2020

BONDHOLDERS REPORT

UNIVERSITY *of* WASHINGTON | TREASURY OFFICE

2020 BONDHOLDERS REPORT

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University of Washington

2020 BONDHOLDERS REPORT

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

As a preface to reviewing the materials, we suggest starting with the University's Financial Report, which highlights the accomplishments, opportunities and challenges facing the University. The enclosed audited financial statements are as of June 30, 2020, the University's fiscal year end.

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

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

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

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2020 UNIVERSITY *of* WASHINGTON

FINANCIAL REPORT

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University Facts

		FISCAL YEAR 2020 Academic Year 2019-2020		FISCAL YEAR 2015 Academic Year 2014-2015		FISCAL YEAR 2010 Academic Year 2009-2010
STUDENTS						
Autumn Enrollment (headcount)						
Undergraduate		42,544		39,331		34,972
Graduate		14,628		13,333		11,996
Professional		2,209		2,006		1,913
TOTAL		**59,381**		**54,670**		**48,881**
Professional and Continuing Education - Course and Conference Registrations		90,714		76,245		63,178
Number of Degrees Awarded						
Bachelor's		11,508		10,145		9,290
Master's		4,957		4,117		3,269
Doctoral		845		838		703
Professional		598		554		523
TOTAL		**17,908**		**15,654**		**13,785**
FACULTY[1]		4,864		4,561		4,169
FACULTY AND STAFF[2]		31,093		27,264		24,741
RESEARCH FUNDING - ALL SOURCES *(in thousands of dollars)*	$	1,631,329	$	1,308,801	$	1,317,614
SELECTED REVENUES *(in thousands of dollars)*						
Net Patient Service and Other Medical-Related Revenues[3]	$	2,949,012	$	2,283,022	$	1,473,779
Gifts, Grants and Contracts		1,762,883		1,444,765		1,314,485
Tuition and Fees[4]		1,058,271		914,419		527,958
Auxiliary Enterprises and Other Revenues		719,578		614,185		315,363
State Appropriations (Operating)		415,030		255,156		347,425
Investment Income		207,993		227,404		308,752
SELECTED EXPENSES *(in thousands of dollars)*						
Medical-Related[3]	$	2,577,507	$	2,068,491	$	1,043,171
Instruction, Academic Support, and Student Services		2,121,064		1,640,377		1,291,234
Institutional Support and Physical Plant		936,834		767,784		525,273
Research and Public Service		873,225		765,036		733,769
Auxiliary Enterprises		589,895		291,628		165,612
CONSOLIDATED ENDOWMENT FUND[5] *(in thousands of dollars)*	$	3,560,000	$	3,076,000	$	1,830,000
SQUARE FOOTAGE[6] *(in thousands of square feet)*		27,202		22,326		18,526

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 in 2020 and 2015 only
4. Net of scholarship allowances of $198.8 million in 2020, $142.7 million in 2015 and $82.5 million in 2010
5. Stated at fair value
6. Gross square footage, all campuses

KPMG LLP
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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), which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University of Washington as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matter

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, 2020 and 2019, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 18, and the schedules of required supplementary information on pages 67 through 72, 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 opinions on the financial statements that collectively comprise the University of Washington's basic financial statements. The accompanying information under the table of contents titled "University Facts" is presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Seattle, Washington
October 23, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington ("University") for the fiscal years ended June 30, 2020 and 2019, with comparative financial information for 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 to financial statements that follow this section.

Financial Highlights for Fiscal Year 2020

The University recorded a $343 million increase in net position in 2020 compared to an increase of $481 million in 2019. The 2020 operating loss increased $262 million over the prior year, as the Novel coronavirus (COVID-19) pandemic contributed to operating expense growth that was not accompanied by similar growth in operating revenues. Nonoperating and other revenues increased during the year, benefiting from support provided by federal and state sources related to COVID-19, but were offset by a decrease in the University's investment income.

Key Financial Results

(in millions)	2020	2019	2018
Total operating revenues	$ 5,511	$ 5,485	$ 5,172
Total operating expenses	6,352	6,064	5,859
Operating loss	(841)	(579)	(687)
State appropriations	415	379	362
Gifts	220	166	167
Investment income	208	340	404
Other nonoperating revenues, net	341	175	244
Increase in net position	343	481	490
Net position, beginning of year	5,578	5,097	6,267
Cumulative effect of accounting changes (described below):			
GASB 75 - Other post-employment benefits	—	—	(1,660)
Net position, beginning of year as restated	5,578	5,097	4,607
Net position, end of year	**$ 5,921**	**$ 5,578**	**$ 5,097**

Operating Revenues

Operating revenues increased $26 million, or 0.5%, in 2020. Revenue from student tuition and fees increased a modest $6 million, whereas grant and contract revenue recorded another strong year, increasing $66 million, or 5%, over 2019. Revenue from patient services decreased $43 million, or 2%, during 2020 reflecting the impact on clinical operations from the COVID-19 pandemic and restrictions on non-urgent and elective procedures temporarily mandated by the state's Governor. Other operating revenue increased $37 million, primarily due to strong contract pharmacy revenues. Sales and services of educational departments increased $23 million due to School of Medicine programs, primarily Lab Medicine. These were offset by a decrease in Housing and Food Services revenues of $38 million due to impacts from the pandemic on demand for housing and retail operations, as well as lower revenues from other auxiliary operations.

Operating Expenses

Operating expenses increased $288 million, or 5%, in 2020. Staff salaries and benefits increased $150 million during the year, primarily due to merit increases, the need to retain historical staffing levels despite a decrease in UW Medicine volumes as a result of the COVID-19 pandemic, and higher expenses associated with the University's pension and other post-employment benefit (OPEB) plans. Other contributing factors included an $70 million increase in purchased services such as consulting and contract medical personnel, and a $32 million increase in supplies and materials primarily associated with pharmaceutical supplies.

Nonoperating Revenues

Revenues from nonoperating and other sources, net of interest on capital-related debt, increased $123 million, or 12%, in 2020. Current use, capital and endowed gifts increased a combined $121 million during the year, primarily due to $125 million received from the Bill & Melinda Gates Foundation to support the Population Health Initiative. Amounts received as COVID-19 support, and provided by the CARES Act (described below), contributed $87 million during 2020. Offsetting these was a decrease in investment income during the year, reflecting lower investment returns earned on the University's endowment and operating funds.

COVID-19

The COVID-19 pandemic has had widespread impacts on societal and economic conditions at a local, national and global level, and has had a significant impact on the University's operations. On February 29, 2020, the Governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address coronavirus in Washington and the forecasted potential surge of COVID-19 patients. On March 23, 2020, President Trump declared a national state of emergency with respect to the COVID-19 outbreak, ordering all states to establish emergency operations and authorizing the use of federal funds.

In accordance with direction and mandates from the Governor, beginning on March 19, 2020, the University's clinical operations cancelled or postponed all non-urgent and elective procedures. On May 19, 2020, the Governor lifted these restrictions, allowing non-urgent and elective procedures to resume. The cancellation of procedures from mid-March to mid-May had a significant impact on patient volumes and revenues in the current fiscal year.

On March 23, 2020, the Governor issued a statewide "Stay Home, Stay Healthy" proclamation requiring individuals to stay home except for essential activities, banning social and other gatherings, and closing all businesses with certain exceptions. University courses shifted to remote instruction for the final two weeks of Winter Quarter and for all of Spring Quarter, continuing through Summer Quarter. Although the University did not experience a significant change in student enrollment during the shift to online instruction, many students opted to discontinue living on campus, which together with mandates from the Governor's directive significantly impacted University residential and retail operations.

COVID-19 financial and liquidity support from federal and state sources during fiscal year 2020 took the following forms:

Medicare Advance Payment Program - The University requested and received approval for six months of advance Medicare payments under the Centers for Medicare and Medicaid Services (CMS) Medicare Advanced Payment Program (MAPP). The University received $125 million in April and May of 2020, which is recorded as "unearned revenues" in the accompanying Statements of Net Position. The advance Medicare funds will be recovered by Medicare by offsetting paid claims until the full amount is recouped, beginning one year after the advance payment was issued. The University has up to twenty-nine months from the date of the advance payment to repay the balance. Medicare has not yet begun recovering advance payments through claims for services.

CARES Act Provider Relief Fund - The Federal Government passed the Coronavirus Aid, Relief and Economic Security (CARES Act) in March 2020. The Provider Relief Fund payments are intended to assist with lost revenues associated with lower patient volumes, cancelled procedures and services due to COVID-19. Provider relief funds consisted of both general and targeted distributions. The University received both types of distributions totaling $66 million. For the year ended June 30, 2020, the University has recognized this funding as "other nonoperating revenues" on the Statements of Revenues, Expenses and Changes in Net Position. Subsequent to June 30, 2020, the Department of Health and Human Services (HHS) published its Provider Reporting Guidelines. The guidelines include the reporting timing and deadlines and methodology for calculating lost revenues attributable to COVID-19. Since this information could not have been known at June 30, 2020, any change in the estimate of revenue to be recognized will be recorded in future periods. The University is currently assessing the impact of these reporting requirements.

CARES Act HEERF - Under the CARES Act, the University became eligible for approximately $40 million in grant funding via the Higher Education Emergency Relief Fund (HEERF). Half of this amount is intended to assist eligible students impacted by on-campus financial disruption (student aid portion) with the other half to be used to cover costs associated with significant changes to the delivery of instruction (institutional portion) due to COVID-19. The University distributed $18 million as emergency financial aid to students during fiscal year 2020, with $2 million remaining to be distributed during 2021. Of the $20 million institutional portion, $4 million was allocated to the University's Housing and Food Services auxiliary operation in fiscal year 2020 to cover expenditures that would otherwise have been funded by housing and dining revenues which were impacted by the pandemic. The remainder of these funds will be drawn in fiscal year 2021. The $22 million that has been recognized in fiscal year 2020 is reported as "other nonoperating revenues" on the Statements of Revenues, Expenses and Changes in Net Position.

CARES Act FICA Deferral - The CARES Act provides that employers may elect to defer payment of the employer's share of social security taxes through December 31, 2020. Of these deferred payments, 50% must be paid by December, 2021, with the remainder paid by December, 2022. As a result, $31 million has been deferred by the University as of June 30, 2020, and is shown as "long-term liabilities, net of current portion" on the Statements of Net Position.

CARES Act Paycheck Protection Program - Also as part of the CARES Act, the federal government enacted a loan program called the Paycheck Protection Program (PPP) for eligible businesses with 500 or fewer employees. Eligible businesses are able to apply for a loan of up to 2.5 times the average monthly payroll expense of the business. The interest on PPP loans is deferred for the first six months of the loan, with an interest rate of 1% after the deferral period. UW Neighborhood Clinics applied for and was granted a loan of $5 million which is recorded as "long-term liabilities, net of current portion" on the University's Statements of Net Position.

FEMA Public Assistance Program - The University applied for an $85 million grant from the Federal Emergency Management Agency (FEMA) Public Assistance program via the expedited funding channel, which enabled partial funding of estimated eligible expenditures up front, with a 25% state cost share requirement. The University received an expedited payment from the grant program of $32 million to help defray certain costs incurred as part of the University's response to COVID-19. These amounts are reported as "unearned revenues" in the accompanying Statements of Net Position. The University also received an emergency allocation from the state of Washington in relation to the 25% cost share which will be reported as "state appropriations" in fiscal year 2021.

State Appropriations - Including the emergency allocation for the 25% cost share related to the FEMA funding noted above, the state of Washington appropriated a total of $83 million in emergency funding in response to the COVID-19 pandemic in fiscal year 2020. These funds will be used primarily to expand lab capacity for COVID-19 testing, procure medical supplies and equipment, sanitize facilities and equipment, and provide information to the public. Of this funding, $8 million was received as of June 30, 2020 and is included in "state appropriations" in the University's Statements of Revenues, Expenses and Changes in Net Position.

In total, the University received or deferred payment of $288 million during fiscal year 2020 in relation to COVID-19 support. Of this amount, $95 million has been recognized as revenue during the current fiscal year and $36 million represents a future payment obligation of the University (see note 2 to the financial statements). These amounts exclude amounts received and payments deferred by the University's discrete component unit, Valley Medical Center.

Changes in Accounting Standards

The University implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (OPEB) during fiscal year 2018. As a result of implementing Statement No. 75, the University recognized its proportionate share of the state of Washington's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to implementing 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.

The University implemented GASB Statement No. 81, "Irrevocable Split-Interest Agreements" during fiscal year 2018. This Statement changed the way that governments reflect resources received pursuant to irrevocable split-interest agreements, both at inception and throughout the life of the associated contract. Specifically, where the University has a remainder interest in a trust that is also managed by the University, revenues are no longer recognized when the asset is acquired and upon periodic revaluation, but are instead recorded as a deferred inflow of resources and recognized at termination of the contract. Additionally, where the University has a lead interest in a trust that is not managed by the University, revenues are now recognized both when the asset is received or communicated to the University, and upon periodic revaluation. These events were previously not reflected in the financial statements of the University.

The University implemented GASB Statement No. 83, "Certain Asset Retirement Obligations" during fiscal year 2019. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments that have legal obligations to perform future tangible asset retirement activities are now required to recognize a liability and offsetting deferred outflow of resources when these costs are incurred and are reasonably estimable. The University's 2015 Decommissioning Funding Plan, prepared in accordance with Washington Administrative Code 246-235-075, estimated disposal and clean-up costs related to all radioactive materials used for research, clinical applications, and education and was used as the basis for recording the initial ARO liability. Prior to implementing this Statement, the University's financial statements did not reflect any ARO liability or associated deferred outflow, and reported costs associated with these retirement activities as expense at the time of asset disposal.

No new accounting standards were implemented by the University during fiscal year 2020.

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 the University's auditors, KPMG LLP.
- Statements of Net Position present the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of the University at a point in time (June 30, 2020 and 2019). Their purpose is to present a financial snapshot of the University. This statement aids the reader in determining the assets available to continue the University's operations, how much the University owes to employees and vendors, whether the University has any deferred outflows or inflows other than assets or liabilities, and provides a picture of net position and its availability for expenditure by the University.
- Statements of Revenues, Expenses and Changes in Net Position present the total revenues earned and expenses incurred by the University for operating, nonoperating and other related activities, during a period of time (the fiscal years ended June 30, 2020 and 2019). Their purpose is to assess the University's operating and nonoperating activities.
- Statements of Cash Flows present cash receipts and payments of the University during a period of time (the fiscal years ended June 30, 2020 and 2019). 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 since it has a separate board of directors, it does not provide services exclusively to the University, and it is not a nonprofit corporation of which the University is the sole corporate member; therefore, its financial position at June 30, 2020 and 2019, and results of operations for the fiscal years ended June 30, 2020 and 2019, are reported in a separate column for financial statement presentation purposes (see note 1 to the financial statements). The analysis that follows includes the consolidated balances of the University of Washington and its blended component units, but excludes the financial position and results of operations of Valley Medical Center.

Financial Health

STATEMENTS OF NET POSITION

A summarized comparison of the University's assets, liabilities, deferrals and net position as of June 30, 2020, 2019 and 2018 is shown below:

Summarized Statements of Net Position

(in millions)	2020	2019	2018
Current assets	$ 2,029	$ 1,574	$ 1,486
Noncurrent assets:			
Capital assets, net	4,972	4,935	4,980
Investments, net of current portion	5,570	5,375	5,105
Other	568	525	481
Total assets	13,139	12,409	12,052
Deferred outflows	639	414	244
Total assets and deferred outflows	13,778	12,823	12,296
Current liabilities	1,528	1,166	1,267
Noncurrent liabilities:			
Bonds payable	2,371	2,353	2,334
Pensions and OPEB	2,740	2,498	2,750
Other	383	335	332
Total liabilities	7,022	6,352	6,683
Deferred inflows	835	893	516
Total liabilities and deferred inflows	7,857	7,245	7,199
Net position	**$ 5,921**	**$ 5,578**	**$ 5,097**

Current assets include those that may be used to support current operations, and consist primarily of cash and cash equivalents, short-term investments and accounts receivable. Current liabilities generally are due and payable over the course of the following fiscal year, and include accounts payable and other accrued liabilities, unearned revenues, and the current portion of long-term debt. The excess of current assets over current liabilities of $501 million in 2020, and $408 million in 2019, reflects the continuing ability of the University to meet its short-term obligations.

Current assets increased $455 million, or 29%, in 2020. Amounts received from federal and state sources pertaining to COVID-19 support drove a $383 million increase in short-term investments. Likewise, a focus on conserving operating cash balances to protect liquidity in light of COVID-19 contributed to an increase of $58 million in cash and cash equivalents. Current assets increased $88 million, or 6%, in 2019 due to a $60 million increase in accounts receivable, driven by patient receivables and pending investment sales, and a $64 million increase in short-term investments. These amounts were partially offset by a $59 million decrease in cash and cash equivalents.

Current liabilities increased $362 million, or 31%, in 2020. Accounts payable and accrued liabilities increased $213 million during the year primarily driven by a $160 million increase in pending investment purchases compared to the prior year, and a $38 million increase in the liability for accrued annual leave due to the pandemic. A $174 million increase in unearned revenues also contributed to the year over year change, and was primarily attributable to amounts received by the University related to COVID-19 support from the Medicare Advance Payment Program and the FEMA Public Assistance Program. Current liabilities decreased $101 million, or 8%, in 2019 driven by a $65 million decrease in commercial paper debt together with a $33 million decrease in other operating and vendor payables.

Noncurrent assets increased $275 million, or 3%, in 2020 primarily due to a $195 million increase in the market value of the University's long-term investments, combined with a $25 million increase in the value of the University's equity interest in the Seattle Cancer Care Alliance. Noncurrent assets increased $269 million, or 3%, in 2019 primarily due to an increase in the market value of the University's long-term investments.

Noncurrent liabilities increased $308 million, or 6%, in 2020. Pension and OPEB liabilities increased $242 million, reflecting the impact of lower end of year discount rates used in the associated actuarial valuations. Other contributing factors were a $32 million net increase in general revenue bonds outstanding (new issuances less debt service) and $31 million of social security payments owed but unpaid at year end through the CARES Act FICA tax deferral. Noncurrent liabilities decreased $230 million, or 4%, in 2019 primarily due to changes in the University's pension and OPEB liabilities. The net pension liability pertaining to the pension plans administered by the Washington Department of Retirement Systems (DRS) decreased $223 million in 2019 as a result of better than expected investment returns on pension plan assets, and a decrease in the University's proportionate share of the statewide PERS 1 liability. The OPEB liability decreased $211 million due primarily to a reduction in the actuarial assumptions surrounding future healthcare cost trends. Offsetting these was a $182 million increase in the University of Washington Supplemental Retirement Plan (UWSRP) pension liability, due to lower than expected investment returns on the model portfolio used to calculate retiree benefit eligibility, a decrease in the ending discount rate, and salary growth that was higher than expected.

Deferred outflows of resources and deferred inflows of resources primarily represent pension and OPEB-related deferrals, and the University's remainder interest in split-interest agreements. The increase in deferred outflows of $225 million, or 54%, in 2020 primarily pertains to the UWSRP and OPEB plans. UWSRP deferred outflows increased $117 million, and OPEB deferred outflows increased $85 million, due to a decrease in the discount rates used to value the respective ending liabilities. The increase in deferred outflows of $170 million, or 70%, in 2019 also primarily pertains to the UWSRP and OPEB plans. UWSRP deferred outflows increased $141 million in 2019 due to a decrease in the discount rate used to value the ending liability, together with a change in the actuarial assumption pertaining to investment performance and differences between expected and actual experience regarding salary growth. OPEB deferred outflows increased $47 million in 2019, also due to differences between expected and actual experience.

Deferred inflows decreased $58 million, or 6%, in 2020, primarily due to a $66 million reduction in OPEB deferred inflows resulting from amortization of amounts recorded in prior years. Deferred inflows increased $377 million, or 73%, in 2019. The University's share of deferred inflows associated with the DRS plans increased $83 million in 2019 due to the impact of changes in actuarial assumptions, and differences between expected and actual experience when calculating the ending liabilities. OPEB deferred inflows increased $312 million in 2019, primarily due to changes in actuarial assumptions pertaining to future medical cost trends.

Endowment and Other Investments

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

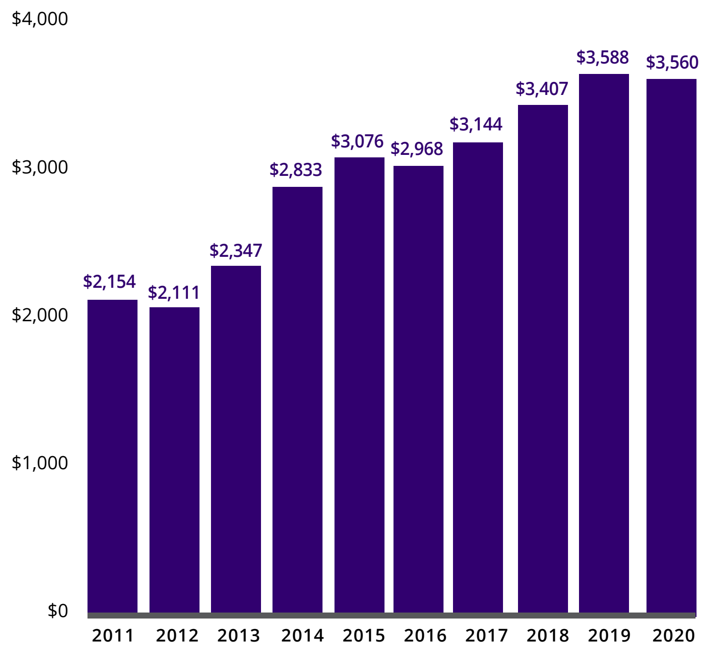
The University of Washington Board of Regents is vested by statute with responsibility for the University's properties and investments, and for establishing investment policy. The University of Washington Investment Management Company (UWINCO), led by the Chief Investment Officer, carries out the day-to-day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

Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. Most endowments are commingled in the Consolidated Endowment Fund (CEF), a diversified investment fund. Similar to a mutual fund, each individual endowment maintains a separate identity and owns units in the fund.

The CEF has experienced considerable growth over the past 10 years due to endowment gifts and investment returns. The number of individual endowments in the CEF has grown significantly, from 3,545 at June 30, 2011 to 5,253 at June 30, 2020. The market value of the CEF has similarly increased, from $2.2 billion at June 30, 2011 to $3.6 billion at June 30, 2020.

Consolidated Endowment Fund Market Value

(in millions)



The impact to program support has been substantial with $1.1 billion 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.

In February 2019, the Board of Regents approved an amendment to the CEF Investment Policy to reduce the total spending rate from 5.0% to 4.5%. A three-year phased reduction was implemented to cushion the impact on University units starting with a 4.9% spending rate in fiscal year 2020. Quarterly distributions to programs are based on an annual percentage rate of 3.92%, applied to the five-year rolling average of the CEF's market value. Additionally, the policy allows for an administrative fee of 0.98% supporting campus-wide fundraising and stewardship activities (0.784%) and offsetting the internal cost of managing endowment assets (0.196%). The reduction to 4.5% will be in full effect for fiscal year 2022 and beyond.

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

The CEF asset allocation is divided into two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2020, 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 ended June 30, 2020, the CEF returned +1.1% versus +4.2% for the passive benchmark. The CEF's Private Equity strategy led returns this year. In a very volatile and narrow market driven by a small set of technology stocks, the CEF's Capital Appreciation portfolio underperformed the passive benchmark. The CEF is underweight in the U.S., especially technology, and overweight in international markets. The CEF's Capital Preservation portfolio substantially underperformed the passive benchmark due to the sharp decrease in government bond yields.

A portion of the University's operating funds are invested in the CEF. As of June 30, 2020, these funds comprise $625 million of the CEF market value.

Capital Improvements

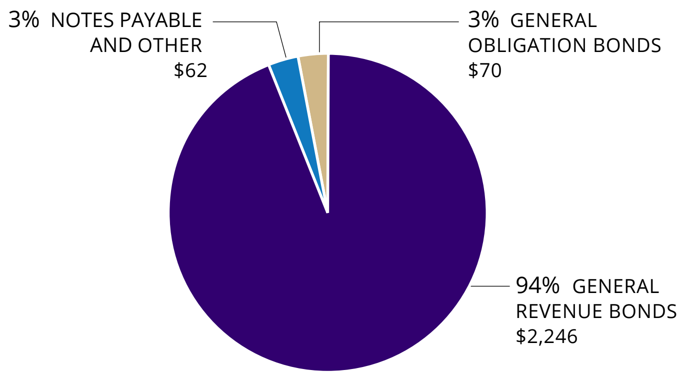
The University continues to expand its campuses, invest in information technology and renovate existing facilities to meet the needs of its students, patients, faculty and staff. Significant capital asset expenditures (greater than $20 million) during fiscal year 2020 included $115 million for the Population Health Facility, $43 million for North Campus Student Housing (Oak Hall), $34 million for the UW Medicine clinical transformation program ("Destination: One"), and $23 million for the renovation of Kincaid Hall.

Debt

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

The University's debt portfolio consists primarily of fixed-rate debt in the form of General Revenue Bonds, Lease Revenue Bonds and state-issued General Obligation Bonds. As of June 30, 2020, the University had $2.4 billion of bonds and notes payable outstanding, an increase of 2.1% from June 30, 2019. Debt outstanding on the Metropolitan Tract is not included in these amounts (see note 8).

Bonds and Notes Payable
(in millions)



In March 2020, the University issued $51 million of tax-exempt General Revenue bonds with an all-in true interest cost of 2.61% and $51 million of taxable General Revenue bonds with an all-in true interest cost of 2.30%. Proceeds were used to fund various projects including UW Medicine Destination: One, the Childbirth Center at UW Medical Center Northwest Campus (fka Northwest Hospital Childbirth Center), and the Kincaid Hall Renovation. Additionally, the University issued $118 million of tax-exempt General Revenue Refunding Bonds (Delayed Delivery Bonds) to refund callable 2011A bonds and achieve debt service savings. The all-in true interest cost of the refunding bonds was 1.84%. These bonds are scheduled to close in February 2021.

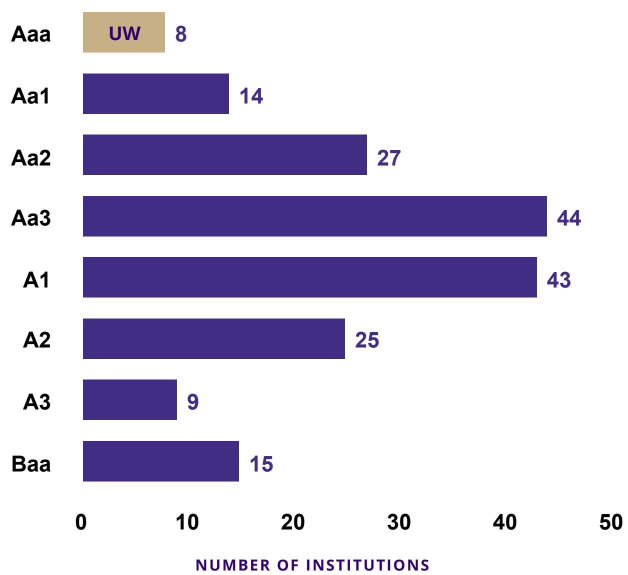
The University has a $250 million commercial paper program, which is typically used to fund project expenditures until long-term funding is secured. As of June 30, 2020, there was no commercial paper outstanding.

In June 2020, the Board of Regents approved a resolution to allow for the issuance of one or more notes in the aggregate amount not to exceed $200 million to evidence one or more liquidity lines of credit for University purposes. The University entered into two separate $100 million agreements with lenders in August 2020, in order to provide short-term emergency support for COVID-19 impacts and align the University with peer schools by having another credit tool available for use. Credit agencies consider this type of liquidity support as a credit positive.

Unaudited – see accompanying notes to financial statements

Credit ratings are an indicator of the University's effectiveness in managing its financial resources. During fiscal year 2020, both Moody's (Aaa, Negative Watch) and Standard and Poor's (AA+, Stable) reaffirmed the University's credit ratings. 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 2019
Public College and University Rating Distribution
(As of the June 2020 Moody's Median Report)



The Board of Regents typically authorizes the long-term debt (excluding commercial paper) issuance on a fiscal year basis, and for fiscal year 2021 has authorized $97 million. Any increase, other than debt issued to achieve debt service savings, would require additional approval by the Board.

Debt beyond fiscal year 2021 is managed through a process in which the University estimates debt capacity. Updated annually, key debt-related financial metrics are benchmarked to credit peer institutions. Current estimates assume outstanding debt will remain relatively 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 that 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, 2020, 2019 and 2018 is summarized as follows:

Categories of Net Position

(in millions)	2020	2019	2018
Net investment in capital assets	$ 2,532	$ 2,489	$ 2,484
Restricted:			
Nonexpendable	1,939	1,878	1,722
Expendable	2,243	2,192	2,129
Unrestricted	(792)	(981)	(1,238)
Total net position	**$ 5,921**	**$ 5,578**	**$ 5,097**

Net investment in capital assets increased $43 million, or 2%, in 2020. This balance typically increases as debt is repaid, 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 2020 was primarily a result of 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. This category of net position was largely unchanged from 2018 to 2019.

Restricted nonexpendable net position increased $60 million, or 3%, in 2020 primarily as a result of receiving $65 million in new endowment gifts during the year. This category of net position increased $156 million, or 9%, in 2019 primarily as a result of receiving $135 million in new endowment gifts during the year.

Restricted expendable net position increased $51 million, or 2%, in 2020. Unspent operating and capital gifts increased $88 million during 2020, together with $4 million from the institutional support portion of the CARES Act HEERF and $15 million from earnings on the Metropolitan Tract. These amounts were partially offset by a $72 million increase in unrealized and realized losses on investments held in the CEF. This category of net position increased $63 million, or 3%, in 2019. Unrealized and realized gains in the market value of the CEF contributed $31 million to the increase for 2019, with the remainder being comprised of the excess of new operating and capital gifts compared to spending of gifts received in prior years.

Unrestricted net position increased $189 million, or 19%, in 2020. Operating losses associated with unrestricted activities were $511 million and interest expense on capital asset-related debt was $93 million. These amounts were more than offset by $415 million in state operating appropriations, $256 million in investment income on unrestricted investments, and $83 million of federal funds from the CARES Act Provider Relief Fund and the student aid portion of HEERF. This category of net position increased $257 million, or 21%, in 2019. Operating losses associated with unrestricted activities were $358 million in 2019 and interest expense on capital asset-related debt was $89 million. These amounts were offset by $379 million in state operating appropriations and $294 million in investment income related to unrestricted investments.

As of June 30, 2020, Unrestricted Net Position reflects a deficit of $792 million due to implementation of GASB Statement No. 68 (pensions) during fiscal year 2015, and the implementation of Statement No.75 (OPEB) during fiscal year 2018. These statements require the University to record its proportionate share of the state of Washington's actuarially determined liabilities for pension and OPEB. As a result of these implementations, Unrestricted Net Position is negative despite historically positive operating results.

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

Unrestricted Net Position Excluding Pensions and OPEB

(in millions)	**2020**	**2019**	**2018**
Unrestricted net position, as reported	$ (792)	$ (981)	$ (1,238)
Impact of GASB 68 - Pensions	456	584	706
Impact of GASB 75 - OPEB	1,854	1,817	1,764
Unrestricted net position, excluding pensions and OPEB	**$ 1,518**	**$ 1,420**	**$ 1,232**

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, 2020, 2019 and 2018 follows:

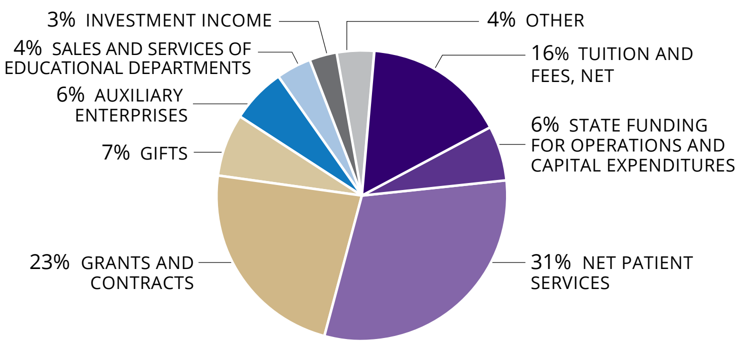
Operating Results

(in millions)	**2020**	**2019**	**2018**
Tuition and fees, net	$ 1,058	$ 1,052	$ 990
Net patient services	2,093	2,136	2,008
Grants and contracts	1,492	1,426	1,409
Other operating revenues	868	871	765
Total operating revenues	5,511	5,485	5,172
Salaries and benefits	3,882	3,732	3,661
Other Operating Expenses	2,470	2,332	2,198
Operating loss	**(841)**	**(579)**	**(687)**
State appropriations	415	379	362
Gifts	220	166	167
Investment income	208	340	404
Other nonoperating revenues	434	264	321
Interest on capital asset-related debt	(93)	(89)	(77)
Increase in net position	**$ 343**	**$ 481**	**$ 490**

The University's operating loss increased to $841 million in 2020, from $579 million in 2019. State appropriations, which are primarily used to fund operations, are shown as nonoperating revenue pursuant to GASB standards. If state appropriations were classified as operating revenue, the operating loss would have been $426 million in 2020, and $200 million in 2019.

The University has a diversified revenue base. No single source generated more than 31% of the total fiscal year 2020 revenues of $6.8 billion.

Sources of Funds



The following table summarizes revenues from all sources for the years ended June 30, 2020, 2019 and 2018:

Revenues from All Sources

(in millions)	2020		2019		2018	
Net patient services	$ 2,093	31%	$ 2,136	32%	$ 2,008	31%
Grants and contracts	1,555	23%	1,492	22%	1,468	23%
Tuition and fees, net	1,058	16%	1,052	16%	990	15%
Gifts	452	7%	331	5%	398	6%
Auxiliary enterprises	420	6%	483	7%	403	6%
State funding for operations	415	6%	379	6%	362	6%
Sales and services of educational departments	283	4%	260	4%	243	4%
Investment income	208	3%	340	5%	404	6%
State funding for capital projects	23	—%	25	—%	26	—%
Other	280	4%	136	3%	124	3%
Total revenue - all sources	**$ 6,787**	**100%**	**$ 6,634**	**100%**	**$ 6,426**	**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 three joint ventures. These entities, together with Harborview Medical Center (not included in the University's financial statements – see note 15) and shared services providing IT, accounting, financial services and human resources comprise UW Medicine. UW Medicine is governed and administered as an enterprise of the University whose mission is to improve the health of the public. UW Medicine also strives to facilitate the education of physicians and other healthcare 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 an 810-bed hospital located on two campuses that provides comprehensive healthcare services to the Puget Sound community and patients from throughout the Pacific Northwest and beyond. Effective January 1, 2020, Northwest Hospital & Medical Center was integrated into UWMC as its second campus, and its assets and liabilities were transferred to UWMC. UWMC also serves as the major clinical, teaching and research site for students and faculty in Health Sciences at the University. More than 22,000 patients receive inpatient care at UWMC each year. Specialized inpatient care needs are met by the Cancer Center, the Regional Heart Center, the Neonatal Intensive Care Unit and the Organ Transplantation program, among others.

Valley Medical Center (VMC) is a 321-bed acute care hospital and network of clinics that treats approximately 17,000 inpatients per year, and is the oldest and largest public hospital district in the state of Washington. VMC joined UW Medicine in July 2011. VMC's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position are presented in a discrete column on the financial statements of the University.

Northwest Hospital & Medical Center (NWH) is a full-service medical facility with 281 beds and treated approximately 5,000 patients during the first six months of fiscal year 2020. In February 2018, the University Board of Regents granted approval to proceed with the dissolution of NWH as a separate corporation. Effective January 1, 2020, NWH was integrated into UWMC as its second campus, and its assets and liabilities were transferred to UWMC. NWH employees became University employees effective January 1, 2020. NWH ceased operations and is in the process of winding up for dissolution of the corporation.

UW Neighborhood Clinics (Neighborhood Clinics) is a network of clinics with 13 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 three joint ventures: Seattle Cancer Care Alliance, Children's University Medical Group and Embright, LLC. The University's share of these activities is reflected in the University's financial statements.

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

In combination, these organizations (not including VMC) contributed nearly $2.1 billion in net patient services revenue in fiscal year 2020, compared with over $2.1 billion in fiscal year 2019, a decrease of $43 million, or 2%. UWMC (including NWH) generated 76% of this revenue in 2020 and 79% in 2019. UWMC and NWH admissions were 26,998 in 2020 compared with 28,715 in 2019, a decrease in admissions of 6%. In addition, surgeries declined 9% for UWMC and NWH as compared to 2019. These declines were attributable to the cancellation of non-urgent and elective procedures from mid-March to mid-May, 2020, as directed by the Governor of the state of Washington in response to the COVID-19 pandemic.

Grant and Contract Revenue

One of the largest sources of revenue (23%) continues to be grants and contracts. Grant and contract revenue is received from federal sponsors, by far the largest component, and also from state, local and nongovernmental sources. Total grant and contract revenue increased $63 million in 2020, compared to an increase of $24 million in 2019.

Federal grant and contract revenue increased $41 million, or 4%, in 2020 due primarily to National Institutes of Health (NIH) grant activity and continued research vessel support from the National Science Foundation (NSF). A total of 31 new NIH grants increased revenue by $13 million, supporting a variety of biomedical research initiatives aiming to enhance health and reduce illness. The University also received a 5-year, $34 million NSF award to perform oceanographic research missions aboard the newly refurbished R/V Thomas G. Thompson. Federal grant and contract revenue decreased $7 million, or 1%, in 2019 due primarily to two large projects that ended part way through 2019. Refurbishing work on the R/V Thomas G. Thompson research vessel to extend the vessel's useful life another 20 to 25 years was completed in September, 2018. The University also completed a major genome sequencing contract in the first half of 2019.

State and local grant and contract revenue increased $16 million, or 14%, in 2020 largely attributable to the Washington College Grant, formerly called the Washington State Need Grant, which grew $15 million during the year as a result of increased support from the state legislature related to appropriations and a higher number of eligible students. State and local grant and contract revenue increased $13 million, or 12%, in 2019 also due to the Washington State Need Grant, which increased $9 million as a result of increased state appropriations and a higher number of eligible students.

Nongovernmental grant and contract revenue increased $9 million, or 3%, in 2020. Grants from the Paul G. Allen Family Foundation supporting the UW Medicine Emergency Response Fund for COVID-19 and the Alcohol and Drug Abuse Institute contributed to this increase. The University also received a large consultancy agreement from the Inter-American Development Bank to assist with the Regional Malaria Elimination Initiative. This initiative is funded by the Bill and Melinda Gates Foundation and the Global Fund, with an aim of accelerating progress towards Malaria elimination in Mesoamerica and the Dominican Republic. Nongovernmental grant and contract revenue increased $10 million, or 4%, in 2019. Contributing to this growth was a 20% boost in clinical trial activity within the School of Medicine, as well as increased spending related to a $10 million, four-year grant from the Paul G. Allen Family Foundation to create the Allen Discovery Center for Cell Lineage Tracing. The Center will focus on developing the first global maps of cell lineage in complex organisms, which will help to advance research in disciplines such as developmental biology, neuroscience, cancer biology and regenerative medicine.

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 2020 and 2019 indirect cost recovery rate for research grants was approximately 30 cents on every direct expenditure dollar.

Primary Nongrant Funding Sources

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

Operating Support for Instruction

(in millions)	2020		2019		2018	
Operating tuition and fees	$ 701	48%	$ 716	50%	$ 675	50%
Fees for self-sustaining educational programs	357	24%	336	24%	315	23%
Subtotal - tuition and fees	1,058	72%	1,052	74%	990	73%
State operating appropriations	415	28%	379	26%	362	27%
Total educational support	**$1,473**	**100%**	**$1,431**	**100%**	**$1,352**	**100%**

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

Revenue from tuition and fees, net of scholarship allowances, increased $6 million in 2020, compared to an increase of $62 million in 2019. These increases were partially due to the state allowing a 2.4% operating fee increase in resident undergraduate tuition in 2020 and a 2.2% increase in 2019. Other tuition categories also contributed to these increases. Nonresident undergraduate operating fees increased 4.4% in 2020. Most graduate and professional operating fees increased 2.4%, while other program rates increased 0-4%. Most fee-based program rates increased 0-6% in 2020. These other fee increases were consistent with those implemented during 2019.

Revenue growth for both years was also partly due to modest increases in student enrollment. Full-time equivalent (FTE) enrollment in 2020 in undergraduate tuition-and fee-based programs were flat in the resident student category, but increased 0.3% in the nonresident student category. FTE enrollment in graduate and professional tuition- and fee-based programs held steady in the resident student category and increased by 1.8% in the nonresident student category. FTE enrollment in 2019 in undergraduate tuition-and fee-based programs increased 0.4% in the resident student category, and by 5.2% in the nonresident student category. FTE enrollment in graduate and professional tuition and fee-based programs increased 2.7% in 2019 in the resident student category, and by 3.7% in the nonresident student category.

Self-sustaining educational programs (fee-supported programs) include the following amounts for each of the fiscal years 2020, 2019 and 2018: Continuum College (the continuing education branch of the University) $132 million, $126 million and $113 million, respectively, summer quarter tuition $81 million, $65 million and $55 million, respectively, and for Business School and School of Medicine programs $66 million, $63 million and $60 million, respectively.

Gifts, Endowments and Investment Revenues

Net investment income for the years ended June 30, 2020, 2019 and 2018 consisted of the following:

Net Investment Income

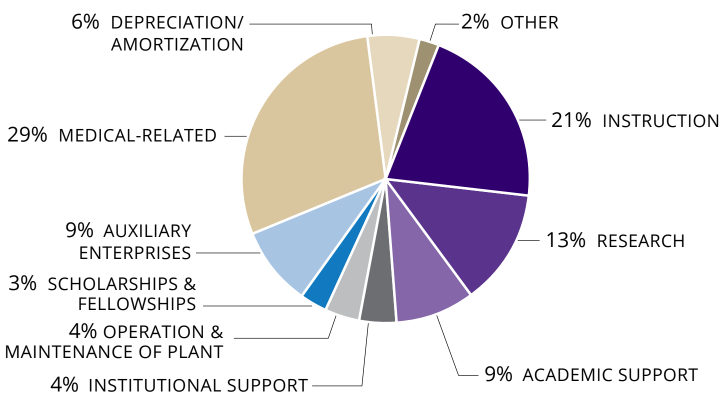
(in millions)	2020	2019	2018
Interest and dividends, net	$ 63	$ 72	$ 72
Metropolitan Tract net income	25	26	16
Seattle Cancer Care Alliance change in equity	25	24	17
Realized gains	170	169	62
Unrealized (losses) gains	(75)	49	237
Net investment income	**$ 208**	**$ 340**	**$ 404**

Net investment income decreased $132 million, or 39%, in 2020 compared to a decrease of $64 million, or 16%, in 2019. A decline in unrealized gains drove the decrease in 2020, whereas a similar decrease in unrealized gains during 2019 was partly offset by increases in realized gains. Returns on the CEF were +9.6% in fiscal year 2018, but decreased to +5.8% in 2019 and +1.1% in 2020.

In fiscal year 2020, the University concluded a ten-year fundraising campaign titled "Be Boundless - For Washington, For the World" which resulted in more than a half-million donors giving a combined $6.3 billion. Gifts are a key and necessary source of support for a variety of purposes, including current operating activities. Gifts support scholarships and research, capital improvements, and are used to fund permanent endowments for various academic and research purposes. Current use gifts increased $54 million in 2020 primarily due to $24 million received by the School of Medicine to support the University's response to COVID-19, and $12 million related to the Brotman Baty Institute. Current use gifts in 2019 were largely unchanged from 2018. Capital gifts increased $138 million in 2020 driven by $125 million of support received from the Bill & Melinda Gates Foundation to benefit the University's Population Health Initiative. Capital gifts decreased $106 million in 2019, reflecting an $85 million gift from the Bill & Melinda Gates Foundation which had been received in the prior year but not repeated in 2019. Gifts to permanent endowments decreased $70 million in 2020, compared to an increase of $40 million in 2019. Two large estate gifts received by the University in 2019, but not repeated in 2020, are the primary reason for the decrease during the current year.

Expenses

Two primary functions of the University, instruction and research, comprised 34% of total operating expenses in 2020. These dollars provided instruction to over 59,000 students and funded over 5,500 research awards. Medical-related expenses, such as those related to patient care, also continue to be one of the largest individual components, accounting for 29% of the University's total operating expenses in 2020.



A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2020, 2019 and 2018 follows:

Operating Expenses by Function

(in millions)	2020		2019		2018	
Educational and general instruction	$1,361	21%	$1,320	22%	$1,268	22%
Research	796	13%	749	12%	785	13%
Public service	77	1%	66	1%	49	1%
Academic support	542	9%	540	9%	512	9%
Student services	55	1%	54	1%	53	1%
Institutional support	268	4%	226	4%	251	4%
Operation and maintenance of plant	281	4%	252	4%	201	3%
Scholarships and fellowships	162	3%	155	3%	149	3%
Auxiliary enterprises	590	9%	554	9%	495	8%
Medical-related	1,832	29%	1,776	29%	1,712	29%
Depreciation/ amortization	388	6%	372	6%	384	7%
Total operating expenses	**$6,352**	**100%**	**$6,064**	**100%**	**$5,859**	**100%**

Overall, the University's operating expenses increased $288 million, or 5%, in 2020 and $205 million, or 3%, in 2019. Approximately 61% of amounts incurred for operating expenses in both 2020 and 2019 were related to faculty and staff compensation and benefits.

In 2020, expense associated with faculty and staff salaries increased $82 million, or 3%, primarily due to merit increases and the need to retain historical staffing levels despite a decrease in UW Medicine volumes as a result of the COVID-19 pandemic.

Benefits expense increased $68 million, or 8% in 2020. Pension-related benefit expenses increased $41 million, driven by amortization of UWSRP deferred outflows reflecting a lower discount rate that had an unfavorable impact on pension expense. OPEB expense decreased $16 million primarily due to lower service cost in 2020. All other benefit expenses, which fluctuate each year in relation to the change in total paid salaries, increased $43 million during 2020.

Supplies and materials expense increased $32 million, or 5%, in 2020 primarily driven by higher costs for pharmaceutical expenses associated with growth in contract pharmacy, as well as generally rising costs for pharmaceutical supplies.

Purchased services increased $70 million, or 8%, in 2020, primarily due to costs associated with information technology and management consulting, as well as contract medical personnel.

In 2019, expense associated with faculty and staff salaries increased $143 million, or 5% primarily due to merit increases and a 1% increase in University FTE's. Benefits expense decreased $71 million, or 8% in 2019. Pension-related benefit expenses decreased $42 million, driven by a reduction in the University's proportionate share of expense associated with the DRS plans, primarily due to better than expected earnings on plan assets and a decrease in the University's PERS 1 participation. OPEB expense decreased $49 million due to a favorable change in the actuarial assumptions regarding future growth in healthcare costs. These decreases were partially offset by a $20 million increase in all other benefit expenses, primarily due to growth in the underlying salaries and the number of FTE's.

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

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

Unaudited – see accompanying notes to financial statements

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

Economic Factors That May Affect the Future

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

STATE OPERATING AND CAPITAL APPROPRIATIONS

Throughout 2020, the state of Washington, which provided approximately 6% of the University's total revenues in fiscal year 2020, continued to experience significant uncertainty in state tax collections due to the COVID-19 pandemic. In recent biennia, growth in state tax collections and new revenue have largely been consumed by court-mandated increases to K-12 education funding (McCleary v. Washington). As part of the 2019-21 compromise budget package, which was passed during the 2019 legislative session and is effective for fiscal years 2020 and 2021, the legislature approved HB 2158, which created a dedicated source of funding for higher education through an increase to Business and Occupation (B&O) taxes on professional services. In addition to funding foundational support allocations to public colleges and universities, this revenue will maintain the legislature's commitment to fully-fund the State Need Grant program (re-named the "Washington College Grant" program) by fiscal year 2021, and will make significant investments in science, technology, engineering and math (STEM) enrollments across all three University campuses.

Following the 2020 legislative session, the state was slated to pass a supplemental budget amending the 2019-21 biennial budget which provided modest additional increases to some programs. However, due to projected decreases in tax revenue as a result of the COVID-19 pandemic, many of these provisos were vetoed by the Governor.

Since then, the pandemic has severely impacted state revenues. The June 2020 revenue forecast projected a nearly $9 billion deficit over the current and upcoming biennia. As a result of this projected deficit, the University was asked to provide to the state Office of Financial Management a response to an exercise modeling a 15% reduction to state operating appropriations to the institution. The September 2020 revenue forecast updated projections in a positive direction, reducing the projected revenue deficit to $4.5 billion over the current and next biennia, $2.4 billion of which is attributed to the current biennium. It is possible that the legislature will convene in late 2020, but more likely that they will do so in early 2021 to explore options for reconciling the state budget for fiscal year 2021 and determining appropriation levels for fiscal years 2022 and 2023.

The University's fiscal year 2021 general operating appropriation from the state (excluding certain amounts appropriated for specific purposes) currently totals nearly $423 million. This amount is an increase from approximately $397 million in 2020 and $368 million in 2019. Recent increases are largely attributable to targeted investments in foundational support and STEM enrollments included in HB 2158. The University also received new appropriations for compensation, medical education, hospital and dental clinic safety net support, and targeted research investments. In light of the modeling exercise noted above, the University currently anticipates that actual appropriations could be less than the current $423 million amount. The University did not implement salary increases for faculty and professional staff consistent with other state agencies, and has already returned over $4 million in state general funding originally provided for that purpose. Further, given the risks identified above relating to state revenue collections, it is possible that this funding amount will be further reduced in a 2021 supplemental budget passed by the legislature in the upcoming session.

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

State funding for capital appropriations continues to be constrained, but the state's 2019-21 biennial capital budget provided state bonding capacity or other funding for several critical capital projects that the University requested for the 2019-21 biennium. These include a health sciences education building, STEM-related buildings across all three campuses, and seismic upgrades. The state also provided significant funding for the University to expand mental health services in the state through a new behavioral health teaching facility. The 2020 supplemental capital budget added funding for pre-design of a multi-phased renovation of the Magnuson Health Sciences Center.

UW MEDICINE

The COVID-19 pandemic continues to evolve and the future impact on UW Medicine's operations and financial position will be driven by many factors, most of which are beyond UW Medicine's control and are difficult to predict. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures, government-imposed or recommended suspensions of non-urgent and elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, and incremental expenses required for supplies and personal protective equipment. While the future impact of COVID-19 is unknown, the pandemic may impact UW Medicine's patient population, cause volatility in future volumes and require additional changes in the delivery of patient care. Because of these factors and other uncertainties, including a potential fall and winter surge, management cannot estimate the length or severity of the impact of the pandemic on UW Medicine's business. UW Medicine continues to focus on reducing expenses and recovering lost revenues through all available sources.

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

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

Destination: One

In July 2018, the University Board of Regents granted approval to proceed with the UW Medicine clinical transformation program, called Destination: One. This multi-year program will allow UW Medicine to improve patient engagement, physician and practitioner experience and is expected 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, of which $129 million will be financed through the University's Internal Lending Program. Destination: One will be fully implemented in January, 2021.

Behavioral Health Teaching Facility at UWMC

During the fiscal year 2019 Washington State legislative session, UW Medicine was awarded new funding to expand behavioral health services. Specifically, the state awarded $33 million for the planning and design work necessary to build a new, first of its kind, Behavioral Health Teaching Facility at UWMC, which will be located on the Northwest Campus. Planning work is currently underway to design the facility using the initial capital funding appropriation in order to receive the second phase of capital funding of $192 million during the fiscal year 2021 legislative session.

OTHER

In December 2019, the UW Finance Transformation (UWFT) program received unanimous approval from the University's Board of Regents to proceed with a broad redesign of finance-related policies and processes, enabled by the implementation of new ERP technology. Workday Financials has been chosen to support the business objectives for this transformation. The University expects three primary areas of program benefit: functional benefits in the form of new and improved system capabilities, cost avoidance of maintaining and upgrading existing systems, and efficiencies in new business processes and organization. This transformation will move the institution toward a single financial system of record, and is a top administrative priority for the University. Total program costs are estimated at $269 million, which includes all operating and capital costs for implementation and one year of stabilization. Go-live for UWFT is expected to be July 1, 2022.

Rising benefit costs, particularly for healthcare and pensions, continue to impact the University. The monthly employer base rate paid by the University for employee healthcare increased 3% during fiscal year 2020, and will be increasing 4% during fiscal year 2021, from $939 to $976 per month per active employee. Likewise, employer pension funding rates for the Public Employees Retirement System (PERS) pension plans increased 1% during fiscal year 2020, and will be increasing another 1% in fiscal year 2021. Both rates are likely to continue increasing over the next few years.

FINANCIAL STATEMENTS & NOTES

STATEMENTS OF NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNIT VALLEY MEDICAL CENTER	
	June 30,		June 30,	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2020**	**2019**	**2020**	**2019**
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS (NOTE 3)	$ 143,195	$ 85,516	$ 114,880	$ 35,373
INVESTMENTS, CURRENT PORTION (NOTE 7)	999,750	616,484	74,035	67,198
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $23,896 and $21,673) (NOTE 6)	824,226	817,762	89,817	86,924
OTHER CURRENT ASSETS	61,868	54,675	31,829	24,246
TOTAL CURRENT ASSETS	2,029,039	1,574,437	310,561	213,741
NONCURRENT ASSETS:				
DEPOSIT WITH STATE OF WASHINGTON (NOTE 4)	78,673	72,843	—	—
INVESTMENTS, NET OF CURRENT PORTION (NOTE 7)	5,570,383	5,375,352	257	545
METROPOLITAN TRACT (NOTE 8)	182,970	168,292	—	—
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF $4,520 and $1,656) (NOTE 5)	48,945	60,737	—	—
OTHER NONCURRENT ASSETS	257,395	221,994	144,978	152,759
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF $5,103,381 and $4,898,154) (NOTE 9)	4,971,660	4,935,336	393,772	385,901
TOTAL NONCURRENT ASSETS	11,110,026	10,834,554	539,007	539,205
TOTAL ASSETS	13,139,065	12,408,991	849,568	752,946
DEFERRED OUTFLOWS OF RESOURCES (NOTE 13)	639,368	414,063	15,112	16,119
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 13,778,433**	**$ 12,823,054**	**$ 864,680**	**$ 769,065**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 963,443	$ 750,853	$ 136,125	$ 124,460
UNEARNED REVENUES	362,911	188,702	82,186	—
OTHER CURRENT LIABILITIES	40,673	85,285	—	—
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 10-12)	161,269	141,368	10,570	10,550
TOTAL CURRENT LIABILITIES	1,528,296	1,166,208	228,881	135,010
NONCURRENT LIABILITIES:				
U.S. GOVERNMENT GRANTS REFUNDABLE	34,790	43,346	—	—
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 10-12)	2,719,287	2,644,445	328,062	338,374
PENSION LIABILITIES (NOTE 16)	1,198,088	1,143,483	—	—
OTHER POST-EMPLOYMENT BENEFITS (NOTE 17)	1,541,654	1,354,177	—	—
TOTAL NONCURRENT LIABILITIES	5,493,819	5,185,451	328,062	338,374
TOTAL LIABILITIES	7,022,115	6,351,659	556,943	473,384
DEFERRED INFLOWS OF RESOURCES (NOTE 13)	834,820	893,069	29,190	23,849
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**7,856,935**	**7,244,728**	**586,133**	**497,233**
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	2,531,666	2,489,083	118,350	102,937
RESTRICTED:				
NONEXPENDABLE	1,938,615	1,877,816	—	—
EXPENDABLE	2,243,384	2,192,163	856	3,525
UNRESTRICTED	(792,167)	(980,736)	159,341	165,370
TOTAL NET POSITION	5,921,498	5,578,326	278,547	271,832
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 13,778,433**	**$ 12,823,054**	**$ 864,680**	**$ 769,065**

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,		DISCRETE COMPONENT UNIT VALLEY MEDICAL CENTER Year ended June 30,	
REVENUES	**2020**	**2019**	**2020**	**2019**
OPERATING REVENUES:				
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $198,769 and $159,390)	$ 1,058,271	$ 1,052,222	$ —	$ —
NET PATIENT SERVICE REVENUES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $17,238 and $29,140)	2,092,975	2,135,733	639,971	622,824
FEDERAL GRANTS AND CONTRACTS	1,081,880	1,041,103	—	—
STATE AND LOCAL GRANTS AND CONTRACTS	132,119	115,969	—	—
NONGOVERNMENTAL GRANTS AND CONTRACTS	277,624	268,449	—	—
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	283,159	260,176	—	—
AUXILIARY ENTERPRISES:				
HOUSING AND FOOD SERVICES	114,726	152,965	—	—
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $8,143 and $8,014)	91,535	93,304	—	—
OTHER AUXILIARY ENTERPRISES	213,887	236,906	—	—
OTHER OPERATING REVENUE	165,275	128,391	67,063	55,033
TOTAL OPERATING REVENUES	**5,511,451**	**5,485,218**	**707,034**	**677,857**
EXPENSES				
OPERATING EXPENSES (NOTE 14):				
SALARIES	2,961,040	2,879,442	381,791	347,820
BENEFITS	920,605	852,888	93,547	84,177
SCHOLARSHIPS AND FELLOWSHIPS	161,972	155,158	—	—
UTILITIES	61,804	67,977	5,563	6,024
SUPPLIES AND MATERIALS	663,676	631,511	108,019	90,764
PURCHASED SERVICES	954,758	884,334	91,190	81,907
DEPRECIATION/AMORTIZATION	388,338	372,435	33,366	37,202
OTHER	239,361	220,485	33,495	33,429
TOTAL OPERATING EXPENSES	**6,351,554**	**6,064,230**	**746,971**	**681,323**
OPERATING LOSS	**(840,103)**	**(579,012)**	**(39,937)**	**(3,466)**
NONOPERATING REVENUES (EXPENSES)				
STATE APPROPRIATIONS	415,030	378,656	—	—
GIFTS	219,542	165,831	—	—
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $7,964 and $8,700)	207,993	339,878	8,786	7,787
INTEREST ON CAPITAL ASSET-RELATED DEBT	(92,739)	(88,498)	(13,961)	(14,853)
PELL GRANT REVENUE	51,719	51,790	—	—
PROPERTY TAX REVENUE	—	—	24,003	23,258
OTHER NONOPERATING REVENUES (EXPENSES)	114,118	8,363	27,824	(689)
NET NONOPERATING REVENUES	**915,663**	**856,020**	**46,652**	**15,503**
INCOME BEFORE OTHER REVENUES	**75,560**	**277,008**	**6,715**	**12,037**
CAPITAL APPROPRIATIONS	23,098	24,797	—	—
CAPITAL GRANTS, GIFTS AND OTHER	179,089	44,260	—	—
GIFTS TO PERMANENT ENDOWMENTS	65,425	135,484	—	—
TOTAL OTHER REVENUES	**267,612**	**204,541**	**—**	**—**
INCREASE IN NET POSITION	**343,172**	**481,549**	**6,715**	**12,037**
NET POSITION				
NET POSITION – BEGINNING OF YEAR (NOTE 1)	5,578,326	5,096,777	271,832	259,795
NET POSITION – END OF YEAR	**$ 5,921,498**	**$ 5,578,326**	**$ 278,547**	**$ 271,832**

See accompanying notes to financial statements

Dollars in thousands

STATEMENTS OF CASH FLOWS

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	**2020**	**2019**
STUDENT TUITION AND FEES	$ 1,013,436	$ 1,007,157
PATIENT SERVICES	2,105,973	2,097,521
GRANTS AND CONTRACTS	1,517,392	1,454,338
PAYMENTS TO SUPPLIERS	(675,574)	(661,940)
PAYMENTS FOR UTILITIES	(63,570)	(69,370)
PURCHASED SERVICES	(955,809)	(903,559)
OTHER OPERATING DISBURSEMENTS	(239,510)	(220,428)
PAYMENTS TO EMPLOYEES	(2,960,222)	(2,870,989)
PAYMENTS FOR BENEFITS	(850,441)	(858,285)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(161,972)	(155,158)
LOANS ISSUED TO STUDENTS	(3,805)	(16,009)
COLLECTION OF LOANS TO STUDENTS	15,597	16,624
AUXILIARY ENTERPRISE RECEIPTS	413,271	482,011
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	267,153	248,804
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	959,743	902,277
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(960,398)	(920,315)
OTHER RECEIPTS	257,236	109,276
NET CASH USED BY OPERATING ACTIVITIES	**(321,500)**	**(358,045)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	429,393	360,803
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	51,719	51,790
PRIVATE GIFTS	165,422	130,496
PERMANENT ENDOWMENT RECEIPTS	65,425	135,484
DIRECT LENDING RECEIPTS	234,139	236,348
DIRECT LENDING DISBURSEMENTS	(219,568)	(233,837)
FEDERAL STIMULUS FUNDING	124,575	—
OTHER	26,740	8,897
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**877,845**	**689,981**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	172,136	184,003
STATE CAPITAL APPROPRIATIONS	20,346	23,704
CAPITAL GRANTS AND GIFTS RECEIVED	179,001	38,068
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(406,338)	(314,652)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(151,988)	(225,447)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(91,221)	(89,443)
OTHER	(4,294)	(2,885)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(282,358)**	**(386,652)**

CASH FLOWS FROM INVESTING ACTIVITIES	UNIVERSITY OF WASHINGTON Year Ended June 30, 2020	2019
PROCEEDS FROM SALES OF INVESTMENTS	8,853,263	11,323,460
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(9,157,311)	(11,425,292)
INVESTMENT INCOME	87,740	97,928
NET CASH USED BY INVESTING ACTIVITIES	**(216,308)**	**(3,904)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57,679	(58,620)
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	85,516	144,136
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 143,195**	**$ 85,516**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (840,103)	$ (579,012)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	388,338	372,435
CHANGES IN ASSETS, LIABILITIES AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:		
RECEIVABLES	23,017	(31,151)
OTHER ASSETS	(42,594)	(28,711)
PENSION AND OPEB RELATED DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES	(284,066)	202,777
PENSION LIABILITIES	54,605	(41,368)
OPEB LIABILITY	187,477	(211,036)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1,983	(48,309)
UNEARNED REVENUE	142,319	625
OTHER LONG-TERM LIABILITIES	44,288	5,090
U.S. GOVERNMENTAL GRANTS REFUNDABLE	(8,556)	(2,189)
LOANS TO STUDENTS	11,792	2,804
NET CASH USED BY OPERATING ACTIVITIES	**(321,500)**	**(358,045)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
STOCK GIFTS	51,481	36,844
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	25,062	24,231
NET UNREALIZED (LOSSES) GAINS	(82,418)	41,208
EXTERNALLY MANAGED TRUSTS	7,257	8,109
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ 1,382**	**$ 110,392**

See accompanying notes to financial statements

Dollars in thousands

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

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

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

Harborview Medical Center (HMC), a component unit of King County, Washington, is a related party to the University, but is not reflected as part of the financial reporting entity (see note 15).

