably impacted during the year by stronger than expected investment returns on pension plan assets.

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 decrease in deferred outflows of $25 million, or 9%, in 2018 primarily reflects 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 were impacted during 2018 by the University's corresponding proportionate share of an increase in the state-wide difference between projected and actual earnings on pension plan assets (total deferred outflow and deferred inflow change for 2018 equaled $190 million). 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.

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 gifts and endowment returns. The number of individual endowments in the CEF has grown significantly, from 3,118 at June 30, 2009 to 4,904 at June 30, 2018. The market value of the CEF has similarly increased from $1.6 billion at June 30, 2009 to $3.4 billion at June 30, 2018.

The impact to program support has been substantial, with $929 million distributed over the past 10 years touching every part of the University. Programs supported by endowment returns include academic programs, scholarships, fellowships, professorships, chairs and research activities. Under the Board of Regents' approved long-term spending policy for the CEF, quarterly distributions to programs are made based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. An additional 1% is distributed to support fundraising and stewardship activities (0.80%) and investment management (0.20%). Similar to program distributions, the fee is based on the endowment's five-year average market value.

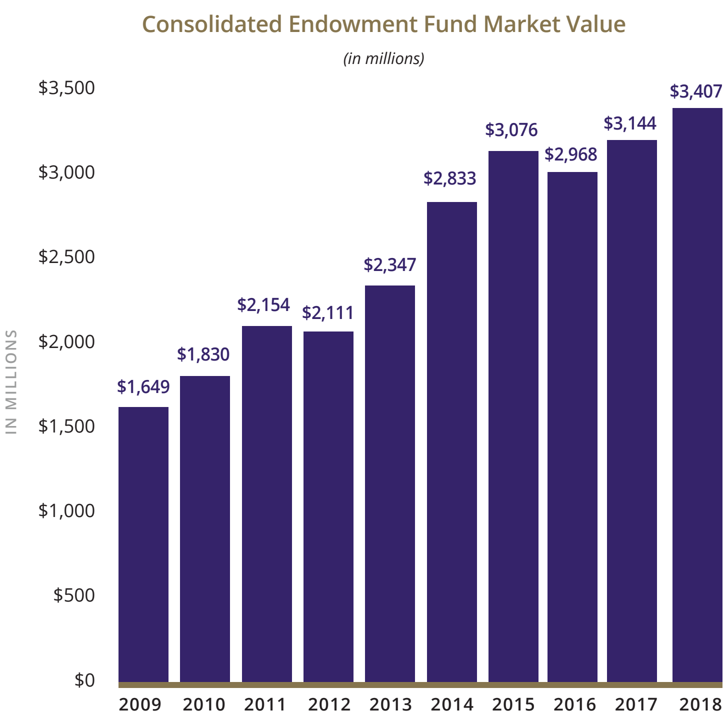
The University of Washington Board of Regents is vested by statute with responsibility for the University's properties and investments, and for establishing investment policy. The University of Washington Investment Management Company (UWINCO), led by the Chief Investment Officer, carries out the day-to-day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

Endowment portfolios are commonly managed around a core set of objectives focused on the need to provide support for endowed programs in perpetuity. The Board of Regents, in conjunction with the UWINCO Board, establishes the policy asset allocation judged to be most appropriate for the University from a long-term potential return and risk perspective. The policy asset allocation is reviewed annually for its continuing fit with the University's risk profile and with consideration of the changing dynamics of the capital markets.

The CEF asset allocation includes two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2018, 72% of the CEF was invested in Capital Appreciation and 28% in Capital Preservation. Following an expectation that market returns for equities will exceed bonds over the next decade, a medium-term objective is maintained of generally overweighting equity-oriented strategies with a focus on quality companies and downside protection. The University also maintains ample liquidity within Capital Preservation to meet its funding requirements, as well as to take advantage of market dislocations if opportunities arise.

For the fiscal year ending June 30, 2018, the CEF returned +9.6% versus +7.3% for the passive benchmark. The CEF's Real Assets and Private Equity strategies led absolute returns this year. The CEF's Capital Appreciation and Capital Preservation portfolios substantially outperformed their respective passive benchmarks.

All major equity indexes posted gains in 2018, led by US equities. Trade tensions and policy uncertainty appear to be on the rise. Forecasted returns have been trending down and a lower return, high-volatility environment is expected.



The CEF has consistently maintained solid relative performance, beating both the passive benchmark and the median returns for public peers over most periods.

A portion of the University's operating funds are invested in the CEF. As of June 30, 2018, these funds comprise $643 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 2018 included $119 million for Phase 4a of the Housing Master Plan and the construction of McCarty, Madrona and Willow student residential buildings, $70 million for the Life Sciences Building, $44 million for the Bill & Melinda Gates Center for Computer Science & Engineering, $28 million for the new Burke Museum, and $25 million for Phase 2 of the University of Washington Medical Center expansion.

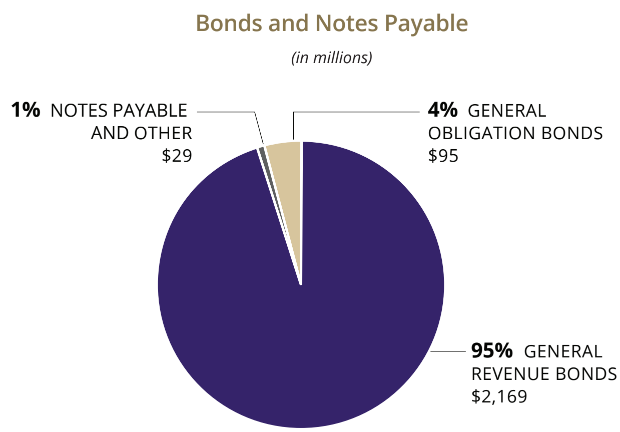
Key projects placed in service during 2018 include:

- Willow Hall – $83 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 was available for occupancy in June 2018, whereas the remaining two facilities opened in September. Willow is a 221-unit residential building with various size units, most including private baths, and a dining facility called Center Table.
- New Burke Museum – $68 million. The existing Burke Museum was constructed in 1962 as a two-story brick building with 69,000 gross square feet (GSF). This project provided a new building to address the limitations and shortcomings of the existing facility, which does not meet contemporary standards for museum environments, collections storage, or public-use facilities. The new building size is 110,000 GSF.
- Fluke Hall Renovation – $36 million. This project renovated the Washington Nano Fabrication Facility (WNF) located on the first floor of Fluke Hall. The scope of work included roof replacement and refurbishment of other existing building infrastructure to allow the building to serve as a long-term core University research facility supporting academic research, industry partnership and a commercialization incubator.
- University of Washington Medical Center Expansion Phase 2 – $31 million. This project included a build-out of three bed floors and the OR suite within the new Montlake Tower (Phase 1), and renovation of approximately 125,000 square feet within the existing Cascade and Pacific Towers.

Debt

The University's Debt Policy governs the type and amount of debt the University may incur. It 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 Revenue Bonds and General Obligation Bonds. As of June 30, 2018, the University had $2.3 billion of bonds and notes payable outstanding, an increase of 2% from June 30, 2017. Debt outstanding on the Metropolitan Tract is not included in these amounts (see Note 7).



Unaudited – see accompanying notes to financial statements

In February 2018, the University issued $134 million of tax-exempt General Revenue bonds with an all-in true interest cost of 3.48%. Proceeds were used to fund various facilities including the construction of new residential housing (Phase 4a of the Housing Master Plan) and the new Life Sciences Building.

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, 2018, there was $90 million in commercial paper outstanding.

Credit ratings are an indicator of the University's effectiveness in managing its financial resources. During fiscal year 2018, both Moody's (Aaa) and Standard and Poor's (AA+) reaffirmed the University's credit ratings, though Moody's did place the University on negative credit watch. These strong ratings carry substantial advantages for the University: continued and wider access to capital markets, lower interest rates on bonds, and the ability to negotiate favorable bond terms. The University's short-term credit ratings were also affirmed at P-1 (Moody's) and A-1+ (Standard and Poor's).

Moody's Fiscal Year 2017
Public College and University Rating Distribution
(As of the June 2018 Moody's Median Report)

The Board of Regents typically authorizes the long-term debt (excluding commercial paper) issuance on a fiscal year basis. For fiscal year 2019, the Board authorized $102 million of issuance in July. Any increase would require additional approval by the Board.

Debt beyond fiscal year 2019 is managed through a process in which the University estimates debt capacity. Updated annually, key debt related financial metrics are benchmarked to peer institutions. Current estimates assume outstanding debt will remain flat for the next five years.

Net Position

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

The University reports its "equity" in four categories:

- Net Investment in Capital Assets – This is the University's total investment in capital assets, net of accumulated depreciation and amortization and outstanding debt obligations related to those capital assets.
- Restricted Net Position:
  - Nonexpendable net position, primarily endowments, represents gifts to the University's permanent endowment funds. These are funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditure, but rather for investment purposes only, in order to produce income that is to be expended for the purposes specified.
  - Expendable net position consists of resources which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions imposed 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, 2018 and 2017 is summarized as follows:

Categories of Net Position

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

Net investment in capital assets increased $29 million, or 1%, in 2018. This balance typically increases as debt is paid off, or when the University funds fixed asset purchases without the use of external financing, for example by using internal reserves. This balance decreases as assets are depreciated. The increase in 2018 reflects greater additions to net capital assets during the year than the associated increase in capital asset-related debt, reflecting continued capital spend on previously approved projects together with a reduced pace for new debt issuances.

Restricted nonexpendable net position increased $119 million, or 7%, in 2018. This primarily reflects the receipt of $96 million of new endowment gifts during the year, together with investment income and an increase in the market value of underwater endowment investments.

Unaudited – see accompanying notes to financial statements

Restricted expendable net position increased $270 million, or 15%, in 2018. This category is primarily affected by new operating and capital gifts, and earnings or losses on restricted investments, including endowments. Unrealized gains in the market value for the CEF of $219 million were the primary reason for the increase during the year, offset by $77 million of realized losses. Additionally, unspent capital gifts increased $73 million as a result of giving by the Bill & Melinda Gates Foundation to the University's Population Health Initiative.

Unrestricted 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 beginning unrestricted net position by $1.7 billion, representing the University's proportionate share of the state of Washington's beginning total OPEB liability, less OPEB contributions paid by the University in the prior fiscal year. Excluding the impact of this accounting change, unrestricted net position increased by $72 million, or 21%, in 2018. Operating losses associated with unrestricted activities were $435 million for the year, together with interest expense on capital asset-related debt of $77 million. These were offset by $362 million of state operating appropriations, and $213 million of investment income on unrestricted investments.

At June 30, 2018, Unrestricted Net Position reflects a deficit of $1.2 billion due to the 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 pensions and OPEB. As a result of implementation, 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)	2018	2017
Unrestricted net position, as reported	$ (1,238)	$ 350
Impact of GASB 68 - Pensions	706	762
Impact of GASB 75 - OPEB	1,764	–
Unrestricted net position, excluding pensions and OPEB	**$ 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, 2018 and 2017 follows:

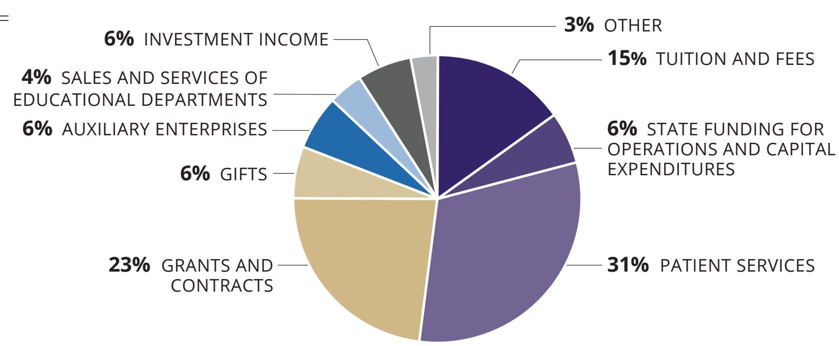
Operating Results

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

The University's operating loss decreased to $687 million in 2018, from $773 million in 2017. 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 $325 million in 2018, and $431 million in 2017.

The University has a diversified revenue base. No single source generated more than 31% of the total fiscal year 2018 revenues of $6.4 billion.

Sources of Funds



Unaudited – see accompanying notes to financial statements

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

Revenues from All Sources

(in millions)	2018		2017	
Net Patient services	$ 2,008	31%	$ 1,869	31%
Grants and contracts	1,468	23%	1,422	23%
Tuition and fees	990	15%	942	15%
Investment income	404	6%	442	7%
Auxiliary enterprises	403	6%	374	6%
Gifts	398	6%	289	5%
State funding for operations	362	6%	342	6%
Sales and services of educational departments	243	4%	217	4%
State funding for capital projects	26	0%	64	1%
Other	124	3%	144	2%
Total revenue – all sources	**$ 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, and finance revenue cycle services, 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 the Health Sciences at the University. Over 19,000 patients receive inpatient care at UWMC each year. Specialized inpatient care needs are met by the Cancer Center, the Regional Heart Center, the Neonatal Intensive Care Unit and the Organ Transplantation program.

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

Northwest Hospital & Medical Center (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 14 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.

In combination, these organizations (not including VMC) contributed $2,008 million in net patient services revenue in fiscal year 2018 and $1,869 million in fiscal year 2017. UWMC generated 59% of this revenue in 2018 and 60% in 2017. UWMC admissions were 19,350 in 2018, a 2% increase from 2017. 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. Despite strong volumes, reimbursement pressures from payers have continued to result in reduced levels of reimbursement.

Grant Revenue

One of the largest sources of revenue (23%) continues to be grants and contracts. Total grant and contract revenue increased $55 million, or 4%, in 2018.

Federal revenue increased $23 million, or 2%, 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 revenue saw a 10% increase largely attributable 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.

Consistent with 2017, increases to nongovernmental revenue were largely attributable to The Bill & Melinda Gates Foundation's continued support of the University's Institute for Health Metrics and Evaluation.

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

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

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

Primary Nongrant Funding Sources

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

Operating Support for Instruction

(in millions)	2018		2017	
Operating tuition and fees	$ 675	50%	$ 639	50%
Fees for self-sustaining educational programs	315	23%	303	23%
Subtotal - tuition and fees	990	73%	942	73%
State operating appropriations	362	27%	342	27%
Total educational support	**$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 increased to $990 million, compared to $942 million in fiscal year 2017. These amounts are net of scholarship allowances of $155 million in 2018 and $159 million in 2017. The increase in 2018 was partially due to the state allowing a 2.2% operating fee increase in resident undergraduate tuition. Other tuition categories also contributed to this increase. Nonresident operating fees increased by 3%, graduate and professional operating fees increased by 0-10%, and fee-based program rates also increased by 0-10%. Increases varied by program. Some of the increase was also due to enrollment growth. Full-time equivalent (FTE) enrollment in undergraduate tuition and fee-based programs increased by 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 by 0.7% in the resident student category and by 3.1% in the nonresident student category.

Fees for self-sustaining educational programs (fee-supported programs) include the following amounts for fiscal years 2018 and 2017: UW Continuum College (the continuing education branch of the University) $113 million and $113 million, respectively, summer quarter tuition $55 million and $50 million, respectively, and for the combination of Business School and School of Medicine programs $60 million and $50 million, respectively.

Gifts, Endowments and Investment Revenues

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

Net Investment Income

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

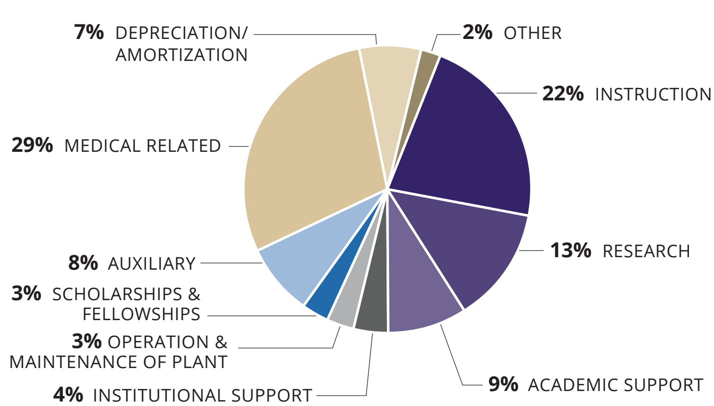
Net investment income decreased $38 million, or 9%, in 2018 primarily due to the change in realized and unrealized gains and losses during the year.

Donor support increased by $109 million, or 38%, to $398 million in 2018 from $289 million in 2017. Much of this increase was due to $85 million in support received from the Bill & Melinda Gates Foundation to benefit the University's Population Health Initiative. The 2018 amount does not reflect $23 million received from the sale of premium seats to athletic events. This type of revenue was reported as gifts in 2017 due to their deductibility for federal tax purposes, but has been reported as operating revenue in 2018 due to passage of the Tax Cuts and Jobs Act of 2017. Gifts are a key and necessary source of support for a variety of purposes including capital improvements, scholarships, research, and endowments for various academic and research positions.

Expenses

Two primary functions of the University, instruction and research, comprised 35% of total operating expenses. These dollars provided instruction to nearly 58,000 students and funded nearly 5,400 research awards. Medical-related expenses, such as those related to patient care, also continue to be one of the largest individual components.

Uses of Funds



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

Operating Expenses by Function

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

Overall, the University's operating expenses increased $193 million, or 3%, during 2018. Approximately 62% of amounts incurred for operating expenses in both 2018 and 2017 were related to faculty and staff compensation and benefits.

Expense associated with faculty and staff salaries increased $80 million, or 3%, in 2018. 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. Expenses associated with OPEB benefits used to be recorded as expense based on cash funding paid to the OPEB plan administrator. Implementation of Statement No. 75 now requires the University to record its proportionate share of the state of Washington's actuarially determined OPEB expense, representing OPEB subsidies earned during the year by eligible employees, together with interest on the total OPEB liability and current amortization of other changes in that liability that do not immediately impact expense. For 2018, the difference between cash funding paid to the plan administrator and OPEB expense reflecting application of Statement No. 75 is an increase in expense of approximately $100 million. This increase in benefits expense was offset, however, 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 UW Supplemental Retirement Plan.

Scholarships and fellowships expense increased $13 million, or 9%, in 2018. This category of student financial aid represents amounts paid directly to students for expenses other than tuition. Financial aid which reduces amounts owed for tuition are reflected as scholarship allowances, and reported by the University as a reduction of gross tuition revenues. The combination of aid paid directly to students, and amounts which reduced the tuition owed by students, was 27% of gross tuition and fees revenue for both 2018 and 2017.

Utilities expense decreased $4 million, or 6%, during 2018 primarily due to a decrease in electricity usage across all University campuses.

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

Economic Factors That May Affect the Future

STATE OPERATING AND CAPITAL APPROPRIATIONS

The state of Washington, which provided 6% of the University's total revenues in fiscal year 2018, continues to emerge from the recession with moderate economic growth and commensurate increases in state tax collections. However, additional state tax collections, as well as new revenue, were largely consumed by the state needing to meet court-mandated increases to K-12 education funding (McCleary v. Washington). As a result, non-mandatory state programs, including higher education, did not receive significant additional funding for the current 2017-19 biennium. 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 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 is allowing resident undergraduate tuition to increase by roughly 2.2% in each 2018 and 2019. While the legislature can always modify its policy, if current policy continues, resident undergraduate tuition increases will 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 2019 general operating appropriation from the state (excluding certain amounts appropriated for specific purposes) is approximately $368 million. This amount is an increase from approximately $353 million in 2018 and $332 million in 2017. Recent increases are largely attributable to targeted investments in compensation, medical education, and science, technology, engineering and math (STEM) enrollments. The University's priority requests to the state for the upcoming biennium include additional funding for competitive compensation for faculty and staff, increases in STEM enrollment slots, and support for safety net hospital and dental clinic operations.

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 University received some state bonding capacity for critical capital projects. The University's priority capital requests to the state include a health sciences education building, STEM-related buildings across all three campuses, and seismic upgrades.

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 reducing costs and streamlining the provision of 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, and the industry-wide migration to value-based payment models as government and private payers shift risk to providers, successfully managing costs and efficiently delivering care are paramount.

UW Medicine/MultiCare Alliance

In July 2017, UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance that will expand access to high-quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. Through the alliance, UW Medicine and MultiCare will provide cost-effective and clinically integrated healthcare in communities throughout the Puget Sound region while supporting the education of the next generation of clinicians and advancing research. The parties' joint activities will be guided by four core principles: the provision of high-quality, patient-centered care; a commitment to teaching and research; ensuring strong financial stewardship to deliver value to the payers of healthcare services; and a focus on improving the health of populations served by the alliance. In June 2018, the University Board of Regents approved formation of the Clinically Integrated Network (CIN) legal entity, which is expected to occur in late 2018.

UW Medicine Accountable Care Network

In 2014, UW Medicine formed an Accountable Care Network (ACN) with other selected healthcare organizations and healthcare professionals in Western Washington to form a care delivery network to assume responsibility for the healthcare of contracted patient populations to achieve the Triple Aim: improved healthcare experience for the individual, improved health of the population, and more affordable care.

- The ACN has contracted with the Washington Health Care Authority (HCA) to participate in its Puget Sound Accountable Care Program (ACP) as a healthcare benefit option for Public Employees Benefits Board (PEBB) members. The ACP is offered to all PEBB members who reside in Snohomish, King, Kitsap, Pierce, and Thurston counties. This contract with HCA covering PEBB members began January 1, 2016.
- A subset of the network members have also agreed to participate with the ACN in a contract with Premera as part of its Accountable Health System (AHS) product. As an AHS, the UW Medicine ACN will share in accountability for the quality and cost of healthcare for Premera members who select this plan. This product was sold both on and off the Washington Health Exchange in select counties with coverage that began January 1, 2016. The AHS must have 5,000 planwide members per product, per region for the UW Medicine ACN to share in financial savings and risk. The ACN is not at risk for the AHS product in 2017, but is at risk in calendar year 2018.
- The UW Medicine ACN also entered into an agreement to provide health care services to nonunion employees of a large local employer with coverage that began January 1, 2015.

These arrangements provide an opportunity for shared savings between the ACN and the contracted entity based on achieving quality and financial benchmarks. If certain financial benchmarks are not attained, UW Medicine, along with its network members, is at risk for reductions in payment levels from the contracted entity based on the agreement.

Investments in Information Technology

In July, 2018, the University Board of Regents granted approval to proceed with the UW Medicine clinical transformation program. 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 to be $180 million. Program kick-off will be in November, 2018 with initial implementation occurring in April, 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. Adopting a new model of one hospital on two campuses will provide many opportunities for cost savings and improved coordination of care. 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 expected to occur no later than 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 increased 14% during fiscal year 2018, from 11.18% to 12.70% of covered salary, but will remain unchanged during fiscal year 2019. Likewise, the monthly employer base rate paid by the University for employee healthcare increased 3% during fiscal year 2018, from $888 to $913 per active employee, but will be mostly unchanged during fiscal year 2019. Both rates, however, are likely to continue increasing over the next few years.

FINANCIAL STATEMENTS & NOTES

Statements of Net Position

	UNIVERSITY OF WASHINGTON June 30, 2018	DISCRETE COMPONENT UNIT June 30, 2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 144,136	$ 48,186
INVESTMENTS, CURRENT PORTION (NOTE 6)	552,641	41,431
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $19,447) (NOTE 5)	738,743	83,950
OTHER CURRENT ASSETS	50,482	53,314
TOTAL CURRENT ASSETS	1,486,002	226,881
NONCURRENT ASSETS:		
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	67,655	–
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	5,104,848	1,377
METROPOLITAN TRACT (NOTE 7)	152,233	–
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF $4,339) (NOTE 4)	63,541	–
OTHER NONCURRENT ASSETS	197,948	81,399
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF $4,607,053) (NOTE 8)	4,979,731	380,445
TOTAL NONCURRENT ASSETS	10,565,956	463,221
TOTAL ASSETS	12,051,958	690,102
DEFERRED OUTFLOWS OF RESOURCES (NOTE 12)	244,041	12,491
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$12,295,999**	**$ 702,593**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 784,036	$ 108,245
UNEARNED REVENUES	188,077	–
OTHER CURRENT LIABILITIES	158,082	–
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-11)	136,517	10,208
TOTAL CURRENT LIABILITIES	1,266,712	118,453
NONCURRENT LIABILITIES:		
U.S. GOVERNMENT GRANTS REFUNDABLE	45,535	–
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-11)	2,620,587	299,262
PENSION LIABILITIES (NOTE 15)	1,184,852	–
OTHER POST-EMPLOYMENT BENEFITS (NOTE 16)	1,565,213	–
TOTAL NONCURRENT LIABILITIES	5,416,187	299,262
TOTAL LIABILITIES	6,682,899	417,715
DEFERRED INFLOWS OF RESOURCES (NOTE 12)	516,323	25,031
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	7,199,222	442,746
NET POSITION		
NET INVESTMENT IN CAPITAL ASSETS	2,483,814	87,817
RESTRICTED:		
NONEXPENDABLE	1,721,927	–
EXPENDABLE	2,128,692	8,240
UNRESTRICTED	(1,237,656)	163,790
TOTAL NET POSITION	5,096,777	259,847
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$12,295,999**	**$ 702,593**

See accompanying notes to financial statements.
Dollars in thousands

Statements of Revenues, Expenses and Changes in Net Position

	UNIVERSITY OF WASHINGTON Year ended June 30, 2018	DISCRETE COMPONENT UNIT Year ended June 30, 2018
REVENUES		
OPERATING REVENUES:		
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $154,854)	$ 989,912	$ –
NET PATIENT SERVICE REVENUES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $29,411)	2,008,317	598,633
FEDERAL GRANTS AND CONTRACTS	1,048,088	–
STATE AND LOCAL GRANTS AND CONTRACTS	103,267	–
NONGOVERNMENTAL GRANTS AND CONTRACTS	257,966	–
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	242,886	–
AUXILIARY ENTERPRISES:		
HOUSING AND FOOD SERVICES	131,369	–
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $7,590)	91,924	–
OTHER AUXILIARY ENTERPRISES	179,574	–
OTHER OPERATING REVENUE	118,497	38,092
TOTAL OPERATING REVENUES	**5,171,800**	**636,725**
EXPENSES		
OPERATING EXPENSES (NOTE 13):		
SALARIES	2,736,630	315,905
BENEFITS	924,253	75,902
SCHOLARSHIPS AND FELLOWSHIPS	149,378	–
UTILITIES	59,884	5,179
SUPPLIES AND MATERIALS	588,476	83,246
PURCHASED SERVICES	844,729	73,613
DEPRECIATION/AMORTIZATION	384,004	33,167
OTHER	171,442	36,082
TOTAL OPERATING EXPENSES	**5,858,796**	**623,094**
OPERATING INCOME (LOSS)	**(686,996)**	**13,631**
NONOPERATING REVENUES (EXPENSES)		
STATE APPROPRIATIONS	362,267	–
GIFTS	166,721	–
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $10,790)	404,412	2,468
INTEREST ON CAPITAL ASSET-RELATED DEBT	(76,642)	(14,258)
PELL GRANT REVENUE	51,097	–
PROPERTY TAX REVENUE	–	22,722
OTHER NONOPERATING REVENUES	4,749	15,723
NET NONOPERATING REVENUES	**912,604**	**26,655**
INCOME BEFORE OTHER REVENUES	**225,608**	**40,286**
CAPITAL APPROPRIATIONS	26,399	–
CAPITAL GRANTS, GIFTS AND OTHER	142,573	–
GIFTS TO PERMANENT ENDOWMENTS	95,890	–
TOTAL OTHER REVENUES	**264,862**	**–**
INCREASE IN NET POSITION	**490,470**	**40,286**
NET POSITION		
NET POSITION – BEGINNING OF YEAR, AS RESTATED (NOTE 1)	4,606,307	219,561
NET POSITION – END OF YEAR	**$ 5,096,777**	**$ 259,847**

See accompanying notes to financial statements.
Dollars in thousands

Statement of Cash Flows

	UNIVERSITY OF WASHINGTON Year Ended June 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES	
STUDENT TUITION AND FEES	$ 958,966
PATIENT SERVICES	1,989,098
GRANTS AND CONTRACTS	1,376,235
PAYMENTS TO SUPPLIERS	(567,439)
PAYMENTS FOR UTILITIES	(59,381)
PURCHASED SERVICES	(832,124)
OTHER OPERATING DISBURSEMENTS	(169,606)
PAYMENTS TO EMPLOYEES	(2,732,923)
PAYMENTS FOR BENEFITS	(823,136)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(149,378)
LOANS ISSUED TO STUDENTS	(17,148)
COLLECTION OF LOANS TO STUDENTS	18,614
AUXILIARY ENTERPRISE RECEIPTS	401,799
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	260,364
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	904,189
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(901,659)
OTHER RECEIPTS	116,012
NET CASH USED BY OPERATING ACTIVITIES	**(227,517)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
STATE APPROPRIATIONS	362,267
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	51,097
PRIVATE GIFTS	132,796
PERMANENT ENDOWMENT RECEIPTS	95,890
DIRECT LENDING RECEIPTS	237,500
DIRECT LENDING DISBURSEMENTS	(241,317)
OTHER	4,700
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**642,933**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
PROCEEDS FROM CAPITAL DEBT	186,339
STATE CAPITAL APPROPRIATIONS	24,228
CAPITAL GRANTS AND GIFTS RECEIVED	141,648
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(622,412)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(116,809)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(90,401)
OTHER	(1,205)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(478,612)**

	Year Ended June 30, 2018
CASH FLOWS FROM INVESTING ACTIVITIES	
PROCEEDS FROM SALES OF INVESTMENTS	10,549,300
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(10,493,626)
INVESTMENT INCOME	87,623
NET CASH PROVIDED BY INVESTING ACTIVITIES	**143,297**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**80,101**
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	64,035
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 144,136**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
OPERATING LOSS	$ (686,996)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
DEPRECIATION/AMORTIZATION EXPENSE	384,004
CHANGES IN ASSETS, LIABILITIES, AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:	
RECEIVABLES	(52,983)
OTHER ASSETS	(20,093)
PENSION AND OPEB RELATED DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES	387,381
PENSION LIABILITIES	(237,559)
OPEB LIABILITY	(95,235)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	59,732
UNEARNED REVENUE	(7,776)
OTHER LONG-TERM LIABILITIES	40,541
U.S. GOVERNMENTAL GRANTS REFUNDABLE	(4,373)
LOANS TO STUDENTS	5,840
NET CASH USED BY OPERATING ACTIVITIES	**$ (227,517)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
STOCK GIFTS	$ 31,729
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	17,332
NET UNREALIZED GAINS	237,197
EXTERNALLY MANAGED TRUSTS	112,821
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ 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 (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. These entities may be reported in the financial statements of the University in one of two ways: the component units' amounts may be blended with the amounts reported by the University, or they may be shown in a separate column, depending on the application of the criteria of Governmental Accounting Standards Board (GASB) code section 2600, *"Reporting Entity and Component Unit Presentation and Disclosure"*. All component units of the University meet the criteria for blending except Valley Medical Center. It is reported discretely since it has a separate board of directors, it does not provide services exclusively to the University, and it is not a nonprofit corporation with the University being the sole corporate member.

