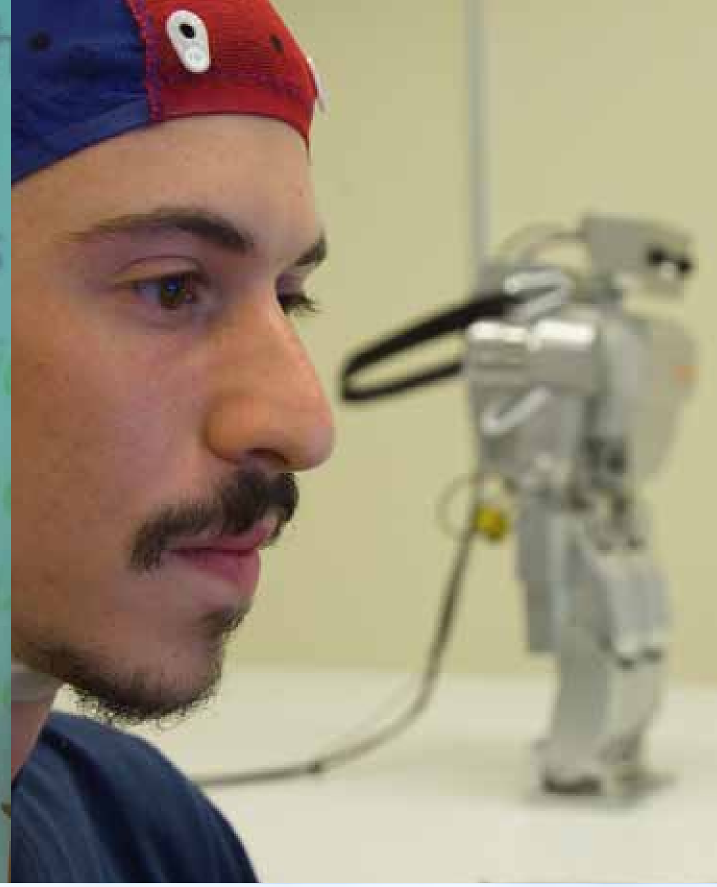



UNIVERSITY *of* WASHINGTON

ANNUAL REPORT 2009

Discover what's next. It's the Washington Way.

TABLE *of* CONTENTS

UNIVERSITY FACTS

	2008–2009	2003–2004	1998–1999
STUDENTS			
Autumn Enrollment			
Undergraduate	33,697	30,888	27,537
Graduate	11,114	10,023	8,385
Professional	1,842	1,797	1,719
TOTAL	**46,653**	**42,708**	**37,641**
Extension course registrations	62,477	39,263	32,334
Number of Degrees Awarded			
Bachelor's	8,181	8,427	6,936
Master's	2,904	2,780	2,072
Doctoral	622	506	520
Professional	504	488	470
TOTAL	**12,211**	**12,201**	**9,998**
INSTRUCTIONAL FACULTY	3,904	3,553	3,500
FACULTY AND STAFF [1]	29,534	26,750	21,781
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,150,000	$ 954,000	$ 601,000
SELECTED REVENUES *(in thousands of dollars)*			
Gifts, Grants and Contracts	$ 1,123,751	$ 957,863	$ 610,224
Auxiliary Enterprises [2] and Other Revenues	889,871	1,189,453	719,766
State Appropriations (Operating)	384,810	309,618	301,812
Tuition and Fees [3]	458,061	304,189	228,754
SELECTED EXPENSES *(in thousands of dollars)*			
Instruction, Academic Support and Student Services	$ 1,207,061	$ 806,749	$ 567,873
Research and Public Service	673,322	576,607	415,634
Auxiliary Enterprises [2]	949,185	729,003	574,518
Institutional Support and Physical Plant	321,020	248,986	157,256
CONSOLIDATED ENDOWMENT FUNDS [4] *(in thousands of dollars)*	$ 1,649,000	$ 1,208,000	$ 673,000
SQUARE FOOTAGE [5] *(in thousands of square feet)*	18,874	17,500	14,800

[1] Full-time equivalents
[2] Includes UW Medical Center
[3] Net of scholarship allowances of $82,813,000 in 2008-2009 and $46,519,000 in 2003-2004
[4] Stated at fair value
[5] Gross square footage, all campuses

President's Message

MARK A. EMMERT ('75)
PRESIDENT

To say that this past year was anything less than challenging would be a tremendous understatement. Faced with a $9 billion hole in its budget, the state cut over a quarter of its funding to the University of Washington — one of the largest reductions to a university in the nation. This new budget moved us to the point where, for the first time in our history, tuition revenue now exceeds state support. That trend is only likely to continue in the coming years.

With the changing role of state support in our budget, it's clear that we need to think differently about how we do things. This most emphatically does not mean changing our mission. The UW is now and will always be our state's public flagship university. We will continue to serve our state through cutting-edge research and economic development, top level health care services, and, most importantly, making sure that all of Washington's residents have access to an affordable, quality education.

But to ensure that our university continues to move forward, we need to change the funding and operating model that supports our mission. We have developed four strategic approaches that will help us do this.

First, we need to protect and preserve our existing state funding as much as possible. Second, we must use our existing resources as efficiently as possible. Next, we need greater control over our revenue, including undergraduate resident tuition. Finally, we need greater flexibility in our management and business processes.

How we meet the challenges of the next two years will help define what we can become over the next twenty. Already, we are moving forward. We're implementing innovations in our educational programs, including three-year bachelor degree opportunities, technologies that combine in-class and computer-based instruction and expanded online degree offerings.

But this is just the beginning. While this budget situation has been an enormous challenge, we at the UW also see it as a tremendous opportunity — an opportunity to become more sustainable, more self sufficient and more efficient. And if we are able to make and sustain these changes — and we will — the UW will continue to serve our state and educate our citizens in the exemplary manner we all expect for decades to come.

Mark A. Emmert

MARK A. EMMERT ('75)
PRESIDENT

Stories *of* Discovery

Eleanor F. Bond, Professor of Biobehavioral Nursing and Health Systems in the School of Nursing, teaches acute and critical care nursing to undergraduate and graduate students.