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

CHANGE IN REPORTING ENTITY

On Feb. 8, 2018 the University's Board of Regents approved the dissolution of Northwest Hospital & Medical Center (NWH), a Washington non-profit corporation, and integration of NWH and UWMC. The integration occurred on January 1, 2020, at which time NWH ceased operations and the University accepted the assets, liabilities, and remaining operations of the corporate entity. At the time of the integration, Northwest Hospital became the Northwest Campus of UWMC and ceased to be a blended component unit of the University. The integration was accounted for as a government merger and, as such, will be reflected in the University's consolidated financial statements as if the merger had occurred on July 1, 2019.

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

The Association of University Physicians dba UW Physicians (UWP)

UWP is a Washington nonprofit corporation formed in 1983 for the exclusive benefit of the University of Washington School of Medicine (SOM). UWP employs SOM faculty and bills and collects for their clinical services as an agent for SOM. UWP had operating revenues of $354.8 million and $309.7 million for the years ended June 30, 2020 and 2019, respectively.

UW Medicine Neighborhood Clinics (Neighborhood Clinics)

Neighborhood Clinics is a Washington nonprofit corporation formed in 1996 exclusively for charitable, scientific and educational purposes for the benefit of SOM, UWP and its affiliated medical centers, HMC and UWMC. Neighborhood Clinics was organized to coordinate and develop patient care in a community clinical setting. Neighborhood Clinics enhances the academic environment of SOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of $31.1 million and $32.0 million for the years ended June 30, 2020 and 2019, respectively.

REAL ESTATE ENTITIES

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

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

As of June 30, 2020 and 2019, these entities had net capital assets of $335.6 million and $348.5 million, respectively, and long-term debt of $338.1 million and $354.5 million, respectively. These amounts are reflected in the University's financial statements.

DISCRETELY PRESENTED COMPONENT UNIT

Valley Medical Center

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

JOINT VENTURES

The University, together with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center, are members of the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA holds a one-third interest in the joint venture. The University accounts for its interest in the SCCA under the equity method of accounting. As of June 30, 2020 and 2019, the University's investment in the SCCA totaled $208.4 million and $183.4 million, respectively. The University's investment in the SCCA is included in other noncurrent assets in its Statements of Net Position. The University reported investment income of $25.1 million and $24.2 million for its share of the joint venture for the years ended June 30, 2020 and 2019, respectively.

The University and Seattle Children's Hospital established Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care and charitable, educational and scientific missions. CUMG employs SOM faculty physicians, and bills and collects for their services as an agent for SOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (see note 6) as of June 30, 2020 and 2019 includes amounts due from CUMG of $17.8 million and $16.6 million, respectively.

In October 2018, the University became an equity member in PNWCIN, LLC dba Embright (Embright), a Limited Liability Company that was created in 2018. Embright is jointly owned by the University, MultiCare Health System and LifePoint Health. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the members to partner together to further the Triple Aim of improving the patient care experience and improving the health of populations while reducing costs. Together, the members represent 14 hospitals, more than 6,500 providers and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols, care pathways, standardized processes and care management services for complex patients. As of June 30, 2020 and 2019, the University's ownership interest in Embright totaled $1.8 million and $1.0 million, respectively. The University's ownership interest in Embright is recorded in other noncurrent assets in the University's Statements of Net Position.

BASIS OF ACCOUNTING

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

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

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

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

ACCOUNTING STANDARDS IMPACTING THE FUTURE

In May 2020, the GASB issued Statement No. 95, *"Postponement of the Effective Dates of Certain Authoritative Guidance,"* which was effective upon issuance. This Statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018. As a result, the University will postpone implementation of Statements No. 84, No. 87 and No. 89.

In January 2017, the GASB issued Statement No. 84, *"Fiduciary Activities,"* which will be effective for the fiscal year ending June 30, 2021, as amended by the issuance of Statement No. 95. This Statement establishes criteria for identifying and reporting fiduciary activities of all state and local governments. Governments with activities meeting the criteria are required to present a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Custodial assets held for three months or less are exempt from the reporting requirements. The University will be required to report fiduciary activities that do not meet the exception criteria, primarily consisting of funds invested by other agencies and organizations in the Consolidated Endowment Fund.

In June 2017, the GASB issued Statement No. 87, *"Leases,"* which will be effective for the fiscal year ending June 30, 2022, as amended by the issuance of Statement No. 95. 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 (ROU) lease asset, and lessors will be required to recognize a lease receivable and a deferred inflow of resources. The University expects that implementation of this Statement will have a material impact on its financial statements. While the University continues to assess all of the impacts of implementation, it currently believes the most significant impact relates to the recognition of new ROU assets and lease liabilities on its Statements of Net Position for its real estate and equipment leases. At the time of implementation, the University currently expects to recognize lease liabilities with corresponding ROU assets in the range of $600 million to $700 million. The University also expects to recognize lease receivables with corresponding deferred inflows of resources of approximately $275 million related to real estate agreements in which it is the lessor. The substantial majority of the approximately $275 million expected to be recognized for the University's lessor agreements relate to the University of Washington Metropolitan Tract (Metropolitan Tract). The estimates above are based on the University's existing lease agreements and its currently estimated incremental borrowing rate. The actual impact could differ materially from these estimates based on future leasing activities as well as any changes in the University's estimated incremental borrowing rate.

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, 2022, as amended by the issuance of Statement No. 95. 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 $7.0 million of additional interest expense being recognized annually.

In May 2019, the GASB issued Statement No. 91, *"Conduit Debt Obligations,"* which will be effective for the fiscal year ending June 30, 2022. This Statement provides a single method for reporting conduit debt obligations of issuers. The Statement clarifies the existing definition of a conduit debt obligation, creates standards for accounting for commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improves related financial statement disclosures. The Statement provides guidance for arrangements when capital assets are acquired with proceeds of conduit debt obligations used by a third party that is obligated to pay the debt service. The University has not issued conduit debt; therefore, implementation of this Statement will have no impact on the University's financial statements.

In January 2020, the GASB issued Statement No. 92, *"Omnibus 2020,"* which primarily will be effective for the fiscal year ending June 30, 2021. This Statement addresses a variety of topics, including specific provisions related to leases, certain intra-entity transfers between a primary government and a component unit's post-retirement benefit plan, reporting of post-employment plan assets accumulated outside of a qualified trust, certain requirements related to fiduciary activities' post-employment benefit arrangements, measurement of asset retirement obligations resulting from a government acquisition, public entity risk pools, fair value measurements, and derivative instrument terminology. While the University continues to assess the impact of implementation of this Statement, it does not currently expect implementation to have a material impact on the its financial statements.

In March 2020, the GASB issued Statement No. 93, *"Replacement of Interbank Offered Rates,"* which will be effective for the fiscal year ending June 30, 2022, as amended by Statement No. 95. This Statement addresses accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate. While the University continues to assess the impact of implementation of this Statement, it does not currently expect it to have a material impact on the University's financial statements.

In March 2020, the GASB issued Statement No. 94, *"Public-Private and Public-Public Partnerships and Availability Payment Arrangements,"* which will be effective for the fiscal year ending June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). APAs are agreements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The University is currently assessing the impact of implementation of this Statement on its financial statements.

In May 2020, the GASB issued Statement No. 96, *"Subscription-Based Information Technology Arrangements,"* which will be effective for the fiscal year ending June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement defines an SBITA, establishes that an SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of an SBITA), and requires note disclosures regarding an SBITA. The University is currently assessing the impact of implementation of this Statement on its financial statements.

In June 2020, the GASB issued Statement No. 97, *"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*." Some requirements of the statement related to defined contribution post-employment benefit plans and fiduciary defined benefit post-employment benefit plans are effective immediately. Management has concluded that these requirements have no material impact on the University. The remaining requirements are effective for the fiscal year ending June 30, 2022. This statement provides guidance intended to increase consistency and comparability related to reporting of fiduciary component units in situations where a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform. The Statement also intends to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements. Lastly, the Statement seeks to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan, and for benefits provided through those plans. While the University continues to assess the impact of implementation of this Statement, it does not currently expect implementation to have a material impact on the its financial statements.

USE OF ESTIMATES

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

The University estimates the pollution remediation liability (see remediation liabilities, note 10) by reviewing the current status of known polluted sites and developing estimates of cleanup costs. These estimates are subject to change due to improvements in technology, inflation, changes in the scope of work, and the pursuit of reimbursement from other responsible parties.

Allowances (see notes 5 and 6) are estimates based on the historical experience of the University and current economic circumstances with respect to the collectability of accounts and loans receivable.

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

The self-insurance reserve (see note 18) is estimated through an externally prepared actuarial calculation using individual case-basis valuations and statistical analyses. Considerable variability is inherent in such estimates.

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 net asset value estimates used as a practical expedient reported to the University by investment fund managers.

OTHER ACCOUNTING POLICIES

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

Investments under long-term strategies are considered noncurrent. Short-term investments consist primarily of cash equivalents and fixed income vehicles which management has identified as available to meet the day-to-day obligations of the University. Cash equivalents included in short-term investments is excluded from the beginning and ending cash amounts on the statements of cash flows.

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

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

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

Interest incurred on capital asset-related debt was $94.2 million and $91.7 million for the years ended June 30, 2020 and 2019, respectively. The University capitalized $1.5 million and $3.2 million of this cost for the years ended June 30, 2020 and 2019, respectively.

Unearned Revenues. Unearned revenues occur when funds have been collected in advance of when the associated goods or services have been provided, such as advance ticket sales, summer quarter tuition, unspent cash advances on certain grants and advance Medicare payments as described in note 2.

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

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

Single Employer Pension Plan (UW Supplemental Retirement Plan). The total pension liability is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. The discount rate used is the yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average credit rating of AA/Aa or higher. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. The measurement date for the total pension liability is the same as the Statements of Net Position date. Legislation passed by the state of Washington and effective beginning in fiscal year 2021 established a funding policy intended to pre-fund retiree benefits, and trust accounts that will be used to accumulate contributions and investment returns. Under this new structure the Supplemental Retirement Plan will report under GASB Statement No. 67/68, which will include setting a discount rate consistent with the expected long-term rate of return on plan assets, and applying the market value of the trust assets against the total pension liability.

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

Split-Interest Agreements. Under such agreements, donors make gifts to the University but the University is not the sole beneficiary and receives either a lead interest (distributions during the term of the agreement) or a remainder interest (distribution of assets remaining at the end of the agreement). Charitable trusts, charitable gift annuities, pooled income funds and beneficial interests in charitable trusts are examples of split-interest gifts. Where the University holds a remainder interest in a trust that is also administered by the University, an asset related to these agreements is recorded at fair market value, a deferred inflow is recorded for the remainder value, and a liability is recorded equal to the present value of expected future distributions to the income beneficiaries. The liability is calculated using discount rates ranging from 3.4% to

7.5%. Additionally, donors have established and funded trusts which are administered by organizations other than the University. Under the terms of these trusts, the University has the irrevocable right to receive all or a portion of the income earned on the trust assets in perpetuity. The University does not control the assets held by the outside trusts but recognizes an interest in the trusts, based on the fair value of the assets contributed to the trusts, mostly as permanently restricted contributions. Fluctuation in the fair value of these assets are recorded annually as revenue and impact restricted nonexpendable net position.

Compensated Absences. University employees accrue annual leave at rates based on length of service, and for sick leave at the rate of one day per month. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal compensation rate for any balance that exceeds 480 hours, or for any balance upon retirement or death. Annual leave accrued at June 30, 2020 and 2019 was $170.2 million and $132.5 million, respectively, and is included in accounts payable and accrued liabilities in the University's Statements of Net Position. Sick leave accrued at June 30, 2020 and 2019 was $54.7 million and $51.3 million, respectively, and is included in long-term liabilities (see note 10) in the University's Statements of Net Position.

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

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

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

For more information about net patient service revenue, see the audited financial statements of the UW Medicine Clinical Enterprise - UW Division, which are contained in the latest Bondholders Report at finance.uw.edu/treasury/bondholders/other-investor-material.

Financial Assistance. Financial assistance provides patient care without charge to patients who meet certain criteria under the financial assistance policy. Records are maintained to identify and monitor the level of financial assistance provided. These records include charges foregone for services and supplies furnished under the financial assistance policy to the uninsured and the underinsured. Collection of these amounts is not pursued and, as such, they are not reported as net patient service revenue. The cost of financial assistance provided is calculated based on the aggregate relationship of costs to charges. The estimated cost of financial assistance provided during the years ended June 30, 2020 and 2019 was $22.9 million and $21.9 million, respectively.

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

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

Net position. The University's net position is classified as follows:

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

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

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

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

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

Reclassifications. Certain amounts in the 2019 financial statement footnotes have have been reclassified for comparative purposes to conform to the presentation in the 2020 financial statements.

NOTE 2:

COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) to be a pandemic. The COVID-19 pandemic has had widespread, rapidly evolving, and unpredictable impacts on societal and economic conditions at a local, national, and global level and has had a significant impact on the University's operations. The Federal Government and the state of Washington have implemented measures in an effort to contain the virus, including social distancing, travel restrictions, border closures, and limitations on public gatherings. In February 2020, the Governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address COVID-19 and in March 2020, mandated the postponement of all non-urgent and elective medical procedures. Elective and non-urgent medical procedures were later resumed in May 2020. In March 2020, the University announced that instruction would be offered remotely throughout spring quarter.

In response to financial pressures brought on by the pandemic, the Federal Government and the state of Washington have provided additional sources of liquidity to institutions of higher education and healthcare providers. During the year ended June 30, 2020, the University received funds from the following sources as part of that response:

- *Medicare Advance Payment Program.* In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, the Centers for Medicare & Medicaid Services (CMS) temporarily expanded its Accelerated and Advance Payment Program. Inpatient acute care hospitals, children's hospitals, and certain cancer hospitals were able to request up to 100% of their Medicare payment amount for a six-month period. Amounts received by the University in April and May of 2020 under the Medicare Advance Payment Program constitute six months of advance Medicare payments that will be recovered by Medicare by offsetting paid claims until the full amount is recouped. As of June 30, 2020, recoveries by Medicare were set to commence 120 days after the date of the original advance. On September 30, 2020, this timeline was extended such that recoveries are now set to commence one year from the date of the original advance with full repayment to occur no later than twenty-nine months from the date of the original advance.
- *Coronavirus Aid, Relief and Economic Security Act (CARES Act) Provider Relief Fund.* The CARES Act Provider Relief Fund makes funding available to healthcare providers to assist with lost revenues associated with lower volumes and cancelled procedures and services due to COVID-19. Subsequent to June 30, 2020, the Department of Health and Human Services (HHS) published its Provider Reporting Guidelines. The guidelines include the reporting timing and deadlines and methodology for calculating lost revenues attributable to COVID-19. Since this information could not have been known at June 30, 2020, any change in the estimate of revenue to be recognized will be recorded in future periods. The University is currently assessing the impact of these reporting requirements.
- *Federal Emergency Management Agency (FEMA) Public Assistance Program.* The FEMA Public Assistance Program provides partial funding for costs related to emergency protective measures conducted as a result of the COVID-19 pandemic. Amounts received by the University under the FEMA Public Assistance Program represent expedited funding for estimated costs incurred by the University for the period from January through June 2020. Amounts unearned are currently expected to be recognized by the University as federal grant revenue when the claims are submitted in fiscal year 2021.
- *CARES Act Higher Education Emergency Relief Fund.* The CARES Act Higher Education Emergency Relief Fund makes funding available to colleges and universities to assist eligible students impacted by on-campus financial disruption (student aid) as well as to cover costs associated with significant changes to the delivery of instruction (institutional) due to COVID-19.
- *State Appropriations.* The state of Washington provided emergency funding for the purposes of mitigating the spread of COVID-19 primarily through expanding capacity for COVID-19 testing.
- *CARES Act Paycheck Protection Program.* The CARES Act Paycheck Protection Program is a loan program that allows eligible businesses to apply for a loan of up to 2.5 times the average monthly payroll expense of the business.

The table below summarizes amounts recorded by the University during the year ended June 30, 2020:

(Dollars in thousands)	University of Washington	Discrete Component Unit - Valley Medical Center
MEDICARE ADVANCE PAYMENT PROGRAM (1)	$ 125,300	$ 64,298
CARES ACT PROVIDER RELIEF FUND (2) (5)	65,553	47,929
FEMA PUBLIC ASSISTANCE PROGRAM (1)	31,890	—
CARES ACT HIGHER EDUCATION EMERGENCY RELIEF FUND - STUDENT AID (2)	17,601	
STATE APPROPRIATIONS (3)	7,629	—
CARES ACT PAYCHECK PROTECTION PROGRAM (PPP) (4)	5,293	—
CARES ACT HIGHER EDUCATION EMERGENCY RELIEF FUND - INSTITUTIONAL (2)	4,238	—
TOTAL	**$ 257,504**	**$ 112,227**

(1) Included in “unearned revenues” on the University’s Statements of Net Position

(2) Included in “other nonoperating revenues” on the University’s Statements of Revenues, Expenses and Changes in Net Position

(3) Included in “state appropriations” on the University’s Statements of Revenues, Expenses and Changes in Net Position

(4) Included in “long-term liabilities, net of current portion” on the University’s Statements of Net Position

(5) For the University’s discrete component unit, $30.0 million is included in “other nonoperating revenues” on the University’s Statements of Revenues, Expenses and Changes in Net Position and $17.9 million is included in “unearned revenues” on the University’s Statements of Net Position

The University and its discrete component unit have both elected to defer payment of the employer portion of social security taxes through December 31, 2020, as provided for under the CARES Act. As of June 30, 2020, amounts deferred of $30.7 million and $3.6 million, respectively, were included in long-term liabilities, net of current portion on the University’s Statements of Net Position.

NOTE 3:

Cash and Cash Equivalents

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

NOTE 4:

Deposit with State of Washington

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

NOTE 5:

Student Loans Receivable

As of June 30, 2020 and 2019, net student loans of $48.9 million and $60.7 million, respectively, consist of $34.8 million and $43.3 million, respectively, from federal programs, and $14.1 million and $17.4 million, respectively, from University programs. For the years ended June 30, 2020 and 2019, interest income from student loans was $1.6 million. These unsecured loans are made primarily to students who reside in the state of Washington.

NOTE 6:

Accounts Receivable

The major components of accounts receivable as of June 30, 2020 and 2019 are as follows:

(Dollars in thousands)	2020	2019
NET PATIENT SERVICES	$ 347,394	$ 360,301
GRANTS AND CONTRACTS	189,399	186,498
INVESTMENTS	127,105	86,013
SALES AND SERVICES	62,193	46,188
DUE FROM OTHER AGENCIES	61,196	94,723
STATE APPROPRIATIONS	15,024	26,635
TUITION	14,823	11,735
ROYALTIES	8,071	2,937
OTHER	22,917	24,405
SUBTOTAL	848,122	839,435
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(23,896)	(21,673)
TOTAL	**$ 824,226**	**$ 817,762**

NOTE 7:

Investments

INVESTMENTS – GENERAL

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

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

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

TABLE 1 – INVESTMENTS *(Dollars in thousands)*

INVESTMENTS BY FAIR VALUE LEVEL	2020	Fair Value Measurements Inputs: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 1,043,802	$ 15,660	$ 1,028,142	$ —
U.S. GOVERNMENT AGENCY	396,580	11,151	385,429	—
MORTGAGE BACKED	222,329	—	222,329	—
ASSET BACKED	213,099	—	213,099	—
CORPORATE AND OTHER	506,833	21,025	485,808	—
TOTAL FIXED INCOME SECURITIES	**2,382,643**	**47,836**	**2,334,807**	**—**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	535,298	532,623	2,675	—
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	324	—	—	324
REAL ESTATE	23,677	18,800	—	4,877
OTHER	7,546	—	—	7,546
TOTAL EQUITY SECURITIES	**566,845**	**551,423**	**2,675**	**12,747**
EXTERNALLY MANAGED TRUSTS	**123,539**	**—**	**—**	**123,539**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**3,073,027**	**$ 599,259**	**$ 2,337,482**	**$ 136,286**

INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)	
GLOBAL EQUITY INVESTMENTS	1,527,184
ABSOLUTE RETURN STRATEGY FUNDS	649,895
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	532,244
REAL ASSET FUNDS	147,283
OTHER	70,654
TOTAL INVESTMENTS MEASURED USING NAV	**2,927,260**
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	6,000,287
CASH EQUIVALENTS AT AMORTIZED COST	569,846
TOTAL INVESTMENTS	**$ 6,570,133**

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

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

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)*

2020	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,527,184	$ —	MONTHLY TO ANNUALLY	15-180 days
ABSOLUTE RETURN STRATEGY FUNDS	649,895	13,095	QUARTERLY TO ANNUALLY	30-90 days
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	532,244	370,381	N/A	—
REAL ASSETS FUNDS	147,283	58,753	N/A	—
OTHER	70,654	32,674	QUARTERLY TO ANNUALLY	30-95 days
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,927,260**			
2019	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (if Currently Eligible)**	**Redemption Notice Period**
GLOBAL EQUITY INVESTMENTS	$ 1,495,365	$ 14,523	MONTHLY TO ANNUALLY	15-180 days
ABSOLUTE RETURN STRATEGY FUNDS	651,054	13,190	QUARTERLY TO ANNUALLY	30-90 days
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	451,191	387,288	N/A	—
REAL ASSETS FUNDS	164,931	67,229	N/A	—
OTHER	69,189	38,916	QUARTERLY TO ANNUALLY	30-95 days
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,831,730**			

1. **Global Equity:** This investment category includes public equity investments in separately managed accounts, long-only comingled funds, unconstrained limited partnerships, and passive market indices. As of June 30, 2020 and 2019, approximately 78% and 79%, respectively, of the value of the investments in this category can be redeemed within 90 days. As of June 30, 2020 and 2019, approximately 92% can be redeemed within one year.
2. **Absolute Return:** This category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and/or hedges against market downturns. As of June 30, 2020 and 2019, approximately 83% and 72%, respectively, of the value of the investments in this category can be redeemed within one year.
3. **Private equity and venture capital:** This category includes buyout, venture, and special situations funds. These investments cannot be redeemed at the request of the University. 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 cannot be redeemed at the request of the University. 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.
5. **Other:** This category consists of opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. As of June 30, 2020 and 2019, approximately 25% 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, 2020 and 2019, the Short-term and Intermediate-term Invested Funds Pools totaled $2.1 billion and $1.6 billion, respectively. The Invested Funds Pool also owns units in the Consolidated Endowment Fund (CEF) valued at $625.0 million and $649.0 million at June 30, 2020 and 2019, respectively. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 0.75% in fiscal years 2020 and 2019. University Advancement received 3.0% of the average balances in endowment operating and gift accounts in fiscal years 2020 and 2019. 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.

In February 2019, the Board of Regents approved an amendment to the CEF Investment Policy to reduce the total spending rate from 5.0% to 4.5%. A three-year phased reduction was implemented to cushion the impact on University units starting with a 4.9% spending rate in fiscal year 2020. Quarterly distributions to programs are based on an annual percentage rate of 3.92%, applied to the five-year rolling average of the CEF's market value. Additionally, the policy allows for an administrative fee of 0.98% to support campus-wide fundraising and stewardship activities (0.784%) and to offset the internal cost of managing endowment assets (0.196%). The reduction to 4.5% will be in full effect for fiscal year 2022 and beyond.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value was $5.5 million and $30 thousand at June 30, 2020 and 2019, respectively.

Net appreciation in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of $170.0 million and $169.0 million in fiscal years 2020 and 2019, respectively, from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year include the net appreciation of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the years ended June 30, 2020 and 2019 was $95.0 million and $220.7 million, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2020 and 2019, the University had outstanding commitments to fund alternative investments of $474.9 million and $521.1 million, respectively. These commitments are expected to be called over a multi-year time frame, generally 2-5 years depending on the type of fund. The University believes it has adequate liquidity and funding sources to meet these obligations.

DERIVATIVES

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

Total return swaps involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The notional amount and fair value of investment derivative instruments outstanding as of June 30, 2020 and 2019, categorized by type, are as follows:

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

Notional Amount as of June 30			Fair Value as of June 30			Change in Fair Value		
DESCRIPTION	**2020**	**2019**	**ASSET CLASSIFICATION**	**2020**	**2019**	**INCOME CLASSIFICATION**	**2020**	**2019**
SWAPS FIXED INCOME - LONG	$ —	$113,705	INVESTMENTS	$ —	$113,705	INVESTMENT INCOME	$ —	$ —
SWAPS FIXED INCOME SHORT	—	(113,705)	INVESTMENTS	—	(115,748)	INVESTMENT INCOME	—	(2,043)

As of June 30, 2020 and 2019, the University had outstanding futures contracts with notional amounts totaling $65.1 million and $189.6 million, respectively. As of June 30, 2020 and 2019, accumulated unrealized gains on these contracts totaled $20 thousand and $0.9 million, respectively. These accumulated unrealized gains are included in Investments on the Statements of Net Position. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price.

Credit exposure represents exposure to counterparties relating to financial instruments, where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2020 or 2019. 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 1.99 years and 2.86 years at June 30, 2020 and 2019, respectively.

CREDIT RISK

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

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

Duration and credit risk figures at June 30, 2020 and 2019 exclude $32.3 million and $41.5 million, respectively, of fixed income securities held by component units. These amounts make up 1.36% and 1.79%, respectively, of the University's fixed income investments, and are not included in the duration figures detailed in Table 4.

The composition of fixed income securities at June 30, 2020 and 2019, along with credit quality and effective duration measures, is summarized as follows:

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

2020

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (In years)
U.S. TREASURY SECURITIES	$ 1,028,142	$ —	$ —	$ —	$ 1,028,142	2.25
U.S. GOVERNMENT AGENCY	391,240	—	—	—	391,240	3.02
MORTGAGE BACKED	—	177,087	14,037	31,205	222,329	1.78
ASSET BACKED	—	190,520	3,400	19,179	213,099	1.16
CORPORATE AND OTHER	—	427,629	22,703	45,199	495,531	1.06
TOTAL	**$ 1,419,382**	**$ 795,236**	**$ 40,140**	**$ 95,583**	**$ 2,350,341**	**1.99**

2019

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

*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 of $1.4 billion and $1.5 billion at June 30, 2020 and 2019, respectively.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	2020	2019
CHINESE RENMINBI (CNY)	$ 299,324	$ 270,614
JAPANESE YEN (JPY)	229,546	167,433
EURO (EUR)	150,466	206,129
INDIAN RUPEE (INR)	119,874	160,397
BRITISH POUND (GBP)	96,832	89,330
BRAZIL REAL (BRL)	79,831	88,404
CANADIAN DOLLAR (CAD)	54,539	59,636
SOUTH KOREAN WON (KRW)	53,471	42,714
HONG KONG DOLLAR (HKD)	47,526	41,264
AUSTRALIAN DOLLAR (AUD)	37,665	26,747
SWISS FRANC (CHF)	33,393	35,895
SWEDISH KRONA (SEK)	30,295	43,459
TAIWANESE DOLLAR (TWD)	29,441	30,491
SINGAPORE DOLLAR (SGD)	24,635	20,055
RUSSIAN RUBLE (RUB)	18,141	27,666
SOUTH AFRICAN RAND (ZAR)	14,154	12,421
REMAINING CURRENCIES	92,478	170,172
TOTAL	**$ 1,411,611**	**$ 1,492,827**

NOTE 8:

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.

Deed restrictions and subsequent Washington State legislation govern the University's authority over the Metropolitan Tract. The original land deeds require that proceeds from a sale of Metropolitan Tract property be used to purchase land and improve or erect buildings. Any remaining funds are to be invested and the income derived is to be used for maintenance of University property. The state legislature enacted further restrictions over the past 160 years requiring legislative approval for the sale of real property on the Metropolitan Tract, and for leases of land or buildings with terms exceeding eighty years. Proceeds from an authorized sale must be deposited in the University's accounts established by the state treasury and used exclusively for construction, maintenance, or alterations to University buildings or debt service related to these activities.

The balances included on the Statements of Net Position as of June 30, 2020 and 2019 of $183.0 million and $168.3 million, respectively, represent the asset value net of operating liabilities and long-term debt on the property. The asset value is comprised primarily of land, buildings, building improvements and operating assets.

As of June 30, 2020 and 2019, total debt outstanding on the Metropolitan Tract was $29.8 million and $30.6 million, respectively. This debt will be repaid by income generated from the properties. The debt was issued in 2015 to refund commercial paper and to acquire the leasehold on the Cobb Building. These amounts are reflected in the balances for Metropolitan Tract on the Statements of Net Position, and are therefore not included in Note 10 or Note 12.

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

On October 10, 2019, the University signed an additional ground lease with the same developer on the Rainier Square block authorizing the construction of an 11-story office building (400 University Building). The 400 University Building lease commenced on January 1, 2020 for a seventy-eight year term, requires completion of the building in three years, is unsubordinated, and provides minimum ground rent during construction and 10% of adjusted gross revenue to the University thereafter. Construction commenced in June 2020 and completion is scheduled for July 2021.

NOTE 9:

Capital Assets

Capital asset activity for the years ended June 30, 2020 and 2019 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2018	Additions/ Transfers	Retirements	Balance as of June 30, 2019	Additions/ Transfers	Retirements	Balance as of June 30, 2020
LAND	$ 144,624	$ 1,694	$ —	$ 146,318	$ (227)	$ 2,854	$ 143,237
INFRASTRUCTURE	311,298	3,139	51	314,386	602	401	314,587
BUILDINGS	6,435,449	628,548	33,611	7,030,386	97,261	11,115	7,116,532
FURNITURE, FIXTURES AND EQUIPMENT	1,516,320	101,004	56,461	1,560,863	45,786	174,948	1,431,701
LIBRARY MATERIALS	376,755	16,656	2,060	391,351	14,808	2,143	404,016
CAPITALIZED COLLECTIONS	7,365	313	—	7,678	(67)	—	7,611
INTANGIBLE ASSETS	220,688	2,505	7,761	215,432	7,014	140	222,306
CONSTRUCTION IN PROGRESS	566,788	(430,200)	4,255	132,333	230,974	6,452	356,855
INTANGIBLES IN PROCESS	7,497	27,246	—	34,743	43,453	—	78,196
TOTAL COST	**9,586,784**	**350,905**	**104,199**	**9,833,490**	**439,604**	**198,053**	**10,075,041**
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION:							
INFRASTRUCTURE	129,209	8,400	—	137,609	8,338	392	145,555
BUILDINGS	2,816,487	239,383	26,330	3,029,540	275,487	9,641	3,295,386
FURNITURE, FIXTURES AND EQUIPMENT	1,251,441	105,014	53,419	1,303,036	72,617	171,337	1,204,316
LIBRARY MATERIALS	285,790	12,559	1,585	296,764	13,423	1,671	308,516
INTANGIBLE ASSETS	124,126	7,079	—	131,205	18,473	70	149,608
TOTAL ACCUMULATED DEPRECIATION/ AMORTIZATION	**4,607,053**	**372,435**	**81,334**	**4,898,154**	**388,338**	**183,111**	**5,103,381**
CAPITAL ASSETS, NET	**$ 4,979,731**	**$ (21,530)**	**$ 22,865**	**$ 4,935,336**	**$ 51,266**	**$ 14,942**	**$ 4,971,660**

NOTE 10:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

Long-term liability activity for the years ended June 30, 2020 and 2019 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2018	Additions	Reductions	Balance as of June 30, 2019	Additions	Reductions	Balance as of June 30, 2020	Current portion as of June 30, 2019	Current portion as of June 30, 2020
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 12)	$ 95,309	$ —	$ 13,919	$ 81,390	$ 12,410	$ 24,215	$ 69,585	$ 10,275	$ 10,685
REVENUE BONDS PAYABLE (NOTE 12)	2,168,865	100,000	61,375	2,207,490	102,000	63,015	2,246,475	63,014	70,000
UNAMORTIZED PREMIUM ON BONDS	162,898	8,132	17,288	153,742	14,673	17,130	151,285	16,515	16,001
TOTAL BONDS PAYABLE	**2,427,072**	**108,132**	**92,582**	**2,442,622**	**129,083**	**104,360**	**2,467,345**	**89,804**	**96,686**
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER -CAPITAL ASSET RELATED (NOTE 12)	27,556	15,870	5,413	38,013	28,053	5,428	60,638	5,428	10,965
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 12)	1,431	153	90	1,494	114	100	1,508	1,458	1,508
CAPITAL LEASE OBLIGATIONS (NOTE 11)	10,102	—	2,451	7,651	—	2,200	5,451	2,214	1,964
TOTAL NOTES PAYABLE AND CAPITAL LEASES	**39,089**	**16,023**	**7,954**	**47,158**	**28,167**	**7,728**	**67,597**	**9,100**	**14,437**
OTHER LONG-TERM LIABILITIES:									
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	57,185	6,290	5,839	57,636	3,301	5,978	54,959	5,840	5,978
SOCIAL SECURITY TAXES (NOTE 2)	—	—	—	—	30,683	—	30,683	—	—
REMEDIATION LIABILITIES (NOTE 1)	21,000	12,153	—	33,153	632	—	33,785	900	—
HMC ITS FUNDING (NOTE 15)	29,719	—	5,897	23,822	447	—	24,269	11,100	9,600
SICK LEAVE (NOTE 1)	49,635	5,151	3,514	51,272	18,251	14,834	54,689	3,358	9,174
SELF-INSURANCE (NOTE 18)	112,210	22,178	34,225	100,163	41,339	16,421	125,081	21,266	25,323
OTHER NONCURRENT LIABILITIES	21,194	8,793	—	29,987	5,858	13,697	22,148	—	71
TOTAL OTHER LONG-TERM LIABILITIES	**290,943**	**54,565**	**49,475**	**296,033**	**100,511**	**50,930**	**345,614**	**42,464**	**50,146**
TOTAL LONG-TERM LIABILITIES	**$2,757,104**	**$ 178,720**	**$ 150,011**	**$2,785,813**	**$ 257,761**	**$ 163,018**	**$2,880,556**	**$ 141,368**	**$ 161,269**

DISCRETE COMPONENT UNIT

Long-term liability activity for the years ended June 30, 2020 and 2019 is summarized as follows:

	Balance as of July 1, 2018	Additions	Reductions	Balance as of June 30, 2019	Additions	Reductions	Balance as of June 30, 2020	Current portion as of June 30, 2019	Current portion as of June 30, 2020
VALLEY MEDICAL CENTER *(Dollars in thousands)*									
LIMITED TAX GENERAL OBLIGATION BONDS	$ 229,850	$ 111,580	$ 10,235	$ 331,195	$ 6,680	$ 10,698	$ 327,177	$ 8,350	$ 10,271
REVENUE BONDS	12,593	—	1,820	10,773	—	10,773	—	1,960	—
BUILD AMERICA BONDS	61,155	—	61,155	—	—	—	—		—
NOTES PAYABLE & OTHER	5,872	1,402	318	6,956	4,781	282	11,455	240	299
TOTAL LONG-TERM LIABILITIES	**$ 309,470**	**$ 112,982**	**$ 73,528**	**$ 348,924**	**$ 11,461**	**$ 21,753**	**$ 338,632**	**$ 10,550**	**$ 10,570**

NOTE 11:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments as of June 30, 2020, are as follows:

CAPITAL LEASES

Year *(Dollars in thousands)*		**Future Payments**
2021	$	2,133
2022		1,896
2023		1,494
2024		120
TOTAL MINIMUM LEASE PAYMENTS		5,643
LESS: AMOUNT REPRESENTING INTEREST COSTS		192
PRESENT VALUE OF MINIMUM PAYMENTS	**$**	**5,451**

OPERATING LEASES

The University has entered into certain lease agreements that are considered to be operating leases, primarily for leased building space. For the years ended June 30, 2020 and 2019, the University recorded rent expense of $94.6 million and $89.9 million, respectively, for these leases.

Future lease payments as of June 30, 2020 are as follows:

Year *(Dollars in Thousands)*		
2021	$	83,471
2022		71,986
2023		67,280
2024		53,935
2025		50,066
2026-2030		123,444
2031-2035		83,776
2036-2040		95,392
2041-2045		110,427
2046-2050		127,840
2051-2055		148,001
2056-2060		171,255
2061-2065		113,994
TOTAL MINIMUM LEASE PAYMENTS	**$**	**1,300,867**

NOTE 12:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2020 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 1.31% to 8.00%. As of

June 30, 2020, substantially all of the University's debt was public debt. Amounts from direct borrowings and direct placements were not material. Debt service requirements as of June 30, 2020 are 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**
2021	$ 10,685	$ 3,060	$ 70,000	$ 104,725	$ 12,473	$ 908
2022	11,675	2,729	73,125	101,474	9,392	743
2023	11,720	2,142	72,880	101,050	7,828	597
2024	12,230	1,542	72,585	97,746	7,885	514
2025	9,330	1,006	75,815	94,204	7,536	428
2026-2030	13,945	1,018	403,050	413,630	14,926	1,178
2031-2035	—	—	400,805	317,324	1,859	117
2036-2040	—	—	477,800	213,362	247	18
2041-2045	—	—	429,105	96,049	—	—
2046-2050	—	—	171,310	29,913	—	—
TOTAL PAYMENTS	**$ 69,585**	**$ 11,497**	**$ 2,246,475**	**$ 1,569,477**	**$ 62,146**	**$ 4,503**

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 March 17, 2020, the University issued $102.0 million in General Revenue Bonds, 2020A&B, at a premium of $12.8 million. The proceeds were used to fund various projects such as the UW Medicine clinical transformation program ("Destination: One"), as well as construction of the Childbirth Center at UW Medical Center Northwest Campus and renovation of Kincaid Hall. Some of the proceeds were also used to pay off $40.0 million in commercial paper. The 2020A&B bonds have coupon rates ranging from 1.31% to 5.00% with an average coupon rate of 3.63%.

On February 27, 2020, the University entered into a Delayed Delivery Bond Purchase Agreement with BofA Securities, Inc. (the "Purchase Agreement") in relation to the sale of General Revenue Bonds, 2020C. In accordance with the Purchase Agreement, this transaction will be completed and the bonds delivered to the buyer on February 9, 2021 subject to certain standard closing conditions, some of which are out of the University's control. The 2020C bonds have a par value of $117.8 million and were issued at a premium of $26.4 million. The proceeds of the 2020C bonds will be used to refund existing debt. The 2020C bonds have a coupon rate of 5.00%. The average life of the 2020 A,B&C bonds is 13.9 years with final maturity on April 1, 2050.

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

COMMERCIAL PAPER PROGRAM

The University has a commercial paper program with a maximum borrowing limit of $250.0 million, payable from University general revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2019, the University had $25.0 million, in outstanding commercial paper. The University had no outstanding commercial paper as of June 30, 2020.

During fiscal year 2020, the University issued $15.0 million of commercial paper debt. The University refunded $40.0 million of commercial paper debt with General Revenue Bonds, series 2020A&B during the same period.

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

SUBSEQUENT DEBT ACTIVITY

On August 13, 2020, the University entered into a Revolving Loan Agreement with Washington Federal Bank, National Association which provides a revolving loan through August 1, 2023, for up to $100 million to be used for providing additional liquidity and short-term emergency support for COVID-19 impacts. Taxable borrowings under the agreement bear interest at 2.21%; tax-exempt borrowings bear interest at 1.75%. Amounts borrowed under the agreement are payable solely from and secured by a pledge of the University's general revenues.

On August 13, 2020, the University entered into a Revolving Credit Agreement with U.S. Bank National Association which provides a revolving line of credit through August 12, 2022, for up to $100 million to be used for providing additional liquidity and short-term emergency support for COVID-19 impacts. Borrowings for tax-exempt projects under the agreement bear interest at a fluctuating rate equal to 84% of the daily one-month LIBOR rate plus a margin of 1.22%; borrowings for taxable projects bear interest at a fluctuating rate equal to the daily one-month LIBOR rate plus a margin of 1.45%. The margins are subject to change depending on the University's credit rating. Amounts borrowed under the agreement are payable solely from and secured by a pledge of the University's general revenues.

The University made no draws and had no outstanding cash borrowings with respect to either of these agreements as of the financial statements issuance date.

CREDIT LINE

As of June 30, 2020 and 2019, the University had a master financing agreement with JPMorgan Chase Bank to serve as a non-revolving credit line (LOC) for the financing of short-term assets, including personal property, to be drawn on from time to time in an aggregate amount not to exceed $30.0 million. Outstanding borrowings on the credit line as of June 30, 2020 and 2019 totaled $25.0 million and $5.1 million, respectively.

NOTE 13:

Deferred Outflows and Deferred Inflows of Resources

The composition of deferred outflows and deferred inflows of resources as of June 30, 2020 and 2019 are summarized as follows:

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

2020	Pensions	OPEB	Split-Interest Agreements	Other	Total
DEFERRED OUTFLOWS OF RESOURCES	$ 450,491	$ 157,383	$ —	$ 31,494	$ 639,368
DEFERRED INFLOWS OF RESOURCES	321,859	469,116	43,845	—	834,820
2019	**Pensions**	**OPEB**	**Split-Interest Agreements**	**Other**	**Total**
DEFERRED OUTFLOWS OF RESOURCES	$ 310,096	$ 72,092	$ —	$ 31,875	$ 414,063
DEFERRED INFLOWS OF RESOURCES	311,507	535,079	46,483	—	893,069

NOTE 14:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2020 and 2019 are summarized as follows:

OPERATING EXPENSES *(Dollars in thousands)*	**2020**	**2019**
INSTRUCTION	$ 1,361,466	$ 1,320,209
RESEARCH	795,899	748,976
PUBLIC SERVICE	77,326	65,741
ACADEMIC SUPPORT	542,180	540,359
STUDENT SERVICES	55,446	54,351
INSTITUTIONAL SUPPORT	267,813	225,471
OPERATION & MAINTENANCE OF PLANT	280,683	252,024
SCHOLARSHIPS & FELLOWSHIPS	161,972	155,158
AUXILIARY ENTERPRISES	589,895	553,511
MEDICAL-RELATED	1,830,536	1,775,995
DEPRECIATION/AMORTIZATION	388,338	372,435
TOTAL OPERATING EXPENSES	**$ 6,351,554**	**$ 6,064,230**

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. Expenditure of amounts received from the Washington College Grant, Washington Higher Education Grant, and Pell grants are reflected in this manner. Financial aid funded from existing University resources are considered scholarship allowances, which are reflected as an offset to tuition revenues.

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, UW Medicine Shared Services, Commuter Services and Housing and Food Services departments, among others, 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. The activities of UWMC, UWP, 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 15:

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 an initial ten-year term and may be renewed for two successive ten-year terms with the consent of both parties.

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

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

HMC revenues and expenses are not recognized in the University's financial statements. As of June 30, 2020, the University's financial statements included accounts receivable and long-term receivables from HMC of $27.7 million and $8.9 million, respectively, HMC investments of $4.2 million and current accrued liabilities and long-term liabilities of $38.1 million and $24.3 million, respectively, related to HMC. As of June 30, 2019, the University's financial statements included accounts receivable from HMC of $39.9 million, HMC investments of $4.1 million and current accrued liabilities and long-term liabilities of $39.9 million and $23.8 million, respectively, related to HMC.

Under an annual agreement, HMC provides strategic funding to Neighborhood Clinics. Funding from HMC to Neighborhood Clinics was $13.8 million and $12.4 million during fiscal years 2020 and 2019, respectively, and is included in other operating revenue in the Statements of Revenues, Expenses and Changes in Net Position.

UW Medicine information technology operates as a self-sustaining activity of the University (ITS department). The ITS department records enterprise-wide information technology capital assets that are purchased for use by UW Medicine entities. The HMC ITS funding reflected in long-term liabilities (see note 10) of $24.3 million and $23.8 million at June 30, 2020 and 2019, respectively, represents HMC's funding of the enterprise-wide information technology capital assets that will be included in the recharge rates of the ITS department over the useful life of the assets.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2020 and 2019, the UWF transferred $175.9 million and $153.5 million, respectively, to the University in gifts and grants received on its behalf; these are included in the financial statements of the University. The remaining amounts retained by the UWF are not significant to the University's financial statements.

The University of Washington Alumni Association is a tax-exempt entity that was established to connect and celebrate alumni and to support the University's mission. The Alumni Association received $4.4 million and $4.2 million from the University in support of its operations in fiscal years 2020 and 2019, respectively. These amounts were expensed by the University.

NOTE 16:

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, 2020 and 2019, the University's share of the total unfunded liability associated with the defined-benefit pension plans administered by the DRS was $416.3 million and $549.4 million, respectively. As of June 30, 2020 and 2019, the liability associated with the defined benefit pension plan administered by the University was $781.8 million and $594.0 million, respectively, but does not reflect assets segregated in a separate investment account to pay future retiree benefits of $344.8 million and $327.7 million, respectively. For the years ended June 30, 2020 and 2019, total pension expense recorded by the University related to both the DRS and University plans was $91.3 million and $50.8 million, respectively.

PLANS ADMINISTERED BY DRS

PLAN DESCRIPTION

Public Employees' Retirement System

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

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

Teachers' Retirement System

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

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

Law Enforcement Officers' and Fire Fighters' Retirement System

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

VESTING AND BENEFITS PROVIDED

PERS Plan 1 and TRS Plan 1

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

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

PERS Plan 2/3 and TRS Plan 2/3

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

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

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

LEOFF Plan 2

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

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

FIDUCIARY NET POSITION

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

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

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

ACTUARIAL ASSUMPTIONS

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The University's 2020 pension liabilities are based on an OSA valuation performed as of June 30, 2018, with the results rolled forward to the measurement date of June 30, 2019. Likewise, the University's 2019 pension liabilities are based on a valuation performed as of June 30, 2017, with the results rolled forward to the measurement date of June 30, 2018. The following actuarial assumptions have been applied to all prior periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of the 2007-2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the dates of the respective actuarial valuation reports.

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

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

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

	2020 *(Measurement Date 2019)*		2019 *(Measurement Date 2018)*	
Asset Class	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
FIXED INCOME	20.00%	2.20%	20.00%	1.70%
TANGIBLE ASSETS	7.00%	5.10%	7.00%	4.90%
REAL ESTATE	18.00%	5.80%	18.00%	5.80%
GLOBAL EQUITY	32.00%	6.30%	32.00%	6.30%
PRIVATE EQUITY	23.00%	9.30%	23.00%	9.30%

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

DISCOUNT RATE

The discount rate used to measure the total pension liabilities as of June 30, 2020 and 2019 was 7.40%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liability for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.40% future investment rate of return on pension plan investments was assumed as of June 30, 2019 and 2018. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liability for PERS 1 and TRS 1, respectively, as provided for in chapter 41.45 of the RCW).

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

The following table presents the University's proportionate net pension liabilities and assets calculated using the discount rate of 7.40% as of June 30, 2019 and 2018, as well as what the net pension liabilities or assets would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

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

	2020			2019		
Plan	**1% Decrease**	**Current Discount Rate**	**1% Increase**	**1% Decrease**	**Current Discount Rate**	**1% Increase**
PERS 1	$ 387,806	$ 309,671	$ 241,878	$ 450,287	$ 366,403	$ 293,743
PERS 2/3	758,531	98,901	(442,369)	800,058	174,913	(337,635)
TRS 1	7,925	6,200	4,705	8,826	7,061	5,534
TRS 2/3	8,104	1,487	(3,893)	6,642	1,066	(3,464)
LEOFF 2	(998)	(5,365)	(8,930)	(610)	(4,590)	(7,837)

EMPLOYER CONTRIBUTION RATES

Employer contribution rates are developed in accordance with Chapter 41.45 of the RCW by the OSA, and include an administrative expense component that is currently set at 0.18%. The statute provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. The following table presents the contribution rates, stated as a percentage of covered payroll as defined by the statute, and required contributions for each DRS plan in which the University participates for the years ended June 30, 2020 and 2019:

(Dollars in Thousands)	PERS 1	PERS 2/3[(a)]	TRS 1	TRS 2/3[(a)]	LEOFF 2
2020					
CONTRIBUTION RATE	12.83 %	12.83 %	15.41 %	15.41 %	8.93 %
CONTRIBUTIONS MADE	$ 59,236	$ 96,443	$ 1,483	$ 1,604	$ 435
2019					
CONTRIBUTION RATE	12.70 %	12.70 %	15.20 %	15.20 %	8.93 %
CONTRIBUTIONS MADE	$ 57,744	$ 83,159	$ 1,244	$ 1,290	$ 427

[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, 2020 was June 30, 2019. Employer contributions received and processed by the DRS during the fiscal year ended June 30, 2019 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, 2019 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by the University as of June 30, 2019 was June 30, 2018, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2018 used as the basis for determining each employer's proportionate share of the collective pension amounts. The following table presents the University's proportionate share for each DRS plan:

PROPORTIONATE SHARE	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
YEAR ENDED JUNE 30, 2020	8.05 %	10.18 %	0.25 %	0.25 %	0.23 %
YEAR ENDED JUNE 30, 2019	8.20 %	10.24 %	0.24 %	0.24 %	0.23 %

UNIVERSITY AGGREGATED BALANCES

The table below presents the University's aggregated balance of net pension liability and net pension asset as of June 30 2020 and 2019:

(Dollars in Thousands)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2020						
NET PENSION LIABILITY	$ 309,671	$ 98,901	$ 6,200	$ 1,487	$ —	$ 416,259
NET PENSION ASSET	—	—	—	—	5,365	5,365
2019						
NET PENSION LIABILITY	$ 366,403	$ 174,913	$ 7,061	$ 1,066	$ —	$ 549,443
NET PENSION ASSET	—	—	—	—	4,590	4,590

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, 2020	$ 7,139	$ 22,617	$ 557	$ 1,183	$ (217)	$ 31,279
YEAR ENDED JUNE 30, 2019	20,434	(830)	2,035	822	(455)	22,006

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in Thousands)*						
2020	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
CHANGE IN ASSUMPTIONS	$ —	$ 2,533	$ —	$ 561	$ 9	$ 3,103
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	28,335	—	1,034	386	29,755
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	—	—	—	927	—	927
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [(a)]	59,236	96,443	1,483	1,604	435	159,201
TOTAL	**$ 59,236**	**$ 127,311**	**$ 1,483**	**$ 4,126**	**$ 830**	**$ 192,986**
2019						
CHANGE IN ASSUMPTIONS	$ —	$ 2,046	$ —	$ 18	$ 3	$ 2,067
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	21,440	—	501	246	22,187
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	—	—	—	1,155	—	1,155
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [(b)]	57,744	83,159	1,244	1,290	427	143,864
TOTAL	**$ 57,744**	**$ 106,645**	**$ 1,244**	**$ 2,964**	**$ 676**	**$ 169,273**

(a) Recognized as a reduction of the net pension liability as of June 30, 2021
(b) Recognized as a reduction of the net pension liability as of June 30, 2020

DEFERRED INFLOWS OF RESOURCES *(Dollars in Thousands)*												
2020		**PERS 1**		**PERS 2/3**		**TRS 1**		**TRS 2/3**		**LEOFF 2**		**TOTAL**
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$	20,689	$	143,960	$	476	$	1,284	$	1,100	$	167,509
CHANGE IN ASSUMPTIONS		—		41,496		—		395		604		42,495
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE		—		21,263		—		48		96		21,407
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE		—		6,957		—		—		87		7,044
TOTAL	**$**	**20,689**	**$**	**213,676**	**$**	**476**	**$**	**1,727**	**$**	**1,887**	**$**	**238,455**
2019												
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$	14,561	$	107,335	$	302	$	901	$	803	$	123,902
CHANGE IN ASSUMPTIONS		—		49,779		—		428		659		50,866
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE		—		30,624		—		79		107		30,810
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE		—		3,086		—		—		42		3,128
TOTAL	**$**	**14,561**	**$**	**190,824**	**$**	**302**	**$**	**1,408**	**$**	**1,611**	**$**	**208,706**

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**
2021	$	(4,567)	$	(45,029)	$	(98)	$	43	$	(331)	$	(49,982)
2022		(10,818)		(75,159)		(255)		(328)		(602)		(87,162)
2023		(3,861)		(34,041)		(90)		2		(246)		(38,236)
2024		(1,443)		(18,811)		(33)		134		(129)		(20,282)
2025		—		(9,772)		—		242		(41)		(9,571)
THEREAFTER		—		4		—		702		(143)		563
TOTAL	**$**	**(20,689)**	**$**	**(182,808)**	**$**	**(476)**	**$**	**795**	**$**	**(1,492)**	**$**	**(204,670)**

(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, 2020 and 2019 was 18,298 and 17,528, respectively.

Funding Policy

Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches 100% of employee contributions. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employer contributions for the years ended June 30, 2020 and 2019 were $132.1 million and $126.0 million, respectively.

University of Washington Supplemental Retirement Plan

PLAN DESCRIPTION

UWSRP, a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership requires participation in the UWRP. The table below shows the number of participants in the UWSRP as of June 30, 2020 and 2019:

NUMBER OF PARTICIPANTS	
ACTIVE EMPLOYEES	6,132
INACTIVE EMPLOYEES RECEIVING BENEFITS	853
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	188

VESTING AND BENEFITS PROVIDED

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the years ended June 30, 2020 and 2019 were $8.3 million and $7.5 million, respectively.

TOTAL PENSION LIABILITY (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS, TRS, and LEOFF2), which have trusted assets and, therefore, are reported as a net pension liability. As of June 30, 2020 and 2019, the University had set aside $344.8 million and $327.7 million, respectively, to pay future UWSRP retiree benefits. These assets are physically segregated in a separate investment account, and included in investments, net of current portion on the Statements of Net Position.

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY (TPL) *(Dollars in thousands)*		
BALANCE AS OF JULY 1, 2018	**$**	**412,481**
SERVICE COST		11,823
INTEREST ON TPL		16,277
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE		102,713
CHANGE IN ASSUMPTIONS		58,228
BENEFIT PAYMENTS		(7,482)
BALANCE AS OF JUNE 30, 2019		**594,040**
SERVICE COST		16,698
INTEREST ON TPL		21,232
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE		31,426
CHANGE IN ASSUMPTIONS		126,749
BENEFIT PAYMENTS		(8,316)
BALANCE AS OF JUNE 30, 2020	**$**	**781,829**

The June 30, 2020 and 2019 TPL are based on an actuarial valuation performed as of June 30, 2018 using the entry age actuarial cost method. Update procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement dates of June 30, 2020 and 2019, respectively.

UWSRP pension expense for the years ended June 30, 2020 and 2019 was $60.0 million and $28.8 million, respectively.

ACTUARIAL ASSUMPTIONS

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on the University. The professional judgments used in determining these assumptions are important, and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the University's financial statements. The following table shows significant assumptions used to measure the TPL as of June 30, 2020 and 2019:

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL PENSION LIABILITY *(Dollars in thousands)*		
	2020	**2019**
INFLATION	2.75%	2.75%
SALARY CHANGES	4.25%	4.25%
SOURCE OF MORTALITY ASSUMPTIONS	RP-2000 COMBINED HEALTHY TABLE, WITH GENERATIONAL MORTALITY IMPROVEMENTS USING SCALE BB	RP-2000 COMBINED HEALTHY TABLE, WITH GENERATIONAL MORTALITY IMPROVEMENTS USING SCALE BB
DATE OF EXPERIENCE STUDY	APRIL 2016	APRIL 2016
DISCOUNT RATE	2.21%	3.50%
SOURCE OF DISCOUNT RATE	BOND BUYER'S 20 BOND INDEX AS OF 6/30/2020	BOND BUYER'S 20 BOND INDEX AS OF 6/30/2019
TPL MEASUREMENT AT DISCOUNT RATE	$781,829	$594,040
TPL DISCOUNT RATE INCREASED 1%	$678,878	$518,334
TPL DISCOUNT RATE DECREASED 1%	$906,918	$685,507

Material assumptions changes during the measurement periods ending June 30, 2020 and 2019 included updating the GASB 73 discount rate from 3.50% to 2.21% and from 3.87% to 3.50%, respectively, as well as updated investment assumptions ("Change in assumption" which increased the TPL for both periods). Additionally, actual returns for CREF investments, which are used in determining a member's "assumed income", were less than expected for the measurement periods ending June 30, 2020 and 2019 and salary growth exceeded expectations for the measurement period ending June 30, 2019 ("Difference between expected and actual experience" which also resulted in an increase in the the TPL for both periods).

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*		
2020		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	104,214
CHANGE IN ASSUMPTIONS		153,291
TOTAL	**$**	**257,505**
2019		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	89,874
CHANGE IN ASSUMPTIONS		50,949
TOTAL	**$**	**140,823**

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*		
2020		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	58,518
CHANGE IN ASSUMPTIONS		24,886
TOTAL	**$**	**83,404**
2019		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	72,181
CHANGE IN ASSUMPTIONS		30,620
TOTAL	**$**	**102,801**

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*		
Year		
2021	$	22,096
2022		22,096
2023		22,096
2024		22,096
2025		35,676
THEREAFTER		50,041
TOTAL	**$**	**174,101**

NOTE 17:

Other Post Employment Benefits (OPEB)

PLAN DESCRIPTION

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

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

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

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

The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The dollar amount of the explicit subsidy increased to $183 per member per month beginning in calendar year 2020. The subsidy was $168 per member per month for the first half of fiscal year 2020. The subsidy increased to $168 per member per month beginning in calendar year 2019. It was set at $150 per member per month for the first half of fiscal year 2019.