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. NWH 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 $370,770,000 in 2018.

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 the SOM. UWP had operating revenues of $329,817,000 in 2018.

UW Medicine Neighborhood Clinics (Neighborhood Clinics)

The Neighborhood Clinics is a Washington nonprofit corporation formed in 1996 for the benefit of the SOM, UWP and its affiliated medical centers, HMC and UWMC, exclusively for charitable, scientific and educational purposes. Neighborhood Clinics was organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of the SOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of $27,851,000 in 2018.

REAL ESTATE ENTITIES

The entities listed below are nonprofit corporations that were formed to acquire or construct certain real properties for the benefit of the University in fulfilling its educational, medical or scientific research missions. These entities issue tax-exempt and taxable bonds to finance these activities.

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

These entities collectively had net capital assets of $360,479,000, and long-term debt of $370,803,000, in 2018. 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. Under this agreement, VMC is managed as a discretely presented component unit of the University. VMC owns and operates a 321-bed full-service acute care hospital and 45 clinics located throughout southeast King County. The audited financial statements of VMC are available by contacting VMC at 400 S. 43rd Street, Renton, Washington 98055 or online at the following address: valleymed.org/about-us/financial-information.

JOINT VENTURES

The University, together with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center, established the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA has a one-third interest. The University accounts for its interest in the SCCA under the equity method and has recorded $159,149,000 in Other Assets, together with $17,332,000 in Investment Income, for its share of the joint venture in 2018.

The University and Seattle Children's Hospital established Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care, charitable, educational, and scientific missions. CUMG employs SOM faculty physicians, and bills and collects for their services as an agent for the SOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (Note 5) includes amounts due from CUMG of $17,552,000 in 2018.

BASIS OF ACCOUNTING

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

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

On July 1, 2017, the University 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, the University 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 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, implementation of this Statement resulted in the restatement of fiscal year 2018 beginning Unrestricted Net Position, reducing it by $1,660,447,000. The University's Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows present only one fiscal year, since the change in accounting treatment required by Statement No. 75 is not able to be applied to the prior fiscal year due to the constraints of available information.

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 changes 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 will no longer be recognized when the asset is received and upon periodic revaluation, but will instead be deferred and recognized at termination of the contract. This change has resulted in the restatement of fiscal year 2018 beginning

Restricted Non-Expendable Net Position, reducing it by $47,172,000, together with an increase in Deferred Inflows. Where the University has a lead interest in a trust that is not managed by the University, revenues will now be 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, the same as prior to GASB 81. This change has also resulted in the restatement of fiscal year 2018 beginning Restricted Non-Expendable Net Position, increasing it by $112,820,000, together with an increase in Investments. The net impact of implementing these accounting changes has been an increase in beginning Restricted Non-Expendable Net Position of $65,648,000.

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**

ACCOUNTING STANDARDS IMPACTING THE FUTURE

In November 2016, the GASB issued Statement No. 83, *"Certain Asset Retirement Obligations,"* which will be effective for the fiscal year ending June 30, 2019. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments that have legal obligations to perform future tangible asset retirement activities will need to recognize a liability and offsetting deferred outflow of resources when incurred and reasonably estimable. The basis of the estimate is the current value of the future outlays expected to be incurred, and is to be adjusted annually for inflation and any changes of relevant factors. The deferral is to be recognized as expense in a systematic and rational manner over the life of the tangible capital asset. The liability is derecognized as retirement costs are paid. Required disclosures include information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The University's 2015 Decommissioning Funding Plan, prepared in accordance with Washington Administrative Code 246-235-075, has estimated disposal and clean-up costs related to several Cyclotrons used in research and medical services of approximately $100,000,000 and discussions are underway to determine the applicability of this standard to University X-ray and MRI machines.

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

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

In March 2018, the GASB issued Statement No. 88, *"Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,"* which will be effective for the fiscal year ending June 30, 2019. This Statement requires that additional essential information related to debt be disclosed in the Notes to 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. 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.

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 $10,000,000 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 to be reported as an investment for financial reporting purposes and measured using the equity method. Majority equity interests that do not meet the definition of an investment are to be reported as a component unit. This Statement also provides guidance for valuing the acquisition of assets and liabilities of 100% 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. Initial review of the University's equity interests has not revealed any majority interests that would fall within the scope of this Statement, however, further review is ongoing.

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles involves management estimates that affect the reported amounts of assets, liabilities, deferrals, revenues and expenses during the reporting period. Actual results could differ from those estimates; however, in each case, the University believes that allowances, reserves and estimates of expected liabilities are adequate.

The University estimates the pollution remediation liability (Note 9) by reviewing the current status of known polluted sites and developing estimates of cleanup costs. These estimates are subject to change due to improvements in technology, inflation, changes in the scope of work, and the pursuit of reimbursement from other responsible parties.

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

The University's share of pension 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 (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.

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.

OTHER ACCOUNTING POLICIES

Investments. Investments are 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.

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

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

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

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

Interest incurred on capital asset-related debt was $91,799,000 in 2018. The University capitalized $15,157,000 of this cost in 2018.

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

Cost-Sharing Pension Plans. The net pension asset or liability is measured as the University's proportionate share of the collective total pension liability, less the fiduciary net position, of the cost-sharing pension plans in which the University participates. The total pension liability is determined by discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. The University's proportionate share is determined based on the relationship of University contributions to total contributions to the plan by all participating employers. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over five years. Contributions made to the plan subsequent to the measurement date and prior to the University's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the 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 total pension liability is June 30, 2018.

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.

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 3.3% 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 Non-Expendable 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, 2018 was $126,990,000, and is included in Accounts Payable and Accrued Liabilities. Sick leave accrued at June 30, 2018 was $49,635,000 and is included in Long-Term Liabilities (Note 9).

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

Net Patient Service Revenue. Patient service revenue is recorded at the estimated net realizable amounts from patients, third-party 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 2018 was $21,943,000.

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

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

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

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

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

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

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

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

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.

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, and is recorded as a noncurrent asset on the Statement of Net Position. The fair value of these funds approximates the carrying value.

NOTE 4:

Student Loans Receivable

Net student loans of $63,541,000 at June 30, 2018 consist of $48,576,000 from Federal programs, and $14,965,000 from University programs. Interest income from student loans for the year ended June 30, 2018 was $1,673,000. These unsecured loans are made primarily to students who reside in the state of Washington.

NOTE 5:

Accounts Receivable

The major components of accounts receivable as of June 30, 2018 were:

(Dollars in thousands)	**2018**
NET PATIENT SERVICES	$ 319,956
GRANTS AND CONTRACTS	204,602
DUE FROM OTHER AGENCIES	86,993
INVESTMENTS	57,092
SALES AND SERVICES	34,816
TUITION	12,563
STATE APPROPRIATIONS	7,688
ROYALTIES	3,090
OTHER	31,390
SUBTOTAL	758,190
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(19,447)
TOTAL	**$ 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"), which consists of both Board of Regents' members and external investment professionals, serves as an advisory board to UWINCO.

The University holds significant amounts of investments that are measured at fair value on a recurring basis. Shown below is a tabular format for disclosing the levels within the fair value hierarchy. The three-tier hierarchy of inputs is summarized as follows:

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date
- Level 2 Inputs – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly
- Level 3 Inputs – Unobservable inputs for an asset or liability

TABLE 1 – INVESTMENTS *(Dollars in thousands)*

		Fair Value Measurement Inputs		
INVESTMENTS BY FAIR VALUE LEVEL	2018	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 ASSETS 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)*

2018	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
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. For 2018, approximately 72% of the value of the investments in this category can be redeemed within 90 days, and 92% can be redeemed within one year.
2. **Absolute Return:** This category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and/or hedges against market downturns. Approximately 88% 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. Approximately 15% 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, 2018, the Invested Funds Pool totaled $1,788,142,000. The Invested Funds Pool also owns units in the Consolidated Endowment Fund (CEF) valued at $643,098,000 at June 30, 2018. 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 year 2018. University Advancement received 3% of the average balances in endowment operating and gift accounts in fiscal year 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 (0.80%) and offsetting the internal cost of managing endowment assets (0.20%).

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value is $398,000 at June 30, 2018.

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 $62,260,000 in fiscal year 2018 from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year include the net appreciation (depreciation) of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the year ended June 30, 2018 was $299,457,000.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2018, the University had outstanding commitments to fund alternative investments of $425,526,000. 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 investing in various derivative instruments, including futures, swaps and forwards, to manage exposures within or across the portfolio and to improve the portfolio's risk/return profile.

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

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

Notational Amount as of June 30		Fair Value as of June 30		Change in Fair Value	
DESCRIPTION	2018	ASSET CLASSIFICATION	2018	INCOME CLASSIFICATION	2018
OPTIONS PURCHASED-PUTS	$ 161	INVESTMENTS	$ 137	INVESTMENT INCOME	$ (24)
SWAPS FIXED INCOME - LONG	119,807	INVESTMENTS	119,010	INVESTMENT INCOME	(797)
SWAPS FIXED INCOME SHORT	(119,001)	INVESTMENTS	(115,391)	INVESTMENT INCOME	3,610
FUTURES ON CONTRACTS - LONG	180,216	INVESTMENTS	180,268	INVESTMENT INCOME	52
FUTURES ON CONTRACTS - SHORT	(64,727)	INVESTMENTS	(65,075)	INVESTMENT INCOME	(348)

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, 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 1.74 years at June 30, 2018.

CREDIT RISK

Fixed income securities are also subject to credit risk, which is the risk that the issuer or other counterparty to a financial instrument will not fulfill its obligations, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University Investment Policies limit fixed income exposure to investment grade assets. The Investment Policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of

"AA" as issued by a nationally recognized rating organization. The Invested Funds' liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 25% of their portfolios in government and government agency issues. The Investment Policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investment to investment grade credits.

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

Duration and credit risk figures at June 30, 2018 exclude $16,274,000 of fixed income securities held by component units. These amounts make up 0.77% 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, 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)*

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 June 30, 2018 of $1,458,133,000.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	**2018**
CHINESE RENMINBI (CNY)	$ 232,898
EURO (EUR)	161,709
INDIAN RUPEE (INR)	154,962
JAPANESE YEN (JPY)	141,518
CANADIAN DOLLAR (CAD)	97,112
BRAZIL REAL (BRL)	78,752
BRITISH POUND (GBP)	78,660
SOUTH KOREAN WON (KRW)	58,605
HONG KONG DOLLAR (HKD)	55,290
SWISS FRANC (CHF)	41,690
MEXICAN PESO (MXN)	33,643
TAIWANESE DOLLAR (TWD)	33,151
RUSSIAN RUBLE (RUB)	30,289
AUSTRALIAN DOLLAR (AUD)	24,972
SWEDISH KRONA (SEK)	21,674
ARGENTINE PESO (ARS)	19,925
INDONESIAN RUPIAH (IDR)	17,949
SOUTH AFRICAN RAND (ZAR)	17,856
PHILIPPINE PESO (PHP)	13,943
REMAINING CURRENCIES	143,535
TOTAL	**$ 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 balance as of June 30, 2018 of $152,233,000 represents the asset value net of operating liabilities and long-term debt on the property. The asset value is comprised primarily of land, buildings, building improvements and operating assets.

Total debt outstanding on the Metropolitan Tract was $31,300,000 as of June 30, 2018, which will be repaid by proceeds from the properties. The debt was issued in 2015 to refund commercial paper and acquire the leasehold on the Cobb Building. This amount is reflected in the balance for Metropolitan Tract on the Statement of Net Position, and is therefore not included in Note 9 or Note 11.

In 2014, the University entered into an agreement with Wright Runstad to undertake redevelopment of the Rainier Square (Predevelopment Agreement). The agreement commenced on November 1, 2014 and expires upon the completion of certain development milestones. The Predevelopment Agreement provides for the execution of a ground lease for the development of a multi-use office tower (Rainier Square Tower Lease) and a separate ground lease for a luxury hotel (Rainier Square Hotel Lease).

On September 12, 2017, the University executed the Rainier Square Tower Lease with Wright Runstad and amended the Predevelopment Agreement to allow for a separate future closing of the Rainier Square Hotel Lease. The Tower Lease has an 80 year term, requires Wright Runstad to complete development of the approved building in four years, is unsubordinated, and requires minimum ground rent during construction and 8% of adjusted gross revenue from the project thereafter. Demolition of the old Rainier Square building occurred in November 2017 and construction of the new Rainier Square Tower commenced thereafter.

In connection with the Tower Lease, the University executed an Operating Agreement with Wright Runstad that regulates how the existing Rainier Tower and the lessees of the Rainier Square Tower and the Rainier Square Hotel will operate shared mix use space on the Rainier Square block. The Predevelopment Agreement still applies to the Rainier Square Hotel Lease site.

NOTE 8:

Capital Assets

Capital asset activity for the period ended June 30, 2018 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2017	Additions/ Transfers	Retirements	Balance at June 30, 2018
LAND	$ 144,211	$ 413	$ –	$ 144,624
INFRASTRUCTURE	310,088	1,265	55	311,298
BUILDINGS	6,151,073	286,982	2,606	6,435,449
FURNITURE, FIXTURES AND EQUIPMENT	1,476,943	106,634	67,257	1,516,320
LIBRARY MATERIALS	364,491	14,253	1,989	376,755
CAPITALIZED COLLECTIONS	7,248	117	–	7,365
INTANGIBLE ASSETS	208,528	12,462	302	220,688
CONSTRUCTION IN PROGRESS	349,699	221,651	4,562	566,788
INTANGIBLES IN PROCESS	10,510	(2,190)	823	7,497
TOTAL COST	**9,022,791**	**641,587**	**77,594**	**9,586,784**
LESS ACCUMULATED DEPRECIATION/AMORTIZATION:				
INFRASTRUCTURE	120,556	8,708	55	129,209
BUILDINGS	2,600,309	218,775	2,597	2,816,487
FURNITURE, FIXTURES AND EQUIPMENT	1,193,473	116,503	58,535	1,251,441
LIBRARY MATERIALS	273,171	14,140	1,521	285,790
INTANGIBLE ASSETS	98,248	25,878	–	124,126
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	**4,285,757**	**384,004**	**62,708**	**4,607,053**
CAPITAL ASSETS, NET	**$ 4,737,034**	**$ 257,583**	**$ 14,886**	**$ 4,979,731**

NOTE 9:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

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

(Dollars in thousands)	Balance at June 30, 2017	Additions/ Transfers	Reductions	Balance at June 30, 2018	Current Portion 2018
BONDS PAYABLE:					
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	$ 109,199	$ –	$ 13,890	$ 95,309	$ 13,920
REVENUE BONDS PAYABLE (NOTE 11)	2,112,330	133,785	77,250	2,168,865	61,375
UNAMORTIZED PREMIUM ON BONDS	157,204	22,800	17,106	162,898	17,535
TOTAL BONDS PAYABLE	**2,378,733**	**156,585**	**108,246**	**2,427,072**	**92,830**
NOTES PAYABLE AND CAPITAL LEASES:					
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED (NOTE 11)	26,639	6,537	5,620	27,556	5,507
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	1,479	86	134	1,431	1,351
CAPITAL LEASE OBLIGATIONS (NOTE 10)	12,829	216	2,943	10,102	2,556
TOTAL NOTES PAYABLE AND CAPITAL LEASES	**40,947**	**6,839**	**8,697**	**39,089**	**9,414**
OTHER LONG-TERM LIABILITIES:					
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	54,683	8,214	5,712	57,185	5,712
POLLUTION REMEDIATION LIABILITY (NOTE 1)	21,000	–	–	21,000	1,000
HMC ITS FUNDING (NOTE 14)	30,258	3,025	3,564	29,719	11,500
SICK LEAVE (NOTE 1)	46,771	6,066	3,202	49,635	4,061
SELF-INSURANCE (NOTE 17)	78,484	42,033	8,307	112,210	12,000
OTHER NONCURRENT LIABILITIES	19,206	2,133	145	21,194	–
TOTAL OTHER LONG-TERM LIABILITIES	**250,402**	**61,471**	**20,930**	**290,943**	**34,273**
TOTAL LONG-TERM LIABILITIES	**$ 2,670,082**	**$ 224,895**	**$ 137,873**	**$ 2,757,104**	**$ 136,517**

COMPONENT UNIT

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

(Dollars in thousands)	Balance at June 30, 2017	Additions/ Transfers	Reductions	Balance at June 30, 2018	Current Portion 2018
VALLEY MEDICAL CENTER					
LIMITED TAX GENERAL OBLIGATION BONDS	$ 238,359	$ –	$ 8,509	$ 229,850	$ 8,260
REVENUE BONDS	14,318	–	1,725	12,593	1,870
BUILD AMERICA BONDS	61,155	–	–	61,155	–
NOTES PAYABLE & OTHER	5,555	561	244	5,872	78
TOTAL LONG-TERM LIABILITIES	**$ 319,387**	**$ 561**	**$ 10,478**	**$ 309,470**	**$ 10,208**

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments as of June 30, 2018, are as follows:

CAPITAL LEASES

Year *(Dollars in thousands)*	Future Payments
2019	$ 2,791
2020	2,383
2021	2,054
2022	1,851
2023	1,494
THEREAFTER	120
TOTAL MINIMUM LEASE PAYMENTS	10,693
LESS: AMOUNT REPRESENTING INTEREST COSTS	591
PRESENT VALUE OF MINIMUM PAYMENTS	**$ 10,102**

OPERATING LEASES

The University has certain lease agreements in effect that are considered operating leases, which are primarily for leased building space. During the year ended June 30, 2018, the University recorded rent expense of $87,508,000 for these leases. Future lease payments as of June 30, 2018 are as follows:

Year *(Dollars in Thousands)*	**Future Payments**
2019	$ 77,380
2020	72,815
2021	62,720
2022	54,870
2023	48,397
2024 - 2028	115,060
2029 - 2033	52,831
2034 - 2038	56,224
2039 - 2043	63,917
2044 - 2048	75,102
2049 - 2053	82,084
2054 - 2058	97,545
2059 - 2063	109,630
TOTAL MINIMUM LEASE PAYMENTS	**$ 968,575**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2018 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 1.40% to 6.62%. Debt service requirements at June 30, 2018 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**
2019	$ 13,920	$ 4,473	$ 61,375	$ 101,965	$ 6,858	$ 1,001
2020	10,275	3,824	63,015	99,242	5,565	813
2021	10,765	3,305	66,640	96,362	5,216	624
2022	11,230	2,753	69,685	93,194	2,901	469
2023	11,790	2,162	69,345	89,858	1,304	355
2024 – 2028	35,705	3,528	370,220	397,394	4,509	1,089
2029 – 2033	1,624	33	383,650	304,007	2,634	264
2034 – 2038	–	–	421,580	209,936	–	–
2039 – 2043	–	–	477,385	95,182	–	–
2044 – 2048	–	–	185,970	14,142	–	–
TOTAL PAYMENTS	**$ 95,309**	**$ 20,078**	**$ 2,168,865**	**$ 1,501,282**	**$ 28,987**	**$ 4,615**

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 15, 2018, the University issued $133,785,000 in General Revenue & Refunding Bonds, 2018, at a premium of $22,800,000. 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 $125,881,000 in commercial paper. The 2018 bonds have a coupon rate of 5.00%. The average life of the 2018 General Revenue Bonds is 15.62 years with final maturity on April 1, 2048.

COMMERCIAL PAPER PROGRAM

The University has a commercial paper program with a maximum borrowing limit of $250,000,000, payable from University general revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2018, there was $90,000,000 in outstanding commercial paper recorded in Other Current Liabilities on the Statement of Net Position.

During fiscal year 2018, the University issued $178,000,000 of commercial paper debt. $125,881,000 of this was refunded with General Revenue Bonds, Series 2018, $6,119,000 was refunded with University funds and $23,000,000 was refunded with state appropriated funds.

SUBSEQUENT DEBT ACTIVITY

On July 16, 2018, the University repaid $25,000,000 of commercial paper debt with University funds.

On August 8, 2018, the University issued $35,000,000 of commercial paper. The proceeds will be used to fund the Life Sciences Building and Phase 4a of the Housing Master Plan.

NOTE 12:

Deferred Outflows and Deferred Inflows of Resources

The composition of deferred outflows and deferred inflows of resources at June 30 are summarized as follows:

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

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 year ended June 30, 2018 are summarized as follows:

OPERATING EXPENSES *(Dollars in thousands)*	**2018**
INSTRUCTION	$ 1,267,799
RESEARCH	785,223
PUBLIC SERVICE	48,916
ACADEMIC SUPPORT	511,931
STUDENT SERVICES	51,950
INSTITUTIONAL SUPPORT	251,569
OPERATION & MAINTENANCE OF PLANT	201,101
SCHOLARSHIPS & FELLOWSHIPS	149,378
AUXILIARY ENTERPRISES	494,956
MEDICAL-RELATED	1,711,969
DEPRECIATION/AMORTIZATION	384,004
TOTAL OPERATING EXPENSES	**$ 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. The University's financial statements do, however, include accounts receivable from HMC of $32,455,000 as of June 30, 2018, as well as HMC investments of $3,832,000, current accrued liabilities of $32,554,000 and long-term liabilities of $29,719,000.

Under an annual agreement, HMC provides strategic funding to Neighborhood Clinics. Funding from HMC to Neighborhood Clinics was $11,334,000 during fiscal year 2018, and is presented as Other Operating Revenue in the Statement of Revenues, Expenses and Changes in Net Position.

UW Medicine Information Technology operates as a self-sustaining activity of the University (ITS department). The ITS department records enterprise-wide information technology capital assets that are purchased for use by UW Medicine entities. The HMC ITS funding reflected in long-term liabilities (Note 9) of $29,719,000 at June 30, 2018, represents HMC's funding of the enterprise-wide information technology capital assets which will be included in the recharge rates of the ITS department over the useful life of the assets.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2018, the UWF transferred $132,469,000 to the University in gifts and grants received on its behalf; these are included in the financial statements of the University. The remaining amounts retained by the UWF are not significant to the University's financial statements.

The University of Washington Alumni Association is a tax-exempt entity that was established to connect and celebrate alumni and to support the University's mission. The Alumni Association received $3,989,000 from the University in support of its operations in fiscal year 2018. 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, 2018, the University's share of the total unfunded liabilities associated with the defined-benefit pension plans administered by the DRS was $772,371,000. The liability associated with the defined benefit pension plan administered by the University was $412,481,000, but does not reflect assets segregated in a separate investment account to pay future retiree benefits of $261,087,000. For the year ended June 30, 2018, total pension expense recorded by the University related to both the DRS and University plans was $92,338,000.

PLANS ADMINISTERED BY DRS

PLAN DESCRIPTION

Public Employees' Retirement System

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

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

Teachers' Retirement System

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

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

Law Enforcement Officers' and Fire Fighters' Retirement System

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

VESTING AND BENEFITS PROVIDED

PERS Plan 1 and TRS Plan 1

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

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

PERS Plan 2/3 and TRS Plan 2/3

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

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

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

LEOFF Plan 2

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

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

FIDUCIARY NET POSITION

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

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

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

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 2018 pension liability is based on an OSA 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:

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement date of June 30, 2017, are summarized in the following table:

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

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

DISCOUNT RATE

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

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

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

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

DISCOUNT RATE SENSITIVITY – NET PENSION LIABILITY (ASSET)

(Dollars in thousands)		2018	
Plan	**1% Decrease**	**Current Discount Rate**	**1% Increase**
PERS 1	$ 487,796	$ 400,426	$ 324,746
PERS 2/3	980,851	364,073	(141,285)
TRS 1	7,555	6,076	4,795
TRS 2/3	6,099	1,796	(1,699)
LEOFF 2	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% of compensation reported to DRS. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The contribution rates and required contributions for each DRS plan in which the University participates are shown in the table below.