Dr. Rodney Ho

MILO GIBALDI ENDOWED PROFESSOR
SCHOOL *of* PHARMACY

Keeping patients safe and making their drugs more effective. That's the heart of my work at the UW. And after 20 years on the job, I can say with confidence that I found the best place in the world to get it done.

The shortcoming of a lot of drugs isn't the drug itself. It's getting the correct dose to exactly the right place so it's most effective. Once a drug goes into the body, it's not unusual for 10 percent or less to actually end up where it needs to go. But if too much is delivered, it can be toxic. So the shortest road to drug safety and effectiveness is to solve that puzzle. How, for instance, do you get a drug into the lymphatic system instead of just into the blood? It's a complex problem where biology, translational science and drug delivery must intersect — all these disciplines must come together to pinpoint a solution.

There's a convergence and integration of these specialties — to develop more effective and safer medicine — here at the UW. It doesn't matter if you're an established investigator or a young researcher just starting your career. Across campus, people listen and pay attention to great ideas. That's not surprising given that the Northwest is known for its independent thinking and collaboration. A culture like this allows us all to be creative, look for partnerships and bounce ideas around. We're thinking outside the box and considering new ideas and approaches to solving tough challenges. Add to this mix the generosity of private, corporate and federal support, and you see why the UW is an exciting place to be.

When I joined the University, it was the up-and-coming research institution. Just last year, federally funded research here totaled more than $1 billion, reaffirming our position as a global research leader. Throughout my long career, I've contributed to the school's growth and helped countless students go on to make significant contributions to healthier lives for those in the community.

To ensure work like this carries on, I am committed to helping younger generations of researchers reach their potential and tackle the next wave of challenges we'll face. I can't think of a better way to invest all the resources the UW has to offer.

"Across campus, people listen and pay attention to great ideas. That's not surprising given that the Northwest is known for its *independent thinking* and *collaboration*."

DR. RODNEY HO

Lauren Hanson

SENIOR, NEUROBIOLOGY MAJOR
LEVINSON EMERGING SCHOLAR *and* WASHINGTON RESEARCH FOUNDATION FELLOWSHIP

My UW experiences changed me completely. I grew up not far from the UW and I was raised to believe in giving back to my community. But the UW taught me to think of community in global terms. It's empowering to see firsthand that wherever you go in the world, people want the same things — better, healthier lives for themselves and their children.

For me, the University is much larger than its campuses. it has literally opened up the whole world as a place to learn and make a difference. As an undergrad, I've been given opportunities to work in amazing settings alongside world-class researchers: cancer research at Fred Hutch, brain research in Dr. Moody's neurobiology lab and volunteering at Seattle Children's Hospital in the oncology ward. I've joined my peers shadowing rural health care providers in Eastern Washington, traveled to Sierra Leone to learn about local health care practices and gone to Mississippi with fellow students to help Hurricane Katrina victims. As part of Students for Equal Health, I've participated in all kinds of health-equality projects, both here in the Puget Sound region and around the world.

I'd like to think my UW experiences are unique, but this isn't just my story. Along with amazing courses, we've had remarkable opportunities to participate in important research. I expected to have to search these opportunities out. But the truth is that many people here are very willing — they're excited — to trust young minds to do important things. I know many students who have tackled equally incredible challenges, but most of us agree it's the total experience — including experiences outside the classroom — that defines the UW.

What's next? For a long, long time I've known studying medicine was my future. My time at the UW has opened that possibility to include public health, social justice and family practice for underserved communities. I've applied to medical schools all over the country, but the UW is my first and most logical choice. There's nowhere better.

"For me, the University is much larger than its campuses. It has literally opened up the whole world as a place to *learn* and *make a difference.*"

LAUREN HANSON

Jilberto Soto

JUNIOR, MARKETING MAJOR, FOSTER SCHOOL *of* BUSINESS
DAISY *and* JOSEPH SAXON, JR. SCHOLAR

I believe that making the world a better place starts with helping one person. The UW has done that for me — and it keeps giving me opportunities to do the same for others.

My parents came from Jalisco, Mexico to work in the fields in Eastern Washington. And even though they didn't speak English, they did everything they could to encourage me and my siblings to work hard and get the best possible education. My big brother Antonio paved the way. Like me, he did the Running Start program to complete community college and high school at the same time. Then he came to the UW and earned his master's degree in social work. And now he's making a difference every day working for Child Protective Services back near our home in Sunnyvale, Wash.

Although I never lacked inspiration from family, I was one of only three Latinos who graduated from my high school in Yakima. Coming to the UW was a homecoming of sorts; I was surrounded by so many Latinos, Latinas, and Chicanos who aspire to be more — to do more. I've never been as proud of my culture as I have at the UW. Now, I'm getting ready to serve as La Raza commissioner where my job will be to get all the Latino organizations on campus to work together as one strong community.

Academically, the UW challenges me beyond belief. I was just admitted to the Foster School of Business, and I'm also taking advantage of so many opportunities to engage and learn outside the classroom. I've had two great internships at Boeing through the ALVA program (Alliances for Learning and Vision for Underrepresented Americans). I've also been on the Student Advisory Board, joined Omega Phi fraternity, and participated in the Young Executives of Color program.

You couldn't ask for a better training ground to make an impact on peoples' lives. Eventually, I plan to study human rights and immigration law and hopefully make an impact on one person's life. It's the first step in moving on to bigger things. Thanks to the UW, I've gained the know-how to get there.

"Academically, the UW challenges me beyond belief. I was just admitted to the Foster School of Business, and I'm also taking advantage of so many opportunities to *engage* and *learn* outside the classroom."

JILBERTO SOTO

Computer Science & Engineering graduate students perform a robotics demonstration in Rajesh Rao's Humanoid Robotics and Brain Computer Interface Lab.