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

The table below shows the University's PEBB membership data as of June 30, 2020 and 2019:

NUMBER OF PARTICIPANTS	**2020** *(Measurement Date: 2019)*	**2019** *(Measurement Date: 2018)*
ACTIVE EMPLOYEES	33,289	33,070
INACTIVE EMPLOYEES RECEIVING BENEFITS	8,961	8,995
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	1,594	1,600

ACTUARIAL ASSUMPTIONS

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on the University. The professional judgments used by the Washington State Office of the State Actuary (OSA) in determining the assumptions used to value the state of Washington OPEB liability are important, and can significantly impact the resulting actuarial estimates. Differences between actual results compared to these assumptions could have a significant impact on the University's financial statements. The following table shows significant assumptions used to measure the total OPEB liability (TOL) as of June 30, 2020 and 2019:

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*		
	2020	**2019**
INFLATION	2.75%	2.75%
HEALTHCARE COST TREND	TREND RATE ASSUMPTIONS VARY SLIGHTLY BY MEDICAL PLAN. INITIAL RATE IS APPROXIMATELY 8.00%, REACHING AN ULTIMATE RATE OF APPROXIMATELY 4.50% IN 2080.	TREND RATE ASSUMPTIONS VARY SLIGHTLY BY MEDICAL PLAN. INITIAL RATE IS APPROXIMATELY 8.00%, REACHING AN ULTIMATE RATE OF APPROXIMATELY 4.50% IN 2080.
SALARY INCREASE	3.50% PLUS SERVICE-BASED SALARY INCREASES	3.50% PLUS SERVICE-BASED SALARY INCREASES
SOURCE OF MORTALITY ASSUMPTIONS	RP-2000 COMBINED HEALTHY TABLE AND COMBINED DISABLED TABLE, WITH FUTURE IMPROVEMENTS IN MORTALITY PROJECTED USING 100 PERCENT SCALE BB AND UPDATED BASED ON RESULTS OF THE 2007-2012 EXPERIENCE STUDY REPORT	RP-2000 COMBINED HEALTHY TABLE AND COMBINED DISABLED TABLE, WITH FUTURE IMPROVEMENTS IN MORTALITY PROJECTED USING 100 PERCENT SCALE BB AND UPDATED BASED ON RESULTS OF THE 2007-2012 EXPERIENCE STUDY REPORT
DATE OF EXPERIENCE STUDY	2007-2012 EXPERIENCE STUDY REPORT	2007-2012 EXPERIENCE STUDY REPORT
DISCOUNT RATE	3.50%	3.87%
SOURCE OF DISCOUNT RATE	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/19 (MEASUREMENT DATE)	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/18 (MEASUREMENT DATE)
POST-RETIREMENT PARTICIPATION PERCENTAGE	65.00%	65.00%
TOL MEASUREMENT AT DISCOUNT RATE	$1,541,654	$1,354,177
TOL DISCOUNT RATE INCREASED 1%	$1,289,041	$1,136,776
TOL DISCOUNT RATE DECREASED 1%	$1,866,891	$1,632,819
TOL MEASUREMENT AT HEALTHCARE COST TREND RATE	$1,541,654	$1,354,177
TOL HEALTHCARE COST TREND RATE INCREASED 1%	$1,937,224	$1,676,694
TOL HEALTHCARE COST TREND RATE DECREASED 1%	$1,247,735	$1,111,648

Material assumption changes during the measurement period ending June 30, 2019 include updating the discount rate, as required by GASB 75. Material assumption changes during the measurement period ending June 30, 2018 include updating the forecasts of healthcare cost trends, as well as updating the discount rate, as required by GASB 75.

CHANGES IN THE TOTAL OPEB LIABILITY

The TOL for the state of Washington as of June 30, 2020 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018, with the results rolled forward to the measurement date of June 30, 2019. The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The measurement date for the TOL as of June 30, 2019 was the same as the valuation date. 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 26.6% and 26.7% as of June 30, 2020 and 2019, respectively.

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

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*		
BALANCE AS OF JULY 1, 2018	**$**	**1,565,213**
SERVICE COST		84,665
INTEREST ON TOL		58,207
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE		53,132
CHANGE IN ASSUMPTIONS		(370,652)
BENEFIT PAYMENTS		(24,584)
CHANGE IN PROPORTIONATE SHARE		(11,804)
BALANCE AS OF JUNE 30, 2019		**1,354,177**
SERVICE COST		62,422
INTEREST ON TOL		54,148
CHANGE IN ASSUMPTIONS		100,838
BENEFIT PAYMENTS		(24,769)
CHANGE IN PROPORTIONATE SHARE		(5,162)
BALANCE AS OF JUNE 30, 2020	**$**	**1,541,654**

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, 2020	$	62,806
YEAR ENDED JUNE 30, 2019		78,429

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in Thousands)*		
2020		
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$	41,167
CHANGE IN ASSUMPTIONS		89,633
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY		26,583
TOTAL	**$**	**157,383**
2019		
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$	47,228
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY		24,864
TOTAL	**$**	**72,092**

DEFERRED INFLOWS OF RESOURCES *(Dollars in Thousands)*		
2020		
CHANGE IN ASSUMPTIONS	$	446,992
CHANGE IN PROPORTIONATE SHARE		22,124
TOTAL	**$**	**469,116**
2019		
CHANGE IN ASSUMPTIONS	$	516,622
CHANGE IN PROPORTIONATE SHARE		18,457
TOTAL	**$**	**535,079**

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

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(a) (Dollars in Thousands)*		
YEAR		
2021	$	(53,764)
2022		(53,764)
2023		(53,764)
2024		(53,764)
2025		(53,764)
THEREAFTER		(69,496)
TOTAL	**$**	**(338,316)**

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

NOTE 18:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2020 and 2019 were $173.6 million and $240.1 million, respectively. These expenditures will be funded from institutional reserves, debt proceeds and state appropriations.

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

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

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

The self-insurance reserve is estimated using an actuarial calculation. The reserve is included in Long-Term Liabilities in the Statements of Net Position. Changes in the self-insurance reserve for the years ended June 30, 2020 and 2019 are noted below:

(Dollars in thousands)		**2020**		**2019**
RESERVE AT BEGINNING OF FISCAL YEAR	$	100,163	$	112,210
INCURRED CLAIMS AND CHANGES IN ESTIMATES		41,339		22,178
CLAIM PAYMENTS		(16,421)		(34,225)
RESERVE AT END OF FISCAL YEAR	**$**	**125,081**	**$**	**100,163**

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 CMS, conducted a survey at UW Medical Center. In a letter dated May 15, 2018, CMS informed UW Medical Center that based on the results of the survey, UW Medical Center was not in compliance with certain Medicare Conditions of Participation. The deficiencies identified within the survey relate primarily to UW Medical Center’s relationship with the SCCA inpatient hospital located within the same building as UW Medical Center, including related policies, clinical areas, support services and personnel sharing between the two organizations. UW Medical Center submitted a Plan of Correction (the Plan) in response to the CMS survey findings, and CMS accepted the Plan on January 15, 2020. UW Medical Center and SCCA have implemented many components of their respective Plans and will continue implementation through August 2021, as approved by CMS. UW Medicine management will take necessary actions to comply with that Plan so UW Medical Center continues to participate in the Medicare program.

NOTE 19:

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, 2020**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 2,029,039	$ (33,910)	$ 1,913,298	$ 149,651	$ 144,623	$ 5,028
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	6,138,366	—	5,993,647	144,719	111,871	32,848
CAPITAL ASSETS, NET	4,971,660	—	4,622,937	348,723	13,172	335,551
TOTAL ASSETS	13,139,065	(33,910)	12,529,882	643,093	269,666	373,427
DEFERRED OUTFLOWS OF RESOURCES	639,368	—	639,368	—	—	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 13,778,433**	**$ (33,910)**	**$ 13,169,250**	**$ 643,093**	**$ 269,666**	**$ 373,427**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 1,528,296	$ (3,083)	$ 1,433,433	$ 97,946	$ 73,449	$ 24,497
TOTAL NONCURRENT LIABILITIES	5,493,819	(14,294)	5,158,144	349,969	10,244	339,725
TOTAL LIABILITIES	7,022,115	(17,377)	6,591,577	447,915	83,693	364,222
DEFERRED INFLOWS OF RESOURCES	834,820	—	834,820	—	—	—
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	7,856,935	(17,377)	7,426,397	447,915	83,693	364,222
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,531,666	—	2,521,560	10,106	12,607	(2,501)
RESTRICTED:						
NONEXPENDABLE	1,938,615	—	1,938,615	—	—	—
EXPENDABLE	2,243,384	—	2,243,384	—	—	—
UNRESTRICTED	(792,167)	(16,533)	(960,706)	185,072	173,366	11,706
TOTAL NET POSITION	5,921,498	(16,533)	5,742,853	195,178	185,973	9,205
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 13,778,433**	**$ (33,910)**	**$ 13,169,250**	**$ 643,093**	**$ 269,666**	**$ 373,427**

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

(1) Includes Northwest Hospital

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position - Year Ended June 30, 2020**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 1,058,271	$ —	$ 1,058,271	$ —	$ —	$ —
PATIENT SERVICES	2,092,975	(12,619)	1,736,904	368,690	368,690	—
GRANT REVENUE	1,491,623	—	1,491,623	—	—	—
OTHER OPERATING REVENUE	868,582	(112,077)	866,943	113,716	55,001	58,715
TOTAL OPERATING REVENUES	**5,511,451**	**(124,696)**	**5,153,741**	**482,406**	**423,691**	**58,715**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	5,963,216	(82,518)	5,618,915	426,819	409,608	17,211
DEPRECIATION / AMORTIZATION	388,338	—	365,998	22,340	2,177	20,163
TOTAL OPERATING EXPENSES	**6,351,554**	**(82,518)**	**5,984,913**	**449,159**	**411,785**	**37,374**
OPERATING INCOME (LOSS)	**(840,103)**	**(42,178)**	**(831,172)**	**33,247**	**11,906**	**21,341**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	415,030	—	415,030	—	—	—
GIFTS	219,542	—	218,955	587	587	—
INVESTMENT INCOME	207,993	—	206,927	1,066	1,066	—
OTHER NONOPERATING REVENUES (EXPENSES)	73,098	37,695	41,657	(6,254)	5,750	(12,004)
NET NONOPERATING REVENUES (EXPENSES)	**915,663**	**37,695**	**882,569**	**(4,601)**	**7,403**	**(12,004)**
INCOME BEFORE OTHER REVENUES	**75,560**	**(4,483)**	**51,397**	**28,646**	**19,309**	**9,337**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	202,187	(1,000)	201,937	1,250	1,250	—
GIFTS TO PERMANENT ENDOWMENTS	65,425	—	65,425	—	—	—
TOTAL OTHER REVENUES	**267,612**	**(1,000)**	**267,362**	**1,250**	**1,250**	**—**
INCREASE IN NET POSITION	**343,172**	**(5,483)**	**318,759**	**29,896**	**20,559**	**9,337**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,578,326	(11,050)	5,424,094	165,282	165,414	(132)
NET POSITION – END OF YEAR	**$ 5,921,498**	**$ (16,533)**	**$ 5,742,853**	**$ 195,178**	**$ 185,973**	**$ 9,205**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position - Year Ended June 30, 2019**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities (1)**	**Real Estate Entities**
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 1,052,222	$ —	$ 1,052,222	$ —	$ —	$ —
PATIENT SERVICES	2,135,733	(27,632)	1,475,975	687,390	687,390	—
GRANT REVENUE	1,425,521	—	1,425,521	—	—	—
OTHER OPERATING REVENUE	871,742	(114,732)	868,464	118,010	66,453	51,557
TOTAL OPERATING REVENUES	**5,485,218**	**(142,364)**	**4,822,182**	**805,400**	**753,843**	**51,557**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	5,691,795	(107,027)	5,000,164	798,658	776,318	22,340
DEPRECIATION / AMORTIZATION	372,435	—	335,556	36,879	16,754	20,125
TOTAL OPERATING EXPENSES	**6,064,230**	**(107,027)**	**5,335,720**	**835,537**	**793,072**	**42,465**
OPERATING INCOME (LOSS)	**(579,012)**	**(35,337)**	**(513,538)**	**(30,137)**	**(39,229)**	**9,092**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	378,656	—	378,656	—	—	—
GIFTS	165,831	—	165,204	627	627	—
INVESTMENT INCOME	339,878	(2,761)	335,087	7,552	7,552	—
OTHER NONOPERATING REVENUES (EXPENSES)	(28,345)	33,576	(47,132)	(14,789)	(962)	(13,827)
NET NONOPERATING REVENUES (EXPENSES)	**856,020**	**30,815**	**831,815**	**(6,610)**	**7,217**	**(13,827)**
INCOME BEFORE OTHER REVENUES	**277,008**	**(4,522)**	**318,277**	**(36,747)**	**(32,012)**	**(4,735)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	69,057	(2,000)	68,156	2,901	2,901	—
GIFTS TO PERMANENT ENDOWMENTS	135,484	—	135,484	—	—	—
TOTAL OTHER REVENUES	**204,541**	**(2,000)**	**203,640**	**2,901**	**2,901**	**—**
INCREASE IN NET POSITION	**481,549**	**(6,522)**	**521,917**	**(33,846)**	**(29,111)**	**(4,735)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,096,777	(4,528)	4,897,109	204,196	199,593	4,603
NET POSITION – END OF YEAR	**$ 5,578,326**	**$ (11,050)**	**$ 5,419,026**	**$ 170,350**	**$ 170,482**	**$ (132)**

(1) Includes Northwest Hospital

(Dollars in thousands) **Statements of Cash Flows - Year Ended June 30, 2020**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (321,500)	$ —	$ (338,156)	$ 16,656	$ 7,468	$ 9,188
NONCAPITAL FINANCING ACTIVITIES	877,845	—	867,442	10,403	10,403	—
CAPITAL AND RELATED FINANCING ACTIVITIES	(282,358)	—	(272,997)	(9,361)	5,534	(14,895)
INVESTING ACTIVITIES	(216,308)	—	(222,142)	5,834	(175)	6,009
NET INCREASE IN CASH AND CASH EQUIVALENTS	**57,679**	**—**	**34,147**	**23,532**	**23,230**	**302**
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	85,516	—	53,642	31,874	29,550	2,324
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 143,195**	**$ —**	**$ 87,789**	**$ 55,406**	**$ 52,780**	**$ 2,626**

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

(1) Includes Northwest Hospital

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	8.05%	8.20%	8.44%	8.46%	8.33%	8.28%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 309,671	$ 366,403	$ 400,426	$ 454,341	$ 435,853	$ 417,231
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 1,116,298	$ 1,074,943	$ 1,043,335	$ 987,405	$ 927,002	$ 882,215
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	27.74%	34.09%	38.38%	46.01%	47.02%	47.29%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

(Amounts determined as of the measurement date)

PERS 1 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 970	$ 1,231	$ 1,582	$ 1,788	$ 2,155	$ 2,058
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 971	$ 1,234	$ 1,578	$ 1,769	$ 2,155	$ 2,059
CONTRIBUTION DEFICIENCY (EXCESS)	$ (1)	$ (3)	$ 4	$ 19	$ —	$ (1)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 1,227,868	$ 1,116,298	$ 1,074,943	$ 1,043,335	$ 987,405	$ 927,002
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	0.08%	0.11%	0.15%	0.17%	0.22%	0.22%

(Amounts determined as of the fiscal year end)

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

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	10.18%	10.24%	10.48%	10.36%	10.20%	10.00%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 98,901	$ 174,913	$ 364,073	$ 521,777	$ 364,303	$ 202,225
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 1,106,678	$ 1,062,415	$ 1,027,338	$ 967,955	$ 904,661	$ 856,839
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	8.94%	16.46%	35.44%	53.91%	40.27%	23.60%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

(Amounts determined as of the measurement date)

PERS 2/3 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 156,919	$ 141,681	$ 134,239	$ 114,852	$ 107,424	$ 83,323
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 157,000	$ 141,618	$ 134,366	$ 114,968	$ 108,413	$ 83,342
CONTRIBUTION DEFICIENCY (EXCESS)	$ (81)	$ 63	$ (127)	$ (116)	$ (989)	$ (19)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 1,220,321	$ 1,106,678	$ 1,062,415	$ 1,027,338	$ 967,955	$ 904,661
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	12.86%	12.80%	12.64%	11.18%	11.10%	9.21%

(Amounts determined as of the fiscal year end)

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

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.25%	0.24%	0.20%	0.16%	0.13%	0.10%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 6,200	$ 7,061	$ 6,076	$ 5,463	$ 4,049	$ 2,881
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 16,677	$ 13,986	$ 10,967	$ 7,813	$ 5,790	$ 3,905
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	37.18%	50.49%	55.40%	69.92%	69.93%	73.78%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	70.37%	66.52%	65.58%	62.07%	65.70%	68.77%

(Amounts determined as of the measurement date)

TRS 1 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 55	$ 52	$ 48	$ 39	$ 38	$ 44
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 55	$ 52	$ 48	$ 40	$ 38	$ 42
CONTRIBUTION DEFICIENCY (EXCESS)	$ —	$ —	$ —	$ (1)	$ —	$ 2
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 20,153	$ 16,677	$ 13,986	$ 10,967	$ 7,813	$ 5,790
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	0.27%	0.31%	0.34%	0.36%	0.49%	0.76%

(Amounts determined as of the fiscal year end)

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

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.25%	0.24%	0.19%	0.15%	0.12%	0.08%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 1,487	$ 1,066	$ 1,796	$ 2,077	$ 969	$ 252
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 16,337	$ 13,664	$ 10,669	$ 7,507	$ 5,367	$ 3,391
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	9.10%	7.80%	16.83%	27.67%	18.05%	7.43%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	96.36%	96.88%	93.14%	88.72%	92.48%	96.81%

(Amounts determined as of the measurement date)

TRS 2/3 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 3,068	$ 2,511	$ 2,036	$ 1,401	$ 956	$ 558
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 3,029	$ 2,470	$ 2,029	$ 1,410	$ 985	$ 555
CONTRIBUTION DEFICIENCY (EXCESS)	$ 39	$ 42	$ 7	$ (9)	$ (29)	$ 3
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 19,800	$ 16,337	$ 13,664	$ 10,669	$ 7,507	$ 5,367
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	15.49%	15.37%	14.90%	13.13%	12.73%	10.40%

(Amounts determined as of the fiscal year end)

Unaudited – see accompanying independent auditors' report

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

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION ASSET	0.23%	0.23%	0.22%	0.25%	0.20%	0.21%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET	$ 5,365	$ 4,590	$ 2,995	$ 1,430	$ 2,083	$ 2,844
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 4,882	$ 4,487	$ 4,061	$ 4,474	$ 3,534	$ 3,581
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	109.91%	102.30%	73.74%	31.97%	58.94%	79.42%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION ASSET	119.43%	118.50%	113.36%	106.04%	111.67%	116.75%

(Amounts determined as of the measurement date)

LEOFF 2 - SCHEDULE OF CONTRIBUTIONS

(Dollars in thousands)	2020	2019	2018	2017	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 444	$ 436	$ 400	$ 348	$ 384	$ 303
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 446	$ 435	$ 403	$ 352	$ 384	$ 300
CONTRIBUTION DEFICIENCY (EXCESS)	$ (2)	$ 1	$ (3)	$ (4)	$ —	$ 3
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 5,059	$ 4,882	$ 4,487	$ 4,061	$ 4,474	$ 3,534
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	8.78%	8.93%	8.91%	8.57%	8.58%	8.57%

(Amounts determined as of the fiscal year end)

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

(Dollars in thousands)	2020	2019	2018	2017
TOTAL PENSION LIABILITY - BEGINNING	$ 594,040	$ 412,481	$ 438,753	$ 512,372
SERVICE COST	16,698	11,823	14,788	19,892
INTEREST ON TPL	21,232	16,277	16,127	15,097
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	31,426	102,713	(33,952)	(74,919)
CHANGE IN ASSUMPTIONS	126,749	58,228	(17,105)	(28,553)
BENEFIT PAYMENTS	(8,316)	(7,482)	(6,130)	(5,136)
TOTAL PENSION LIABILITY - ENDING	**$ 781,829**	**$ 594,040**	**$ 412,481**	**$ 438,753**
UWSRP COVERED-EMPLOYEE PAYROLL	$ 744,634	$ 787,384	$ 759,688	$ 801,161
TOTAL PENSION LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	105.00%	75.44%	54.30%	54.76%

Unaudited – see accompanying independent auditors' report

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL)			
(Dollars in thousands)	**2020**	**2019**	**2018**
TOTAL OPEB LIABILITY - BEGINNING	$ 1,354,177	$ 1,565,213	$ 1,685,909
SERVICE COST	62,422	84,665	106,112
INTEREST ON TOL	54,148	58,207	49,703
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	—	53,132	—
CHANGE IN ASSUMPTIONS	100,838	(370,652)	(242,454)
BENEFIT PAYMENTS	(24,769)	(24,584)	(25,330)
CHANGE IN PROPORTIONATE SHARE	(5,162)	(11,804)	(8,727)
TOTAL OPEB LIABILITY - ENDING	**$ 1,541,654**	**$ 1,354,177**	**$ 1,565,213**
OPEB COVERED-EMPLOYEE PAYROLL	$ 2,724,791	$ 2,493,991	$ 2,529,127
TOTAL OPEB LIABILITY AS PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	56.58%	54.30%	61.89%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2020

Plans administered by DRS

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

Additional Considerations on ADC for All Plans:

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

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

Plans administered by the University

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

Material assumption changes during the fiscal year 2020 measurement period include updating the GASB 73 discount rate from 3.50% to 2.21% ("Change in assumption" which increased the TPL). Additionally, CREF investment experience during fiscal year 2020 was lower than expected (2.31 percent actual return). Lower investment experience than expected leads to an increase in the TPL. TIAA investment experience only slightly deviated from OSA's assumption.

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

OPEB Plan administered by the Healthcare Authority of Washington State

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

Material assumption changes in fiscal year 2020 relate to a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.87% for the June 30, 2018 measurement date, to 3.50% for the June 30, 2019 measurement date. This change resulted in an increase in the TOL.

Material assumption changes in fiscal year 2019 relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.58% for the June 30, 2017 measurement date, to 3.87% for the June 30, 2018 measurement date. Other material assumption changes included lowering the forecast of future healthcare cost trends. Both of these resulted in a decrease in the TOL.

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The 2020 UW Financial Report and reports from previous years are available at annualreport.uw.edu

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

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UNIVERSITY *of* WASHINGTON

SUPPLEMENTAL BONDHOLDER INFORMATION

OFFICIAL STATEMENT DISCLOSURES

2020 OS DISCLOSURE OBLIGATION	LOCATION IN BONDHOLDERS REPORT
The audited financial statements of the University for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board.	Section 2 (UW Financial Report)
The amount of University revenue and other debt outstanding in that fiscal year.	Revenue: Section 2 (UW Financial Report – SRECNP) Debt: Section 3 (Supplemental Bondholder Information), Section 2 (UW Financial Report – Notes 10 - 12)
Student enrollment information for that fiscal year, of the type provided in the table entitled “Applications, Students and Enrollment” under the heading “ADMISSIONS, STUDENT ENROLLMENT AND FACULTY” and distribution of undergraduate enrollment among University campuses.	Section 3 (Supplemental Bondholder Information)
Information regarding the number of faculty, tenure rate and percent holding terminal degrees for that fiscal year, of the type provided in the table entitled “FACULTY DATA.”	Section 3 (Supplemental Bondholder Information)
Information regarding room and board fees, autumn opening occupancy and occupancy for that fiscal year, of the type provided in the table entitled “STUDENT HOUSING AND DINING DATA.”	Section 3 (Supplemental Bondholder Information)
General Revenues and General Revenue components for that fiscal year, generally of the type provided in the table entitled “GENERAL REVENUES” under the headings General Revenue (Exclusions from Total Revenue) and General Revenue (By Component) and for the line item General Net Position.	Section 4 (General Revenues)
Grant and contract revenues for that fiscal year, and amount or percentage of grant and contract revenues from federal sources.	Section 2 (UW Financial Report – SRECNP)
Information regarding the amount or percentage of revenues from Medicare or Medicaid payments in that fiscal year.	Section 3 (Supplemental Bondholder Information)
Operating expenses by type of expenditure in that fiscal year.	Section 2 (UW Financial Report – MD&A)
Expenditures of State capital and operating appropriations to the University for that fiscal year, generally of the type provided in the table entitled “Expenditures of State Appropriations to the University by Type”.	Section 2 (UW Financial Report – SRECNP)
Patient activity statistics for the UW Medicine hospital with revenues included in General Revenues for that fiscal year.	Section 3 (Supplemental Bondholder Information)
Financial information for the UW Medicine hospital with revenues included in General Revenues for that fiscal year.	Section 3 (Supplemental Bondholder Information)
Value of investments, including operating fund investments currently referred to as Invested Funds (IF) and the Consolidated Endowment Fund (CEF), for that fiscal year.	Section 3 (Supplemental Bondholder Information)
A narrative description of any material changes to the University’s investment policy or CEF distribution policy during that fiscal year.	Section 3 (Supplemental Bondholder Information)
Gift revenue for that fiscal year.	Section 2 (UW Financial Report – SRECNP)
University revenue by source for that fiscal year, generally of the type provided in the figure titled “University Total Revenue by Source, Fiscal Year 2020.”	Section 2 (UW Financial Report – MD&A)
Total University expenditures by category for that fiscal year.	Section 2 (UW Financial Report – MD&A and SRECNP)
University total net assets and unrestricted net assets, of the type presented under the heading “UNIVERSITY OF WASHINGTON—Other University Financial Information—University Net Assets.”	Section 2 (UW Financial Report – SNA)
A description of any material changes to the University’s obligations with respect to its pension plans, generally of the type presented under the heading “LABOR, RISK MANAGEMENT AND RETIREMENT INFORMATION — Pension Plans.”	Section 2 (UW Financial Report – Note 16)
A description of any material changes to the University’s obligations with respect to other post-employment benefits, generally of the type presented under the heading “LABOR, RISK MANAGEMENT AND RETIREMENT INFORMATION—Other Post-Employment Benefits (“OPEB”).”	Section 2 (UW Financial Report – Note 17)
Amount of the University’s self-insurance reserve, generally of the type presented under the heading “LABOR, RISK MANAGEMENT AND RETIREMENT INFORMATION—Risk Management.”	Section 2 (UW Financial Report – Note 18)
Course and conference registrations within the Professional and Continuing Education program by fiscal year.	Section 2 (UW Financial Report – University Facts)

APPLICATIONS, STUDENTS & ENROLLMENT

	AUTUMN QUARTER (1)	
	2019 FY20	2020 FY21
UNDERGRADUATE		
Freshmen		
Applied	51,847	49,921
Accepted	28,506	29,851
Percent Accepted to Applied	55%	60%
Enrolled	8,465	8,606
Percent Enrolled to Accepted	30%	29%
Transfers		
Applied	8,728	8,349
Accepted	4,779	4,925
Percent Accepted to Applied	55%	59%
Enrolled	3,034	3,169
Percent Enrolled to Accepted	63%	64%
Total Undergraduate FTE (2)		
Bothell	5,046	5,346
Seattle	30,901	31,202
Tacoma	4,363	4,337
Total All Campuses	40,310	40,885
Totals Undergraduate Headcount		
Bothell	5,364	5,664
Seattle	32,570	32,827
Tacoma	4,610	4,578
Total All Campuses	42,544	43,069
Additional Enrollment Statistics		
Percent of Undergraduates Outside State—Domestic (3)	14%	14%
Percent of Undergraduates Outside State—International (3)	13%	12%
Percent Retention (Freshman to Sophomore)	92%	91%
Mean GPA	3.74	3.72
Median GPA	3.83	3.81
% of Class Reporting GPA Data	100%	100%
Mean Combined SAT Scores	1289	1282
Median Combined SAT Scores	1320	1310
% of Class Reporting SAT Data	81%	80%
GRADUATE		
Applied	32,328	33,413
Accepted	10,731	11,316
Percent Accepted to Applied	33%	34%
Enrolled	4,772	4,990
Percent Enrolled to Accepted	44%	44%
Graduate FTE	15,244	15,830
Graduate Headcount	14,628	15,148

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

APPLICATIONS, STUDENTS & ENROLLMENT CONTINUED

	AUTUMN QUARTER (1)	
	2019 FY20	2020 FY21
PROFESSIONAL		
Law		
Applied	2,555	2,162
Accepted	711	746
Enrolled	164	173
Law Headcount	482	480
Pharmacy		
Applied	344	372
Accepted	155	163
Enrolled	106	108
Pharmacy Headcount	421	419
Dentistry		
Applied	448	488
Accepted	100	109
Enrolled	61	63
Dental Headcount	265	266
Medicine		
Applied	8,190	7,572
Accepted	339	358
Enrolled	270	270
Medicine Headcount	1,041	1,036
Total Professional FTE	4,105	4,114
Total Professional Headcount	2,209	2,201
Tuition and Fees (full academic year)		
Undergraduate Resident	$ 11,465	$ 11,659
Undergraduate Non-Resident	$ 38,166	$ 39,028
Graduate Resident	$ 16,977	$ 17,308
Graduate Non-Resident	$ 29,562	$ 30,208
Business Masters Resident	$ 35,334	$ 36,640
Business Masters Non-Resident	$ 51,531	$ 53,482
Law Resident	$ 37,050	$ 38,782
Law Non-Resident	$ 48,588	$ 50,185
Pharmacy Resident	$ 32,712	$ 33,565
Pharmacy Non-Resident	$ 54,324	$ 55,804
Medical Resident	$ 37,887	$ 38,926
Medical Non-Resident	$ 68,082	$ 69,358
Dentistry Resident	$ 48,285	$ 48,220
Dentistry Non-Resident	$ 73,857	$ 73,792
University FTE		
Undergraduate	40,310	40,885
Graduate	15,244	15,830
Professional	4,105	4,114
Total University FTE	59,659	60,829
University Headcount		
Undergraduate	42,544	43,069
Graduate	14,628	15,148
Professional	2,209	2,201
Total University Headcount	59,381	60,418

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

FACULTY & OTHER DATA

	AUTUMN QUARTER		
	2018 FY19	2019 FY20	2020 FY21
FACULTY DATA (1)			
Number of faculty	4,369	4,864	N/A (2)
Tenure rate (%)	35%	43%	N/A (2)
Percent holding terminal degree (Ph.D., MD, DDS)	82%	81%	N/A (2)
HOUSING AND DINING (3)			
Room and Board (4)	$11,925	$12,554	$13,361
Autumn Opening Occupancy (5)	8,365	8,491	3,459 (7)
Occupancy (6)	109%	111%	45% (7)

(1) Faculty data based on Integrated Postsecondary Education Data System ("IPEDS") definitions. Year-over-year faculty number changes are primarily attributable to IPEDS definition adjustments and changes to the University's faculty categorization and data updates related to transition to a new human resources planning system, Workday. In all years, headcount associated with temporary faculty categories is excluded.
(2) Final Autumn 2020 faculty data is not yet available.
(3) Figures include residence hall units and exclude single student and family housing apartments.
(4) Room and board pricing is for the full academic year. The room portion of annual room and board pricing is the weighted average of all residence hall double rooms in inventory, and the dining portion is for a representative meal plan.
(5) Autumn opening occupancy is used to calculate capacity.
(6) Numbers reflect as-built capacity and 10th day occupancy. Occupancy that exceeds 100 percent is the result of housing three students in a room designed for two.
(7) Significant reductions in 2020 occupancy reflect impacts of COVID-19.

MEDICAL CENTERS

	Year Ending June 30, 2019	2020
UW MEDICAL CENTER, NORTHWEST, VALLEY AND CLINICAL ENTERPRISE FINANCIAL INFORMATION ($000)		
UW Medical Center		
Total Operating Revenue	$ 1,412,923	$ 1,554,822 (5)
Operating Margin	4.6%	(3.4%) (2)(5)
Net Income (1)	$ 75,304	$ 35,796 (5)
Northwest		
Total Operating Revenue	$ 374,908	$ 178,471 (4)
Operating Margin	(12.2%)	(21.2%) (2)(4)
Net Income	$ (39,993)	$ (33,751) (4)
Valley		
Total Operating Revenue	$ 677,857	$ 707,034
Operating Margin	(2.7%)	(7.6%) (2)
Net Income	$ 12,037	$ 6,714
Clinical Enterprise		
Total Operating Revenue	$ 2,281,751	$ 2,239,499
Operating Margin	0.4%	(4.8%) (2)
Net Income (1)	$ 33,687	$ (6,915)
UW MEDICAL CENTER, NORTHWEST, VALLEY AND CLINICAL ENTERPRISE PATIENT STATISTICS (3)		
UW Medical Center		
Admissions	18,948	22,177 (5)
Outpatient Visits	364,006	327,103 (5)
Emergency Visits	28,765	40,497 (5)
Northwest		
Admissions	9,767	4,821 (4)(5)
Outpatient Visits	166,707	81,664 (4)(5)
Emergency Visits	32,587	16,398 (4)(5)
Valley		
Admissions	18,271	16,924
Outpatient Visits	670,132	627,997
Emergency Visits	85,305	77,344
Clinical Enterprise		
Admissions	28,715	26,998
Outpatient Visits	904,017	776,743
Emergency Visits	61,352	56,895
MEDICARE/MEDICAID PAYMENT		
Percent of Gross Patient Services Revenue (6)	**55%**	**53%**

(1) Includes net pension and post retirement obligations income/(expense) of $30,724,000 in 2019 and $34,429,000 in 2020 for UW Medical Center and $34,136,000 in 2019 and $36,209,000 in 2020 for the Clinical Enterprise.

(2) Reflects revenue and expenditure impacts of COVID-19, including recognition of federal and state funding.

(3) Patient volumes in Fiscal Year 2020 reflect the effects of COVID-19 and the related public health measures, most significantly the temporary suspension of elective and non-urgent procedures.

(4) Financial information and patient activity statistics reported under Northwest Hospital represents six months of reporting for the period July 1, 2019 through December 31, 2019.

(5) Commencing January 1, 2020, financial information and patient activity statistics reported under UW Medical Center includes UW Medical Center Montlake and Northwest campuses.

(6) Reflects Clinical Enterprise gross patient services revenue only. For the years ended June 30, 2020 and 2019, Medicare revenue represented 37% and 39%, respectively; Medicaid revenue represented 16% for both years.

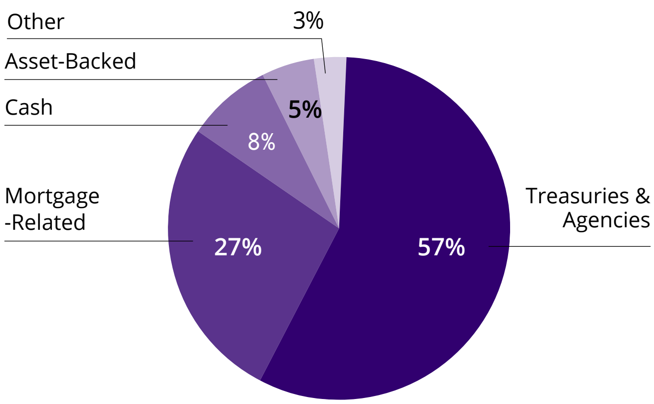
CONSOLIDATED ENDOWMENT AND INVESTED FUNDS

MARKET VALUES AND RETURNS *($ in millions)*

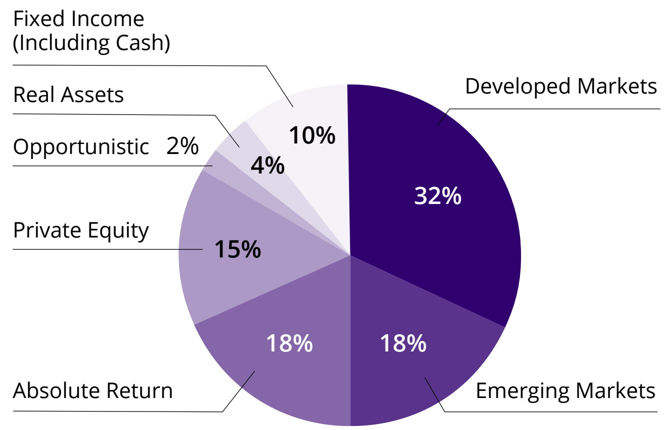
INVESTED FUNDS (IF) [1]	Year Ending June 30, 2019	2020
Total Market Value	$1,634	$2,091
Annualized One-Year Return	3.8%	3.7%

CONSOLIDATED ENDOWMENT FUND (CEF) [2]	Year Ending June 30, 2019	2020
Total Market Value	$3,588	$3,560
Annualized One-Year Return	5.8%	1.1%

IF PORTFOLIO BREAKDOWN
$2,091 million
(as of 6/30/2020)



CEF PORTFOLIO BREAKDOWN
$3,560 million
(as of 6/30/2020)



ENDOWMENT RETURN & SPENDING	Year Ending June 30, 2019	2020
Total Annual Return on Endowment	$202	$34
Amount of Annual Return Spent	$163	$169
Effective Actual Annual Spending Rate	4.8%	4.7%

CEF SPENDING POLICY

In February 2019, the Board of Regents approved a total spending reduction from 5.0 percent to 4.5 percent. The spending reduction is being phased in as follows:

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

(1) Represents the Short- and Intermediate-term Pools, excludes the Long-term Pool and the CAP and balances held at the University's primary demand deposit account. Excludes the UWSRP after December 31, 2018.
(2) Includes the IF Long-term Pool.

Note: Totals may not sum due to rounding.

UNIVERSITY LIQUIDITY ($000)

	Year Ending June 30,	
	2019	2020 [1]
Daily Liquidity [2]		
Checking & Deposit Accounts	$ 37,196	82,401
Money Market Funds	62,987	120,042
US Treasuries & Agencies	1,192,115	1,708,085
Total Daily Liquidity	**1,292,298**	**1,910,529**
Other Assets [3]	379,313	528,004
Total Daily & Weekly Liquidity	**$ 1,671,611**	**$ 2,438,533**

(1) Includes deferred FICA taxes and Medicare advance payments to be repaid.
(2) Investments that can be liquidated on a same-day basis, if sale executed prior to 10:00 AM Pacific time.
(3) Other Assets includes, but not limited to, other fixed income, plus related derivatives and foreign currencies, that can be liquidated within one week up to approximately 90 days depending on market conditions. This balance ties the remaining balance to the Invested Funds, excluding the longer-term liquidity holdings of the Long-term Pool and Capital Assets Pool.

FUTURE DEBT SERVICE

as of June 30, 2020

($000)	FISCAL YEAR					
	2021	2022	2023	2024	2025	2026 – 2050
TOTAL UNIVERSITY DEBT SERVICE						
State General Obligation Bonds	$ 13,796	$ 13,922	$ 13,825	$ 13,729	$ 10,287	$ 15,494
State Certificates of Participation	$ 2,756	$ 1,583	$ 289	$ 291	$ –	$ –
Revenue Bonds						
General Revenue Bonds [1]	$144,486	$144,499	$140,449	$140,414	$140,272	$ 2,544,629
Lease Revenue Bonds [2]	$ 32,042	$ 31,900	$ 31,782	$ 28,221	$ 28,047	$ 363,250
Subtotal: General Revenue Debt Service	**$193,079**	**$191,905**	**$186,344**	**$182,654**	**$178,606**	**$ 2,923,373**
Commercial Paper	$ –	$ –	$ –	$ –	$ –	$ –
Equipment Leases & Other [3][4]	$ 6,914	$ 5,769	$ 5,142	$ 3,741	$ 3,508	$ 17,102
Total Debt Service All Obligations	**$199,993**	**$197,674**	**$191,487**	**$186,396**	**$182,114**	**$ 2,940,474**

(1) General Revenue Bonds Series 2009, 2009B, 2010A&B, 2011A, 2012AB&C, 2013, 2015ABC&D, 2016A&B, 2018, 2019, and 2020A&B.
(2) Series 2010B WBRP 3, 2013 WBRP, 2014A WBRP, and 2015A WBRP 3.2.
(3) Includes capital leases other than leases included as Lease Revenue Bonds.
(4) Effective January 1, 2020, Northwest Hospital debt is included in Other.

Note: For additional outstanding debt information, see Section 2 (UW Financial Report, Notes 10 – 12).

UNIVERSITY OF WASHINGTON

Supplementary Information

June 30, 2020 and 2019

(With Independent Auditors’ Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report on Supplementary Information

The Board of Regents
University of Washington:

We have audited the financial statements of the business-type activities and discretely presented component unit of the University of Washington (the University), an agency of the state of Washington, as of and for the years ended June 30, 2020 and 2019, and have issued our report thereon dated October 23, 2020, which contained unmodified opinions on those financial statements that collectively comprise the University's basic financial statements. Our audit was performed for the purpose of forming opinions on the financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 23, 2020.

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

This report is intended solely for the information and use of the Board of Regents and management of the University of Washington and rating agencies and bondholders who have previously received the financial statements of the University of Washington as of and for the years ended June 30, 2020 and 2019, and our unmodified opinions thereon, for use in evaluating those financial statements, and is not intended to be, and should not be used for any other purpose.

KPMG LLP

October 23, 2020

UNIVERSITY OF WASHINGTON

Reconciliation of Total University Revenue to General Revenue

Years ended June 30, 2020 and 2019
(Dollars in thousands)

	2020	2019
General revenue:		
Total revenue	$ 6,787,465	6,634,277
Less:		
State appropriations	415,030	378,656
Grant and contract direct costs	1,267,351	1,207,662
Gifts	219,542	165,831
Revenues of component units	513,740	676,205
Student activities fees and U-Pass fees	43,177	46,652
Student technology fees, student building fees, and student loan funds	81,563	78,553
Trust and endowment income, net unrealized gains on noninvested funds investments, Metropolitan Tract net operating income, component unit investment income, and other restricted investment income	113,816	274,178
Capital appropriations	23,098	24,797
Capital grants, gifts and other	179,089	44,260
Other nonoperating revenues	114,118	8,365
Gifts to permanent endowments	65,425	135,484
Total general revenue	$ 3,751,516	3,593,634
General revenue components:		
Student tuition and fees (less student activities fees, U-Pass fees, technology fees, building fees, and loan funds)	$ 941,040	939,245
Grant and contract indirect costs	275,991	269,649
Invested funds distribution and net invested funds unrealized gains and losses (note 2)	94,177	65,700
Sales and services of educational departments	283,159	260,176
Patient services	1,582,321	1,475,975
Auxiliary systems	401,331	466,231
Other operating revenues	173,497	116,658
Total general revenue	$ 3,751,516	3,593,634

See accompanying notes to supplementary information.

UNIVERSITY OF WASHINGTON

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

June 30, 2020 and 2019
(Dollars in thousands)

		2020	2019
Total University unrestricted net position per financial statements	$	(792,167)	(980,736)
Less:			
Student and activities fees		26,680	24,648
Net position (deficit) of component units:			
Association of University Physicians		174,013	152,606
UW Neighborhood Clinics		(648)	(1,933)
Northwest Hospital		(131,628)	(90,862)
Real estate entities		11,706	(3,757)
Total to be excluded, net		80,123	80,702
General net position, including pensions and other post-employment benefits (OPEB)		(872,290)	(1,061,438)
Impact of GASB 68 – Pensions		456,362	584,284
Impact of GASB 75 – OPEB		1,853,385	1,817,162
General net position, excluding GASB 68 pensions and OPEB *	$	1,437,457	1,340,008

* There are other non-cash adjustments to Unrestricted Net Position not shown here

See accompanying notes to supplementary information.

(1) Basis of Presentation

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

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

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

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

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

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

On February 8, 2018 the University's Board of Regents approved the dissolution of Northwest Hospital & Medical Center (NWH), a Washington non-profit corporation, and the integration of NWH into the University of Washington Medical Center (UWMC). The integration occurred on January 1, 2020, at which time NWH ceased operations and the University accepted the assets, liabilities, and remaining operations of the corporate entity. At the time of the integration, NWH became the Northwest Campus of UWMC and ceased to be a blended component unit of the University. Revenues subsequent to the date of integration, and their associated impact on unrestricted net position, have been incorporated into General Revenues and General Net Position.

As of June 30, 2020 and 2019, Unrestricted Net Position reflects a deficit due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* during fiscal year 2015, and the implementation of GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) during fiscal year 2018. These Statements require the University to record its proportionate share of the state of Washington's actuarially determined liabilities for pensions and OPEB. The University's Unrestricted Net Position, excluding the impacts of GASB Statements No. 68 and 75, is reflected on the Reconciliations of Total University of Washington Unrestricted Net Position to General Net Position.

(2) Invested Funds Distributions and Net Invested Funds Unrealized Gains and Losses

These amounts represent the net interest, dividends, and realized gains or losses earned on the Invested Funds that are distributed to departments for operations, in addition to or offset by any unrealized gains and losses on the portfolio.

UNIVERSITY OF WASHINGTON
HOUSING AND FOOD SERVICES

(A Department of University of Washington)

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington Housing and Food Services, a department of the University of Washington, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the University of Washington Housing and Food Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Housing and Food Services as of June 30, 2020 and 2019, 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 Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2020 and 2019, 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 11, and the schedules of required supplementary information on pages 47 through 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
October 22, 2020

Discussion and Analysis Prepared by Management

The following discussion and analysis provides an overview of the financial position and activities of the University of Washington Housing and Food Services (HFS) as of and for the years ended June 30, 2020, 2019, and 2018. This discussion has been prepared by HFS management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington (University), as of June 30, 2020 and 2019, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Overview of the Financial Statements

The financial statements of HFS include the Statements of Net Position; the Statements of Revenue, Expenses, and Changes in Net Position; the Statements of Cash Flows; and Notes to Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for state and local governments.

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

Summary Statements of Net Position

	2020	2019	2018
Assets:			
Current assets	$ 58,251,844	101,269,553	104,782,261
Noncurrent assets	646,001,923	635,018,836	637,787,392
Total assets	704,253,767	736,288,389	742,569,653
Deferred outflows	5,808,887	4,055,091	2,863,478
Total assets and deferred outflows	$ 710,062,654	740,343,480	745,433,131

	2020	2019	2018
Liabilities:			
Current liabilities	$ 35,742,231	42,860,025	46,622,216
Noncurrent liabilities	696,665,480	698,568,424	705,338,179
Total liabilities	732,407,711	741,428,449	751,960,395
Deferred inflows	10,611,935	10,592,340	5,222,978
Net position:			
Net investment in capital assets	(26,831,567)	(41,741,796)	(40,660,015)
Unrestricted	(6,125,425)	30,064,487	28,909,773
Total net position	(32,956,992)	(11,677,309)	(11,750,242)
Total liabilities and net position	$ 710,062,654	740,343,480	745,433,131

Current assets consist of cash, accounts receivable, inventory, prepaid expenses, and receivables from other University departments. Current assets were $22.5 million and $58.4 million more than current liabilities at June 30, 2020 and 2019, respectively. Total current assets as of June 30, 2020 decreased 42.5%, or $43.0 million, in 2020 due to a decrease in cash resulting from reduced collections of residence hall room rents, conference services, and related food services due to the coronavirus pandemic. Current assets decreased 3.4%, or $3.5 million, in 2019 due to large draws on cash for capital projects and Internal Lending Program (ILP) funding being largely offset by an increase in accounts receivable.

Noncurrent assets consist of land, buildings, building improvements, equipment, construction in process, University of Washington Supplemental Retirement Plan (UWSRP) pension investment, and amounts due from University Transportation Services. Noncurrent assets increased 1.7%, or $11.0 million, in 2020 due to continuing construction under the Housing Master Plan. Noncurrent assets as of June 30, 2019 were largely in line with the prior year period as buildings were completed under the Housing Master Plan and commenced depreciation.

Current liabilities consist of accounts payable, accrued interest, accrued expenses, unearned revenue, deposits, amounts due to other University departments, and the current portion of debt payments. Current liabilities decreased by 16.6%, or $7.1 million, in 2020, due to a decrease in accounts payable and unearned revenue, both of which were impacted by reduced operating activities resulting from the coronavirus pandemic, as well as a decrease in the balance due to other University departments related to construction project billing. The decrease was partially offset by an increase in the short-term portion of long-term capital debt from additional borrowing. Current liabilities decreased by 8.1%, or $3.8 million, in 2019, primarily due to a decrease in amounts due to other University departments related to the funding of residence hall construction and a decrease in prepaid conference revenue. This is offset by an increase in accounts payable and the short-term portion of ILP debt resulting from additional borrowing related to Phase 4a of the Housing Master Plan.

Noncurrent liabilities consist of the long-term portion of capital debt, the pension liability, and the other postemployment benefits (OPEB) liability. Total long-term capital debt as of June 30, 2020 was largely in line with the prior year period. Towards the end of fiscal year 2020, new construction financing was obtained, which offset most of the existing debt service payments during the year. Construction loan draws increased long-term capital debt early in fiscal year 2019, which was offset by existing and new debt service payments that commenced shortly after. The pension liability decreased 8.2% and 14.2%, or $0.8 million and $1.7 million, in 2020 and 2019, respectively. The decreases are primarily due to decreases in HFS's proportionate share of the PERS 1 and PERS 2/3 pension plans, which were favorably impacted by stronger than expected investment returns on pension plan assets during the corresponding measurement periods. The OPEB liability increased 9.8%, or $1.8 million, in 2020, due to a decrease in the discount rate used in measurement calculations. The OPEB liability decreased 13.7%, or $3.0 million, in 2019, due to an increase in the discount rate used in measurement calculations.

The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the year. Total net position decreased by 182.2%, or $21.3 million, primarily due to a significant impact on operations resulting from the coronavirus pandemic. Total net position in 2019 was largely in line with the prior year period. The strong demand for campus housing resulted in positive net operating income. The increase in revenue related to the addition of new residence halls was partially offset by higher costs for depreciation and building operation costs, such as utilities and supplies. Nonoperating expenses included additional interest expense related to new construction and a one-time debt financing cost.

Unrestricted net position includes HFS's share of retirement plan liabilities and assets. The plans disclosed in notes 7 and 8 provided a net deficit of $32.9 million and $33.7 million as of June 30, 2020 and 2019, respectively.

Statements of Revenue, Expenses, and Changes in Net Position

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

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

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

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

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

The following is a condensed view of the Statements of Revenue, Expenses, and Changes in Net Position for the fiscal years ended June 30:

		2020	2019	2018
Operating revenue	$	116,058,355	153,893,439	136,155,268
Operating expenses		(113,108,984)	(126,507,181)	(112,741,416)
Net operating income		2,949,371	27,386,258	23,413,852
Net nonoperating expense		(24,972,950)	(28,179,969)	(14,201,819)
Net gain on capital asset transfers		265,743	866,644	—
Gain on asset funding transfers		478,153	—	—
Change in net position		(21,279,683)	72,933	9,212,033
Net position, beginning of year		(11,677,309)	(11,750,242)	1,790,782
Effect of accounting change		—	—	(22,753,057)
Net position, end of year	$	(32,956,992)	(11,677,309)	(11,750,242)

Revenue from All Sources

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

		2020	2019	2018
Residence halls and single-student apartment rent	$	67,975,530	86,975,288	73,081,691
Residence halls and retail food services		33,131,839	48,235,300	45,870,914
Conferences and guest rent		5,682,865	8,611,036	8,089,531
Leases		3,232,888	3,073,408	2,945,721
Family housing rent		2,345,709	2,296,881	2,214,403
Forfeitures and miscellaneous fees		1,112,319	2,034,547	1,530,529
Educational sponsorship		949,000	949,000	949,000
Vending machines		572,552	673,514	693,672
Laundry		537,054	698,220	523,690
Parking revenue		50,821	71,909	.
Energy rebates		—	899,512	15,463
Investment income		—	788,303	687,784
Insurance claim proceeds		4,118,903	528,159	6,444,002
Net gain on capital asset disposals		2,562	—	11,081
Net gain on capital asset transfers		265,743	866,644	—
Gain on capital asset funding transfers		478,153	—	—
Other		467,778	274,336	183,961
Total revenue – all sources	$	120,923,716	156,976,057	143,241,442

HFS's largest revenue source is residence hall and single-student room rent and food services, which comprised 83.6% of revenue from all sources in 2020, compared to 86.1% in 2019. During 2020, residence hall and single-student rent decreased by 21.8%, or $19.0 million, food services decreased by 31.3%, or $15.1 million, and conference services decreased by 34.0%, or $2.9 million, over the prior year. The decreases were primarily due to the impact on operations resulting from the coronavirus pandemic, which significantly impacted demand in the fourth quarter of fiscal year 2020. During 2019, residence hall and single-student rent increased by 19.0%, or $13.9 million, food services increased by 5.2%, or $2.4 million, and conference services increased by 6.4%, or $0.5 million, over the prior year. The increases for the 2019 period were primarily due to strong demand for student housing and increasing room rates.

Nonoperating revenue increased $1.8 million in 2020 compared to 2019, primarily due to insurance claim proceeds of $4.1 million received in 2020 (note 1), partially offset by the reduction in investment income from HFS not receiving a distribution this year. Nonoperating revenue decreased $4.1 million in 2019 compared to 2018, primarily due to insurance claim proceeds of $6.4 million that were recorded in 2018.

Expenses and Expense Transfers

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

		2020	2019	2018
Salaries and related benefits	$	33,238,978	35,900,246	34,880,282
Depreciation		30,935,183	30,892,109	24,215,339
Cost of food and merchandise		12,753,186	18,524,378	17,479,405
Noncapitalized equipment		8,177,499	10,729,122	7,744,928
Utilities		8,436,671	9,066,746	8,156,718
Indirect expenses		7,428,931	7,509,205	7,379,407
Contract services		5,638,379	5,988,488	5,280,561
Supplies		2,207,231	3,354,522	2,950,169
Repairs and maintenance		2,902,436	2,769,266	3,006,609
Institutional overhead		1,039,545	1,489,429	1,554,896
Interest expense on capital asset-related debt		29,091,915	28,788,379	21,360,149
Financing cost		2,500	1,601,476	—
Net loss on capital asset disposals		—	6,088	—
Other		350,945	283,670	93,102
Total expenses and expense transfers	$	142,203,399	156,903,124	134,101,565

Salaries and benefits expense decreased by 7.4%, or $2.7 million, in 2020, primarily due to staffing reductions related to the impact on operations resulting from the coronavirus pandemic. Salaries and benefits expense increased by 2.9%, or $1.0 million, in 2019, primarily due to labor rate increases and additional headcount required to operate expanded housing and food service venues.

Depreciation expense in 2020 was largely in line with the prior year, compared to an increase of 27.6%, or $6.7 million, in 2019. There were relatively few assets placed in service in 2020, however, two new buildings with furnishings were placed in service in 2019.

Noncapitalized equipment decreased by 23.8%, or $2.6 million, in 2020, as fourth quarter projects were put on hold due to the coronavirus pandemic. Noncapitalized equipment increased by 38.5%, or $3.0 million, in 2019, resulting from the completion of Phase 4a of the Housing Master Plan.

Nonoperating expenses decreased 4.3%, or $1.3 million, in 2020 due to a reduction in financing cost, partially offset by an increase in interest expense. In 2019, nonoperating expenses increased 42.3%, or $9.0 million, primarily due to increases in interest expense and financing costs related to ILP debt for Phase 4a of the Housing Master Plan in the beginning of the year.

Economic Factors and Significant Events

System Wide Considerations

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

The novel coronavirus (COVID-19) pandemic disrupted HFS operations beginning in March 2020. Many students opted to discontinue on-campus living as classes moved to online delivery methods. As a result, HFS experienced losses of approximately 90% and 44% of expected 9-month and 12-month housing revenue, respectively, for spring quarter 2020. Corresponding expenses were reduced to the extent possible, while maintaining new safety standards and delivering appropriate levels of service for the remaining population. State-wide "stay home, stay healthy" orders, which included social distancing and business service suspension and limitations, impacted both retail and residential dining operations. This also forced operational changes, such as take-out only and the cancellation of HFS's summer conference business.

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

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

The campus pizza contract with Pagliacci Pizza was renewed for another 10 years.

Housing Operation

Overall housing revenue decreased $22.3 million in 2020, compared to an increase of $3.9 million in 2019. The decrease in 2020 was directly related to the changes in delivery of instruction due to COVID-19, while the increase in 2019 was a result of strong demand and increasing rates. On July 7, 2020, HFS received a grant award authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act (note 2), which will help cover costs that would have been funded by the lost housing revenue.

Autumn quarter 2020 will open with occupancy at approximately 4,000 students in 9 and 12-month housing areas. System capacity in these areas has been restricted to 8,623 beds as a result of COVID-19 related mitigations efforts and University Environmental Health & Safety recommendations. Three buildings, including Oak Hall, the final building in the Housing Master Plan, will be reserved as isolation spaces for students throughout the 2020-21 academic year. Privately managed off campus facilities coordinated through UW Real Estate are forecasting opening occupancy of 90% of building capacity.

Stevens Court exterior renovations will be completed in autumn 2020. These renovations stem from faulty installation of the stucco siding and have been covered by insurance proceeds.

Decommissioning of Haggett Hall is underway and the building will be prepared for future demolition. Although the demolition was scheduled for later in the 2021 fiscal year, it has been postponed due to the lack of available funding.

Updates to the Housing Master Plan

HFS developed a Housing Master Plan to develop residence halls and single-student apartments in four phases. The development of these residence halls creates a richer on-campus community, alleviating the current excess demand within student housing and providing additional bed capacity (surge space) to support replacement of existing residence halls. This additional capacity allows HFS to replace existing facilities while continuing to meet current housing demand. As of June 30, 2020 and 2019, costs incurred related to the Housing Master Plan totaled approximately $775.4 million and $749.4 million, respectively. These costs were included in construction in process, completed building costs, and furniture and fixtures as of June 30, 2020 and 2019. Total projected cost of the Housing Master Plan was $795.5 million as of June 30, 2020 and 2019. The Board of Regents approved borrowing under the ILP of up to $760.8 million for Phases 1-4a of the Housing Master Plan as of June 30, 2018, and a cash-funded investment of $65.5 million for Phase 4b of the Housing Master Plan as of June 30, 2019. In June 2020, the Board of Regents approved an additional $19.0 million in borrowing for the completion of Oak Hall, which will offset the cash-funded portion for Phase 4b.

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

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

Phase 4b was approved by the Board of Regents in February 2019 and consists of one facility, Oak Hall, and the renovation of Denny Fields. The budget for this phase is $65.5 million and will be funded from HFS cash reserves and additional borrowing. Oak Hall will be completed in time for autumn 2020, increasing system net beds by 350. The building will be reserved as isolation space housing during the 2020-21 academic year.

Debt service is being paid to the ILP for all Phase 1, 2, 3, and 4a buildings. ILP loans for all Housing Master Plan phases are now closed, as debt service on Phase 4a began in September 2018. The debt service coverage ratio was 0.85 and 1.45 as of June 30, 2020 and 2019, respectively. In May, the Board of Regents approved temporary one-year suspension of the ILP covenants (debt service coverage and required reserves) due to financial hardship resulting from COVID-19.

Residence Hall Dining Operation

Due to reduced campus populations and housing occupancy during the 2020-21 academic year, Cultivate, Husky Grind – Mercer, and the newly constructed venues in Oak Hall, Denny Café and District Market – Oak, are currently planned to remain closed throughout 2020-21. Operating expenses, including staffing, will be reduced accordingly. Overall residential dining sales decreased $10.0 million in 2020, compared to an increase of $2.6 million in 2019.

In relation to the COVID-19 pandemic, food service and operational models have been augmented to enhance safety protocols. Staff-served or prepackaged options replaced self-serve areas such as salad bars. Food will be served in to-go style containers and in-house seating has been significantly reduced. UW Dining may augment services and offerings based on local, state, and University health guidance as well as campus demand.

