KPMG

UNIVERSITY OF WASHINGTON
INTERNAL LENDING PROGRAM

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
INTERNAL LENDING PROGRAM

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KPMG LLP
Suite 2900
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Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington Internal Lending Program (Program or ILP), a department of the University of Washington, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Internal Lending Program as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1, the financial statements present only the University of Washington Internal Lending Program and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 8 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.

KPMG LLP

Seattle, Washington
October 28, 2016

Discussion and Analysis Prepared by Management

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Internal Lending Program (Program or ILP) for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The ILP commenced operations on July 1, 2008 based upon the direction and authority of the University of Washington Board of Regents. It operates as a program of the University of Washington (University).

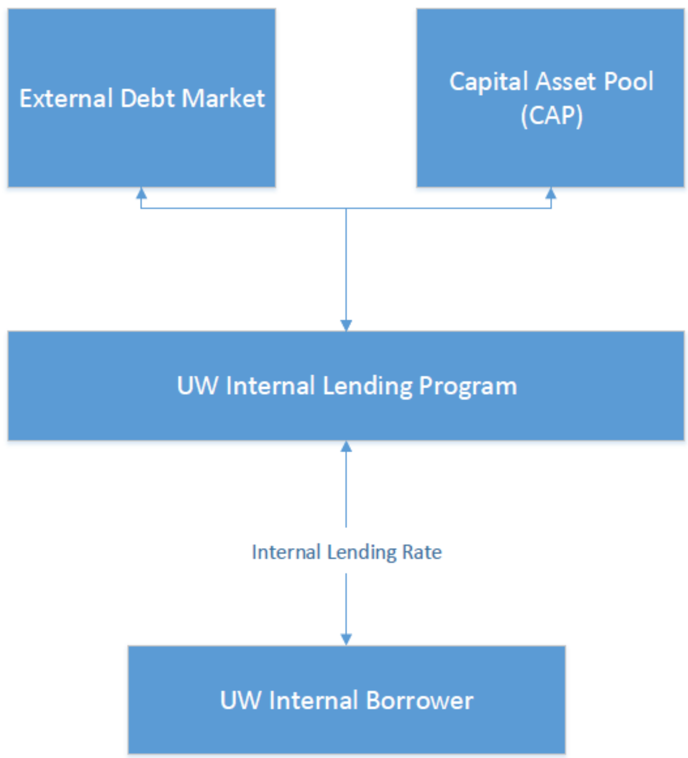
The ILP makes loans to internal borrowers at a uniform lending rate. These internal loans are funded through the issuance of University General Revenue debt obligations or through the Capital Asset Pool (CAP). The CAP uses University funds to finance capital projects with maturities up to 30 years and was a new program beginning in fiscal year 2015.

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

The management of the ILP and the external debt portfolio is performed in accordance with policies set forth in the University's debt management guidelines as approved by the Board of Regents.

(Continued)

The diagram below outlines the relationship between the University's internal borrowers, the ILP, and the external debt market:



Using the Financial Statements

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

Statements of Net Position Summary

The statements of net position reflect the financial condition of the ILP at the end of the year and report the various categories of all assets, deferred outflows of resources, liabilities, and net position. The following summary statements of net position show the ILP's total assets, and deferred outflows of resources, total liabilities, and net position as of June 30, 2016, 2015, and 2014:

Summary Statements of Net Position

	2016	2015	2014
Current assets	$ 237,303,790	211,236,876	190,996,650
Noncurrent assets	1,710,655,881	1,661,376,606	1,469,991,160
Total assets	1,947,959,671	1,872,613,482	1,660,987,810
Deferred outflows of resources	22,531,220	24,756,071	13,179,698
Total assets and deferred outflows of resources	$ 1,970,490,891	1,897,369,553	1,674,167,508
Current liabilities	$ 160,898,688	109,267,388	112,506,057
Noncurrent liabilities	1,738,823,511	1,731,814,666	1,526,637,772
Total liabilities	1,899,722,199	1,841,082,054	1,639,143,829
Unrestricted net position	70,768,692	56,287,499	35,023,679
Total liabilities and net position	$ 1,970,490,891	1,897,369,553	1,674,167,508

Following are comments about the summary statements of net position:

- As of June 30, 2016, current assets of the ILP include $117.0 million in cash and cash equivalents in the University of Washington Invested Funds Pool, $49.4 million in restricted investments of undistributed bond proceeds, and $63.8 million in internal loan receivables. As of June 30, 2015, current assets of the ILP include $92.4 million in cash and cash equivalents in the University of Washington Invested Funds Pool, $53.0 million in restricted investments of undistributed bond proceeds, and $60.1 million in internal loan receivables. In fiscal year 2016, current assets increased by $26.1 million due to an increase in cash and cash equivalents from operations and current portion of ILP receivables. In fiscal year 2015, current assets increased by $20.2 million due to an increase in undistributed bond proceeds from restricted investments and current portion of ILP receivables.
- Noncurrent assets consist entirely of internal loan receivables from participating departments within the University of Washington. Noncurrent assets were $49.3 million more at the end of fiscal year 2016 than at the end of fiscal year 2015, and $191.4 million more at the end of fiscal year 2015 than at the end of fiscal year 2014, as a result of increased long-term internal lending made to various University departments.
- Deferred outflows of resources consist entirely of deferred losses on refundings. Deferred outflows of resources decreased $2.2 million in fiscal year 2016 as a portion of the balance was amortized during the year. Deferred outflows of resources increased by $11.6 million in fiscal year 2015 as a result of additional losses on refundings of debt.

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- As of June 30, 2016, current liabilities include $63.1 million in bonds payable, $46.2 million in Due to University of Washington, and $25.0 million in outstanding commercial paper. As of June 30, 2015, current liabilities include $57.5 million in bonds payable and $25.0 million in outstanding commercial paper. In fiscal year 2016 current liabilities increased by $51.6 million primarily due to an increase in the current portion of bonds payable and an increase in Due to University of Washington, which resulted from additional capital project expenditures made close to year-end which were reimbursed in July 2016. In fiscal year 2015, current liabilities decreased by $3.2 million primarily due to a decrease in Due to University of Washington, which resulted from payments made by the ILP to the University for capital projects as well as a reduction in capital expenditures made by the University. This decrease was slightly offset by the increase in the current portion of bonds payable.
- Noncurrent liabilities as of June 30, 2016, include $1,618.4 million in bonds payable and $120.4 million in CAP payable to Invested Funds. Noncurrent liabilities as of June 30, 2015, include $1,493.9 million in bonds payable, $111.5 million in commercial paper, and $126.4 million in CAP payable to Invested Funds. This resulted in an increase of $7.0 million or 0.4% due to an increase in long-term portion of bonds payable as a result of additional external borrowing. The fiscal year 2015 noncurrent liability ending balance is approximately 13% greater than the fiscal year 2014 ending balance due to an increase in the long-term portion of commercial paper and CAP balance payable to the Invested Funds.

ILP's Net Position

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

"Unrestricted net position" is all funds available to the ILP for any purpose associated with the University's mission. Unrestricted net position is often internally designated for specific purposes. Net position increased by $14.5 million or 26% during fiscal year 2016 and by $21.3 million or 61% during fiscal year 2015 as the ILP collected more money on internal loans than was paid externally for interest expense. The change in net position of $14.5 million in fiscal year 2016 was a decrease of $6.8 million over the change in net position in fiscal year 2015 of $21.3 million, which is primarily the result of decreased interest revenue due to a lower internal interest rate. The change in net position of $21.3 million in fiscal year 2015 was an increase of $5.5 million over the change in net position in fiscal year 2014 of $15.8 million, which is primarily the result of increased interest revenue and lower interest expense.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position presents the ILP's operations and nonoperating revenues and changes in net position. The following summary shows the revenues, expenses, and changes in net position for the years ended June 30, 2016, 2015, and 2014:

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

		2016	2015	2014
Operating revenues	$	76,525,013	74,390,759	72,446,643
Operating expenses		65,179,201	60,791,588	62,074,142
Operating income		11,345,812	13,599,171	10,372,501
Nonoperating revenues		3,135,381	7,664,649	5,464,047
Change in net position		14,481,193	21,263,820	15,836,548
Net position, beginning of year		56,287,499	35,023,679	19,187,131
Net position, end of year	$	70,768,692	56,287,499	35,023,679

Following are comments about the revenues and expenses highlighted in the summary:

- Fiscal year 2016 operating revenues consists of interest collected and accrued on internal loans, an increase of $2.1 million or 3% from the prior year. The revenue increase is due to an increase in the amount of internal loans in fiscal year 2016 of $53.0 million. Fiscal year 2015 operating revenues increased $1.9 million or 3% from the prior year. The revenue increase is due to an increase in the number of loans paying interest in fiscal year 2015, offset by a reduction of the ILP lending rate from 5.50% to 4.75% effective April 1, 2015.
- Nonoperating revenue includes $239 thousand in investment income earned and $2.9 million in Build America Bonds (BABs) grant revenue recognized. Nonoperating revenue decreased by $4.5 million or 59% in fiscal year 2016 due to decreased return on the Invested Funds Pool. The ILP received an annual Invested Funds (IF) income allocation, net of expenses, of $239 thousand and $4.1 million in fiscal years 2016 and 2015, respectively, which were driven by returns for the Invested Funds Pool. Returns for the Invested Funds Pool are paid on a quarter lag and for fiscal years March 31, 2016 and 2015 were 0% and 4%, respectively.
- Operating expenses include $62.6 million in interest paid and accrued on outstanding bonds and commercial paper in fiscal year 2016 compared to $58.7 million in fiscal year 2015. Expenses to administer the ILP program totaled $2.5 million and $2.1 million for the fiscal years ended 2016 and 2015, respectively. These administrative expenses include fees paid for legal counsel, financial advisory services, rating agencies, and staff salaries. Administrative expenses increased in fiscal year 2016 compared to fiscal year 2015 due to additional external debt issuance costs. Total operating expenses increased by $4.4 million in fiscal year 2016 due to increased debt service as a result of additional borrowings and decreased by $1.3 million in fiscal year 2015 due to lower interest expense.

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Debt Administration

Moody's and Standard & Poor's have both recognized the financial strength of the University: Aaa from Moody's (their highest rating) and AA+ (stable outlook) from Standard & Poor's. At the beginning of each fiscal year, the Board of Regents approves an annual bond resolution that contains the maximum amount of new General Revenue Bonds that the University can issue in the upcoming year. The annual bond resolution allows the University to manage its external debt portfolio by issuing debt during favorable market conditions. During fiscal years 2016 and 2015, the ILP issued $180.5 million and $176.1 million, respectively, in General Revenue Bonds, as disclosed in note 7.

Moody's and Standard & Poor's have assigned a short-term rating of P-1/A-1+, respectively, for the University's commercial paper program. These are the highest short-term ratings each agency assigns. The University has a $250.0 million commercial paper program, and may issue commercial paper throughout the year for various purposes. During fiscal years 2016 and 2015, the ILP issued $0 million and $111.5 million and paid down $111.5 million and $0 million, respectively, in commercial paper.

The ILP provides regular updates on internal loans and external debt as part of its ongoing reporting to the Board of Regents.

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Statements of Net Position

June 30, 2016 and 2015

Assets		**2016**	**2015**
Current assets:			
Cash in the University of Washington Invested Funds Pool	$	117,001,906	92,381,863
Restricted investments, current		49,433,441	52,998,331
Interest receivable		6,806,703	5,745,809
Other receivables		228,274	—
Internal Lending Program receivable, current portion		63,833,466	60,110,873
Total current assets		237,303,790	211,236,876
Noncurrent assets:			
Internal Lending Program receivable, net of current portion		1,710,655,881	1,661,376,606
Total noncurrent assets		1,710,655,881	1,661,376,606
Total assets		1,947,959,671	1,872,613,482
Deferred outflows of resources:			
Loss on refunding		22,531,220	24,756,071
Total assets and deferred outflows of resources	$	1,970,490,891	1,897,369,553
Liabilities and Net Position			
Liabilities:			
Accounts payable	$	1,500	33,046
Accrued salaries and vacation payable		86,118	88,031
Interest payable		24,375,911	24,600,301
Unearned revenue – Build America Bonds		—	745,521
Due to University of Washington		46,213,832	270,390
Commercial paper, current portion		25,000,000	25,000,000
Capital Assets Pool funds payable to the Invested Funds Pool		2,101,192	1,032,510
Bonds payable, current portion		63,120,135	57,497,589
Total current liabilities		160,898,688	109,267,388
Commercial paper, net of current portion		—	111,545,000
Capital Assets Pool funds payable to the Invested Funds Pool, net of current portion		120,417,171	126,401,842
Bonds payable, net of current portion		1,618,406,340	1,493,867,824
Total noncurrent liabilities		1,738,823,511	1,731,814,666
Total liabilities		1,899,722,199	1,841,082,054
Net position:			
Unrestricted net position		70,768,692	56,287,499
Total liabilities and net position	$	1,970,490,891	1,897,369,553