Financial Highlights

Senior Vice President's Message

V'ELLA WARREN
SENIOR VICE PRESIDENT

The 2009 fiscal year presented the University of Washington with unprecedented challenges, which have made it clear that we must transform the academic business model of the institution. While the active engagement of many stakeholders will be needed in this transformative journey, we are already identifying new ways to do business with fewer resources. Here are just a few examples of our collective efforts:

INSTRUCTION

Students have a better chance of completing their degree at the UW than at any other public university in the country: 81 percent of our students graduate within six years, up from 71 percent in 2003 (see chart on next page). Nearly 75 percent of our students remain in Washington state after graduation, providing the state a well-educated workforce and positively contributing to the state's economy. Many of these students come from culturally and socioeconomically diverse backgrounds and are first in their families to attend college and complete a degree. In 2009, over 25 percent of our undergraduates were covered by the Husky Promise — free tuition for Washington's academically qualified students who otherwise could not afford to attend.

RESEARCH

The UW's annual budget is over $3 billion and generates an additional $4 billion in economic activity primarily in Washington. That makes our University the third-largest employer in the state, following Boeing and Microsoft. Research, an important component in that impact, is driven by some of the best and brightest faculty members in the world. Because of their entrepreneurial spirit, our research dollars have increased 232 percent since 1990. Most recently, the UW received the second highest amount of American Recovery and Reinvestment Act (ARRA) funding among university recipients, receiving 369 separate awards totaling more than $184 million as of November, 2009. This additional funding has already broadly impacted over 800 positions in addition to enabling new opportunities for discovery that would not have otherwise been available.

PATIENT CARE

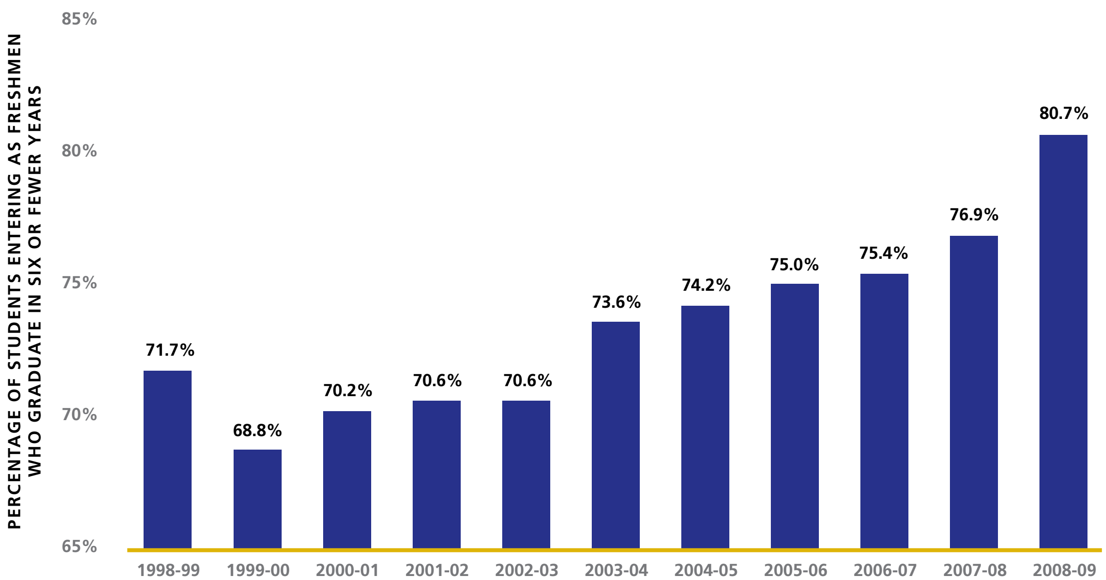
UW Medicine excelled in both strategy and operations this year, opening five new programs, integrating and streamlining many services and functions, and saving $16 million through process improvements. One example: all UW Neighborhood Clinic referrals for spine care are now managed by a single automated scheduling process. Results were dramatic: hundreds of new patients were accommodated, appointment scheduling speed improved by 25 percent and referrals increased by 75 percent.

ADMINISTRATION

Administrative efficiencies save time and money for students and faculty, allowing them to focus on learning and discovery. For example, our procurement processes continue to gain efficiencies by using electronic tools to buy and pay for goods and services.

(continued on page 8)

University of Washington Six-Year Graduation Rate



This electronic process, in turn, captures spending information for use in negotiating volume-based discounts. The impact on cost savings is staggering. The cost to process a single transaction has decreased by 44 percent since 2001.

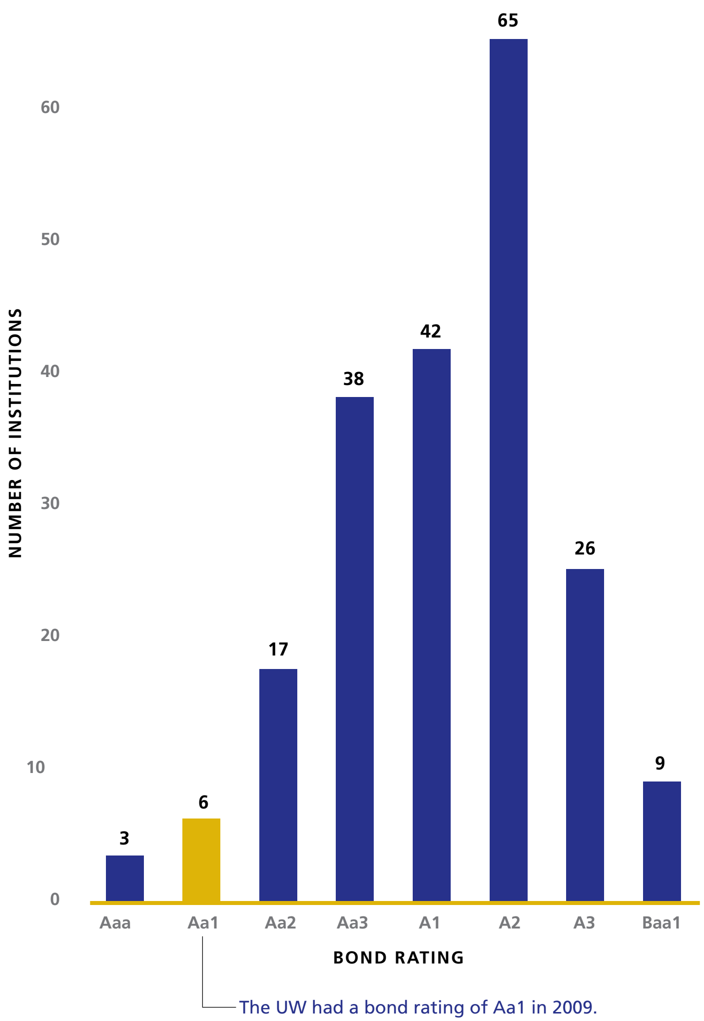
UW's focus on environmental sustainability also helps to save money and reduces emissions as well. We are a nationally ranked leader in reducing utility costs, as evidenced by over $71 million in utility cost avoidance since 2003. Our programs to reduce single-occupancy commuting are nationally recognized, with 79 percent of our faculty, staff and students commuting to the Seattle campus using environmentally friendly transportation options.

