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

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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.

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.

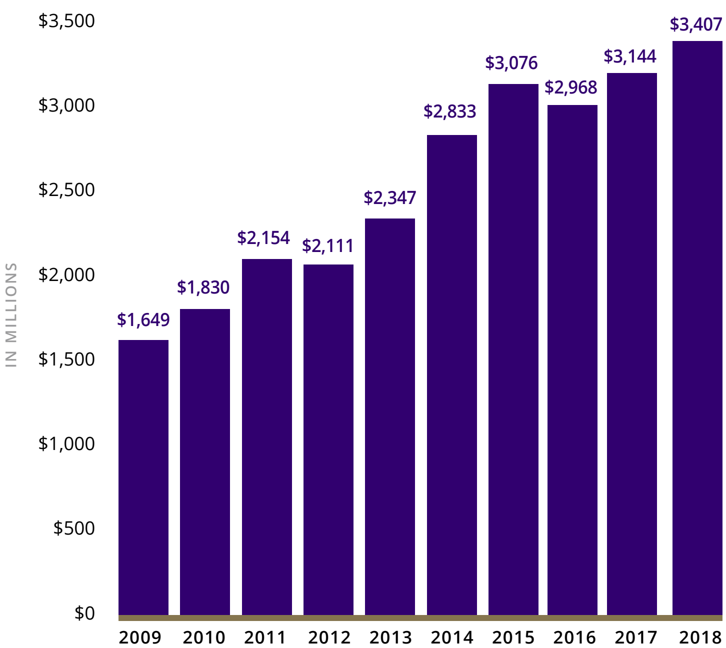
The CEF asset allocation includes two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2018, 72% of the CEF was invested in Capital Appreciation and 28% in Capital 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.

Consolidated Endowment Fund Market Value

(in millions)



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.

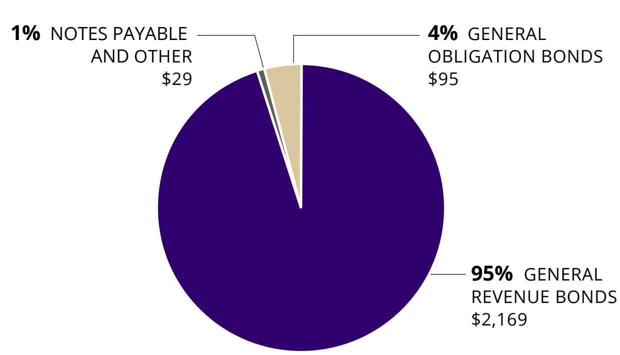
Debt

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).

Bonds and Notes Payable

(in millions)



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 placed by donors and/or other external parties, and includes the net appreciation of permanent endowments.
- Unrestricted Net Position – This is all other funds available to the University for any purpose associated with its mission. Unrestricted net position is not subject to externally imposed stipulations, but often is internally designated for specific purposes.

The University's net position at June 30, 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.

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:

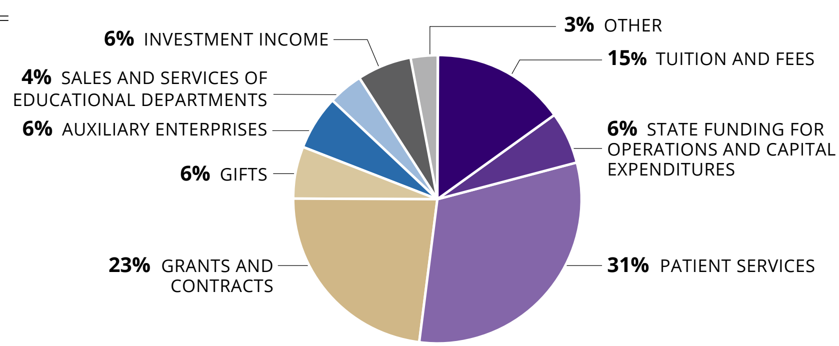
Operating Results

(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**

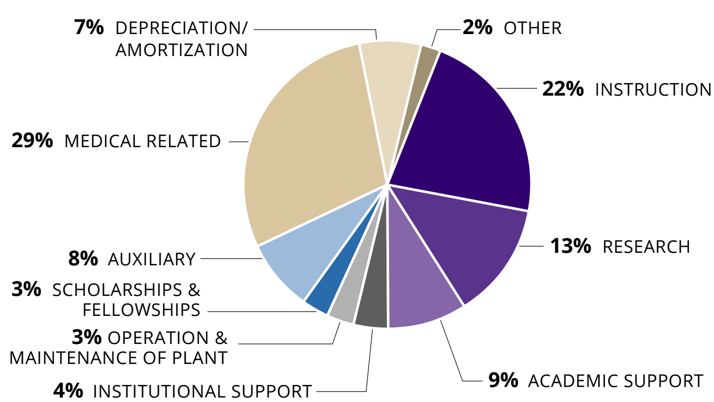
Net investment income decreased $38 million, or 9%, in 2018 primarily due to the change in realized and unrealized gains and losses during the year.

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



Unaudited – see accompanying notes to financial statements

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

Notes to Financial Statements (continued)

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.

Notes to Financial Statements (continued)

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.

Notes to Financial Statements (continued)

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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The 2018 UW Financial Report and reports from previous years are available at annualreport.uw.edu.

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