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Interest revenue	$ 76,525,013	74,390,759
Total operating revenues	76,525,013	74,390,759
Operating expenses:		
Interest expense	62,645,912	58,728,055
Administration expenses	2,533,289	2,063,533
Total operating expenses	65,179,201	60,791,588
Operating income	11,345,812	13,599,171
Nonoperating revenues:		
Grant revenue subsidies	2,895,917	3,610,464
Investment revenue, net of expenses	239,464	4,054,185
Total nonoperating revenues	3,135,381	7,664,649
Change in net position	14,481,193	21,263,820
Net position at beginning of year	56,287,499	35,023,679
Net position at end of year	$ 70,768,692	56,287,499

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Interest received from internal borrowers	$	75,464,118	73,178,491
Loans made to internal borrowers		(116,678,111)	(253,137,976)
Principal received from internal borrowers		63,676,244	53,968,047
Payments for administration expenses		(2,566,748)	(2,091,283)
Net cash provided by (used in) operating activities		19,895,503	(128,082,721)
Cash flows from noncapital financing activities:			
Proceeds from issuance of bonds		212,167,145	174,657,176
Proceeds from the issuance of commercial paper		—	111,545,000
Proceeds from the Invested Funds Pool (CAP Program)		—	127,434,352
Advances from the University for capital projects		45,943,442	—
Build America Bonds grant received		1,922,122	3,609,659
Payments to the University		—	(10,086,314)
Principal paid on debt		(87,373,222)	(214,748,328)
Principal paid on commercial paper		(111,545,000)	—
Interest paid on debt		(60,194,301)	(57,139,535)
Net cash provided by noncapital financing activities		920,186	135,272,010
Cash flows from investing activities:			
Purchases of investments		(209,423,722)	(46,384,033)
Proceeds from sales of investments		212,999,404	38,183,641
Investment income		228,672	4,054,185
Net cash provided by (used in) investing activities		3,804,354	(4,146,207)
Net increase in cash and cash equivalents		24,620,043	3,043,082
Cash and cash equivalents at beginning of year		92,381,863	89,338,781
Cash and cash equivalents at end of year	$	117,001,906	92,381,863
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	$	11,345,812	13,599,171
Adjustments to reconcile operating income to net cash used by operating activities:			
Interest expense		62,645,912	58,728,055
Changes in operating assets and liabilities:			
Decrease in interest receivable		(1,060,895)	(1,212,268)
Increase in Internal Lending Program receivable		(53,001,867)	(199,169,929)
Decrease in accounts payable and accrued liabilities		(33,459)	(27,750)
Net cash provided by (used in) operating activities	$	19,895,503	(128,082,721)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

Debt of $576,386,287 incurred by the University or its units before July 1, 2008 and restricted investments of $4,937,799 were transferred into the ILP at the remaining book value and related receivables from internal borrowers of $571,448,488 were established between the internal borrowers and the ILP as of July 1, 2008. The internal borrowers pay the same interest rate at which the transferred debt was issued in the external market. Debt noted below was not transferred or transferred at the same interest rate:

- Debt repaid from state-appropriated University funds was not transferred
- Debt issued by an external entity other than the state of Washington on behalf of the University was not transferred
- Personal property capital leases and personal property Certificates of Participation (COP's) were not transferred
- Lines of credit were not transferred
- University of Washington General Revenue Bonds, Series 2007 were transferred at the ILP rate

The ILP makes new loans to internal borrowers at a uniform internal lending rate. These loans are funded through the issuance of University General Revenue Bonds, state of Washington General Obligation Bonds, short-term notes such as commercial paper, or through the Capital Asset Pool (CAP). The CAP uses University funds to finance capital projects with maturities up to 30 years and was a new program beginning in fiscal year 2015. The debt issued to fund loans is an obligation of the University; the Program manages the debt on behalf of the University. The ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary.