Description *(Dollars in Thousands)*	**PERS 1**	**PERS 2/3**[a]	**TRS 1**	**TRS 2/3**[a]	**LEOFF 2**
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, 2018 was June 30, 2017. Employer contributions received and processed by the DRS during the fiscal year ended June 30, 2017 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, 2017 Schedules of Employer and Nonemployer Allocations. The University's proportionate share for each DRS plan is shown in the table below.

PROPORTIONATE SHARE					
PLAN	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
YEAR ENDED JUNE 30, 2018	8.44%	10.48%	0.20%	0.19%	0.22%

UNIVERSITY AGGREGATED BALANCES

The University's aggregated balance of net pension liabilities and net pension asset as of June 30, 2018 is presented in the table below.

(Dollars in Thousands)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
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, 2018	$ 23,229	$ 55,060	$ 1,747	$ 927	$ (144)	$ 80,819

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*						
2018	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
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 [a]	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, 2019

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*						
2018	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
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**
2019	$ (10,100)	$ (34,293)	$ (189)	$ 27	$ (335)	$ (44,890)
2020	3,189	13,561	71	361	43	17,225
2021	(741)	(7,525)	(6)	144	(71)	(8,199)
2022	(7,291)	(38,522)	(133)	(168)	(323)	(46,437)
2023	-	3,793	-	84	13	3,890
THEREAFTER	-	4,931	-	317	60	5,308
TOTAL	**$ (14,943)**	**$ (58,055)**	**$ (257)**	**$ 765**	**$ (613)**	**$ (73,103)**

(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, 2018 was 16,815.

Funding Policy

Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches 100% of employee contributions. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employer contributions for the year ended June 30, 2018 were $122,840,000.

University of Washington Supplemental Retirement Plan (UWSRP)

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	As of June 30, 2018
ACTIVE EMPLOYEES	7,046
INACTIVE EMPLOYEES RECEIVING BENEFITS	696
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	4

VESTING AND BENEFITS PROVIDED

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

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

Notes to Financial Statements (continued)

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal year ending June 30, 2018 were $6,130,000.

TOTAL PENSION LIABILITY (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS, TRS, and LEOFF2), which have trusted assets and, therefore, are reported as a net pension liability. The University has set aside $261,087,000 to pay future UWSRP retiree benefits. These assets are segregated in a separate investment account, and included in Investments, Net of Current Portion on the Statement of Net Position.

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY *(Dollars in thousands)*	
2018	
BEGINNING BALANCE	$ 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)
ENDING BALANCE	**$ 412,481**

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

UWSRP pension expense for the fiscal year ending June 30, 2018 was $11,519,000.

ACTUARIAL ASSUMPTIONS

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

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL PENSION LIABILITY *(Dollars in thousands)*	
2018	
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 6/30/2018
TPL MEASUREMENT AT DISCOUNT RATE	$ 412,481
TPL DISCOUNT RATE INCREASED 1%	$ 361,760
TPL DISCOUNT RATE DECREASED 1%	$ 473,624

Material assumption changes during the 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 also decreased the TPL).

DEFERRED INFLOWS OF RESOURCES

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

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

AMORTIZATION OF DEFERRED INFLOWS OF RESOURCES [(a)] *(Dollars in thousands)*	
Year	
2019	$ (19,397)
2020	(19,397)
2021	(19,397)
2022	(19,397)
2023	(19,397)
THEREAFTER	(25,213)
TOTAL	**$ (122,198)**

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

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. 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 $150 per member per month 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 the University's PEBB membership data as of June 30, 2018:

2018	(Measurement Date 2017)
ACTIVE EMPLOYEES	32,648
INACTIVE EMPLOYEES RECEIVING BENEFITS	8,626
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	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 effect on the University's financial statements.

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*	
2018	
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 PERCENT 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 6/30/17 (MEASUREMENT DATE)
POST-RETIREMENT PARTICIPATION PERCENTAGE	65.00%
TOL MEASUREMENT AT DISCOUNT RATE	$ 1,565,213
TOL DISCOUNT RATE INCREASED 1%	$ 1,298,594
TOL DISCOUNT RATE DECREASED 1%	$ 1,909,753
TOL MEASUREMENT AT HEALTHCARE COST TREND RATE	$ 1,565,213
TOL HEALTHCARE COST TREND RATE INCREASED 1%	$ 1,968,827
TOL HEALTHCARE COST TREND RATE DECREASED 1%	$ 1,264,476

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 2.85% and the discount rate used for the ending TOL was 3.58%, resulting in a reduction of the TOL.

CHANGES IN THE TOTAL OPEB LIABILITY

The TOL for the state of Washington was determined by an actuarial valuation, conducted by the OSA, using data as of January 1, 2017. The TOL reported at June 30, 2018 was calculated as of the valuation date, and projected to the measurement date of June 30, 2017. 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 26.9% and 27.0% as of June 30, 2018 and 2017, 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 *(Dollars in thousands)*	
2018	
BEGINNING BALANCE	$ 1,685,909
SERVICE COST	106,112
INTEREST ON TOL	49,703
CHANGE IN ASSUMPTIONS	(242,454)
BENEFIT PAYMENTS	(25,330)
CHANGES IN PROPORTIONATE SHARE	(8,727)
ENDING BALANCE	**$ 1,565,213**

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

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

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

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in Thousands)*		
2018		
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY [(a)]	$	24,771

(a) Recognized as a reduction of the total OPEB Liability as of June 30, 2019

DEFERRED INFLOWS OF RESOURCES *(Dollars in Thousands)*		
2018		
CHANGE IN ASSUMPTIONS	$	215,515
CHANGES IN PROPORTION		7,641
TOTAL	**$**	**223,156**

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

AMORTIZATION OF DEFERRED INFLOWS OF RESOURCES [(a)] *(Dollars in Thousands)*		
YEAR		
2019	$	(27,894)
2020		(27,894)
2021		(27,894)
2022		(27,894)
2023		(27,894)
THEREAFTER		(83,686)
TOTAL	**$**	**(223,156)**

(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, 2018 were $105,944,000. These expenditures will be funded from institutional reserves, debt proceeds and state appropriations.

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

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

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

The self-insurance reserve is estimated through an actuarial calculation and included in Long-Term Liabilities. Changes in the self-insurance reserve for the year ended June 30, 2018 are noted below:

(Dollars in thousands)		**2018**
RESERVE AT BEGINNING OF FISCAL YEAR	$	78,484
INCURRED CLAIMS AND CHANGES IN ESTIMATES		42,033
CLAIM PAYMENTS		(8,307)
RESERVE AT END OF FISCAL YEAR	**$**	**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 Seattle Cancer Care Alliance 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 such deficiencies are remedied by November 15, 2018, 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 a 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, 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, 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 REVENUE	**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, AS RESTATED	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, 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 THE 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)	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	8.44%	8.46%	8.33%	8.28%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 400,426	$ 454,341	$ 435,853	$ 417,231
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$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	38.38%	46.01%	47.02%	47.29%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	61.24%	57.03%	59.10%	61.19%

(Amounts determined as of the measurement date)

PERS 1 – SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 1,582	$ 1,788	$ 2,155	$ 2,058
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 1,578	$ 1,769	$ 2,155	$ 2,059
CONTRIBUTION DEFICIENCY (EXCESS)	$ 4	$ 19	$ –	$ (1)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$1,074,943	$1,043,335	$ 987,405	$ 927,002
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	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)	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	10.48%	10.36%	10.20%	10.00%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 364,073	$ 521,777	$ 364,303	$ 202,225
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$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	35.44%	53.91%	40.27%	23.60%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	90.97%	85.82%	89.20%	93.29%

(Amounts determined as of the measurement date)

PERS 2/3 – SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 134,239	$ 114,852	$ 107,424	$ 83,323
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 134,366	$ 114,968	$ 108,413	$ 83,342
CONTRIBUTION DEFICIENCY (EXCESS)	$ (127)	$ (116)	$ (989)	$ (19)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$1,062,415	$1,027,338	$ 967,955	$ 904,661
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	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)	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.20%	0.16%	0.13%	0.10%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 6,076	$ 5,463	$ 4,049	$ 2,881
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 10,967	$ 7,813	$ 5,790	$ 3,905
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	55.40%	69.92%	69.93%	73.78%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	65.58%	62.07%	65.70%	68.77%

(Amounts determined as of the measurement date)

TRS 1 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

Unaudited – see accompanying notes to financial statements

Schedules of Required Supplementary Information (continued)

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

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

(Amounts determined as of the measurement date)

TRS 2/3 – SCHEDULE OF CONTRIBUTIONS

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

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

(Amounts determined as of the measurement date)

LEOFF 2 – SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 400	$ 348	$ 384	$ 303
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 403	$ 352	$ 384	$ 300
CONTRIBUTION DEFICIENCY (EXCESS)	$ (3)	$ (4)	$ –	$ 3
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 4,487	$ 4,061	$ 4,474	$ 3,534
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	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 THE TOTAL PENSION LIABILITY (TPL)

(Dollars in thousands)	2018	2017
TOTAL PENSION LIABILITY – BEGINNING	$ 438,753	$ 512,372
SERVICE COST	14,788	19,892
INTEREST ON TPL	16,127	15,097
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE	(33,952)	(74,919)
CHANGES IN ASSUMPTIONS	(17,105)	(28,553)
BENEFIT PAYMENTS	(6,130)	(5,136)
TOTAL PENSION LIABILITY - ENDING	**$ 412,481**	**$ 438,753**
UWSRP COVERED-EMPLOYEE PAYROLL	$ 759,688	$ 801,161
TOTAL PENSION LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	54.30%	54.76%

Unaudited – see accompanying notes to financial statements

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL)	
(Dollars in thousands)	**2018**
TOTAL OPEB LIABILITY-BEGINNING	$ 1,685,909
SERVICE COST	106,112
INTEREST ON TOL	49,703
CHANGE IN ASSUMPTIONS	(242,454)
BENEFIT PAYMENTS	(25,330)
CHANGES IN PROPORTIONATE SHARE	(8,727)
TOTAL OPEB LIABILITY–ENDING	**$ 1,565,213**
OPEB COVERED-EMPLOYEE PAYROLL	$ 2,529,127
TOTAL OPEB LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	61.89%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

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 of the RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2015, and ending June 30, 2017, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased in over three biennia for PERS Plans 1, 2 and 3 and TRS Plans 1, 2 and 3.

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

Plans administered by the University

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

Material assumption changes during the measurement period include updating the GASB 73 discount rate from 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 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 75, paragraph 4 to pay related benefits.

Material assumption changes during the period was 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.

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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)
Patient activity statistics for such fiscal year, generally of the type provided in the table under the heading "UW Medicine – Patient Activity Statistics"	Section 3 (Supplemental Bondholder Information)
Financial information for UW Medical Center, Valley Hospital, and Northwest Hospital 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 – 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]	
	2017 FY18	2018 FY19
UNDERGRADUATE		
Freshmen		
Applied	50,007	50,965
Accepted	25,017	26,490
Percent Accepted to Applied	50%	52%
Enrolled	8,158	8,571
Percent Enrolled to Accepted	33%	32%
Transfers		
Applied	9,718	9,123
Accepted	4,974	5,041
Percent Accepted to Applied	51%	55%
Enrolled	3,218	3,264
Percent Enrolled to Accepted	65%	65%
Total Undergraduate FTE [2]		
Bothell	5,026	5,060
Seattle	30,295	31,004
Tacoma	4,204	4,291
Total All Campuses	39,525	40,355
Totals Undergraduate Headcount		
Bothell	5,370	5,411
Seattle	31,843	32,594
Tacoma	4,457	4,573
Total All Campuses	41,670	42,578
Additional Enrollment Statistics		
Percent Non-Resident Students	29%	34%
Percent Retention (Freshman to Sophomore)	92%	92%
Mean GPA	3.71	3.73
Median GPA	3.80	3.81
% of Class Reporting GPA Data	100%	100%
Mean Combined SAT Scores	1263	1293
Median Combined SAT Scores	1290	1320
% of Class Reporting SAT Data	76%	76%
GRADUATE		
Applied	34,150	34,421
Accepted	10,700	11,153
Percent Accepted to Applied	31%	32%
Enrolled	4,605	4,656
Percent Enrolled to Accepted	43%	42%
Graduate FTE [2]	14,652	15,170
Graduate Headcount	14,059	14,498

(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.

APPLICATIONS, STUDENTS & ENROLLMENT CONTINUED

	AUTUMN QUARTER [1]	
	2017 FY18	2018 FY19
PROFESSIONAL		
Law		
Applied	2,301	2,946
Accepted	757	778
Enrolled	166	174
Law Headcount	483	477
Pharmacy		
Applied	366	403
Accepted	153	151
Enrolled	105	108
Pharmacy Headcount	390	407
Dentistry		
Applied	944	486
Accepted	95	105
Enrolled	63	63
Dental Headcount	265	269
Medicine		
Applied	8,607	9,024
Accepted	330	337
Enrolled	270	271
Medicine Headcount	988	1,023
Total Professional FTE	3,978	3,980
Total Professional Headcount	2,126	2,176
Tuition and Fees (full academic year)		
Undergraduate Resident	$10,974	$11,207
Undergraduate Non-Resident	$35,538	$36,558
Graduate Resident	$16,272	$16,590
Graduate Non-Resident	$28,320	$28,881
Business Masters Resident	$33,339	$34,323
Business Masters Non-Resident	$48,606	$50,046
Law Resident	$34,311	$35,988
Law Non-Resident	$44,979	$47,190
Pharmacy Resident	$30,297	$31,482
Pharmacy Non-Resident	$50,280	$52,263
Medical Resident	$35,745	$36,801
Medical Non-Resident	$65,451	$66,753
Dentistry Resident	$48,255	$48,270
Dentistry Non-Resident	$73,827	$73,842
University FTE		
Undergraduate	39,525	40,355
Graduate	14,652	15,170
Professional	3,978	3,980
Total University FTE	58,155	59,505
University Headcount		
Undergraduate	41,670	42,578
Graduate	14,059	14,498
Professional	2,126	2,176
Total University Headcount	57,855	59,252

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

FACULTY & OTHER DATA

	AUTUMN QUARTER	
	2017 FY18	2018 FY19
FACULTY DATA (1)		
Number of faculty	4,380	4,369
Tenure rate (%)	33%	35%
Percent holding terminal degree (Ph.D., MD, DDS)	84%	82%
HOUSING AND DINING		
Room and Board (2)	$11,251	$11,925
Autumn Opening Occupancy (3)	7,294	8,365
Occupancy (4)	118%	109%

(1) Starting in 2017 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, 2017 FY18	2018 FY19
UW MEDICAL CENTER, NORTHWEST AND VALLEY FINANCIAL INFORMATION ($000)		
UW Medical Center		
Total Operating Revenue	$ 1,182,856	$ 1,260,010
Operating Margin	(4.0%)	(1.7%)
Net Income	$ (44,323)	$ (16,645)
Northwest		
Total Operating Revenue	$ 358,700	$ 370,770
Operating Margin	(9.9%)	(7.7%)
Net Income	$ (26,314)	$ (21,010)
Valley		
Total Operating Revenue	$ 576,042	$ 636,725
Operating Margin	(7.6%)	(0.1%)
Net Income	$ (21,930)	$ 40,234

	2017 FY18	2018 FY19
UW MEDICAL CENTER, NORTHWEST AND VALLEY PATIENT STATISTICS		
UW Medical Center		
Admissions	18,964	19,350
Outpatient Visits	341,014	353,718
Emergency Visits	27,730	28,279
Northwest		
Admissions	9,945	9,935
Outpatient Visits	174,257	169,370
Emergency Visits	34,150	33,651
Valley		
Admissions	18,153	18,409
Outpatient Visits	529,092	624,802
Emergency Visits	83,907	85,098
MEDICARE/MEDICAID PAYMENT		
Percent of Total Clinical Revenue	**43%**	**42%**

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

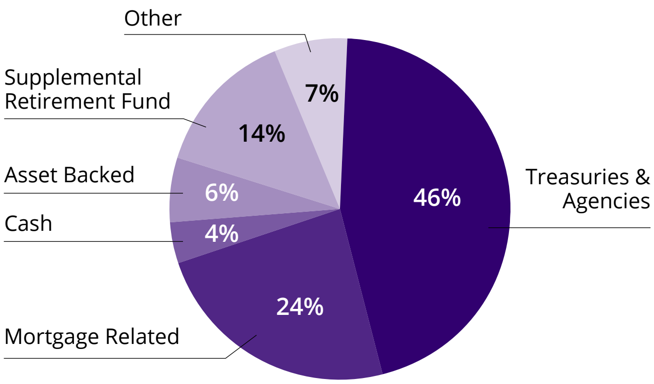
CONSOLIDATED ENDOWMENT AND INVESTED FUNDS

MARKET VALUES AND RETURNS ($000)

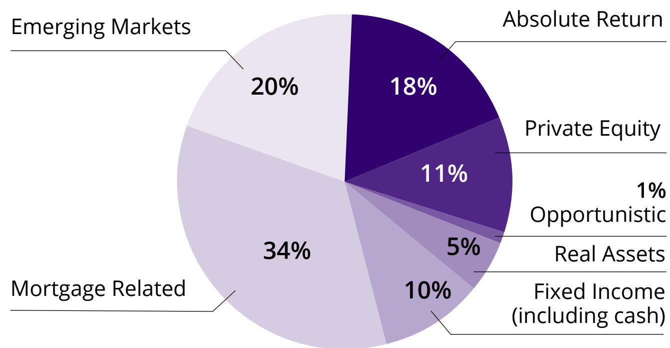
INVESTED FUNDS (IF) (1)	Year Ending June 30,	
	2017	2018
Total Market Value	$1,659	$1,788
Annualized One-Year Return	0.1%	0.9%

CONSOLIDATED ENDOWMENT FUND (CEF) (2)	Year Ending June 30,	
	2017	2018
Total Market Value	$3,144	$3,407
Annualized One-Year Return	13.6%	9.6%

IF PORTFOLIO BREAKDOWN
$1,788 million
(as of 06/30/18)



CEF PORTFOLIO BREAKDOWN
$3,407 million
(as of 06/30/18)



ENDOWMENT RETURN & SPENDING	Year Ending June 30,	
	2017	2018
Total Market Value	$377,957	$301,290
Amount of Annual Return Spent	$141,023	$151,632
Annualized One-Year Return	4.8%	4.8%

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

Note: Totals may not sum due to rounding.

CEF Spending Policy
There were no material changes during the preceding fiscal year to the CEF spending policy.
The current spending policy distributions to endowed programs are 4 percent of the average market value of the CEF for the previous five years.
There is an additional 1 percent administrative fee. Bringing the total annual distribution to 5 percent. Total distribution shown.

UNIVERSITY LIQUIDITY

(UNAUDITED)($000)

	Year Ending June 30,
	2018
Daily Liquidity [1]	
Money Market Funds [2]	$ 172,695
Weekly Liquidity [3]	
U.S. Treasuries and Agencies	1,087,629
Fixed Income	351,443
Total Weekly Liquidity	1,439,071
Total Daily & Weekly Liquidity	**$ 1,611,766**
Other University Liquidity	
Supplemental Retirement Fund [4]	256,031
Total Operating Funds [5]	**$ 1,867,797**

(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 $79.6 million.
(3) Investments that can be liquidated within two to seven days.
(4) Liquidity is restricted for use of the Supplemental Retirement Fund.
(5) Excludes $643 million in the Long-term Pool and $137 million in Capital Assets Pool.

FUTURE DEBT SERVICE ($000)

as of June 30, 2018

	FISCAL YEAR					
	2019	2020	2021	2022	2023	2024–2050
TOTAL UNIVERSITY DEBT SERVICE						
State General Obligation Bonds	$ 18,393	$ 14,099	$ 14,070	$ 13,983	$ 13,952	$ 40,890
State Certificates of Participation	$ 3,126	$ 2,955	$ 2,756	$ 1,583	$ 289	$ 291
Revenue Bonds						
General Revenue Bonds (1)	$ 132,052	$ 131,856	$ 132,763	$ 132,780	$ 129,221	$ 2,479,583
Lease Revenue Bonds (2)	$ 33,088	$ 32,204	$ 32,042	$ 31,900	$ 31,782	$ 419,518
Subtotal: General Revenue Debt Service	**$ 186,658**	**$ 181,113**	**$ 181,630**	**$ 180,245**	**$ 175,244**	**$ 2,940,282**
Commercial Paper (3)	$ 26,209	–	–	–	–	–
Equipment Leases & Others (4)	$ 5,032	$ 4,698	$ 4,145	$ 2,635	$ 2,008	$ 1,295
Total General Revenue Debt Service	**$ 217,900**	**$ 185,812**	**$ 185,775**	**$ 182,880**	**$ 177,252**	**$ 2,941,577**
AFFILIATED ENTITIES						
Northwest Hospital	$ 709	$ 709	$ 709	$ 709	$ 709	$ 6,438
Total Debt Service All Obligations	**$ 218,609**	**$ 186,521**	**$ 186,483**	**$ 183,589**	**$ 177,961**	**$ 2,948,014**

(1) General Revenue Bonds Series 2009, 2009B, 2010A&B, 2011, 2012AB&C, 2013, 2015ABC&D, 2016A&B, 2018.
(2) Series 2010B WBRP 3, 2013 WBRP, 2014A WBRP, and 2015A WBRP 3.2.
(3) Reflects interest to be paid on outstanding commercial paper and principal payment of $25M.
(4) Includes capital leases other that leases included as a Lease Revenue obligation.
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, 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 year ended June 30, 2018, and have issued our report thereon dated October 19, 2018, 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 19, 2018.

The supplementary information included on pages 2 through 5 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Board of Regents and management of the University of Washington and rating agencies and bondholders who have previously received the financial statements of the University of Washington as of and for the year ended June 30, 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

October 19, 2018

UNIVERSITY OF WASHINGTON

Reconciliation of Total University Revenue to General Revenue

Year ended June 30, 2018

(Dollars in thousands)

General revenue:		
Total revenue	$	6,425,908
Less:		
State appropriations		362,267
Grant and contract direct costs		1,196,554
Gifts		166,721
Revenues of component units		705,687
Student activities fees and U-Pass fees		44,907
Student technology fees, student building fees, and student loan funds		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		368,191
Capital appropriations		26,399
Capital grants, gifts and other		142,573
Other nonoperating revenues		4,749
Gifts to permanent endowments		95,890
Total general revenue	$	3,237,242
General revenue components:		
Student tuition and fees (less student activities fees, U-Pass fees, technology fees, building fees, and loan funds)	$	882,236
Grant and contract indirect costs		263,865
Invested funds distribution and net invested funds unrealized gains and losses (note 2)		36,221
Sales and services of educational departments		242,886
Patient services		1,331,023
Auxiliary systems		383,503
Other operating revenues		97,508
Total general revenue	$	3,237,242

See accompanying notes to supplementary information.

UNIVERSITY OF WASHINGTON

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

June 30, 2018

(Dollars in thousands)

Total University unrestricted net position per financial statements	$	(1,237,656)
Less:		
Student and activities fees		25,625
Net position (deficit) of component units:		
Association of University Physicians		145,250
UW Neighborhood Clinics		(2,243)
Northwest Hospital		(53,077)
Real estate entities		(9,582)
Total to be excluded, net		105,973
General net position, including pensions and other post-employment benefits (OPEB)		(1,343,629)
Impact of GASB 68 – Pensions		706,142
Impact of GASB 75 – OPEB		1,763,597
General net position, excluding GASB 68 pensions and OPEB *	$	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, 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 68 Pensions and OPEB, is reflected on the Reconciliation 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.

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

On July 1, 2017, the University 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, the University 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 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, implementation of this Statement resulted in the restatement of fiscal year 2018 beginning unrestricted net position, reducing it by $1,660,447,000. The University's Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows present only one fiscal year, since the change in accounting treatment required by Statement No. 75 is not able to be applied to the prior fiscal year due to the constraints of available information.

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES

(A Department of University of Washington)

Financial Statements

June 30, 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 year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matters

As discussed in note 1, the financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 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. 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 10, and the schedules of required supplementary information on pages 40 through 43, 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 16, 2018

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, 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, 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.

Overview of the Financial Statements

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

The statement of net position presents the financial condition of HFS and reports all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. A summarized comparison of HFS's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position is as follows as of June 30, 2018 and 2017:

Summary Statements of Net Position

	2018	2017	Percentage change
Assets:			
Current assets	$ 104,782,261	85,557,983	22.5 %
Noncurrent assets	637,787,392	507,360,386	25.7
Total assets	742,569,653	592,918,369	25.2
Deferred outflows	2,863,478	3,372,565	(15.1)
Total assets and deferred inflows	$ 745,433,131	596,290,934	25.0 %
Liabilities:			
Current liabilities	$ 46,622,216	47,533,692	(1.9)%
Noncurrent liabilities	705,338,179	546,265,369	29.1
Total Liabilities	751,960,395	593,799,061	26.6
Deferred inflows	5,222,978	701,091	645.0

		2018	2017	Percentage change
Net position:				
Net investment in capital assets	$	(40,660,015)	(31,416,235)	29.4
Unrestricted		28,909,773	33,207,017	(12.9)
Total net position		(11,750,242)	1,790,782	(756.2)
Total liabilities and net position	$	745,433,131	596,290,934	25.0 %

Current assets consist primarily of cash, accounts receivable, inventory, prepaid expenses, and receivables from other University departments. Current assets were $58.2 million and $38.0 million more than current liabilities at June 30, 2018 and 2017, respectively. Total current assets increased 22.5% from $85.6 million at June 30, 2017 to a total of $104.8 million at June 30, 2018. The increase was caused by an increase in cash due to an overall increase in residence hall room rents, conference services, and related food services.

Noncurrent assets consist of capital assets of land, buildings, building improvements, equipment, construction in process, University of Washington Supplemental Retirement Plan (UWSRP) pension investment, and amounts due from University Transportation Services. Noncurrent assets increased 25.7%, or $130.4 million, from June 30, 2017, to June 30, 2018. This is primarily due to continuing construction of additional housing 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 1.9% to a total of $46.6 million at June 30, 2018, from $47.5 million at June 30, 2017. The net decrease was primarily due to decreases in accounts payable as new residential housing construction neared completion, partially offset by an increase in the short-term portion of Internal Lending Program (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 increased by 26.5% to a total of $671.8 million at June 30, 2018, from $531.0 million at June 30, 2017, due to additional debt incurred to finance the Housing Master Plan. The pension liability decreased from $15.3 million at June 30, 2017 to $12.0 million at June 30, 2018 primarily caused by an increase to the discount rate used in measurement calculations. The OPEB liability balance was incorporated into noncurrent liabilities as of July 1, 2017, due to the adoption of GASB Statement No. 75. The liability is discussed further in note 7.

The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the past year. Total net position decreased by 756.2% to a total deficit of $(11.8) million at June 30, 2018, from a net surplus of $1.8 million at June 30, 2017. The continued strong demand for campus housing resulted in a positive net operating income, which was bolstered by nonoperating insurance claim proceeds and a reduction in the pension liability. This was offset by higher debt interest payments, lower interest income, and increased building depreciation. In addition, the net position was reduced by $22.8 million due to the July 1, 2017 implementation of GASB Statement No. 75 (note 1).

 (Continued)

The 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 $(34.6) million and $(11.4) million as of June 30, 2018 and 2017, respectively. These deficits are included in the unrestricted net position from other sources.

Statements of Revenue, Expenses, and Changes in Net Position

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

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

Nonoperating revenue is not provided by goods and services. Under GASB reporting principles, investment income and expenses are classified as nonoperating activities. Also included as nonoperating are energy rebates, insurance proceeds, and interest expense.