These examples are just a few of many efforts demonstrating our commitment to use resources responsibly. However, much remains to be done. In our quest for discovery, we will continue seeking ways to deliver better teaching, research and service outcomes and to streamline administrative support services. Our ultimate goal is to pave the way for our faculty and students to literally change the world, starting with the lives of citizens in Washington state.

V'ELLA WARREN
SENIOR VICE PRESIDENT

Debt Financing

Moody's Fiscal Year 2008 Public College and University Rating Distribution (Issued in July 2009)

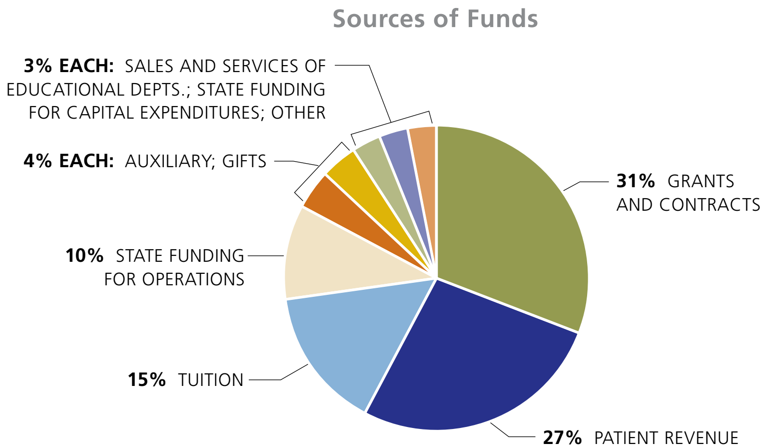


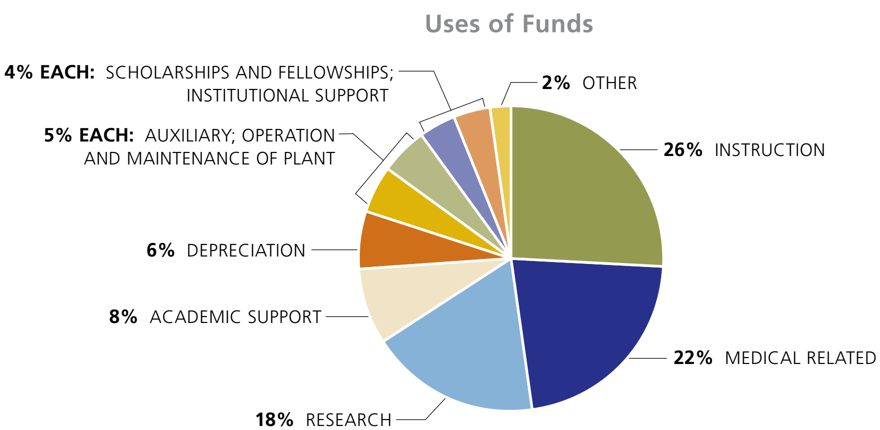
- The University's general revenue borrowing platform, established in 2003, has been used to fund buildings that support the educational, research and service missions of the institution. For example, a recent $76 million bond issue will partially fund the hospital expansion, tenant improvements at UW Tower and research infrastructure. Moody's and Standard & Poor's have both recognized the financial strength of the general revenue platform with their second highest bond rating, Aa1 from Moody's and AA+ from Standard & Poor's. These ratings put the UW in elite company; only three other public universities have a higher rating and just five others have the same rating.

- Strong ratings carry substantial advantages for the UW: continued and wider access to capital markets when the University issues debt, lower interest rates on bonds and the ability to negotiate favorable bond terms.

- The University takes its role of financial stewardship seriously and works hard to manage its financial resources effectively. Continued high debt ratings are important indicators of the University's success in this area.