(b) Basis of Presentation

The financial statements of the ILP have been prepared in accordance with accounting standards established by the Governmental Accounting Standards Board (GASB). The ILP is reporting as a special-purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the ILP presents a management's discussion and analysis, statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements. The financial statements present only the University of Washington's Internal Lending Program and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

(Continued)

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

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

The Internal Lending Program's cash is managed by the University through the Treasurer of the Board of Regents. During 2016 and 2015, the Program's funds on deposit with the University were invested in the University's Invested Funds Pool (IFP).

(d) Restricted Investments

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

(e) Internal Lending Program Receivable

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

(f) Due to University of Washington

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

(g) Unearned Revenue – Build America Bonds

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

(h) Operating Revenues and Expenses

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

(Continued)

(i) Federal Income Taxes

As a part of the University, the ILP is exempt from federal income taxes, except to the extent of unrelated business income. ILP did not incur unrelated business income tax during 2016 and 2015 and, accordingly, the financial statements do not include a provision for federal income taxes.

(j) Use of Estimates

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

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

Pooled Investments held on behalf of the ILP by the University of Washington are recorded at the ILP's share of the carrying value of the University of Washington Invested Funds Pool. These funds are available on demand without prior notice or penalty. The Invested Funds Pool was invested as follows at June 30:

	2016	2015
Cash and cash equivalents	6.4%	10.0%
Treasuries and agencies	73.0	67.0
Mortgage-related securities	8.6	9.0
Asset-backed debt securities	7.0	12.0
Corporate and other fixed income	5.0	2.0
Total	100.0%	100.0%

(3) Concentrations

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

(4) Restricted Investments

Current restricted investments of $49.4 million represent unspent bond proceeds. Such amounts are invested at State Street Bank and consist of money market funds, which hold U.S. government securities with remaining maturities of one year or less at the time of purchase. The bond proceeds have an arbitrage yield of 3.4% and the commercial paper proceeds have an interest rate of 0.53%. Any interest earnings in excess of the arbitrage rate may be subject to rebate to the Internal Revenue Service. This portion of the restricted investments is classified as current assets based upon the Program's intention to distribute it to internal borrowers in fiscal year 2016.

The Internal Lending Program's restricted investments are managed by the University through the Treasurer of the Board of Regents.

(5) Internal Lending Program Receivable

Internal Lending Program receivables include receivables that were transferred and new receivables made since inception of the Program. The transferred receivables had fixed rates that ranged from 3.0% to 6.4%. The new receivables had a uniform rate of 5.5%; effective April 1, 2015, the ILP interest rate was reduced to 4.75%, and further was reduced to 4.5% effective July 1, 2016.

Estimated repayment schedules related to the internal lending receivable balances from participating units for the year ended June 30, 2016 are summarized as follows:

Internal Lending Program Receivable
(Dollars in thousands)

	Central		School of medicine		University of Washington Medical Center		Student life	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2017	$ 21,578	16,654	8,024	2,380	11,941	12,749	4,083	6,743
2018	18,901	15,846	5,149	1,982	12,510	12,085	4,289	6,525
2019	16,955	15,032	3,281	1,728	13,063	11,442	4,493	6,321
2020	17,534	14,318	3,237	1,564	13,657	10,770	4,706	6,106
2021	18,380	13,577	3,397	1,398	14,226	10,067	4,931	5,882
2022–2026	87,714	56,667	15,942	4,419	72,401	38,881	28,413	25,653
2027–2031	88,730	39,487	10,283	1,079	63,401	21,782	32,087	18,257
2032–2036	79,225	21,115	—	—	56,469	7,217	24,535	11,703
2037–2041	37,159	5,969	—	—	5,461	73	30,713	5,525
2042–2046	10,902	820	—	—	—	—	8,371	251
Premium (discount) and other	239	—	402	—	—	—	—	—
Total	$ 397,317	199,485	49,715	14,550	263,129	125,066	146,621	92,966

	Commuter services		Intercollegiate athletics		Housing and dining		Total	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2017	$ 494	393	3,308	11,318	12,072	21,361	61,500	71,598
2018	518	368	4,055	11,099	12,656	20,712	58,078	68,617
2019	541	344	4,321	10,913	13,224	20,140	55,878	65,920
2020	566	318	4,520	10,714	13,832	19,533	58,052	63,323
2021	592	293	4,727	10,506	14,481	18,887	60,734	60,610
2022–2026	3,395	1,033	30,300	48,863	68,283	84,975	306,448	260,491
2027–2031	2,799	226	40,314	40,844	79,288	68,566	316,902	190,241
2032–2036	—	—	50,465	30,694	92,299	49,301	302,993	120,030
2037–2041	—	—	63,171	17,987	113,792	26,343	250,296	55,897
2042–2046	—	—	46,649	3,398	57,109	3,663	123,031	8,132
Premium (discount) and other	—	—	2	—	8	—	651	—
Total	$ 8,905	2,975	251,832	196,336	477,044	333,481	1,594,563	964,859

The debt service payments shown above do not include receivables for projects under construction totaling $179.9 million. The ILP doesn’t finalize loan payments until construction is complete.