The following is a condensed view of the statements of revenues, expenses, and changes in net position for the fiscal years ended June 30, 2018 and 2017:

		2018	2017	Percentage change
Operating revenue	$	136,155,268	130,879,431	4.0 %
Operating expenses		(112,741,416)	(105,870,844)	6.5
Net operating income		23,413,852	25,008,587	(6.4)
Net nonoperating expense		(14,201,819)	(21,093,127)	(32.7)
Capital asset transfer		—	(7,121,289)	(100.0)
Change in net position		9,212,033	(3,205,829)	(387.4)
Net position, beginning of year		1,790,782	6,557,147	(72.7)
Effect of accounting change		(22,753,057)	(1,560,536)	(100)
Net position, end of year	$	(11,750,242)	1,790,782	(756.2) %

Revenue from All Sources

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

		2018	2017
Residence halls and single-student apartment rent	$	73,081,691	70,450,236
Residence halls and retail food services		45,870,914	44,076,785
Conferences and guest rent		8,089,531	6,892,929
Leases		2,945,721	3,611,600
Family housing rent		2,214,403	2,206,020
Forfeitures and miscellaneous fees		1,530,529	1,400,124
Educational sponsorship		949,000	949,000
Vending machines		693,672	620,521
Laundry		523,690	464,167
Parking revenue		72,156	92,433
Energy rebates and refunds		15,463	53,183
Investment income		687,784	741,272
Insurance claim proceeds		6,444,002	—
Gain on sale of capital asset		11,081	—
Other		183,961	115,616
Total revenue – all sources	$	143,313,598	131,673,886

The largest revenue source is residence hall and single-student room rent and food services, which comprised 83.0% of revenue from all sources. 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 over the prior year. The increases are primarily due to continuing strong demand for student housing at a higher room rate. The number of conference attendees on campus also continued to grow.

Nonoperating revenue increased in 2018 primarily due to $6.4 million of insurance claim proceeds, as discussed further in note 1.

(Continued)

Expenses and Expense Transfers

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

		2018	2017
Salaries and related benefits	$	34,880,282	32,008,663
Depreciation		24,215,339	20,740,567
Cost of food and merchandise		17,479,405	16,814,086
Noncapitalized equipment		7,744,928	8,535,518
Utilities		8,156,718	7,913,046
Indirect expenses		7,379,407	7,006,001
Contract services		5,280,561	5,513,424
Supplies		2,950,169	2,977,583
Repairs and maintenance		3,006,609	2,661,815
Institutional overhead		1,554,896	1,533,128
Interest expense on capital asset – related debt		21,360,149	21,843,929
Loss on capital asset disposals and transfers		—	23,633
Financing cost		—	20,020
Capital asset transfer from other University department		—	7,121,289
Other		93,102	167,013
Total expenses and expense transfers	$	134,101,565	134,879,715

Salaries and benefits expense increased by 9.0%, or $2.9 million over the prior year primarily due to labor rate increases and to expanded housing and food operations.

Noncapitalized equipment decreased by 9.3%, or $0.8 million, resulting from a significant amount of preconstruction cost and design of the Housing Master Plan in the prior year. The remaining operating expenses were comparable between 2018 and 2017.

Nonoperating expenses decreased in 2018 primarily due to decreases in financing costs and lower losses on capital asset disposals and transfers. The loss on capital asset transfers decreased by $7.1 million in 2018 resulting from the onetime loss on net capital asset transfer of the Nordheim Court apartments in the prior year.

Economic Factors and Significant Events

System Wide Considerations

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

The University of Washington' Treasury Office has decreased the campus depositors rate of return for fiscal year 2018 by 0.25%, from 1.00% in 2017 to 0.75% in 2018. Investment income was approximately $688,000 and $741,000 in 2018 and 2017, respectively.

(Continued)

Changes in university-wide union labor contracts stipulated adjustments in pay ranges for select food service jobs resulting in new wage growth for staff who had previously reached maximum pay levels.

Construction cost inflation in the greater Seattle area has required a $13.0 million increase in the capital budget for construction of Madrona, McCarty, and Willow Halls – Housing Master Plan Phase 4a.

Housing Operation

Autumn quarter 2018 will open with occupancy at 108.0% of as-built capacity. Expanded capacity included 608 overflow spaces and approximately 115 students in temporary lounge space. There are 205 students projected to be on the wait list. Privately managed off campus facilities coordinated through UW Real Estate are showing similar strength in demand.

Marking the completion of Phase 4a of the Housing Master Plan, Madrona, McCarty, and Willow Halls opened to students in Autumn 2018. Combined, the three facilities deliver 1,743 as-built beds and 274 overflow beds. The south tower of Haggett Hall has been decommissioned, resulting in a decrease of 411 as-built beds. Mercer Court buildings A and B have been returned to single occupancy status, resulting in a decrease of 415 overflow beds.

McCarty Hall offers students the McCarty Innovation and Learning Lab (MILL) in partnership with the College of Engineering. The MILL offers a large maker space, learning area, and wet lab for use by both residential and engineering students.

North campus desk operations have been consolidated into the new Willow regional desk. Previously, desk and mail services were available in both Haggett and McMahon Halls.

Twelve-month housing in Stevens Court/Stevens Court Addition has been converted to nine-month spaces to better meet student demand. A total of 144 units are affected. In addition, this change will facilitate work needed to complete repairs to the Stevens Court damaged exterior siding the following summer. Insurance claim proceeds of $6.4 million have been received towards the cost of repair (note 1).

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 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, 2018 and 2017, costs incurred related to the Housing Master Plan totaled approximately $676.0 million and $527.0 million, respectively. These costs were recorded in construction in process and completed building costs at June 30, 2018 and 2017. Total projected cost of the Housing Master Plan is $730.0 million, which will mainly be funded by borrowing under the ILP (note 5). The Board of Regents has approved borrowing under the ILP of up to $761.0 million for all the four phases of the Housing Master Plan as of June 30, 2018.

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

Phase 4a was approved by the Board of Regents in January 2016 with a total project budget of $240.0 million. This phase included the demolition of McCarty Hall and the development of three new facilities, Willow, Madrona, and new McCarty, surrounding Denny Field. Willow Hall was available for occupancy in June 2018, and the remaining two facilities opened in September 2018. These additions increased system as-built bed space by approximately 1,743.

Phase 4b is currently in the planning stages. The Board of Regents approved the site, architect, and $10.0 million pre-construction budget in July 2016. This phase will include the demolition of Haggett Hall and the construction Oak Hall and is to be fully cash-funded by HFS. It is planned that these halls 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 and 3 buildings. Debt service on Phase 4a is expected to begin in September 2018. The debt service ratio for fiscal year 2018 is 1.57. ILP loans for Phases 1, 2, and 3 are now closed.

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 $2.0 million from 2017 to 2018.

A new plant-based concept, Tero, opened to positive reviews at Local Point during spring quarter 2018.

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.

Retail Dining Operation

Overall retail sales were greater than prior year by $6,700. A number of retail closures contribute to the flat sales growth. In addition, the combination of dramatic growth in student labor coupled with increasing food and custodial costs contributed to ending the year at a net operating loss of $808,000.

The campus Subway franchise agreement was terminated and the venue closed in February 2018. In its place, HFS opened DM Crafted in March 2018. This sandwich concept borrows its name from the popular District Market brand.

(Continued)

Construction of the second Starbucks Licensed Store located in Suzzallo Library in Red Square began in March 2017 and opened to customers in September 2017. This store is located in the space previously occupied by the Suzzallo Espresso and Express Market. As an additional offering during the Starbucks construction, UW Dining opened Etc. @ By George, a convenience store in Odegaard Library in September 2017. Over the course of the ten-year sponsorship agreement, the University will be opening three additional Licensed Stores across the UW system.

HFS received Starbucks and Coca-Cola educational sponsorship funds totaling $949,000 in both fiscal years 2018 and 2017.

HFS opened a new café, Evolutionary Grounds, in the Life Sciences building in September 2018 and is preparing to open the Microsoft Café in the new Computer Science and Engineering building in December 2018. Units closed during fiscal year 2018 include Vista, H-Bar, Etc. @ South Lake Union, and Etc. @ By George. Public Grounds is scheduled to close in December 2018.

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

Statement of Net Position

June 30, 2018

Assets and Deferred Outflow of Resources

Current assets:	
Cash and cash equivalents in the University of Washington Invested Funds Pool	$ 99,135,162
Accounts receivable, net	1,098,404
Prepaid expense	372,032
Inventory	1,026,218
Due from other University departments	3,150,445
Total current assets	104,782,261
Noncurrent assets:	
Due from other University departments	3,241,140
Capital assets, less accumulated depreciation (note 3)	633,234,337
Other assets (note 6)	1,311,915
Total noncurrent assets	637,787,392
Deferred outflow of resources	2,863,478
Total assets and deferred outflow of resources	$ 745,433,131

Liabilities, Deferred Inflow of Resources, and Net Position

Current liabilities:	
Accounts payable	$ 2,618,326
Accrued interest	1,782,429
Other accrued expenses	2,707,918
Unearned revenue	9,258,372
Deposits	4,936,200
Due to other University departments	9,288,735
Internal lending program (ILP) payable, current portion (notes 2 and 5)	15,635,236
Lease payable, current portion (notes 2 and 4)	395,000
Total current liabilities	46,622,216
Noncurrent liabilities:	
Internal lending program (ILP) payable, less current portion (notes 2 and 5)	670,471,229
Pension liability (note 6)	11,982,825
Other postemployment benefits (OPEB) liability (note 7)	21,574,125
Lease payable, less current portion (note 4)	1,310,000
Total noncurrent liabilities	705,338,179
Total liabilities	751,960,395
Deferred inflow of resources	5,222,978
Net position:	
Net investment in capital assets	(40,660,015)
Unrestricted	28,909,773
Total net position	(11,750,242)
Total liabilities, deferred inflow of resources, and net position	$ 745,433,131

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

Operating revenues:	
Residence halls and single-student apartment rent	$ 73,081,691
Residence halls and retail food services	45,870,914
Conferences and guest rent	8,089,531
Leases	2,945,721
Family housing rent	2,214,403
Forfeitures and miscellaneous fees	1,530,529
Educational Sponsorship	949,000
Vending machines	693,672
Laundry	523,690
Parking Revenue	72,156
Other	183,961
Total operating revenues	136,155,268
Operating expenses:	
Salaries and related benefits	34,880,282
Depreciation	24,215,339
Cost of food and merchandise	17,479,405
Noncapitalized equipment	7,744,928
Utilities	8,156,718
Indirect expenses	7,379,407
Contract services	5,280,561
Supplies	2,950,169
Repairs and maintenance	3,006,609
Institutional overhead	1,554,896
Other	93,102
Total operating expenses	112,741,416
Net operating income	23,413,852
Nonoperating revenue (expense):	
Energy rebates	15,463
Investment income	687,784
Insurance claim proceeds	6,444,002
Interest expense on capital asset-related debt	(21,360,149)
Gain on capital asset disposals and transfers	11,081
Total nonoperating expense	(14,201,819)
Change in net position	9,212,033
Net position, beginning of year (as restated)	(20,962,275)
Net position, end of year	$ (11,750,242)

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2018

Cash flows from operating activities:		
Cash received from student housing fees	$	72,701,131
Cash received from residence hall food services		45,868,364
Cash received from conference services		9,476,754
Cash received from leases		2,641,737
Cash received from facility rentals		2,479,672
Cash received from vending commissions		683,743
Cash received from educational sponsorship		949,000
Cash received from others		185,240
Cash paid for interfund and debit card activities		(109,411)
Cash paid to suppliers		(44,346,429)
Cash paid for employee salaries, wages, and benefits		(31,566,263)
Cash paid for indirect expenses		(8,316,124)
Net cash flows provided by operating activities		50,647,414
Cash flows from capital and related financing activities:		
Purchases of capital assets		(152,519,262)
Borrowing on internal lending program		156,872,308
Interest paid on capital debt		(27,869,126)
Principal payments on capital debt		(13,718,446)
Proceeds from insurance on capital assets		6,444,002
Net cash flows used in capital and related financing activities		(30,790,524)
Cash flows from investing activity:		
Interest received		657,054
Net change in cash and cash equivalents		20,513,944
Cash and cash equivalents, beginning of year		78,621,218
Cash and cash equivalents, end of year	$	99,135,162
Reconciliation of operating income to net cash flows from operating activities:		
Net operating income	$	23,413,852
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation		24,215,339
Change in operating assets and liabilities:		
Accounts receivable		1,056,809
Prepaid expenses and other		769,027
Inventory		(234,961)
Due to/from other University departments		307,024
Accounts payable		(235,307)
Unearned revenue		512,722
Accrued expenses		96,383
Deposits		346,399
Retirement plan deferred resources and liabilities		400,127
Net cash flows provided by operating activities	$	50,647,414
Supplemental disclosures for cash flow information:		
Capitalized interest	$	6,391,418
Amortization of deferred premium on refunded bonds		66,480
Capital asset in accounts payable and due to other University departments		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, 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.

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. HFS's Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows present only one fiscal year, since the change in accounting treatment required by Statement No. 75 is not able to be applied to the prior fiscal year due to the constraints of available information.

(Continued)

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

Cash and cash equivalents	4.7 %
U.S. Treasury and Agency securities	66.5
Mortgage related securities	10.1
Asset-backed debt securities	8.6
Corporate and other fixed income	10.1
Total	100.0 %

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

(d) Accounts Receivable

HFS has established an allowance for doubtful accounts to allow for those receivables which are estimated to be uncollectible. The allowance is based on historical collection rates. Student accounts are considered past due if they are unpaid for 30 days after the due date. Other customer accounts are considered past due if they are unpaid for 60 days after the due date. When an account is deemed uncollectible, it is generally written off against the allowance. The balance of the allowance account was $57,840 at June 30, 2018.

(e) Inventory

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

(f) Prepaid Expense

Prepaid expense consists primarily of building insurance amortized over one year.

(Continued)

(g) Due from Other University Departments

Due from other University departments, current, consists mainly of lease revenue (note 4) of $2,945,721 accrued as of June 30, 2018.

Due from other University departments, noncurrent, resulted from an agreement with the University Transportation Services to build extra parking stalls at the Terry/Maple Hall to be liquidated in fiscal year 2020 under the Master Plan for north campus housing. The amount owed by Transportation Services is $3,241,140 as of June 30, 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 $6,391,418 during 2018.

(i) Deferred Outflow of Resources

The balance of deferred outflow of resources is related to the following retirement benefit plans:

Public Employees' Retirement System pension plans (note 6)	$	2,449,049
University of Washington Supplemental Retirement Plan (note 6)		45,599
Other postemployment benefits (OPEB) (note 7)		368,830
Total	$	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).

(Continued)

(l) Deferred Inflow of Resources

The balance of deferred inflow of resources is related to the following retirement benefit plans:

Public Employees' Retirement System pension plans (note 6)	$	1,618,820
University of Washington Supplemental Retirement Plan (note 6)		633,605
Other postemployment benefits (OPEB) (note 7)		2,970,553
Total	$	5,222,978

(m) Net Position

Net position consists of the following components:

Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation, reduced by the net outstanding debt balances related to capital assets, net of unamortized debt expenses. The negative balance at June 30, 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 – This component 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 revenue received for providing housing, dining, and related services to the customers of HFS, the majority of which consists of room and board services to students. Revenue is recognized as the food service is provided, the appropriate rental period occurs, or the conference takes place. Operating expenses are those expenses paid to provide the services and resources, primarily consisting of the cost of food, salaries and benefits, utilities, building maintenance, and administrative overhead expenses.

Nonoperating revenue is recognized for receipts under the energy rebate program applied from the Housing Master Plan constructions, 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.

(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 percent of division revenue, totaled $1,554,896 during the year ended June 30, 2018.

(p) Indirect Expenses

Administrative expenses, such as salaries and benefits, contract services, and supplies, are reported as indirect expense. These allocations to HFS totaled $7,379,407 for the year ended June 30, 2018. The allocation to each operation within the department is based on support activity and effort, in direct relation to actual benefits to the operations. Distributions are evaluated each year during the budget and rate setting process.

(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 and $13,527 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 repair expense for replacing the siding at all four affected buildings in the Stevens Court complex. Repairs began in June 2018, with the first building completed in August 2018. The remaining three buildings are scheduled for repair from June to August 2019.

(r) 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 2018, and accordingly, the financial statements do not include a provision for federal income taxes.

(s) 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.

(t) 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, 2018.

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) Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2018 is summarized as follows:

	Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018
Noncurrent liabilities:				
SP 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

(3) Capital Assets

Capital asset activity for the year ended June 30, 2018 is summarized as follows:

	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

		Balance at June 30, 2017	Additions/ transfers	Retirements/ transfers	Balance at June 30, 2018
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 placed in service after June 30, 2018 represent approximately $147.8 million of the $150.6 million balance of construction in progress as of June 30, 2018.

(4) Leases

Lease Payments

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

At June 30, 2018, the total principal amount of obligation under this agreement was $1,705,000. It is expected to be repaid in installments of approximately $480,000 (including imputed interest of approximately 5%) per year through 2022. Following is a summary of minimum payments under this agreement (principal and interest) for the years ending June 30:

		Principal	Interest	Total
2019	$	395,000	89,315	484,315
2020		415,000	68,775	483,775
2021		435,000	46,987	481,987
2022		460,000	24,150	484,150
	$	1,705,000	229,227	1,934,227

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. As of June 30, 2018, the outstanding debt under this agreement was $33,650,720.

The University receives an annual payment from the Apartments, which it designates to HFS. Revenue from these properties was $2,945,721 for the year ended June 30, 2018.

(5) The Internal Lending Program

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

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

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

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%. HFS is obligated to the ILP in the amount of $4,837,745 as of June 30, 2018.

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

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

From May 2009 through January 2016, the Board of Regents approved borrowing for HFS under the ILP of up to $760.8 million for the four phases of the Housing Master Plan to build residence halls and single student apartments. The total draws to fund the project as of June 30, 2018 are approximately $672.0 million. Payments for Phases 1a, 1b, 2a, 2b, and 3 began each autumn after the projects were completed, annually from 2011 through 2015. Principal payments for Phase 4a begin the earlier of project completion or January 2019. HFS is obligated to the ILP in the amount of $636,487,095 of June 30, 2018. 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 4), HFS is obligated to the ILP in the amount of $20,258,649 as of June 30, 2018. The final payment is due in the fiscal year ending 2032. The interest rate is 4.5%.

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

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

	Principal	Interest	Total
2019	$ 15,635,236	25,823,484	41,458,720
2020	18,082,525	29,828,306	47,910,831
2021	18,926,199	28,989,447	47,915,646
2022	19,725,592	28,117,271	47,842,863
2023	17,744,674	27,263,292	45,007,966
2024–2028	101,735,042	123,312,581	225,047,623
2029–2033	120,460,460	98,063,114	218,523,574
2034–2038	136,296,042	69,514,242	205,810,284
2039–2043	158,822,059	35,591,243	194,413,302
2044–2053	78,412,737	8,654,789	87,067,526
	685,840,566	$ 475,157,769	1,160,998,335
Add unamortized premium	265,899		
	$ 686,106,465		

Subsequent to the June 30, 2018 report date, construction of the Phase 4a facilities was substantially completed. Debt service payments began in September 2018.

(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 revenues in the period in which the contributions are earned. Employer contributions are recognized when due, and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due, and payable in accordance with the terms of each plan.

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

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

(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 2018 pension liability is based on an OSA 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:

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, 2016 valuation were based on the results of 2007-2012 *Experience Study Report* and the 2015 Economic Experience Study Report. 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 7.50% approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement dates of June 30, 2017, are summarized in the following table:

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

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

(e) Discount Rate

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

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

(Continued)

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

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

		1% Decrease	**Discount rate at 7.5%**	**1% Increase**
			(Dollars in thousands)	
Plan:				
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 is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The contribution rates and required contributions for each DRS plan in which HFS participates are shown in the table below:

		PERS	
Description		**Plan 1**	**Plan 2/3**[a]
		(Dollars in thousands)	
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 the University as of June 30, 2018 was June 30, 2017. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2017 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, 2017 Schedules of Employer and nonemployer Allocations. HFS's proportionate share for each DRS plan is shown in the table below:

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

(i) HFS Aggregated Balances

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

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
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, 2018	$	79	830	909

Description		Deferred outflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
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[a]		727	1,061	1,788
Total	$	727	1,723	2,450

(a) 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, 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:

		Amortization of deferred inflows and deferred outflows of resources[a]		
Year		**PERS Plan 1**	**PERS Plan 2/3**	**Total**
		(Dollars in thousands)		
2019	$	(130)	(361)	(491)
2020		41	187	228
2021		(10)	(123)	(133)
2022		(93)	(528)	(621)
2023		—	26	26
Thereafter		—	34	34
Total	$	(192)	(765)	(957)

(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. HFS participants as of June 30, 2018 were 35 active employees and 3 inactive employees 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 fiscal year ending June 30, 2018 were $31,000.

(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. HFS has set aside $1,311,914 to pay future UWSRP retiree benefits associated with HFS employees. These assets are reported as other assets on the Statement of Net Position.

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

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

HFS share of UWSRP pension expense for the fiscal year ended June 30, 2018 was $58,000.

(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 compared to these assumptions could have a significant effect on the HFS's financial statements.

	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

(v) Deferred Inflows of Resources and Outflows of Resources

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

		2018
		(Dollars in thousands)
Deferred inflows of resources:		
Difference between expected and actual experience	$	431
Change in assumptions		183
Change in proportion		20
Total	$	634
Deferred outflows of resources:		
Change in proportion	$	46
Amortization of deferred inflows of resources (a) (dollars in thousands):		
Year:		
2019	$	(94)
2020		(94)
2021		(94)
2022		(94)
2023		(94)
Thereafter		(118)
Total	$	(588)

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

(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 $150 per member per month 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, 2018:

	2018 (Measurement date 2017)
Active employees	450
Inactive employees receiving benefits	119
Inactive employees entitled to, but not receiving, benefits	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 compared to these assumptions could have a significant effect on HFS's financial statements.

	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 percent 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 discount rate as of each measurement date, as required by GASB 75. This resulted in a 2.85% discount rate for the beginning TOL, and a 3.58% discount rate for the ending TOL (reduced the TOL).

(c) Changes in the Total OPEB Liability

The TOL for the state of Washington was determined by an actuarial valuation, conducted by the OSA, using data as of January 1, 2017. The TOL reported at June 30, 2018 was calculated as of the valuation date, and projected to the measurement date of June 30, 2017. 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 1.38% and 1.37% as of June 30, 2018 and 2017, 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, 2018 (Dollars in thousands)
Schedule of changes in total OPEB liability:		
Beginning balance	$	23,102
Service cost		1,463
Interest		685
Change in assumptions		(3,342)
Benefit payments		(349)
Change in proportionate share		15
Ending balance	$	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.

		2018 (Dollars in thousands)
Proportionate share of OPEB expense	$	1,763
Deferred outflows of resources:		
University contributions subsequent to the measurement date of the collective total OPEB liability	$	341
Change in proportion		28
Total	$	369
Deferred inflows of resources:		
Changes in assumptions	$	2,971
Total	$	2,971

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

		2018 (Dollars in thousands)
Amortization of deferred inflows and deferred outflows of resources (a):		
Year:		
2019	$	(371)
2020		(371)
2021		(371)
2022		(371)
2023		(371)
Thereafter		(1,088)
Total	$	(2,943)

(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, 2018

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

PERS 1

(Dollar amounts in thousands)

	2018	2017	2016	2015
Housing and Food Services' proportion of the net pension liability	0.11 %	0.11 %	0.11 %	0.10 %
Housing and Food Services' proportionate share of the net pension liability	$ 5,146	6,063	5,838	5,126
Housing and Food Services' covered-employee payroll	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	38.38 %	46.01 %	47.02 %	47.29 %
Plan fiduciary net position as a percentage of the total pension liability	61.24 %	57.03 %	59.10 %	61.19 %

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

PERS 1

(Dollar amounts in thousands)

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

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)

		2018	2017	2016	2015
Housing and Food Services' proportion of the net pension liability		0.14 %	0.14 %	0.14 %	0.13 %
Housing and Food Services' proportionate share of the net pension liability	$	4,765	7,035	4,928	2,530
Housing and Food Services' covered-employee payroll		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		35.44 %	53.90 %	40.27 %	23.60 %
Plan fiduciary net position as a percentage of the total pension liability		90.97 %	85.82 %	89.20 %	93.29 %

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

PERS 2/3

(Dollar amounts in thousands)

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

See accompanying independent auditors' report.

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

(Dollars in thousands)

		2018	2017
Total pension liability – beginning	$	2,161	2,550
Service cost		74	98
Interest		81	74
Differences between expected and actual experience		(170)	(369)
Changes in assumptions		(86)	(141)
Changes in proportion		44	(26)
Benefit payments		(31)	(25)
Total pension liability – ending	$	2,073	2,161
UWSRP covered-employee payroll	$	3,817	3,947
Total pension liability as percentage of covered-employee payroll		54.3 %	54.8 %

Schedule of Changes in the Total OPEB Liability

(Dollars in thousands)

		2018
Total pension liability – beginning	$	23,102
Service cost		1,463
Interest		685
Changes in assumptions		(3,342)
Benefit payments		(349)
Change in proportionate share		15
Total pension liability – ending	$	21,574
OPEB covered-employee payroll	$	34,860
Total OPEB liability as percentage of covered-employee payroll		61.9 %

See accompanying independent auditors' report.

(Continued)

Plans administered by DRS

Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2015, and ending June 30, 2017, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased in over three biennia for PERS Plans 1, 2 and 3.

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

Plans administered by the University

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

Material assumption changes during the measurement period 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.

See accompanying independent auditors' report.

KPMG

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Financial Statements and Schedules

June 30, 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 year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matters

As discussed in note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 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. 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 10, and the schedules of required supplementary information on pages 38 through 42, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on pages 43 and 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Seattle, Washington
October 18, 2018

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, 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 as of June 30, 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, 2018 and 2017:

Statements of Net Position Summary

		2018	2017
		(In thousands)	
Current assets	$	27,331	21,994
Noncurrent assets:			
Capital assets, net		320,133	333,592
Other		100,669	91,803
Total assets		448,133	447,389
Pension deferred outflows of resources		1,456	1,627
OPEB deferred outflows of resources		202	—
Total assets and deferred outflows of resources	$	449,791	449,016

(Continued)

Statements of Net Position Summary

		2018	2017
		(In thousands)	
Current liabilities	$	35,505	31,815
Noncurrent liabilities		272,411	266,939
Total liabilities		307,916	298,754
Pension deferred inflows of resources		2,147	1,150
OPEB deferred inflows of resources		1,640	—
Net position		138,088	149,112
Total liabilities, deferred inflows of resources, and net position	$	449,791	449,016

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

- Current assets consist primarily of cash and cash equivalents, accounts receivable, and prepaid expenses. Current assets were $8.2 million less than current liabilities at the end of 2018. The negative working capital is due to unearned income of $22.4 million largely related to ticket sales for the 2018 football season, which will be recorded as revenue in 2019. Current assets were $9.8 million less than current liabilities at the end of 2017. The negative working capital is due to unearned income of $20.8 million largely related to ticket sales for the 2017 football season, which were be recorded as revenue in 2018. 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 $4.6 million less at the end of 2018 due to an increase in accumulated depreciation on capital assets offset by an increase in endowments and other assets of $8.9 million. As of June 30, 2018, there was $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 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 increased by $5.5 million in 2018 due to an increase in 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 Internal Lending Program (ILP) of the University of Washington (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 $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.