UW Dining has contracted with their current point-of-sale vendor to bring mobile ordering to campus beginning in winter 2021, available at all open dining venues. Bay Laurel Catering has established the Get Well meal program – a door-to-door food delivery program for students residing in isolation housing.

Retail Dining Operation

Due to changes in campus population levels and instruction delivery methods related to the coronavirus pandemic, many retail dining venues suspended operations and, where possible, staff were transferred to open positions at other University departments. Cafés with loss protection terms in their operating agreements with other University departments provided some relief of losses. These agreements were renegotiated for 2021 with many departments opting to suspend their retail operations and cease financial coverage of losses. Overall, retail dining sales decreased $5.5 million in 2020, while sales in 2019 were largely in line with the prior year.

Retail closures continued through summer 2020 at all venues. For the autumn quarter 2020, all retail dining venues will be closed, with the exception of the Starbucks Truck, Microsoft Café, Sunrise Griddle, and Etc. – Health Sciences. Operating expenses, including those related to staffing, will be reduced accordingly. UW Dining may augment services and offerings based on local, state, and University health guidance as well as campus demand.

UW Dining opened a third Starbucks licensed store in the form of a mobile truck in winter 2020. A fourth Starbucks venue, a brick and mortar store, is planned for the new Population Health facilities. Opening of this fourth location will be dependent upon the status of the pandemic and campus operations. Per the Starbucks sponsorship agreement, the University is obligated to open a fifth location by 2023. At this point in time, HFS has not been identified as the operator of the fifth venue.

(Continued)

HFS received Starbucks and Coca-Cola educational sponsorship funds totaling $0.9 million in both fiscal years 2020 and 2019. Due to sponsorship agreement terms and the ongoing sales disruptions from COVID-19, a reduction of this funding is expected in 2021.

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

Statements of Net Position

June 30, 2020 and 2019

Assets and Deferred Outflow of Resources		2020	2019
Current assets:			
Cash and cash equivalents in the University Invested Funds Pool	$	50,530,863	94,526,544
Accounts receivable, net		1,115,734	2,394,895
Prepaid expense		563,100	470,033
Inventory		504,024	757,218
Due from other University departments		5,538,123	3,120,863
Total current assets		58,251,844	101,269,553
Noncurrent assets:			
Due from other University departments		3,241,140	3,241,140
Capital assets, less accumulated depreciation (note 3)		640,995,683	630,078,437
Other assets (note 6)		1,765,100	1,699,259
Total noncurrent assets		646,001,923	635,018,836
Deferred outflows of resources		5,808,887	4,055,091
Total assets and deferred outflows of resources	$	710,062,654	740,343,480
Liabilities, Deferred Inflow of Resources, and Net Position			
Current liabilities:			
Accounts payable	$	237,809	1,812,634
Accrued interest		2,382,064	2,583,771
Other accrued expenses		2,175,835	2,779,458
Unearned revenue		3,443,657	7,008,526
Deposits		4,846,670	4,961,360
Due to other University departments		923,810	4,859,039
Long-term capital debt, current portion (notes 4 and 5)		21,297,386	18,440,237
Lease payable, current portion (notes 4 and 6)		435,000	415,000
Total current liabilities		35,742,231	42,860,025
Noncurrent liabilities:			
Long-term capital debt, less current portion (notes 4 and 5)		666,323,123	668,776,832
Pension liability (note 7)		9,444,916	10,286,796
Other postemployment benefits (OPEB) liability (note 8)		20,437,441	18,609,796
Lease payable, less current portion (notes 4 and 6)		460,000	895,000
Total noncurrent liabilities		696,665,480	698,568,424
Total liabilities		732,407,711	741,428,449
Deferred inflows of resources		10,611,935	10,592,340
Net position:			
Net investment in capital assets		(26,831,567)	(41,741,796)
Unrestricted		(6,125,425)	30,064,487
Total net position		(32,956,992)	(11,677,309)
Total liabilities, deferred inflows of resources, and net position	$	710,062,654	740,343,480

See accompanying notes to financial statements.

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

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

	2020	2019
Operating revenue:		
Residence halls and single-student apartment rent	$ 67,975,530	86,975,288
Residence halls and retail food services	33,131,839	48,235,300
Conferences and guest rent	5,682,865	8,611,036
Leases	3,232,888	3,073,408
Family housing rent	2,345,709	2,296,881
Forfeitures and miscellaneous fees	1,112,319	2,034,547
Educational sponsorship	949,000	949,000
Vending machines	572,552	673,514
Laundry	537,054	698,220
Parking revenue	50,821	71,909
Other	467,778	274,336
Total operating revenue	116,058,355	153,893,439
Operating expenses:		
Salaries and related benefits	33,238,978	35,900,246
Depreciation	30,935,183	30,892,109
Cost of food and merchandise	12,753,186	18,524,378
Noncapitalized equipment	8,177,499	10,729,122
Utilities	8,436,671	9,066,746
Indirect expenses	7,428,931	7,509,205
Contract services	5,638,379	5,988,488
Supplies	2,207,231	3,354,522
Repairs and maintenance	2,902,436	2,769,266
Institutional overhead	1,039,545	1,489,429
Other	350,945	283,670
Total operating expenses	113,108,984	126,507,181
Net operating income	2,949,371	27,386,258
Nonoperating revenue (expenses):		
Energy rebates	—	899,512
Investment income	—	788,303
Insurance claim proceeds	4,118,903	528,159
Interest expense on capital asset-related debt	(29,091,915)	(28,788,379)
Financing costs	(2,500)	(1,601,476)
Gain (loss) on capital asset disposals	2,562	(6,088)
Total nonoperating expenses	(24,972,950)	(28,179,969)
Net gain on capital asset transfers	265,743	866,644
Gain on capital asset funding transfers	478,153	—
Change in net position	(21,279,683)	72,933
Net position, beginning of year	(11,677,309)	(11,750,242)
Net position, end of year	$ (32,956,992)	(11,677,309)

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from student housing fees	$ 67,156,726	85,404,910
Cash received from residence hall food services	32,635,202	48,344,341
Cash received from conference services	3,911,702	7,295,504
Cash received from leases	3,073,408	2,960,675
Cash received from facility rentals	1,561,622	2,844,473
Cash received from vending commissions	627,784	664,793
Cash received from educational sponsorship	949,000	949,000
Cash received from others	468,298	274,484
Cash paid for interfund and debit card activities	(279,539)	(1,323,624)
Cash paid to suppliers	(42,271,321)	(51,266,847)
Cash paid for employee salaries, wages, and benefits	(31,764,110)	(33,717,336)
Cash paid for indirect expenses	(8,934,686)	(8,919,973)
Net cash provided by operating activities	27,134,086	53,510,400
Cash flows from capital and related financing activities:		
Purchases of capital assets	(45,381,277)	(28,149,042)
Proceeds from issuance of capital debt	19,000,000	16,584,265
Interest paid on capital debt	(30,372,779)	(30,499,443)
Principal payments on capital debt	(18,943,413)	(17,401,990)
Capital asset funding transfers	448,799	—
Proceeds from insurance on capital assets	4,118,903	528,159
Net cash used in capital and related financing activities	(71,129,767)	(58,938,051)
Cash flows from investing activity:		
Interest received	—	819,033
Net decrease in cash and cash equivalents	(43,995,681)	(4,608,618)
Cash and cash equivalents, beginning of year	94,526,544	99,135,162
Cash and cash equivalents, end of year	$ 50,530,863	94,526,544
Reconciliation of operating income to net cash provided by operating activities:		
Net operating income	$ 2,949,371	27,386,258
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,935,183	30,892,109
Changes in operating assets and liabilities:		
Accounts receivable	1,279,161	(1,296,491)
Prepaid expense and other assets	(93,067)	(98,001)
Inventory	253,194	269,000
Due to/from other University departments	(1,517,472)	163,314
Accounts payable	(1,574,825)	(782,690)
Unearned revenue	(3,564,869)	(2,249,846)
Accrued expenses	(603,623)	71,540
Deposits	(114,690)	25,160
Retirement plan deferred resources and liabilities	(814,277)	(869,953)
Net cash provided by operating activities	$ 27,134,086	53,510,400
Supplemental disclosures of cash flow information:		
Capitalized interest	$ 1,010,965	2,444,324
Amortization of deferred premium on refunded bonds	66,480	66,480
Net gain on capital asset transfers	265,743	866,644
Capital assets in accounts payable and due to other University departments	—	2,984,320

See accompanying notes to financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

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

(b) Basis of Accounting

The financial statements have been prepared in accordance with generally accepted accounting principles. The statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recorded when an obligation has been incurred. All internal activities have been eliminated. The financial statements present only the University of Washington Housing and Food Services and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2020 and 2019, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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

Pooled Investments held on behalf of HFS by the University are recorded at HFS's share of the carrying value of the University Cash and Liquidity Pools which totaled $50,530,863 and $94,526,544 as of June 30, 2020 and 2019, respectively. These funds are available on demand without prior notice or penalty. The Cash and Liquidity Pools were invested as follows as of June 30:

	2020	2019
Cash and cash equivalents	5.7 %	3.7 %
U.S. Treasury and agency securities	75.8	68.2
Mortgage-related securities	7.1	10.3
Asset-backed debt securities	7.9	10.6
Other fixed income	3.5	7.2
Total	100.0 %	100.0 %

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

(d) Accounts Receivable

HFS has established an allowance for doubtful accounts related to receivables, which are estimated to be uncollectible. The allowance is based on historical experience of HFS and current economic circumstances with respect to the collectibility of accounts receivable. Student accounts are considered past due if they are unpaid for 30 days after the due date. Other customer accounts are considered past due if they are unpaid for 60 days after the due date. The balance of the allowance account was $91,953 and $33,794 as of June 30, 2020 and 2019, respectively.

(e) Inventory

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

(f) Prepaid Expense

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

(g) Due from Other University Departments

Due from other University departments, current, consists primarily of accrued lease revenue (note 6) of $3,232,888 and $3,073,408 as of June 30, 2020 and 2019, respectively.

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

(h) Capital Assets

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

Interest expense is capitalized during the time a project is under construction. Capitalization begins upon the issuance of debt to finance the construction of a capital asset. Capitalized construction-related interest was $1,010,965 and $2,444,324 during the years ended June 30, 2020 and 2019, respectively.

(Continued)

(i) Deferred Outflows of Resources

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

		2020	2019
Public Employees' Retirement System pension plans (note 7)	$	2,285,987	2,194,869
University of Washington Supplemental Retirement Plan (note 7)		1,415,180	844,625
Other postemployment benefits (OPEB) (note 8)		2,107,720	1,015,597
Total	$	5,808,887	4,055,091

(j) Unearned Revenue

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

(k) Deposits

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

(l) Deferred Inflows of Resources

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

		2020	2019
Public Employees' Retirement System pension plans (note 7)	$	3,078,410	2,726,154
University of Washington Supplemental Retirement Plan (note 7)		472,084	549,432
Other postemployment benefits (OPEB) (note 8)		7,061,441	7,316,754
Total	$	10,611,935	10,592,340

(m) Net Position

Net position consists of the following components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the net outstanding debt balances related to capital assets, net of unamortized debt expenses. The negative balance as of June 30, 2020 and 2019 is due to the inclusion of existing debt on the old Mercer, Lander, Terry and McCarty Halls, all of which were demolished, while additional debt was incurred for the demolition and redevelopment.

Unrestricted – Consists of assets and liabilities that do not meet the definition of "net investment in capital assets." This is all other funds available to HFS 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.

(n) Operating and Nonoperating Revenue and Expenses

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

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

(o) Institutional Overhead

The University allocates certain general and administrative charges to those departments for which services are performed. This institutional overhead charge, which is based on a percentage of division revenue, totaled $1,039,545 and $1,489,429 for the years ended June 30, 2020 and 2019, respectively.

(p) Indirect Expenses

Administrative expenses, such as salaries and benefits, contract services, and supplies, are reported as indirect expense. These administrative costs totaled $7,428,931 and $7,509,205 for the years ended June 30, 2020 and 2019, respectively.

(q) Insurance Claim Proceeds

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

During fiscal year 2020, HFS received insurance payments totaling $4,118,903 for a loss incurred at the Stevens Court complex.

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

During fiscal year 2019, HFS received insurance payments totaling $559,566 for a loss incurred at the Laurel Village Community Center.

(r) Net Gain on Capital Asset Transfers

In 2020, HFS received a capital asset transfer valued at $265,743 from a collaboration with the College of Engineering and the College of Arts & Sciences' Center for Digital Arts and Experimental Media (DXARTS). The colleges contributed funding toward the construction of the new McMahon 8 Community Center. Ownership of the completed assets was transferred to HFS in 2020.

The net gain on capital asset transfers from other University departments in 2019 primarily consists of a gain of $1,200,000 on an asset transfer from the College of Engineering. The College of Engineering contributed funding toward the construction of the wet lab within the new McCarty Hall maker space. Ownership of the completed asset was transferred to HFS in 2019. This gain was partially offset by the transfer of completed basketball courts to UW Recreation, with a constructed cost of $333,356. Basketball courts owned by UW Recreation had to be moved in order to accommodate the new buildings for Phase 4 of the Housing Master Plan. HFS rebuilt the courts in a new location in order to make the other department whole and recorded a loss on the transfer of the asset to UW Recreation.

(s) Gain on Asset Funding Transfers

In 2020, HFS received funding from other University departments to purchase equipment that HFS would own and operate. HFS received $405,000 from University Marketing & Communications to help fund the purchase and installation of a new Starbucks mobile truck, which served as the third licensed store under the University's sponsorship agreement. Additional funds were received from other University departments in retail café partnerships with HFS to cover a portion of planned equipment replacement costs.

(t) Income Taxes

As a part of the University, the operations of HFS are exempt from federal income taxes, except to the extent of unrelated business income. HFS did not incur unrelated business income tax during 2020 or 2019, and accordingly, the financial statements do not include a provision for federal income taxes.

(u) Use of Estimates

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

(v) Other Accounting Policies

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

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

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

(2) COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) to be a pandemic. The COVID-19 pandemic has had widespread, rapidly evolving, and unpredictable impacts on societal and economic conditions at a local, national, and global level and has had a significant impact on HFS's operations. The Federal Government and the state of Washington have implemented measures in an effort to contain the virus, including social distancing, travel restrictions, border closures, and limitations on public gatherings. In February 2020, the Governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address COVID-19. In March 2020, the University announced that instruction would be offered remotely throughout spring quarter.

HFS incurred costs directly related to the COVID-19 pandemic, which are included in the following expense categories for the year ended June 30:

		2020
Salaries and related benefits	$	517,350
Cost of food and merchandise		64,062
Indirect expenses		16,960
Contract services		428
Supplies		51,496
Repairs and maintenance		10,855
Other		8,791
Total	$	669,942

On July 7, 2020, the University completed a funding agreement to accept the Institutional Portion of the Higher Education Emergency Relieve Fund (HEERF) grant authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Of these funds, $14.6 million was allotted to HFS and the grant revenue is expected to meet the requirements for recognition in fiscal year 2021.

(3) Capital Assets

Capital asset activity for the years ended June 30, 2020 and 2019 is summarized as follows:

	Balance at June 30, 2019	Additions/ transfers	Retirements/ transfers	Balance at June 30, 2020
Capital assets not being depreciated:				
Land	$ 6,775,215	—	—	6,775,215
Construction in progress	12,534,361	40,980,522	(125,374)	53,389,509
Total capital assets not being depreciated	19,309,576	40,980,522	(125,374)	60,164,724
Capital assets being depreciated:				
Building and building improvements	801,757,478	391,117	—	802,148,595
Equipment	5,265,474	626,123	(653,562)	5,238,035
Total capital assets being depreciated	807,022,952	1,017,240	(653,562)	807,386,630
Less accumulated depreciation:				
Building and building improvements	192,134,356	30,487,829	—	222,622,185
Equipment	4,119,735	447,354	(633,603)	3,933,486
Total accumulated depreciation	196,254,091	30,935,183	(633,603)	226,555,671
Capital assets, net	$ 630,078,437	11,062,579	(145,333)	640,995,683

(Continued)

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

North campus construction projects for the new Oak Hall and renovations for the McMahon 8 Community Center added to construction in progress during 2020. The portion of the McMahon 8 Community Center funded by HFS was placed in service during the year, as were the portions of the community center transferred from other University departments.

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

(Continued)

(4) Noncurrent Liabilities

Noncurrent liability activity for the years ended June 30, 2020 and 2019 is summarized as follows:

	Balance at June 30,	Additions	Reductions	Balance at June 30,
Noncurrent liabilities:				
ILP payable	$ 687,217,069	—	(18,596,560)	668,620,509
Notes payable	—	19,000,000	—	19,000,000
Pension liability	10,286,796	—	(841,880)	9,444,916
OPEB liability	18,609,796	1,827,645	—	20,437,441
Lease payable	1,310,000	—	(415,000)	895,000
Total noncurrent liabilities	717,423,661	20,827,645	(19,853,440)	718,397,866
Current portion	(18,855,237)			(21,732,386)
Noncurrent portion	$ 698,568,424			696,665,480

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

(5) Long-Term Capital Debt

Long-term capital debt consists of liabilities to the University Internal Lending Program (ILP) and direct borrowing.

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

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

On April 22, 2008, the University issued General Revenue Refunding Bonds (2008 Bonds) to refund certain outstanding bonds of the University. A portion of the proceeds from the sale of the 2008 Bonds was used for the purpose of refunding HFS's 1996 Junior Lien Revenue Bonds with a premium. Related to this, HFS is obligated to the ILP in the amount of $4,683,750 and $6,761,250 as of June 30, 2020 and 2019, respectively. The final payment is due in fiscal year 2022. The average interest rate is 3.75%. The balance of the premium was $105,680 and $158,540 as of June 30, 2020 and 2019, respectively.

In December 2008, HFS drew funds from the ILP in a total amount of $6,348,067 to purchase the Cavalier Apartments property for future housing development plans. The final payment is due in fiscal year 2034. The interest rate was 4.25% and 4.50% as of June 30, 2020 and 2019, respectively. Related to this, HFS is obligated to the ILP in the amount of $4,388,426 and $4,618,488 as of June 30, 2020 and 2019, respectively.

In October 2010, the University issued General Revenue & Refunding Bonds, 2010A & B. A portion of the proceeds was used to partially refund the 2002 Housing and Dining Revenue & Refunding Bonds with a premium. Related to this, HFS is obligated to the ILP in the amount of $6,225,920 and $6,631,463 as of June 30, 2020 and 2019, respectively. The final payment is due in fiscal year 2032. The interest rate was 4.25% and 4.50% as of June 30, 2020 and 2019, respectively. The balance of the premium was $27,259 and $40,879 as of June 30, 2020 and 2019, respectively.

In March 2012, the University issued General Revenue & Refunding Bonds, 2012A & B. A portion of the proceeds was used to fully refund the 2002 and 2004 Housing and Dining Revenue & Refunding Bonds. The amount refunded was $15,595,000, with no gain or loss. Related to this, HFS is obligated to the ILP in the amount of $6,469,493 and $7,502,336 as of June 30, 2020 and 2019, respectively. The final payments are due in fiscal years 2022 and 2029, respectively. The interest rate was 4.25% and 4.50% as of June 30, 2020 and 2019, respectively, for the GRB 2012A. The interest rate was 4.06% for GRB 2012B as of June 30, 2020 and 2019.

From May 2009 through January 2016, the Board of Regents approved borrowing for HFS under the ILP of up to $760,775,515 for the four phases of the Housing Master Plan to build residence halls and single student apartments. The total draws to fund the project were $690,142,868. Phase 1a was completed in 2011 and Phases 1b, 2a, 2b, and 3 were completed in each of the succeeding four fiscal years. Repayment of borrowings for each phase of the project began in the autumn after each phase was completed. Debt repayments for Phase 4a of the project began in autumn 2019. Related to this, HFS is obligated to the ILP in the amount of $628,622,231 and $642,300,140 as of June 30, 2020 and 2019, respectively. The final payments are due between the fiscal years 2042 and 2049. The interest rate was 4.25% and 4.50% as of June 30, 2020 and 2019, respectively.

In July 2016, due to the transfer of the Nordheim Court Apartments from UW Real Estate (note 6), HFS is obligated to the ILP in the amount of $18,097,750 and $19,203,974 as of June 30, 2020 and 2019, respectively. The final payment is due in fiscal year 2032. The interest rate was 4.25% and 4.50% as of June 30, 2020 and 2019, respectively.

In June 2020, HFS was authorized to directly borrow $19,000,000 under the Financing Assets in the Short Term (FAST) loan program to allow for the completion of the Oak Hall construction project, while preserving cash reserves. The note payable is secured by the general revenue of the University. Proceeds of $12,000,000 were received in June 2020 with a fixed interest rate of 1.19%, and proceeds of $7,000,000 were received in June 2020 with a fixed interest rate of 1.88%. Repayments begin in September 2020, and the final payments are due in fiscal year 2031.

The ILP agreements require HFS to maintain certain financial performance ratios. If these requirements were violated, future financing from the ILP could be ceased or minimized. The FAST loan authorization also includes internal covenants that are similar to the ILP requirements. As of June 30, 2020, the loan covenants were temporarily waived by the University of Washington Board of Regents for fiscal years 2021 and 2022 due to impacts of the coronavirus pandemic. As of June 30, 2019, HFS met all requirements of the agreement.

Debt service requirements at June 30, 2020 were as follows:

	ILP Payable		Notes Payable	
	Principal	**Interest**	**Principal**	**Interest**
2021	$ 19,828,778	28,081,374	1,468,608	248,989
2022	20,625,928	27,212,020	1,819,197	241,917
2023	18,641,803	26,361,826	1,845,648	215,467
2024	19,452,730	25,552,460	1,872,503	188,612
2025	20,297,936	24,707,785	1,899,769	161,346
2026–2030	114,262,718	109,541,543	9,922,723	382,853
2031–2035	128,885,479	83,414,685	171,552	208
2036–2040	151,646,371	54,104,761	—	—
2041–2045	134,563,981	20,937,420	—	—
2046–2049	40,281,846	2,842,598	—	—
	668,487,570	$ 402,756,472	19,000,000	1,439,392
Add unamortized premium	132,939			
	$ 668,620,509			

(6) Leases

Lease Payments

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

The total principal obligation under this agreement was $895,000 and $1,310,000 as of June 30, 2020 and 2019, respectively, and is expected to be repaid in annual installments of approximately $480,000 (including imputed interest of approximately 5%) through 2022. Minimum future payments under this agreement at June 30, 2020 were as follows:

		Principal	Interest	Total
2021	$	435,000	46,987	481,987
2022		460,000	24,150	484,150
	$	895,000	71,137	966,137

Lease Revenue

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

The Commodore Duchess and Radford Court properties (the Apartments) are owned by the University and are managed by UW Real Estate in conjunction with an outside property manager. The University refunded the CDP bonds with loan proceeds from the ILP. In accordance with the ILP financing agreement, HFS will be obligated to pay debt service on this loan only in the event that funds from the Apartments are insufficient to cover debt service payments on the loan. The Apartments have been self-sustaining in the current and prior years. The outstanding debt under this agreement was $29,746,666 and $31,745,035 as of June 30, 2020 and 2019, respectively.

The University receives an annual payment from the Apartments, which it designates to HFS. Revenue from these properties was $3,232,888 and $3,073,408 for the years ended June 30, 2020 and 2019, respectively.

(7) Pension Plan

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

(a) Plan Descriptions of the DRS Plans

(i) Public Employees' Retirement System (PERS)

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

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

(b) Vesting and Benefits Provided

(i) PERS Plan 1

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

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

(ii) PERS Plan 2/3

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

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

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

(c) Fiduciary Net Position

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

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

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

(d) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). HFS's 2020 proportionate share of the pension liability is based on an OSA valuation performed as of June 30, 2018, with the results rolled forward to the measurement date of June 30, 2019. Likewise, HFS's 2019 pension liability is based on a valuation performed as of June 30, 2017, with the results rolled forward to the measurement date of June 30, 2018. The following actuarial assumptions have been applied to all prior periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of 2007–2012 *Experience Study Report* and the *2017 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the dates of the respective valuation reports.

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

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

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

	2020 (measurement date 2019)		2019 (measurement date 2018)	
	Target allocation	Long-term expected real rate of return arithmetic	Target allocation	Long-term expected real rate of return arithmetic
Asset class:				
Fixed income	20.00 %	2.20 %	20.00 %	1.70 %
Tangible assets	7.00	5.10	7.00	4.90
Real estate	18.00	5.80	18.00	5.80
Global equity	32.00	6.30	32.00	6.30
Private equity	23.00	9.30	23.00	9.30

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

(e) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2020 and 2019 was 7.40%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which the HFS participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.40% future investment rate of return on pension plan investments was assumed as of June 30, 2019 and 2018. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1, as provided for in Chapter 41.45 of the RCW).

(Continued)

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

The following table presents HFS's proportionate net pension liabilities calculated using the discount rates of 7.40% as of June 30, 2019 and 2018, as well as what the net pension liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

		1% Decrease	Current Discount Rate	1% Increase
			(Dollars in thousands)	
Plan as of June 30, 2020:				
PERS 1	$	5,161	4,121	3,219
PERS 2/3		10,137	1,322	(5,912)

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

(g) Employer Contribution Rates

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

		PERS		
Description		Plan 1		Plan 2/3[a]
		(Dollars in thousands)		
Contributions as June 30, 2020:				
Contribution rate		12.83 %		12.83 %
Contributions made	$	743	$	1,200
Contributions as June 30, 2019:				
Contribution rate		12.70 %		12.70 %
Contributions made	$	769	$	1,111

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

(Continued)

(h) HFS Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by HFS as of June 30, 2020 was June 30, 2019. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2019 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in their June 30, 2019 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension plan liability recorded by HFS as of June 30, 2019 was June 30, 2018, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2018 used as the basis for determining each employer's proportionate share of the collective pension amounts. HFS's proportionate share for each DRS plan is shown in the table below:

	Proportionate share	
	PERS 1	PERS 2/3
Year ended June 30, 2020	0.11 %	0.14 %
Year ended June 30, 2019	0.11 %	0.14 %

(i) HFS Aggregated Balances

HFS's aggregated balances of net pension liabilities as of June 30 2020 and 2019 are presented in the table below:

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
June 30, 2020:				
Net pension liability	$	4,121	1,322	5,443
June 30, 2019:				
Net pension liability	$	4,859	2,347	7,206

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

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

		Proportionate share of pension expense		
Description		PERS Plan 1	PERS Plan 2/3	Total
		(Dollars in thousands)		
As of June 30, 2020	$	112	329	441
As of June 30, 2019	$	442	95	537

		Deferred outflows of resources		
Description		PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
June 30, 2020:				
Change in assumptions	$	—	34	34
Difference between expected and actual experience		—	309	309
HFS's contributions subsequent to the measurement date of the collective net pension liability[a]		743	1,200	1,943
Total	$	743	1,543	2,286

(a) Recognized as a reduction of the net pension liability as of June 30, 2021

June 30, 2019:				
Change in assumptions	$	—	27	27
Difference between expected and actual experience		—	288	288
HFS's contributions subsequent to the measurement date of the collective net pension liability[b]		769	1,111	1,880
Total	$	769	1,426	2,195

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

Description		Deferred inflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
June 30, 2020:				
Difference between projected and actual earnings on plan investments, net	$	275	1,924	2,199
Change in assumptions		—	555	555
Difference between expected and actual experience		—	284	284
Change in HFS's proportionate share		—	40	40
Total	$	275	2,803	3,078

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

(Continued)

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

Year		Amortization of deferred inflows and deferred outflows of resources[a]		
		PERS Plan 1	PERS Plan 2/3	Total
		(Dollars in thousands)		
2021	$	(61)	(609)	(670)
2022		(144)	(1,011)	(1,155)
2023		(51)	(462)	(513)
2024		(19)	(258)	(277)
2025		—	(120)	(120)
Thereafter		—	—	—
Total	$	(275)	(2,460)	(2,735)

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

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

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

(i) 403(b) Plan Description

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

(ii) 403(b) Funding Policy

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

(l) University of Washington Supplemental Retirement Plan

(i) Plan Descriptions

The University of Washington Supplemental Retirement Plan (UWSRP), a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. HFS also participates in this plan. The UWSRP was closed to new participants effective March 1, 2011. As of June 30, 2020, 31 active and 4 inactive HFS employees were receiving benefits, with 1 inactive employee entitled to, but not receiving, benefits. As of June 30, 2019, 32 active and 4 inactive HFS employees were receiving benefits.

(ii) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the years ended June 30, 2020 and 2019 were $43 thousand and $39 thousand, respectively.

(Continued)

(iii) Total Pension Liability (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the HFS reports their share of the total UWSRP pension liability. This is different from the DRS plans which have trusted assets and, therefore, are reported as a net pension liability. The allocation method used to determine HFS's proportionate share of the University's TPL is based on its unit allocation of what is funded through the benefit load process. This proportionate share percentage for HFS was 0.52% and 0.51% as of June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, HFS has set aside $1,765,100 and $1,699,259, respectively, to pay future UWSRP retiree benefits associated with HFS employees. These assets are reported as other assets on the Statements of Net Position.

		June 30, 2020	June 30, 2019
		(Dollars in thousands)	
Schedule of changes in total pension liability:			
Beginning balance	$	3,081	2,073
Service cost		85	61
Interest on TPL		109	85
Difference between expected and actual experience		161	533
Change in assumptions		649	302
Change in proportion		(40)	66
Benefit payments		(43)	(39)
Ending balance	$	4,002	3,081

The June 30, 2020 and 2019 TPL is based on an actuarial valuation performed as of June 30, 2018 using the entry age actuarial method. Update procedures performed by the OSA were used to roll forward the TPL to the measurement dates, of June 30, 2020 and 2019, respectively.

HFS's share of UWSRP pension expense for the fiscal years ended June 30, 2020 and 2019 was $316 thousand and $164 thousand, respectively.

(iv) Actuarial Assumptions

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

	June 30, 2020 (Dollars in thousands)
Significant assumptions used to measure the total pension liability:	
Inflation	2.75 %
Salary changes	4.25
Source of mortality assumptions	RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB
Date of experience study	April 2016
Discount rate	2.21 %
Source of discount rate	Bond Buyer's 20 bond index as of June 30, 2020
TPL measurement at discount rate	$ 4,002
TPL discount rate increased 1%	3,475
TPL discount rate decreased 1%	4,643

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

(Continued)

Material assumption changes during the measurement period ending June 30, 2020 and 2019 include updating the GASB Statement No. 73 discount rate from 3.50% to 2.21% and from 3.87% to 3.50%, respectively, as well as updated investment assumptions ("Change in assumption," which both increased the TPL for both periods). Additionally, actual returns for CREF investments, which are used in determining a member's "assumed income", were less than expected for the measurement periods ending June 30, 2020 and 2019, and salary growth exceeded expectations for the period ending June 30, 2019 ("Difference between expected and actual experience" which also resulted in an increase of the TPL for both periods).

(v) Deferred Outflows and Deferred Inflows of Resources

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

		2020	**2019**
		(Dollars in thousands)	
Deferred outflows of resources:			
Difference between expected and actual experience	$	533	466
Change in assumptions		785	264
Change in proportionate share		97	115
Total	$	1,415	845
Deferred inflows of resources:			
Difference between expected and actual experience	$	300	374
Change in assumptions		127	159
Change in proportionate share		45	16
Total	$	472	549

Amortization of deferred inflows and deferred outflows of resources:		
Year:		
2021	$	122
2022		122
2023		122
2024		122
2025		195
Thereafter		260
Total	$	943

(8) Other Postemployment Benefits (OPEB)

(a) Plan Description

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

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

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

- The implicit subsidy, set up under RCW 41.05.022, is not a direct payment from the employer on behalf of the retiree. Retirees who are not yet eligible for Medicare benefits may currently continue to participate in the state's non-Medicare community-rated health insurance risk pool. Claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums. Therefore, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. This results in an implicit subsidy since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.
- The explicit subsidy, permitted under RCW 41.05.085, is a straightforward, set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The dollar amount of the explicit subsidy increased to $183 per member per month beginning in calendar year 2020. The subsidy was $168 per member per month for the first half of fiscal year 2020. The subsidy increased to $168 per member per month beginning in calendar year 2019. It was set at $150 per member per month for the first half of fiscal year 2019.

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

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

	2020 (Measurement date 2019)	2019 (Measurement date 2018)
Active employees	441	454
Inactive employees receiving benefits	119	124
Inactive employees entitled to, but not receiving, benefits	21	22

(b) Actuarial Assumptions

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

	June 30, 2020 (Dollars in thousands)
Significant assumptions used to measure the total OPEB liability (TOL):	
Inflation	2.75 %
Healthcare cost trend rate	Trend rate assumptions vary slightly by medical plan. Initial rate is approximately 8%, reaching an ultimate rate of approximately 4.5% in 2080.
Salary increase	3.50%, including Service-Based Salary Increases
Source of mortality assumptions	RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100% scale BB and updated based on results of the 2007-2012 Experience Study Report

	June 30, 2020 (Continued)
	(Dollars in thousands)
Date of experience study	2007-2012 Experience Study Report
Discount rate	3.50 %
Source of discount rate	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2019 (Measurement Date)
Post-retirement participation percentage	65 %
TOL measurement at discount rate	$ 20,437
TOL discount rate increased 1%	17,089
TOL discount rate decreased 1%	24,749
TOL measurement at healthcare cost trend rate	20,437
TOL healthcare cost trend rate increased 1%	25,681
TOL healthcare cost trend rate decreased 1%	16,541

	June 30, 2019
	(Dollars in thousands)
Significant assumptions used to measure the total OPEB liability (TOL):	
Inflation	2.75 %
Healthcare cost trend rate	Trend rate assumptions vary slightly by medical plan. Initial rate is 8.00%, reaching an ultimate rate of approximately 4.50% in 2080.
Salary increase	3.50%, including Service-Based Salary Increases
Source of mortality assumptions	RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100% scale BB and updated based on results of the 2007-2012 Experience Study Report

(Continued)

	June 30, 2019 (Continued)	
	(Dollars in thousands)	
Date of experience study	2007-2012 Experience Study Report	
Discount rate		3.87 %
Source of discount rate	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2018 (Measurement Date)	
Post-retirement participation percentage		65 %
TOL measurement at discount rate	$	18,610
TOL discount rate increased 1%		15,622
TOL discount rate decreased 1%		22,439
TOL measurement at healthcare cost trend rate		18,610
TOL healthcare cost trend rate increased 1%		23,042
TOL healthcare cost trend rate decreased 1%		15,277

Material assumption changes during the measurement period ending June 30, 2019 include updating the discount rate, as required by GASB 75. Material assumption changes during the measurement period ending June 30, 2018 include updating the forecasts of healthcare cost trends, as well as updating the discount rate, as required by GASB 75.

(c) Changes in the Total OPEB Liability

The TOL for the state of Washington as of June 30, 2020 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018, with results rolled forward to the measurement date of June 30, 2019. The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The measurement date for the TOL as of June 30, 2019 was the same as the valuation date. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as HFS. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. The allocation method used to determine HFS's proportionate share of the University's TOL is the relationship of HFS's active, healthcare-eligible employee headcount to the corresponding University total. This proportionate share percentage was 1.33% and 1.37% as of June 30, 2020 and 2019, respectively.

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

		June 30, 2020	June 30, 2019
		(Dollars in thousands)	
Schedule of changes in total OPEB liability:			
Beginning balance	$	18,610	21,574
Service cost		827	1,164
Interest		717	800
Difference between expected and actual experience		—	730
Change in assumptions		1,337	(5,094)
Benefit payments		(328)	(338)
Change in proportionate share		(726)	(226)
Ending balance	$	20,437	18,610

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

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

		2020	2019
		(Dollars in thousands)	
Proportionate share of OPEB expense	$	833	1,078
Deferred outflows of resources:			
Differences between expected and actual experience in the measurement of the total OPEB liability	$	546	649
HFS contributions subsequent to the measurement date of the collective total OPEB liability		353	342
Changes in assumptions		1,188	—
Change in proportion		21	25
Total	$	2,108	1,016

		2020	2019
		(Dollars in thousands)	
Deferred inflows of resources:			
Changes in assumptions	$	5,926	7,100
Change in proportion		1,135	217
Total	$	7,061	7,317

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

		2020
		(Dollars in thousands)
Amortization of deferred inflows and deferred outflows of resources[a]:		
Year:		
2021	$	(590)
2022		(590)
2023		(590)
2024		(590)
2025		(590)
Thereafter		(2,356)
Total	$	(5,306)

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

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2020 and 2019

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

PERS 1

(Dollar amounts in thousands)

		2020	2019	2018	2017	2016	2015
Housing and Food Services' proportion of the net pension liability		0.11 %	0.11 %	0.11 %	0.11 %	0.11 %	0.10 %
Housing and Food Services' proportionate share of the net pension liability	$	4,121	4,859	5,146	6,063	5,838	5,126
Housing and Food Services' covered-employee payroll		14,855	14,256	13,407	13,177	12,416	10,839
Housing and Food Services' proportionate share of the net pension liability as a percentage of covered-employee payroll		27.74 %	34.08 %	38.38 %	46.01 %	47.02 %	47.29 %
Plan fiduciary net position as a percentage of the total pension liability		67.12 %	63.22 %	61.24 %	57.03 %	59.10 %	61.19 %

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

PERS 1

(Dollar amounts in thousands)

		2020	2019	2018	2017	2016	2015
Contractually required contribution	$	12	16	21	23	29	28
Contributions in relation to the contractually required contribution		12	16	21	23	29	28
Contribution deficiency (excess)		—	—	—	—	—	—
Housing and Food Services' covered-employee payroll		15,395	14,804	14,256	13,407	13,177	12,416
Contributions as a percentage of covered-employee payroll		0.08 %	0.11 %	0.15 %	0.17 %	0.22 %	0.22 %

See accompanying independent auditors' report.

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2020 and 2019

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

PERS 2/3

(Dollar amounts in thousands)

	2020	2019	2018	2017	2016	2015
Housing and Food Services' proportion of the net pension liability	0.14 %	0.14 %	0.14 %	0.14 %	0.14 %	0.13 %
Housing and Food Services' proportionate share of the net pension liability	$ 1,322	2,347	4,765	7,035	4,928	2,530
Housing and Food Services' covered-employee payroll	14,879	14,256	13,444	13,051	12,239	10,721
Housing and Food Services' proportionate share of the net pension liability as a percentage of covered-employee payroll	8.94 %	16.46 %	35.44 %	53.90 %	40.27 %	23.60 %
Plan fiduciary net position as a percentage of the total pension liability	97.77 %	95.77 %	90.97 %	85.82 %	89.20 %	93.29 %

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

PERS 2/3

(Dollar amounts in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 1,953	1,901	1,801	1,503	1,448	1,127
Contributions in relation to the contractually required contribution	1,954	1,900	1,803	1,505	1,462	1,127
Contribution deficiency (excess)	(1)	1	(2)	(2)	(13)	—
Housing and Food Services' covered-employee payroll	15,192	14,850	14,256	13,444	13,051	12,239
Contributions as a percentage of covered-employee payroll	12.86 %	12.80 %	12.64 %	11.18 %	11.10 %	9.21 %

See accompanying independent auditors' report.

(Continued)

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2020 and 2019

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

(Dollars in thousands)

	2020	2019	2018	2017
Total pension liability – beginning	$ 3,081	2,073	2,161	2,550
Service cost	85	61	74	98
Interest	109	85	81	74
Differences between expected and actual experience	161	533	(170)	(369)
Changes in assumptions	649	302	(86)	(141)
Change in proportionate share	(40)	66	44	(26)
Benefit payments	(43)	(39)	(31)	(25)
Total pension liability – ending	$ 4,002	3,081	2,073	2,161
UWSRP covered-employee payroll	$ 3,812	4,083	3,817	3,947
Total pension liability as percentage of covered-employee payroll	105.0 %	75.5 %	54.3 %	54.8 %

Schedule of Changes in the Total OPEB Liability

(Dollars in thousands)

	2020	2019	2018
Total OPEB liability – beginning	$ 18,610	21,574	23,102
Service cost	827	1,164	143
Interest	717	800	685
Difference between expected and actual experience	—	730	—
Changes in assumptions	1,337	(5,094)	(3,342)
Benefit payments	(328)	(338)	(349)
Change in proportionate share	(726)	(226)	15
Total OPEB liability – ending	$ 20,437	18,610	20,254

See accompanying independent auditors' report.

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

Schedules of Required Supplementary Information (Unaudited)

June 30, 2020 and 2019

Schedule of Changes in the Total OPEB Liability (Continued)

(Dollars in thousands)

		2020	2019	2018
OPEB covered-employee payroll	$	36,122	34,274	34,274
Total OPEB liability as percentage of covered-employee payroll		56.6 %	54.3 %	61.9 %

See accompanying independent auditors’ report.

Plans Administered by DRS

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

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

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

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

Plans Administered by the University

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

Material assumption changes during the fiscal year 2020 measurement period include updating the GASB Statement No. 73 discount rate from 3.50% to 2.21% ("Change in assumption" which increased the TPL). Additionally, CREF investment experience during fiscal year 2020 was lower than expected (2.31% actual return). Lower investment experience than expected leads to an increase in the TPL. TIAA investment experience only slightly deviated from OSA's assumption.

Material assumption changes during the fiscal year 2019 measurement period include updating the GASB Statement No. 73 discount rate from 3.87% to 3.50% ("Change in assumption" which increased the TPL). Additionally, CREF investment experience during fiscal year 2019 was slightly lower than expected (4.97 percent actual return). Lower investment experience than expected leads to an increase in the TPL. TIAA investment experience only slightly deviated from OSA's assumption. Based on input from TIAA, OSA modified the TIAA settlement rates, settlement mortality, and increased the CREF investment return assumptions ("Difference between expected and actual experience" which also increased the TPL).

OPEB Plan Administered by the Healthcare Authority of Washington State

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

See accompanying independent auditors' report.

Material assumption changes in fiscal year 2020 relate to a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.87% for the June 30, 2018 measurement date, to 3.50% for the June 30, 2019 measurement date. This change resulted in an increase in the TOL.

Material assumption changes in the fiscal year 2019 relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index from 3.58% for the June 30, 2017 measurement date, to 3.87% for the June 2018 measurement date. Other material assumption changes included lowering the forecast of future healthcare cost trends. Both of these resulted in a decrease in the TOL.

See accompanying independent auditors' report.

KPMG

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Financial Statements and Schedules

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the University of Washington Department of Intercollegiate Athletics (the Department) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements for the years then ended, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Department of Intercollegiate Athletics as of June 30, 2020 and 2019, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1, the financial statements present only the Department and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2020 and 2019, 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 Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 11, and the schedules of required supplementary information on pages 44 through 48, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The supplementary information included on pages 49 through 52 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Seattle, Washington
October 19, 2020

Discussion and Analysis Prepared by Management

The following discussion and analysis provide an overview of the financial position and activities of the University of Washington Department of Intercollegiate Athletics (ICA) as of and for the years ended June 30, 2020, 2019, and 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes, which follow this section. The financial statements present only the University of Washington Department of Intercollegiate Athletics and do not purport to, and do not, present fairly the financial position of the University of Washington (the University) as of June 30, 2020 and 2019, the changes in its financial position or its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Using the Financial Statements

ICA's financial statements include the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. The financial health of ICA can be measured by reviewing the summaries and explanations that follow.

Statements of Net Position Summary

The following statements of net position summary shows ICA's total assets, total pension deferred outflows of resources, total liabilities, total pension deferred inflows of resources, and net position as of June 30, 2020, 2019, and 2018:

Statements of Net Position Summary

	2020	2019	2018
		(In thousands)	
Current assets	$ 33,320	26,666	27,331
Noncurrent assets:			
Capital assets, net	293,373	307,827	320,133
Other	109,791	107,377	100,669
Total assets	436,484	441,870	448,133
Pension deferred outflows of resources	4,925	3,482	1,456
OPEB deferred outflows of resources	1,920	1,672	202
Total assets and deferred outflows of resources	$ 443,329	447,024	449,791

Statements of Net Position Summary (continued)

		2020	2019	2018
			(In thousands)	
Current liabilities	$	31,982	35,115	35,505
Noncurrent liabilities		267,903	269,245	272,411
Total liabilities		299,885	304,360	307,916
Pension deferred inflows of resources		2,406	2,484	2,147
OPEB deferred inflows of resources		3,558	4,223	1,640
Net position		137,480	135,957	138,088
Total liabilities, deferred inflows of resources, and net position	$	443,329	447,024	449,791

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

- Current assets consist of cash and cash equivalents, accounts receivable, and prepaid expenses. Current assets were $1.3 million more than current liabilities at the end of 2020. Current assets were $8.4 million and $8.2 million less than current liabilities in 2019 and 2018, respectively. In 2020, the positive working capital is due to higher amounts of cash and account receivable and lower amounts of unearned income. The negative working capital in 2019 and 2018 is due to unearned income of $24.6 million, and $22.4 million largely related to ticket sales for the 2019 and 2018 football seasons, respectively. The unearned income for 2020 will be recorded as revenue when fans are able to attend in-person sporting events at the University corresponding to their advance football ticket purchases. Increases and decreases in current assets occur due to the timing of payments and receipts from operations.
- Noncurrent assets consist primarily of long-term investments, endowments, and capital assets. Noncurrent assets were $12.0 million and $5.6 million less at the end of 2020 and 2019 due to an increase in accumulated depreciation on capital assets offset by an increase in endowments and other investments of $862 thousand and $6.7 million, respectively. As of June 30, 2020, and 2019, there was $14.3 million and $14.8 million of noncurrent assets in long-term investment funds in which these investments can be used to meet ICA's long-term obligations.
- Current liabilities decreased by $3.1 million during 2020 to a total of $32.0 million largely due to the decrease in unearned income. Current liabilities decreased by $390 thousand during 2019 to a total of $35.1 million largely due to decreases in accounts payable and the principal payment on the ILP loan with the University, offset by an increase in unearned income.
- Noncurrent liabilities decreased by $1.3 million in 2020 due to the principal payments on the ILP loan and the Husky Stadium scoreboard lease, which were partially offset by assumption changes in the pension and other post-employment benefit liabilities. Noncurrent liabilities decreased by $3.2 million in 2019 due to principal payments on the ILP loan and the Husky Stadium scoreboard lease.

- The change in net position or "equity" measures whether the overall financial condition has improved or deteriorated during the year. The total net position increased by $1.5 million during 2020 mainly due to receiving more Capital Gifts related to the Health and High Performance/Basketball Operations Center. The total net position decreased by $2.1 million during 2019 mainly due to the receiving less contributions and a smaller gain on investments than in 2018.

ICA's Net Position or "Equity"

The following table is a summary of the net position or "equity" for ICA at June 30, 2020, 2019, and 2018:

		2020	2019	2018
			(In thousands)	
Net investment in capital assets	$	53,004	63,508	70,643
Restricted:				
Nonexpendable		72,708	68,555	64,174
Expendable		27,161	23,002	20,074
Unrestricted		(15,393)	(19,108)	(16,803)
Total net position	$	137,480	135,957	138,088

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

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

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

- Net investment in capital assets decreased by $10.5 million and $7.1 million in 2020 and 2019 to a total of $53.0 million and $63.5 million, respectively. This balance increases as debt is paid off or when ICA funds fixed asset purchases without financing. The balance decreases as assets are depreciated.
- Restricted nonexpendable net position increased by $4.2 million and $4.4 million in 2020 and 2019, respectively, due to an increase in contributed endowments of $4.5 million and $4.3 million, respectively.
- Restricted expendable net position increased by $4.2 million and $2.9 million in 2020 and 2019 due to an increase in the market value of endowments and the contributions to the Health and High Performance/Basketball Operations restricted gift budget.

(Continued)

- Unrestricted net position increased by $3.7 million in 2020 mainly due to increases in sponsorship revenue due to the new Adidas agreement. Unrestricted net position decreased by $2.3 million in 2019 mainly due to lower contributions and a smaller gain on investments than 2018.
- The fair market value of ICA's endowments was $89.0 million, $87.8 million, and $82.5 million at June 30, 2020, 2019, and 2018, respectively. The increase in 2020 and 2019 is due to additional endowment contributions of $4.5 million and $4.3 million and higher fair market values than in 2019 and 2018, respectively.
- ICA had $14.3 million, $14.8 million, and $14.7 million of long-term investments, not including endowments, in the University of Washington's Consolidated Endowment Fund (CEF) at June 30, 2020, 2019, and 2018, respectively. In fiscal year 2020, ICA had a market-related loss of $544 thousand. In fiscal year 2019, ICA had a market-related gain of $134 thousand.
- Short-term investments in the Invested Funds Pool used as operating funds for ICA yielded returns of 0.00% in 2020, 0.75% in 2019, and 0.75% in 2018.

Capital Improvements and Related Debt

- In 2020 and 2019, there was a net decrease of $14.5 million and $12.3 million in net capital assets, primarily related to the depreciation of capital assets exceeding the acquisition of capital assets during the year.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present how ICA's operating and nonoperating items resulted in changes in net position. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. The following summary shows the revenues, expenses, and changes in net position for the years ended June 30, 2020, 2019, and 2018:

Revenues, Expenses, and Changes in Net Position Summary

		2020	2019	2018
			(In thousands)	
Operating revenues	$	114,215	115,714	111,781
Operating expenses		(133,675)	(133,097)	(129,350)
Operating loss		(19,460)	(17,383)	(17,569)
Nonoperating revenues, net		8,673	8,175	12,959
Other revenues		12,310	7,077	5,997
Increase (decrease) in net position		1,523	(2,131)	1,387
Net position, beginning of year		135,957	138,088	149,112
Effect of accounting change		—	—	(12,411)
Net position, end of year	$	137,480	135,957	138,088

Revenues from All Sources

The following table summarizes revenues from all sources for the years ended June 30, 2020, 2019, and 2018:

Revenues from All Sources Summary

		2020	2019	2018
			(In thousands)	
Gate ticket sales	$	44,110	54,558	52,298
NCAA/conference distributions		36,532	37,205	35,944
Sponsorships, trademarks, and licensing		26,577	16,874	16,436
Concessions, souvenirs, parking, boat moorage		4,304	3,696	3,985
Other operating revenue		2,692	3,381	3,118
Contributions (noncapital)		15,152	10,144	12,882
Investment income, net		3,847	3,783	3,382
(Loss) gain on investments		(3,772)	1,319	4,295
University funded tuition waivers		4,360	4,152	3,835
Capital gifts		7,811	2,752	1,075
Endowment gifts		4,499	4,325	4,922
Total revenue – all sources	$	146,112	142,189	142,172

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

- Gate ticket sales continue to be a large source of revenue for ICA. Totals here include revenue received through seat-related contributions, which are no longer considered tax-deductible after the passage of the Tax Cuts and Jobs Act of 2017. Ticket sales decreased by $10.4 million in 2020 from 2019 due to the cancellation of Fall 2020 sports events, but was much less of a decrease because of the decisions of ticket holders to contribute gate ticket sales to the Huskies All In fundraising campaign aimed at mitigating losses associated with the novel Coronavirus outbreak (COVID-19). This transitioned $8.6 million from gate ticket sales to contributions. Ticket sales increased by $2.3 million in 2019 from 2018 due to an increase in ticket prices and the $4.1 million guarantee for the Chik-Fil-A kickoff football game. This was offset by a $3.7 million decrease in seat-related contributions related to the 2017 collection cycle for the Don James Center premium area in Husky Stadium.
- NCAA/conference distributions decreased $673 thousand in 2020 due to decreases in NCAA distributions related to the cancellation of the Men's NCAA Basketball tournaments due to the COVID-19 outbreak. NCAA/conference distributions increased $1.3 million in 2019 due to an increase of $1.0 million in the distribution received from the Pac-12 for the television network share and $300 thousand for the Pac-12 Network share.

(Continued)

- Contributions related to noncapital gifts increased by $5.0 million in 2020 from 2019. In 2020, contributions increased mainly due to gate ticket sales being converted to tax deductible contributions to the Huskies All In campaign due to COVID-19. Contributions related to noncapital gifts decreased by $2.7 million in 2019 from 2018. In 2018, donors gave at a higher level due to annual giving incentives associated with the football seat reallocation process, which occurs once every five years.
- Investment income increased by $64 thousand and $401 thousand in 2020 and 2019, respectively. Investment income is earned on the following two categories:
  - Investment income in the CEF increased by $64 thousand and $353 thousand in 2020 and 2019 mainly due to an increase in the balance held in the CEF during these periods.
  - Short-term investments received 0.00% distributions in 2020, 0.75% in 2019, and 0.75% in 2018. In 2019, due to increase ticket sales and contributions, the average investment balances were higher than in 2018, which resulted in a positive return.
- In 2020 and 2019, there was a decrease in gain on investments of $5.1 million and $3.0 million, respectively, due to the decreased value of long-term investments and endowment funds.
- Capital gifts were $7.8 million in 2020, $2.8 million in 2019, and $1.1 million in 2018, respectively. The increase in 2020 is mainly related to gifts received for the Health and High Performance/Basketball Operations Center. The increase in 2019 is mainly related to gifts received for the Softball Performance Center.
- Endowment gifts increased by $174 thousand in 2020 and decreased by $597 thousand in 2019 due to differing amounts of endowments being established.

(Continued)

Expenses and Losses

The following table summarizes expenses and losses for the years ended June 30, 2020, 2019, and 2018:

Expenses and Losses Summary

		2020	2019	2018
			(In thousands)	
Salaries and wages	$	39,219	39,266	35,828
Payroll taxes and employee benefits		9,872	9,368	8,977
Athletic student aid		14,729	14,462	13,417
Guarantees paid to visiting teams		1,674	1,631	2,587
Team travel		5,430	8,145	7,103
Day of game		8,622	8,843	8,727
Direct facilities, maintenance, and utilities		4,940	5,069	5,612
Advertising		2,749	2,808	2,801
Uniforms and supplies		9,347	6,772	7,151
Training table		2,875	3,415	3,352
Department relations		643	852	670
Banquets and special events		255	576	431
Depreciation		16,085	15,652	15,825
Noncapitalized equipment and repairs		2,307	1,386	2,558
Institutional overhead		2,910	2,767	2,555
Other operating expenses		12,018	12,085	11,756
Total operating expenses		133,675	133,097	129,350
Loss on disposal of capital assets		7	2	38
Financing cost on ballpark		—	1	3
Interest expense		10,907	11,220	11,393
Total nonoperating expenses and losses		10,914	11,223	11,434
Total	$	144,589	144,320	140,784

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

- Salaries and wages decreased by $47 thousand in 2020 from 2019 due to smaller incentive bonuses due to the cancellation of spring competitive seasons due to COVID-19. Salaries and wages increased by $3.4 million in 2019 from 2018 due to contract increases in football and men's basketball, merit increases for professional and classified staff, and incentive bonuses paid to coaching staff.

- Payroll taxes and employee benefits increased by $504 thousand in 2020 from 2019. Due to large increases in pension expenses related to GASB 73 from the previous year, the benefits expense increased in 2020, even though the salary expense remained roughly the same. Payroll taxes and employee benefits increased by $391 thousand in 2019 from 2018. Since payroll taxes and employee benefits are a percentage of salaries and wages, the changes detailed above in salaries and wages for 2019 directly impact the changes in payroll taxes and employee benefits. The percentages charged to ICA on professional and contract staff salaries went from 32.5% in 2018, 34.1% in 2019 to 32.1% in 2020. The percentages charged on classified staff salaries went from 40.1% in 2018, 40.5% in 2019 to 41.2% in 2020. The percentages charged on hourly staff and overtime went from 20.7% in 2018, 20.9% in 2019 to 22.2% in 2020.
- Athletic student aid increased by $267 thousand in 2020 from 2019 partially due to in-state and out-of-state tuition rates increasing by 2.3% and 4.3%, respectively. In addition, in fiscal year 2020, a lower number of post eligible scholarships were disbursed than in 2019. Athletic student aid increased by $1.0 million in 2019 from 2018 due to in-state and out-of-state tuition rates increasing by 2.2% and 3.0%, respectively, as well as an NCAA rule change which now makes it permissible to award additional scholarships and still honor the scholarships of medically disqualified student athletes.
- Guarantees paid to visiting teams fluctuate due to the difference in the nonconference football game schedule.
- Team travel decreased by $2.7 million in 2020 from 2019 due to the cancellation of spring competitions and championships due to COVID-19. Team travel increased by $1.0 million in 2019 from 2018 due to the football team's opening game in Atlanta, Georgia and their participation in the Rose Bowl.
- Day of game decreased by $221 thousand in 2020 from 2019 due to the cancellation of spring home competitions due to COVID-19. Day of game increased by $116 thousand in 2019 from 2018 due to an increased amount of discretionary tickets for the Chik-Fil-A Kickoff game and the Rose Bowl.
- Direct facilities, maintenance, and utilities decreased by $129 thousand and increased $543 thousand in 2020 and 2019 due to changes in utility costs and contract payments to vendors in 2020 and in 2019.
- Uniforms and supplies increased by $2.6 million in 2020 and increased $379 thousand in 2019. The increase in 2020 is due to the larger donated supplies allotment included in the new Adidas apparel contract which began July 1, 2019, however there is a matching sponsorship revenue offset. The decrease in 2019 is due to purchasing fewer Nike items in the final year of ICA's apparel sponsorship contract and a decrease in general supply purchases.
- Department relations and banquets and special events decreased by a total of $530 thousand in 2020 due not hosting the Hall of Fame ceremony, which is hosted every other year, fewer bowl events, and the cancellation of spring events due to COVID-19.
- Noncapitalized equipment and repairs increased by $921 thousand in 2020 and decreased $1.2 million in 2019. The increase in 2020 is due to having more noncapitalized facility enhancement projects. The decrease in 2019 is due to taking on fewer noncapitalized facility enhancement projects.
- Institutional overhead increased by $143 thousand in 2020 and by $212 thousand in 2019, both due to an increase in the calculation tied to higher gate revenue in 2020 and 2019.

- Other expenses increased by $239 thousand in 2020 mainly due to the payment to the consultant used in the apparel contract negotiation process. Other expenses increased $52 thousand in 2019 mainly due to paying a new 5% gift assessment on non-seat related contributions.
- Interest expense included in other operating expenses above decreased by $313 thousand in 2020 and $173 thousand in 2019 due to lower interest payments for the Husky ballpark and Husky Stadium financed projects.

Operating Loss

There was an operating loss of approximately $19.5 million and $17.4 million in 2020 and 2019, respectively. There was sufficient nonoperating revenues from contributions, investment income, and University funded tuition waivers to cover the operating losses for 2020 and 2019.

Economic Factors Affecting the Future

The negative impact of COVID-19 could be felt for a number of years to come. In 2021, COVID-19 threatens ICA's ability to hold competitive seasons and host fans at events. The loss of revenue in 2021 from gate ticket sales, concessions, souvenirs, parking, multimedia rights sponsorships, and network distributions from the Pac-12 conference could surpass $60 million. It is unclear what impact COVID-19 will have on attendance and ICA's season ticket base in the long-term. Since football revenue supports the operations of all 22 Intercollegiate Athletic programs, revenue loss in this area may limit the department's ability to provide the same level of services to teams going forward. Beyond that, an economic downturn associate with COVID-19 may also have a negative financial impact on athletic programs given the Department's reliance on fundraising.