(6) Commercial Paper

Commercial paper payable outstanding as of June 30, 2016 and 2015 totaled $25.0 million and $136.5 million, respectively. This short-term borrowing program is primarily used to manage cash flows for capital projects that are funded with long-term debt. The use of commercial paper will typically increase prior to the issuance of long-term debt and be paid down with the proceeds of the long-term debt. During 2016, the University issued $0 million in commercial paper and paid off $111.5 million in commercial paper.

Short-Term Debt Payable
(Dollars in thousands)

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016
Commercial paper	$ 136,545	—	(111,545)	25,000
Total	$ 136,545	—	(111,545)	25,000

Short-Term Debt Payable
(Dollars in thousands)

	Balance at June 30, 2014	Additions	Reductions	Balance at June 30, 2015
Commercial paper	$ 25,000	111,545	—	136,545
Total	$ 25,000	111,545	—	136,545

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

(7) Long-Term Liabilities

Long-term liabilities for the years ended June 30, 2016 and 2015 include State of Washington General Obligation Bonds, University General Revenue Bonds, Revenue Bonds payable from specific revenue streams relating to participating departments, State of Washington COP’s, and funds borrowed through the Capital Asset Pool that are payable back to the Invested Funds Pool at the University. These obligations have fixed interest rates ranging from 0.9% to 6.4%.

Debt service requirements related to bonds payable and certificates of participation payable at June 30, 2016 were as following:

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

	State of Washington General Obligation Bonds		University of Washington Revenue Bonds		State of Washington Certificates of Participation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 15,600	4,961	33,130	65,976	1,545	466	50,275	71,403
2018	12,177	4,166	35,145	64,733	1,625	397	48,947	69,296
2019	12,115	3,530	37,120	63,305	1,700	325	50,935	67,160
2020	8,483	3,006	38,435	61,789	1,780	250	48,698	65,045
2021	8,889	2,570	41,070	60,097	1,870	170	51,829	62,837
2022–2026	39,226	5,926	220,265	271,072	1,880	114	261,371	277,112
2027–2031	6,768	342	261,890	213,910	—	—	268,658	214,252
2032–2036	—	—	236,046	153,746	—	—	236,046	153,746
2037–2041	—	—	311,290	91,222	—	—	311,290	91,222
2042–2046	—	—	243,490	14,137	—	—	243,490	14,137
Premium	999	—	101,424	—	7,564	—	109,987	—
Total	$ 104,257	24,501	1,559,305	1,059,987	17,964	1,722	1,681,526	1,086,210

Long-term liability activity for the period ended June 30, 2016 and 2015 is summarized as follows:

Long-Term Liabilities
(Dollars in thousands)

	Balance at June 30, 2015	Additions	Reductions	Balance at June 30, 2016	Current portion 2016
General obligation bonds payable	$ 124,215	30,145	51,102	103,258	15,600
General revenue bonds payable	1,307,281	180,475	29,875	1,457,881	33,130
Certificates of participation payable	11,880	—	1,480	10,400	1,545
Unamortized premium on bonds	107,989	17,032	15,034	109,987	12,845
CAP payable to IFP	127,434	—	4,916	122,518	2,101
Total long-term liabilities	$ 1,678,799	227,652	102,407	1,804,044	65,221

Long-Term Liabilities
(Dollars in thousands)

	Balance at June 30, 2014	Additions	Reductions	Balance at June 30, 2015	Current portion 2015
General obligation bonds payable	$ 138,223	260	14,268	124,215	16,737
General revenue bonds payable	1,330,256	176,090	199,065	1,307,281	27,230
Certificates of participation payable	13,295	—	1,415	11,880	1,480
Unamortized premium on bonds	95,955	26,446	14,412	107,989	12,050
CAP payable to IFP	—	127,434	—	127,434	1,033
Total long-term liabilities	$ 1,577,729	330,230	229,160	1,678,799	58,530