Funding *and* Operations



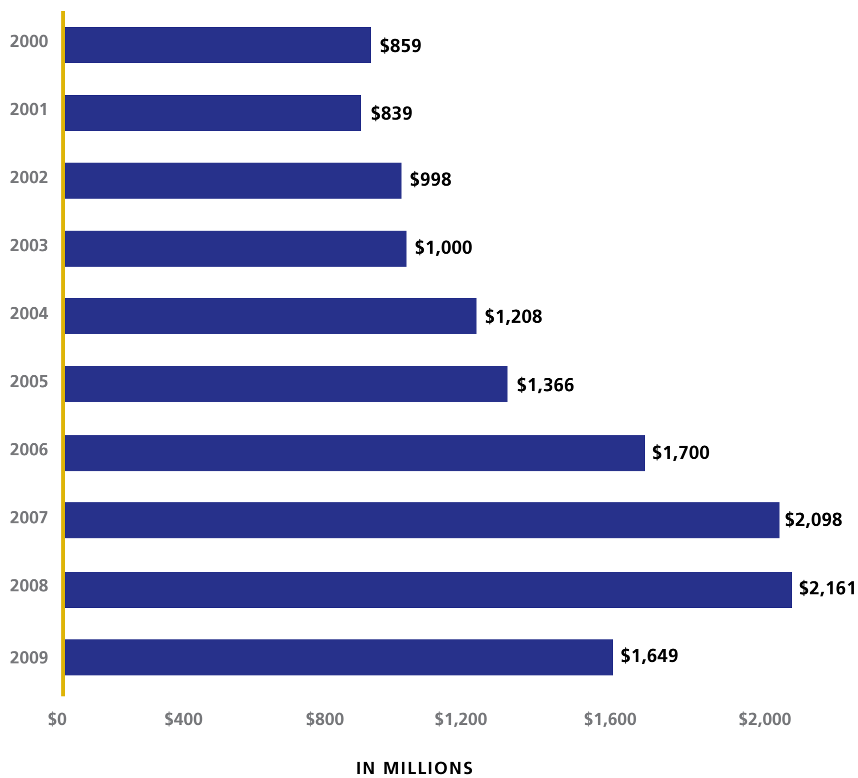


- The University has a diversified revenue base. No single source generated more than 31% of the total fiscal year 2009 revenues of $3.7 billion (excludes the effect of investment losses and scholarship allowances).
- State operating appropriations were $385 million, or 10% of total revenues. The University relies heavily on such funding for instructional activities.
- Grants and contracts (31%) generated $1.1 billion of current year revenue, a 5% increase over fiscal year 2008. These funds provided the opportunity for graduate and undergraduate students to work with nationally recognized faculty in research, as part of their educational experience.
- Income from gifts totaled $143 million (4%). This is a decrease of $34 million from the prior year.
- Two primary functions of the University, instruction and research, comprised 44% of total operating expenses. These dollars provided instruction to more than 46,000 students and funded 5,400 research awards.
- The University provided students with scholarships and fellowships, (including scholarship allowances of $87 million), totaling $158 million. This represented 4% of operating expenditures.

Investments

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

Growth of Consolidated Endowment Fund: Fiscal Years 2000-2009



- Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. Most endowments are commingled in the Consolidated Endowment Fund (CEF), a diversified investment fund. As in a mutual fund, each individual endowment maintains a separate identity and owns units in the fund. The CEF has experienced considerable growth over the past 10 years. The number of endowments in the CEF has increased from 1,480 to 3,118 and the market value has increased from $673 million as of June 30, 1999 to $1.6 billion as of June 30, 2009.

- The impact to program support has been substantial with $615 million distributed over the past 10 years. Programs supported by the endowment include academic support, scholarships, fellowships, professorships, chairs and research activities.

- For the 10 years ending June 30, 2009, the average annual total return on the CEF was 5.4% compared to the S&P 500 return of -2.2%.

- During fiscal year 2009, the economic crisis that engulfed the economy left its impact on the CEF. For the year ending June 30, 2009, the CEF returned a negative 23.3%. When global financial markets fell, the University took swift action to defensively reposition the portfolio, actively reduce risk and ensure liquidity.

- In addition, the Board of Regents proactively implemented an interim spending policy; reducing distributions to protect the endowment from further erosion while providing reliable funding to the campus. Under the interim spending policy, year-over-year distributions decreased from fiscal year 2008 levels by 25% in fiscal year 2009 and another 25% in fiscal year 2010. Unless market conditions suggest otherwise, distributions will then be held constant until fiscal year 2013 at which time the Board will determine the appropriate next steps.

- A portion of the University's operating funds are invested in the CEF. As of June 30, 2009 these funds comprise $322 million of the CEF market value.

Undergraduates at UW Bothell enjoy the benefits of a small campus with the resources and prestige of a world-renowned university.

Financial Statements *and* Required Supplemental Information

Management's Discussion *and* Analysis

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington ("University") for the years ended June 30, 2009 and 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

Financial Highlights for Fiscal Year 2009

The University recorded a "bottom line" loss of $375 million in fiscal year 2009, primarily due to an investment loss of $469 million, as a result of market value declines in fiscal year 2009. The University adjusts the carrying value of investments to market value each year with the change recorded as investment income or loss.

Other significant factors in the 2009 financial performance included a $34 million decline in donor support, offset by strong funding for research, an increase in tuition revenues and a strong performance by the UW Medical Center.

Key Financial results for FY 2009 compared to 2008:

(in millions)	2009	2008
Total operating revenues	$ 2,902	$ 2,730
Operating expenses	3,429	3,284
Operating loss	(527)	(554)
State appropriations	385	388
Investment income (loss)	(469)	77
Gifts	143	177
Other non-operating revenue, net	94	75
Increase (decrease) in net assets	(374)	163
Net assets, beginning of year	5,137	4,974
Net assets, end of year	**$ 4,763**	**$ 5,137**

Operating revenues minus operating expenses typically result in a loss, and nonoperating items including state support, investment income and gifts have in the past brought each year's results to a modest increase in the net assets, or "equity" of the University. This surplus has been reinvested within the University to add a margin of educational excellence, upgrade the University's facilities and provide a prudent reserve for contingencies such as the current economic downturn.

Economic Factors Affecting the Future

A number of contingencies face the University over the next few years. Overarching is the continuing economic downturn, which has already impacted the University directly through the decline in the market value of investments and a decline in support from donors.

The decline in the market values of the University's endowment portfolio during fiscal year 2009 will result in lower levels of investment earnings distributions available to campus departments.

The state of Washington, which provided 10% of the University's revenues in fiscal year 2009, continues to face declining tax revenues. As a result, the state's budget for funding of higher education has eroded for fiscal years 2010 and 2011. Planned state operating appropriations, including $24.7 million of federal educational stimulus support under the American Recovery and Reinvestment Act (ARRA), are $294 million for fiscal year 2010 and $297 million for fiscal year 2011, compared to $385 million for fiscal year 2009.

To help alleviate the effects of this shortfall, the legislature has granted the University the flexibility to increase tuition rates up to 14% per year through fiscal year 2011.