NCAA deregulation can have a significant impact on increasing department expenses. The Alston vs. NCAA case ruling in May 2020 made it permissible to cover 'education expenses' beyond what is typically covered in cost of attendance. Expenses that result from this ruling could be significant.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Net Position

June 30, 2020 and 2019

Assets and Deferred Outflows of Resources		**2020**	**2019**
Current assets:			
Cash in the University of Washington Invested Funds Pool (note 2)	$	25,275,824	20,177,226
Accounts receivable		7,021,433	4,822,593
Prepaid expenses		1,022,425	1,666,181
Total current assets		33,319,682	26,666,000
Noncurrent assets:			
Investments:			
University of Washington Consolidated Endowment Fund (note 3)		14,255,257	14,798,846
Endowments (note 3)		88,972,624	87,757,133
UWSRP (note 9)		4,348,860	4,158,466
Advances to University for capital projects		2,214,157	662,732
Capital assets, net (note 4)		293,373,086	307,826,714
Total noncurrent assets		403,163,984	415,203,891
Total assets		436,483,666	441,869,891
Pension deferred outflows of resources (note 9)		4,925,202	3,482,469
OPEB deferred outflows of resources (note 10)		1,920,000	1,672,000
Total assets and deferred outflows of resources	$	443,328,868	447,024,360
Liabilities, Deferred Inflows of Resources, and Net Position			
Current liabilities:			
Accounts payable	$	1,440,707	1,501,377
Accrued salaries and vacation payable		3,792,340	3,837,378
Admission taxes payable		955,944	1,024,747
Accrued interest payable		355,856	189,980
Unearned income		21,178,397	24,641,811
Capitalized equipment lease payable, current portion (note 7)		940,576	918,917
Internal lending program payable, current portion (note 6)		3,318,627	3,000,472
Total current liabilities		31,982,447	35,114,682
Noncurrent liabilities:			
Capitalized equipment lease payable, net of current portion (note 7)		1,948,190	2,888,767
Internal lending program payable, net of current portion (note 6)		234,161,423	237,510,112
Pension liabilities (note 8)		12,221,945	10,475,948
Other post-employment benefit (OPEB) liabilities (note 10)		12,271,000	11,070,000
Pac-12 Management Fee payable		7,300,000	7,300,000
Total noncurrent liabilities		267,902,558	269,244,827
Total liabilities		299,885,005	304,359,509
Pension deferred inflows of resources (note 9)		2,405,551	2,484,649
OPEB deferred inflows of resources (note 10)		3,558,000	4,223,000
Total liabilities and deferred inflows of resources		305,848,556	311,067,158
Net position:			
Net investment in capital assets		53,004,270	63,508,446
Restricted:			
Nonexpendable (note 3)		72,707,823	68,555,222
Expendable:			
Expendable endowment principal (note 3)		1,096,531	1,138,345
Expendable endowment gains		15,168,270	18,063,566
Other expendable		10,896,575	3,799,953
Unrestricted		(15,393,157)	(19,108,330)
Total net position		137,480,312	135,957,202
Total liabilities, deferred inflows of resources, and net position	$	443,328,868	447,024,360

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

		2020	2019
Operating revenue:			
Gate ticket sales	$	44,109,975	54,558,201
NCAA/conference distributions		36,531,908	37,205,156
Sponsorships		25,678,492	15,752,484
Concessions, souvenirs, parking, and boat moorage		4,304,505	3,695,839
Trademarks and licensing		898,271	1,121,273
Facility income		2,096,445	2,551,182
Other		595,662	829,843
Total operating revenue		114,215,258	115,713,978
Operating expenses:			
Salaries and wages		39,219,410	39,265,604
Payroll taxes and employee benefits		9,872,122	9,368,036
Athletic student aid		14,728,551	14,462,438
Guarantees paid to visiting teams		1,674,476	1,631,364
Team travel		5,429,536	8,145,480
Day of game expenses		8,622,324	8,843,106
Direct facilities, maintenance, and utilities		4,940,332	5,068,880
Advertising		2,748,685	2,807,685
Uniforms and supplies		9,347,091	6,772,332
Training table		2,875,009	3,415,443
Department relations		642,741	851,925
Banquets and special events		254,749	575,369
Depreciation		16,085,013	15,652,367
Noncapitalized equipment and repairs		2,306,699	1,385,756
Institutional overhead		2,909,592	2,766,579
Medical expenses		1,367,073	1,488,414
Fund-raising, marketing, and promotions		303,954	327,951
Recruiting		622,021	789,425
Equipment		7,417	—
Other		9,718,566	9,479,388
Total operating expenses		133,675,361	133,097,542
Operating loss		(19,460,103)	(17,383,564)
Nonoperating revenues (expenses):			
Contributions		15,151,614	10,143,538
Investment income on Invested Funds		7	73,903
Investment income on CEF		3,847,060	3,709,297
(Loss) gain on investments		(3,771,978)	1,319,158
Loss on disposal of capital assets		(6,576)	(1,783)
University funded tuition waivers		4,360,001	4,151,964
Financing cost on Ballpark		—	(543)
Interest expense		(10,907,206)	(11,220,125)
Total nonoperating revenues		8,672,922	8,175,409
Loss before other revenues		(10,787,181)	(9,208,155)
Other revenues:			
Capital gifts		7,811,383	2,751,925
Gifts to permanent endowments		4,498,908	4,325,249
Total other revenues		12,310,291	7,077,174
Increase (decrease) in net position		1,523,110	(2,130,981)
Net position:			
Net position at beginning of year		135,957,202	138,088,183
Net position at end of year	$	137,480,312	135,957,202

See accompanying notes to financial statements.

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Statements of Cash Flows

Years ended June 30, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Gate ticket sales	$	40,491,480	56,869,903
NCAA/conference distributions		36,531,908	37,205,156
Sponsorships		13,526,765	10,085,249
Concessions and souvenirs		4,351,334	3,681,102
Trademarks and licensing		898,271	1,121,273
Facility income		2,300,258	2,670,141
Other		655,719	789,548
Payments to suppliers		(43,566,157)	(51,656,206)
Payments to employees		(39,263,640)	(38,827,251)
Payments for benefits		(9,359,956)	(9,244,366)
Payments for athletic aid		(14,657,708)	(14,448,703)
Net cash used in operating activities		(8,091,726)	(1,754,154)
Cash flows from noncapital financing activities:			
Contributions, excluding permanent endowments and capital		15,166,246	10,128,906
Contributions to permanent endowments		4,498,908	4,325,249
Settlement agreement		—	650,000
Interest paid on Pac-12 MMR		—	(162,765)
University funded tuition waivers		4,360,001	4,151,964
Net cash provided by noncapital financing activities		24,025,155	19,093,354
Cash flows from capital and related financing activities:			
Capital gifts received		7,811,383	2,751,925
Acquisition and construction of capital assets		(3,189,386)	(3,654,899)
Proceeds from Internal Lending Program		—	54,858
Financing paid on capital debt		—	(543)
Principal paid on capital debt		(3,928,292)	(5,226,479)
Interest paid on capital debt		(10,741,330)	(11,030,145)
Net cash used in capital and related financing activities		(10,047,625)	(17,105,283)
Cash flows from investing activities:			
Purchases of investments		(4,634,273)	(5,081,781)
Sale of investments		—	—
Investment income		3,847,067	3,783,198
Net cash used in investing activities		(787,206)	(1,298,583)
Net increase (decrease) in cash and cash equivalents		5,098,598	(1,064,666)
Cash and cash equivalents at beginning of year		20,177,226	21,241,892
Cash and cash equivalents at end of year	$	25,275,824	20,177,226
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(19,460,103)	(17,383,564)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		16,085,013	15,652,367
Other changes in assets and liabilities:			
Increase in accounts receivable		(2,213,472)	(257,612)
Decrease (increase) in prepaid expenses		643,756	(777,920)
Decrease in accounts payable		(160,930)	(1,512,852)
(Decrease) increase in unearned income		(3,463,413)	2,262,976
(Decrease) increase in accrued salaries and vacation payable		(45,038)	432,865
Increase (decrease) in pension liability		303,264	(667,029)
Increase in OPEB liability		288,000	453,000
(Decrease) increase in admissions taxes payable		(68,803)	43,615
Net cash used in operating activities	$	(8,091,726)	(1,754,154)
Supplemental disclosures of noncash activities:			
Donated supplies and team travel costs	$	6,261,063	2,815,000
Donated advertising		2,748,685	2,807,685
Pac-12 Management Fee and interest		165,876	189,980

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

The novel coronavirus (COVID-19) was identified in China in December 2019 and was identified in Washington State in January 2020. It has spread globally, creating a pandemic that has significantly impacted the economic conditions at a local, national, and international level. On February 29, 2020, the Governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address coronavirus in Washington. In March 2020, the World Health Organization declared the outbreak of COVID-19 to be a pandemic. The Federal Government and the state of Washington have implemented measures in an effort to contain the virus, including social distancing, travel restrictions, border closures, and limitations on public gatherings. The NCAA Board of Governors canceled all remaining 2020 winter and spring competition and championships on March 12, 2020. In August 2020, the Pac-12 Conference canceled all sport competition until January 1, 2021. In September 2020, the Pac-12 Conference announced football teams will play a seven game Conference-only season to begin on November 6 with a Pac-12 Championship Game on December 18. Additionally, men's and women's basketball teams will begin their season on the NCAA official start date of November 25. The winter sports and the other fall sports will resume competition in January 2021.

Since ICA's revenues are primarily driven by football, and to a lesser extent men's basketball, the cancellation of spring competitions due to COVID-19 did not have a significant financial impact. The department's reduction in NCAA distributions related to the cancellation of the men's basketball tournament were offset by operating expense savings. Primarily, the negative financial impacts of COVID-19 were not felt until after July 1, 2020.

(b) Basis of Presentation

The financial statements of the Department have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The Department is reporting as a special purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the Department presents a management's discussion and analysis, statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The financial statements present only the University of Washington ICA and do not purport to, and do not, present fairly the financial position of the University of Washington, as of June 30, 2020 and 2019, the changes in its financial position, or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The Department reports capital assets net of accumulated depreciation (as applicable) and reports depreciation expense in the Statements of Revenues, Expenses, and Changes in Net Position.

(c) Capital Assets

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

(d) Advances to University for Capital Projects

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

(e) Unearned Income

Funds received from the sale of tickets for games to be played subsequent to June 30, 2020 and 2019 are unearned. The Department's receipts are recognized as income in the period in which the games are played. At June 30, 2020 and 2019, unearned income consists of the following:

	2020	2019
Advance sales of football tickets	$ 20,703,159	23,165,143
Advance sales for men's and women's basketball	1,588	883,093
Other unearned income	473,650	593,575
	$ 21,178,397	24,641,811

(f) Operating Activities

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

(g) Contributions

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

(h) Sponsorships

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

The Department recorded $9.0 million and $5.6 million in sponsorship revenue for these transactions in the years ended June 30, 2020 and 2019, respectively.

(i) Income Taxes

As a part of the University, the Department is exempt from federal income taxes, except to the extent of unrelated business taxable income. Unrelated business tax was not significant to the financial statements taken as a whole at June 30, 2020 and 2019.

(j) Use of Estimates

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

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

(k) Pension and Other Post Retirement Benefits

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

Single Employer Pension Plan (UW Supplemental Retirement Plan). The total pension liability is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. The discount rate used is the yield or index rate for 20-year tax-exempt general obligation municipal bonds with average credit rating AA/Aa or higher rating. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. The measurement date for the UW Supplemental Retirement Plan total pension liability is June 30, 2020 and 2019. The ICA reports its proportionate share of the related pension amounts in the accompany financial statements.

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

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

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

Pooled Investments held on behalf of ICA by the University are recorded at ICA's share of the carrying value of the University of Washington Cash and Liquidity Pools which totaled $25,275,824 and $20,177,226 as of June 30, 2020 and 2019, respectively. These funds are available to the ICA on demand without prior notice or penalty. The Cash and Liquidity Pools were invested as follows at June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	5.7 %	3.7 %
Treasuries and agencies	75.8	68.3
Mortgage related securities	7.1	10.3
Asset-backed debt securities	7.9	10.5
Other	3.5	7.2
Total	100.0 %	100.0 %

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

(3) Investments

The Department purchases or sells units in the University's Consolidated Endowment Fund (CEF) on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed by the University based on the number of units held. The Department records its permanent endowments at fair value. Net appreciation/depreciation in the fair value is recorded as gain or loss on investments in the Statements of Revenue, Expenses, and Changes in Net Assets. For the investment portion of the CEF funds, the principal balance can be withdrawn at the end of each quarter. The Department earned investment income on these investment funds based on the performance of the University's CEF funds net of investment management and University administrative fees. The total return on the investments portion of the CEF funds for the years ended June 30, 2020 and 2019 was approximately 1.1% and 5.8%, respectively. During fiscal year 2011, the Board of Regents adopted a long-term spending policy for the CEF. Under the current policy, quarterly distributions to programs are based on an annual percentage rate of 4.0%, applied to the five-year rolling average of the CEF's market valuation. The administrative fee of 1.0% supporting campus wide fund-raising and stewardship activities (0.8%) and offsetting the internal cost of managing endowment assets (0.2%) continues, but is now based on a five-year average value similar to program distributions. The Department's endowments represent 2.90% and 2.85% of the CEF balance as of June 30, 2020 and 2019, respectively.

At June 30, 2020 and 2019, the fund balance of the Endowment and Expendable Endowment funds stated at fair value comprised the following:

		2020	2019
Expendable endowments:			
Graham*	$	443,766	460,688
Spence*		652,765	677,657
Endowments (including expendable gains)		87,876,093	86,618,788
Total	$	88,972,624	87,757,133

* Expenditure of principal is permitted under certain circumstances.

The Department received $4,498,908 and $4,325,249 in endowment gifts in 2020 and 2019, respectively, which are invested in the CEF. The CEF is not rated.

(a) Fair Value of Financial Instruments

(i) Fair Value Measurements

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

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Department has the ability to access at the measurement date. As of June 30, 2020 and 2019, the Department did not carry any Level 1 assets or liabilities.

Level 2 – Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. At June 30, 2020 and 2019, the Department did not carry any Level 2 assets or liabilities.

Level 3 – Inputs are unobservable inputs for the asset or liability. As of June 30, 2020 and 2019, the Department did not carry any Level 3 assets or liabilities.

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

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

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

The following table presents information about the Department's financial assets that are measured at fair value on a recurring basis using net asset value per share as a practical expedient at June 30, 2020 and 2019.

	June 30 2020	June 30 2019
Assets:		
Investments measured at net asset value:		
Pooled investments in the CEF	$ 14,255,257	14,798,846
Endowment and expendable endowment fund investments in the CEF	88,972,624	87,757,133
Total	$ 103,227,881	102,555,979

The Department participates in pooled investments in the CEF and has the ability to redeem its investment at net asset value at June 30, 2020 and 2019.

(4) Capital Assets

Capitalized asset activity for the years ended June 30, 2020 and 2019 is summarized as follows:

	Balance at June 30, 2019	Additions/ (transfers)	Retirements	Balance at June 30, 2020
Buildings	$ 456,722,304	52,663	—	456,774,967
Furniture, fixtures, and equipment	15,141,682	825,938	(406,888)	15,560,732
Construction in progress*	244,016	759,360	—	1,003,376
Total	472,108,002	1,637,961	(406,888)	473,339,075
Less accumulated depreciation:				
Buildings	151,038,849	15,086,435	—	166,125,284
Furniture, fixtures, and equipment	13,242,439	998,578	(400,312)	13,840,705
Total accumulated depreciation	164,281,288	16,085,013	(400,312)	179,965,989
Capital assets, net	$ 307,826,714	(14,447,052)	(6,576)	293,373,086

* Nondepreciable

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

* Nondepreciable

(5) Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2020 and 2019 is summarized as follows:

	Balance as of June 30, 2019	Additions	Reductions	Balance as of June 30, 2020	Current portion as of June 30, 2020
Internal lending program payable	$ 240,510,584	—	(3,030,534)	237,480,050	3,318,627
Capitalized equipment lease payable	3,807,684	—	(918,918)	2,888,766	940,576
Pac-12 management fee	7,300,000	—	—	7,300,000	—
	$ 251,618,268	—	(3,949,452)	247,668,816	4,259,203

	Balance as of June 30, 2018	Additions	Reductions	Balance as of June 30, 2019	Current portion as of June 30, 2019
Internal lending program payable	$ 244,784,449	54,858	(4,328,723)	240,510,584	3,000,472
Capitalized equipment lease payable	4,705,441	—	(897,757)	3,807,684	918,917
Pac-12 management fee	7,300,000	—	—	7,300,000	—
	$ 256,789,890	54,858	(5,226,480)	251,618,268	3,919,389

(6) Internal Lending Program

In February 2012, ICA began drawing money from the Internal Lending Program (ILP) for the costs related to renovating Husky Stadium. The Board of Regents at their November 18, 2010 meeting approved ICA to use the ILP for up to $250 million in project and capitalized interest costs for the renovation of Husky Stadium. On November 11, 2011, the Board of Regents approved to increase ICA's use of the ILP to $261.5 million for the costs of renovating Husky Stadium and adding a Sports Medicine and Sport Performance Center. Any amounts drawn from the ILP greater than $261.5 million will be funded by the Department. At the end of June 2020, ICA has a remaining principal balance of $237.5 million payable to the ILP relating to the construction of the Husky Stadium renovation and Husky Ballpark.

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

Under the terms of the ILP, rate adjustments will apply to all outstanding debt obligations, including debt issued prior to the ILP implementation. The ILP lending rate will be reviewed annually, and a preliminary indication of a rate adjustment will be announced to ILP participants 12 months in advance of the effective date. The interest rate is 4.25%. Final rate adjustments require approval by the Board of Regents.

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

		Principal	Interest
Year(s) ending June 30:			
2021	$	3,318,627	10,028,753
2022		3,462,449	9,884,931
2023		3,612,504	9,734,877
2024		4,786,665	9,558,649
2025		7,165,944	9,309,224
2026–2030		40,766,130	41,609,710
2031–2035		50,399,244	31,976,596
2036–2040		62,308,681	20,067,159
2041–2045		61,659,806	5,613,796
	$	237,480,050	147,783,695

ILP activity for the years ended June 30, 2020 and 2019 is summarized as follows:

Balance as of June 30, 2018	$	244,784,449
Additions		54,858
Reductions		(4,328,723)
Balance as of June 30, 2019		240,510,584
Additions		—
Reductions		(3,030,534)
Balance as of June 30, 2020	$	237,480,050

(7) Capital Lease

Future minimum lease payments under capital lease and the present value of the net minimum lease payments as of June 30, 2020 are as follows:

		Future payments
Years ending June 30:		
2021	$	997,934
2022		997,934
2023		997,934
2024		—
Total minimum lease payments		2,993,802
Less amount representing interest cost		(105,036)
Present value of minimum payments	$	3,098,838

Equipment under capital lease is as follows:

		Balance at June 30, 2019	Additions	Retirements	Balance at June 30, 2020
Equipment	$	7,598,343	—	(22,468)	7,575,875
Less accumulated depreciation:					
Equipment		7,597,721	622	(22,468)	7,575,875
Leased capital assets, net	$	622	(622)	—	—

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

(8) Related-Party Transactions

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

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

In addition, the Department purchases operating and other services from the University and is allocated institutional overhead from the University for services provided and payment for utility costs. The institutional overhead allocated from the University for fiscal year 2020 and 2019 was $2,909,592 and $2,766,579, respectively.

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

(9) Pension Plans

(a) Pension Plans

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

(b) Plan Administered by DRS

(i) Public Employees' Retirement System

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

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

(c) Vesting and Benefits Provided

(i) PERS Plan 1

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

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

(ii) PERS Plan 2/3

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

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

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

(d) Fiduciary Net Position

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

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

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

(e) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). ICA's 2020 proportionate share of the pension liability is based on an OSA valuation performed as of June 30, 2018, with the results rolled forward to the measurement date of June 30, 2019. Likewise, ICA's 2019 proportionate share of the pension liability is based on OSA valuation performed as of June 30, 2017, with the result rolled forward to the measurement date of June 30, 2018. The following actuarial assumptions have been applied to all prior periods included in the measurement:

	2020	2019
Inflation	2.75% total economic inflation, 3.50% salary inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.50%	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.50%
Investment rate of return	7.40%	7.40%

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

The actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of the 2007–2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the dates of the respective actuarial valuation reports.

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

The long-term expected rate of return of 7.40% as of June 30, 2020 and 2019, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

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

	June 30, 2020 (measurement date June 30, 2019)		June 30, 2019 (measurement date June 30, 2018)	
	Target allocation	% Long-term expected real rate of return arithmetic	Target allocation	% Long-term expected real rate of return arithmetic
Asset class:				
Fixed income	20.00 %	2.20 %	20.00 %	1.70 %
Tangible assets	7.00	5.10	7.00	4.90
Real estate	18.00	5.80	18.00	5.80
Global equity	32.00	6.30	32.00	6.30
Private equity	23.00	9.30	23.00	9.30

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

(f) Discount Rate

The discount rate used to measure the total pension liabilities as of June 30, 2020 and 2019 was 7.40%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which ICA participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

The following table presents the ICA's net pension liability calculated using the discount rate of 7.40%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.40%) or one-percentage-point higher (8.40%) than the current rate.

Discount Rate Sensitivity – Net Pension Liability (Asset)

(Dollars in thousands)

		2020			2019		
		1% Decrease	Discount rate at 7.4%	1% Increase	1% Decrease	Discount rate at 7.4%	1% Increase
Plan:							
PERS 1	$	2,241	1,789	1,398	2,438	1,983	1,590
PERS 2/3		4,388	572	(2,559)	4,364	954	(1,842)

(h) Employer Contribution Rates

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

Description		PERS Plan 1	PERS Plan 2/3[i]
		(Dollars in thousands)	
Contributions as June 30, 2020:			
Contribution rate		12.83 %	12.83 %
Contributions made	$	317	513
Contributions as June 30, 2019:			
Contribution rate		12.70 %	12.70 %
Contributions made	$	334	481

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

(i) ICA Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by ICA as of June 30, 2020 was June 30, 2019. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2019 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in their June 30, 2019 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by ICA as of June 30, 2019 was June 30, 2018, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2018 used as the basis for determining each employer's proportionate share of the collective pension amounts. ICA's proportionate share for each DRS plan is shown in the table below.

	Proportionate share	
	PERS 1	PERS 2/3
Plan:		
Year ended June 30, 2020	0.05 %	0.06 %
Year ended June 30, 2019	0.04	0.06

(j) ICA Aggregated Balances

ICA's aggregated balances of net pension liabilities and net pension asset as of June 30, 2020 and 2019 is presented in the table below.

Plan		PERS 1	PERS 2/3	Total
			(Dollars in thousands)	
2020:				
Net pension liability	$	1,789	572	2,361
2019:				
Net pension liability	$	1,983	954	2,937

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

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

Description		Proportionate share of pension expense		
		PERS Plan 1	PERS Plan 2/3	Total
		(Dollars in thousands)		
As of June 30, 2020	$	180	100	280
As of June 30, 2019		113	(26)	87

Description		Deferred outflows of resources		
		PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
2020:				
Change in assumptions	$	—	15	15
Difference between expected and actual experience		—	164	164
Change in University's proportionate share		—	44	44
ICA contributions subsequent to the measurement date of the collective net pension liability[a]		317	513	830
Total	$	317	736	1,053
2019:				
Change in assumptions	$	—	11	11
Difference between expected and actual experience		—	117	117
ICA contributions subsequent to the measurement date of the collective net pension liability[a]		334	480	814
Total	$	334	608	942

[a] Amounts will be recognized as a reduction of the net position liability as of June 30, 2020 and June 30, 2019.

Description		Deferred inflows of resources PERS 1	PERS 2/3	Total
		(Dollars in thousands)		
2020:				
Difference between expected and actual earnings on plan investments, net	$	120	833	953
Change in assumptions		—	240	240
Difference between expected and actual experience		—	123	123
Total	$	120	1,196	1,316
2019:				
Difference between expected and actual earnings on plan investments, net	$	79	586	665
Change in Assumptions		—	272	272
Difference between expected and actual experience		—	167	167
Change in University's proportionate share		—	76	76
Total	$	79	1,101	1,180

Amounts reported as deferred outflows of resources, as of June 30, 2020, exclusive of contributions made after the measurement date, and deferred inflows of resources will be recognized in pension expense as follows:

Year		Amortization of deferred inflows and deferred outflows of resources[a] PERS Plan 1	PERS Plan 2/3	Total
		(Dollars in thousands)		
2021	$	(26)	(253)	(279)
2022		(63)	(420)	(483)
2023		(23)	(181)	(204)
2024		(8)	(94)	(102)
2025		—	(42)	(42)
Thereafter		—	17	17
Total	$	(120)	(973)	(1,093)

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

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

(i) 403(b) Plan Description

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

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

(ii) 403(b) Funding Policy

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

(m) University of Washington Supplemental Retirement Plan

The University of Washington Supplemental Retirement Plan (UWSRP), a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011. The Department has staff participating in this plan.

Number of participants:

	June 30	
	2020	**2019**
Active employees	77	78
Inactive employees receiving benefits	11	11
Inactive employees entitled to, but not receiving, benefits	2	2

(i) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal years ended June 30, 2020 and 2019 were $105,000 and $95,000, respectively.

(ii) *Total Pension Liability (TPL)*

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS), which have trusted assets and, therefore, are reported as a net pension liability. The allocation method used to determine ICA's proportionate share of the University's TPL is based on its unit allocation of what is funded through the benefit load process. This proportionate share percentage for ICA was 1.26% and 1.27% as of June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, ICA has set aside $4,348,860 and $4,158,466, respectively, to pay future UWSRP retiree benefits. These assets are reported as Investments on the Statements of Net Position.

		June 30	
		2020	**2019**
		(Dollars in thousands)	
Schedule of changes in total pension liability:			
Beginning balance	$	7,539	4,952
Service cost		211	150
Interest on TPL		268	206
Difference between expected and actual experience		396	1,304
Change in assumptions		1,599	739
Change in proportion		(47)	283
Benefit payments		(105)	(95)
Ending balance	$	9,861	7,539

The June 30, 2020 and 2019 TPL is based on an actuarial valuation performed as of June 30, 2018 using the entry age actuarial method. Update procedures performed by the OSA were used to roll forward the TPL to the measurement dates, of June 30, 2020 and 2019, respectively.

ICA's share of UWSRP pension expense for the fiscal years ended June 30, 2020 and 2019 was $879,056 and $493,620, respectively.

(iii) Actuarial Assumptions

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

	June 30	
	2020	**2019**
	(Dollars in thousands)	
Significant assumptions used to measure the total pension liability:		
Inflation	2.75 %	2.75 %
Salary changes	4.25 %	4.25 %
Source of mortality assumptions	RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB	RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB
Date of experience study	April 2016	April 2016
Discount rate	2.21 %	3.50 %
Source of discount rate	Bond Buyer's 20 bond index as of June 30, 2020	Bond Buyer's 20 bond index as of June 30, 2019
TPL measurement at discount rate	$ 9,861	7,539
TPL discount rate increased 1%	8,562	6,578
TPL discount rate decreased 1%	11,439	8,700

(iv) Deferred Inflows and Outflows of Resources

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

		2020	2019
		(Dollars in thousands)	
Deferred inflows of resources:			
Difference between expected and actual experience	$	738	916
Change in assumptions		314	389
Change in proportion		38	—
Total	$	1,090	1,305
Deferred outflows of resources:			
Difference between expected and actual experience	$	1,315	1,141
Change in assumptions		1,933	647
Change in proportion		624	752
Total	$	3,872	2,540

		UWSRP
		(Dollars in thousands)
Amortization of deferred inflows of resources (a):		
Year:		
2021	$	(401)
2022		(401)
2023		(401)
2024		(401)
2025		(513)
Thereafter		(665)
Total	$	(2,782)

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

(10) Other Post-Employment Benefits (OPEB)

(a) Plan Description

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

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

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

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

The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The dollar amount of the explicit subsidy increased to $183 per member per month beginning in calendar year 2020. The subsidy was $168 per member per month for the first half of fiscal year 2020. The subsidy increased to $168 per member per month beginning in calendar year 2019. It was set at $150 per member per month for the first half of fiscal year 2019.

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

(Continued)

The table below shows the ICA's PEBB membership data as of June 30, 2020 and 2019:

	2020 (measurement date 2019)	2019 (measurement date 2018)
Active employees	265	270
Inactive employees receiving benefits	71	74
Inactive employees entitled to, but not receiving, benefits	13	13

(b) Actuarial Assumptions

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

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

(Dollars in thousands)

	June 30, 2020	June 30, 2019
Inflation	2.75 %	2.75 %
Healthcare cost trend rate	Trend rate assumptions vary slightly by medical plan. Initial rate is 8.00%, reaching an ultimate rate of approximately 4.50% in 2080.	Trend rate assumptions vary slightly by medical plan. Initial rate is 8.00%, reaching an ultimate rate of approximately 4.50% in 2080.
Salary increase	3.5%, including Service-Based Salary Increases	3.5%, including Service-Based Salary Increases
Source of mortality assumptions	RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100 percent scale BB and updated based on results of the 2007-2012 Experience Study Report	RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100 percent scale BB and updated based on results of the 2007-2012 Experience Study Report
Date of experience study	2007–2012 Experience Study Report	2007–2012 Experience Study Report
Discount rate	3.50 %	3.87 %
Source of discount rate	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2019 (Measurement Date)	Bond Buyer General Obligation 20-Bond Municipal Bond Index as of June 30, 2018 (Measurement Date)
Post-Retirement Participant Percentage	65 %	65 %
TOL measurement at discount rate	$ 12,271	11,070
TOL discount rate increased 1%	10,261	9,293

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

(Dollars in thousands)

	June 30, 2020	June 30, 2019
TOL discount rate decreased 1%	$ 14,860	13,348
TOL measurement at healthcare cost trend rate	12,271	11,070
TOL healthcare cost trend rate increased 1%	15,420	13,707
TOL healthcare cost trend rate decreased 1%	9,932	9,088

Material assumption changes during the measurement period include updating the forecasts of healthcare cost trends, as well as the discount rate as of each measurement date, as required by GASB 75. The discount rate used for the beginning TOL was 3.87% and the discount rate used for the ending TOL was 3.50%, resulting in an increase of the TOL.

(c) Changes in the Total OPEB Liability

The TOL for the state of Washington as of June 30, 2020 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The measurement dates for the TOL reported at June 30, 2020 and 2019 are the same as the valuation dates. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as ICA. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine ICA's proportionate share of the University's TOL is the relationship of ICA's active, healthcare-eligible employee headcount to the corresponding University total. ICA's proportionate share percentage was 0.80% in 2020 and 0.82% in 2019.

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

Schedule of Changes in Total OPEB Liability

(Dollars in thousands)

		June 30	
		2020	**2019**
Beginning balance	$	11,070	11,730
Service cost		497	692
Interest		430	476
Difference between expected and actual experience		—	434
Change in assumptions		803	(3,030)
Benefit payments		(197)	(201)
Changes in proportionate share		(332)	969
Ending balance	$	12,271	11,070

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

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

		2020	**2019**
		(Dollars in thousands)	
Proportionate share of OPEB expense	$	500	641
Deferred outflows of resources:			
Differences between expected and actual experience in the measurement of the total OPEB liability	$	328	386
Changes in assumptions		714	—
University contributions subsequent to the measurement date of the collective total OPEB liability		211	203
Changes in proportion		667	1,083
Total	$	1,920	1,672
Deferred inflows of resources:			
Change in assumptions	$	3,558	4,223
Total	$	3,558	4,223

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

Amortization of Deferred Inflows and Deferred Outflows of Resources (a)

(Dollars in thousands)

		OPEB
Year:		
2021	$	(206)
2022		(206)
2023		(206)
2024		(206)
2025		(206)
Thereafter		(819)
Total	$	(1,849)

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

(13) Commitments and Contingencies

The Department is subject to various claims and lawsuits that are covered by the University's self-insurance fund, subject to a deductible of $100,000 per occurrence.

The Department has entered into employment contracts with certain employees expiring in years 2020 through 2025 that provide for certain salary guarantees and commitments. The annual salary payments will be funded through the Department. At June 30, 2020, the total commitment for all contracts for each the next five years and in the aggregate is as follows:

		Guaranteed amount
Year ending June 30:		
2021	$	21,144,319
2022		14,801,942
2023		11,183,960
2024		9,979,024
2025		5,806,434
Thereafter		—
	$	62,915,679

(14) Subsequent Event

At the September 10, 2020 University of Washington Board of Regents meeting, the Board approved the deferral of ICA's loan payments on the principal and interest due for Husky Stadium and Husky Ballpark for fiscal year 2021. One year will be added to the final term, with the final payment being due July 1, 2046. Interest will be capitalized over the deferral year and added to the loan. ICA's annual payment post fiscal year 2021 will be approximately $600 thousand higher on average over the remaining term and ICA will pay a total of $15.7 million more in debt service over the life of the loan.

Schedule 1

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2020

Unaudited – See accompanying independent auditors' report.

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

PERS 1

(Dollar amounts in thousands)

		2020	2019	2018	2017	2016	2015
Intercollegiate Athletics' proportion of the net pension liability		0.050 %	0.040 %	0.050 %	0.047 %	0.051 %	0.051 %
Intercollegiate Athletics' proportionate share of the net pension liability	$	1,789	1,983	2,166	2,501	2,645	2,547
Intercollegiate Athletics' covered-employee payroll		6,043	5,819	5,643	5,429	5,625	5,385
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll		29.61 %	34.09 %	38.38 %	46.01 %	47.02 %	47.30 %
Plan fiduciary net position as a percentage of the total pension liability		67.12 %	63.22 %	61.24 %	57.03 %	59.10 %	61.19 %

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

PERS 1

(Dollar amounts in thousands)

		2020	2019	2018	2017	2016	2015
Contractually required contribution	$	5	7	9	10	12	12
Contributions in relation to the contractually required contribution		5	7	9	10	12	12
Contribution deficiency (excess)		—	—	—	—	—	—
Intercollegiate Athletics' covered-employee payroll		6,570	6,043	5,819	5,643	5,429	5,625
Contributions as a percentage of covered-employee payroll		0.08 %	0.11 %	0.15 %	0.17 %	0.22 %	0.22 %

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2020

Unaudited – See accompanying independent auditors' report.

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

PERS 2/3

(Dollar amounts in thousands)

		2020	2019	2018	2017	2016	2015
Intercollegiate Athletics' proportion of the net pension liability	$	0.06 %	0.06 %	0.06 %	0.06 %	0.06 %	0.06 %
Intercollegiate Athletics' proportionate share of the net pension liability		572	954	1,999	2,854	2,135	1,215
Intercollegiate Athletics' covered-employee payroll		6,037	5,795	5,640	5,295	5,302	5,147
Intercollegiate Athletics' proportionate share of the net pension liability as a percentage of covered-employee payroll		9.48 %	16.46 %	35.44 %	53.90 %	40.27 %	23.61 %
Plan fiduciary net position as a percentage of the total pension liability		97.70 %	95.77 %	90.97 %	85.82 %	89.20 %	93.29 %

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

PERS 2/3

(Dollar amounts in thousands)

		2020	2019	2018	2017	2016	2015
Contractually required contribution	$	835	773	732	631	588	488
Contributions in relation to the contractually required contribution		835	773	733	631	593	488
Contribution deficiency (excess)		—	—	(1)	—	(5)	—
Intercollegiate Athletics' covered-employee payroll		6,494	6,037	5,795	5,640	5,295	5,302
Contributions as a percentage of covered-employee payroll		12.86 %	12.80 %	12.64 %	11.18 %	11.10 %	9.21 %

(Continued)

Schedule 1

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Schedules of Required Supplementary Information

June 30, 2020

Unaudited – See accompanying independent auditors' report.

Schedule of Changes in Total Pension Liability

UW Supplemental Retirement Plan

(Dollars in thousands)

		2020	2019	2018	2017
Total pension liability – beginning	$	7,539	4,952	5,112	5,503
Service cost		211	150	178	232
Interest on TPL		268	207	194	176
Difference between expected and actual experience		396	1,303	(408)	(873)
Change in assumptions		1,599	739	(205)	(333)
Change in proportion		(47)	283	155	467
Benefit payments		(105)	(95)	(74)	(60)
Total pension liability – ending	$	9,861	7,539	4,952	5,112
UWSRP covered-employee payroll		9,392	9,993	9,120	9,335
Total pension liability as percentage of covered-employee payroll		105.00 %	75.44 %	54.30 %	54.80 %

Schedule of Changes in Total OPEB Liability

(Dollars in thousands)

		2020	2019	2018
Total OPEB liability – beginning	$	11,070	11,730	12,601
Service cost		497	692	795
Interest on OPEB		430	476	372
Difference between expected and actual experience		—	434	—
Change in assumptions		803	(3,030)	(1,817)
Change in proportion		(332)	969	(31)
Benefit payments		(197)	(201)	(190)
Total OPEB liability – ending	$	12,271	11,070	11,730
OPEB covered-employee payroll		21,689	20,388	18,954
Total OPEB liability as percentage of covered-employee payroll		56.58 %	54.29 %	61.88 %

Plans Administered by DRS

Office of the State Actuary (OSA) calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2017, and ending June 30, 2019. OSA calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation and sets it equal to the expected benefit payments from the plan. Consistent with the state's funding policy defined in Chapters 2.10.90 and 2.12.60 RCW, the Legislature makes biennial appropriations to ensure the fund is solvent so it can make the necessary benefit payments. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2017, and ending June 30, 2019, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased in over three biennia for PERS Plans 1, 2 and 3.

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

Plans Administered by the University

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

Material assumption changes during the measurement period ending June 30, 2020 include updating the GASB 73 discount rate from 3.50% to 2.21% (change in assumption, which increased the TPL). Additionally, actual returns for TIAA and CREF investments of 2.31% were less that the assumed return of 6.50% and actual salary growth exceeded the estimate of 4.25% (difference between expected and actual experience, which also increased the TPL).

Material assumption changes during the measurement period ending June 30, 2019 include updating the GASB 73 discount rate from 3.87% to 3.50% (change in assumption, which increased the TPL). Additionally, actual returns for TIAA and CREF investments of 5.00% were less that the assumed return of 6.50% and actual salary growth exceeded the estimate of 4.25% (difference between expected and actual experience, which also increased the TPL).

OPEB Plan administered by the Healthcare Authority of Washington State

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

Material assumption changes during the fiscal year 2020 measurement period relate to a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.87% for the June 30, 2018 measurement date, to 3.50% for the June 30, 2019 measurement date. This change resulted in an increase in the TOL.

Material assumption changes during the fiscal year 2019 measurement period relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.58% for the June 30, 2017 measurement date, to 3.87% for the June 30, 2018 measurement date. Other material assumption changes included lowering the forecast of future healthcare cost trends. Both of these resulted in a decrease in the TOL.

Schedule 2

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating and Other Revenue by Specific Function

Year ended June 30, 2020

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Administration and other	Total
Gate ticket sales revenue:							
Ticket sales for home events	$ 31,053,674	3,129,843	289,042	86,176	572,599	—	35,131,334
Admission taxes	(1,478,496)	(149,118)	(13,745)	(4,487)	(26,928)	—	(1,672,774)
Ticket-processing fees	886,087	133,433	3,135	298	39,175	—	1,062,128
	30,461,265	3,114,158	278,432	81,987	584,846	—	34,520,688
Seat-related gifts	7,877,600	1,425,387	28,300	—	—	—	9,331,287
University's share of gate revenue for away games	250,000	—	—	3,000	5,000	—	258,000
Total gate ticket sales revenue	38,588,865	4,539,545	306,732	84,987	589,846	—	44,109,975
NCAA/conference distributions:							
PAC-12 television share	18,805,740	3,286,098	—	—	—	—	22,091,838
PAC-12 Rose/other bowl shares	7,771,584	—	—	—	—	—	7,771,584
Bowl participation	1,500,000	—	—	—	—	—	1,500,000
NCAA MBB tournament	—	1,390,355	—	—	—	—	1,390,355
Football Pac-12 Championship Game	93,978	—	—	—	—	—	93,978
MBB PAC-12 tournament	—	(45,600)	—	—	—	—	(45,600)
Pac-12 Network share	2,485,484	438,615	—	—	—	—	2,924,099
Other	—	—	—	—	—	805,654	805,654
Total NCAA/conference distributions	30,656,786	5,069,468	—	—	—	805,654	36,531,908
Royalties, advertisements, and sponsorships:							
Sponsorships	—	—	—	27,589	20,449	16,631,769	16,679,807
Donated advertising	—	—	—	—	—	2,748,685	2,748,685
Trademarks and licensing	—	—	—	—	—	898,271	898,271
Donated supplies	2,050,000	390,000	325,000	1,145,130	1,374,870	965,000	6,250,000
Total royalties, advertisements, and sponsorships	2,050,000	390,000	325,000	1,172,719	1,395,319	21,243,725	26,576,763
Contributions	8,835,264	187,665	86,327	844,079	658,538	4,539,741	15,151,614
Capital gifts	—	—	—	—	—	7,811,383	7,811,383
Gifts to permanent endowments	—	—	—	—	—	4,498,908	4,498,908
Loss on investments	—	—	—	—	—	(3,771,978)	(3,771,978)
Investment income, net	—	—	—	—	—	3,847,067	3,847,067
University funded tuition waivers	—	—	—	—	—	4,360,001	4,360,001
Concessions, souvenirs, parking, and boat moorage	3,327,767	265,785	37,309	5,394	26,011	642,239	4,304,505
Facility income	—	—	—	—	—	2,096,445	2,096,445
Other	—	—	—	121,387	137,102	337,173	595,662
Total revenue	$ 83,458,682	10,452,463	755,368	2,228,566	2,806,816	46,410,358	146,112,253

See accompanying independent auditors' report.

Schedule 2

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating and Other Revenue by Specific Function

Year ended June 30, 2019

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Administration and other	Total
Gate ticket sales revenue:							
Ticket sales for home events	$ 25,593,394	2,827,200	298,500	237,016	723,315	—	29,679,425
Admission taxes	(1,218,738)	(134,597)	(14,221)	(11,327)	(34,547)	—	(1,413,430)
Ticket-processing fees	960,899	162,390	4,325	12,561	55,944	—	1,196,119
	25,335,555	2,854,993	288,604	238,250	744,712	—	29,462,114
Seat-related gifts	18,947,741	1,928,471	12,675	—	—	—	20,888,887
University's share of gate revenue for away games	4,100,000	50,000	—	12,460	44,740	—	4,207,200
Total gate ticket sales revenue	48,383,296	4,833,464	301,279	250,710	789,452	—	54,558,201
NCAA/conference distributions:							
PAC-12 television share	17,688,881	3,125,192	—	—	—	—	20,814,073
PAC-12 Rose/other bowl shares	7,477,259	—	—	—	—	—	7,477,259
Bowl participation	2,475,223	—	—	—	—	—	2,475,223
NCAA MBB tournament	—	1,521,955	—	—	—	—	1,521,955
Football Pac-12 Championship Game	51,936	—	—	—	—	—	51,936
MBB PAC-12 tournament	—	15,453	—	—	—	—	15,453
Pac-12 Network share	2,474,067	436,600	—	—	—	—	2,910,667
Other	—	—	—	—	—	1,938,590	1,938,590
Total NCAA/conference distributions	30,167,366	5,099,200	—	—	—	1,938,590	37,205,156
Royalties, advertisements, and sponsorships:							
Sponsorships	30,000	10,000	—	49,673	83,883	9,956,243	10,129,799
Donated advertising	—	—	—	—	—	2,807,685	2,807,685
Trademarks and licensing	—	—	—	—	—	1,121,273	1,121,273
Donated supplies	878,200	202,000	180,000	620,500	766,300	168,000	2,815,000
Total royalties, advertisements, and sponsorships	908,200	212,000	180,000	670,173	850,183	14,053,201	16,873,757
Contributions	814,341	751,564	106,899	1,132,015	1,179,480	6,159,239	10,143,538
Capital gifts	—	—	—	—	—	2,751,925	2,751,925
Gifts to permanent endowments	—	—	—	—	—	4,325,249	4,325,249
Gain on investments	—	—	—	—	—	1,319,158	1,319,158
Investment income, net	—	—	—	—	—	3,783,200	3,783,200
University funded tuition waivers	—	—	—	—	—	4,151,964	4,151,964
Concessions, souvenirs, parking, and boat moorage	2,745,601	144,789	37,489	17,773	39,922	710,265	3,695,839
Facility income	—	—	—	—	—	2,551,182	2,551,182
Other	45,100	—	—	222,931	182,480	379,332	829,843
Total revenue	$ 83,063,904	11,041,017	625,667	2,293,602	3,041,517	42,123,305	142,189,012

See accompanying independent auditors' report.

Schedule 3

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating Expenses and Other Deductions by Specific Function

Year ended June 30, 2020

	Men's football	Men's basketball	Women's basketball	Other sports		Postseason activity	Administration	Facilities maintenance and event management	Department relations and visiting recruits	Total
				Men's	Women's					
Operating expenses:										
Salaries and wages	$ 12,289,937	4,252,385	1,286,417	2,803,541	3,520,926	169,126	12,751,445	2,145,633	—	39,219,410
Payroll taxes and employee benefits	2,215,739	902,935	380,968	824,189	1,009,572	13,862	3,762,818	762,039	—	9,872,122
Athletic student aid	3,918,068	629,849	685,828	2,973,075	5,275,165	—	1,223,785	—	22,781	14,728,551
Guarantees paid to visiting teams	950,000	572,126	111,450	30,900	10,000	—	—	—	—	1,674,476
Team travel	1,388,746	694,638	291,841	554,173	1,135,553	1,173,672	131,078	—	59,835	5,429,536
Day of game expenses	2,531,484	496,415	279,219	152,097	263,841	14,327	588,014	581,888	3,715,039	8,622,324
Direct facilities, maintenance, and utilities	184,606	—	—	48,295	44,146	—	3,383,945	1,279,340	—	4,940,332
Donated advertising	—	—	—	—	—	—	2,748,685	—	—	2,748,685
Uniforms and supplies	896,008	83,167	32,403	393,059	342,945	113,590	958,067	271,130	6,722	3,097,091
Donated supplies	2,050,000	390,000	325,000	1,145,130	1,374,870	—	965,000	—	—	6,250,000
Institutional overhead	—	—	—	—	—	—	2,909,592	—	—	2,909,592
Medical expenses	24,665	6,819	4,143	22,416	23,331	—	1,278,400	—	7,299	1,367,073
Fund-raising, marketing, and promotions	—	—	—	—	4,066	—	299,888	—	—	303,954
Recruiting	—	—	—	—	—	—	—	—	622,021	622,021
Equipment	—	—	—	—	—	—	—	7,417	—	7,417
Training table	1,149,669	215,819	27,200	154,191	263,340	41,989	264,480	—	758,321	2,875,009
Department relations	22,967	1,526	1,213	83,750	43,817	51,495	75,096	—	362,877	642,741
Banquets and special events	—	—	—	8,465	12,064	—	106,369	—	127,851	254,749
Depreciation	—	—	—	—	—	—	16,085,013	—	—	16,085,013
Noncapitalized equipment and repairs	—	—	—	—	—	—	—	2,306,699	—	2,306,699
Other	675,406	616,217	148,329	449,482	337,452	9,678	5,438,958	25,823	2,017,221	9,718,566
Total operating expenses	28,297,295	8,861,896	3,574,011	9,642,763	13,661,088	1,587,739	52,970,633	7,379,969	7,699,967	133,675,361
Other deductions:										
Loss on disposal of capital assets	—	—	—	—	—	—	—	6,576	—	6,576
Interest expense	—	—	—	—	—	—	10,907,206	—	—	10,907,206
Total other deductions	—	—	—	—	—	—	10,907,206	6,576	—	10,913,782
Total operating expenses and other deductions	$ 28,297,295	8,861,896	3,574,011	9,642,763	13,661,088	1,587,739	63,877,839	7,386,545	7,699,967	144,589,143

See accompanying independent auditors' report.

Schedule 3

UNIVERSITY OF WASHINGTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS

Operating Expenses and Other Deductions by Specific Function

Year ended June 30, 2019

	Men's football	Men's basketball	Women's basketball	Other sports Men's	Other sports Women's	Postseason activity	Administration	Facilities maintenance and event management	Department relations and visiting recruits	Total
Operating expenses:										
Salaries and wages	$ 12,423,153	3,746,973	1,176,494	2,905,353	3,628,487	621,478	12,361,190	2,241,460	10,016	39,114,604
Payroll taxes and employee benefits	2,295,982	833,318	374,294	871,177	1,083,703	50,457	3,225,587	784,518	—	9,519,036
Athletic student aid	3,904,884	569,903	647,907	2,838,048	5,183,141	—	1,300,127	—	18,428	14,462,438
Guarantees paid to visiting teams	700,000	712,424	137,500	65,440	16,000	—	—	—	—	1,631,364
Team travel	1,807,017	805,660	336,942	1,082,347	1,611,309	2,155,914	286,369	—	59,922	8,145,480
Day of game expenses	2,054,627	329,117	245,247	258,311	318,648	54,396	708,517	659,324	4,214,919	8,843,106
Direct facilities, maintenance, and utilities	157,587	—	—	76,454	91,350	—	3,311,246	1,432,243	—	5,068,880
Donated advertising	—	—	—	—	—	—	2,807,685	—	—	2,807,685
Uniforms and supplies	1,296,498	108,297	58,515	424,512	596,353	145,342	1,042,871	285,752	14,192	3,972,332
Donated supplies	878,200	202,000	180,000	620,500	766,300	—	153,000	—	—	2,800,000
Institutional overhead	—	—	—	—	—	—	2,766,579	—	—	2,766,579
Medical expenses	28,466	5,283	3,900	22,212	31,964	—	1,385,173	—	11,416	1,488,414
Fund-raising, marketing, and promotions	—	—	—	—	5,560	—	322,391	—	—	327,951
Recruiting	—	—	—	—	—	—	—	—	789,425	789,425
Equipment	—	—	—	—	—	—	—	—	—	—
Training table	1,279,011	193,119	26,476	157,645	276,957	121,730	276,303	—	1,084,202	3,415,443
Department relations	66,123	5,863	1,800	51,015	42,918	80,562	110,930	3,798	488,916	851,925
Banquets and special events	7,768	—	4,540	66,649	34,997	—	286,561	—	174,854	575,369
Depreciation	—	—	—	—	—	—	15,652,367	—	—	15,652,367
Noncapitalized equipment and repairs	—	—	—	—	—	—	—	1,385,756	—	1,385,756
Other	830,019	280,116	213,774	751,359	688,408	31,100	5,495,595	21,952	1,167,065	9,479,388
Total operating expenses	27,729,335	7,792,073	3,407,389	10,191,022	14,376,095	3,260,979	51,492,491	6,814,803	8,033,355	133,097,542
Other deductions:										
Loss on disposal of capital assets	—	—	—	—	—	—	—	1,783	—	1,783
Financing cost on Ballpark	—	—	—	—	—	—	543	—	—	543
Interest expense	—	—	—	—	—	—	11,220,125	—	—	11,220,125
Total other deductions	—	—	—	—	—	—	11,220,668	1,783	—	11,222,451
Total operating expenses and other deductions	$ 27,729,335	7,792,073	3,407,389	10,191,022	14,376,095	3,260,979	62,713,159	6,816,586	8,033,355	144,319,993

See accompanying independent auditors' report.

KPMG

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Basic Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Table of Contents

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of UW Medicine Clinical Enterprise – UW Division (the Group), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Emphasis of Matter

As discussed in note 1, the financial statements of the Group, which are divisions, departments and component units of the University of Washington (the University), are intended to present the net position, the changes in net position, and the cash flows of only that portion of the business-type activities of the University that are attributable to the transactions of the Group. They do not purport to, and do not, present fairly the net position of the University as of June 30, 2020 or 2019, the changes in its net position, or its cash flows for the years ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

KPMG

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of June 30, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 to 20, and schedules of required supplementary information on pages 77 to 79, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Group's basic financial statements. The combining financial statements included on pages 80 to 83 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Seattle, Washington
October 12, 2020

The following discussion and analysis provides an overview of the financial position and activities of the UW Medicine Clinical Enterprise – UW Division (the Group) for the years ended June 30, 2020 and 2019. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts. It should be read in conjunction with the basic financial statements and accompanying notes that follow this section.

The Group consists of divisions, departments, and component units of the University of Washington (the University) and includes: University of Washington Medical Center (UW Medical Center), UW Medicine/Northwest dba Northwest Hospital & Medical Center (Northwest Hospital) through December 31, 2019, UW Physicians Network dba UW Neighborhood Clinics (Neighborhood Clinics), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift) and shared service departments that support the entire UW Medicine enterprise. Also part of UW Medicine, but not included in these financial statements, are Harborview Medical Center (Harborview) as operated and managed by the University under the Hospital Services Agreement between King County and the University, Public Hospital District No. 1 of King County, Washington dba Valley Medical Center (VMC), and the University of Washington School of Medicine (the School).

Using the Financial Statements

The financial report consists of two parts: management discussion and analysis and the basic financial statements. The Group's basic financial statements consist of three statements: statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows. These financial statements and related notes provide information about the activities of the Group, including resources held by the Group but restricted for specific purposes by contributors, grantors, or enabling legislation.

The statements of net position includes all of the Group's assets and liabilities using the accrual basis of accounting as well as an indication about which assets can be used for general purposes and which are designated for a specific purpose. The statements of net position also includes information to evaluate the capital structure of the Group, and assess the liquidity and financial flexibility of the organization.

The statements of revenues, expenses, and changes in net position report all revenues, expenses, and other activity affecting net position during the time period indicated. Net position, the difference between assets and liabilities, is one way to measure the financial health of the Group and whether the organization has been able to recover all costs through net patient service revenues and other revenue sources.

The statements of cash flows report the cash provided by the Group's operating activities, as well as other cash sources, such as investment income, cash payments for capital additions and improvements, and payments for debt service, interest payments, and funding to and from affiliates. The statements provide meaningful information on where the Group's cash was generated and what it was used for.

Financial Highlights for Fiscal Year 2020

The novel coronavirus (COVID-19) was identified in China in December 2019 and was identified in Washington State in January 2020. It has spread globally creating a pandemic, which has significantly impacted the economic conditions at a local, national, and international level. On February 29, 2020, the governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address coronavirus in Washington and the forecasted potential surge of COVID-19 patients. On March 13, 2020, President Trump declared a national state of emergency with respect to the COVID-19 outbreak, ordering all states to establish emergency operations and authorizing the use of federal funds.

In response to proclamations and other direction from the governor, beginning on March 19, 2020, providers, including the Group, cancelled or postponed all non-urgent and elective procedures. On May 19, 2020, the governor lifted the restrictions on non-urgent and elective procedures, and the Group resumed these procedures. The cancellation of procedures from mid-March to mid-May had a significant impact on volumes and revenues in the fiscal year. During this time, the Group's expenses remained at close to historic levels due to the need to retain nearly full staffing despite reduced volumes. UW Medicine's pandemic response plan continues to evolve. Management has taken steps to mitigate operational and financial losses, such as capital spending reductions or delays, executive pay cuts, and the implementation of furloughs in areas with decreased volumes and certain administrative functions with the goal of reducing labor costs in the short term. The Group received governmental funding through the Coronavirus Aid, Relief and Economic Security (CARES) Act of $65,553 to aid in the recovery of lost revenues and advances under the Medicare Advanced Payment Program (MAPP) of $125,300 to aid liquidity. The Group also received a loan of $5,293 under the Paycheck Protection Program (PPP) to aid liquidity.

In February 2018, the University Board of Regents granted approval to proceed with the dissolution of Northwest Hospital as a separate corporation. As changes in the national and regional healthcare environment evolve, adopting a new model of one hospital with two campuses will provide additional opportunities for cost savings and improved coordination of care and a better patient experience. Effective January 1, 2020, Northwest Hospital was integrated into UW Medical Center as its second campus, and its assets and liabilities were transferred to UW Medical Center. Northwest Hospital employees, including employed physicians, became University employees effective January 1, 2020. The Northwest Hospital corporation ceased operations and is in the process of winding up for dissolution of the corporation.

The Group reported a loss from operations of $88,451 and a decrease in net position of $794 for the year ended June 30, 2020 compared to operating income of $25,485 and an increase in net position of $44,100 for the year ended June 30, 2019. In fiscal year 2020, the Group experienced a significant decrease in volumes and net patient service revenues attributed to the COVID-19 pandemic, offset by strong contract pharmacy revenues. In fiscal year 2020, the operating loss includes a $34,392 reduction in operating expenses as a result of actuarial and assumption change adjustments related to pension and other post-retirement obligations.

For the year ended June 30, 2019, the Group reported income from operations of $25,485 and an increase in net position of $44,100 compared to an operating loss of $44,035 and a decrease in net position of $41,854 for the year ended June 30, 2018. In fiscal year 2019, the Group experienced strong volumes, including solid organ transplants, an increase in contract pharmacy revenues and equity earnings from Seattle Cancer Care Alliance (SCCA) as compared to the prior year. The Group had greater labor and supplies expenses as a result of increased volumes. In fiscal year 2019, operating income included a $29,963 reduction in operating

(Continued)

(Dollar amounts in thousands)

expenses as a result of actuarial and assumption change adjustments related to pension and other post-retirement obligations.

		2020	2019	2018
Operating revenues:				
Net patient service revenues	$	1,633,543	1,731,198	1,597,571
UWP billing revenues, net		326,428	299,780	279,097
Other revenue		279,528	250,773	206,125
Total operating revenues		2,239,499	2,281,751	2,082,793
Operating expenses:				
Salaries, wages, and benefits		1,221,491	1,194,579	1,129,795
Other post employment benefits		12,676	16,384	25,024
Other		1,093,783	1,045,303	972,009
Total operating expenses		2,327,950	2,256,266	2,126,828
(Loss) income from operations		(88,451)	25,485	(44,035)
Nonoperating revenues (expenses):				
Investment income, net		2,413	2,564	4,800
Interest expense		(17,937)	(17,207)	(17,627)
Federal stimulus funding		65,553	—	—
Other, net		31,507	22,845	14,886
Nonoperating revenues, net		81,536	8,202	2,059
(Loss) income before capital contributions and other transfers		(6,915)	33,687	(41,976)
Capital contributions and other transfers		6,121	10,413	122
(Decrease) increase in net position		(794)	44,100	(41,854)
Net position, beginning of year, as issued		122,336	97,015	470,074
Change in reporting entity		—	(18,779)	—
Cumulative effect of change in accounting principle		—	—	(331,205)
Net position, beginning of year, as adjusted		122,336	78,236	138,869
Net position, end of year	$	121,542	122,336	97,015

(Dollar amounts in thousands)

The following chart represents key statistics of the Group for June 30, 2020, 2019, and 2018:

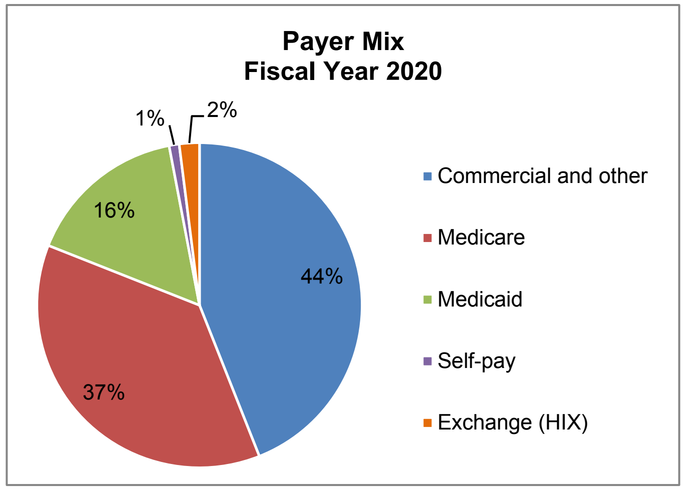
	2020	2019	2018
Licensed beds	810	810	810
Admissions	26,998	28,715	29,285
Patient days	178,545	188,740	185,221
Average length of stay	6.61	6.57	6.32
Case mix index (CMI) – UW Medical Center	2.19	2.34	2.27
Surgery cases	25,557	28,141	28,100
Emergency room visits	56,895	61,352	61,930
Primary and urgent care clinic visits	383,434	425,071	432,073
Specialty care clinic visits	421,879	478,946	463,428
Births	3,071	2,936	3,008
Solid organ transplants	400	436	399
RVU volume	7,627,420	7,413,800	7,035,100
Airlift flights	3,145	3,746	3,669
Full-time equivalents (FTEs)	8,491	8,994	8,668

Operating Revenues

Operating revenues consist primarily of net patient service revenues, UWP billing revenues, net, and other revenue. Net patient service revenues are recorded based on standard billing charges less contractual adjustments, financial assistance, and a provision for uncollectible accounts. The Group has agreements with federal and state agencies as well as commercial insurers that provide for payments at amounts that differ from gross charges. The Group provides care at no charge to patients who qualify under the Group's financial assistance policy. In addition, the Group estimates the amount of patient responsibility accounts receivable that will become uncollectible, which is reported as a reduction of net patient service revenues. The difference between gross charges and the estimated net realizable amounts from payers and patients is recorded as an adjustment to charges. The resulting net patient service revenues are shown in the statements of revenues, expenses, and changes in net position.