(Continued)

(a) Issuance Activity

On September 9, 2015, the University issued $180.5 million in General Revenue Bonds, 2015 C&D, at a premium of $12.2 million. The proceeds were used to fund various projects such as construction of Animal Care and Research Facilities, South West Campus Central Utility Plant, and other projects. In addition, proceeds were used to pay off $111.5 million in commercial paper. The 2015 C&D bonds have coupon rates ranging from 1.40% to 5.00% with an average coupon rate of 4.03%. The average life of the 2015 C&D General Revenue bonds is 15.60 years with final maturity on December 1, 2045.

On October 8, 2015, the State of Washington refunded General Obligation Bonds totaling $34.3 million (UW portion) with new bond issuances totaling $30.1 million and premium of $4.8 million. The refunded bonds had an average interest rate and coupon rate of 5.0%; the new bonds have an average coupon rate of 5.0%. The refunding decreased the total debt service payments to be made over the next 10 years by $5.6 million and resulted in a total economic gain of $5.2 million.

(b) Prior-Year Defeasance of Debt

In prior years, the University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the ILP's financial statements. As of June 30, 2016 and 2015, $139.0 million and $139.2 million, respectively, of bonds outstanding are considered defeased.

(8) Related-Party Transactions

The University provides support to the Program by providing the following items:

- Use of the University's buildings and equipment
- Administrative and accounting support
- Serving as the purchasing and disbursing agent
- Various other operational and support services

These costs are not billed but are contributed to the ILP and are recorded as administration expense.

All Program receivables are due from borrowers within the University. All cash and cash equivalents are invested in the University IFP. All investments are managed by the University Treasury Office.

(9) Pension Plan

The University offers the University of Washington Retirement Plan (UWRP), a defined contribution plan with supplemental payment to beneficiaries, when required. The ILP participates in this plan and is allocated a cost for the participation of this plan. The cost is included in the benefits load rate set by the University in calculating its fringe benefit expense and is applied on a per employee basis and is not a significant dollar amount.

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

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

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

403(b) Plan Funding Policy – Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents.

(b) University of Washington Supplemental Retirement Plan (401(a))

The University of Washington Supplemental Retirement Plan (UWSRP), a 401(a) defined-benefit retirement plan, operates in tandem with the 403(b) plan to supplement the expected defined contribution retirement savings accumulated under the UWRP. The ILP also participates in this plan. The UWSRP was closed to new participants effective March 1, 2011. The University is ultimately responsible for the payment of the obligation; therefore, the annual required contribution (ARC) is not recorded in the Program's financial statements.

401(a) Plan Description – This plan provides for a supplemental payment component, which guarantees a minimum retirement benefit based upon a one-time calculation at each eligible participant's retirement date. The University makes direct payments to qualifying retirees when the retirement benefits provided by the 403(b) plan do not meet the benefit goals.

(10) Commitments and Contingencies

The Program is subject to claims and lawsuits that are covered by the University's self-insurance fund.

(11) Subsequent Events

The ILP internal lending rate was reduced from 4.75% to 4.50% effective July 1, 2016.

On July 14, 2016, the state of Washington refunded General Obligation Bonds totaling $9.8 million (UW portion) with new bond issuances totaling $9.1 million and a premium of $1.7 million. The refunded bonds had an average interest rate and coupon rate of 5.0%; the new bonds have an average coupon rate of 4.9%. The refunding decreased the total debt service payments to be made over the next seven years by $1.1 million and resulted in a total economic gain of $961 thousand.

On July 20, 2016, the University issued $45.0 million in commercial paper. The proceeds will be used to fund various projects such as Phases 3 and 4a of the Housing Master Plan, Animal Research and Care Facilities, and UWMC Expansion Phase 2.

On October 18, 2016, the University sold $205.2 million in General Revenue & Refunding Bonds, 2016A&B, at a premium of $35.6 million. Part of the proceeds were used to refund existing debt, as well as retire $45.0 million in commercial paper debt and pay costs of issuance. The amount refunded was $38.2 million; the new par was $35.0 million (plus premium of $5.0 million). Proceeds are expected to fund various University projects. The closing date is November 9, 2016.