Funding for research activities has been boosted recently by Federal ARRA funding for basic research and activities in the health sciences. ARRA support is ramping up now, and is slated to continue into 2011. As of November, 2009, the University has received approximately $184 million in ARRA funding for research, in addition to $24.7 million in ARRA educational stimulus support funding noted above.

Rising fringe benefit costs, particularly for health care and pensions, continue to impact the University.

Using the Financial Statements

The University's financial statements include the Balance Sheets, the Statements of Revenues, Expenses, and Changes in Net Assets, the Statements of Cash Flows and the 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. GASB standards require that financial statements be presented on a consolidated basis in order to focus on the University as a whole.

Financial Health

BALANCE SHEETS

The Balance Sheets present the financial condition of the University at the end of the last two fiscal years and report all assets and liabilities of the University. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2009, 2008 and 2007, follows:

(in millions)	2009	2008	2007
Current assets	$ 907	$ 1,406	$ 1,188
Noncurrent assets:			
Capital assets, net	2,840	2,714	2,609
Other	2,788	3,323	3,312
Total assets	6,535	7,443	7,109
Current liabilities	579	1,170	995
Noncurrent liabilities	1,193	1,136	1,140
Total liabilities	1,772	2,306	2,135
Net assets	**$ 4,763**	**$ 5,137**	**$ 4,974**

The excess of current assets over current liabilities of $328 million in 2009 reflects the continuing ability of the University to meet its short-term obligations. Current assets consist primarily of cash, short-term investments, collateral from securities lending and accounts receivable. Total current assets decreased by $499 million, to $907 million at June 30, 2009, primarily due to the discontinuance of the University's securities lending program during the year. The June 30, 2008 balance of $1.4 billion was an increase of $218 million from 2007, due to changes in cash, the securities lending collateral and short-term investments. The short-term portion of the University's investment portfolio can fluctuate based upon changes in investment mix and the expected short-term needs for University funds.

Long-term investments as of June 30, 2009 decreased by $542 million from 2008, due to significant market declines during the year in the value of the University's investments. Realized and unrealized losses in fiscal year 2009 totaled $544 million, and were partially offset by $74 million in interest income and dividends.

The difference between total assets and total liabilities — net assets, or "equity" — is one indicator of the current financial condition of the University. The change in net assets measures whether the overall financial condition has improved or deteriorated during the year.

The University reports its "equity" in four categories:

- Invested in Capital Assets (net of related debt) – This is the University's total investment in property, plant, equipment and infrastructure, net of accumulated depreciation and outstanding debt obligations related to those capital assets;
- Restricted Net Assets:
  - Nonexpendable net assets, primarily endowments, consist of funds on which the donor or external party has imposed the restriction that the corpus is not available for expenditures but rather for investment purposes only;
  - Expendable net assets are resources which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed by donors and/or other external parties;
- Unrestricted Net Assets – All other funds available to the institution for any purpose associated with its mission. Unrestricted assets are often internally designated for specific purposes.

The University's net assets at June 30, 2009, 2008 and 2007 are summarized as follows:

(in millions)	2009	2008	2007
Invested in capital assets, net of related debt	$ 1,944	$ 1,816	$ 1,736
Restricted:			
Nonexpendable	884	902	812
Expendable	1,005	1,396	1,465
Unrestricted	930	1,023	961
Total net assets	**$ 4,763**	**$ 5,137**	**$ 4,974**

Net investment in capital assets increased $128 million, or 7%, in 2009 and increased $80 million, or 5%, in 2008. This balance increases as debt is paid off or when the University funds fixed asset purchases without financing. This balance decreases as assets are depreciated.

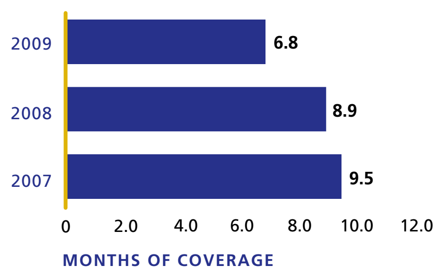
Restricted nonexpendable net assets decreased $18 million, or 2% in 2009, due to declines in the value of investments, partially offset by donor support. The 2008 increase of $90 million, or 11%, was a result of new endowment gifts.

Restricted expendable net assets decreased $391 million, or 28%, in 2009, and decreased $69 million, or 5% in 2008. This category is primarily affected by new operating and capital gifts, and earnings or losses in restricted investments, including endowments. The sharp decline in the market value of investments, which began in fiscal year 2008, had a significant effect in 2009.

Unrestricted net assets decreased in 2009 by $93 million, or 9%, primarily due to the decline in the market value of investments related to unrestricted funds, offset by increases in the tuition revenue and patient service margins. The unrestricted net asset growth in 2008 of $62 million, or 6%, was driven by increases in tuition revenues, patient service margins, offset by capital expenditures.

The ratio of expendable financial resources to operations (as defined by Moody's) measures the strength of net assets. This ratio, illustrated in the chart below, shows that in 2009 the University had enough expendable resources from various sources to fund operations for a period of 6.8 months. This ratio decreased from 8.9 months in 2008 primarily due to the decrease in Restricted Expendable Net Assets, reflecting lower carrying values for the University's restricted investments.

Expendable Financial Resources to Operations[1]



Endowment and Other Investments

The Consolidated Endowment Fund (CEF) returned a negative 23.3%, ending the year at $1.6 billion, compared to a return of 1.9% in the prior year. Over the past ten years, the CEF averaged a 5.4% annual return.

The Invested Funds (IF), or operating monies of the University, returned a negative 5.0% and a positive 7.0% in fiscal years 2009 and 2008, respectively. The market value of the invested funds was $885 million at June 30, 2009.

Capital Improvements and Related Debt

During 2009, capital expenditures included $47 million for renovation of Clark and Savery Halls, $22 million on Phase 1 of PACCAR Hall for the new business school, $17 million for upgrade of the Computing and Communications Data Center and $14 million for an expansion of the Medical Center.