(Continued)

ICA's Net Position or "Equity"

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

		2018	2017
		(In thousands)	
Net investment in capital assets	$	70,643	79,412
Restricted:			
Nonexpendable		64,174	59,142
Expendable		20,074	16,459
Unrestricted		(16,803)	(5,901)
Total net position	$	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 $8.8 million in 2018 to a total of $70.6 million. This balance increases as debt is paid off or when ICA funds fixed asset purchases without financing. The balance decreases as assets are depreciated.
- Restricted nonexpendable net position increased by $5.0 million in 2018. The increase in 2018 is mainly due to an increase in contributed endowments of $4.9 million.
- Restricted expendable net position increased by $3.6 million in 2018 due to an increase in the market value of endowments and the creation of numerous new restricted gift accounts.
- 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 $82.5 million at June 30, 2018. The increase in 2018 is due to additional endowment contributions of $4.9 million and higher fair market values than in 2017.

- ICA had $14.7 million and $14.5 million of long-term investments, not including endowments, in the Consolidated Endowment Fund (CEF) at June 30, 2018 and 2017, respectively. In fiscal year 2018, ICA had a market-related gain of $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 2018 and 1% in 2017.

Capital Improvements and Related Debt

- In 2018, there was a net decrease of $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, 2018 and 2017:

Revenues, Expenses, and Changes in Net Position Summary

		2018	2017
		(In thousands)	
Operating revenues	$	111,781	111,705
Operating expenses		(129,350)	(126,340)
Operating loss		(17,569)	(14,635)
Nonoperating revenues, net		12,959	12,321
Other revenues		5,997	6,858
Increase in net position		1,387	4,544
Net position, beginning of year		149,112	147,935
Effect of accounting change		(12,411)	(3,367)
Net position, end of year	$	138,088	149,112

Revenues from All Sources

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

Revenues from All Sources Summary

	2018	2017
	(In thousands)	
Gate ticket sales	$ 52,298	52,659
NCAA/conference distributions	35,944	35,905
Sponsorships, trademarks, and licensing	16,436	16,276
Concessions, souvenirs, parking, boat moorage	3,985	3,699
Other operating revenue	3,118	3,166
Contributions (noncapital)	12,882	9,217
Investment income, net	3,382	3,050
Gain on investments	4,295	6,827
University funded tuition waivers	3,835	3,743
Capital gifts	1,075	1,731
Settlement agreement	—	1,030
Endowment gifts	4,922	5,127
Total revenue – all sources	$ 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 $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 collection cycle for the Don James Center premium area in Husky Stadium.
- 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 $332 thousand in 2018. Investment income is earned on the following two categories:
  – Investment income in the CEF increased by $338 thousand in 2018 mainly due to an increase in the balance held in the CEF during these periods.
  – Short-term investments received 0.75% distributions in 2018 and 1% in 2017. Due to increase ticket sales and contributions in the recent year, the average investment balances were higher than in 2017, which resulted in a positive return.
- In 2018, there was a decrease in gain on investments of $2.5 million due to the decreased value of long-term investments and endowment funds.

- Capital gifts were $1.1 million in 2018 and $1.7 million in 2017, respectively. The slight decrease in 2018 is due to a decrease in the remaining pledges due for the stadium.
- In 2017, there was a settlement agreement reached with a former coach, which resulted in $1.0 million in settlement agreement revenue.
- Endowment gifts decreased by $205 thousand in 2018 to a total of $4.9 million due to less endowments being established in 2018.

Expenses and Losses

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

Expenses and Losses Summary

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

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

- 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 $655 thousand in 2018 from 2017 primarily due to increases in payroll taxes and the cost of employee benefits. The percentages charged to ICA on professional and contract staff salaries went from 32.4% in 2017 to 32.5% in 2018. The percentages charged on classified staff salaries went from 37.9% in 2017 to 40.1% in 2018. The percentages charged on hourly staff and overtime went from 17.9% in 2017 to 20.7% in 2018.
- 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 $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 $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 increased by $967 thousand in 2018 due to an increase in utility costs.
- Uniforms and supplies increased by $150 thousand in 2018 mainly due to an increase in general supply purchases.
- Training table increased by $499 thousand in 2018 due primarily to the increased cost of pre-season food and housing, as well as an increase in nutrition programs.
- Noncapitalized equipment and repairs increased by $810 thousand in 2018 due to an increase in noncapitalized facility enhancement projects.
- 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 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 decreased by $150 thousand due to lower interest payments for the Husky ballpark and Husky Stadium financed projects.

Operating Loss

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

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statement of Net Position

June 30, 2018

Assets and Deferred Outflows of Resources

Current assets:	
Cash in the University of Washington Invested Funds Pool (note 2)	$ 21,241,892
Accounts receivable	5,200,348
Prepaid expenses	888,261
Total current assets	27,330,501
Noncurrent assets:	
Investments:	
University of Washington Consolidated Endowment Fund (note 3)	14,665,030
Endowments (note 3)	82,514,211
UWSRP (note 8)	3,134,263
Advances to University for capital projects	355,638
Capital assets, net (note 4)	320,133,059
Total noncurrent assets	420,802,201
Total assets	448,132,702
Pension deferred outflows of resources (note 8)	1,456,192
OPEB deferred outflows of resources (note 9)	202,000
Total assets and deferred outflows of resources	$ 449,790,894

Liabilities, Deferred Inflows of Resources, and Net Position

Current liabilities:	
Accounts payable	$ 3,351,926
Accrued salaries and vacation payable	3,404,513
Admission taxes payable	981,132
Accrued interest payable	162,765
Unearned income	22,378,835
Capitalized equipment lease payable, current portion (note 6)	897,756
Internal lending program payable, current portion (note 5)	4,327,707
Total current liabilities	35,504,634
Noncurrent liabilities:	
Capitalized equipment lease payable, net of current portion (note 6)	3,807,685
Internal lending program payable, net of current portion (note 5)	240,456,742
Pension liability (note 8)	9,116,700
Total OPEB liability (note 9)	11,730,000
Pac-12 Management Fee payable	7,300,000
Total noncurrent liabilities	272,411,127
Total liabilities	307,915,761
Pension deferred inflows of resources (note 8)	2,146,950
OPEB deferred inflows of resources (note 9)	1,640,000
Net position:	
Net investment in capital assets	70,643,169
Restricted:	
Nonexpendable (note 3)	64,173,772
Expendable:	
Expendable endowment principal (note 3)	1,128,052
Expendable endowment gains	17,212,387
Other expendable	1,733,927
Unrestricted	(16,803,124)
Total net position	138,088,183
Total liabilities, deferred inflows of resources, and net position	$ 449,790,894

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statement of Revenue, Expenses, and Changes in Net Position

Year ended June 30, 2018

Operating revenue:	
Gate ticket sales	$ 52,298,217
NCAA/conference distributions	35,943,656
Sponsorships	15,531,407
Concessions, souvenirs, parking, and boat moorage	3,985,052
Trademarks and licensing	904,670
Facility income	2,259,177
Other	858,817
Total operating revenue	111,780,996
Operating expenses:	
Salaries and wages	35,827,725
Payroll taxes and employee benefits	8,976,716
Athletic student aid	13,416,662
Guarantees paid to visiting teams	2,587,358
Team travel	7,102,595
Day of game expenses	8,726,616
Direct facilities, maintenance, and utilities	5,611,880
Advertising	2,800,915
Uniforms and supplies	7,150,964
Training table	3,352,297
Department relations	670,004
Banquets and special events	431,463
Depreciation	15,824,623
Noncapitalized equipment and repairs	2,557,760
Institutional overhead	2,554,984
Medical expenses	1,319,102
Fund-raising, marketing, and promotions	354,286
Recruiting	651,912
Equipment	5,447
Other	9,426,831
Total operating expenses	129,350,140
Operating loss	(17,569,144)
Nonoperating revenues (expenses):	
Contributions	12,882,147
Investment income on Invested Funds	25,587
Investment income on CEF	3,355,856
Gain on investments	4,295,044
Loss on disposal of capital assets	(38,450)
University funded tuition waivers	3,834,747
Financing cost on Ballpark	(3,180)
Interest expense	(11,393,085)
Total nonoperating revenues	12,958,666
Loss before other revenues	(4,610,478)
Other revenues:	
Capital gifts	1,075,086
Gifts to permanent endowments	4,922,099
Total other revenues	5,997,185
Increase in net position	1,386,707
Net position:	
Net position at beginning of year, as restated (note 1(b))	136,701,476
Net position at end of year	$ 138,088,183

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statement of Cash Flows

Year ended June 30, 2018

Cash flows from operating activities:		
Gate ticket sales	$	53,693,259
NCAA/conference distributions		35,943,656
Sponsorships		9,920,146
Concessions and souvenirs		3,996,624
Trademarks and licensing		904,670
Facility income		2,002,734
Other		838,752
Payments to suppliers		(48,073,230)
Payments to employees		(35,300,889)
Payments for benefits		(8,401,042)
Payments for scholarships		(13,421,536)
Net cash provided by operating activities		2,103,144
Cash flows from noncapital financing activities:		
Contributions, excluding permanent endowments and capital		12,882,147
Contributions to permanent endowments		4,922,099
Interest paid on Pac-12 MMR		(220,121)
University funded tuition waivers		3,834,747
Net cash provided by noncapital financing activities		21,418,872
Cash flows from capital and related financing activities:		
Capital gifts received		1,075,086
Acquisition and construction of capital assets		(2,189,812)
Proceeds from Internal Lending Program		321,175
Financing paid on capital debt		(3,180)
Principal paid on capital debt		(5,011,076)
Interest paid on capital debt		(11,230,320)
Net cash used in capital and related financing activities		(17,038,127)
Cash flows from investing activities:		
Purchases of investments		(5,253,405)
Sale of investments		463,424
Investment income		3,385,699
Net cash used in investing activities		(1,404,282)
Net increase in cash and cash equivalents		5,079,607
Cash and cash equivalents at beginning of year		16,162,285
Cash and cash equivalents at end of year	$	21,241,892
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(17,569,144)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense		15,824,623
Other changes in assets and liabilities:		
Decrease in accounts receivable		(667,521)
Increase in prepaid expenses		410,161
Increase in accounts payable		2,595,585
Increase in unearned income		1,571,531
Increase in accrued salaries and vacation payable		530,133
Decrease in pension liability		(1,179,358)
Increase in OPEB liability		757,000
Decrease in admissions taxes payable		(169,866)
Net cash provided by operating activities	$	2,103,144
Supplemental disclosures of noncash activities:		
Donated supplies	$	2,813,576
Pac-12 Management Fee and interest		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, statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and notes to the financial statements. The financial statements present only the University of Washington ICA and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 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 statement 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. 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 $12,411,000. ICA's Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows present only one fiscal year, since the change in accounting treatment required by Statement No. 75 is not able to be applied to the prior fiscal year due to the constraints of available information.

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

(d) Advances to University for Capital Projects

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

(e) Unearned Income

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

Advance sales of football tickets	$	20,185,984
Advance sales for men's and women's basketball		908,829
Other unearned income		1,284,022
	$	22,378,835

(f) Operating Activities

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

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

(g) Contributions

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

(h) Sponsorships

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

The Department recorded $5.6 million in sponsorship revenue for these transactions in the year ended June 30, 2018.

(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, 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.

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, 2018.

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.

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

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

Pooled Investments held on behalf of ICA by the University are recorded at ICA's share of the carrying value of the University of Washington Cash and Liquidity Pools. The Cash and Liquidity Pools were invested as follows at June 30, 2018:

Cash and cash equivalents	4.7 %
Treasuries and agencies	66.5
Mortgage related securities	10.1
Asset-backed debt securities	8.6
Corporate and other fixed income	10.1
Total	100.0 %

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

(3) Investments

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

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

Expendable endowments:		
Graham*	$	456,523
Spence*		671,529
Endowments (including expendable gains)		81,386,159
Total	$	82,514,211

* Expenditure of principal is permitted under certain circumstances.

The Department received $4,922,099 during the year in endowment gifts, 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, 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, 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, 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 statement of financial position were not changed from previous practice during the reporting period.

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

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

		June 30, 2018
Assets:		
Investments measured at net asset value:		
Pooled investments in the CEF	$	14,665,030
Total	$	14,665,030

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

(4) Capital Assets

Capitalized asset activity for the year ended June 30, 2018 is summarized as follows:

	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 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 2018, ICA has a remaining principal balance of $244.8 million payable to the ILP relating to the construction of the Husky Stadium renovation and Husky Ballpark.

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

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

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

	Principal	Interest
Years ending June 30:		
2019	$ 4,327,707	10,926,765
2020	4,526,521	10,727,951
2021	4,734,468	10,520,003
2022	4,951,969	10,302,503
2023	5,179,461	10,075,010
Thereafter	221,064,323	121,590,558
	$ 244,784,449	174,142,790

Internal Lending Program activity for the year ended June 30, 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

(6) Capital Lease

Future minimum lease payments under capital lease and the present value of the net minimum lease payments as of June 30, 2018 are as follows:

	Future payments
Years ending June 30:	
2019	$ 997,934
2020	997,934
2021	997,934
2022	997,934
2023	997,934
Total minimum lease payments	4,989,670
Less amount representing interest cost	284,229
Present value of minimum payments	$ 4,705,441

Equipment under capital lease is as follows:

	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 2018 was $2,554,984.

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.

(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 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.

(ii) PERS Plan 2/3

PERS Plan 2/3 provide 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.

(Continued)

(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 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://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 2018 pension liability is based on an OSA 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:

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement dates of June 30, 2017, are summarized in the following table:

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

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

(f) Discount Rate

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

Using the WSIB long-term expected rate of return, a 7.50% future investment rate of return on pension plan investments was assumed. 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 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)
(Dollars in thousands)

		1% Decrease	Discount rate at 7.5%	1% Increase
Plan:				
PERS 1	$	2,638	2,166	1,756
PERS 2/3		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, 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, 2018 was June 30, 2017. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2017 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, 2017 Schedules of Employer and Nonemployer Allocations. ICA's proportionate share for each DRS plan is shown in the table below.

	Proportionate share	
	PERS 1	**PERS 2/3**
Plan:		
Year ended June 30, 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, 2018 is presented in the table below.

Plan		**PERS 1**	**PERS 2/3**	**Total**
		(Dollars in thousands)		
Net pension liability	$	2,166	1,999	4,165

(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, 2018	$	83	316	399

Description		Deferred outflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
Change in assumptions	$	—	21	21
Difference between expected and actual experience		—	203	203
Change in ICA's proportionate share		—	(9)	(9)
ICA contributions subsequent to the measurement date of the collective net pension liability[a]		297	431	728
Total	$	297	646	943

[a.] Amounts will be recognized as a reduction of the net position liability as of June 30, 2019.

Description		Deferred inflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
Difference between expected and actual earnings on plan investments, net	$	(81)	(533)	(614)
Difference between expected and actual experience		—	(66)	(66)
Total	$	(81)	(599)	(680)

Amounts reported as deferred outflows of resources, as of June 30, 2018, 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)		
2019	$	(55)	(207)	(262)
2020		17	31	48
2021		(4)	(48)	(52)
2022		(39)	(210)	(249)
2023		—	22	22
Thereafter		—	28	28
Total	$	(81)	(384)	(465)

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

(Continued)

(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, 2018
Active employees	85
Inactive employees receiving benefits	8
Inactive employees entitled to, but not receiving, benefits	—

(i) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal year ending June 30, 2018 were $74,000.

(ii) Total Pension Liability (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS), which have trusted assets and, therefore, are reported as a net pension liability. ICA has set aside $3,134,263 to pay future UWSRP retiree benefits. These assets are reported as Investments on the Statement of Net Position.

		June 30, 2018 (Dollars in thousands)
Schedule of changes in total pension liability:		
Beginning balance	$	5,112
Service cost		178
Interest on TPL		194
Difference between expected and actual experience		(408)
Change in assumptions		(205)
Change in proportion		155
Benefit payments		(74)
Ending balance	$	4,952

The TPL is based on an actuarial valuation performed as of June 30, 2016. Update procedures performed by the OSA were used to roll forward the TPL to the measurement date of June 30, 2018.

ICA's share of UWSRP pension expense for the fiscal year ended June 30, 2018 was $138,282.

(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, 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	$	4,952
TPL discount rate increased 1%		4,343
TPL discount rate decreased 1%		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:

		2018 (Dollars in thousands)
Deferred inflows of resources:		
Difference between expected and actual experience	$	1,031
Change in assumptions		436
Total	$	1,467
Deferred outflows of resources:		
Change in proportion	$	513

Amortization of deferred inflows of resources (a) (dollars in thousands):		
Year:		
2019	$	(151)
2020		(151)
2021		(151)
2022		(151)
2023		(151)
Thereafter		(199)
Total	$	(954)

(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 $150 per member per month 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 the ICA's PEBB membership data as of June 30, 2018:

	2018 (measurement date 2017)
Active employees	245
Inactive employees receiving benefits	65
Inactive employees entitled to, but not receiving, benefits	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, 2018
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 percent 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 Participant Percentage	65.00 %
TOL measurement at discount rate	$ 11,730
TOL discount rate increased 1%	9,732
TOL discount rate decreased 1%	14,312
TOL measurement at healthcare cost trend rate	11,730
TOL healthcare cost trend rate increased 1%	14,755
TOL healthcare cost trend rate decreased 1%	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 2.85% and the discount rate used for the ending TOL was 3.58%, resulting in a reduction of the TOL.

(c) Changes in the Total OPEB Liability

The TOL for the state of Washington was determined by an actuarial valuation, conducted by the OSA, using data as of January 1, 2017. The TOL reported at June 30, 2018 was calculated as of the valuation date, and projected to the measurement date of June 30, 2017. 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. 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 0.75% for both June 30, 2018 and 2017.

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, 2018
Beginning balance	$	12,601
Service cost		795
Interest		373
Change in assumptions		(1,817)
Benefit payments		(190)
Changes in proportionate share		(32)
Ending balance	$	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.

		2018 (Dollars in thousands)
Proportionate share of OPEB expense	$	959
Deferred outflows of resources:		
University contributions subsequent to the measurement date of the collective total OPEB liability	$	202
Changes in proportion		—
Total	$	202
Deferred inflows of resources:		
Change in assumptions	$	1,615
Changes in proportion		25
Total	$	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:		
2019	$	(205)
2020		(205)
2021		(205)
2022		(205)
2023		(205)
Thereafter		(615)
Total	$	(1,640)

(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, 2018, 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:		
2019	$	19,752,156
2020		14,205,597
2021		12,491,211
2022		10,153,213
2023		10,048,963
Thereafter		6,781,313
	$	73,432,453

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2018

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)

	2018	2017	2016	2015
Intercollegiate Athletics' proportion of the net pension liability	0.050 %	0.047 %	0.051 %	0.051 %
Intercollegiate Athletics' proportionate share of the net pension liability	$ 2,166	2,501	2,645	2,547
Intercollegiate Athletics' covered-employee payroll	5,643	5,429	5,625	5,385
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll	38.38 %	46.01 %	47.02 %	47.30 %
Plan fiduciary net position as a percentage of the total pension liability	61.24 %	57.03 %	59.10 %	61.19 %

Schedule of Contributions
(As of current fiscal year-end)
PERS 1
(Dollar amounts in thousands)

	2018	2017	2016	2015
Contractually required contribution	$ 9	10	12	12
Contributions in relation to the contractually required contribution	9	10	12	12
Contribution deficiency (excess)	—	—	—	—
Intercollegiate Athletics' covered-employee payroll	5,819	5,643	5,429	5,625
Contributions as a percentage of covered-employee payroll	0.15 %	0.17 %	0.22 %	0.22 %

(Continued)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2018

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)

	2018	2017	2016	2015
Intercollegiate Athletics' proportion of the net pension liability	0.06 %	0.06 %	0.06 %	0.06 %
Intercollegiate Athletics' proportionate share of the net pension liability	$ 1,999	2,854	2,135	1,215
Intercollegiate Athletics' covered-employee payroll	5,640	5,295	5,302	5,147
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll	35.44 %	53.90 %	40.27 %	23.61 %
Plan fiduciary net position as a percentage of the total pension liability	90.97	85.82	89.20	93.29

Schedule of Contributions
(As of current fiscal year-end)
PERS 2/3
(Dollar amounts in thousands)

	2018	2017	2016	2015
Contractually required contribution	$ 732	631	588	488
Contributions in relation to the contractually required contribution	733	631	593	488
Contribution deficiency (excess)	(1)	—	(5)	—
Intercollegiate Athletics' covered-employee payroll	5,795	5,640	5,295	5,302
Contributions as a percentage of covered-employee payroll	12.64 %	11.18 %	11.10 %	9.21 %

(Continued)

Schedule 1

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2018

Unaudited – See accompanying independent auditors' report.

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

	2018	2017
Total pension liability – beginning	$ 5,112	5,503
Service cost	178	232
Interest on TPL	194	176
Difference between expected and actual experience	(408)	(873)
Change in assumptions	(205)	(333)
Change in proportion	155	467
Benefit payments	(74)	(60)
Total pension liability – ending	$ 4,952	5,112
Total pension liability – ending	$ 4,952	5,112
UWSRP covered-employee payroll	9,120	9,335
Total pension liability as percentage of covered-employee payroll	54.30 %	54.80 %

(Continued)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2018

Unaudited – See accompanying independent auditors' report.

Schedule of Changes in Total OPEB Liability
(Dollars in thousands)

		2018
Total OPEB liability – beginning	$	12,601
Service cost		795
Interest on OPEB		372
Change in assumptions		(1,817)
Change in proportion		(31)
Benefit payments		(190)
Total OPEB liability – ending	$	11,730
Total OPEB liability – ending	$	11,730
UWSRP covered-employee payroll		18,954
Total pension liability as percentage of covered-employee payroll		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. 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, 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 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 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 75, paragraph 4 to pay related benefits.

Material assumption changes during the period was 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.

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, 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.

KPMG

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Basic Financial Statements

June 30, 2018

(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, 2018, 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, 2018, the change in its net position, or its cash flows for the year ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

KPMG

As discussed in note 2 to the basic financial statements, on July 1, 2017, the Group 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.

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, 2018, and the respective changes in financial position and cash flow thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 17, and the schedules of required supplementary information on page 61, 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 64-65 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 12, 2018

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, 2018 and 2017. 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 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 help compute the rate of return on investments, evaluate the capital structure of the Group, and assess the liquidity and financial flexibility of the organization.

The statement of revenues, expenses, and changes in net position reports all revenues, expenses, and other activity affecting net position during the time period indicated. Net position, the difference between assets and liabilities, is one way to measure the financial health of the Group and whether the organization has been able to recover all costs through net patient service 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 affiliates. The statement provides meaningful information on where the Group's cash was generated and what it was used for.

(Dollar amounts in thousands)

Financial Highlights for Fiscal Year 2018

The Group reported a loss from operations of $44,035 and a decrease in net position of $41,854 for the year ended June 30, 2018 compared to an operating loss of $65,302 and a decrease in net position of $66,449 for the year ended June 30, 2017. Despite strong volumes at all entities, including an increase in solid organ transplants, specialty drug and cardiology revenues at UW Medical Center, the Group experienced narrowing reimbursement from payers. The Group had greater labor and supplies expenses as a result of increased volumes, and an increase in clinical department funding to the School. The operating loss includes $7,269 of net expense for the Group's proportionate share of the University post retirement obligations expense.

		2018	2017
Operating revenues:			
Net patient service revenues	$	1,597,571	1,522,066
UWP billing revenues, net		279,097	250,339
Other revenue		206,125	195,614
Total operating revenues		2,082,793	1,968,019
Operating expenses:			
Salaries, wages, and benefits		1,129,795	1,104,419
Other post employment benefits		25,024	—
Other		972,009	928,902
Total operating expenses		2,126,828	2,033,321
Loss from operations		(44,035)	(65,302)
Nonoperating revenues (expenses):			
Investment income, net		4,800	8,116
Interest expense		(17,627)	(17,951)
Other, net		14,886	7,632
Nonoperating revenues (expenses), net		2,059	(2,203)
Loss before capital contributions and other transfers		(41,976)	(67,505)
Capital contributions and other transfers		122	1,056
Decrease in net position		(41,854)	(66,449)
Net position, beginning of year		470,074	561,901
Cumulative effect of change in accounting principle		(331,205)	(25,378)
Net position, beginning of year, as adjusted		138,869	536,523
Net position, end of year	$	97,015	470,074

(Dollar amounts in thousands)

The following chart represents key statistics of the Group:

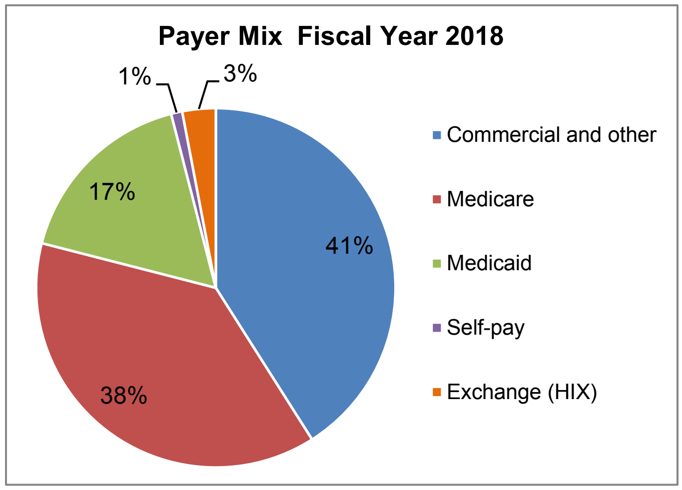
	2018	2017
Licensed beds	810	810
Admissions	29,285	28,909
Patient days	185,221	181,778
Average length of stay	6.32	6.29
Case mix index (CMI) – UW Medical Center	2.27	2.25
Case mix index (CMI) – Northwest Hospital	1.52	1.53
Surgery cases	28,100	26,827
Emergency room visits	61,930	61,880
Primary and Urgent care clinic visits	455,816	418,184
Specialty care clinic visits	439,685	435,261
Births	3,008	3,109
Solid organ transplants	399	356
RVU Volume	7,035,100	6,573,028
Airlift flights	3,669	3,639
Full-time equivalents (FTEs)	8,668	8,789

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 different 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 statements of revenues, expenses, and changes in net position.

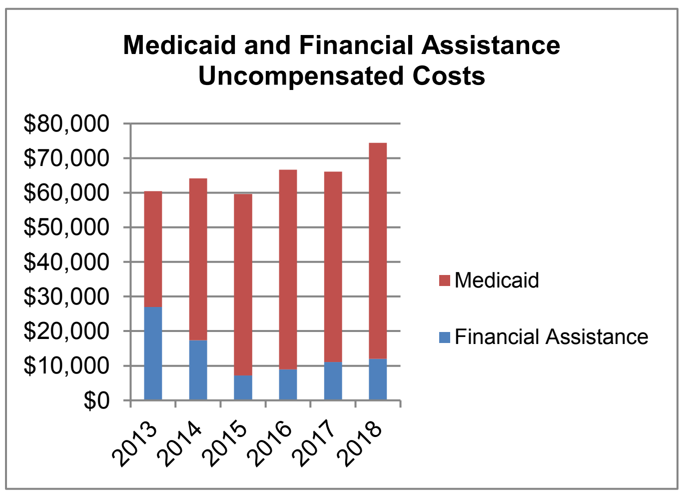
Net patient service revenues includes inpatient, outpatient and flight revenue. Outpatient revenue consists of hospital-based and ambulatory revenue. UWP billing revenues are limited to its operating expenses based on the operating agreement between the University and UWP. Other revenue is comprised of revenues from activities such as contract pharmacy, state appropriations, 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 2018. For the years ended June 30, 2018 and 2017, Commercial revenue represented 41% and 42%, Medicare revenue represented 38% and 37%, respectively. Medicaid revenue represented 17%, Self-pay revenue represented 1%, and Exchange revenue represented 3%, for both fiscal years.