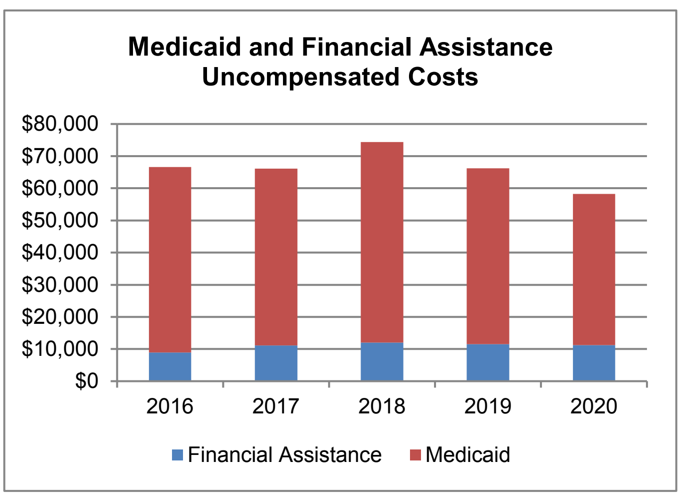
Net patient service revenues include inpatient, outpatient and flight revenues. Outpatient revenue consists of hospital-based, ambulatory and retail pharmacy revenue. UWP billing revenues are limited to its operating expenses based on the operating agreement between the University and UWP. Other revenue is comprised of revenues from activities such as contract pharmacy, state appropriations specific for operating purposes, parking, and cafeteria sales.

The Group's payer mix is a key factor in the overall financial operating performance. The chart to the right illustrates payer mix for fiscal year 2020 gross patient service revenue. For the years ended June 30, 2020 and 2019, Commercial revenue represented 44% and 42%, respectively; Medicare revenue represented 37% and 39%, respectively; Medicaid revenue represented 16% for both years; Exchange revenue represented 2% for both years; and Self-pay revenue represented 1% for both years.



Uncompensated care costs, as illustrated in the chart below, represent costs in excess of payments for Medicaid and financial assistance patients. This chart does not include all uncompensated costs such as providing care to Medicare patients. Over the past several years, the cost of providing care to Medicaid patients has increased.

Reimbursement from governmental payers is less than commercial rates. Reimbursement rules are both complex and subject to interpretation and settlements.

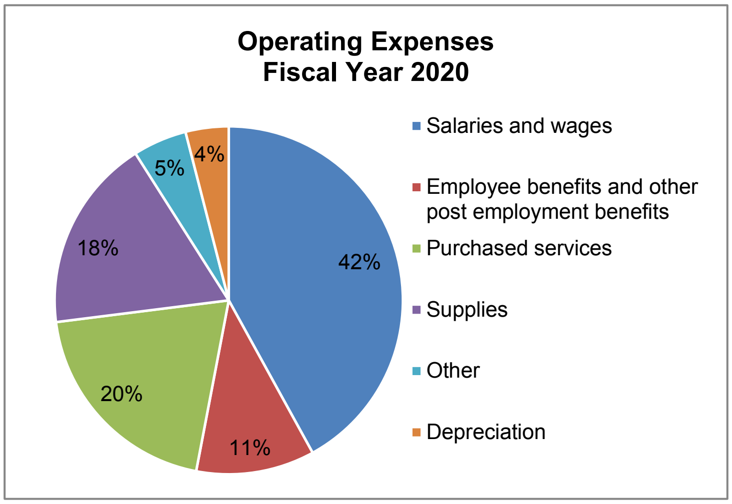


For the years ended June 30, 2020, 2019, and 2018 the Group's total operating revenues were $2,239,499, $2,281,751, and $2,082,793, which was comprised of $1,633,543, $1,731,198, and $1,597,571 in net patient service revenues, $326,428, $299,780, and $279,097 in UWP billing revenues, net, and $279,528, $250,773, and $206,125 in other revenues, respectively.

The decrease in operating revenues between fiscal years 2019 and 2020 of 1.9% was driven by a decrease in net patient service revenue due to COVID-19. Net patient service revenues decreased 5.6% as a result of the cancellation of elective and non-urgent procedures. UWP billing revenues, net and other revenues increased 10.0% between fiscal years 2019 and 2020 which was driven by strong contract pharmacy revenue and an increase in professional fee revenue due to new physicians added for UW Medical Center's Northwest campus and lower distributions to the School.

The increase in operating revenues between fiscal years 2018 and 2019 was driven by greater volumes, case acuity, and price increases, which increased net patient service revenues at the Medical Centers. Greater relative value units (RVUs) increased UWP billing revenues. Greater contract pharmacy revenue and an increase in revenues for services provided to non-Group entities increased other revenue in fiscal year 2019.

Operating Expenses



Operating expenses were $2,327,950 for the fiscal year 2020 compared to $2,256,266 for the fiscal year 2019 and $2,126,828 for fiscal year 2018. The composition of fiscal year 2020 operating expenses is illustrated in the chart to the left.

Salaries and wages expense increased $15,740 from $966,369 in fiscal year 2019 to $982,109 in fiscal year 2020. At January 1, 2020, upon integration of Northwest Hospital into UW Medical Center, UWP added new providers for Northwest campus resulting in an increase in salaries and wages expense and an increase in physician incentives for the additional providers. Additionally, despite the decrease in volumes, there was a need to retain historical staffing levels due to the COVID-19 pandemic.

Salaries and wages expense increased $71,301 from $895,068 in fiscal year 2018 to $966,369 in fiscal year 2019. The increase in salaries and wages expense was primarily attributed to an increase in FTEs and employee merit increases at UW Medical Center as well as expansion of shared service functions. In addition, UWP salaries and wages increased as a result of administrative staff FTE additions due to volumes and annual merit and step increases, as well as an increase in physician incentives for the Northwest Hospital clinical departments.

Employee benefits and other post employment benefits expense increased $7,464 from $244,594 in fiscal year 2019 to $252,058 in fiscal year 2020. Upon integration of Northwest Hospital into UW Medical Center, Northwest Hospital employees became University employees, which led to an increase in benefits expense in fiscal year 2020 as the benefit load rate is higher. In addition, a favorable change in the actuarial assumptions used to calculate pension and other post-retirement expense resulted in an adjustment of $31,363, which offset the increase in benefits and other post employment benefits expense.

Between fiscal year 2019 and fiscal year 2020, the University benefit load rate for professional employees decreased 2.0% from 34.1% to 32.1% due to employer pension contributions and the benefit load rate for classified employees increased 0.7% from 40.5% to 41.2% as a result of greater healthcare expenses.

Employee benefits and other post-retirement expense decreased $15,157 from $259,751 in fiscal year 2018 to $244,594 in fiscal year 2019. The decrease in benefits expense in fiscal year 2019 was the result of a favorable change in the actuarial assumptions used to calculate pension and other post-retirement expense of $29,963, which offset the increase in the University benefit load rate. Between fiscal year 2018 and fiscal year 2019, the

University benefit load rate for professional employees increased 1.6% from 32.5% to 34.1% due to employer pension contributions and the benefit load rate for classified employees increased 0.4% from 40.1% to 40.5% as a result of greater healthcare expenses.

Purchased services expense, consisting of professional fees, consulting fees, and clinical department funding, increased $38,999 from $438,173 in fiscal year 2019 to $477,172 in fiscal year 2020. The increase in purchased services expense is attributed to an increase in the School clinical department funding, representing fees paid to physicians providing services to the Group who were not employed by the Group. Additionally, on January 1, 2020, UWP employees transitioned employment to the University, causing an increase in purchased service expense at UWP as these employees are now providing services to the Group but are not employed by the Group.

Purchased services expense increased $28,666 from $409,507 in fiscal year 2018 to $438,173 in fiscal year 2019. The increase in purchased services expense was attributed to an increase in the School clinical department expense, representing fees paid to physicians providing services to the Group but not employed by the Group, Northwest Hospital physician fee expense, and resident expenses.

Supplies expense includes medical and surgical supplies, pharmaceutical supplies, and nonmedical supplies. In total, these expenses increased $19,574 from $409,892 in fiscal year 2019 to $429,466 in fiscal year 2020. The increase in supplies expenses is a result of greater costs for pharmaceutical expenses associated with growth in contract pharmacy, and the rising costs of pharmaceuticals overall.

Supplies expenses increased $34,888 from $375,004 in fiscal year 2018 to $409,892 in fiscal year 2019. The increase in supplies expenses was a result of greater costs for pharmaceuticals, contract pharmacy, cardiovascular, and organs and bone marrow acquisition expenses as a result of greater volumes and acuity.

Other expense includes insurance, taxes, rent and other expenses. Other expenses decreased $4,214 from $109,605 in fiscal year 2019 to $105,391 in fiscal year 2020. The decrease in other expense is attributed to the freestanding clinic agreements between UW Medical Center and UWP that began in fiscal year 2020, which led to a greater amount of rental expense being eliminated within the Group financial statements.

Other expenses increased $10,405 from $99,200 in fiscal year 2018 to $109,605 in fiscal year 2019. The increase in other expenses was attributed to an increase in collection fees, rent and other expense related to new departments within Shared Services.

Depreciation expense decreased $5,879 from $87,633 in fiscal year 2019 to $81,754 in fiscal year 2020. Depreciation expense decreased $665 from $88,298 in fiscal year 2018 to $87,633 in fiscal year 2019. The decrease in both years was attributed to moderate capital spending and assets becoming fully depreciated.

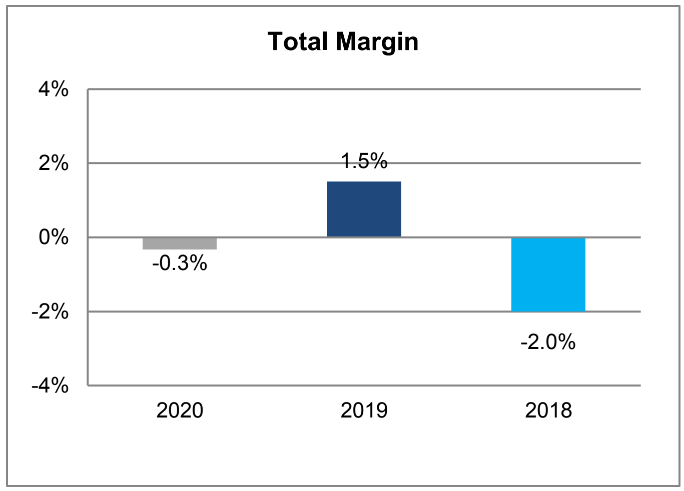
Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, interest expense, intergovernmental transfer expense, equity earnings from the investment in SCCA, funding from and to other UW Medicine entities as well as the state of Washington, and COVID-19 federal stimulus funding. Net nonoperating revenues increased $73,334 from $8,202 in fiscal year 2019 to $81,536 in fiscal year 2020. This increase occurred primarily as a result of the recognition of federal stimulus funds of $65,553 related to COVID-19.

Net nonoperating revenues increased $6,143 from $2,059 in fiscal year 2018 to $8,202 in fiscal year 2019. In 2019, net nonoperating revenues increased as a result of strong equity earnings from SCCA, which was approximately $7,200 greater than the prior year.

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue that has been realized in the form of net income (income before capital contributions and other transfers) and is a common measure of total hospital profitability. Total margin for the fiscal years 2020, 2019, and 2018 is illustrated in the chart to the right.



(Dollar amounts in thousands)

Financial Analysis

Statements of Net Position

The table below is a presentation of certain condensed financial information derived from the Group's statements of net position as of June 30, 2020, 2019, and 2018:

		2020	2019	2018
Current assets	$	554,671	445,696	402,909
Noncurrent assets:				
Capital assets, net of accumulated depreciation		727,400	724,210	727,708
Funds held by the University of Washington		189,256	113,649	127,373
Investments		111,693	157,131	152,599
Investment in Seattle Cancer Care Alliance		208,442	183,380	159,149
Other assets		52,733	37,580	32,446
Total assets		1,844,195	1,661,646	1,602,184
Deferred outflows of resources		150,664	110,083	85,201
Total assets and deferred outflows of resources	$	1,994,859	1,771,729	1,687,385
Current liabilities	$	582,086	439,622	421,981
Noncurrent liabilities:				
Other noncurrent liabilities		562,970	489,371	453,598
Pension liabilities		217,410	243,368	302,823
Other post employment benefits		309,441	280,069	306,185
Total liabilities		1,671,907	1,452,430	1,484,587
Deferred inflows of resources		201,410	196,963	105,783
Net position		121,542	122,336	97,015
Total liabilities, deferred inflows of resources and net position	$	1,994,859	1,771,729	1,687,385

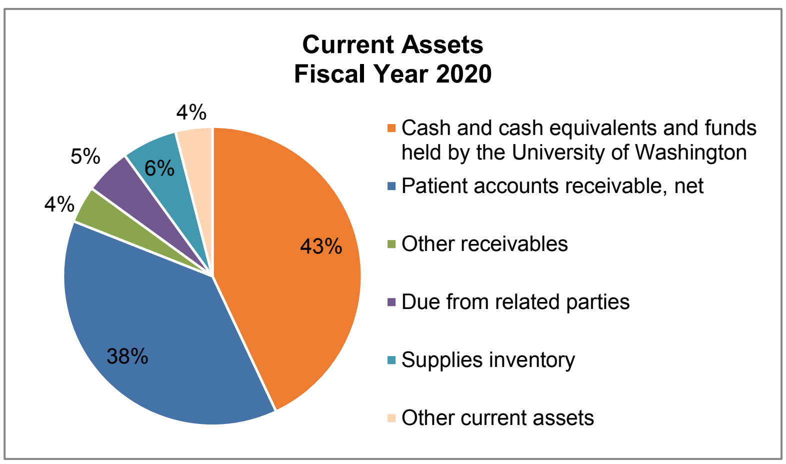
Total assets and deferred outflows of resources were $1,994,859 at June 30, 2020 compared to $1,771,729 at June 30, 2019 representing an increase of $223,130. During fiscal year 2020, total assets includes an increase in cash and cash equivalents and Funds Held by the University of Washington largely as a result of Medicare advanced payments and federal stimulus funding received associated with COVID-19.

Current liabilities increased $142,464 from $439,622 at June 30, 2019 to $582,086 at June 30, 2020. This increase is primarily attributed to unearned Medicare advanced payments of $125,300 received in fiscal year 2020. Pension liabilities decreased $25,958 from $243,368 at June 30, 2019 to $217,410 at June 30, 2020 and deferred inflows of resources related to pensions increased $9,832 from $83,501 at June 30, 2019 to $93,333 at June 30, 2020 as a result of the investment earnings for the Public Employees' Retirement System (PERS) defined-benefit plan. The other post employment benefits (OPEB) liability increased $29,372 from $280,069 at June 30, 2019 to $309,441 at June 30, 2020 as a result of a change in the actuarial discount rate.

Total assets and deferred outflows of resources were $1,771,729 at June 30, 2019 compared to $1,687,385 at June 30, 2018 representing an increase of $84,344. During fiscal year 2019, total assets included an increase in the investment in SCCA as a result of the Group's proportionate share of its earnings and an increase in patient accounts receivable as a result of increased volumes as well as a delay in commercial payer payments in June. Current liabilities increased $17,641 from $421,981 at June 30, 2018 to $439,622 at June 30, 2019 as a result of timing of vendor payables, accrued salaries, wages and employee benefits as a result of increased FTEs and wages, and physician distribution, clinical medicine fund and department payables. Pension liabilities decreased $59,455 from $302,823 at June 30, 2018 to $243,368 at June 30, 2019 and deferred inflows of resources related to pensions increased $28,454 from $55,047 at June 30, 2018 to $83,501 at June 30, 2019 as a result of updated actuarial assumptions related to the pension plans. OPEB liability decreased $26,116 from $306,185 at June 30, 2018 to $280,069 at June 30, 2019 as a result of updated actuarial assumptions.

Current Assets

Current assets consist of cash and cash equivalents, and other current assets that are expected to be converted to cash within a year. Current assets also include patient accounts receivable valued at the estimated net realizable amount due from patients and insurers.

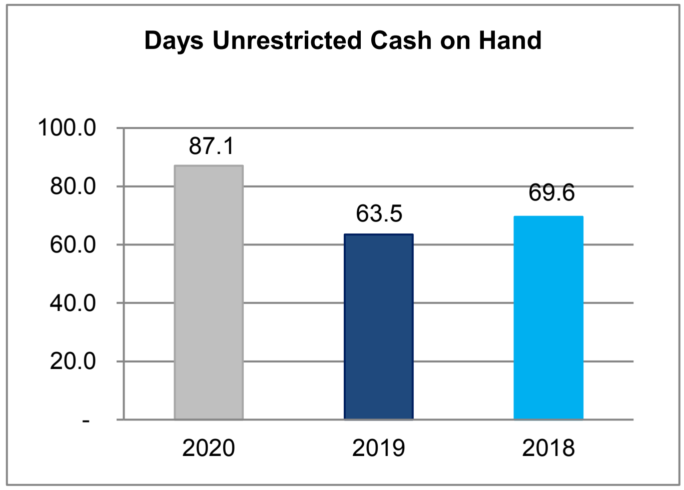


Fiscal year 2020 composition of current assets is illustrated in the chart to the left.

Cash and cash equivalents represent both cash and funds held by the University on behalf of the Group that are considered cash equivalents. Cash and cash equivalents increased $128,242 from $109,411 at June 30, 2019 to $237,653 at June 30, 2020 and decreased $2,674 from $112,085 at June 30, 2018 to $109,411 at June 30, 2019.

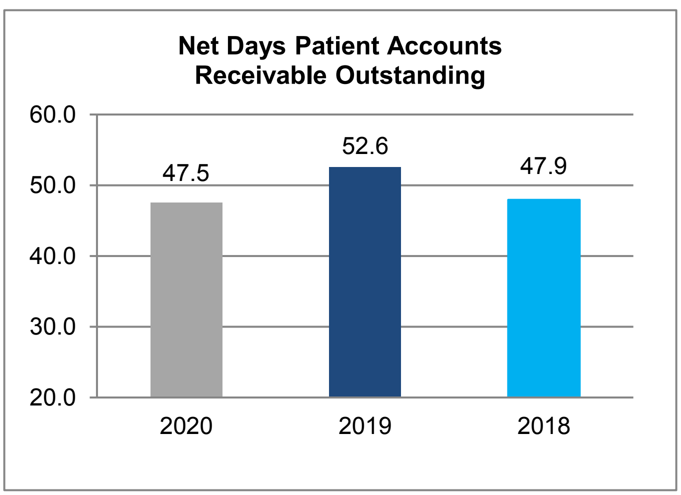
Days unrestricted cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days unrestricted cash on hand (including funds held by the University and investments, which are classified as noncurrent funds) as of June 30 for fiscal years 2020, 2019, and 2018 are illustrated in the chart below.

The Group's total days unrestricted cash on hand increased 23.6 days from 63.5 days at June 30, 2019 to 87.1 days at June 30, 2020. The increase was a result of federal stimulus funding and Medicare advanced payment received during the fiscal year. Excluding Medicare advanced payments, as the payments will be recouped by Medicare, days cash on hand would have been 66.8 days at June 30, 2020.



The Group's total days unrestricted cash on hand decreased 6.1 days from 69.6 days at June 30, 2018 to 63.5 days at June 30, 2019. Despite positive operating income, the decrease in fiscal year 2020 was a result of funding capital expenditures of $67,507 for the Group, an increase in account receivable and greater operating expenses as a result of increased labor and supplies expense.

Net patient accounts receivable were $212,001 as of June 30, 2020 compared to $249,340 as of June 30, 2019, a decrease of $37,339. In fiscal year 2020, the decrease in net patient accounts receivable was driven by a decrease in volumes and charges due to the cancellation of non-urgent and elective procedures as a result of COVID-19.



Net patient accounts receivable were $249,340 as of June 30, 2019 compared to $209,830 as of June 30, 2018, an increase of $39,510. In 2019, the increase in net patient accounts receivable was driven by greater patient care volumes and timing of cash collections by commercial payers.

Net days patient accounts receivable outstanding illustrates an organization's ability to convert net patient service revenues to cash. Net days patient accounts receivable outstanding as of June 30 for fiscal years 2020, 2019, and 2018 are illustrated in the chart to the left.

The Group's total net days patient accounts receivable outstanding decreased 5.1 days from 52.6 days at June 30, 2019 to 47.5 days at June 30, 2020. The decrease in net days patient accounts receivable outstanding between fiscal years 2020 and 2019 was driven by the timing of commercial payers cash collections which caused patients accounts receivable and net days patient accounts receivable to be higher at June 30, 2019.

The Group's total net days patient accounts receivable outstanding increased 4.7 days from 47.9 days at June 30, 2018 to 52.6 days at June 30, 2019. The increase in net days patient accounts receivable outstanding in fiscal year 2019 was driven by greater patient care volumes and timing of cash collections by commercial payers.

As of June 30, 2020 and 2019, 48% and 49% of the gross patient accounts receivable balance were due from Commercial payers, governmental payers (Medicare and Medicaid) comprised 46% and 44%, Self-pay payers comprised 4% and 5%, and Exchange comprised 2% and 2%, respectively.

Other receivables consist of amounts due from external parties for supplies and services. Other receivables increased $2,595 from $20,889 at June 30, 2019 to $23,484 at June 30, 2020. Other receivables decreased $2,022 from $22,911 at June 30, 2018 to $20,889 at June 30, 2019. The increase in fiscal year 2020 was primarily due to increased receivables from the State to support the COVID-19 response. The decrease in fiscal years 2019 was due to the timing of payments from external parties.

Due from related parties consists of amounts due for services provided to Harborview, VMC, and the School. Due from related parties increased $8,330 from $21,737 at June 30, 2019 to $30,067 at June 30, 2020. Due from related parties increased $3,868 from $17,869 at June 30, 2018 to $21,737 at June 30, 2019. The increases in fiscal years 2020 and 2019 relate to the timing of payments between the Group, Harborview, and the School.

Noncurrent Assets

Capital assets, net of accumulated depreciation increased $3,190 during the fiscal year 2020 from $724,210 at June 30, 2019 to $727,400 at June 30, 2020 and decreased $3,498 during the fiscal year 2019 from $727,708 at June 30, 2018 to $724,210 at June 30, 2019. In fiscal year 2020, the increase was primarily due to additions of capital assets at UW Medicine IT Services due to the Destination One project. In fiscal year 2019, the decrease was primarily due to continued depreciation of depreciable assets offset by moderate capital spending.

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

Funds held by the University represent funds invested with the University and are classified as a noncurrent asset by the Group. Through the University's investment program, the Group receives a rate of return representative of a portion of fund performance. For fiscal years 2020, 2019, and 2018, the University allocated a rate of return of 0.75% on the Group's assets. Noncurrent funds held by the University increased $75,607 in fiscal year 2020 from $113,649 at June 30, 2019 to $189,256 at June 30, 2020 due to federal stimulus funds received related to COVID-19. Additionally, in fiscal year 2020, subsequent to integration with UW Medical Center Northwest Hospital's investments were transferred to the University investment program, causing an increase in funds held by the University. Noncurrent funds held by the University decreased $13,724 in fiscal year 2019 from $127,373 at June 30, 2018 to $113,649 at June 30, 2019 as a result of operations.

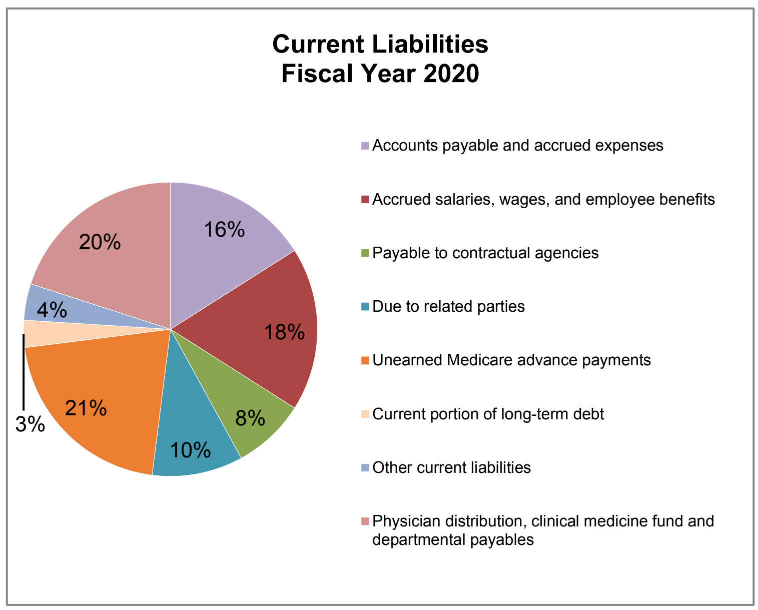
Investments represents investments held by the Group for capital improvements and replacements, those restricted for certain other purposes and investments held for the benefit of the School. Investments decreased $45,438 from $157,131 at June 30, 2019 to $111,693 at June 30, 2020. The decrease in investments was a result of the transfer of Northwest Hospital's investments to the University investment program, which is presented within Funds Held by the University, upon Northwest Hospital's integration with UW Medical Center during fiscal year 2020.

Investments increased $4,532 from $152,599 at June 30, 2018 to $157,131 at June 30, 2019. The increase in investments resulted from funds generated through operations during fiscal year 2019.

Investment in SCCA represents UW Medical Center's interest in SCCA, representing a 33.3% ownership. UW Medical Center accounts for its interest in the SCCA using the equity method of accounting. Investment in SCCA increased $25,062 from $183,380 at June 30, 2019 to $208,442 at June 30, 2020 and increased $24,231 from $159,149 at June 30, 2018 to $183,380 at June 30, 2019. Changes in the investment value reflect UW Medical Center's proportionate interest in the change in net assets of SCCA. The increases in fiscal years 2020 and 2019 were attributable to SCCA's positive operational and investment performance.

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within a year. Total current liabilities were $582,086, $439,622, and $421,981 at June 30, 2020, 2019, and 2018, respectively. Fiscal year 2020 composition of current liabilities is illustrated in the chart to the right.



Accounts payable and accrued expenses increased $545 from $91,813 at June 30, 2019 to $92,358 at June 30, 2020 and increased $13,675 from $78,138 at June 30, 2018 to $91,813 at June 30, 2019. Changes in accounts payable and accrued expenses are primarily the result of timing of payments to vendors.

Accrued salaries, wages, and employee benefits decreased $5,191 from $108,441 at June 30, 2019 to $103,250 at June 30, 2020 and increased $6,133 from $102,308 at June 30, 2018 to $108,441 at June 30, 2019. Changes in accrued salaries, wages, and employee benefits are primarily driven by the number of employees, employee merit and fringe benefit rate increases and paid leave accruals.

Due to related parties consists of amounts owed for services provided to the Group by the School, the University and other affiliates. Due to related parties increased $14,329 from $44,165 at June 30, 2019 to $58,494 at June 30, 2020 and decreased $9,700 from $53,865 at June 30, 2018 to $44,165 at June 30, 2019. The increase in fiscal year 2020 and decrease in fiscal year 2019 were driven by timing of payments between related parties.

The Group has a long-term due to related parties balance of $123,731 at June 30, 2020 compared to $90,663 at June 30, 2019, an increase of $33,068 and a balance of $90,663 at June 30, 2019 compared to $60,940 at June 30, 2018, an increase of $29,723. This balance represents amounts due for services provided to Northwest Hospital by the University. On January 1, 2020, upon integration of Northwest Hospital into UW Medical Center, this payable was assumed by UW Medical Center. The increases in long-term due to related parties in fiscal years 2020 and 2019 were driven by agreed upon delayed settlements from Northwest Hospital to the University.

Unearned Medicare advance payments consists of advanced payments received from Medicare under Centers for Medicare and Medicaid Services (CMS) Medicare Advanced Payment Program. Unearned Medicare advanced payments increased $125,300 from $0 at June 30, 2019 to $125,300 at June 30, 2020 which was pursued for additional liquidity due to the COVID-19 pandemic. The advance Medicare funds will be recovered by Medicare by offsetting paid claims until the full amount is recouped, which was to begin 120 days after the advance was issued. On September 30, 2020, a federal law was signed to extend the deadline for repayment under the Medicare Advanced Payment Program, which would give hospital providers one year from the date of the original advance before Medicare can begin to recover the advances and twenty-nine months from the date of the original advance to fully repay the advanced payment without interest.

Physician distribution, clinical medicine fund, and departmental payables consist of receipts collected by UWP that are allocated and distributed to the physicians, the clinical medicine fund, and departmental payables for the benefit of the School. The payable decreased $678 from $120,236 at June 30, 2019 to $119,558 at June 30, 2020. In fiscal year 2020, the decrease in the payables was due to lower volumes attributed to COVID-19.

The payable increased $2,368 from $117,868 at June 30, 2018 to $120,236 at June 30, 2019. In 2019, the increase in the payables was due to the increase in physician distribution payable as a result of new Northwest Hospital clinical departments.

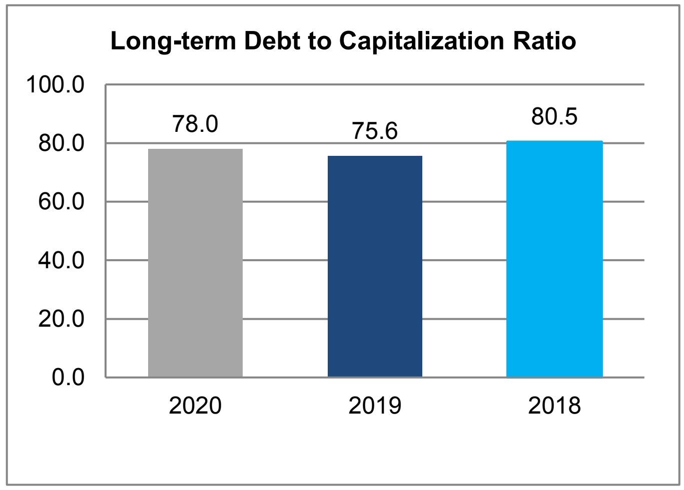
Noncurrent Liabilities

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

Long-term debt, including current portion, increased $33,615 from $370,170 at June 30, 2019 to $403,785 at June 30, 2020. In fiscal year 2020, the increase in long-term debt was a result of the UW Medicine IT Services Destination One project, which is primarily funded by the University Internal Lending Program.

Long-term debt, including current portion, decreased $10,261 from $380,431 at June 30, 2018 to $370,170 at June 30, 2019. In 2019, the decrease in long-term debt was a result of principal payments made in accordance with debt repayment schedules, offset by a slight increase in debt as a result of UW Medicine IT Services Destination One project, which is primarily funded by the University Internal Lending Program.

Long-term debt to capitalization is a ratio used to assess the capital structure of healthcare organizations. The chart to the right shows the long-term debt to capitalization ratio as of June 30 for 2020, 2019, and 2018 based on the amounts reported in the financial statements. The Group's long-term debt to capitalization ratio increased from 75.6% in fiscal year 2019 to 78.0% in fiscal year 2020 as a result of an increase in long-term debt and a slight decrease in net position of $794. The Group's long-term debt to capitalization ratio decreased from 80.5% in fiscal year 2018 to 75.6% in fiscal year 2019 as a result of an increase in net position of $44,100 and a decrease in long-term debt.



Additional discussion regarding long-term debt activity during the fiscal years can be found in the notes to the financial statements.

Net Position

Unrestricted net position increased $21,258 from $(234,825) at June 30, 2019 to $(213,567) at June 30, 2020. The increase in unrestricted net position was driven by capital contributions for the Behavioral Health Institute received during fiscal year 2020 as well as a decrease in net investment in capital assets.

Unrestricted net position increased $18,012 from $(252,837) at June 30, 2018 to $(234,825) at June 30, 2019. In 2019, the increase in unrestricted net position was generated by operations. In fiscal year 2019, certain UW Medicine departments moved into Shared Services. Because these departments were part of the clinical enterprise, the Group recorded post retirement obligations related to these University employees and recorded $18,779 as a result of the change in reporting entity.

Post Employment Obligations

The University has a financial responsibility for pension benefits associated with the PERS defined-benefit plans, University of Washington Supplemental Retirement Plan defined-benefit plan, and OPEB which include those University employees deployed within the Group. Pension liabilities, OPEB liabilities and the respective deferred outflows and inflows of resources are determined by actuarial reports. Additional discussion regarding pension liabilities, OPEB liabilities and the respective deferred outflows and inflows of resources can be found in the notes to the financial statements

The Group has recognized its proportionate share of the University's actuarially determined pension liabilities, total OPEB liability, deferred inflows of resources and deferred outflows of resources, and expense. All funding obligations to the University are on a pay-as-you-go basis. As the liability increases, the funding obligations will also increase. The following table represents the liabilities, expense and funding contributions associated with post employment obligations as of June 30, 2020, 2019, and 2018:

(Dollar amounts in thousands)

		2020	2019	2018
Pension liabilities	$	217,410	243,368	302,823
Pension expense		19,421	12,920	35,307
Pension funding contribution		60,642	54,804	48,063
OPEB liability	$	309,441	280,069	306,185
OPEB expense		12,676	16,384	25,024
OPEB funding contribution		5,336	5,142	4,999

Factors Affecting the Future

Economic Uncertainty Facing the Healthcare Industry

The COVID-19 pandemic continues to evolve and the future impact on the Group's operations and financial position will be driven by many factors, most which are beyond the Group's control and difficult to predict. Such factors, include, but are not limited to, the scope and duration of stay-at-home practices and business closures, government-imposed or recommended suspensions of non-urgent and elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, and incremental expenses required for supplies and personal protective equipment. While the future impact of COVID-19 is unknown, the pandemic may impact the Group's patient population, cause volatility in future volumes and require additional changes in the delivery of patient care. Because of these factors and other uncertainties, including a potential surge of COVID-19 cases in the fall and winter, management cannot estimate the length or severity of the impact of the pandemic on the Group's business. The Group continues to focus on reducing expenses and recovering lost revenues through all available sources.

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

However, we believe that our ultimate success in increasing profitability depends in part on our success in executing on our strategies. In general, these strategies are intended to improve financial performance through the reduction of costs and in streamlining how we provide clinical care, as well as mitigating the recent negative reimbursement trends experienced within the market. With a continued focus on patient volumes shifting from inpatient to outpatient settings due to technological advancements, and demand for care that is more convenient, affordable and accessible, as well as the industry-wide migration to value-based payment models as government and private payers shift risk to providers, the Group's focus is on managing costs and delivering care efficiently.

Investments in Information Technology

In July 2018, the University's Board of Regents granted approval to proceed with the UW Medicine clinical transformation program, called Destination One. This multi-year program will allow UW Medicine to improve patient engagement, physician and practitioner experience and is expected to achieve business and operating efficiencies through development of foundational systems and improved staffing workflows. Patient engagement will be enhanced through development of a single online patient portal for activities between the patient and UW Medicine. More online service opportunities and easy navigation will create additional opportunities for communication between the patient and their care team. UW Medicine will achieve business and operating efficiencies through simplification and standardization across operations and IT, resulting in revenue cycle improvements and optimized resource utilization. Total program costs are estimated at $180,000, of which $129,000 will be financed through the University's Internal Lending Program (ILP). The remaining portion will be funded by Harborview, UW Medical Center, and SCCA. Destination One is scheduled to be fully implemented in January 2021.

Financial Stability Plan / Project FIT

Project FIT is a multi-year effort to improve our financial performance while achieving our mission to improve the health of the public. UW Medicine was making strong progress toward Project FIT goals overall through February 2020, however, the COVID-19 pandemic drove a need for UW Medicine leadership to reprioritize strategic priorities and look for areas where capital investment could be delayed or reduced with minimal impact to our immediate return on investment. For fiscal year 2021, Project FIT will continue to develop and execution of key initiatives, including increasing revenues through the growth of clinical services, reducing costs through a number of initiatives related to labor, productivity, supply pricing and utilization as well as investing in our infrastructure will continue to be a priority.

UW Finance Transformation

In December 2019, the UW Finance Transformation (UWFT) program received unanimous approval from the Board of Regents to proceed with a broad redesign of finance-related policies and processes, enabled by the implementation of new enterprise resource planning (ERP) technology. The University and UW Medicine have determined that Workday Financials® will provide the best available platform to support the business objectives for this transformation by providing a seamless, integrated solution for Human Resources and Payroll, which was previously implemented, Procurement, and Finance. UW Medicine and the University expect three primary areas of program benefit: functional benefits in the form of new and improved system capabilities, cost avoidance of maintaining and upgrading existing systems, and efficiencies in new business processes and organization. Total program costs are estimated at $269,000, which includes all operating and capital costs for implementation and one year of stabilization. UW Medicine will be charged for a portion of the project. The amount and allocation methodology will be finalized upon completion of the project. UWFT is expected to be implemented on July 1, 2022.

Behavioral Health Teaching Facility at UW Medical Center

During the fiscal year 2019 Washington State legislative session, UW Medicine was awarded new funding to expand Behavioral Health services across our organizations. Specifically, the State awarded $33,300 for the planning and design work necessary to build a new, first of its kind, Behavioral Health Teaching Facility at UW Medical Center which will be located on the Northwest Campus. Planning work is currently underway to design the facility using the initial capital funding appropriation in order to receive the second phase of capital funding of $192,000, which is expected to occur during the fiscal year 2021 legislative session.

Employee Costs

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University and the Group. The monthly employer base rate paid by the University for employee healthcare increased 3.0% during fiscal year 2020, and will be increasing 4.0% during fiscal year 2021, from $939 to $976 per active employee. Likewise, employer pension funding rates for the PERS pension plans increased 1.0% during fiscal year 2020 and will be increasing another 1.0% in fiscal year 2021. Both rates are likely to continue rising over the next few years.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statements of Net Position

June 30, 2020 and 2019

(Dollar amounts in thousands)

Assets		2020	2019
Current assets:			
Cash and cash equivalents	$	57,894	45,466
Funds held by the University of Washington		179,759	63,945
Patient accounts receivable, less allowance for uncollectible accounts of $11,299 in 2020 and $17,915 in 2019, respectively		212,001	249,340
Other receivables		23,484	20,889
Due from related parties		30,067	21,737
Supplies inventory		30,910	27,340
Restricted investments		1,058	1,174
Other current assets		19,498	15,805
Total current assets		554,671	445,696
Noncurrent assets:			
Capital assets, net of accumulated depreciation		727,400	724,210
Funds held by the University of Washington		189,256	113,649
Investments		111,693	157,131
Donor restricted assets		7,785	4,702
Investment in Seattle Cancer Care Alliance		208,442	183,380
Other assets		44,948	32,878
Total noncurrent assets		1,289,524	1,215,950
Total assets		1,844,195	1,661,646
Deferred outflows of resources:			
Deferred outflows of resources related to pensions		101,619	77,010
Deferred outflows of resources related to other post employment benefits		43,808	27,160
Other deferred outflows of resources		5,237	5,913
Total assets and deferred outflows of resources	$	1,994,859	1,771,729

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statements of Net Position

June 30, 2020 and 2019

(Dollar amounts in thousands)

Liabilities and Net Position		2020	2019
Current liabilities:			
Accounts payable and accrued expenses	$	92,358	91,813
Accrued salaries, wages, and employee benefits		103,250	108,441
Payable to contractual agencies		44,298	42,858
Due to related parties		58,494	44,165
Unearned Medicare advance payments		125,300	—
Current portion of long-term debt		18,318	17,660
Other current liabilities		20,510	14,449
Physician distribution, clinical medicine fund, and departmental payables		119,558	120,236
Total current liabilities		582,086	439,622
Noncurrent liabilities:			
Long-term debt, net of current portion		385,467	352,510
Pension liabilities		217,410	243,368
Other post employment benefits		309,441	280,069
Due to related parties – long-term		123,731	90,663
Other noncurrent liabilities		53,772	46,198
Total liabilities		1,671,907	1,452,430
Deferred inflows of resources:			
Deferred inflows of resources related to pensions		93,333	83,501
Deferred inflows of resources related to other post employment benefits		108,077	113,462
Net position:			
Net investment in capital assets		327,324	352,185
Nonexpendable, restricted		4,171	2,349
Expendable, restricted		3,614	2,627
Unrestricted		(213,567)	(234,825)
Total net position		121,542	122,336
Total liabilities, deferred inflows of resources, and net position	$	1,994,859	1,771,729

See accompanying notes to basic financial statements.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

(Dollar amounts in thousands)

		2020	2019
Operating revenues:			
Net patient service revenues (net of provision for uncollectible accounts of $17,238 in 2020 and $29,140 in 2019)	$	1,633,543	1,731,198
UWP billing revenues, net		326,428	299,780
Other revenue		279,528	250,773
Total operating revenues		2,239,499	2,281,751
Operating expenses:			
Salaries and wages		982,109	966,369
Employee benefits		239,382	228,210
Other post employment benefits		12,676	16,384
Purchased services		477,172	438,173
Supplies		429,466	409,892
Other		105,391	109,605
Depreciation		81,754	87,633
Total operating expenses		2,327,950	2,256,266
(Loss) income from operations		(88,451)	25,485
Nonoperating revenues (expenses):			
Investment income		2,413	2,564
Interest expense		(17,937)	(17,207)
Funding to affiliates		(52,517)	(42,684)
Funding from affiliates		57,437	41,281
Federal stimulus funding		65,553	—
Other, net		26,587	24,248
Nonoperating revenues, net		81,536	8,202
(Loss) income before capital contributions and other transfers		(6,915)	33,687
Capital contributions and other transfers		6,121	10,413
(Decrease) increase in net position		(794)	44,100
Net position – beginning of year, as issued		122,336	97,015
Change in reporting entity		—	(18,779)
Net position – beginning of the year, as adjusted		122,336	78,236
Net position – end of year	$	121,542	122,336

See accompanying notes to basic financial statements.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Statements of Cash Flows

Years ended June 30, 2020 and 2019

(Dollar amounts in thousands)

		2020	2019
Cash flows from operating activities:			
Cash received for patient care	$	1,782,316	1,695,090
Cash received for UWP billing revenues		335,994	294,660
Cash received for other services		268,608	251,326
Cash paid to employees		(1,273,752)	(1,239,494)
Cash paid to suppliers and others		(1,000,634)	(958,543)
Net cash provided by operating activities		112,532	43,039
Cash flows from noncapital financing activities:			
Funding to affiliates		(52,511)	(40,769)
Funding from affiliates		57,437	38,781
Due to related parties – long-term		33,068	29,723
Cash received for Federal stimulus funding		65,553	—
Additions to clinical medicine fund and departmental payables		3,990	1,269
Other, net		6,731	1,235
Net cash provided by noncapital financing activities		114,268	30,239
Cash flows from capital and related financing activities:			
Purchases of capital assets		(84,134)	(67,507)
Principal payments on long-term debt		(17,499)	(17,370)
Proceeds from borrowings		50,576	7,094
Interest payments on long-term debt		(16,755)	(16,862)
Funding from affiliates for capital purchases and capital contributions		250	1,109
Net cash used in capital and related financing activities		(67,562)	(93,536)
Cash flows from investing activities:			
Proceeds from sale of investments		126,015	52,685
Purchases of investments		(83,141)	(54,834)
Change in funds held by the University and donor restricted assets		(77,322)	13,241
Investment income		6,141	6,715
Other		(2,689)	(223)
Net cash (used in) provided by investing activities		(30,996)	17,584
Increase (decrease) in cash and cash equivalents		128,242	(2,674)
Cash and cash equivalents, beginning of year		109,411	112,085
Cash and cash equivalents, end of year	$	237,653	109,411
Reconciliation of income from operations to net cash provided by operating activities:			
(Loss) income from operations	$	(88,451)	25,485
Adjustments to reconcile (loss) income from operations to net cash provided by operating activities:			
Depreciation		81,754	87,633
Provision for uncollectible accounts		17,238	29,140
Other		2,122	1,473
Investment income		(1,066)	(6,219)
Net increase (decrease) in operating activities:			
Patient accounts receivable		20,101	(68,650)
Other receivables		(2,590)	1,921
Due from related parties		(8,330)	(1,368)
Supplies inventory, other current assets and other assets		(15,664)	(3,352)
Pension related deferred inflows, deferred outflows, and net pension liability		(41,733)	(44,139)
OPEB related deferred inflows, deferred outflows and OPEB liability		7,339	11,243
Accounts payable and accrued expenses		3,345	10,378
Accrued salaries, wages, and employee benefits		(5,191)	4,365
Due to related parties		14,329	(9,700)
Payable to contractual agencies and other current liabilities		7,221	2,946
Physician distribution payable		(4,668)	1,099
Noncurrent liabilities		1,476	784
Unearned medicare advanced payments		125,300	—
Net cash provided by operating activities	$	112,532	43,039
Supplemental disclosures of noncash investing, capital, and financing activities:			
(Decrease) increase in capital assets included in accounts payable	$	(2,800)	3,297
Increase in capital assets included in noncurrent liabilities		6,098	15,871
Net unrealized losses on investments		(5,574)	(687)

See accompanying notes to basic financial statements.

(1) Organization and Operations

The UW Medicine Clinical Enterprise – UW Division (the Group) is comprised of UW Medicine clinical entities which are divisions, departments and component units of the University of Washington (an agency of the state of Washington) (the University). The Group includes the University of Washington Medical Center (UW Medical Center), UW Medicine/Northwest dba Northwest Hospital & Medical Center (Northwest Hospital), which was a separate legal entity through December 31, 2019, UW Physicians Network dba UW Neighborhood Clinics (Neighborhood Clinics), The Association of University Physicians dba UW Physicians (UWP), Airlift Northwest (Airlift), and UW Medicine Shared Services.

UW Medicine's mission is to improve the health of the public and is governed and administered as an enterprise fund of the University. UW Medicine also strives to facilitate the education of physicians and other health care providers, support research activities in collaboration with the University School of Medicine (the School) and render other services designed to achieve the "Triple Aim", which is to improve the healthcare experience for the individual, improve health of the population, and provide more affordable care.

The UW Medicine Advisory Board (the Board) was established by the University of Washington Board of Regents in July 2018 and became effective on September 1, 2018. The Board consists of community leaders appointed by the UW Board of Regents and chaired by a member of the UW Board of Regents. The Board advises and assists the chief executive officer and the dean of the School of Medicine in strategic planning and oversight of programs across the organizations that make up UW Medicine, including Harborview Medical Center (Harborview), UW Medical Center, Northwest Hospital, Valley Medical Center (VMC), the Neighborhood Clinics, UWP, the School and Airlift.

Harborview, a component unit of King County, Washington and a related party to the University, is not reflected within the Group financial reporting entity.

VMC, a Washington public hospital district, is a discretely presented component unit of the University, and is not reflected within the Group financial reporting entity.

The School is a public medical school affiliated with the University but is not reflected as part of the Group financial reporting entity.

UW Medical Center

UW Medical Center is a 529 licensed-bed hospital and is a division of the University. Subsequent to the integration of Northwest Hospital into UW Medical Center on January 1, 2020, UW Medical Center includes the Northwest campus, which is a 281 licensed-bed, full service medical facility. Authority for specified governance functions of UW Medical Center has been delegated by the University Board of Regents (the Regents) to the Board as specified in the Board's bylaws, originally adopted by the Board in 1976 and amended in February 2000. UW Medical Center is governed by a board and bylaws established by the University Board of Regents. UW Medical Center operates under the direction of the chief executive officer, who is accountable to the UW Medical Center Board and the president of UW Medicine hospitals and clinics for management of the facility.

Northwest Hospital

Northwest Hospital is a Washington not-for-profit corporation, incorporated in 1949, whose sole corporate member is the University. In February 2018, the University Board of Regents granted approval to proceed with the dissolution of Northwest Hospital as a separate corporation. Effective January 1, 2020, Northwest Hospital was integrated into UW Medical Center as its second campus, and its assets and liabilities were transferred to UW Medical Center. Northwest Hospital employees became University employees effective January 1, 2020. The Northwest Hospital corporation ceased operations and is in the process of winding up for dissolution of the corporation. Prior to the integration, Northwest Hospital was a component unit of the University.

The former Northwest Hospital now operates as the Northwest campus of UW Medical Center and is governed by the UW Medical Center Board, with management under the UW Medical Center Chief Executive Officer. The medical staff are governed by the UW Medical Center medical staff bylaws.

UWP

UWP, a Washington not-for-profit corporation and component unit of the University, was formed on August 30, 1983, for the exclusive benefit of the School. UWP employs the School faculty and bills and collects for their clinical services as an agent for the School. All revenues after payment of operating expenses and physician salaries are held for the benefit of the School under the Operating Agreement between UWP and the University as presented in note 2(t).

Airlift

Airlift provides rapid emergency air transport services through one owned and eleven leased aircraft to critically ill or injured patients throughout Washington, Alaska, Montana, and Idaho. Airlift has been a division of the University since 2010. Airlift operates under the direction of the chief executive officer, who is accountable to the Board and the president of UW Medicine hospitals and clinics for the management of the facility.

Neighborhood Clinics

The Neighborhood Clinics, a Washington not-for-profit corporation and component unit of the University was formed in 1996. The Neighborhood Clinics were established for the benefit of the School, UWP, and its affiliated medical centers, exclusively for clinical, scientific, and educational purposes. The Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting to enhance the academic environment of the School by providing additional sites of primary care practice and training for faculty, residents, and students.

UW Medicine Shared Services

UW Medicine Shared Services is comprised of a number of functions within the University, established for the purpose of providing scalable administrative and information technology (IT) support services for UW Medicine. These functions include UW Medicine IT Services (ITS), UW Medicine Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, and UW Medicine Contracting. In fiscal year 2019, certain UW Medicine departments moved into Shared Services and recorded post retirement obligations as a change in reporting entity of $18,779 related to these University employees, which is included in the statements of revenues, expenses and changes in net position.

In October 2018, the Board of Regents authorized the University, through UW Medicine, to become an equity member in a limited liability company. PNWCIN, LLC dba Embright was created in 2018 and is jointly owned by UW Medicine, MultiCare Health System and LifePoint Health. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the members to partner together to further the Triple Aim of improving the patient care experience and improving the health of populations while reducing costs. Together, the members represent 14 hospitals, more than 6,500 providers and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols, care pathways, standardized processes and care management services for complex patients. UW Medicine currently has an equity ownership interest of 45.5% in Embright at June 30, 2020, which is recorded within other assets in the statements of net position.

COVID-19

The novel coronavirus (COVID-19) was identified in China in December 2019 and was identified in Washington State in January 2020. It has spread globally creating a pandemic, which has significantly impacted the economic conditions at a local, national, and international level. On February 29, 2020, the governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address coronavirus in Washington and the forecasted potential surge of COVID-19 patients. On March 13, 2020, President Trump declared a national state of emergency with respect to the COVID-19 outbreak, ordering all states to establish emergency operations and authorizing the use of federal funds.

In response to Executive Orders from the governor, beginning on March 19, 2020, providers, including the Group, cancelled or postponed all non-urgent and elective procedures. On May 19, 2020, the governor lifted the restrictions on non-urgent and elective procedures and the Group resumed these procedures. The cancellation of procedures from mid-March to mid-May had a significant impact on volumes and revenues in the fiscal year.

(2) Summary of Significant Accounting Principles

(a) Accounting Standards

The accompanying basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for state and local governments as prescribed by the Government Accounting Standards Board (GASB). The Group uses proprietary fund accounting.

(b) Basis of Accounting

The Group's financial statements have been prepared using the accrual basis of accounting with the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

(Dollar amounts in thousands)

(c) Use of Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the Group's financial statements include patient accounts receivable allowances, third-party payer settlements, post employment obligations, and amounts recognized under federal stimulus funding.

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less at the date of purchase, excluding amounts whose use is limited by board designation. As of June 30, 2020 and 2019, approximately $57,289 and $44,517 was held in cash and $605 and $949, respectively, was held in cash equivalents. Cash deposits of up to $250 are fully insured by the Federal Depository Insurance Corporation.

(e) Funds Held by the University of Washington

Operating and capital funds for certain entities within the Group are invested directly with the University. The current portion is determined based on funds expected to be used in the next year. All balances are available on demand and are stated at carrying value. In exchange, the University offers a stipulated rate of return determined at the end of the reporting period by the University based on pooled investment performance and the University's reserve fund goals. For fiscal year 2020, the rate returned was 0.75%, representing $1,341 in investment income. For fiscal year 2019, the rate returned was 0.75%, representing $1,213 in investment income.

The Group has unrestricted access to deposit and withdraw these funds at its discretion and without limitation, and as such, amounts classified as current assets are considered cash and cash equivalents for presentation in the statements of cash flows.

Pooled investments held on behalf of the Group by the University are recorded at the Group's share of the carrying value of the University's cash and liquidity pools. The cash and liquidity pools were invested as follows at June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	5.7 %	3.7 %
U.S. treasury and agencies securities	75.8	68.3
Mortgage related securities	7.1	10.3
Asset backed debt securities	7.9	10.5
Other fixed income securities	3.5	7.2
Total	100.0 %	100.0 %

Concentrations of credit risk consist of pooled investments held on behalf of the Group at the University.

(f) Investments

The Group holds investments in the form of equity securities, fixed-income securities, and government obligations. Fair value is determined based on quoted market prices. The Group's investment income, including realized and unrealized gains or losses, is reported as nonoperating revenue or expense with the exception of UWP whose investment income (including realized and unrealized gains and losses on investments) is a component of revenues as presented in note 2(t).

(g) Supplies Inventory

Supplies inventory consist primarily of surgical, medical, and pharmaceutical supplies in organized stores at various locations across the Group. Inventories are recorded at the lower of cost (first-in, first-out) or market.

(h) Capital Assets

Capital assets are stated at cost at acquisition, or if acquired by gift, at fair value at the date of the gift. Additions, replacements, major repairs, and major renovations are capitalized. Maintenance and repairs are expensed. The cost of the capital assets sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded in other nonoperating expense in the statements of revenues, expenses, and changes in net position.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are generally 5 to 25 years for land improvements, 10 to 40 years for buildings, renovations, and furnishings, 5 to 25 years for fixed equipment, and 3 to 20 years for movable equipment.

Equipment under capital lease is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the statements of revenues, expenses, and changes in net position.

Interest is capitalized on large construction projects as a cost of the related project, beginning with commencement of construction and ceases when the construction period ends and the related asset is placed in service. There was no interest capitalized during 2020. Interest capitalized during 2019 was $198 and is recorded in capital assets in the statements of net position.

(i) Investment in Seattle Cancer Care Alliance

UW Medical Center is a one-third owner in Seattle Cancer Care Alliance (SCCA) and accounts for its interest under the equity method of accounting. Equity earnings from SCCA of $25,062 and $24,231 was recorded in fiscal years 2020 and 2019, respectively, and are included in other nonoperating revenues in the statements of revenues, expenses, and changes in net position. Since inception of SCCA, there have been no cash distributions to owners. The equity earnings recorded by UW Medical

(Continued)

(Dollar amounts in thousands)

Center is a noncash transaction. The following is a summary of the SCCA's financial results for the years ended June 30, 2020 and 2019:

		2020	2019
Assets	$	1,020,161	753,311
Liabilities	$	382,910	190,945
Net assets without donor restrictions		626,359	552,951
Net assets with donor restrictions		10,892	9,415
Total liabilities and net assets	$	1,020,161	753,311
Revenues	$	803,002	737,339
Expenses		734,934	684,666
Nonoperating revenue		5,139	17,779
Excess of revenues over expenses		73,207	70,452
Increase in net assets without donor restrictions	$	73,408	70,919

(j) UW Medicine IT Services

Harborview and SCCA provide advance funding to ITS which entitles Harborview and SCCA access to the enterprise-wide IT software and services. ITS records the funding as unearned revenue. The unearned revenue is reported within other current liabilities and other noncurrent liabilities in the statements of net position based on expected usage. At June 30, 2020 and 2019, $9,600 and $11,100 is recorded in other current liabilities and $14,975 and $12,721 is recorded in other noncurrent liabilities in the statements of net position, respectively.

Additionally, Harborview entered into a long term arrangement to pay ITS for its portion of UW Medicine's clinical transformation program, called Destination One, which is being funded by the University's Internal Lending Program (ILP). Harborview will pay ITS for its share of the project costs, which are allocated to each hospital based on FTEs and total operating revenues. At June 30, 2020 and 2019, ITS has recorded a noncurrent receivable from Harborview within other assets in the statements of net position of $8,837 and $191 related to this project. Harborview will make its first payment to ITS on July 1, 2021, with the remaining amounts paid over twelve years.

Per an agreement with SCCA, SCCA's allocated cost of the Destination One project is $23,200. SCCA is paying their project costs over 24 months, which began in September 2018. At June 30, 2020 and 2019, $5,025 and $0 is recorded in other current liabilities and $11,464 and $8,079 is recorded in other noncurrent liabilities, respectively, in the statements of net position for SCCA's portion of the project.

(k) Compensated Absences

Compensated absences represent the liability for employees with accumulated leave balances earned through various leave programs. These amounts are payable when an employee terminates employment. Employees earn leave at varying rates depending upon their years of service and the leave plan in which they participate. Annual and sick leave accrued at June 30, 2020 and 2019 is $56,313 and $58,604, respectively. Compensated absences are reported within the accrued salaries, wages, and employee benefits in the statements of net position.

(l) Benefit Costs

Benefit costs are pooled centrally for all University employees, which, for the Group, includes University employees deployed at UW Medical Center, Airlift, and UW Medicine Shared Services. Annually, the University reviews total employee benefit costs and prepares standard benefit load rates by employment classification. These benefit costs cover employee healthcare expense, workers' compensation, employment taxes, and retirement plans. Departments, divisions, agencies, component units, and related parties of the University which have University employees qualifying for employee benefit coverage are charged a cost allocation using the determined benefit load rate and budgeted salary dollars by employment classification. All funding of obligations is on a pay-as-you-go basis.

(m) Pension and Post Retirement Obligations

The Washington State Public Employees' Retirement System Pension Plan is a cost sharing pension plan. The net pension liability is measured as the Group's proportionate share of the collective total pension liability, less the fiduciary net position. 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 Group's proportionate share is determined based on the relationship of the Group contributions to total contributions to the plan by the University. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Deferred inflows and outflows of resources are reported within the statements of net position based on changes in assumptions, experience and investment returns and are recognized over an amortization period. Contributions made to the plan subsequent to the measurement date and prior to the Group'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 liability is June 30 of the prior fiscal year.

The University of Washington Supplemental Retirement Plan (UWSRP) is a single employer 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. The measurement date for the UWSRP total pension liability is June 30, 2020. The Group reports its proportionate share of the related pension amounts in the accompanying financial statements. Legislation passed by the state of Washington and effective beginning in fiscal year 2021 established a funding policy intended to pre-fund retiree benefits, and trust accounts will be used to accumulate contributions and investment returns. Under this new structure, UWSRP will set a discount rate consistent with the expected long-term rate of return on plan assets, and apply the market value of the trust assets against the total pension liability.

The Other Post Employment Benefits (OPEB) is a program for employees of the State of Washington beyond those provided by their pension plans. The total OPEB liability is measured as the Group's proportionate share of the University total OPEB liability, with proportionate share determined based on the relationship of the Group's healthcare-eligible headcount to the total healthcare-eligible headcount for the University. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate 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 are reported as deferred inflows 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 Group'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.

(n) Aviation Expenses

Airlift contracts with two independent vendors to meet certain aviation service needs, including aircraft, pilots, flight planning, and maintenance. Flight costs include both monthly fixed fees and variable fees based on hours flown and are expensed as incurred. Aviation expenses are reported in purchased services within the statements of revenues, expenses, and changes in net position.