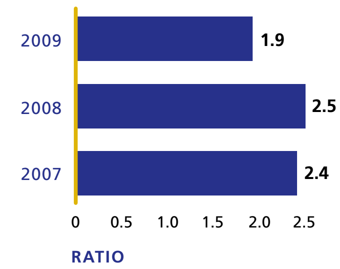
The Clark and Savery renovations are State supported, part of the "Restore the Core" initiative. PACCAR Hall costs to date have been funded by donor gifts, with UW bond financing available for the project. The Communications Data Center has both State and UW financing, and the Medical Center expansion is funded through UW bond issuances.

In 2008, capital expenditures included $65 million to complete the construction of a medical research facility started in 2006, and $24 million to finish the seismic bracing, infrastructure upgrades and renovation at the Health Science Center. Additional expenditures in 2008 included $20 million for renovation of Clark and Savery Halls, and the Playhouse Theatre, as part of the "Restore the Core" plan.

The medical research facility was funded by proceeds from debt issued in a prior year. State funding and University sources funded the Health Science Center improvements, and the "Restore the Core" plan was supported by state appropriations.

The 2009 ratio of expendable financial resources to debt (as defined by Moody's) shows that the University has sufficient expendable resources to pay its long-term debt obligations 1.9 times over.

Expendable Financial Resources to Direct Debt[2]



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses and Changes in Net Assets present the University's results of operations and nonoperating items that result in the changes in Net Assets 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 assets for the years ended June 30, 2009, 2008 and 2007 follows:

(in millions)	2009	2008	2007
Total operating revenues	$ 2,902	$ 2,730	$2,573
Operating expenses	3,429	3,284	3,071
Operating loss	(527)	(554)	(498)
Nonoperating revenues, net of expenses	(62)	523	924
Other revenues	215	194	170
Increase (decrease) in net assets	(374)	163	596
Net assets, beginning of year	**5,137**	**4,974**	**4,378**
Net assets, end of year	**$ 4,763**	**$ 5,137**	**$ 4,974**

1 The sum of Unrestricted Net Assets and Restricted Expendable Net Assets, divided by Total Operating Expenses (Operating Expenses plus interest expense). The result is multiplied by 12 to arrive at months of coverage.
2 The sum of Unrestricted Net Assets and Restricted Expendable Net Assets, divided by total capital leases, bonds and notes payable outstanding.

The University has a diversified revenue base. The following table summarizes revenues from all sources for the years ended June 30, 2009, 2008 and 2007:

(in millions)	2009	2008	2007
Tuition and fees	$ 458	$ 420	$ 397
Patient services	988	924	857
Grants and contracts	1,120	1,063	1,001
Sales and services of educational departments	111	111	119
Auxiliary Enterprises	150	146	137
State funding for operations	385	388	366
Gifts	143	177	174
Investment income (loss)	(469)	77	503
State funding for capital projects	101	71	74
Other	112	112	86
Total revenue – all sources	**$ 3,099**	**$ 3,489**	**$ 3,714**

Grant Revenue

The largest source of revenues continues to be grants and contracts. This revenue increased $57 million, or 5%, in 2009, compared to an increase of $62 million, or 6% in 2008 over 2007. Obtaining federal funding for research continues to be competitive; however, the UW had an 11% increase in the dollar amount of research awards in the year ended June 30, 2009. In addition, ARRA funding for research began in fiscal year 2009 and will continue into 2011.

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 to 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 an indirect cost recovery. The current federal indirect cost recovery is approximately 30 cents on every direct expenditure dollar on these grants and contracts.

Primary Non-Grant Funding Sources

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support its non-grant funded educational operating expenses. Tuition and fees, net of scholarship allowances, increased 9% during 2009 and 6% during 2008. The increases were primarily due to a 7% increase in average tuition rates in both years.

The impact of the tuition increase was partially offset by the increase in scholarships (including scholarship allowances) of $15 million in 2009 and $16 million in 2008. The University has flexibility in its ability to set non-undergraduate resident tuition rates, which helps to compensate for shortfalls in state funding. Course fees related to the UW Educational Outreach, the continuing education branch of the University, amounted to $55 million in 2009 and $47 million in 2008.

State appropriations are considered nonoperating revenue under GASB Statement No. 35 standards and are reflected in the nonoperating section of the statements of revenues, expenses and changes in net assets; however, they are used solely for operating purposes.

Patient Services

Revenues from patient services increased $64 million, or 7%, from $924 million in 2008 to $988 million in 2009. In 2008, patient revenues increased $67 million, which was an increase of 8% over the previous year. The increase is due to inpatient volume increases and a favorable payor mix. In addition, management of patient length of stay improved margins by focusing resources on patients requiring higher levels of care.

Gifts and Endowments and Other Investments

Net investment returns for the years ended June 30, 2009, 2008 and 2007 consisted of the following components:

(in millions)	2009	2008	2007
Interest and dividends	$ 74	$ 75	$ 100
Metropolitan Tract net income	6	7	12
Net appreciation (depreciation) of fair value of investments	(544)	3	399
Investment expenses	(5)	(8)	(8)
Net investment income (loss)	**$ (469)**	**$ 77**	**$ 503**

Net appreciation (depreciation) includes both realized and unrealized gains and losses; however, the unrealized gains are not expendable until the underlying securities have been sold. Net investment income decreased by $546 million in 2009 and decreased $426 million in 2008. The change in unrealized gain or loss was the major factor in the variance in Net Assets for both 2009 and 2008. The sharp decline in University investment performance in 2009 and 2008 was related to market declines which began in the latter part of fiscal year 2008.

The University continues to receive strong support from its donors with total revenue of $143 million from gifts in fiscal year 2009. Gifts are used to support a variety of purposes, including capital improvements, scholarships, research and endowments for various academic and research chairs.