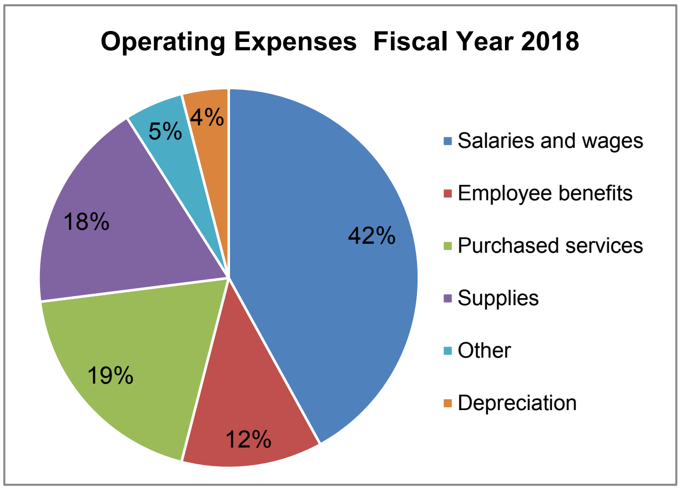


As a result of the Affordable Care Act, UW Medical Center and Northwest Hospital experienced a decrease in uninsured patients after January 1, 2014, as many patients who previously qualified for financial assistance now qualify for Medicaid coverage. However, UW Medical Center and Northwest Hospital 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 cost 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, 2018 and 2017, the Group's total operating revenues were $2,082,793 and $1,968,019, comprised of $1,597,571 and $1,522,066 in net patient service revenues, $279,097 and $250,339 in UWP billing revenues, net, and $206,125 and $195,614 in other revenues, respectively. The increase in operating revenues between fiscal years 2018 and 2017 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 and an increase in revenues for services provided to non-Group entities increased other revenue in fiscal year 2018.



Operating Expenses

Operating expenses were $2,126,828 for the fiscal year 2018 compared to $2,033,321 for the fiscal year 2017. The composition of fiscal year 2018 operating expenses is illustrated in the chart to the left.

Salaries and wages expense increased $33,504 from $861,564 in fiscal year 2017 to $895,068 in fiscal year 2018. The increased expense occurred primarily at UWP and Northwest Hospital. UWP had an increase in salary expense of $28,406 due to greater clinical revenues to fund physician salaries. In addition, Northwest Hospital offered a voluntary retirement program to eligible employees which resulted in approximately $2,300 of additional expense.

Employee benefits and other post employment benefits expense increased $16,896 from $242,855 in fiscal year 2017 to $259,751 in fiscal year 2018. Between fiscal year 2017 and fiscal year 2018, the University benefit load rate for classified employees increased 2.2% from 37.9% to 40.1%, as a result of employer pension contributions and employee healthcare expenses for the University employees within the Group. In fiscal year 2019, the University benefit load rate for professional employees increased from 32.5% to 34.1%.

In fiscal year 2018, the Group recognized $25,024 in other post employment benefits expense as a result of adopting of GASB Statement No. 75, which requires the Group to begin reporting costs associated with other post employment benefits as they are earned instead of based on cash funding. In addition, benefits expense was impacted unfavorably by the Group's proportionate share of the University of net post-retirement obligations expense of $7,269.

Purchased services expense, consisting of professional fees, consulting fees, and clinical department funding, increased $17,572 from $391,935 in fiscal year 2017 to $409,507 in fiscal year 2018. The increase in purchased services expense is attributed to an increase in the School clinical department funding expense, representing fees paid to physicians providing services to the Group but not employed by the Group, as well as aviation expense, and maintenance and repairs expense.

Supplies expense includes medical and surgical supplies, pharmaceutical supplies, and nonmedical supplies. In total, these expenses increased $22,210 from $352,794 in fiscal year 2017 to $375,004 in fiscal year 2018. The increase was a result of higher costs for organs and bone marrow acquisition, prosthesis, surgical supplies, and pharmaceutical expenses as a result of the greater surgical, transplant volume and acuity.

Other expense includes insurance, taxes, rent and other expenses. Other expenses increased $7,811 from $91,389 in fiscal year 2017 to $99,200 in fiscal year 2018. In fiscal year 2017, other expense was reduced by a pension related expense reduction as calculated under GASB 68, which was not as significant in fiscal year 2018.

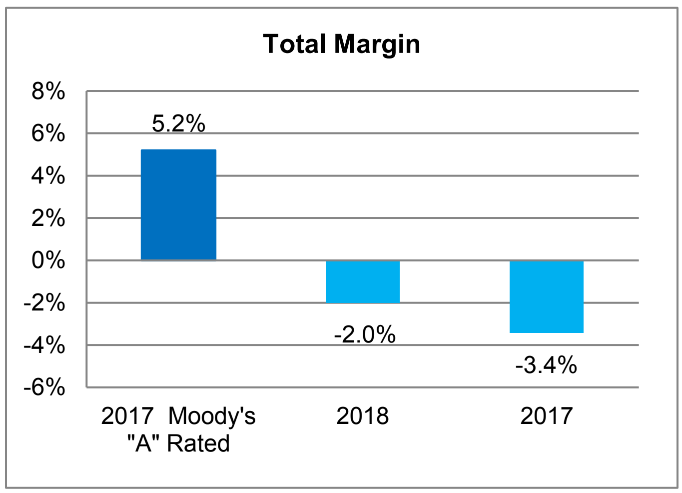
Depreciation expense decreased $4,486 from $92,784 in fiscal year 2017 to $88,298 in fiscal year 2018. The decrease between fiscal years was attributed to moderate capital spending and assets becoming fully depreciated.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consists primarily of investment income, interest expense, intergovernmental transfer expense, equity earnings from the investment in Seattle Cancer Care Alliance (SCCA), and funding from and to other UW Medicine entities, as well as the state of Washington. In 2018, net nonoperating revenues (expenses) increased $4,262 from $(2,203) in fiscal year 2017 to $2,059 in fiscal year 2018. The increase in net nonoperating revenues (expenses) is attributable to an increase in equity earnings from SCCA and $6,600 net nonoperating revenue related to the Group's participation in the State of Washington Medicaid Transformation Demonstration program.

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue that has been realized in the form of net income (loss before capital contributions and other transfers) and is a common measure of total hospital profitability. Total margin for the fiscal years 2018 and 2017 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, 2018 and 2017:

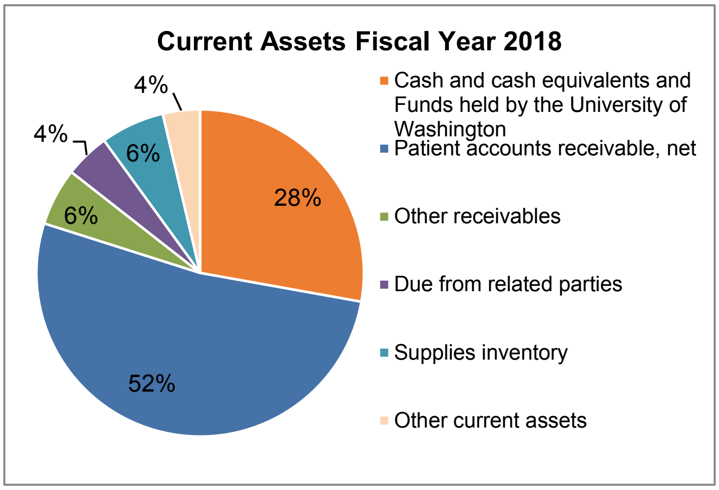
		2018	2017
Current assets	$	402,909	370,400
Noncurrent assets:			
Capital assets, net of accumulated depreciation		727,708	740,245
Funds held by the University of Washington		127,373	173,034
Investments		152,599	146,192
Investment in Seattle Cancer Care Alliance		159,149	142,147
Other assets		32,446	29,318
Total assets		1,602,184	1,601,336
Deferred outflows of resources		85,201	95,556
Total assets and deferred outflows of resources	$	1,687,385	1,696,892
Current liabilities	$	421,981	395,031
Other noncurrent liabilities		453,598	444,515
Pension liabilities		302,823	373,650
Other post employment benefits		306,185	—
Total liabilities		1,484,587	1,213,196
Deferred inflows of resources		105,783	13,622
Net position		97,015	470,074
Total liabilities and net position	$	1,687,385	1,696,892

(Continued)

Total assets and deferred outflow of resources are $1,687,385 at June 30, 2018 compared to $1,696,892 at June 30, 2017 representing a decrease of $9,507. During fiscal year 2018, total assets includes an increase in the investment in SCCA as a result of the Group’s proportionate share of its earnings, an increase in patient accounts receivable offset by a decrease in funds held by the University of $45,661. Current liabilities increased $26,950 from $395,031 at June 30, 2017 to $421,981 at June 30, 2018 as a result of physician distribution, clinical medicine fund, department payables, and timing of vendor payables. Pension liabilities decreased $70,827 from $373,650 at June 30, 2017 to $302,823 at June 30, 2018 and deferred inflow of resources related to pensions increased $41,425 from $13,622 at June 30, 2017 to $55,047 at June 30, 2018 as a result of updated actuarial assumptions related to the pension plans.

In fiscal year 2018, the Group 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. As result of this statement, the Group recorded an OPEB liability of $306,185 and a deferred inflow of resources of $50,736 based on the Group’s proportionate share of the state actuary report. In addition, the adoption of this standard reduced beginning net position as a result of recording the beginning OPEB liability in the amount of $331,205.

(Continued)



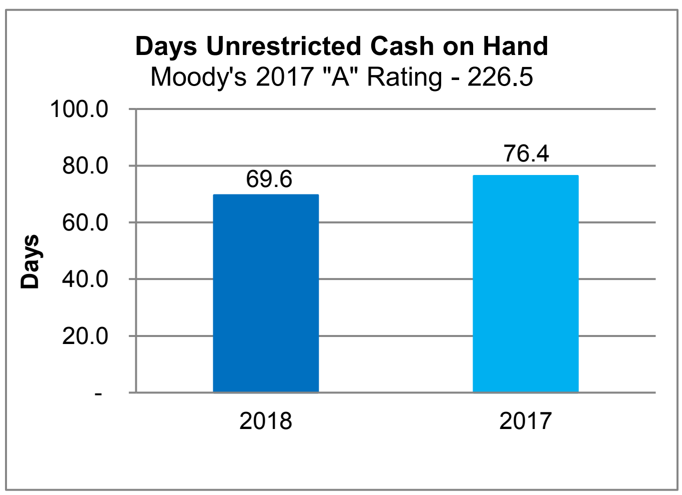
Current Assets

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 2018 composition of current assets is illustrated in the chart to the left.

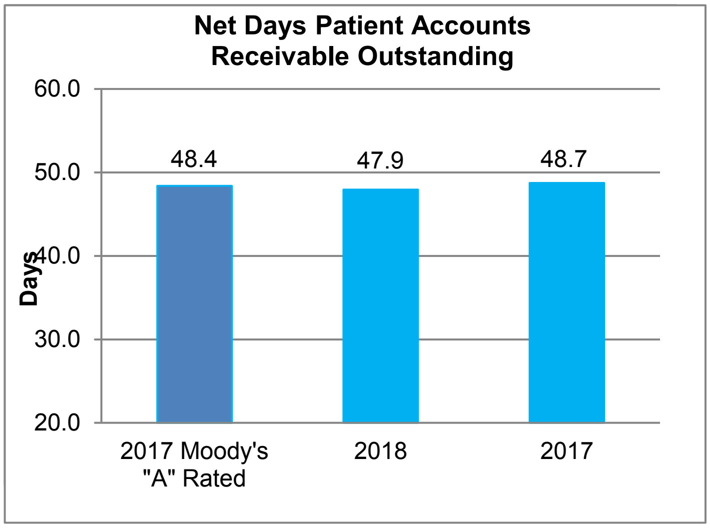
Cash and Cash Equivalents represent both cash and funds held by the University on behalf of the Group that are considered cash equivalents. Cash and cash equivalents increased $21,612 from $90,473 at June 30, 2017 to $112,085 at June 30, 2018. The increase in cash and cash equivalents was primarily driven by agreed upon delayed settlements from Northwest Hospital to the University.

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 2018 and 2017 as compared to Moody's median rating are illustrated in the chart to the right.



The Group's total days unrestricted cash on hand, decreased from 76.4 days at June 30, 2017 to 69.6 days at June 30, 2018. The decrease in 2018 was a result of the Group's greater operating expenses as a result of increased labor and supplies expense. The Group experienced a decrease in the realization rate which is the percentage of gross charges expected to be realized in cash, from 39.0% in 2017 to 38.0% in 2018.

Net patient accounts receivable was $209,830 as of June 30, 2018 compared to $203,235 as of June 30, 2017, an increase of $6,595. The increase in net patient accounts receivable over the prior year was driven by greater patient care volumes.



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 2018 and 2017 as compared to Moody's median rating are illustrated in the chart left.

The Group's total net days patient accounts receivable outstanding decreased 0.8 days from 48.7 days at June 30, 2017 to 47.9 days at June 30, 2018. The decrease during fiscal year 2018 was due to a continued focus on revenue cycle initiatives that improved billing and collection activities.

As of June 30, 2018 and 2017, 45% and 46% of the gross patient accounts receivable balance are due from commercial payers and self-pay payers comprised 6% and 5%, respectively. In each year, governmental payers (Medicare and Medicaid) and exchange payers comprised 47% and 2% of gross accounts receivable, respectively.

Other receivables consist of amounts due from external parties for supplies and services. Other receivables increased $4,564 from $18,347 at June 30, 2017 to $22,911 at June 30, 2018. In fiscal year 2018, the increase in other receivables was driven by an increase in pharmaceutical supplies provided to SCCA by the Group and contract pharmacy revenue.

Due from related parties consists of amounts due for services provided to Harborview, VMC, and the School. Due from related parties increased $529 from $17,340 at June 30, 2017 to $17,869 at June 30, 2018. The increase in 2018 relates to the timing of payments between the Group, Harborview, and the School.

Noncurrent Assets

Capital assets, net of accumulated depreciation decreased $12,537 during fiscal year 2018 from $740,245 at June 30, 2017 to $727,708 at June 30, 2018. The decrease in 2018 is driven by reduced construction costs for the Montlake Tower, as the project was completed in April 2018, and lower investment in information technology projects.

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

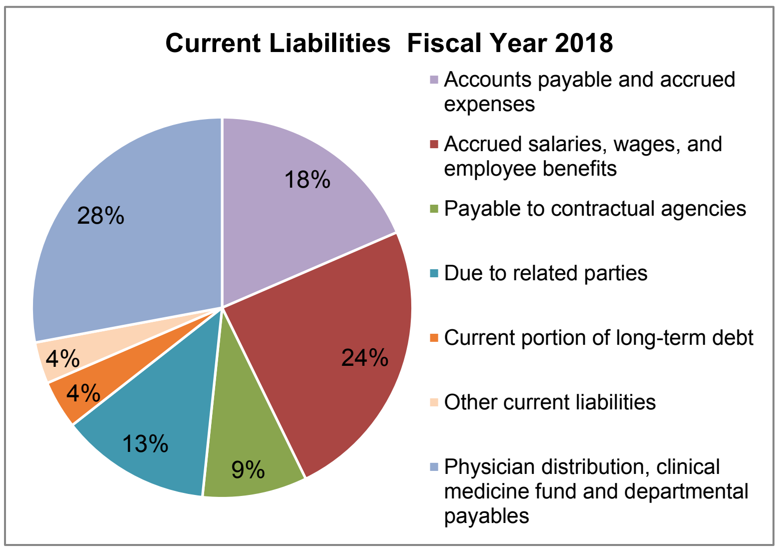
Funds held by the University represent funds invested with the University classified as a noncurrent asset by the Group. Through the University's investment program, the Group receives a rate of return representative of a portion of fund performance. For fiscal years 2018 and 2017, the program generated a rate of return of 0.75% and 1.0%, respectively, on the Group's assets. Noncurrent funds held by the University decreased $45,661 in fiscal year 2018 from $173,034 at June 30, 2017 to $127,373 at June 30, 2018 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 $6,407 from $146,192 at June 30, 2017 to $152,599 at June 30, 2018. The increase in investments was a result of positive investment portfolio performance and funds generated from operations during fiscal year 2018.

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 $17,002 from $142,147 at June 30, 2017 to $159,149 at June 30, 2018. Changes in the investment value reflect UW Medical Center's proportionate interest in the change in net assets of SCCA. The increase in 2018 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 $421,981 at June 30, 2018 compared to $395,031 at June 30, 2017. Fiscal year 2018 composition of current liabilities is illustrated in the chart to the right.



Accounts payable and accrued expenses increased $9,481 from $68,657 at June 30, 2017 to $78,138 at June 30, 2018. Changes in accounts payable and accrued expenses are primarily the result of timing of payments to vendors.

Accrued salaries, wages, and employee benefits increased $3,870 from $98,438 at June 30, 2017 to $102,308 at June 30, 2018. 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 accrual.

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 $169 from $54,034 at June 30, 2017 to $53,865 at June 30, 2018. The decrease in 2018 was driven by timing of payments between related parties.

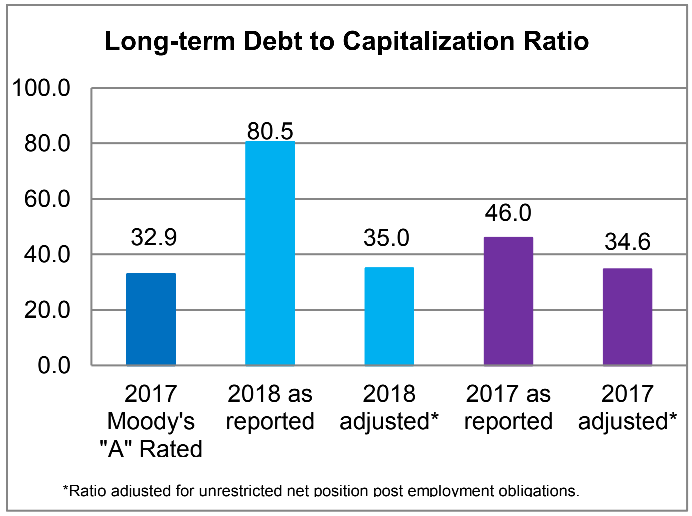
The Group has a long-term due to related parties balance of $60,940 at June 30, 2018 compared to $31,458 at June 30, 2017, an increase of $29,482. This balance represents amounts due for services provided to Northwest Hospital by the University. The increase in long-term due to related parties was driven 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 $9,073 from $108,795 at June 30, 2017 to $117,868 at June 30, 2018. The increase in the payables was due to favorable investment returns of $5,042 and cash collections in excess of distributions paid on behalf of the School as defined by the income distribution plan.

Noncurrent Liabilities

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

Long-term debt, including current portion, decreased $15,546 from $395,977 at June 30, 2017 to $380,431 at June 30, 2018. The decrease in long-term debt is a result of principal payments made in accordance with debt repayment schedules, offset by a slight increase in debt due to capital leases.



Long-term debt to capitalization is a ratio used to assess the capital structure of healthcare organizations. The chart above shows the long-term debt to capitalization ratio as of June 30 for 2018 and 2017 based on the amounts reported in the financial statements and adjusted for post employment retirement obligations as compared to Moody's median rating. The Group's long-term debt to capitalization ratio increased from 46.0% in fiscal year 2017 to 80.5% in fiscal year 2018 as a result of a reduction in beginning unrestricted net position of $331,205 due to the adoption of the OPEB standard.

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 decreased by $375,365 from $122,528 at June 30, 2017 to ($252,837) at June 30, 2018. The decrease in unrestricted net position is a result of a reduction in beginning unrestricted net position of $331,205 due to the adoption of the OPEB standard and a loss before capital contributions and other transfers due to the operations of the Group.

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 outflow and inflow of resources are determined by actuarial reports.

(Dollar amounts in thousands)

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.

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, 2018 and 2017:

		2018	**2017**
Pension liabilities	$	302,823	373,650
Pension expense		35,307	43,048
Pension funding contribution		48,063	36,874
OPEB liability	$	306,185	—
OPEB expense		25,024	—
OPEB funding contribution		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.

UW Medicine/MultiCare Alliance

In July 2017, UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance that will expand access to high-quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. Through this clinically integrated network (CIN), UW Medicine and MultiCare will provide cost-effective and clinically integrated healthcare in communities throughout the Puget Sound region while supporting the education of the next generation of clinicians and advancing research. The parties' joint activities will be guided by four core principles: the provision of high-quality, patient-centered care; a commitment to teaching and research; ensuring strong financial stewardship to deliver value to the payers of healthcare services; and a focus on improving the health of populations served by the alliance. In June 2018, the University board of regents approved formation of the CIN legal entity, which is expected to occur in late 2018.

UW Medicine Accountable Care Network

In 2014, UW Medicine formed an Accountable Care Network (ACN) with other selected healthcare organizations and healthcare professionals in Western Washington to create a care delivery network to assume responsibility for the healthcare of contracted patient populations in order to achieve the Triple Aim: improved healthcare experience for the individual, improved health of the population, and more affordable care.

- The ACN has contracted with the Washington Health Care Authority (HCA) to participate in its Puget Sound Accountable Care Program (ACP) as a healthcare benefit option for Public Employees Benefits Board (PEBB) members. The ACP is offered to all PEBB members who reside in Snohomish, King, Kitsap, Pierce, and Thurston counties. This contract with HCA covering PEBB members began January 1, 2016.
- A subset of the network members have also agreed to participate with the ACN in a contract with Premera as part of its Accountable Health System (AHS) product. As an AHS, the UW Medicine ACN will share in accountability for the quality and cost of healthcare for Premera members who select this plan. This product was sold both on and off the Washington Health Exchange in select counties with coverage that began January 1, 2016. The AHS must have 5,000 planwide members per product, per region for the UW Medicine ACN to share in financial savings and risk. The ACN is not at risk for the AHS product for calendar year 2017, but is at risk in calendar year 2018.
- The UW Medicine ACN also entered into an agreement to provide health care services to nonunion employees of a large local employer with coverage that began January 1, 2015.

These arrangements provide an opportunity for shared savings between the ACN and the contracted entity based on achieving quality and financial benchmarks. If certain financial benchmarks are not attained, UW Medicine, along with its network members, is at risk for reductions in payment levels from the contracted entity based on the agreement.

Investments in Information Technology

In July 2018, the University's board of regents granted approval to proceed with the UW Medicine clinical transformation program. 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 Seattle Cancer Care Alliance. Program kick-off will be in November 2018 with initial implementation occurring in April 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. Resulting from changes in the national and regional healthcare landscape, adopting a new model of one hospital on two campuses will provide many opportunities for cost savings and improved coordination of care. Upon dissolution of the Northwest Hospital corporation, Northwest Hospital assets and liabilities will be assumed by UW Medical Center and Northwest Hospital staff will become University employees. Full integration is planned to occur no later than January 1, 2020.

Financial Stability Plan / Project FIT

UW Medicine has developed 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 and the Group, in particular where University employees are deployed at certain entities within the Group. Employer pension funding rates for the PERS pension plans increased 14.0% during fiscal year 2018 from 11.18% to 12.70% of covered salary, but will remain unchanged during fiscal year 2019. Likewise, the monthly employer base rate paid by the University and the Group for employee healthcare increased 3.0% during fiscal year 2018, from $888 to $913 per active employee, but will be mostly unchanged during fiscal year 2019. Both rates, however, are likely to continue increasing over the next few years.

Montlake Tower Expansion Project

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

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statement of Net Position

June 30, 2018

(Dollar amounts in thousands)

Assets	
Current assets:	
Cash and cash equivalents	$ 50,402
Funds held by the University of Washington	61,683
Patient accounts receivable, less allowance for uncollectible accounts of $16,911	209,830
Other receivables	22,911
Due from related parties	17,869
Supplies inventory	25,379
Restricted investments	1,418
Other current assets	13,417
Total current assets	402,909
Noncurrent assets:	
Capital assets, net of accumulated depreciation	727,708
Funds held by the University of Washington	127,373
Investments	152,599
Donor restricted assets	4,189
Investment in Seattle Cancer Care Alliance	159,149
Other assets	28,257
Total noncurrent assets	1,199,275
Total assets	1,602,184
Deferred outflows of resources:	
Deferred outflows of resources related to pensions	72,616
Deferred outflows of resources related to other post employment benefits	5,692
Other deferred outflows of resources	6,893
Total assets and deferred outflows of resources	$ 1,687,385
Liabilities and Net Position	
Current liabilities:	
Accounts payable and accrued expenses	$ 78,138
Accrued salaries, wages, and employee benefits	102,308
Payable to contractual agencies	37,541
Due to related parties	53,865
Current portion of long-term debt	17,316
Other current liabilities	14,945
Physician distribution, clinical medicine fund, and departmental payables	117,868
Total current liabilities	421,981
Noncurrent liabilities:	
Long-term debt, net of current portion	363,115
Pension liabilities	302,823
Other post employment benefits	306,185
Due to related parties – long-term	60,940
Other noncurrent liabilities	29,543
Total liabilities	1,484,587
Deferred inflows of resources:	
Deferred inflows of resources related to pensions	55,047
Deferred inflows of resources related to other post employment benefits	50,736
Net position:	
Net investment in capital assets	345,052
Nonexpendable, restricted	2,380
Expendable, restricted	2,420
Unrestricted	(252,837)
Total net position	97,015
Total liabilities, deferred inflows of resources, and net position	$ 1,687,385

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, 2018

(Dollar amounts in thousands)

Operating revenues:		
Net patient service revenues (net of provision for uncollectible accounts of $23,959)	$	1,597,571
UWP billing revenues, net		279,097
Other revenue		206,125
Total operating revenues		2,082,793
Operating expenses:		
Salaries and wages		895,068
Employee benefits		234,727
Other post employment benefits		25,024
Purchased services		409,507
Supplies		375,004
Other		99,200
Depreciation		88,298
Total operating expenses		2,126,828
Loss from operations		(44,035)
Nonoperating revenues (expenses):		
Investment income		4,800
Interest expense		(17,627)
Funding to affiliates		(38,140)
Funding from affiliates		34,437
Other, net		18,589
Nonoperating revenues (expenses), net		2,059
Loss before capital contributions and other transfers		(41,976)
Capital contributions and other transfers		122
Decrease in net position		(41,854)
Net position – beginning of year, as issued		470,074
Cumulative effect of change in accounting principle		(331,205)
Net position – beginning of the year, as adjusted		138,869
Net position – end of year	$	97,015

See accompanying notes to basic financial statements.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statement of Cash Flows

Year ended June 30, 2018

(Dollar amounts in thousands)

Cash flows from operating activities:	
Cash received for patient care	$ 1,593,590
Cash received for UWP billing revenues	273,339
Cash received for other services	200,949
Cash paid to employees	(1,145,354)
Cash paid to suppliers and others	(875,402)
Net cash provided by operating activities	47,122
Cash flows from noncapital financing activities:	
Funding to affiliates	(40,840)
Funding from affiliates	34,437
Due to related parties – long-term	29,482
Additions to clinical medicine fund and departmental payables	9,789
Other, net	1,041
Net cash provided by noncapital financing activities	33,909
Cash flows from capital and related financing activities:	
Purchases of capital assets	(72,073)
Principal payments on long-term debt	(17,124)
Interest payments on long-term debt	(17,321)
Funding from affiliates for capital purchases	90
Net cash used in capital and related financing activities	(106,428)
Cash flows from investing activities:	
Proceeds from sale of investments	21,608
Purchases of investments	(24,181)
Funds held by the University and donor restricted assets	45,608
Investment income	5,861
Other	(1,887)
Net cash provided by investing activities	47,009
Increase in cash and cash equivalents	21,612
Cash and cash equivalents, beginning of year	90,473
Cash and cash equivalents, end of year	$ 112,085
Reconciliation of loss from operations to net cash provided by operating activities:	
Loss from operations	$ (44,035)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	88,298
Provision for uncollectible accounts	23,959
Other	877
Investment income	(5,042)
Other post employment benefits plan adjustment	20,025
Net increase (decrease) in operating activities:	
Patient accounts receivable	(30,554)
Other receivables	(4,647)
Due from related parties	(529)
Supplies inventory, other current assets and other assets	843
Pension related deferred inflows, deferred outflows, and net pension liability	(14,430)
Accounts payable and accrued expenses	6,766
Accrued salaries, wages, and employee benefits	3,870
Due to related parties	2,531
Payable to contractual agencies and other current liabilities	3,905
Physician distribution payable	(716)
Noncurrent liabilities	(3,999)
Net cash provided by operating activities	$ 47,122
Supplemental disclosures of noncash investing, capital, and financing activities:	
Change in capital assets included in accounts payable	$ 2,715
Acquisition of capital leases	1,578
Donations in-kind and other	538

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 Medical Center (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. In July 2018, UW Medical Center is governed by a board and bylaws established by the UW Board of Regents and effective on September 1, 2018. 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.