(o) Payable to Contractual Agencies

The Group is reimbursed for Medicare inpatient, outpatient, psychiatric, and rehabilitation services, and for capital and medical education costs during the year either prospectively or at an interim rate. The difference between interim payments and the reimbursement computed based on the Medicare filed cost report results in an estimated receivable from or payable to Medicare at the end of each year. The Medicare program's administrative procedures preclude final determination of amounts receivable from or payable to the Group until after the cost reports have been audited or otherwise reviewed and settled by Medicare.

Public hospitals located in the state of Washington designated by the Washington State legislature are reimbursed at the "full cost" of Medicaid inpatient covered services under the public hospital Certified Public Expenditures (CPE) payment method. See note 3(a) for discussion regarding this program.

The estimated settlement amounts for Medicare cost reports and CPE payments that are not considered final are included in payable to contractual agencies in the statements of net position.

(p) Classification of Revenues and Expenses

The Group's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenues and UWP billing revenues, net, result from exchange transactions associated with providing healthcare services – the Group's primary business. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values.

Operating expenses include all expenses, other than financing costs, incurred by the Group to provide healthcare services to the Group's patients.

Nonoperating revenues and expenses are recorded for nonexchange transactions. This includes investment income, donation income, interest expense, funding to and from affiliates of UW Medicine and the state, federal stimulus funding, and equity earnings generated through investment in SCCA. See note 4 for a discussion of COVID-19 related funding.

(q) Net Patient Service Revenues

The Group has agreements with third-party payers which provide for payments to the Group at amounts that differ from its established charges. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. A summary of the payment arrangements with major third-party payers is as follows:

(i) Medicare

Acute inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on Medicare severity diagnosis-related groupings (MS-DRGs), as well as reimbursements related to capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for Medicare outpatient services are provided based upon a prospective payment system known as ambulatory payment classifications (APC). APC payments are prospectively established and may be greater than or less than the actual charges for services. The Medicare program utilizes the prospective payment system known as case mix group (CMG) for rehabilitation services reimbursement. As with MS-DRGs, CMG payments are prospectively established and may be greater than or less than the Group's actual charges for its services. Adult inpatient psychiatry services are also paid prospectively using a federal per diem payment rate adjusted for comorbidity and various other factors.

(ii) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at approximate cost or at prospectively determined rates per discharge. Outpatient services rendered are paid based upon the APC prospective payment system. See note 3(a) for discussion surrounding the Medicaid certified public expenditures program.

(iii) Commercial

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

(Dollar amounts in thousands)

(iv) Exchange (HIX)

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

(r) Financial Assistance

The Group provides care without charge to patients who meet certain criteria under its financial assistance policy. Records are maintained to identify and monitor the level of financial assistance provided. These records include charges foregone for services and supplies furnished under its financial assistance policy to the uninsured and the underinsured. Because the Group does not pursue collection of amounts determined to qualify as financial assistance, these are not reported as net patient service revenues. The charges associated with financial assistance provided by the Group were $66,045 and $64,711 for the years ended June 30, 2020 and 2019, respectively. The cost of financial assistance provided is calculated based on the Group's aggregate relationship of costs to charges. The estimated cost of financial assistance provided for fiscal years ended June 30, 2020 and 2019 was $22,870 and $21,893, respectively.

(s) UWP Accounting for Billing and Collection Services

As a billing agent, UWP bills and collects patient accounts for the benefit of the School. As described in note 2(t), UWP's billing revenues, by agreement, are limited to operating expenses incurred. Revenue recorded by UWP includes net billings processed on behalf of the School plus investment income and less amounts paid or due to the Clinical Medicine Fund (CMF) and departments.

Accounts receivable from patients, net of allowances for discounts, contractual adjustments and collection losses are assets of the School. The following represents the estimated net patient accounts receivable for which UWP will pursue collection on behalf of the School as of June 30, 2020 and 2019, and are not reflected in the statements of net position:

		2020	2019
Accounts receivable (net of credit balances of $2,323 and $1,634, respectively)	$	122,562	102,188
Estimated allowances for discounts, contractual adjustments, and collection losses		(73,447)	(59,890)
	$	49,115	42,298

The amounts above exclude receivables related to services performed by certain nonmember healthcare professionals for related entities (Harborview and UW Medical Center) that are billed and collected by UWP as a billing agent. Cash collected on these accounts is remitted monthly to affiliates, net of billing service fees.

(Dollar amounts in thousands)

(t) UWP Billing Activity

As discussed in note 2(s), UWP acts as a billing agent for the School and, as such, collects cash for the benefit of the School. UWP's billing revenues, by agreement, are limited to the operating expenses incurred. A reconciliation of the net billing activity processed for the benefit of the School and investment income to revenue recognized by UWP is as follows:

		2020	2019
Net billings processed on behalf of the school:			
Professional fee revenue, net	$	378,303	359,845
Professional services supplemental payment		5,103	5,844
Provider access payment program		44,944	33,948
Meaningful use incentive payments		995	2,830
Billing reimbursement		922	911
		430,267	403,378
Investment income		1,066	6,219
Total net billings processed and investment income		431,333	409,597
Less:			
Amounts paid or due to affiliates		(2,336)	(2,415)
Amounts paid or due to Clinical Medicine Fund and departments		(102,569)	(107,402)
UWP billing revenues, net	$	326,428	299,780

Receipts collected by UWP are allocated and distributed in accordance with UWP's Income Distribution Plan. Allocations and distributions are calculated pursuant to the plan and the physicians' distributions, CMF, and departmental payables are recorded in the amounts due to the respective payable accounts.

The payables are comprised of the following at June 30:

		2020	2019
Physician Distribution	$	13,999	18,667
Clinical Medicine Fund and Department Payables		105,559	101,569
Total physician distribution, clinical medicine fund and departmental payables	$	119,558	120,236

(u) Net Position

The Group's net position is classified in various components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding borrowings used to finance the purchase or construction of those assets. Expendable restricted net position consists of resources that the Group is legally or contractually obligated to expend in accordance with time or purpose restrictions placed by donors and/or external parties. Nonexpendable restricted net position, primarily endowments, represent gifts to the Group's permanent endowment funds, in which the donor or other external party has imposed a restriction that the corpus is not available for expenditure. Unrestricted net position is all other funds available to the Group for any purpose associated with its operations.

(v) Federal Income Taxes

UW Medical Center, Airlift, and UW Medicine Shared Services are divisions and/or departments of the University and are not subject to federal income tax under Section 115 of the Internal Revenue Code (IRC), except for unrelated business income tax. There are no significant tax obligations at June 30, 2020 and 2019.

Northwest Hospital, UWP, and Neighborhood Clinics are exempt from federal income tax under Section 501(c)(3) of the IRC, except for unrelated business income tax. There are no significant tax obligations at June 30, 2020 and 2019.

(w) Recently Adopted and Upcoming Accounting Pronouncements

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which was effective upon issuance. This statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in the statements and Implementation Guides that first became effective or have been scheduled to become effective for periods beginning after June 15, 2018. As a result, the Group will postpone implementation of Statements No. 84 and No. 87 and No. 89.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which will be effective for the fiscal year ending June 30, 2021, as amended by the issuance of Statement No. 95. This statement establishes criteria for identifying and reporting fiduciary activities of all state and local governments. Governments with activities meeting the criteria are required to present a statement of fiduciary net position and a statement of changes in fiduciary net position. Custodial assets held for three months or less are exempt from the reporting requirements. The Group is currently analyzing the impact of this statement.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be effective for the fiscal year ending June 30, 2022, as amended by the issuance of Statement No. 95. 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 Group is currently analyzing the impact of this statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* which will be effective for the fiscal year ending June 30, 2022. This statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will not be included in the capitalized cost of capital assets reported by the Group. This statement will be applied on a prospective basis, and interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated. The Group is currently analyzing the impact of this statement.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*, which primarily will be effective for the fiscal year ending June 30, 2021. This statement addresses a variety of topics, including specific provisions related to leases, certain intra-entity transfers between a primary government and a component unit's post-retirement benefit plan, reporting of post employment plan assets accumulated outside of a qualified trust, certain requirements related to fiduciary activities' post employment benefit arrangements, measurement of asset retirement obligations resulting from a government acquisition, public entity risk pools, fair value measurements, and derivative instrument terminology. The Group is currently analyzing the impact of this statement.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which will be effective for the fiscal year ending June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines an SBITA, establishes that an SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of an SBITA), and requires note disclosures regarding an SBITA. The Group is currently analyzing the impact of this Statement.

(3) Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as updated information becomes available and when final settlements are determined. In 2020 and 2019, net patient service revenues include approximately $6,054 and $3,102, respectively, relating to prior years' net Medicare and Medicaid settlements and revised estimates, including disproportionate share reimbursement and the CPE program.

(Dollar amounts in thousands)

The following are the components of net patient service revenues for the years ended June 30, 2020 and 2019:

		2020	2019
Gross patient service charges	$	4,141,709	4,571,614
Less adjustments to gross patient service charges:			
Contractual discounts		(2,441,813)	(2,763,713)
Financial assistance		(49,115)	(47,563)
Provision for uncollectible accounts		(17,238)	(29,140)
Total adjustments to gross patient service charges		(2,508,166)	(2,840,416)
Net patient service revenues	$	1,633,543	1,731,198

The Group grants credit without collateral to its patients, most of whom are Washington State residents and who are insured under third-party payer agreements. The mix of gross patient charges and gross receivables from significant third-party payers at June 30, 2020 and 2019 was as follows:

	2020	
	Patient service charges	Accounts receivable
Medicare	37 %	30 %
Medicaid	16	16
Commercial and other	44	48
Exchange (HIX)	2	2
Self-pay	1	4
Total	100 %	100 %

(Dollar amounts in thousands)

	2019	
	Patient service charges	Accounts receivable
Medicare	39 %	29 %
Medicaid	16	15
Commercial and other	42	49
Exchange (HIX)	2	2
Self-pay	1	5
Total	100 %	100 %

(a) Medicaid Certified Public Expenditure Reimbursement

UW Medical Center is reimbursed at the "full cost" of Medicaid inpatient covered services under the public hospital CPE payment method. "Full cost" payments are determined using the respective hospital's Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital, and the State claims a federal match on the amount of the related certified public expenditures. According to the Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. UW Medical Center recognized $18,808 and $17,520 in claims payments under this program for the years ended June 30, 2020 and 2019, respectively.

In addition, UW Medical Center receives the federal match portion of Disproportionate Share (DSH) payments, which is the lesser of qualifying Medicaid and financial assistance uncompensated care cost or the hospital's specific limit. UW Medical Center recognized $34,177 and $27,987 in DSH funding under this program for the years ended June 30, 2020 and 2019, respectively.

Since the inception of the program, the Washington State Legislature (the State) has provided, through an annual budget proviso, a "hold harmless" provision for hospitals participating in the CPE program. Through this proviso, hospitals participating in the CPE program will receive no less in combined state and federal payments than they would have received under the previous payment methodology. In addition, the hold harmless provision ensures that participating hospitals receive DSH payments as specified in the legislation.

In the event of a shortfall between CPE program payments and the amount determined under the hold harmless provision, the difference is paid to the hospitals as a grant from state only funds. UW Medical Center did not recognize any amounts for state grants for the years ended June 30, 2020 and 2019. Claims payments, DSH payments, and state grant funds are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

CPE payments are subject to retrospective determination of actual costs once UW Medical Center's Medicare Cost Report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete, after UW Medical Center receives its Medicare Notice of Program Reimbursements for the corresponding cost reporting year.

Interim state grant payments are retrospectively reconciled to "hold harmless" after actual claims are repriced using the applicable DRG payment methodology. This process takes place approximately twelve months after the end of the fiscal year and results in either a payable to, or receivable from, the State Medicaid Program. UW Medical Center has estimated the expected final settlement amounts based on the difference between CPE payments received and the estimated hold harmless amount.

As of June 30, 2020 and 2019, UW Medical Center has an estimated payable for the CPE program of $25,283 and $29,028, respectively, which is recorded as a payable to contractual agencies in the statements of net position.

(b) Professional Services Supplemental Payment Program and Provider Access Payment

The professional services supplemental payment (PSSP) and provider access payment (PAP) are programs managed by the Washington State Healthcare Authority (HCA) and benefit certain public hospitals.

Under the program, UW Medical Center, Northwest Hospital, UWP, and Children's University Medical Group (CUMG) receive supplemental Medicaid payments for the physician and other professional services for which they bill. These supplemental payments equal the difference between the standard Medicaid reimbursement and the upper payment limit allowable by federal law. UW Medical Center and Harborview provide the nonfederal share of the supplemental payments that are used to obtain matching federal funds.

UW Medical Center recorded $9,908 and $11,590 for the years ended June 30, 2020 and 2019, respectively, in intergovernmental transfers (IGT) to HCA related to professional claims paid. This is included in funding to affiliates in the statements of revenues, expenses, and changes in net position. There is no requirement that UWP and CUMG PSSP and PAP payments be returned to UW Medical Center as a condition for making the IGT's.

UW Medical Center and Northwest Hospital recognized $2,578 and $7,315 in supplemental payments for the years ended June 30, 2020 and 2019, respectively. The payments are recorded in net patient service revenues in the statements of revenues, expenses, and changes in net position. UWP recognized $50,047 and $39,792 in supplemental payments for the years ended June 30, 2020 and 2019, respectively, for the benefit of the School and are reflected as part of revenues processed and amounts due to the CMF as shown in note 2(t).

PSSP and PAP funds received through the CMF are combined with other revenue used by the School for the central support of faculty costs. As a result, the School requires less funding from UW Medical Center. UW Medical Center clinical department funding is recorded in purchased services expense in the statements of revenues, expenses and changes in net position and was reduced by $28,225 and

$23,752 in fiscal years 2020 and 2019, respectively, due to the PSSP and PAP funds received by the School.

(c) Hospital Safety Net Program

The Hospital Safety Net Assessment Act (HSNA) uses Washington State funds obtained through an assessment levied on Prospective Payment System (PPS) hospitals and federal matching funds to increase Medicaid payments to hospitals. Under this program, PPS program hospitals are assessed a fee on all non-Medicare patient days.

Under the HSNA program, PPS hospitals receive supplemental Medicaid payments, Critical Access Hospitals receive disproportionate share payments, and CPE hospitals receive state grants. The program has an expiration date of June 30, 2023.

UW Medical Center is exempt from the assessment as the hospital is operated by an agency of the State government and also participates in the CPE program. UW Medical Center recognized grant funding related to the HSNA program of $4,455 for both the years ended June 30, 2020 and 2019, which is recorded in other revenue in the statements of revenues, expenses, and changes in net position.

During the years ended June 30, 2020 and 2019, Northwest Hospital recorded $4,241 and $7,403, respectively, related to assessment fee expense that is recorded in other expenses in the statements of revenue, expenses, and changes in net position. At June 30, 2019, Northwest Hospital recorded a payable relating to the safety net assessment of $1,851, which is included in accounts payable and accrued expenses in the statements of net position.

Northwest Hospital recognized increased reimbursements of $4,662 and $9,065 under this program for the years ended June 30, 2020 and 2019, respectively, which is included in net patient service revenues in the statements of revenues, expenses, and changes in net position. At June 30, 2019, Northwest Hospital recorded a receivable relating to increased reimbursements of $629, which is included in other receivables in the statements of net position.

(4) Unearned Medicare Advanced Payments and Federal Stimulus Funding

In response to financial pressures brought on by the COVID-19 pandemic, the Group pursued additional sources of liquidity through various federal programs. The Group requested and received approval for six months of advance Medicare payments under CMS Medicare Advanced Payment Program (MAPP). The Group received $125,300 in April and May of 2020 which is recorded within unearned Medicare advanced payments in the accompanying statements of net position. The advance Medicare funds will be recovered by Medicare by offsetting paid claims until the full amount is recouped, which was to begin 120 days after the advance was issued.

On September 30, 2020, a federal law was signed to extend the deadline for repayment under the Medicare Advanced Payment Program, which would give hospital providers one year from the date of the original advance before Medicare can begin to recover the advances and twenty-nine months from the date of the original advance to fully repay the advanced payment without interest.

The federal government passed the Coronavirus Aid, Relief and Economic Security (CARES Act) Provider Relief Fund in March 2020. The Provider Relief Fund is distributing $175,000,000 to hospitals and healthcare providers to assist with the COVID-19 response. The Provider Relief Fund payments are to assist with lost revenues associated with lower volumes, cancelled procedures and services due to COVID-19. Provider relief funds consisted of both general and targeted distributions. The Group received both types of distributions totaling $65,553. For the year ended June 30, 2020, the Group recognized Provider Relief Funds of $65,553, which is recorded within Federal Stimulus Funding in the statements of revenues, expenses and changes in net position.

On September 19, 2020, the Department of Health and Human Services (HHS) published its Provider Reporting Guidelines. The guidelines include the reporting timing and deadlines and methodology for calculating lost revenues attributable to COVID-19. Since this information could not have been known at June 30, 2020, any change in the estimate of revenue to be recognized will be recorded in future periods. The Group is evaluating the effects of the these reporting requirements.

(5) State Appropriation

An appropriation is made by the State to the University on a biennial basis, specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. UW Medical Center is designated as a division of the major program “hospitals” included within the total appropriation. Due to the nature of the designation, these amounts are included in other revenue in the statements of revenues, expenses, and changes in net position. UW Medical Center recognized $9,314 and $6,746 for the fiscal years ended June 30, 2020 and 2019, respectively.

(Dollar amounts in thousands)

(6) Capital Assets

The activity in the Group's capital asset and related accumulated depreciation accounts for the years ended June 30, 2020 and 2019 is set forth below:

	June 30, 2019	Additions	Transfers	Retirements	June 30, 2020
Capital assets, not being depreciated:					
Land	$ 13,766	—	—	(2,949)	10,817
Art	1,760	57	—	—	1,817
Construction in process	51,737	90,429	(52,670)	(991)	88,505
Total capital assets, not being depreciated	67,263	90,486	(52,670)	(3,940)	101,139
Capital assets, being depreciated:					
Land improvements	14,347	—	—	(659)	13,688
Buildings, renovations, and furnishings	948,860	73	18,986	(8,157)	959,762
Fixed equipment	166,561	—	2,494	(1,922)	167,133
Movable equipment	715,288	253	31,190	(112,086)	634,645
Total capital assets, being depreciated	1,845,056	326	52,670	(122,824)	1,775,228
Total capital assets at historical cost	1,912,319	90,812	—	(126,764)	1,876,367
Less accumulated depreciation for:					
Land improvements	(8,937)	(402)	—	622	(8,717)
Buildings, renovations, and furnishings	(456,604)	(32,313)	—	7,194	(481,723)
Fixed equipment	(130,190)	(4,965)	—	1,859	(133,296)
Movable equipment	(592,378)	(44,074)	—	111,221	(525,231)
Total accumulated depreciation	(1,188,109)	(81,754)	—	120,896	(1,148,967)
Total capital assets, net	$ 724,210	9,058	—	(5,868)	727,400

(Dollar amounts in thousands)

	June 30, 2018	Additions	Transfers	Retirements	June 30, 2019
Capital assets, not being depreciated:					
Land	$ 13,766	—	—	—	13,766
Art	1,542	193	25	—	1,760
Construction in process	18,629	85,742	(52,634)	—	51,737
Total capital assets, not being depreciated	33,937	85,935	(52,609)	—	67,263
Capital assets, being depreciated:					
Land improvements	14,398	—	—	(51)	14,347
Buildings, renovations, and furnishings	930,075	—	26,472	(7,687)	948,860
Fixed equipment	174,441	—	(377)	(7,503)	166,561
Movable equipment	719,744	1,987	26,514	(32,957)	715,288
Total capital assets, being depreciated	1,838,658	1,987	52,609	(48,198)	1,845,056
Total capital assets at historical cost	1,872,595	87,922	—	(48,198)	1,912,319
Less accumulated depreciation for:					
Land improvements	(8,537)	(400)	—	—	(8,937)
Buildings, renovations, and furnishings	(430,933)	(32,610)	—	6,939	(456,604)
Fixed equipment	(132,797)	(5,075)	—	7,682	(130,190)
Movable equipment	(572,620)	(49,548)	(383)	30,173	(592,378)
Total accumulated depreciation	(1,144,887)	(87,633)	(383)	44,794	(1,188,109)
Total capital assets, net	$ 727,708	289	(383)	(3,404)	724,210

Intangible assets, net of accumulated amortization of $9,329 and $15,104 as of June 30, 2020 and 2019, respectively, is included in movable equipment in the capital asset rollforwards.

(7) Investments

The majority of Northwest Hospital and UWP's investments correspond to assets designated by the Board for future capital improvements and replacements, assets designated for specific purposes, and investments held for the benefit of the School.

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

(Dollar amounts in thousands)

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

The composition of the carrying amounts of investments, by type, at June 30, 2020 and 2019, is as follows:

		2020	2019
Money market mutual funds	$	—	3,232
Mutual funds – equity		92,194	134,600
Domestic corporate bonds		11,289	9,030
U.S. governmental agency securities		5,340	5,675
U.S. Treasury securities		3,019	4,711
Other		909	1,057
Total	$	112,751	158,305

(a) Credit Risk

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

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

		2020					
Investments		U.S. Government	Investment grade*	Not investment grade	Not rated	Total	Duration (in years)
U.S. Treasury securities	$	3,019	—	—	—	3,019	12.24
Domestic corporate bonds		—	11,289	—	—	11,289	6.23
U.S. governmental agency		5,340	—	—	—	5,340	2.58
	$	8,359	11,289	—	—	19,648	7.02

(Dollar amounts in thousands)

	2019					
Investments	U.S. Government	Investment grade*	Not investment grade	Not rated	Total	Duration (in years)
U.S. Treasury securities	$ 4,711	—	—	—	4,711	9.64
Domestic corporate bonds	—	7,280	—	1,750	9,030	5.48
U.S. governmental agency	5,675	—	—	—	5,675	4.02
	$ 10,386	7,280	—	1,750	19,416	6.38

* *Investment grade securities are those that are rated BBB and higher by Standard and Poor's.*

(b) Interest Rate Risk

The Group manages interest rate risk through construction of a broadly diversified portfolio that seeks to assume only the interest rate risk necessary to achieve the long-term goals in terms of investment returns. The Group does not make "tactical calls" with respect to the direction of interest rates. Therefore, the duration of the Group's holdings is a by-product of risk/return targets, rather than the inverse.

(c) Fair Value Hierarchy

The following table sets forth, by level, within the fair value hierarchy, the Group's investments carried at fair value as of June 30, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 92,194	—	—	92,194
Domestic corporate bonds	—	11,289	—	11,289
U.S. governmental agency securities	—	5,340	—	5,340
U.S. Treasury securities	3,019	—	—	3,019
Other	909	—	—	909
Total investments at fair value	$ 96,122	16,629	—	112,751

(Dollar amounts in thousands)

	2019			
	Level 1	Level 2	Level 3	Total
Money market mutual funds	$ 3,232	—	—	3,232
Mutual funds	134,600	—	—	134,600
Domestic corporate bonds	—	9,030	—	9,030
U.S. governmental agency securities	—	5,675	—	5,675
U.S. Treasury securities	4,711	—	—	4,711
Other	1,057	—	—	1,057
Total investments at fair value	$ 143,600	14,705	—	158,305

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

(d) Investment Income

Investment income includes both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held longer than the current reporting period and are sold in the current period include the net appreciation of these investments reported in the prior periods. UWP investment income is recorded in UWP billing revenues, net, as presented in note 2(t), however, the composition of UWP's investment income is included in amounts presented below. Investment income comprises the following at June 30, 2020 and 2019:

	2020	2019
Dividend and interest income	$ 6,146	6,614
Net realized gains	2,460	2,886
Net unrealized losses	(5,127)	(717)
Total investment income	$ 3,479	8,783

(Dollar amounts in thousands)

(8) Long-Term Debt and Capital Leases

Long-term debt, reported as a part of noncurrent liabilities, consists of the following as of June 30, 2020 and 2019:

		2020	2019
UW Medical Center Internal Lending Program Debt:			
Expansion Project, 4.25% interest rate, through July 2046	$	252,474	260,059
All other debts, 4.04% to 4.96% interest rates, through December 2027		27,926	33,191
UW Medical Center note payable to the University, at 4.25% through December 2032, secured by an interest in UW Medical Center gross receivables and certain property and equipment		56,497	59,533
Childbirth Center, 4.25% interest rate, through July 2041		7,294	2,183
UW Medicine ITS Internal Lending Program Debt:			
D1 Project, 4.25% interest rate, through July 2034		45,636	4,926
UW Medical Center note payable at 4.65%, annual debt service including interest of $709 through July 2032; secured by a medical office building – direct borrowing		6,542	6,937
Neighborhood Clinics Paycheck Protection Program loan, at 1% interest deferred for six months, through 2022		5,293	—
Other notes payable and capital leases		2,123	3,341
Total long-term debt		403,785	370,170
Less current portion		(18,318)	(17,660)
Total long-term debt, net of current portion	$	385,467	352,510

(a) Long-Term Debt Overview

(i) University Internal Lending Program

The Group obtains financing through the University's ILP. The ILP is an internal financing pool intended to lower the University's overall cost of capital and provide a predictable borrowing rate for borrowers within the University. These loans are funded through the issuance of General Revenue bonds and notes. The University's ILP program policies include a provision for a rate stabilization reserve and a provision for rate adjustments if necessary. Effective May 1, 2020, the ILP interest rate was reduced 25 basis points from 4.50% to 4.25%.

On January 1, 2020 Northwest Hospital was integrated into the UW Medical Center. On this date the Northwest Hospital debt balances were assumed by UW Medical Center. Amounts in the table above reflect the assumption of the Northwest Hospital debt by UW Medical Center as a result of the integration.

In fiscal year 2019, ITS signed an internal financing agreement for the Destination One project debt, which consists of both capital and operating costs. The ILP finance agreement specified a maximum borrowing of $129,000 with debt to be repaid over a fifteen year period at a 4.25% interest rate with a financing fee of 0.7% of the total borrowing amount.

(Dollar amounts in thousands)

(ii) Neighborhood Clinics

On May 1, 2020, Neighborhood Clinics were granted a loan from Bank of America, NA, in the amount of $5,293, pursuant to the Paycheck Protection Program (PPP). The PPP was established as part of the CARES Act and provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expense of the business. The loan was in the form of a promissory note dated May 1, 2020, and has an interest rate of 1.0% with a deferral of payments of the first six months. The maturity date is two years from the funding date of the loan.

(b) Long-Term Debt Maturities

The following schedule shows debt service requirements, for the next five years and thereafter, as of June 30, 2020, for both principal and interest:

		Principal	Interest	Total
2021	$	18,318	16,870	35,188
2022		27,062	15,849	42,911
2023		22,415	15,069	37,484
2024		23,289	14,057	37,346
2025		20,070	13,003	33,073
2026–2030		103,390	51,692	155,082
2031–2035		100,317	28,752	129,069
2036–2040		45,809	13,082	58,891
2041–2045		43,115	5,744	48,859
Total payments	$	403,785	174,118	577,903

(Dollar amounts in thousands)

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

Changes in long-term debt and capital leases during the fiscal years ended June 30, 2020 and 2019 are summarized below:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Due within one year
UW Medical Center ILP Debt:					
Expansion Project	$ 260,059	—	(7,585)	252,474	8,109
All other debts	33,191	—	(5,265)	27,926	5,448
Note payable – University	59,533	—	(3,036)	56,497	3,500
Childbirth Center	2,183	5,111	—	7,294	—
UW Medicine ITS ILP Debt	4,926	40,710	—	45,636	—
UW Medical Center Note Payable	6,937	—	(395)	6,542	413
Neighborhood Clinics PPP Loan	—	5,293	—	5,293	—
Other note payables and capital leases	3,341	—	(1,218)	2,123	848
Total long-term debt and noncurrent liabilities	$ 370,170	51,114	(17,499)	403,785	18,318

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Due within one year
UW Medical Center ILP Debt:					
Expansion Project	$ 267,275	—	(7,216)	260,059	7,548
All other debts	38,230	—	(5,039)	33,191	5,265
Note payable – University	62,695	—	(3,162)	59,533	3,307
Northwest Hospital ILP Debt	—	2,183	—	2,183	—
UW Medicine ITS ILP Debt	—	4,926	—	4,926	—
Northwest Hospital Note Payable	7,314	—	(377)	6,937	395
Other note payables and capital leases	4,917	—	(1,576)	3,341	1,145
Total long-term debt and noncurrent liabilities	$ 380,431	7,109	(17,370)	370,170	17,660

(9) Risk Management

The Group is exposed to risk of loss related to professional, automobile and general liability, property loss and injuries to employees. UW Medical Center and Airlift participate in risk programs managed by the University to mitigate risk of loss related to these exposures. The other members of the Group mitigate risk of loss through a combination of participating in the liability risk program managed by the University and commercial insurance products. All of the entities participate in the professional liability program managed by the University.

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components of which statutory self-insurance coverage is first dollar. The Group's annual contribution to the professional liability program funding is determined by UW Medicine Finance using information from an annual actuarial study conducted by the University administration. In addition to the University, the participants in the professional liability program include the Group, CUMG, School of Dentistry, the School, and Harborview. In addition to self-insurance fund contributions, the participants share in the expenses of the Health Science Risk Management Office. No claim liability is recorded on the Group's balance sheet for professional liability exposures.

The Group's contribution to the professional liability program was $15,578 and $13,199 in fiscal years 2020 and 2019, respectively, and is recorded in other operating expense in the statements of revenues, expenses, and changes in net position.

(10) Pension Plans

University employees can participate in the following state and University sponsored retirement benefit plans.

(a) University of Washington Retirement Plan

The University of Washington Retirement Plan (UWRP) (the 403(b)) is a defined-contribution plan administered by the University. All faculty and professional staff are eligible to participate in the plan. Contributions to UWRP are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from fund sponsors are available upon separation or retirement at the member's option. Revised Code of Washington (RCW) 28B.10.400 et. seq. assigns the authority to the University's Board of Regents to establish and amend benefit provisions.

Funding is determined by employee age and ranges from 5% to 10% of employee salary. Funding obligations are calculated at the University level and the University allocates expense to department, divisions, agencies, and component units through the benefit load rate.

Based on the University's benefit load apportionment, the Group incurred and paid $10,905 and $9,311 in fiscal years 2020 and 2019, respectively, related to annual UWRP funding, which is recorded in employee benefits expense in the statements of revenues, expenses, and changes in net position.

(b) Public Employees' Retirement System Pension Plans

The University offers several contributory pension plans administered by the Washington State Department of Retirement Systems (DRS). The Group has employees in the Public Employees' Retirement System (PERS) plan, which is a defined-benefit retirement plan.

(i) Plan Descriptions of the DRS Plans

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

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

(ii) Vesting and Benefits Provided

PERS Plan 1

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

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional cost-of living allowance (COLA), and a one-time duty-related death benefit, if the member is found eligible by the Washington State Department of Labor and Industries.

PERS Plan 2/3

PERS Plan 2/3 provides retirement, disability and death benefits. PERS Plan 2 members are vested after completion of 5 years of eligible service. PERS Plan 3 members are vested in the defined-benefit portion of their plan after 10 years of service or after 5 years of service if 12 months are earned after age 44. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2, and 1% of AFC times the member's years of service for Plan 3. The AFC is the monthly average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 65 with at least 5 years of service credit. Retirement before age 65 is considered early retirement. Members are eligible for early retirement with a reduced benefit at age 55 with at least 20 years of service credit. The benefit is reduced by a factor that varies according to age, for each year before age 65.

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

(iii) Fiduciary Net Position

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

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

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

(iv) Actuarial Assumptions

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

The total pension liability for each DRS plan was determined by an actuarial valuation conducted by the Washington State Office of the State Actuary (OSA). The Group's 2020 pension liability is based on an OSA valuation performed as of June 30, 2018, with the results rolled forward to the measurement date of June 30, 2019. The Group's 2019 pension liability is based on an OSA valuation performed as of June 30, 2017, with the results rolled forward to the measurement date of June 30, 2018. The following actuarial assumptions have been applied to all prior periods included in the measurement:

(Dollar amounts in thousands)

	2020
Inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.50%
Investment rate of return	7.40%
	2019
Inflation	2.75% total economic inflation, 3.50% salary inflation
Salary increase	Expected to grow by promotions and longevity in addition to salary inflation assumption of 3.50%
Investment rate of return	7.40%

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, 2018 and 2017 valuation were based on the results of the 2007-2012 Experience Study Report and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the respective actuarial valuation reports.

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

The long-term expected rate of return of 7.4% as of both June 30, 2019 and 2018 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.

(Dollar amounts in thousands)

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

	2020 (Measurement date: 2019)		2019 (Measurement date: 2018)	
	Target asset allocation	Long-term expected real rate of return arithmetic	Target asset allocation	Long-term expected real rate of return arithmetic
Asset class:				
Fixed income	20.0 %	2.2 %	20.0 %	1.7 %
Tangible assets	7.0	5.1	7.0	4.9
Real estate	18.0	5.8	18.0	5.8
Global equity	32.0	6.3	32.0	6.3
Private equity	23.0	9.3	23.0	9.3

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

(v) Discount Rate

The discount rate used to measure the total pension liabilities was 7.40% as of both June 30, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1). Based on those assumptions, the fiduciary net position for each pension plan in which the Group participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.40% future investment rate of return on pension plan investments was assumed as of both June 30, 2019 and 2018. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1, as provided for in Chapter 41.45 of the RCW).

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

The following table presents the Group's net pension liability calculated using the discount rate of 7.4% as of June 30, 2019 and 2018, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.4%) or 1-percentage-point greater (8.4%) than the current rate.

(Dollar amounts in thousands)

Discount Rate Sensitivity – Net Pension Liability (Asset)

		2020		
		1% Decrease	Current discount rate	1% Increase
Plan:				
PERS 1	$	141,015	112,603	87,952
PERS 2/3		277,687	36,207	(161,945)

Discount Rate Sensitivity – Net Pension Liability (Asset)

		2019		
		1% Decrease	Current discount rate	1% Increase
Plan:				
PERS 1	$	160,543	130,636	104,730
PERS 2/3		288,122	62,990	(121,587)

(vii) *Employer Contribution Rates*

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

Description		PERS Plan 1	PERS Plan 2/3[i]
Contributions as June 30, 2020:			
Contribution rate		12.83 %	12.83 %
Contributions made	$	23,189	37,965

Description		PERS Plan 1	PERS Plan 2/3[i]
Contributions as June 30, 2019:			
Contribution rate		12.70 %	12.70 %
Contributions made	$	20,997	30,443

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

(Dollar amounts in thousands)

(viii) The Group's Proportionate Share

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by the Group as of June 30, 2020 was June 30, 2019. The measurement date for the net pension liabilities recorded by the Group as of June 30, 2019 was June 30, 2018. Employer contributions received and processed by DRS during the fiscal year ended June 30, 2019 and June 30, 2018 have been used as the basis for determining Schedules of Employer and Nonemployer Allocations. The Group's proportionate share for each DRS plan for the year ended June 30, 2020 and June 30, 2019 is shown in the table below.

	2020	2019
PERS 1	2.93 %	2.93 %
PERS 2/3	3.73	3.69

(ix) The Group Aggregated Balances

The Group's aggregated balances of net pension liabilities as of June 30, 2020 and 2019 are presented in the table below.

Plan		2020	2019
PERS 1	$	112,603	130,636
PERS 2/3		36,207	62,990
	$	148,810	193,626

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

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

	Proportionate share of pension expense		
Description	PERS Plan 1	PERS Plan 2/3	Total
June 30, 2020	5,296	10,092	15,388
June 30, 2019	7,174	3,140	10,314

(Dollar amounts in thousands)

Deferred Outflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2020:				
Change in assumptions	$	—	927	927
Difference between expected and actual experience		—	10,373	10,373
Change in the Group's proportionate share		—	952	952
The Group's contributions subsequent to the measurement date of the collective net pension liability [a]		23,189	37,965	61,154
Total	$	23,189	50,217	73,406

[a] Recognized as a reduction of the net pension liability as of June 30, 2021

Deferred Outflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2019:				
Change in assumptions	$	—	737	737
Difference between expected and actual experience		—	7,721	7,721
Change in the Group's proportionate share		—	2,157	2,157
The Group's contributions subsequent to the measurement date of the collective net pension liability [a]		20,997	30,443	51,440
Total	$	20,997	41,058	62,055

[a] Recognized as a reduction of the net pension liability as of June 30, 2020

(Continued)

(Dollar amounts in thousands)

Deferred Inflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2020:				
Difference between projected and actual earnings on plan investments, net	$	7,523	52,701	60,224
Difference between expected and actual experience		—	7,784	7,784
Change in assumptions		—	15,191	15,191
Total	$	7,523	75,676	83,199

Deferred Inflows of Resources

Description		PERS 1	PERS 2/3	Total
June 30, 2019:				
Difference between projected and actual earnings on plan investments, net	$	5,191	38,653	43,844
Difference between expected and actual experience		—	11,028	11,028
Change in assumptions		—	17,926	17,926
Total	$	5,191	67,607	72,798

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

		Amortization of deferred inflows and deferred outflows of resources (1)		
Year		PERS Plan 1	PERS Plan 2/3	Total
2021	$	(1,661)	(15,731)	(17,392)
2022		(3,934)	(26,813)	(30,747)
2023		(1,404)	(11,761)	(13,165)
2024		(524)	(6,185)	(6,709)
2025		—	(3,231)	(3,231)
Thereafter		—	297	297
Total	$	(7,523)	(63,424)	(70,947)

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

(c) Other Post Employment Benefits

(i) Plan Description

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

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

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 increased to $168 per member per month beginning in calendar year 2019. It was set at $150 per member per month for the first half of fiscal year 2019 and $168 for the remaining months of fiscal year 2019 and for the entirety of fiscal year 2020. The subsidy will increase to $183 in calendar year 2021.

(Dollar amounts in thousands)

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

The table below shows the Group's PEBB membership data as of June 30, 2020 (measurement date 2019) and 2019 (measurement date 2018):

	2020	2019
Active employees	6,682	6,839
Inactive employees receiving benefits	1,799	1,860
Inactive employees entitled to, but not receiving, benefits	320	331

(ii) *Actuarial Assumptions*

Accounting requirements dictate the use of assumptions to best estimate the impact that OPEB obligations will have on the Group. The professional judgments used by the OSA in determining these assumptions are important, and can significantly impact the resulting actuarial estimates.

(Dollar amounts in thousands)

Differences between actual results compared to these assumptions could have a significant impact on the Group's financial statements.

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

		June 30, 2020
Inflation		2.75 %
Healthcare cost trend rate		Trend rate assumption vary slightly by medical plan. Initial rate is 8.00%, reaching an ultimate rate of approximately 4.50% in 2080
Salary increase		3.50% plus service-based salary increases
Source of mortality assumptions		RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100% scale BB and updated based on results of the 2007-2012 Experience Study Report
Date of experience study		2007-2012 Experience Study Report
Discount rate		3.50 %
Source of discount rate		Bond Buyer's General Obligation 20-Bond index as of June 30, 2019 (Measurement Date)
Post retirement participation percentage		65.00 %
TOL measurement at discount rate	$	309,441
TOL discount rate increased 1%		258,737
TOL discount rate decreased 1%		374,723
TOL measurement at healthcare cost trend rate		309,441
TOL healthcare cost trend rate increased 1%		388,840
TOL healthcare cost trend rate decreased 1%		250,446

(Dollar amounts in thousands)

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

	June 30, 2019
Inflation	2.75 %
Healthcare cost trend rate	Trend rate assumption vary slightly by medical plan. Initial rate is 8.00%, reaching an ultimate rate of approximately 4.50% in 2080
Salary increase	3.50% plus service-based salary increases
Source of mortality assumptions	RP-2000 Combined Healthy Table and Combined Disabled Table, with future improvements in mortality projected using 100% scale BB and updated based on results of the 2007-2012 Experience Study Report
Date of experience study	2007-2012 Experience Study Report
Discount rate	3.87 %
Source of discount rate	Bond Buyer's General Obligation 20-Bond index as of June 30, 2018 (Measurement Date)
Post-retirement participation percentage	65.00 %
TOL measurement at discount rate	$ 280,069
TOL discount rate increased 1%	235,106
TOL discount rate decreased 1%	337,697
TOL measurement at healthcare cost trend rate	280,069
TOL healthcare cost trend rate increased 1%	346,771
TOL healthcare cost trend rate decreased 1%	229,909

Material assumption changes during the measurement periods ending June 30, 2019 include updating the discount rate as of each measurement date, as required by GASB Statement No. 75. For the measurement period ending June 30, 2019, the discount rate used for the beginning TOL was 3.87% and a discount rate of 3.50% for the ending TOL resulting in an increase of the TOL.

Material assumption changes during the measurement periods ending June 30, 2018 include updating the forecasts of healthcare cost trends, as well as updating the discount rate as of each

(Continued)

(Dollar amounts in thousands)

measurement date, as required by GASB Statement No. 75. For the measurement period ending June 30, 2018, the discount rate used for the beginning TOL was 3.58% and a discount rate of 3.87% for the ending TOL resulting in a reduction of the TOL.

(iii) *Changes in the Total OPEB Liability*

The TOL for the state of Washington as of June 30, 2020 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018, with the results rolled forward to the measurement date of June 30, 2019. The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The measurement date for the TOL as of June 30, 2019 was the same as the valuation date. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. The allocation method used to determine the Group's proportionate share of the University's TOL is the relationship of the Group's active, healthcare-eligible employee headcount to the corresponding University total. This proportionate share percentage for the Group was 20.07% and 20.68% as of June 30, 2020 and 2019, 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 or dedicated to these benefits and there are no associated assets. As a result, the Group reports a proportionate share of the University's total OPEB liability.

Schedule of Changes in Total OPEB Liability

		June 30	
		2020	**2019**
Beginning balance	$	280,069	306,185
Service cost		12,529	17,510
Interest		10,869	12,038
Difference between expected and actual experience		—	10,989
Change in assumptions		20,240	(76,658)
Benefit payments		(4,972)	(5,084)
Change in proportion		(9,294)	15,089
Ending balance	$	309,441	280,069

(iv) *OPEB Expense, Deferred Outflow of Resources and Deferred Inflow of Resources*

The tables below summarize the Group's OPEB expense, deferred outflows of resources and deferred inflows of resources related to the OPEB plan, together with the related future year impacts to OPEB expense from amortization of those deferred amounts. Note that deferred outflows of resources related to the Group's contributions subsequent to the measurement date are recognized as a reduction of the total OPEB liability in the following year, and are not amortized to OPEB expense. The Group's proportionate share of OPEB expense for the year ended June 30, 2020 and 2019 was $12,676 and $16,384, respectively.

(Dollar amounts in thousands)

The following table presents the deferred outflows of resources and deferred inflows of resources as of June 30, 2020 and 2019:

Deferred outflows of resources		**2020**	**2019**
Differences between expected and actual experience in the measurement of the total OPEB liability	$	8,263	9,768
Changes in proportion		12,218	12,250
Change in assumptions		17,991	—
Group's contributions subsequent to the measurement date of the collective total OPEB liability		5,336	5,142
Total	$	43,808	27,160

Deferred inflows of resources		**2020**	**2019**
Change in assumptions	$	89,721	106,847
Changes in proportion		18,356	6,615
Total	$	108,077	113,462

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

Amortization of Deferred Outflows and Inflows of Resources [(a)]		
Year:		
2021	$	(10,449)
2022		(10,449)
2023		(10,449)
2024		(10,449)
2025		(10,449)
Thereafter		(17,360)
Total	$	(69,605)

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

(Dollar amounts in thousands)

(d) University of Washington Supplemental Retirement Plan

(i) Plan Description

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

	June 30	
	2020	2019
Active employees	538	513
Inactive employees receiving benefits	75	71
Inactive employees entitled to, but not receiving benefits	16	16

(ii) Vesting and Benefits Provided

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the fiscal years ended June 30, 2020 and 2019 were $730 and $627, respectively.

(iii) Total Pension Liability (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS), which have trusted assets and, therefore, are reported as a net pension liability. The allocation method used to determine the Group's proportionate share of the University's TPL is based on its unit allocation of what is funded through the benefit load process. The proportionate share percentage for the Group was 8.77% and 8.37% as of June 30, 2020 and 2019, respectively. The University has set aside $344,801 and $327,671 as of June 30, 2020 and 2019 to pay future UWSRP retiree benefits, of which the Group recorded $30,254 and $27,439, respectively, as other assets on its statements of net position.

(Dollar amounts in thousands)

Schedule of Changes in Total Pension Liability

		June 30	
		2020	**2019**
Beginning balance	$	49,742	33,974
Service cost		1,466	990
Interest on TPL		1,865	1,363
Difference between expected and actual experience		2,757	8,601
Change in assumptions		11,121	4,875
Change in proportion		2,379	566
Benefit payments		(730)	(627)
Ending balance	$	68,600	49,742

The June 30, 2020 and 2019 TPL are based on an actuarial valuation performed as of June 30, 2018 using the entry age actuarial cost method. Procedures performed by the OSA were used to roll forward the TPL to the measurement date of June 30, 2020 and 2019, respectively. The TPL is recorded within pension liabilities in the statements of net position.

UWSRP pension expense for the fiscal years ended June 30, 2020 and 2019 was $4,033 and $2,606, respectively, which is reported within employee benefits expense in the statements of revenues, expenses, and changes in net position.

(iv) Actuarial Assumptions

Accounting requirements dictate the use of assumptions to best estimate the impact that pension obligations will have on the University. The professional judgments used in determining these assumptions are important and can significantly impact the resulting actuarial estimates.

(Dollar amounts in thousands)

Differences between actual results compared to these assumptions could have a significant effect on the Group's financial statements.

Significant Assumptions Used to Measure the Total Pension Liability

	June 30	
	2020	**2019**
Inflation	2.75 %	2.75 %
Salary changes	4.25	4.25
Source of mortality assumptions	RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB	RP-2000 Combined Healthy Table, with generational mortality improvements using Scale BB
Date of experience study	April 2016	April 2016
Discount rate	2.21 %	3.50 %
Source of discount rate	Bond Buyer's 20 bond index as of June 30, 2020	Bond Buyer's 20 bond index as of June 30, 2019
TPL measurement at discount rate	$ 68,600	$ 49,742
TPL discount rate increased 1%	59,567	43,404
TPL discount rate decreased 1%	79,576	57,403

Material assumption changes during the measurement period ending June 30, 2020 include updating the GASB Statement No. 73 discount rate from 3.50% to 2.21% ("Change in assumptions, which increased the TPL"). Additionally, actual returns for CREF investments, which are used in determining a member's "assumed income", were less than expected and salary growth exceeded expectations ("Difference between expected and actual experience", which also increased the TPL).

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

(Dollar amounts in thousands)

(v) Deferred Outflows and Inflows of Resources

The tables below summarize the Group's deferred outflows and inflows of resources related to the UWSRP as of June 30, 2020 and 2019, together with the related future year impacts to pension expense from amortization of those deferred amounts:

Deferred outflows of resources		2020	2019
Difference between expected and actual experience	$	9,144	7,526
Change in assumptions		13,450	4,266
Change in proportion		5,619	3,163
Total	$	28,213	14,955

Deferred inflows of resources		2020	2019
Difference between expected and actual experience	$	5,135	6,046
Change in assumptions		2,184	2,564
Change in proportion		2,815	2,093
Total	$	10,134	10,703

Amortization of deferred outflows and inflows of resources [(a)]		
Year:		
2021	$	2,433
2022		2,433
2023		2,433
2024		2,433
2025		3,418
Thereafter		4,929
Total	$	18,079

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

(11) Other Retirement Plans

(a) Northwest Hospital Retirement Plans

(i) 401(k) Profit Sharing Plan

All employees of Northwest Hospital were covered by the Northwest Hospital & Medical Center 401(k) Profit Sharing Plan (the 401(k) Plan), a defined-contribution plan. Northwest Hospital, as Plan Sponsor, contributed based on a defined formula, with participants immediately vesting in all employer and employee contributions. Employee contribution rates varied from 1% to 80% of gross compensation, as defined by the Plan, subject to certain limitations under the IRC. The 401(k) Plan provides for employer matching contributions for each eligible employee who made 401(k) tax-deferred contributions to this Plan and for each highly compensated employee of Northwest Hospital who made salary contributions to the 403(b) Retirement Plan sponsored by Northwest Hospital. Northwest Hospital's employee and employer contributions to the 401(k) Plan during the fiscal years ended June 30, 2020 and 2019 are approximately $5,047 and $9,713 and $2,533 and $5,571, respectively. As a result of the Northwest Hospital integration with UW Medical Center, all contributions to the 401(k) Plan were frozen and the 401(k) Plan was terminated effective December 31, 2019. Under the terms of the integration, former Northwest Hospital employees, including employed physicians, are now employed by the University, and many of the hospital's physicians have joined UWP. All assets of the 401(k) Plan were distributed by June 5, 2020.

(ii) 403(b) Retirement Plan

Highly compensated employees who were not employed by a taxable affiliate of Northwest Hospital and who were not participating in the 401(k) Plan were eligible to participate in the Northwest Hospital & Medical Center 403(b) Retirement Plan (the 403(b) Plan). The 403(b) Plan was a defined-contribution plan, which included a qualified cash or deferred arrangement. Employee contribution rates varied from 1% to 80% of gross compensation, as defined by the Plan, subject to certain limitations under the IRC. The Plan did not provide employer contributions. The employee contributions to the 403(b) Plan during the fiscal years ended June 30, 2020 and 2019 are approximately $1,023 and $2,953, respectively. As a result of the Northwest Hospital integration with UW Medical Center, all contributions to the 403(b) Plan were frozen and the 403(b) Plan was terminated effective December 31, 2019. Under the terms of the integration, former Northwest Hospital employees, including employed physicians, are now employed by the University, and many of the hospital's physicians have joined UWP. All assets of the 403(b) Plan were distributed by May 8, 2020.

(b) UWP Pension Plan

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

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

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

Total pension expense was approximately $17,077 and $16,461, net of forfeitures of $751 and $526 in fiscal years 2020 and 2019, respectively, and is recorded in employee benefits expense within the statements of revenues, expenses, and changes in net position. The Association had no liability outstanding for pension contributions at June 30, 2020 and 2019.

(c) Neighborhood Clinics 401(k) Retirement Plan

The Neighborhood Clinics offer a 401(k) Plan covering substantially all employees meeting certain age and service requirements, administered by the clinics. The Neighborhood Clinics make annual contributions of 6% of compensation, which starts at 25% vested after two years of service, 50% vested after three years of service, 75% vested after four years of service, and 100% vested after five years of service. Employer contributions were approximately $1,239 and $1,165 for the years ended June 30, 2020 and 2019 and forfeitures were approximately $272 and $225, respectively. In addition, the 401(k) Plan includes an employee self-elected deferral Plan.

(12) Related Parties

The Group has engaged in a number of transactions with related parties. These transactions are recorded by the Group as either revenue or expense transactions because economic benefits are either provided or received by the Group. The Group records cash transfers from related parties that are nonexchange transactions as nonoperating revenue in the statements of revenues, expenses, and changes in net position.

(a) University of Washington

University divisions provide various levels of support to the Group. The following is a summary of services purchased:

(i) The School

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

(ii) UW Medicine Central Costs

UW Medicine Central Costs represents services provided to the Group such as executive leadership, advancement, compliance, telemedicine, community relations staffing, medical staff oversight, marketing, and other administrative services related to UW Medicine. The amounts paid by the Group for these services are shown below (see (g)).

(iii) Other University Divisions

In addition to the divisions and transactions identified above, the Group purchases information technology services, general and professional liability insurance, printing, internal audit, and other administrative and operational services from other divisions of the University.

At June 30, 2019, Northwest Hospital had a payable of $96,090 to the University. On January 1, 2020, the payable was assumed by UW Medical Center upon integration of Northwest Hospital into UW Medical Center and the balance at June 30, 2020 was $123,731. This payable is subject to repayment in annual installments of $5,000 over future years, with installment payments of $3,333 and $5,000 made during the years ended June 30, 2020 and 2019, respectively. In fiscal year 2020, the University deferred the annual installment payment in April 2020 and throughout fiscal year 2021 due to financial pressures as a result of COVID-19. At June 30, 2020, the entire balance of $123,731 is included in due to related parties – long-term in the statements of net position. The amounts for these transactions are shown below (see (g)).

(b) Harborview

The Group provides shared services, in the form of scalable administrative and IT support services, to Harborview. These functions include ITS, Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, UW Medicine Contracting, and UW Consolidated Laundry, as well as a number of other administrative functions. Additionally, the Group purchases rental space from Harborview. The amounts for these shared services transactions are shown below (see (g)).

(c) Seattle Cancer Care Alliance

SCCA operates a 20-bed unit located within UW Medical Center in which its adult inpatients receive care. The 20-bed unit qualifies as a hospital within a hospital for Medicare reimbursement purposes. SCCA provides medical oversight and management of the inpatient unit. Under arrangement, UW Medical Center provides the inpatient care services delivered to SCCA beds, including necessary personnel, supplies, equipment, and ancillary services. UW Medical Center estimates the direct expense associated with the hospital within a hospital unit using a ratio of cost to charge ratio methodology, which is recorded in net patient service revenues in the statements of revenues, expenses, and changes in net position. In addition, UW Medical Center purchases certain administrative and program support services from the SCCA to assist with its programs. At June 30, 2020 and 2019, the Group recorded $3,240 and $1,633, respectively, in accounts payable and accrued expenses in the statements of net position for amounts owed to the SCCA by the Group.

UW Medical Center also provides various services to the SCCA's outpatient facility, including certain pharmacy, laboratory, and pathology services, as well as purchasing and other administrative services which are included in other revenue in the statements of revenues, expenses, and changes in net position. The amounts for these transactions are shown below (see (g)). At June 30, 2020 and 2019, the Group recorded $13,260 and $8,423, respectively, in other receivables in the statements of net position for amounts owed to the Group by SCCA.

(d) Fred Hutchinson Cancer Research Center (Fred Hutch)

The SCCA partnership agreement provides that UW Medical Center will make various payments to Fred Hutch related to research and development support, data collection and analysis, physician assistance services, consulting services, and license rights to use the Fred Hutch name in connection with the inpatient oncology services program. These fees are included in the tables below (see (g)). At June 30, 2020 and 2019, the Group recorded $3,595 and $3,465, respectively, in accounts payable and accrued expenses in the statement of net position for amounts owed to Fred Hutch by the Group. Additionally, the Group provides IT services and support for IT projects to Fred Hutch. The amounts for these transactions are shown below (see (g)).

(e) Children's University Medical Group

UWP provides various administrative services to CUMG, and billing support services when CUMG physicians provide clinical care to patients in UW Medicine facilities. CUMG also reimburses UWP for its share of legal services provided through the centralized legal office for support of the nonprofit entities, including UWP, Northwest Hospital, the Neighborhood Clinics and CUMG. UWP bills CUMG for these services on a monthly basis. Likewise, CUMG provides billing support services to UWP for UWP physicians providing clinical care to patients at the Seattle Children's Hospital (SCH). These amounts are included in the tables below (see (g)).

(f) UW Neighborhood Clinics

Under an annual agreement, UW Medical Center and Harborview provide funding to the Neighborhood Clinics for operations and capital purposes. For the years ended June 30, 2020 and 2019, total funding from the UW Medicine hospitals to the Neighborhood Clinics was $53,256 and $49,123, respectively. Approximately $39,172 and $36,221, respectively, was provided from entities within the Group and was eliminated from these financial statements. The remaining portion related to Harborview is recorded as other revenue in the statements of revenues, expenses, and changes in net position. The amounts for these transactions are shown below (see (g)).

(g) Summary of Related Party Transactions

The Group's related party revenue and expense amounts are included in net patient service revenues, other revenue, salaries and wages, benefits, purchased services, and other expense in the statements of revenues, expenses, and changes in net position. The following table summarizes the related party revenue and expense transactions for the years ended June 30, 2020 and 2019:

(Dollar amounts in thousands)

(Expense) revenue transactions		2020	2019
Services and supplies purchased from the university and its departments and affiliates:			
The School	$	(213,383)	(188,212)
UW Medicine Central Costs		(19,768)	(17,866)
Other university divisions		(83,524)	(73,190)
Services and supplies purchased from Harborview		(6,288)	(6,842)
Services and supplies purchased from SCCA		(13,273)	(16,657)
Services and supplies purchased from VMC		—	(324)
Services and supplies purchased from Fred Hutch		(19,683)	(18,756)
Services and supplies provided to the University and its departments and affiliates:			
The School		8,660	8,698
Other University divisions		866	1,343
Services and supplies provided to Harborview		138,526	133,986
Services and supplies provided to SCCA		73,410	72,810
Services and supplies provided to VMC		2,695	2,785
Services and supplies provided to Fred Hutch		1,228	1,611
Services and supplies provided to CUMG		1,203	1,124
Services and supplies provided to SCH		2,045	1,737

As of June 30, 2020 and 2019, the Group had amounts due from or (due to) related parties for certain transactions as follows:

Due from related parties		2020	2019
The University and its departments and affiliates:			
The School	$	18,374	11,000
Other university divisions		1,226	73
Harborview		9,762	10,295
Fred Hutch		705	369

Due to related parties		2020	2019
The University and its departments and affiliates:			
The School	$	(31,109)	(12,308)
Other university divisions		(144,623)	(116,139)
Harborview		(6,493)	(6,381)

(Dollar amounts in thousands)

(h) State of Washington

The state of Washington Medicaid Transformation Program (MTP) program is a five-year contract between the State and CMS authorizing up to $1,500,000 in federal matching funds as incentive to promote innovative, sustainable and systemic changes that improve the overall health of the State. HCA requested intergovernmental transfers from other state and local public entities to finance a portion of the nonfederal share. The Group recorded $44,665 and $29,469 in intergovernmental transfers to the State in fiscal years 2020 and 2019, respectively, which is included in funding to affiliates in the statements of revenues, expenses, and changes in net position.

The state of Washington submitted and received approval for incentive payments under the MTP program of which the Group received $55,832 and $36,836, in fiscal years 2020 and 2019, respectively, which is recorded in funding from affiliates in the statements of revenues, expenses and changes in net position. Funds received through this program are not restricted in use.

(13) Commitments and Contingencies

(a) Operating Leases

The Group leases medical office space, aircraft hangar space, and equipment under operating lease arrangements. Total rental expense for fiscal years ended June 30, 2020 and 2019 for all operating leases was $59,893 and $59,155, respectively, which is recorded in other expenses in the statements of revenues, expenses, and changes in net position.

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

2021	$	49,943
2022		49,023
2023		41,361
2024		29,628
2025		25,707
2026-2030		39,870
2031-2035		5,931
2036-2040		6,015
2041-2045		3,870
Total	$	251,348

Airlift has entered into contractual arrangements for fixed-wing and rotary-wing aviation services covering eight primary and three back-up aircrafts. The fixed-wing contract expires on April 30, 2023 and the rotary-wing contract expires on June 30, 2025, both of which are included in the future minimum lease payments table above.

(b) Purchase Commitments

The Group has current commitments at June 30, 2020 of approximately $41,143 related to various construction and other projects.

(c) Regulatory Environment

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

Between April 4 and April 12, 2018, the Washington State Department of Health, on behalf of the CMS, conducted a survey at UW Medical Center. In a letter dated May 15, 2018, CMS informed UW Medical Center that based on the results of the survey, UW Medical Center was not in compliance with certain Medicare Conditions of Participation. The deficiencies identified within the survey relate primarily to UW Medical Center's relationship with the SCCA inpatient hospital located within the same building as UW Medical Center, including related policies, clinical areas, support services and personnel sharing between the two organizations. UW Medical Center submitted a Plan of Correction (the Plan) in response to the CMS survey findings, and CMS accepted the Plan on January 15, 2020. UW Medical Center and SCCA have implemented many components of their respective Plans and will continue implementation through August 2021, as approved by CMS. UW Medicine management will take necessary actions to comply with that Plan so UW Medical Center continues to participate in the Medicare program.

(d) Litigation

Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Group's financial statements.