(Continued)

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.

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, UW Medicine Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, UW Medicine Contracting, and the University of Washington Consolidated Laundry.

(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, 2018, approximately $50,123 was held in cash and $279 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 2018, the rate returned was 0.75%, representing $1,465 in investment income.

The Group has unrestricted access to deposit and withdrawal 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.

(Dollar amounts in thousands)

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, 2018:

Cash and cash equivalents	4.7 %
U.S. treasury and agencies	66.5
Mortgage related securities	10.1
Asset-backed debt securities	8.6
Corporate and other fixed income	10.1
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 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 2018 was $524 and is recorded in capital assets on the statement of net position.

(i) UW Medicine IT Services

Harborview provides advance funding to UW Medicine IT Services which entitles Harborview access to the enterprise-wide IT software and services. UW Medicine ITS records the funding as unearned revenue. The unearned revenue is reported within other current liabilities and other noncurrent liabilities on the statement of net position. At June 30, 2018, $11,500 is recorded in other current liabilities and $18,218 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, 2018 is $55,350. 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 Certified Public Expenditures (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 the Seattle Cancer Care Alliance (SCCA).

(o) Net Patient Service Revenues

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

Medicare

Acute inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on Medicare severity diagnosis-related groupings (MS-DRGs), as well as reimbursements related to capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for Medicare outpatient services are provided based upon a prospective payment system known as ambulatory payment classifications (APC). 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. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at approximate cost or 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.

Commercial

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

Exchange (HIX)

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

(p) Accountable Care Network

UW Medicine has formed an accountable care network (ACN) with other health care organizations and healthcare professionals to share financial and clinical responsibility for the healthcare of particular populations of patients. The Group, as part of UW Medicine, is a network member of the UW Medicine ACN and, as such, shares in any risk contract surplus or deficit based on agreed upon contractual terms. Since its inception, the ACN has entered into various contracts which include provisions for shared risk as well as shared savings based on achieving certain quality and financial benchmarks. The Group, as part of UW Medicine, and the other network members share in the financial risk or savings. At June 30, 2018, the Group has recorded a liability of $8,389 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.

(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 $61,785 for the year ended June 30, 2018. 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, 2018 was $21,943.

(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 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, 2018, and are not reflected on the statement of net position:

Accounts receivable (net of credit balances of $1,453)	$	89,449
Estimated allowances for discounts, contractual adjustments, and collection losses		(51,617)
	$	37,832

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	$	334,973
Professional services supplemental payment (PSSP)		4,908
Provider access payment (PAP) program		36,261
Meaningful use incentive payments		3,409
Billing reimbursement		2,613
		382,164
Investment income		5,042
Total net billings processed and investment income		387,206
Less:		
Amounts paid or due to affiliates		(1,964)
Amounts due to Clinical Medicine Fund and departments		(106,145)
UWP billing revenues, net	$	279,097

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	$	17,568
Clinical Medicine Fund and Department payables		100,300
Total physician distribution, clinical medicine fund and departmental payables	$	117,868

(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, 2018.

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, 2018.

(v) Recently Adopted and Upcoming Accounting Pronouncements

On July 1, 2017, the University and the Group 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*, which the University and the Group was not previously required to adopt. As a result of implementing Statement No. 75, the Group has recognized its proportionate share of the University's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to adopting this statement the Group'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, implementation of this statement resulted in the restatement of fiscal year 2018 beginning unrestricted net position, reducing it by $331,205, which is presented as a cumulative effect of change in accounting principle in the statement of revenues, expenses, and changes in net position.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations,* which will be effective for the fiscal year ending June 30, 2019. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments that have legal obligations to perform future tangible asset retirement activities will need to recognize a liability and offsetting deferred outflow of resources when incurred and reasonably estimable. The basis of the estimate is the current value of the future outlays expected to be incurred, and is to be adjusted annually for inflation and any changes of relevant factors. The deferral is to be recognized as expense in a systematic and rational manner over the life of the tangible capital asset. The liability is derecognized as retirement costs are paid. Required disclosures include information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The Group is currently analyzing the impact of this statement.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be effective for the fiscal year ending June 30, 2021. This statement 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.

(Dollar amounts in thousands)

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 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 2018, net patient service revenues includes approximately $4,642 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, 2018:

Patient service revenues	$	4,211,637
Less adjustments to patient service revenues:		
Contractual discounts		(2,544,992)
Financial assistance		(45,115)
Provision for uncollectible accounts		(23,959)
Total adjustments to patient service revenues		(2,614,066)
Net patient service revenues	$	1,597,571

(Dollar amounts in thousands)

The Group grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix of gross patient charges and gross receivables from significant third-party payers at June 30, 2018 was as follows:

	Patient service charges	Accounts receivable
Medicare	38 %	31 %
Medicaid	17	16
Commercial and other	41	45
Exchange (HIX)	3	2
Self-pay	1	6
Total	100 %	100 %

(a) Medicaid Certified Public Expenditure (CPE) Reimbursement

UW Medical Center is reimbursed at the “full cost” of Medicaid inpatient covered services under the public hospital CPE payment method. “Full cost” payments are determined using the respective hospital’s Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital, and the State claims federal match on the amount of the related certified public expenditures. According to the Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. UW Medical Center recognized $20,283 in claims payments under this program for the year ended June 30, 2018.

In addition, UW Medical Center receives the federal match portion of Disproportionate Share (DSH) payments, which is the lesser of qualifying uncompensated care cost or the hospital’s specific limit. UW Medical Center recognized $25,049 in DSH funding under this program for the year ended June 30, 2018.

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 recognized $0 in state grants for the year ended June 30, 2018. 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.

(Continued)

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, 2018, UW Medical Center has an estimated payable for the CPE program of $26,179, 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 $11,625 for the year ended June 30, 2018 in intergovernmental transfers (IGT) to HCA related to professional claims paid in this fiscal year. 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 $7,657 in supplemental payments for the year ended June 30, 2018. The payments are recorded in net patient service revenues in the statement of revenues, expenses, and changes in net position. UWP recognized $41,169 in supplemental payments for the year ended June 30, 2018 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. Thus, the School requires less funding from UW Medical Center. UW Medical Center clinical department funding was recorded in purchased services expense in the statement of revenues, expenses and changes in net position and reduced by $23,575 in fiscal year 2018, 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, 2019.

UW Medical Center is exempt from the assessment as the hospital is operated by an agency of the state government and also participates in the CPE program. UW Medical Center recognized grant funding related to the HSNA program of $4,455 for the year ended June 30, 2018, which is recorded in other revenue in the statement of revenues, expenses, and changes in net position.

During the year ended June 30, 2018, Northwest Hospital recorded $6,599 related to assessment fee expense that is recorded in other operating expense on the statement of revenue, expenses, and changes in net position. At June 30, 2018, Northwest Hospital recorded a payable relating to the safety net assessment of $1,650 and is included in accounts payable and accrued expenses on the statement of net position.

Northwest Hospital recognized increased reimbursements of $8,267 under this program for the year ended June 30, 2018, which is included in net patient service revenues in the statement of revenues, expenses, and changes in net position. At June 30, 2018, Northwest Hospital recorded a receivable relating to increased reimbursements of $1,667 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 $6,688 for the fiscal year ended June 30, 2018.

(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, 2018 are set forth below:

	Balance June 30, 2017	Additions	Transfers	Retirements	Balance June 30, 2018
Capital assets, not being depreciated:					
Land	$ 13,766	—	—	—	13,766
Art	1,542	—	—	—	1,542
Construction in process	30,886	75,743	(87,475)	(525)	18,629
Total capital assets, not being depreciated	46,194	75,743	(87,475)	(525)	33,937
Capital assets, being depreciated:					
Land improvements	15,494	—	—	(1,096)	14,398
Buildings, renovations, and furnishings	897,766	352	34,204	(2,247)	930,075
Fixed equipment	166,212	—	8,295	(66)	174,441
Movable equipment	706,371	887	44,976	(32,490)	719,744
Total capital assets, being depreciated	1,785,843	1,239	87,475	(35,899)	1,838,658
Total capital assets at historical cost	1,832,037	76,982	—	(36,424)	1,872,595
Less accumulated depreciation for:					
Land improvements	(9,130)	(503)	—	1,096	(8,537)
Buildings, renovations, and furnishings	(399,398)	(33,772)	—	2,237	(430,933)
Fixed equipment	(128,518)	(4,317)	—	38	(132,797)
Movable equipment	(554,746)	(49,706)	—	31,832	(572,620)
Total accumulated depreciation	(1,091,792)	(88,298)	—	35,203	(1,144,887)
Total capital assets, net	$ 740,245	(11,316)	—	(1,221)	727,708

Intangible assets, net of accumulated amortization of $13,192 as of June 30, 2018 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 restricted purposes, and investments held for the benefit of the School.

(Dollar amounts in thousands)

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

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

The composition of the carrying amounts of investments, by type, at June 30, 2018 is as follows:

Money market mutual funds	$	3,162
Mutual funds		128,434
Domestic corporate bonds		7,760
U.S. governmental agency securities		4,547
U.S. Treasury securities		3,967
Other		6,147
Total	$	154,017

(a) Credit Risk

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

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

Investments		U.S. Government	Investment grade*	Not investment grade	Not rated	Total	Duration (in years)
U.S. Treasury securities	$	3,967	—	—	—	3,967	8.81
Domestic corporate bonds		—	6,353	—	1,407	7,760	5.32
U.S. governmental agency		4,547	—	—	—	4,547	4.80
	$	8,514	6,353	—	1,407	16,274	6.31

* 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, 2018:

		Level 1	Level 2	Level 3	Total
Money market mutual funds	$	3,162	—	—	3,162
Mutual funds		128,434	—	—	128,434
Domestic corporate bonds		—	7,760	—	7,760
U.S. governmental agency securities		—	4,547	—	4,547
U.S. Treasury securities		3,967	—	—	3,967
Other		6,147	—	—	6,147
Total investments at fair value	$	141,710	12,307	—	154,017

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

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held longer than the current reporting period and are sold in the current period include the net appreciation of these investments reported in the prior periods. UWP investment income is recorded in UWP billing revenues, net as presented in note 2(s), however, the composition of UWP's investment income is included in amounts presented below. Investment income comprises the following at June 30, 2018:

Dividend and interest income	$	5,778
Net realized gains		1,690
Net unrealized gains		2,374
Total investment income	$	9,842

(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, 2018:

UW Medical Center Internal Lending Program Debt:		
Expansion Project, 4.50% interest rate, through 2046	$	267,275
All other debts, 3.00% to 5.00% interest rates, through 2028		38,230
Northwest Hospital note payable to the University, at 4.50% annual debt service including interest of $5,918 through 2033, secured by an interest in Northwest Hospital’s gross receivables and certain property and equipment		62,695
Northwest Hospital note payable at 4.65%, annual debt service including interest of $709 through July 2032; secured by a medical office building		7,314
Other note payable		690
Capital leases for equipment, 3.00% to 5.00% interest rates, through 2024		4,227
Total long-term debt		380,431
Less current portion		(17,316)
Total long-term debt, net of current portion	$	363,115

(a) *Long-Term Debt Overview*

UW Medical Center

Under the “Debt Management Policy: Statement of Objectives and Policies” UW Medical Center obtains capital financing through the University’s Internal Lending Program (ILP). The ILP is an internal financing pool intended to lower the University’s overall cost of capital and provide a predictable borrowing rate for borrowers within the University. These loans are funded through the issuance of General Revenue bonds and notes. The ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary.

Northwest Hospital

Through UW Medicine, Northwest Hospital entered into a financing agreement with the University to obtain funds for the defeasance and advance refunding of the Series 2007 Revenue Bonds. The total amount financed was $71,306, of which the outstanding balance at June 30, 2018 was $62,695. 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, 2018 is $5,327.

(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, 2018, for both principal and interest:

	Principal	Interest	Total
2019	$ 17,316	17,069	34,385
2020	17,694	16,267	33,961
2021	18,097	15,443	33,540
2022	18,671	14,601	33,272
2023	18,999	13,732	32,731
2024–2028	84,933	55,832	140,765
2029–2033	88,681	36,300	124,981
2034–2038	60,807	18,451	79,258
2039–2043	32,276	9,035	41,311
Thereafter	22,957	1,641	24,598
Total payments	$ 380,431	198,371	578,802

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

Changes in long-term debt and capital leases during the fiscal year ended June 30, 2018 are summarized below:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Due within one year
UW Medical Center ILP Debt:					
Expansion Project	$ 274,174	—	(6,899)	267,275	7,216
All other debts	43,069	—	(4,839)	38,230	5,038
Note payable – University	65,718	—	(3,023)	62,695	3,162
Other note payables	8,419	—	(415)	8,004	437
Capital leases	4,597	1,578	(1,948)	4,227	1,463
Total noncurrent liabilities	$ 395,977	1,578	(17,124)	380,431	17,316

(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 administration using information from an annual actuarial study. In addition to the University, the participants in the professional liability program include the Group, Children's University Medical Group (CUMG), School of Dentistry, the School, and Harborview. In addition to the self-insurance fund contributions, the participants share in the expenses of the Health Science Risk Management Office.

The Group's contribution to the professional liability program was $12,679 in fiscal year 2018 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 (UWRP)(the 403(b))

UWRP is a defined-contribution plan administered by the University. All faculty and professional staff are eligible to participate in the plan. Contributions to UWRP are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from fund sponsors are available upon separation or retirement at the member's option. Revised Code of Washington (RCW) 28B.10.400 et. seq. assigns the authority to the University'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 $10,198 in fiscal year 2018 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.

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.

Vesting and Benefits Provided

PERS Plan 1

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

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

PERS Plan 2/3

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

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

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

Fiduciary Net Position

The pension plans' fiduciary net positions have been determined on the same basis as they are reported by the pension plans. DRS financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). The retirement plans are accounted for in pension trust funds using the flow of economic resources measurement focus and the accrual basis of

(Continued)

(Dollar amounts in thousands)

accounting. Member contributions are recognized as revenues in the period in which the contributions are earned. Employer contributions are recognized when due, and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due, and payable in accordance with the terms of each plan.

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

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

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 2018 pension liability is based on an OSA 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:

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	7.5%

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

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

(Dollar amounts in thousands)

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 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short term changes that are not expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement date of June 30, 2017 are summarized in the following table:

	Target asset allocation	Arithmetic long-term expected real rate of return by asset class
Asset class:		
Fixed income	20.0 %	1.7 %
Tangible assets	5.0	4.9
Real estate	15.0	5.8
Global equity	37.0	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.

Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2018 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which the Group participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Dollar amounts in thousands)

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

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

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

Discount Rate Sensitivity – Net Pension Liability (Asset)

		2018		
		1% Decrease	Current discount rate	1% Increase
Plan:				
PERS 1	$	170,425	139,899	113,459
PERS 2/3		347,408	128,950	(50,041)

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, 2018:			
Contribution rate		12.70 %	12.70 %
Contributions made	$	19,159	27,887

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

(Dollar amounts in thousands)

The Group's Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by the Group as of June 30, 2018 was June 30, 2017. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2017 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, 2017 Schedules of Employer and Nonemployer Allocations. The Group's proportionate share for each DRS plan for the year ended June 30, 2018 is shown in the table below.

Proportionate Share	
PERS 1	PERS 2/3
2.96 %	3.72 %

The Group Aggregated Balances

The Group's aggregated balances of net pension liabilities as of June 30, 2018 are presented in the table below.

Plan		PERS 1	PERS 2/3	Total
Net pension liability	$	139,899	128,950	268,849

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, 2018	$	11,663	22,695	34,358

(Dollar amounts in thousands)

Deferred Outflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2018:				
Change in assumptions	$	—	1,370	1,370
Difference between expected and actual experience		—	13,066	13,066
Change in the Group's proportionate share		—	9,579	9,579
The Group's contributions subsequent to the measurement date of the collective net pension liability [a]		19,159	27,887	47,046
Total	$	19,159	51,902	71,061

[a] Recognized as a reduction of the net pension liability as of June 30, 2019

Deferred Inflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2018:				
Difference between projected and actual earnings on plan investments, net	$	5,221	34,375	39,596
Difference between expected and actual experience		—	4,241	4,241
Total	$	5,221	38,616	43,837

(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**
2019	$ (3,529)	(9,255)	(12,784)
2020	1,115	6,236	7,351
2021	(259)	(2,242)	(2,501)
2022	(2,548)	(13,276)	(15,824)
2023	—	1,711	1,711
Thereafter	—	2,225	2,225
Total	$ (5,221)	(14,601)	(19,822)

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

(c) *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. 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 was set at $150 per member per month 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 the Group's PEBB membership data as of June 30, 2018 (measurement date 2017):

Active employees	6,387
Inactive employees receiving benefits	1,687
Inactive employees entitled to, but not receiving benefits	315

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 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 compared to these assumptions could have a significant effect on the Group’s financial statements.

(Dollar amounts in thousands)

Significant Assumptions Used to Measure the Total OPEB Liability (TOL)

		June 30, 2018
Inflation		3.00 %
Healthcare cost trend rate		Trend rate assumption 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 percent 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’s 20 bond index as of 6/30/17 (Measurement Date)
Post-retirement participation percentage		65.00 %
TOL measurement at discount rate	$	306,185
TOL discount rate increased 1%		254,029
TOL discount rate decreased 1%		373,583
TOL measurement at healthcare cost trend rate		306,185
TOL healthcare cost trend rate increased 1%		385,139
TOL healthcare cost trend rate decreased 1%		247,355

Material assumption changes during the measurement period include updating the discount rate as of each measurement date, as required by GASB 75. This resulted in a 2.85% discount rate for the beginning TOL, and a 3.58% discount rate for the ending TOL (reduced the TOL).

(Dollar amounts in thousands)

Changes in the Total OPEB Liability

The TOL for the state of Washington was determined by an actuarial valuation, conducted by the OSA, using data as of January 1, 2017. The TOL reported at June 30, 2018 was calculated as of the valuation date, and projected to the measurement date of June 30, 2017. 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 19.56% and 19.95% as of June 30, 2018 and 2017, 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 Group reports a proportionate share of the University's total OPEB liability.

Schedule of Changes in Total OPEB Liability
June 30, 2018

Beginning balance	$	336,283
Service cost		20,758
Interest		9,723
Change in assumptions		(47,429)
Benefit Payments		(4,955)
Change in proportion		(8,195)
Ending balance	$	306,185

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 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 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, 2018 was $25,024. The following table presents the deferred outflows of resources and deferred inflows of resources as of June 30, 2018:

(Dollar amounts in thousands)

Deferred Outflows of Resources		
Group's contributions subsequent to the measurement date of the collective total OPEB liability	$	4,999
Changes in proportion		693
Total	$	5,692
Deferred Inflows of Resources		
Change in assumptions	$	42,158
Changes in proportion		8,578
Total	$	50,736

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:		
2019	$	(6,255)
2020		(6,255)
2021		(6,255)
2022		(6,255)
2023		(6,255)
Thereafter		(18,768)
Total	$	(50,043)

[a] Negative amounts shown in the table above represent a reduction of expense.

(d) University of Washington Supplemental Retirement Plan

Plan Description

The University of Washington Supplemental Retirement Plan (UWSRP), a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership includes academic, librarian, professional and other salary positions employed in eligible positions. The number of Group participants included in the plan are as follows:

(Dollar amounts in thousands)

	June 30, 2018
Active employees	579
Inactive employees receiving benefits	57
Inactive employees entitled to, but not receiving benefits	—

Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal year ended June 30, 2018 were $505.

(Dollar amounts in thousands)

Total Pension Liability (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS), which have trusted assets, and therefore, are reported as a net pension liability. The University has set aside $261,087 to pay future UWSRP retiree benefits, of which the Group recorded $21,504 as other assets on its statement of net position.

Schedule of Changes in Total Pension Liability
June 30, 2018

Beginning balance	$	36,915
Service cost		1,218
Interest on TPL		1,328
Difference between expected and actual experience		(2,796)
Change in assumptions		(1,409)
Change in proportion		(777)
Benefit payments		(505)
Ending balance	$	33,974

The TPL is based on an actuarial valuation performed as of June 30, 2016. Procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement date of June 30, 2018. The TPL is recorded within pension liabilities on the statement of net position.

UWSRP pension expense for the fiscal year ended June 30, 2018 was $949 which is reported within benefits expense on the statement of revenues, expenses, and changes in net position.

(Dollar amounts in thousands)

Actuarial Assumptions

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

Significant Assumptions Used to Measure the Total Pension Liability

		June 30, 2018
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	$	33,974
TPL discount rate increased 1%		29,741
TPL discount rate decreased 1%		38,938

Material assumption changes during the 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 also decreased the TPL).

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, 2018, together with the related future year impacts to pension expense from amortization of those deferred amounts:

Deferred Outflow of Resources		
Change in proportion	$	1,555

(Dollar amounts in thousands)

Deferred Inflows of Resources		
Difference between expected and actual experience	$	7,070
Change in assumptions		2,994
Change in proportion		1,146
Total	$	11,210

Amortization of Deferred Outflows and Inflows of Resources [a]		
Year:		
2019	$	(1,511)
2020		(1,511)
2021		(1,511)
2022		(1,511)
2023		(1,511)
Thereafter		(2,100)
Total	$	(9,655)

[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 Internal Revenue Code. The 401(k) Plan provides for employer matching contributions for each participant who makes 401(k) tax-deferred contributions to this Plan and for each highly compensated employee of Northwest Hospital who makes salary reduction contributions to the 403(b) salary reduction contributions plan sponsored by Northwest Hospital. Northwest Hospital's employee and employer contributions to the 401(k) Plan during the fiscal year ended June 30, 2018 are approximately $9,393 and $5,228, 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, 2018 are approximately $2,686.

(b) UWP Pension Plan

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

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

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

Total pension expense was approximately $15,606, net of forfeitures of $589 in fiscal year 2018 and is recorded in benefits expense within the statement of revenues, expenses, and changes in net position. The Association had no liability outstanding for pension contributions at June 30, 2018.

(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 $1,138 for the year ended June 30, 2018 and forfeitures were approximately $516. 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:

UW School of Medicine

The Group purchases a variety of clinical, administrative and teaching services from the School, which includes laboratory services, resident programs, direct faculty salaries and clinical department funding. The amounts for these services are shown below (see (g)).

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 (g)).

Other Divisions of the University

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

(b) UW Neighborhood Clinics

Under an annual agreement, the UW Medicine hospitals provide strategic funding to the Neighborhood Clinics for operations and capital purposes. For the year ended June 30, 2018, total funding from the UW Medicine hospitals to the Neighborhood Clinics was $43,113. Approximately $31,675 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 (g)).

(c) Northwest Hospital

For the year ended June 30, 2018, 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 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.

(Continued)

(Dollar amounts in thousands)

At June 30, 2018, Northwest Hospital has a payable of $65,940 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, 2018. On the statement of net position, the current portion of $5,000 is included in due to related parties and the remaining $60,940 is included in due to related parties – long term in the statement of net position. The amounts for these transactions are shown below (see (g)).

(d) Harborview

The Group provides shared services, in the form of scalable administrative and IT support services, to Harborview. These functions include UW Medicine 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 (g)).

(e) Seattle Cancer Care Alliance

UW Medical Center is a one-third owner in the SCCA and accounts for its interest under the equity method of accounting. Equity earnings from SCCA of $17,002 was recorded in fiscal year 2018 and is included in other nonoperating revenues in the statements 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, 2018:

Assets	$	647,980
Liabilities	$	158,071
Unrestricted net assets		482,032
Temporarily restricted net assets		4,581
Permanently restricted net assets		3,296
Total liabilities and net assets	$	647,980
Revenues	$	641,325
Expenses		607,727
Nonoperating revenue		15,634
Excess of revenues over expenses		49,232
Increase in unrestricted net assets	$	49,232

(Continued)

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 (g)).

(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 (g)).

(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 (g)).

(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, 2018:

(Dollar amounts in thousands)

(Expense) Revenue Transactions		
Services and supplies purchased from the University and its departments and affiliates:		
The School	$	(171,988)
UW Medicine Central Costs		(17,167)
Other University departments		(76,039)
Services and supplies purchased from Harborview		(8,260)
Services and supplies purchased from VMC		(757)
Services and supplies purchased from SCCA		(15,082)
Services and supplies purchased from Fred Hutch		(16,780)
Services and supplies provided to the University and its departments and affiliates:		
The School	$	7,993
Other University departments		1,786
Services and supplies provided to Harborview		115,960
Services and supplies provided to SCCA		72,490
Services and supplies provided to VMC		1,925
Services and supplies provided to CUMG		3,178
Services and supplies provided to SCH		2,199
Services and supplies provided to Fred Hutch		1,646

As of June 30, 2018, the Group had net amounts due from or (due to) related parties, other receivables, and accounts payable and accrued expenses for certain significant transactions as follows:

Net Receivable (Payable)		
The University and its departments and affiliates:		
The School	$	(7,514)
Other University departments		(94,769)
SCCA		6,551
Harborview		1,760
Fred Hutch		(3,089)

(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 $26,200 in intergovernmental transfers to the state which is included in funding to affiliates in the statement of revenues, expenses, and changes in net position.

(Dollar amounts in thousands)

The State of Washington submitted and received approval for incentive payments under the MTD program of which the Group received $32,800, 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, 2018 for all operating leases was $46,675, which is recorded in other expense in the statement of revenues, expenses, and changes in net position.