(e) Collective Bargaining Agreements

The Group has approximately 76% and 74% of its workforce covered by collective bargaining agreements as of June 30, 2020 and 2019, respectively. Nurses and other healthcare and support workers are represented by a number of collective bargaining units. Collective bargaining units have various contract expiration dates.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Schedules of Required Supplementary Information

Years ended June 30, 2020 and 2019

(Dollar amounts in thousands)

The schedules of required supplementary information below reflect information for UW Medicine Clinical Enterprise – UW Division.

Schedule of the Group's Proportionate Share of the Net Pension Liability
(Amounts determined as of the measurement date)

PERS 1 Pension Plan

		2020	2019	2018	2017	2016
The Group's proportion of the net pension liability		2.93 %	2.93 %	2.96 %	2.89 %	2.81 %
The Group's proportionate share of the net pension liability	$	112,603	130,636	139,899	155,096	147,106
The Group's covered-employee payroll		398,000	375,552	364,515	337,067	351,582
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		28.29 %	34.79 %	38.38 %	46.01 %	41.84 %
Plan fiduciary net position as a percentage of the total pension liability		67.12	63.22	61.24	57.03	59.10

PERS 2/3 Pension Plan

		2020	2019	2018	2017	2016
The Group's proportion of the net pension liability		3.73 %	3.69 %	3.72 %	3.61 %	3.52 %
The Group's proportionate share of the net pension liability	$	36,207	62,990	128,950	181,639	125,761
The Group's covered-employee payroll		398,530	374,817	363,873	336,961	312,289
The Group's proportionate share of the net pension liability as a percentage of its covered-employee payroll		9.09 %	16.81 %	35.44 %	53.91 %	40.27 %
Plan fiduciary net position as a percentage of the total pension liability		97.77	95.77	90.97	85.82	89.20

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

PERS 1 Pension Plan

		2020	2019	2018	2017	2016
Contractually required contribution	$	380	439	553	625	735
Contributions in relation to the contractually required contribution		380	440	551	618	735
Contribution deficiency (excess)		—	(1)	2	7	—
The Group's covered-employee payroll		480,672	398,000	375,552	364,515	337,067
Contributions as a percentage of covered-employee payroll		0.08 %	0.11 %	0.15 %	0.17 %	0.22 %

PERS 2/3 Pension Plan

		2020	2019	2018	2017	2016
Contractually required contribution	$	61,771	51,022	47,359	40,679	37,396
Contributions in relation to the contractually required contribution		61,803	50,999	47,404	40,721	37,740
Contribution deficiency (excess)		(32)	23	(45)	(42)	(344)
The Group's covered-employee payroll		480,376	398,530	374,817	363,873	336,961
Contributions as a percentage of covered-employee payroll		12.86 %	12.80 %	12.64 %	11.18 %	11.10 %

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Schedules of Required Supplementary Information

Years ended June 30, 2020 and 2019

(Dollar amounts in thousands)

The Schedules of Required Supplementary Information below reflect information for UW Medicine Clinical Enterprise – UW Division.

Schedule of Changes of Total OPEB Liability

		2020	2019	2018
Beginning balance	$	280,069	306,185	336,283
Service cost		12,529	17,510	20,758
Interest		10,869	12,038	9,723
Difference between expected and actual experience		—	10,989	—
Change in assumptions		20,240	(76,658)	(47,429)
Benefit payments		(4,972)	(5,084)	(4,955)
Change in proportionate share		(9,294)	15,089	(8,195)
Ending balance	$	309,441	280,069	306,185
OPEB covered-employee payroll	$	546,921	515,803	494,744
Total OPEB liability as percentage of covered-employee payroll		56.58 %	54.30 %	61.89 %

See accompanying independent auditors’ report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Schedules of Required Supplementary Information

Years ended June 30, 2020 and 2019

(Dollar amounts in thousands)

The Schedules of Required Supplementary Information below reflect information for UW Medicine Clinical Enterprise – UW Division.

UWSRP Schedule of Changes of Total Pension Liability

		2020	2019	2018	2017
Total beginning pension liability	$	49,742	33,974	36,915	41,470
Service cost		1,466	990	1,218	1,674
Interest		1,865	1,363	1,328	1,270
Differences between expected and actual experience		2,757	8,601	(2,796)	(6,303)
Changes in assumptions		11,121	4,875	(1,409)	(2,402)
Change in proportion		2,379	566	(777)	1,638
Benefit payments		(730)	(627)	(505)	(432)
Total ending pension liability	$	68,600	49,742	33,974	36,915
UWSRP covered-employee payroll	$	65,336	65,941	62,571	67,407
Total pension liability as percentage of covered-employee payroll		105.00 %	75.43 %	54.30 %	54.76 %

See accompanying independent auditors' report.

Notes to Schedules of Required Supplementary Information
for the year ended June 30, 2020

Plans administered by DRS

OSA calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determines the ADC for the period beginning July 1, 2018 and ending June 30, 2020. Adopted contribution rates could be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2018, and ending June 30, 2020, the contribution rates the Pension Funding Council adopted, which the Legislature did not change, reflect a phasing in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased in over three biennia for PERS Plans 1, 2 and 3.

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

Plans administered by the University

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

Material assumption changes during the fiscal year 2020 measurement period include updating the GASB 73 discount rate from 3.50% to 2.21% ("Change in assumption" which increased the TPL). Additionally, CREF investment experience during fiscal year 2020 was lower than expected (2.31% actual return). Lower investment experience than expected leads to an increase in the TPL. TIAA investment experience deviated from OSA's assumption. Material assumption changes during the fiscal year 2019 measurement period include updating the GASB 73 discount rate from 3.87% to 3.50% ("Change in assumption" which increased the TPL). Additionally, CREF investment experience during fiscal year 2019 was slightly lower than expected (4.97% actual return). Lower investment experience than expected leads to an increase in the TPL. TIAA investment experience only slightly deviated from OSA's assumption. Based on input from TIAA, OSA modified the TIAA settlement rates, settlement mortality, and increased the CREF investment return assumptions ("Difference between expected and actual experience" which also increased the TPL).

OPEB Plan administered by Healthcare Authority of Washington State

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

Material assumption changes during the fiscal year 2020 measurement period relate to a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.87% for the June 30, 2018 measurement date, to 3.50% for the June 30, 2019 measurement date. This change resulted in an increase in the TOL. Material assumption changes during the fiscal year 2019 measurement period relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.58% for the June 30, 2017 measurement date, to 3.87% for the June 30, 2018 measurement date. Other material assumption changes included lowering the forecast of future healthcare cost trends. Both of these resulted in a decrease in the TOL.

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Combining Statement of Net Position

June 30, 2020

(Dollar amounts in thousands)

	UW Medical Center	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Current assets:							
Cash and cash equivalents	$ 2,962	45,557	7,224	2,151	—	—	57,894
Funds held by the University of Washington	140,306	—	—	22,363	17,090	—	179,759
Patient accounts receivable, net	199,476	—	3,990	8,535	—	—	212,001
Other receivables	16,050	556	1,848	645	4,389	(4)	23,484
Due from related parties	29,087	343	487	—	26,618	(26,468)	30,067
Supplies inventory	30,237	—	673	—	—	—	30,910
Restricted investments	908	150	—	—	—	—	1,058
Other current assets	13,568	4,947	95	403	10,424	(9,939)	19,498
Total current assets	432,594	51,553	14,317	34,097	58,521	(36,411)	554,671
Noncurrent assets:							
Capital assets, net of accumulated depreciation	601,922	1,584	11,879	3,539	108,476	—	727,400
Funds held by the University of Washington	189,256	—	—	—	—	—	189,256
Investments	—	111,693	—	—	—	—	111,693
Donor restricted assets	7,785	—	—	—	—	—	7,785
Investment in Seattle Cancer Care Alliance	208,442	—	—	—	—	—	208,442
Other assets	33,167	—	179	426	39,565	(28,389)	44,948
Total noncurrent assets	1,040,572	113,277	12,058	3,965	148,041	(28,389)	1,289,524
Total assets	1,473,166	164,830	26,375	38,062	206,562	(64,800)	1,844,195
Deferred outflows of resources:							
Deferred outflows of resources related to pensions	72,404	—	—	2,563	26,652	—	101,619
Deferred outflows of resources related to other post employment benefits	24,097	—	—	1,770	17,941	—	43,808
Other deferred outflows of resources	5,237	—	—	—	—	—	5,237
Total assets and deferred outflows of resources	$ 1,574,904	164,830	26,375	42,395	251,155	(64,800)	1,994,859
Current liabilities:							
Accounts payable and accrued expenses	$ 58,330	4,544	917	1,390	27,177	—	92,358
Accrued salaries, wages, and employee benefits	73,686	679	2,019	1,836	25,030	—	103,250
Payable to contractual agencies	44,298	—	—	—	—	—	44,298
Due to related parties	38,918	19,881	3,815	3,797	18,457	(26,374)	58,494
Unearned Medicare advance payments	110,000	15,300	—	—	—	—	125,300
Current portion of long-term debt	18,248	—	70	—	—	—	18,318
Other current liabilities	1,282	3,160	322	961	24,724	(9,939)	20,510
Physician distribution, clinical medicine fund, and departmental payables	—	119,558	—	—	—	—	119,558
Total current liabilities	344,762	163,122	7,143	7,984	95,388	(36,313)	582,086
Noncurrent liabilities:							
Long-term debt, net of current portion	334,043	—	5,788	—	45,636	—	385,467
Pension liabilities	154,033	—	—	5,310	58,067	—	217,410
Other post employment benefits	228,262	—	—	5,838	75,341	—	309,441
Due to related parties – long-term	137,549	—	—	—	—	(13,818)	123,731
Other noncurrent liabilities	4,643	1,708	3,039	—	59,051	(14,669)	53,772
Total liabilities	1,203,292	164,830	15,970	19,132	333,483	(64,800)	1,671,907
Deferred inflows of resources:							
Deferred inflows of resources related to pensions	72,001	—	—	2,443	18,889	—	93,333
Deferred inflows of resources related to other post employment benefits	79,764	—	—	2,028	26,285	—	108,077
Net position:							
Net investment in capital assets	249,631	—	11,314	3,539	62,840	—	327,324
Nonexpendable, restricted	4,171	—	—	—	—	—	4,171
Expendable, restricted	3,614	—	—	—	—	—	3,614
Unrestricted	(37,569)	—	(909)	15,253	(190,342)	—	(213,567)
Total net position	219,847	—	10,405	18,792	(127,502)	—	121,542
Total liabilities, deferred inflows of resources, and net position	$ 1,574,904	164,830	26,375	42,395	251,155	(64,800)	1,994,859

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Combining Statement of Net Position

June 30, 2019

(Dollar amounts in thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Current assets:								
Cash and cash equivalents	$ —	11,664	22,361	7,190	4,251	—	—	45,466
Funds held by the University of Washington	26,893	—	—	—	23,363	13,689	—	63,945
Patient accounts receivable, net	193,302	40,305	—	3,682	12,051	—	—	249,340
Other receivables	12,646	2,666	569	1,511	954	2,543	—	20,889
Due from related parties	17,749	2,693	1,229	465	—	26,533	(26,932)	21,737
Supplies inventory	21,613	5,022	—	648	57	—	—	27,340
Restricted investments	—	1,057	117	—	—	—	—	1,174
Other current assets	14,521	2,452	3,666	72	483	6,163	(11,552)	15,805
Total current assets	286,724	65,859	27,942	13,568	41,159	48,928	(38,484)	445,696
Noncurrent assets:								
Capital assets, net of accumulated depreciation	527,525	100,272	1,855	12,886	4,600	77,072	—	724,210
Funds held by the University of Washington	113,649	—	—	—	—	—	—	113,649
Investments	—	46,641	110,490	—	—	—	—	157,131
Donor restricted assets	1,953	2,749	—	—	—	—	—	4,702
Investment in Seattle Cancer Care Alliance	183,380	—	—	—	—	—	—	183,380
Other assets	28,176	978	—	179	417	16,485	(13,357)	32,878
Total noncurrent assets	854,683	150,640	112,345	13,065	5,017	93,557	(13,357)	1,215,950
Total assets	1,141,407	216,499	140,287	26,633	46,176	142,485	(51,841)	1,661,646
Deferred outflows of resources:								
Deferred outflows of resources related to pensions	53,208	—	—	—	2,726	21,076	—	77,010
Deferred outflows of resources related to other post employment benefits	11,844	—	—	—	1,641	13,675	—	27,160
Other deferred outflows of resources	—	5,913	—	—	—	—	—	5,913
Total assets and deferred outflows of resources	$ 1,206,459	222,412	140,287	26,633	50,543	177,236	(51,841)	1,771,729
Current liabilities:								
Accounts payable and accrued expenses	$ 48,838	17,064	3,484	2,185	1,857	18,567	(182)	91,813
Accrued salaries, wages, and employee benefits	54,358	22,282	5,863	1,658	1,777	22,503	—	108,441
Payable to contractual agencies	37,587	5,271	—	—	—	—	—	42,858
Due to related parties	24,232	10,786	8,829	7,935	3,755	15,458	(26,830)	44,165
Current portion of long-term debt	13,554	4,041	—	65	—	—	—	17,660
Other current liabilities	1,132	453	336	382	1,046	22,652	(11,552)	14,449
Physician distribution, clinical medicine fund, and departmental payables	—	—	120,236	—	—	—	—	120,236
Total current liabilities	179,701	59,897	138,748	12,225	8,435	79,180	(38,564)	439,622
Noncurrent liabilities:								
Long-term debt, net of current portion	281,980	65,039	—	565	—	4,926	—	352,510
Pension liabilities	179,722	—	—	—	6,774	56,872	—	243,368
Other post employment benefits	205,425	—	—	—	5,502	69,142	—	280,069
Due to related parties – long-term	217	90,663	—	—	—	—	(217)	90,663
Other noncurrent liabilities	1,234	3,826	1,539	2,890	38	49,731	(13,060)	46,198
Total liabilities	848,279	219,425	140,287	15,680	20,749	259,851	(51,841)	1,452,430
Deferred inflows of resources:								
Deferred inflows of resources related to pensions	64,251	—	—	—	2,296	16,954	—	83,501
Deferred inflows of resources related to other post employment benefits	84,985	—	—	—	2,099	26,378	—	113,462
Net position:								
Net investment in capital assets	231,991	31,192	—	12,256	4,600	72,146	—	352,185
Nonexpendable, restricted	—	2,349	—	—	—	—	—	2,349
Expendable, restricted	1,953	674	—	—	—	—	—	2,627
Unrestricted	(25,000)	(31,228)	—	(1,303)	20,799	(198,093)	—	(234,825)
Total net position	208,944	2,987	—	10,953	25,399	(125,947)	—	122,336
Total liabilities, deferred inflows of resources, and net position	$ 1,206,459	222,412	140,287	26,633	50,543	177,236	(51,841)	1,771,729

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2020

(Dollar amounts in thousands)

	UW Medical Center	Northwest Hospital[1]	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Operating revenue:								
Net patient service revenues	$ 1,419,262	169,554	—	—	45,151	—	(424)	1,633,543
UWP billing revenues, net	—	—	334,424	—	—	—	(7,996)	326,428
Other revenue	135,560	8,917	—	68,844	1,491	338,974	(274,258)	279,528
Total operating revenues	1,554,822	178,471	334,424	68,844	46,642	338,974	(282,678)	2,239,499
Operating expenses:								
Salaries and wages	494,824	88,249	224,741	21,827	14,704	137,764	—	982,109
Employee benefits	134,101	20,754	31,014	7,938	4,346	41,229	—	239,382
Other post employment benefits	9,299	—	—	—	238	3,139	—	12,676
Purchased services	484,464	48,689	43,953	25,891	29,044	105,865	(260,734)	477,172
Supplies	379,912	34,379	464	4,996	2,442	10,829	(3,556)	429,466
Other	38,412	15,823	39,442	8,991	2,632	18,439	(18,348)	105,391
Depreciation	52,623	6,633	350	1,827	1,132	19,189	—	81,754
Total operating expenses	1,593,635	214,527	339,964	71,470	54,538	336,454	(282,638)	2,327,950
(Loss) income from operations	(38,813)	(36,056)	(5,540)	(2,626)	(7,896)	2,520	(40)	(88,451)
Nonoperating revenues (expenses):								
Investment income	1,356	1,051	—	—	6	—	—	2,413
Interest expense	(14,792)	(1,746)	—	(45)	—	(1,354)	—	(17,937)
Funding to affiliates	(11,106)	—	—	—	—	(58,149)	16,738	(52,517)
Funding from affiliates	11,481	3,172	—	—	—	58,522	(15,738)	57,437
Federal stimulus funding	58,923	—	5,540	—	1,090	—	—	65,553
Other, net	28,747	(172)	—	873	193	(3,094)	40	26,587
Nonoperating revenues (expenses), net	74,609	2,305	5,540	828	1,289	(4,075)	1,040	81,536
Income (loss) before capital contributions and other transfers	35,796	(33,751)	—	(1,798)	(6,607)	(1,555)	1,000	(6,915)
Capital contributions and other transfers	5,713	158	—	1,250	—	—	(1,000)	6,121
Increase (decrease) in net position	41,509	(33,593)	—	(548)	(6,607)	(1,555)	—	(794)
Net position – beginning of the year	208,944	2,987	—	10,953	25,399	(125,947)	—	122,336
Transfer of net position	(30,606)	30,606	—	—	—	—	—	—
Net position – end of year	$ 219,847	—	—	10,405	18,792	(127,502)	—	121,542

[1]Northwest Hospital represents six months of activity through December 31, 2019. Effective January 1, 2020, results of the Northwest campus are included in UW Medical Center.

See accompanying independent auditors' report.

UW MEDICINE CLINICAL ENTERPRISE – UW DIVISION

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2019

(Dollar amounts in thousands)

	UW Medical Center	Northwest Hospital	UWP	Neighborhood Clinics	Airlift	Shared services	Eliminating entries	Combined
Operating revenue:								
Net patient service revenues	$ 1,319,149	358,075	—	—	54,517	—	(543)	1,731,198
UWP billing revenues, net	—	—	310,213	—	—	—	(10,433)	299,780
Other revenue	93,774	16,833	—	65,389	1,450	320,461	(247,134)	250,773
Total operating revenues	1,412,923	374,908	310,213	65,389	55,967	320,461	(258,110)	2,281,751
Operating expenses:								
Salaries and wages	404,831	174,138	218,310	20,013	15,003	134,074	—	966,369
Employee benefits	102,360	38,760	33,716	7,271	4,521	41,582	—	228,210
Other post employment benefits	12,014	—	—	—	333	4,037	—	16,384
Purchased services	408,981	92,990	28,735	22,992	29,008	101,162	(245,695)	438,173
Supplies	330,774	65,892	952	5,244	2,663	8,288	(3,921)	409,892
Other	28,441	30,660	28,149	10,510	2,463	17,876	(8,494)	109,605
Depreciation	47,101	14,673	351	1,730	961	22,817	—	87,633
Total operating expenses	1,334,502	417,113	310,213	67,760	54,952	329,836	(258,110)	2,256,266
Income (loss) from operations	78,421	(42,205)	—	(2,371)	1,015	(9,375)	—	25,485
Nonoperating revenues (expenses):								
Investment income	1,033	1,333	—	—	192	6	—	2,564
Interest expense	(13,637)	(3,520)	—	(50)	—	—	—	(17,207)
Funding to affiliates	(16,373)	—	—	—	—	(38,595)	12,284	(42,684)
Funding from affiliates	—	5,452	—	—	—	46,113	(10,284)	41,281
Other, net	25,860	(1,053)	—	525	393	(1,477)	—	24,248
Nonoperating revenues (expenses), net	(3,117)	2,212	—	475	585	6,047	2,000	8,202
Income (loss) before capital contributions and other transfers	75,304	(39,993)	—	(1,896)	1,600	(3,328)	2,000	33,687
Capital contributions and other transfers	783	401	—	2,500	—	8,729	(2,000)	10,413
Increase (decrease) in net position	76,087	(39,592)	—	604	1,600	5,401	—	44,100
Net position – beginning of the year, as issued	132,857	42,579	—	10,349	23,799	(112,569)	—	97,015
Change in reporting entity	—	—	—	—	—	(18,779)	—	(18,779)
Net position – beginning of the year, as adjusted	132,857	42,579	—	10,349	23,799	(131,348)	—	78,236
Net position – end of year	$ 208,944	2,987	—	10,953	25,399	(125,947)	—	122,336

See accompanying independent auditors' report.

University of Washington Metropolitan Tract

Financial Statements
Years Ended June 30, 2020 and 2019

University of Washington Metropolitan Tract

Financial Statements
Years Ended June 30, 2020 and 2019

University of Washington Metropolitan Tract

Contents

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Independent Auditor's Report

To the Board of Regents
University of Washington
Seattle, Washington

We have audited the accompanying financial statements of the University of Washington Metropolitan Tract, a department of the University of Washington, which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington Metropolitan Tract as of June 30, 2020, and the changes in its financial net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2, the financial statements present only the financial position and changes in financial net position of the University of Washington Metropolitan Tract and do not purport to, and do not, present fairly the financial position of the University of Washington as of June 30, 2020, or the changes in its financial net position, including its net pension obligations (and other post-retirement benefit obligations) and related deferred inflows and outflows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The details of property on page 22 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Prior-Period Financial Statements

The financial statements of the University of Washington Metropolitan Tract as of and for the year ended June 30, 2019, were audited by Peterson Sullivan LLP ("PS"), whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. PS expressed an unmodified opinion on those statements in their report dated September 20, 2019.

BDO USA, LLP

October 7, 2020

Financial Statements

University of Washington Metropolitan Tract

Statements of Net Position
(Amounts in Thousands)

Years Ended June 30,		2020		2019
Assets				
Current Assets				
Cash held in trust	$	**5,907**	$	3,943
Funds held by the University		**74,197**		71,905
Security deposits - residential		**51**		55
Due from Fairmont Olympic Hotel		**712**		2,173
Accounts receivable, net of allowance		**1,043**		397
Other current assets		**401**		465
Total Current Assets		**82,311**		78,938
Property, net		**129,358**		116,330
Straight-line rent adjustment		**15,103**		12,652
Total Assets	$	**226,772**	$	207,920

Liabilities				
Current Liabilities				
Accounts payable and accrued expenses	$	**3,925**	$	2,558
Leasehold excise tax payable		**1,472**		1,803
Security deposits - residential		**51**		55
Unearned rent revenue		**1,600**		1,254
Current portion of long-term debt		**796**		781
Total Current Liabilities		**7,844**		6,451
Security deposits - commercial		**5,366**		3,424
Long-term debt, net of current portion		**28,957**		29,753
Total Liabilities		**42,167**		39,628
Net Position				
Invested in Capital Assets, net of related debt		**99,605**		85,796
Unrestricted		**85,000**		82,496
Total Net Position		**184,605**		168,292
Total Liabilities and Net Position	$	**226,772**	$	207,920

See accompanying notes to financial statements.

University of Washington Metropolitan Tract

Statements of Revenues, Expenses, and Changes in Net Position
(Amounts in Thousands)

Years Ended June 30,		**2020**		2019
Operating Revenues				
Office rent	$	**52,394**	$	48,665
Fairmont Olympic Hotel rent		**5,229**		5,953
Retail rent		**2,772**		4,444
Residential rent		**3,121**		3,044
Parking		**3,330**		3,307
Rainier Square rent		**607**		565
Other rent		**576**		608
Other income		**101**		108
Total Operating Revenues		**68,130**		66,694
Operating Expenses				
Property operating expenses		**13,913**		13,331
General and administrative		**6,509**		6,802
Taxes		**6,093**		6,344
Property management		**2,254**		2,124
Total Operating Expenses		**28,769**		28,601
Operating Income before Depreciation		**39,361**		38,093
Depreciation		**12,798**		12,491
Net Operating Income		**26,563**		25,602
Other Revenues (Expenses)				
Rainier Square extension payment		**-**		174
Interest income		**-**		460
Interest expense		**(1,020)**		(1,032)
Total Other Revenues (Expenses)		**(1,020)**		(398)
Income Before Other Changes in Net Position		**25,543**		25,204
Transfers				
Transfers from UW Real Estate Office		**770**		855
Distribution to UW Facilities Bond Retirement Account		**(10,000)**		(10,000)
Total Transfers		**(9,230)**		(9,145)
Increase in Net Position		**16,313**		16,059
Total Net Position, beginning of year		**168,292**		152,233
Total Net Position, end of year	**$**	**184,605**	$	168,292

See accompanying notes to financial statements.

University of Washington Metropolitan Tract

Statements of Cash Flows
(Amounts in Thousands)

Years Ended June 30,		**2020**		2019
Cash Flows from Operating Activities				
Cash received from tenants	**$**	**66,844**	$	62,378
Payments made to vendors		**(18,249)**		(17,675)
Payments made to the University to reimburse for employees		**(3,149)**		(2,885)
Payments for leasehold excise taxes		**(6,424)**		(6,448)
Net Cash Flows from Operating Activities		**39,022**		35,370
Cash Flows for Capital and Related Financing Activities				
Improvements made to long-lived assets		**(23,735)**		(12,331)
Principal repayments to University Treasury Department		**(781)**		(766)
Interest paid		**(1,020)**		(1,032)
Cash received from property manager		**-**		174
Net Cash Flows for Capital and Related Financing Activities		**(25,536)**		(13,955)
Cash Flows for Noncapital Financing Activities				
Funds received from UW Real Estate Office		**770**		855
Distribution to UW Facilities Bond Retirement Account		**(10,000)**		(10,000)
Net Cash Flows for Noncapital Financing Activities		**(9,230)**		(9,145)
Cash Flows from Investing Activity				
Interest received		**-**		460
Net Change in Cash and Cash Equivalents		**4,256**		12,730
Cash and Cash Equivalents, beginning of year		**75,848**		63,118
Cash and Cash Equivalents, end of year	**$**	**80,104**	$	75,848

Cash and Cash Equivalents in the Statements of Cash Flows is Reported in the Statements of Net Position as Follows:				
Cash held in trust	**$**	**5,907**	$	3,943
Funds held by the University		**74,197**		71,905
Total	**$**	**80,104**	$	75,848

University of Washington Metropolitan Tract

Statements of Cash Flows
(Amounts in Thousands)

Years Ended June 30,		**2020**		2019
Reconciliation of Net Operating Income to Net Cash Flows from Operating Activities				
Net operating income	**$**	**26,563**	$	25,602
Adjustments to reconcile net operating income to net cash flows from operating activities:				
Depreciation		**12,798**		12,491
Construction of tenant improvements in lieu of rental income		**-**		(272)
Changes in operating assets and liabilities				
Security deposits - residential		**4**		(3)
Due from Fairmont Olympic Hotel		**1,461**		(1,292)
Accounts receivable		**(646)**		279
Other current assets		**64**		(23)
Straight-line rent adjustment		**(2,451)**		(3,198)
Accounts payable and accrued expenses		**(724)**		142
Leasehold excise tax payable		**(331)**		(104)
Unearned rent revenue		**346**		170
Security deposits payable (residential and commercial)		**1,938**		1,578
Net Cash Flows from Operating Activities	**$**	**39,022**	$	35,370
Noncash Activity				
Purchase of improvements not paid for with cash at year-end	**$**	**2,091**	$	196

See accompanying notes to financial statements.

1. Metropolitan Tract Ownership and Operation

The University of Washington Metropolitan Tract (the “Metropolitan Tract”), a department of the University of Washington (the “University”), 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 manages the Metropolitan Tract by leasing to third-party tenants and leasing ground to entities responsible for developing and operating new buildings.

Properties

The University owns the Rainier Tower, Financial Center, IBM Building, Skinner Building, and Puget Sound Plaza. The buildings include approximately 1.6 million square feet of office space and 100,000 square feet of retail space located at street level. The Financial Center and IBM Building have underground parking garages and the Puget Sound Plaza is connected to a multi-level parking structure also owned by the University. The University also owns the 91-unit Cobb apartment building.

In 2014, the University entered into a property management agreement with Unico Properties LLC (“Unico”) to manage all of the office buildings, except the Rainier Tower and the Cobb Building. Unico subcontracts with Blanton Turner, a residential property manager, to manage the Cobb Building. Wright Runstad Limited Partnership, an entity controlled by Wright Runstad Company (“Wright Runstad”), was contracted to manage the Rainer Tower due to its proximity to the Rainier Square Site (see below and Note 7).

The University contracted with Unico to perform leasing services for all of the office properties on the Metropolitan Tract.

Rainier Square Site

The Rainier Square was a three-story building completed in 1980 and consisted of 112,000 square feet of retail space. The property underperformed, and in the early 2000s, it was deemed a development site. In May 2014, the University entered into an agreement with WRC Fourth Avenue LLC (“WRC”), an entity controlled by Wright Runstad, to redevelop the Rainier Square Site (the “Predevelopment Agreement”). The Predevelopment Agreement commenced on November 1, 2014, and provided WRC the rights to enter into two separate ground leases on the Rainier Square Site with the University, a hotel ground lease, and a mixed use office/residential tower ground lease. The Predevelopment Agreement may be extended up to six years and terminates upon natural expiration or upon the consummation of both ground leases. On September 12, 2017, the University signed a ground lease with RSQ Tower LLC (an entity controlled by Wright Runstad) (the “RSQ Tower Lease”), which resulted in the demolition of the original Rainier Square building and the commencement of the development of a 58-story mixed use retail, office, and residential building called the Rainier Square Tower (see Note 7). On September 30, 2019, the University signed a ground lease with WRC 400 University LLC, (an entity controlled by Wright Runstad) (the “400 University Lease”), which commenced on January 1, 2020. An 11-story office building (“400 University”) is expected to be constructed on the site. The Predevelopment Agreement expired upon execution of the 400 University Lease.

Fairmont Olympic Hotel

On January 18, 1980, the University entered into a lease (the "Hotel Lease") with the Olympic Hotel property (including a garage) that expires in 2040. The hotel was operated as the Four Seasons Olympic Hotel until July 31, 2003. On August 1, 2003, the remaining lease term was assigned to LHCS Hotel Holding (2002), LLC. The hotel was renamed the Fairmont Olympic Hotel and is managed by Fairmont Hotels and Resorts, Inc. On September 18, 2007, Legacy REIT, a publicly traded Canadian real estate investment trust and parent company of LHCS Hotel Holding (2002), LLC, was purchased by Cadbridge Investors, LP, a limited partnership majority owned by Cadim (a division of the Caisse de depot et placement du Quebec). The Hotel Lease tenant and management remained the same. On June 1, 2015, the University consented to the assignment of the Hotel Lease from LHCS Hotel Holding (2002), LLC to IC/RCDP Seattle Hotel, an entity owned by affiliates of Cadim, Rockwood IX REIT, Inc., and an affiliate of DiNapoli Capital Partners, LLC.

In June 2019, the University renewed the Hotel Lease with the current tenant by amending and restating the lease with a new expiration date of June 30, 2075. In September 2020, the lease was amended to extend the expiration date to June 30, 2083. The garage premises expiration date remains September 30, 2040. The new lease preserves the same rent structure while updating terminology and benchmarks commensurate to the contemporary hotel industry. In addition, the new lease requires substantial upfront renovations as well as establishes a clear framework for periodic capital improvements in the hotel over time. The amended and restated lease did not impact the financial statements of the Metropolitan Tract. Future minimum rent depicted at Note 5 has been updated to reflect the new lease and amendment.

2. Summary of Significant Accounting Policies

Basis of Accounting

These financial statements present only the financial position and changes in financial net position of the Metropolitan Tract and do not purport to, and do not, present the financial position of the University of Washington or the changes in its financial net position, including its net pension obligations (and other post-retirement benefit obligations) and related deferred inflows and outflows. The financial statements have been prepared in accordance with governmental accounting principles generally accepted in the United States of America. The financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

Significant revenue recognition and related expense policies are as follows:

- Office, retail, and residential revenues are recognized (on a straight-line basis) each month based on tenant leases in place. Certain rents are also based on a percentage of sales and are charged in addition to base rent.

- Hotel rent comprises minimum monthly payments as calculated under the Hotel Lease, in addition to a percentage of tenant revenues as calculated at the end of the calendar year. Management of the Metropolitan Tract estimated and accrued the percentage rent for the period from January to June 2019. Historically, there have been no significant adjustments from the estimated amount recognized and actual amounts calculated at the end of each lease year. Due to the significant loss of hotel revenue caused by the COVID-19 pandemic starting in March 2020, management of the Metropolitan Tract estimates ground rent from the Hotel Lease will equal the minimum rent as established in the lease. Therefore, management of the Metropolitan Tract has adjusted hotel rent revenue from January to June 2020 to reflect the minimum rent that can be earned during this period.

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

- During the years ended June 30, 2020 and 2019, rent revenues from the Rainier Square Site and the 400 University Lease were recognized (on a straight-line basis) each month as outlined in the RSQ Tower Lease and the 400 University Lease.

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

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

- All other indirect expenses not related to the direct operating or property management expenses are recorded as general and administrative.

- Non-operating revenue and expenses are activities that are not related to rental activities, including interest income and interest expense.

Cash Held in Trust

Cash held in trust represents operating cash held in financial institutions for various properties on behalf of the University. Cash balances held in the trust and other cash balances may exceed federally insured limits during the year.

Funds Held by the University

Funds held by the University are funds invested in pooled investments with the University. The University combines most short-term available cash balances from various departments into the invested funds pool, which is primarily composed of U.S. government and agency securities, mortgage rated investments, and asset-backed securities, as well as units in the Consolidated Endowment Fund ("CEF"), which is a diversified investment fund. The underlying investments in the CEF include emerging market equity securities, developed market equity securities, and fixed income securities. These funds are considered cash equivalents as they are readily convertible to known amounts of cash.

The University may allocate investment earnings on an annual basis to the departments with qualifying funds in the invested funds pool based on relative amounts invested at a rate determined and approved by the University. For the year ended June 30, 2019, the rate determined by the University was 0.75%. There were no investment earnings allocated to the departments for the year ended June 30, 2020. Principal amounts invested in the pool are guaranteed by the University.

Security Deposits

Security deposits – residential consists of amounts collected by the Metropolitan Tract from residential tenants in the Cobb Building as security in the event of a lease default. These deposits are required to be retained and segregated from the Metropolitan Tract's operating cash. There are no such requirements for security deposits received by commercial tenants.

In lieu of a security deposit, commercial tenants are permitted to obtain letters of credit to serve as their security deposit. At June 30, 2020 and 2019, these letters of credit amounted to $842 thousand and $900 thousand, respectively.

Accounts Receivable

Accounts receivable are amounts due from tenants for rent and other reimbursements. The Metropolitan Tract considers all accounts greater than 90 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is generally written off against the allowance. These receivables are generally unsecured and do not bear interest. At June 30, 2020 and 2019, the balance of allowance for uncollectible accounts amounted to $392 thousand and $119 thousand, respectively.

Due from Fairmont Olympic Hotel

Amounts due from the Fairmont Olympic Hotel consist primarily of leasehold improvement taxes and rent.

Straight Line Rent Adjustment

Many commercial and residential leases contain fixed escalations of the minimum annual lease payment during the original term of the lease. Therefore, rental income is recognized on the straight-line basis over the lease term. The difference between rental income recognized and the amount currently receivable is recorded as a straight-line rent adjustment.

Property and Depreciation

Land and buildings are recorded at the appraised values as of November 1, 1954, with subsequent additions at cost, when the assets are placed in service. Tenant and building improvements that have not yet been placed in service as of year-end are recorded as construction in progress ("CIP") and are expected to be completed within the next year. Improvements costing over $5 thousand with a useful life greater than one year are capitalized. Buildings are depreciated on a straight-line basis over the estimated useful lives of the assets, generally ranging from 50-60 years, and modernizations are depreciated over the estimated useful lives of 20 years. Tenant improvements are depreciated over the term of the related lease.

The Metropolitan Tract reviews long lived assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable. There were no such impairments during the years ended June 30, 2020 or 2019.

Leasehold Excise Tax Payable

Leasehold excise tax (“LET”) is payable on a quarterly basis to the State of Washington. The current liability represents taxes collected on contract rent, as defined by the Washington State Department of Revenue, during April to June of 2020 and 2019.

Net Position

The Metropolitan Tract’s net position is presented as net investment in capital assets, with the remainder considered unrestricted net position. Capital assets consist of land, building, modernizations, furniture, fixtures and equipment, and CIP. The related debt is debt issued to support the acquisition and construction of capital assets and is subtracted from the capital asset balance to arrive at the net investment in capital assets. Unrestricted assets include assets that have no restrictions placed on them, as well as assets that have been internally restricted, if any.

Unearned Rent Revenue

Tenant rent payments received in advance are deferred until the period to which the payments relate to.

Transfer from UW Real Estate Office

This amount represents funds that were transferred from the University’s Real Estate Office to the Metropolitan Tract.

Distribution to UW Facilities Bond Retirement Account

During each of the years ended June 30, 2020 and 2019, $10 million was distributed from the Metropolitan Tract to the University’s Facilities Bond Retirement Account. The distribution is determined annually based on cash available after consideration of future operating and capital expenses, and adequacy of reserves.

Property Management Fees

Property management fees are included with operating expenses and represent costs paid to Unico, Wright Runstad, and Blanton Turner for services rendered on the properties. The fees are based on a percentage of tenant rent recognized at each property. Total fees paid to Unico and Wright Runstad were $421 thousand and $251 thousand, respectively, for the year ended June 30, 2020. Total fees paid to Unico and Wright Runstad were $420 thousand and $213 thousand, respectively, for the year ended June 30, 2019. Blanton Turner serves as a sub-contractor to Unico for the Cobb Building under the University’s property management agreement with Unico.

Lease Commissions

Lease commissions are costs paid to commercial real estate brokers that facilitate the execution of tenant leases. These commissions are expensed as incurred and are included with general and administrative expenses on the statements of revenues, expenses, and changes in net position.

Income Taxes

As part of the University, the Metropolitan Tract is exempt from federal income taxes unless it earns unrelated business income.

Use of Estimates

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

Reclassifications

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

Impact of COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 pandemic") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The COVID-19 pandemic and government responses are creating disruption in global supply chains adversely impacting many industries, including the office, retail, residential and hotel sectors in which our tenants operate. The COVID-19 pandemic could have a material adverse impact on economic and market conditions and trigger a period of global economic slowdown. Management notes the most significant impact on retail tenants and the Fairmont Olympic Hotel, which represent approximately 12% of total revenue in fiscal year 2020. Although tenants are current on office rent, further disruptions may impact future leasing and the collectability of rent from affected tenants. For the year ended June 30, 2020, the Metropolitan Tract experienced an unplanned loss of revenue of approximately $500,000, less than 1% of total revenue, primarily from retail and parking space. While management considers these disruptions to be temporary, if they continue, the COVID-19 pandemic may adversely affect revenues, results of operations and financial condition for fiscal year 2021 and future years.

The full impact of the COVID-19 pandemic continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the COVID-19 pandemic will have on the Metropolitan Tract's financial condition and future results of operations. Given the evolution of the COVID-19 pandemic and the global responses to curb its spread, the Metropolitan Tract is not able to estimate the effects of the COVID-19 pandemic on its results of operations, financial condition, or liquidity for fiscal year 2021.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. Management of the Metropolitan Tract continues to examine the impact that the CARES Act may have on business. Currently, management is unable to determine the impact that the CARES Act will have on the financial condition, results of operations, or liquidity of the Metropolitan Tract.

Subsequent Events

Management of the Metropolitan Tract has evaluated subsequent events through the date these financial statements were available to be issued, which was October 7, 2020.

In September 2020, the University executed an amendment to the Hotel Lease extending the term by eight years to June 30, 2083. The amendment updated other terms dependent on the expiration date and increased the transfer fee percentage payable to the University upon any subsequent sales of the leasehold by the current or future tenants.

3. Property

Property activity for the years ended June 30, 2020 and 2019, is summarized as follows (amounts in thousands):

Year Ended June 30, 2020	Balance at June 30, 2019	Additions	Transfers and Adjustments	Disposals	Balance at June 30, 2020
Property, not being depreciated					
Land	$ 9,974	$ -	$ -	$ -	$ 9,974
Construction in progress	5,351	25,712	(9,957)	-	21,106
Total Property Not Being Depreciated	15,325	25,712	(9,957)	-	31,080
Property, being depreciated					
Land improvements	793	-	-	-	793
Buildings	77,877	-	-	-	77,877
Tenant improvements	71,061	24	4,650	-	75,735
Modernizations	142,556	46	5,217	-	147,819
Furniture, fixtures, and equipment	404	44	90	-	538
Total Property Being Depreciated	292,691	114	9,957	-	302,762
Less: Accumulated depreciation					
Land improvements	793	-	-	-	793
Buildings	64,388	1,286	-	-	65,674
Tenant improvements	54,184	4,988	-	-	59,172
Modernizations	72,203	6,487	-	-	78,690
Furniture, fixtures, and equipment	118	37	-	-	155
Total Accumulated Depreciation	191,686	12,798	-	-	204,484
Property, net	$ 116,330	$ 13,028	$ -	$ -	$ 129,358

Year Ended June 30, 2019	Balance at June 30, 2018	Additions	Transfers and Adjustments	Disposals	Balance at June 30, 2019
Property, not being depreciated					
Land	$ 9,974	$ -	$ -	$ -	$ 9,974
Construction in progress	3,881	12,040	(10,570)	-	5,351
Total Property Not Being Depreciated	13,855	12,040	(10,570)	-	15,325
Property, being depreciated					
Land improvements	793	-	-	-	793
Buildings	77,877	-	-	-	77,877
Tenant improvements	67,320	696	4,296	(1,251)	71,061
Modernizations	136,246	36	6,274	-	142,556
Furniture, fixtures, and equipment	377	27	-	-	404
Total Property Being Depreciated	282,613	759	10,570	(1,251)	292,691
Less: Accumulated depreciation					
Land improvements	793	-	-	-	793
Buildings	63,088	1,300	-	-	64,388
Tenant improvements	50,496	4,939	-	(1,251)	54,184
Modernizations	65,988	6,215	-	-	72,203
Furniture, fixtures, and equipment	81	37	-	-	118
Total Accumulated Depreciation	180,446	12,491	-	(1,251)	191,686
Property, net	$ 116,022	$ 308	$ -	$ -	$ 116,330

During the year ended June 30, 2019, the Metropolitan Tract disposed of $1,251 thousand of tenant improvements that were fully depreciated and no longer in the buildings. There were no such dispositions during the year ended June 30, 2020.

4. Long-Term Debt

In 2014, the University's Treasury Department issued general revenue bonds, which provided $33.6 million to the Metropolitan Tract and financed the acquisition of the Cobb Building from Unico. The outstanding balance as of June 30, 2020 and 2019, was $29.8 million and $30.5 million, respectively. The effective interest rate over the 30-year term of the loan is 3.49% and the loan matures in December 2044. The loan is unsecured but is expected to be repaid through revenues generated by the Metropolitan Tract properties.

Long-term liability activity is summarized as follows (amounts in thousands):

Years Ended June 30,	**2020**	2019
Beginning Balance	**$ 30,534**	$ 31,300
Reductions	**(781)**	(766)
Total	**29,753**	30,534
Less: Current portion	**(796)**	(781)
Non-Current Portion	**$ 28,957**	$ 29,753

The following is a summary of future payments (principal and interest) to be paid to the University (amounts in thousands):

Years Ending June 30,	Principal	Interest	Total
2021	$ 796	$ 1,002	$ 1,798
2022	811	985	1,796
2023	831	965	1,796
2024	856	944	1,800
2025	875	920	1,795
2026 - 2030	4,829	4,161	8,990
2031 - 2035	5,705	3,287	8,992
2036 - 2040	6,830	2,174	9,004
2041 - 2045	8,220	784	9,004
2046 - 2050	-	-	-
	$ 29,753	$ 15,222	$ 44,975

5. Future Minimum Rent

Minimum future rental income under noncancelable lease agreements with various commercial (office and retail) and residential tenants is as follows (amounts in thousands):

Years Ending June 30,	
2021	$ 49,373
2022	45,783
2023	42,581
2024	36,380
2025	31,803
Thereafter	87,532
	$ 293,452

The base rental income on the Fairmont Olympic Hotel is subject to change on an annual basis as set forth in the lease. At the end of each lease year, the annual rent is adjusted for a percentage of revenues, not below an annual minimum of $3.5 million.

Minimum future rental income under the Hotel Lease is as follows (amounts in thousands):

Years Ending June 30,	
2021	$ 3,500
2022	3,500
2023	3,500
2024	3,500
2025	3,500
Thereafter	203,000
	$ 220,500

6. Related-Party Transactions

The University rents office space in the Metropolitan Tract, and the leases expire at various dates through 2021. The amounts paid for the years ended June 30, 2020 and 2019, were $3.1 million and $3.0 million, respectively.

7. Rainier Square Site Redevelopment

Predevelopment Agreement

As described in Note 1, the terms of the Predevelopment Agreement with WRC, an entity controlled by Wright Runstad, required WRC to make certain payments to the University to extend the termination date of the Predevelopment Agreement. Upon execution of the 400 University Lease in September 2019, the Predevelopment Agreement terminated. During the years ended June 30, 2020 and 2019, the WRC paid the University $0 and $174 thousand, respectively, per the terms of the Predevelopment Agreement.

RSQ Tower Lease

The RSQ Tower Lease commenced on September 12, 2017, and the existing Rainier Square building was demolished during the year ended June 30, 2018.

The RSQ Tower Lease has an 80-year term, requires RSQ Tower LLC to complete development of the approved building in four years, is unsubordinated, and requires minimum ground rent during construction and 8% of adjusted gross revenue from the project thereafter. Minimum rents for the first five years of the lease are to be $413 thousand per year, increasing to $1,652 thousand per year for the next five years, and continuing after, and adjusted each tenth lease year to 60% of the average annual percentage rents for the previous five lease years, added to the minimum rent payment (beginning with $1,652 thousand). Expected minimum rents are as follows (amounts in thousands):

Years Ending June 30,		
2021	$	413
2022		413
2023		1,446
2024		1,652
2025		1,652
Thereafter		119,232
	$	124,808

As of June 30, 2020, the building is on target for substantial completion by the end of calendar year 2020. In the event that RSQ Tower LLC fails to achieve substantial completion within this time period, and provided that other actions also take place, the University has the right to terminate the lease. As such, management of the Metropolitan Tract has determined that recognizing current and future ground rent on a straight-line basis for this lease was appropriate during the year ended June 30, 2019, as there is persuasive evidence that construction completion will occur by the deadline of September 2021.

In connection with the RSQ Tower Lease, the University executed an Operating Agreement with RSQ Tower LLC that regulates how the Rainier Tower and the lessees of the Rainier Square Tower and the 400 University Building will operate the shared mixed use space on the Rainier Square block.

400 University

The 400 University Lease commenced on January 1, 2020 with a 77-year term expiring September 7, 2097. The lease requires WRC 400 University LLC to complete development of the approved 11-story office building in three years and is unsubordinated. Minimum ground rent during the first three years is $250,000, $375,000, and $500,000. Upon completion of the building, ground rent converts to the greater of minimum rent or 10% of adjusted gross revenue from the project. Expected minimum rents are as follows (amounts in thousands):

Years Ending June 30,		
2021	$	313
2022		438
2023		506
2024		519
2025		532
Thereafter		107,823
	$	110,131

As of June 30, 2020, construction commenced, and the building is on target for substantial completion by August 2021. Management of the Metropolitan Tract determined that recognizing current and future ground rent on a straight-line basis for this lease was appropriate during the year ended June 30, 2020, as there is persuasive evidence that construction completion will occur by the deadline of January 2023.

Supplemental Information

University of Washington Metropolitan Tract

Details of Property
(Amounts in Thousands)

June 30, 2020	Cobb Building	Skinner Building	Puget Sound Plaza	IBM Building	Rainier Tower	Financial Center	Fairmont Olympic Hotel	Fairmont Olympic Garage	Total
Buildings, Tenant Improvements, and Modernizations									
Buildings	$ 752	$ 2,037	$ 9,113	$ 8,413	$ 25,252	$ 16,984	$ 12,535	$ 2,791	$ 77,877
Tenant improvements	-	8,386	14,831	11,916	25,307	15,295	-	-	75,735
Modernizations	43,980	23,567	22,863	16,754	23,326	17,329	-	-	147,819
Construction in progress	51	958	1,277	1,470	16,329	1,021	-	-	21,106
Furniture, fixtures, and equipment	354	3	11	30	95	45	-	-	538
Total Buildings, Tenant Improvements, and Modernizations	45,137	34,951	48,095	38,583	90,309	50,674	12,535	2,791	323,075
Less: Accumulated Depreciation and Amortization									
Buildings	(752)	(2,037)	(9,113)	(8,413)	(19,123)	(13,445)	(10,186)	(2,605)	(65,674)
Tenant improvements	-	(7,595)	(11,288)	(10,009)	(19,317)	(10,963)	-	-	(59,172)
Modernizations	(14,191)	(15,066)	(13,735)	(10,856)	(14,128)	(10,714)	-	-	(78,690)
Furniture, fixtures, and equipment	(88)	(2)	(6)	(19)	(2)	(38)	-	-	(155)
Total Accumulated Depreciation and Amortization	(15,031)	(24,700)	(34,142)	(29,297)	(52,570)	(35,160)	(10,186)	(2,605)	(203,691)
Net Investment	$ 30,106	$ 10,251	$ 13,953	$ 9,286	$ 37,739	$ 15,514	$ 2,349	$ 186	119,384
Land									9,974
Land improvements									793
Less: Accumulated depreciation									(793)
Net Land and Land Improvements									9,974
Net Investment Including Land and Land Improvements									$ 129,358

Student Services and Facilities Fees – Seattle Campus
Administered by the Division of Student Life of the University of Washington

Financial Statements
Years Ended June 30, 2020 and 2019

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

Student Services and Facilities Fees – Seattle Campus
Administered by the Division of Student Life of the University of Washington

Financial Statements
Years Ended June 30, 2020 and 2019

Contents

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Independent Auditor's Report

To the Board of Regents
University of Washington
Seattle, Washington

Report on Financial Statements

We have audited the accompanying statement of cash receipts, cash disbursements, and changes in cash balances of Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the year ended June 30, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts, cash disbursements, and changes in cash balances of the Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington for the year ended June 30, 2020, on the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. These statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matter – Prior-Period Financial Statements

The financial statements of Student Services and Facilities Fees – Seattle Campus administered by the Division of Student Life of the University of Washington as of and for the year ended June 30, 2019, were audited by Peterson Sullivan LLP ("PS"), whose partners and professional staff joined BDO USA,LLP as of November 1, 2019, and has subsequently ceased operations. PS expressed an unmodified opinion (under the cash basis of accounting) on those statements in their report dated October 23, 2019.

BDO USA, LLP

January 26, 2021

Financial Statements

Student Services and Facilities Fees – Seattle Campus
Administered by the Division of Student Life of the University of Washington

Statements of Cash Receipts, Cash Disbursements, and Changes in Cash Balances

Year Ended June 30,	**2020**	2019
Cash Receipts		
Student Services and Facilities Fees - Seattle campus	**$ 31,235,948**	$ 30,208,402
Interest income	**-**	213,250
Total Cash Receipts	**31,235,948**	30,421,652
Debt Service		
Principal - ILP - IMA Bonds	**(1,992,083)**	(1,897,500)
Principal - ILP - Student Facilities Renovation	**(2,626,897)**	(2,497,686)
Interest - ILP - IMA Bonds	**(1,428,938)**	(1,523,813)
Interest - ILP - Student Facilities Renovation	**(4,596,006)**	(4,753,570)
Total Debt Service Payments	**(10,643,924)**	(10,672,569)
Cash Receipts Available after Debt Service	**20,592,024**	19,749,083
Other Cash Disbursements		
Hall Health Center	**6,615,060**	6,615,060
Recreation	**2,946,748**	2,851,947
Student Parent Resource Center	**1,386,972**	1,353,873
Student Activities and Union Facilities	**1,303,863**	1,082,914
Associated Students of the University of Washington	**1,084,820**	1,055,871
Ethnic Cultural Center and Theatre Complex	**1,052,117**	1,012,355
Student Counseling Center	**938,930**	906,340
Graduate and Professional Student Senate	**442,498**	442,570
Q-Center	**406,787**	395,971
Student Publications	**341,000**	318,533
Campus Sustainability Fund	**336,404**	348,208
Student Legal Services	**295,743**	274,834
Classroom Support Services	**174,506**	175,405
Peer Health Education Group	**161,160**	70,714
D-Center	**139,999**	97,847
Student Veteran Life	**124,184**	118,795
Intellectual House	**109,235**	114,984
Services and Activities Committee Operations	**35,303**	32,785
Food Pantry	**34,065**	-
Total Other Cash Disbursements	**17,929,394**	17,269,006
Excess of cash receipts over cash disbursements before transfers	**2,662,630**	2,480,077
Transfers		
Transfer to Recreation for capital projects	**(250,000)**	-
Change in Cash Balances	**2,412,630**	2,480,077
Cash Balance, beginning of year	**28,166,644**	25,686,567
Cash Balance, end of year	**$ 30,579,274**	$ 28,166,644

See accompanying notes to financial statements.

1. Organization and Significant Accounting Policies

Organization

The Division of Student Life ("Student Life") is a unit within the University of Washington (the "University") and is responsible for a variety of programs, services, facilities, and operations supporting the student experience on campus, including, but not limited to, housing, food services, recreational sports programs, student government, the Husky Union Building, student conduct, counseling, health and wellness, disability resources, career services, student publications, fraternity and sorority life, the Q-Center, the D-Center, student veterans, ceremonies, and the University's police department. Student Life administers the allocation and expenditure of certain fees collected from students on the Seattle campus called "Student Services and Facilities Fees." Student Services and Facilities Fees are a portion of the total fees collected from students. Student Services and Facilities Fees include Services and Activities Fees, Intramural Bond Fees, and Student Facilities Renovation Fees.

The Student Services and Facilities Fees are first used to pay debt service on current and future bonds, and debt obtained from the University's Internal Lending Program, and are then used to support programs recommended by the Services and Activities Fee Committee ("SAF Committee") and approved by the Board of Regents of the University (the "Board of Regents"). The Services and Activities Fees are student-levied, student-distributed fees to support and enhance the out-of-class experience of students at the University. The Services and Activities Fees provide ongoing operational and capital funding for programs that protect and enrich the cultural, emotional, intellectual, physical, and social well-being of the student. Each academic quarter, Student Services and Facilities Fees are charged to full-time and part-time students registered at the University.

As a part of the University, Student Services and Facilities Fee activity is exempt from income taxes and no tax return is filed. Student Services and Facilities Fee activity receives administrative support from the University without charge.

These financial statements only present a selected portion of the activities of the University. As such, they are not intended and do not present either the financial position, results of operations, or changes in net position of the University.

Financial Statement Presentation

These financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, revenue is recognized when cash is received, and expenses are recognized when cash is disbursed.

Cash Receipts

All cash receipts are deposited with the University. Funds held by the University are funds invested in pooled investments with the University. The University combines most short-term available cash balances from various departments into the invested funds pool, which is primarily composed of U.S. government and agency securities, mortgage-rated investments, and asset-backed securities, as well as units in the Consolidated Endowment Fund ("CEF"), which is a diversified investment fund. The underlying investments in CEF include emerging market equity securities, developed market equity securities, and fixed income securities.

The University annually allocates investment earnings to the departments with qualifying funds in the invested funds pool based on relative amount invested at a rate determined and approved by the University. For the year ended June 30, 2020, due to market conditions and the impact of the global pandemic, it was determined that no distributions would be made to certain campus depositors, including student fee accounts. For the year ended June 30, 2019, the rate determined by the University for campus depositors, including student fee accounts, was 0.75%. Principal amounts invested in the pool are guaranteed by the University.

Transfers

For the years ended June 30, 2020 and 2019, $167,471 and $168,666, respectively, of funding for capital improvements and equipment purchases was allocated to various recipients and is included together with operations funding, in their cash disbursement totals.

During the year ended June 30, 2020, $250,000 was transferred from the IMA Bond Fees (included in cash balances held by Student Services and Facilities Fees including IMA bond fee reserves) to Recreation for capital projects.

2. Uncollected Fees and Future Disbursements

As these financial statements are presented on the cash basis of accounting, receivables and payables are not recognized.

In a prior year, the SAF Committee signed a memorandum of understanding with Student Publications to allocate $615,000 of Student Services and Facilities Fees in order to fund a majority of Student Publications' historical operating deficit. Student Publications was expected to repay this amount. On May 29, 2020, the SAF Committee voted to officially cancel all terms of the memorandum and forgive the $615,000 debt from Student Publications.

Student Services and Facilities Fees that were uncollected (and are therefore receivable) were $1,458,261 and $1,829,407 on the last business day of the years ended June 30, 2020 and 2019, respectively.

In June 2020, the Board of Regents accepted proposed disbursements for the year ending June 30, 2021, totaling $19,625,787.

3. Internal Lending Program – IMA Bonds

Student Services and Facilities Fees are used to make debt service payments on the Series 2005 Revenue Bonds issued by the University. The debt is managed by the University's Internal Lending Program.

At June 30, 2020, the principal amount of the debt outstanding was $26,586,667 at an interest rate of 4.50%. The interest rate is reviewed each year and is subject to adjustment by the Board of Regents. There have been no changes to the interest rate since the current rate of 4.50% became effective on July 1, 2016. The final loan payment is due in June 2030.

Borrowings are being repaid by the IMA Bond Fees, which are included in the Student Services and Facilities Fees cash receipts at both June 30, 2020 and 2019.

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

	Principal	Interest	Total
2021	$ 2,091,667	$ 1,329,333	$ 3,421,000
2022	2,196,250	1,224,750	3,421,000
2023	2,305,833	1,114,938	3,420,771
2024	2,420,417	999,646	3,420,063
2025	2,544,583	878,625	3,423,208
2026 - 2030	15,027,917	2,367,125	17,395,042
	$ 26,586,667	$ 7,914,417	$ 34,501,084

4. Internal Lending Program – Student Facilities Renovation

Student Services and Facilities Fees has borrowings available from the University’s Internal Lending Program of $126,000,000, $8,000,000, and $16,000,000 for the renovation of the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively. At June 30, 2020, the principal amount of the debt outstanding on these borrowings was $83,122,809, $5,983,691, and $12,532,621 for the Husky Union Building, the Hall Health Center, and the Ethnic Cultural Center, respectively (total of $101,639,121). The interest rate is reviewed each year and is subject to adjustment by the Board of Regents. The interest rate was reduced from 4.5% to 4.25% effective May 1, 2020. Loan payments began in October 2011 for the Hall Health Center with a 30-year amortization and term. Loan payments began in October 2012 for the Husky Union Building and the Ethnic Cultural Center, also with 30-year amortizations and terms. The final loan payments are due in September 2042. The renovation activity is not included in these financial statements.

Borrowings are being repaid by the Student Facilities Renovation Fees, which are included in the Student Services and Facilities Fees cash receipts at both June 30, 2020 and 2019.

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

	Principal	Interest	Total
2021	$ 2,817,436	$ 4,265,202	$ 7,082,638
2022	2,939,537	4,143,101	7,082,638
2023	3,066,930	4,015,708	7,082,638
2024	3,199,844	3,882,794	7,082,638
2025	3,338,518	3,744,120	7,082,638
2026 - 2030	18,992,396	16,420,792	35,413,188
2031 - 2035	23,480,335	11,932,852	35,413,187
2036 - 2040	29,028,783	6,384,404	35,413,187
2041 - 2043	14,775,342	732,504	15,507,846
	$ 101,639,121	$ 55,521,477	$ 157,160,598

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

2019	2.9 to 1
2020	2.9 to 1

5. Subsequent Events

Student Services and Facilities Fees has evaluated subsequent events through the date these financial statements were available to be issued, which was January 26, 2021.

6. COVID-19 and The CARES Act

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on Student Services and Facilities Fees - Seattle Campus financial condition and future results of operations. Management is actively monitoring the global situation on its financial condition and operations. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, Student Services and Facilities Fees - Seattle Campus is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security ("CARES") Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by the COVID-19 outbreak.