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

2019	$	42,381
2020		40,023
2021		31,595
2022		26,366
2023		22,685
2024–2028		40,660
2029–2033		6,734
2034–2038		6,036
2039–2043		6,052
Thereafter		202
Total	$	222,734

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, 2018 of approximately $59,778 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 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 Seattle Cancer Care Alliance 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 such deficiencies are remedied by November 15, 2018, 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 a 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 65% of its workforce covered by collective bargaining agreements as of June 30, 2018. 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, 2018

(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

		2018	2017	2016
The Group's proportion of the net pension liability		2.96 %	2.89 %	2.81 %
The Group's proportionate share of the net pension liability	$	139,899	155,096	147,106
The Group's covered-employee payroll		364,515	337,067	351,582
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		38.38 %	46.01 %	41.84 %
Plan fiduciary net position as a percentage of the total pension liability		61.24 %	57.03 %	59.10 %

PERS 2/3 Pension Plan

		2018	2017	2016
The Group's proportion of the net pension liability		3.72 %	3.61 %	3.52 %
The Group's proportionate share of the net pension liability	$	128,950	181,639	125,761
The Group's covered-employee payroll		363,873	336,961	312,289
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		35.44 %	53.91 %	40.27 %
Plan fiduciary net position as a percentage of the total pension liability		90.97	85.82	89.20

Schedule of the Group's Contributions
(Amounts determined as of the fiscal year end)

PERS 1 Pension Plan

		2018	2017	2016
Contractually required contribution	$	553	625	735
Contributions in relation to the contractually required contribution		551	618	735
Contribution deficiency (excess)		2	7	—
The Group's covered-employee payroll		375,552	364,515	337,067
Contributions as a percentage of covered-employee payroll		0.15 %	0.17 %	0.22 %

PERS 2/3 Pension Plan

		2018	2017	2016
Contractually required contribution	$	47,359	40,679	37,396
Contributions in relation to the contractually required contribution		47,404	40,721	37,740
Contribution deficiency (excess)		(45)	(42)	(344)
University's covered-employee payroll		374,817	363,873	336,961
Contributions as a percentage of covered-employee payroll		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, 2018

(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

		2018
Beginning balance	$	336,283
Service cost		20,758
Interest		9,723
Change in assumptions		(47,429)
Benefit payments		(4,955)
Change in proportionate share		(8,195)
Ending balance	$	306,185
OPEB covered-employee payroll	$	494,744
Total OPEB liability as percentage of covered-employee payroll		61.89 %

See accompanying independent auditors’ report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Schedules of Required Supplementary Information

Year ended June 30, 2018

(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

		2018	2017
Total beginning pension liability	$	36,915	41,470
Service cost		1,218	1,674
Interest		1,328	1,270
Differences between expected and actual experience		(2,796)	(6,303)
Changes in assumptions		(1,409)	(2,402)
Change in proportion		(777)	1,638
Benefit payments		(505)	(432)
Total ending pension liability	$	33,974	36,915
UWSRP covered-employee payroll	$	62,571	67,407
Total pension liability as percentage of covered-employee payroll		54.30 %	54.76 %

See accompanying independent auditors' report.

Notes to Schedules of Required Supplementary Information
for the year ended June 30, 2018

Plans administered by DRS

OSA calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2015, and ending June 30, 2017, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased in over three biennia for PERS Plans 1, 2 and 3.

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 measurement period 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 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 experience which also decreased 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 period was 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.

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Combining Statement of Net Position

June 30, 2018

(Dollar amounts in thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Current assets:								
Cash and cash equivalents	$ —	17,118	23,960	6,296	3,028	—	—	50,402
Funds held by the University of Washington	27,096	—	—	—	23,189	11,398	—	61,683
Patient accounts receivable, net	157,305	38,189	—	3,710	10,626	—	—	209,830
Other receivables	13,570	4,748	926	1,064	880	1,723	—	22,911
Due from related parties	16,517	109	1,280	104	—	22,420	(22,561)	17,869
Supplies inventory	19,191	5,112	—	617	49	410	—	25,379
Restricted investments	—	1,374	44	—	—	—	—	1,418
Other current assets	14,225	3,185	1,370	59	617	6,592	(12,631)	13,417
Total current assets	247,904	69,835	27,580	11,850	38,389	42,543	(35,192)	402,909
Noncurrent assets:								
Capital assets, net of accumulated depreciation	542,701	100,222	2,225	13,282	5,401	63,877	—	727,708
Funds held by the University of Washington	127,390	—	—	—	—	1,628	(1,645)	127,373
Investments	—	45,336	107,263	—	—	—	—	152,599
Donor restricted assets	1,809	2,380	—	—	—	—	—	4,189
Investment in Seattle Cancer Care Alliance	159,149	—	—	—	—	—	—	159,149
Other assets	31,483	3,493	—	179	307	11,803	(19,008)	28,257
Total noncurrent assets	862,532	151,431	109,488	13,461	5,708	77,308	(20,653)	1,199,275
Total assets	1,110,436	221,266	137,068	25,311	44,097	119,851	(55,845)	1,602,184
Deferred outflows of resources:								
Deferred outflows of resources related to pensions	58,271	—	—	—	2,597	11,748	—	72,616
Deferred outflows of resources related to other post employment benefits	3,825	—	—	—	507	1,360	—	5,692
Other deferred outflows of resources	—	6,893	—	—	—	—	—	6,893
Total assets and deferred outflows of resources	$ 1,172,532	228,159	137,068	25,311	47,201	132,959	(55,845)	1,687,385
Current liabilities:								
Accounts payable and accrued expenses	$ 47,261	15,599	3,154	579	1,434	10,111	—	78,138
Accrued salaries, wages, and employee benefits	51,839	21,957	5,805	1,577	2,182	18,948	—	102,308
Payable to contractual agencies	36,288	1,253	—	—	—	—	—	37,541
Due to related parties	32,587	10,294	8,030	8,628	2,864	15,668	(24,206)	53,865
Current portion of long-term debt	13,104	4,152	—	60	—	—	—	17,316
Other current liabilities	1,181	491	336	383	1,054	24,119	(12,619)	14,945
Physician distribution, clinical medicine fund, and departmental payables	—	—	117,868	—	—	—	—	117,868
Total current liabilities	182,260	53,746	135,193	11,227	7,534	68,846	(36,825)	421,981
Noncurrent liabilities:								
Long-term debt, net of current portion	295,576	66,909	—	630	—	—	—	363,115
Pension liabilities	242,677	—	—	—	8,188	51,958	—	302,823
Other post employment benefits	234,324	—	—	—	5,481	66,380	—	306,185
Due to related parties – long-term	—	60,940	—	—	—	—	—	60,940
Other noncurrent liabilities	2,290	3,985	1,875	3,105	82	37,226	(19,020)	29,543
Total liabilities	957,127	185,580	137,068	14,962	21,285	224,410	(55,845)	1,484,587
Deferred inflows of resources:								
Deferred inflows of resources related to pensions	42,724	—	—	—	1,362	10,961	—	55,047
Deferred inflows of resources related to other post employment benefits	39,824	—	—	—	755	10,157	—	50,736
Net position:								
Net investment in capital assets	234,021	29,161	—	12,592	5,401	63,877	—	345,052
Nonexpendable, restricted	—	2,380	—	—	—	—	—	2,380
Expendable, restricted	1,809	611	—	—	—	—	—	2,420
Unrestricted	(102,973)	10,427	—	(2,243)	18,398	(176,446)	—	(252,837)
Total net position	132,857	42,579	—	10,349	23,799	(112,569)	—	97,015
Total liabilities, deferred inflows of resources, and net position	$ 1,172,532	228,159	137,068	25,311	47,201	132,959	(55,845)	1,687,385

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, 2018

(Dollar amounts in thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Operating revenue:								
Net patient service revenues	$ 1,193,860	355,840	—	—	48,413	—	(542)	1,597,571
UWP billing revenues, net	—	—	285,430	—	—	—	(6,333)	279,097
Other revenue	66,150	14,930	—	61,466	1,332	261,977	(199,730)	206,125
Total operating revenues	1,260,010	370,770	285,430	61,466	49,745	261,977	(206,605)	2,082,793
Operating expenses:								
Salaries and wages	376,656	172,125	198,568	19,650	14,532	113,537	—	895,068
Employee benefits	118,394	36,786	32,401	6,634	4,923	35,589	—	234,727
Other post employment benefits	19,151	—	—	—	448	5,425	—	25,024
Purchased services	385,476	74,004	26,160	23,108	28,295	69,817	(197,353)	409,507
Supplies	294,195	66,413	1,051	5,246	2,599	9,064	(3,564)	375,004
Other	25,073	30,403	26,921	8,304	2,644	11,543	(5,688)	99,200
Depreciation	48,070	15,852	329	1,950	966	21,131	—	88,298
Total operating expenses	1,267,015	395,583	285,430	64,892	54,407	266,106	(206,605)	2,126,828
Loss from operations	(7,005)	(24,813)	—	(3,426)	(4,662)	(4,129)	—	(44,035)
Nonoperating revenues (expenses):								
Investment income	1,290	3,317	—	—	181	12	—	4,800
Interest expense	(13,904)	(3,669)	—	(54)	—	—	—	(17,627)
Funding to affiliates	(13,569)	—	—	—	—	(26,215)	1,644	(38,140)
Funding from affiliates	—	2,952	—	—	—	32,769	(1,284)	34,437
Other, net	16,543	1,203	—	616	(4)	231	—	18,589
Nonoperating revenues (expenses), net	(9,640)	3,803	—	562	177	6,797	360	2,059
(Loss) income before capital contributions and transfers	(16,645)	(21,010)	—	(2,864)	(4,485)	2,668	360	(41,976)
Capital contributions and other transfers	21	11	—	450	—	—	(360)	122
(Decrease) increase in net position	(16,624)	(20,999)	—	(2,414)	(4,485)	2,668	—	(41,854)
Net position – beginning of the year, as issued	404,479	63,578	—	12,763	33,665	(44,411)	—	470,074
Cumulative effect of change in accounting principle	(254,998)	—	—	—	(5,381)	(70,826)	—	(331,205)
Net position – beginning of the year, as adjusted	149,481	63,578	—	12,763	28,284	(115,237)	—	138,869
Net position – end of year	$ 132,857	42,579	—	10,349	23,799	(112,569)	—	97,015

See accompanying independent auditors' report.

UNIVERSITY of WASHINGTON

UNIVERSITY OF WASHINGTON
METROPOLITAN TRACT

FINANCIAL REPORT

JUNE 30, 2018

C O N T E N T S

Page

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, 2018 and 2017, 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.

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, 2018 and 2017, 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, 2018, and 2017, 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 18 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Peterson Sullivan L.L.P.

October 16, 2018

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

STATEMENTS OF NET POSITION

June 30, 2018 and 2017
(Amounts in Thousands)

ASSETS	2018	2017
Current Assets		
Cash held in trust	$ 2,485	$ 4,774
Funds held by the University	60,633	49,818
Security deposits - residential	52	50
Due from Fairmont Olympic Hotel	881	767
Accounts receivable, net of allowance	676	335
Other current assets	442	263
Total current assets	65,169	56,007
Property, net	116,022	124,885
Straight-Line Rent Adjustment	9,454	8,374
Total assets	$ 190,645	$ 189,266

LIABILITIES	2018	2017
Current Liabilities		
Accounts payable and accrued expenses	$ 2,220	$ 3,280
Leasehold excise tax payable	1,907	1,848
Security deposits - residential	52	50
Unearned rent revenue	1,084	1,222
Current portion of long-term debt	766	3,626
Total current liabilities	6,029	10,026
Security Deposits - commercial	1,849	1,681
Long-Term Debt, net of current portion	30,534	31,301
Total liabilities	38,412	43,008
NET POSITION		
Invested in Capital Assets, net of related debt	84,722	89,958
Unrestricted	67,511	56,300
Total net position	152,233	146,258
Total liabilities and net position	$ 190,645	$ 189,266

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, 2018 and 2017
(Amounts in Thousands)

	2018	2017
Operating Revenues		
Office rent	$ 46,302	$ 44,293
Retail rent	4,592	4,496
Fairmont Olympic Hotel rent	6,480	5,691
Residential rent	3,060	2,969
Parking	3,012	2,918
Rainier Square rent	217	868
Other rent	593	557
Other income	54	39
Total operating revenues	64,310	61,831
Operating Expenses		
Property operating expenses	13,042	12,552
General and administrative	7,690	5,473
Taxes	6,804	6,681
Property management	2,083	1,964
Total operating expenses	29,619	26,670
Operating income before depreciation and amortization	34,691	35,161
Depreciation	12,459	12,443
Amortization		25
Net operating income	**22,232**	**22,693**
Other Revenues (Expenses)		
Rainier Square extension payment (refund)	(395)	250
Loss on disposal of property	(5,918)	(318)
Interest income	379	367
Interest expense	(1,053)	(1,168)
Total other revenues (expenses)	(6,987)	(869)
Net income	**15,245**	**21,824**
Transfers		
Transfers from UW Real Estate Office	730	909
Distribution to UW Facilities Bond Retirement Account	(10,000)	(10,000)
Total transfers	(9,270)	(9,091)
Change in net position	5,975	12,733
Total Net Position, beginning of year	146,258	133,525
Total Net Position, end of year	$ 152,233	$ 146,258

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017
(Amounts in Thousands)

	2018	2017
Cash Flows From Operating Activities		
Cash received from tenants	$ 62,635	$ 59,985
Payments made to vendors	(21,433)	(15,955)
Payments made to the University to reimburse for employees	(2,451)	(2,980)
Payments for leasehold excise taxes	(6,745)	(6,448)
Net cash flows from operating activities	32,006	34,602
Cash Flows From Capital and Related Financing Activities		
Improvements made to long-lived assets	(9,514)	(5,623)
Principal repayments to University Treasury Department	(3,627)	(3,596)
Interest paid	(1,053)	(1,168)
Cash received from (paid to) property manager	(395)	250
Net cash flows from capital and related financing activities	(14,589)	(10,137)
Cash Flows From Noncapital Financing Activities		
Funds received from UW Real Estate Office	730	909
Distribution to UW Facilities Bond Retirement Account	(10,000)	(10,000)
Net cash flows from noncapital financing activities	(9,270)	(9,091)
Cash Flows From Investing Activity		
Interest received	379	367
Net change in cash	**8,526**	**15,741**
Cash, beginning of year	54,592	38,851
Cash, end of year	$ 63,118	$ 54,592

	2018	2017
Cash in the statements of cash flows is reported in the statements of assets, liabilities, and net position as follows:		
Cash held in trust	$ 2,485	$ 4,774
Funds held by the University	60,633	49,818
Total	$ 63,118	$ 54,592

See Notes to Financial Statements

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

STATEMENTS OF CASH FLOWS
(Continued)

For the Years Ended June 30, 2018 and 2017
(Amounts in Thousands)

	2018	2017
Reconciliation of Net Operating Income to Net		
Cash Flows from Operating Activities		
Net operating income	$ 22,232	$ 22,693
Adjustments to reconcile net operating income to		
net cash flows from operating activities		
Depreciation	12,459	12,443
Amortization		25
Changes in operating assets and liabilities		
Security deposits - residential	(2)	2
Due from Fairmont Olympic Hotel	(114)	(535)
Accounts receivable	(341)	497
Other current assets	(179)	73
Straight-line rent adjustment	(1,080)	(1,883)
Accounts payable and accrued expenses	(1,060)	836
Leasehold excise tax payable	59	233
Unearned rent revenue	(138)	73
Security deposits payable (residential and commercial)	170	145
Net cash flows from operating activities	$ 32,006	$ 34,602
Noncash Activities		
Purchase of improvements not paid for with cash at year-end	$ 236	$ 666

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Metropolitan Tract Ownership and Operation

The University of Washington Metropolitan Tract ("the Metropolitan Tract"), located in downtown Seattle, comprises approximately 11 acres of developed property including office space, retail space, residential apartments, parking, and a luxury hotel. This land was the original site of the University 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.

Office Properties

The University owns the Rainier Tower, Financial Center, IBM Building, Skinner Building, and Puget Sound Plaza. The buildings include approximately 1.6 million square feet of office space and 100,000 square feet of retail space located at street level. The Financial Center and IBM 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 entered into a property management agreement with Unico Properties LLC ("Unico") to manage all of the office buildings except the Rainier Tower. Wright Runstad Limited Partnership, an entity controlled by Wright Runstad Company, 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.

Cobb Building

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

Rainier Square Site

The Rainier Square Building 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 Company, 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. In accordance with the Predevelopment Agreement, the University entered into an Interim Agreement for the Rainier Square Site that gave WRC significant control over the management and operation of the existing Rainer Square building in exchange for a fixed rent schedule.

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).

Rainier Tower Sublease

In 1995, the University assumed a sublease for a portion of the Rainier Tower. This sublease agreement expired October 31, 2017.

Olympic Hotel

On January 18, 1980, the Board of Regents entered into a lease ("the Hotel Lease") with the Olympic Hotel property, which expires in 2040. The hotel was operated as the Four Seasons Olympic Hotel until July 31, 2003. On August 1, 2003, the remaining lease term was assigned to LHCS Hotel Holding (2002), LLC. The hotel was renamed the Fairmont Olympic Hotel and 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.

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.

- 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 accrues the percentage rent for the period from January to June of 2018. Historically, there have been no significant adjustments from the estimated amount recognized and actual amounts calculated at the end of each lease year.

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

- During the years ended June 30, 2018 and 2017, Rainier Square rent revenues are recognized on a monthly basis as outlined by the Interim Agreement and the Tower Lease.

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

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

- All other indirect expenses not related to the direct operating or property management 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 amount invested at a rate determined and approved by the University. For the years ended June 30, 2018 and 2017, the rate determined by the University was 0.75% and 1.0%, respectively. 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, 2018 and 2017, these letters of credit amounted to $1.4 million and $1.3 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, 2018 and 2017, the balance of allowance for uncollectible accounts amounted to $137 thousand and $46 thousand, respectively.

Due from Fairmont Olympic Hotel

This amount represents a receivable from the Fairmont Olympic Hotel for leasehold improvement taxes payable to the State of Washington and the percentage rent due for January to June 2018. 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, 2018 or 2017.

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 2018 and 2017.

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.

Fair Value of Financial Instruments

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

Transfer from UW Real Estate Office

This 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, 2018 and 2017, $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 $419 thousand and $230 thousand, respectively, for the year ended June 30, 2018. Total fees paid to Unico and Wright Runstad were $397 thousand and $244 thousand, respectively, for the year ended June 30, 2017. 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.

Reclassifications

Certain amount in the prior-year financial statements have been reclassified to conform to the current-year presentation.

Subsequent Events

Management of the Metropolitan Tract has evaluated subsequent events through the date these financial statements were available to be issued, which was October 16, 2018.

Note 3. Property

Property activity for the years ended June 30, 2018 and 2017, is summarized as follows (amounts in thousands):

	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)	136,247
Furniture, fixtures, and equipment	276	118		(17)	377
Total property being depreciated	295,063	412	6,162	(19,024)	282,614
Less: accumulated depreciation					
Land improvements	793				793
Buildings	73,753	1,299		(11,964)	63,089
Tenant improvements	49,177	5,130	(3,351)	(460)	50,494
Modernizations	60,662	5,993	10	(677)	65,989
Furniture, fixtures, and equipment	49	37		(5)	82
Total accumulated depreciation	184,434	12,459	(3,341)	(13,106)	180,447
Property, net	$ 124,885	$ (2,929)	$ (16)	$ (5,918)	$ 116,022

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

In fiscal year 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.

Note 4. Long-Term Debt

The Metropolitan Tract had a long-term loan from the University that was financed through the issuance of taxable serial bonds during the year ended June 30, 2015. The outstanding balance as of June 30, 2017, was $2.9 million. The debt matured in December 2017 and was paid in full.

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, 2018 and 2017, was $31 million and $32 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):

	2018	2017
Beginning balance	$ 34,927	$ 38,523
Reductions	(3,627)	(3,596)
Total	31,300	34,927
Less: current portion	(766)	(3,626)
Non-current portion	$ 30,534	$ 31,301

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
2019	$ 766	$ 1,030	$ 1,796
2020	781	1,017	1,798
2021	796	1,002	1,798
2022	811	985	1,796
2023	831	965	1,796
2024 - 2028	4,536	4,455	8,991
2029 - 2033	5,327	3,660	8,987
2034 - 2038	6,348	2,654	9,002
2039 - 2043	7,630	1,371	9,001
2044 - 2045	3,474	130	3,604
	$ 31,300	$ 17,269	$ 48,569

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):

2019	$	46,234
2020		44,890
2021		38,131
2022		31,799
2023		28,212
Thereafter		79,918
	$	269,184

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

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

2019	$	1,260
2020		1,260
2021		1,260
2022		1,260
2023		1,260
Thereafter		20,580
	$	26,880

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, 2018 and 2017, were $2.9 million and $2.6 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 Predevelopment Agreement twice and paid $500 thousand for each of the years ended June 30, 2017 and 2016. In June 2017, WRC paid $500 thousand for a one-year extension; however, execution of the RSQ Tower Lease in September 2017 required the University to refund $409 thousand of the payment. The Predevelopment Agreement also required the University to refund up to $250 thousand of the fixed rent that WRC paid the University for control of the old Rainier Square Building. WRC requested, and the University refunded, $250 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 in fiscal year 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 as of the signing of the lease are as follows (amounts in thousands):

2019	$	413
2020		413
2021		413
2022		413
2023		1,446
Thereafter		122,536
	$	125,634

As of June 30, 2018, the building is still in the early phase of construction and has until September 2021 to reach substantial completion 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 is not appropriate until there is persuasive evidence that construction completion will or will not occur by the deadline of September 2021.

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 Rainier Square Hotel will operate the shared mixed-use space on the Rainier Square block.

RSQ Hotel Lease

WRC still holds 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. WRC paid the University $87 thousand, during the years ended June 30, 2018 and 2017, to extend the Predevelopment Agreement through May 14, 2021. As of October 16, 2018, a ground lease has not been executed.

SUPPLEMENTARY INFORMATION

UNIVERSITY OF WASHINGTON METROPOLITAN TRACT

DETAILS OF PROPERTY
June 30, 2018
(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		7,918	13,254	11,735	21,992	12,421			67,320
Modernizations	43,558	20,314	20,193	15,427	21,166	15,589			136,247
Construction in progress	42	2,005	733	397	451	253			3,881
Furniture, fixtures, and equipment	283	3	11	30	5	45			377
	44,635	32,277	43,304	36,002	68,866	45,292	12,535	2,791	285,702
Less: accumulated depreciation and amortization									
Buildings	(752)	(2,037)	(8,822)	(8,413)	(17,694)	(12,879)	(9,980)	(2,512)	(63,089)
Tenant improvements		(6,469)	(9,204)	(8,458)	(16,118)	(10,245)			(50,494)
Modernizations	(10,394)	(12,944)	(11,905)	(9,406)	(12,150)	(9,190)			(65,989)
Furniture, fixtures, and equipment	(37)	(1)	(4)	(13)		(27)			(82)
	(11,183)	(21,451)	(29,935)	(26,290)	(45,962)	(32,341)	(9,980)	(2,512)	(179,654)
Net investment	$ 33,452	$ 10,826	$ 13,369	$ 9,712	$ 22,904	$ 12,951	$ 2,555	$ 279	106,048
Land									9,974
Land improvements									793
Less: accumulated depreciation									(793)
Net land and land improvements									9,974
Net investment including land and land improvements									$ 116,022

STUDENT SERVICES AND FACILITIES FEES – SEATTLE CAMPUS

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

FINANCIAL REPORT

JUNE 30, 2018

C O N T E N T S

petersonsullivan LLP
Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
University of Washington
Seattle, Washington

We have audited the accompanying statements of cash receipts, cash disbursements, and changes in cash balances of Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2018 and 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts, cash disbursements, and changes in cash balances of the Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the years ended June 30, 2018 and 2017, 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 30, 2018

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, 2018 and 2017

	2018	2017
Cash Receipts		
Student Services and Facilities Fees - Seattle campus	$ 28,687,441	$ 28,224,684
Interest income	192,848	254,301
Total cash receipts	28,880,289	28,478,985
Debt Service		
Principal - ILP - IMA Bonds	(1,807,500)	(1,718,333)
Principal - ILP - Student Facilities Renovation	(2,387,983)	(2,275,057)
Interest - ILP - IMA Bonds	(1,614,187)	(1,700,104)
Interest - ILP - Student Facilities Renovation	(4,862,973)	(4,989,020)
Total debt service payments	(10,672,643)	(10,682,514)
Cash receipts available after debt service	18,207,646	17,796,471
Other Cash Disbursements		
Hall Health Center	6,602,888	6,848,966
Recreation	2,666,633	2,975,149
Student Parent Resource Center	1,318,873	1,404,398
Associated Students of the University of Washington	1,025,844	1,162,323
Student Activities and Union Facilities	982,914	1,044,290
Ethnic Cultural Center and Theatre Complex	981,648	1,030,025
Student Counseling Center	800,054	742,979
Graduate and Professional Student Senate	439,505	482,474
Campus Sustainability Fund	383,347	430,043
Q-Center	339,142	356,143
Student Publications	318,533	633,000
Student Legal Services	208,901	211,287
Classroom Support Services	174,737	166,662
Student Veteran Life	172,775	153,441
Intellectual House	109,371	152,300
D-Center	92,040	92,189
Peer Health Education Group	70,714	60,716
Services and Activities Committee Operations	36,502	37,079
Total other cash disbursements	16,724,421	17,983,464
Excess (deficiency) of cash receipts over cash disbursements before transfers	1,483,225	(186,993)
Transfers		
Transfer to recreation for capital projects	(750,000)	
Return of unspent funds		45,648
Change in cash balances	733,225	(141,345)
Cash Balance, beginning of year	24,953,342	25,094,687
Cash Balance, end of year	$ 25,686,567	$ 24,953,342

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, 2018 and 2017, the rate determined by the University was 0.75% and 1.0%, respectively. Principal amounts invested in the invested funds pool are guaranteed by the University.

Transfers

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.

During the year ended June 30 2017, $45,648 in unspent innovation funds from various units were returned to Student Services and Facilities Fees. No innovation funds were returned during the year ended June 30, 2018.

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). During the years ended June 30, 2018 and 2017, no repayments were made.

Student Services and Facilities Fees that were uncollected (and are therefore receivable) were $1,762,543 and $735,792 on the last business day of the years ended June 30, 2018 and 2017, respectively.

In July 2018, the Board of Regents accepted proposed disbursements for the year ending June 30, 2019, totaling $17,269,006.

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, 2018, the principal amount of the debt outstanding was $30,476,250 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, 2018 and 2017.

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
2019	$ 1,897,500	$ 1,523,813	$ 3,421,313
2020	1,992,083	1,428,938	3,421,021
2021	2,091,667	1,329,333	3,421,000
2022	2,196,250	1,224,750	3,421,000
2023	2,305,833	1,114,938	3,420,771
2024 - 2028	13,381,667	3,725,313	17,106,980
2029 - 2030	6,611,250	520,083	7,131,333
	$ 30,476,250	$ 10,867,168	$ 41,343,418

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, 2018, the principal amount of the debt outstanding on these borrowings was $87,295,497, $6,306,459, and $13,161,747 for the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively (total of $106,763,703). 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 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, 2018 and 2017.

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
2019	$ 2,497,686	$ 4,753,270	$ 7,250,956
2020	2,612,429	4,638,526	7,250,955
2021	2,732,444	4,518,512	7,250,956
2022	2,857,972	4,392,984	7,250,956
2023	2,989,267	4,261,689	7,250,956
2024 - 2028	17,136,833	19,117,947	36,254,780
2029 - 2033	21,451,816	14,802,964	36,254,780
2034 - 2038	26,853,294	9,401,486	36,254,780
2039 - 2043	27,631,962	2,746,691	30,378,653
	$ 106,763,703	$ 68,634,069	$ 175,397,772

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

2017	2.7 to 1
2018	2.7 to 1

Note 5. Subsequent Events

Student Services and Facilities Fees has evaluated subsequent events through the date these financial statements were available to be issued, which was October 30, 2018.