Expenses

A comparative summary of the University's expenses by functional classification for the years ended June 30, 2009, 2008 and 2007 is as follows:

(in millions)	2009	2008	2007
Operating expenses:			
Instruction	$ 908	$ 824	$ 783
Research	640	623	596
Public Service	33	31	35
Academic support	265	265	220
Student services	34	34	31
Institutional support	143	156	140
Operation and maintenance of plant	178	169	175
Scholarships and fellowships	71	71	69
Auxiliary enterprises	171	162	143
Medical related	779	749	689
Depreciation	207	200	190
Total operating expenses	**$ 3,429**	**$ 3,284**	**$ 3,071**

Expenses for the instruction mission increased 10%, or $84 million, primarily as a result of a 5% increase in students, and an 11% increase in Extension registrations.

Research expenditures, which represent sponsored research, increased $17 million, or 3%, from the prior year, consistent with the 5% increase in grant and contract revenue.

Institutional support declined $13 million from 2008 to 2009, largely as a result of economies achieved during fiscal year 2009 in UW Technology, reducing operating costs in this category.

Medical related expenses increased $30 million, or 4%, primarily due to a salary and benefit increase of 3%.

The $145 million, or 4%, overall increase in operating expenses in 2009 was primarily driven by salaries and benefits, which increased $145 million in 2009, compared to a $112 million increase in 2008. Salary rate increases ranging from 2% to 4% had an impact on salary costs. The increase in this category was moderated by a one-time decrease in health care rates related to favorable claims experience.

In 2008, the University's operating expenses increased $213 million, or 7%, over 2007. Instruction costs grew $41 million, or 5%, reflecting salary and other cost increases as well as a 3% increase in regular student enrollments and a 15% increase in extension enrollments. Research expenditures, representing sponsored research, increased $27 million, or 5%, from the prior year, consistent with the 5% increase in grant and contract revenue.

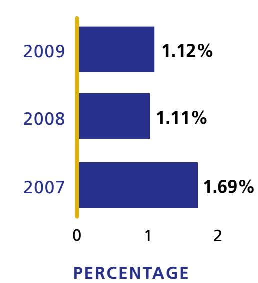
Academic support was stable in 2009 over 2008, while in 2008 it grew $45 million, or 20%, in such areas as the School of Medicine and the School of Public Health. Institutional Support expenditures increased $16 million in 2008 from 2007, an increase of 11%. This included an increase in information management technology. The Auxiliary Enterprise growth in expenses of $19 million, or 13%, was due in part to Intercollegiate Athletics, reflecting a revenue increase, and other enterprise accounts across the University. In 2008, medical related expenses grew $60 million, or 9%, mirroring the 7% increase in patient service revenue.

Operating Loss

The University's operating loss decreased to $527 million in 2009 from $554 million in 2008. The 2008 operating loss was an increase from $498 million in 2007. GASB standards require that state appropriations, which are used solely for operations, be classified as nonoperating, thus creating the significant loss. If state appropriations were classified as operating, the operating loss would be as follows for 2009, 2008 and 2007, respectively: $142 million, $166 million and $132 million. The University continues to rely upon nonoperating revenues in addition to state appropriations to fund its operations, including operating gift revenues and investment income distributions.

Moody's measures the net result of revenue and expense activity by considering several nonoperating revenues in determining the margin. The 2009 operating margin increased slightly to 1.12% from 1.11% in 2008. The 2008 margin was a significant decrease from 2007. Operating margin calculations include an estimated payout on the University's investments rather than actual investment income. Therefore, variances in investment performance in a given year will not necessarily impact the operating margin.

Operating Margin Percentage[3]



[3] Operating loss, (including interest expense, operating appropriations, non-operating federal grants, an assumed 5% spending rate on investments and non-permanent endowment gifts), divided by operating revenues (less scholarship expenses, and including operating appropriations, non-operating federal grants, an assumed 5% payout on investments and non-permanent endowment gifts).

KPMG

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying balance sheets of the University of Washington (the University), an agency of the state of Washington, as of June 30, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the University of Washington, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the activities of the state of Washington that is attributable to the transactions of the University of Washington. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2009 and 2008, the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Washington as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 13 through 17 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Seattle, Washington
December 22, 2009

Balance Sheets

ASSETS	June 30, 2009	2008
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 35,754	$ 16,707
COLLATERAL FROM SECURITIES LENDING (NOTE 6)	-	628,279
SHORT-TERM INVESTMENTS (NOTE 6)	376,787	302,692
ACCOUNTS RECEIVABLE (NET OF $82,873 AND $88,120 ALLOWANCE) (NOTE 5)	461,936	422,364
INVENTORIES	28,066	29,205
OTHER CURRENT ASSETS	4,185	6,779
TOTAL CURRENT ASSETS	906,728	1,406,026
NONCURRENT ASSETS:		
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	72,002	66,146
LONG-TERM INVESTMENTS (NOTE 6)	2,456,877	2,999,205
METROPOLITAN TRACT (NOTE 7)	117,759	119,640
STUDENT LOANS RECEIVABLE (NET OF $9,499 AND $8,861 ALLOWANCE) (NOTE 4)	68,467	66,526
OTHER ASSETS	72,759	70,971
CAPITAL ASSETS (NET OF $ 2,352,246 AND $2,207,659 ACCUMULATED DEPRECIATION) (NOTE 8)	2,839,901	2,714,429
TOTAL NONCURRENT ASSETS	5,627,765	6,036,917
TOTAL ASSETS	**$ 6,534,493**	**$ 7,442,943**

LIABILITIES	June 30, 2009	2008
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	$ 109,938	$ 115,652
ACCRUED LIABILITIES	223,440	203,401
PAYABLES: SECURITIES LENDING TRANSACTIONS	-	628,279
COMMERCIAL PAPER	30,000	3,000
DEFERRED REVENUE	143,000	140,335
FUNDS HELD FOR OTHERS	11,469	16,336
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-12)	61,135	63,360
TOTAL CURRENT LIABILITIES	578,982	1,170,363
NONCURRENT LIABILITIES:		
DEFERRED REVENUE	21,799	24,188
U.S. GOVERNMENT GRANTS REFUNDABLE	51,618	51,252
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-12)	1,119,324	1,059,830
TOTAL NONCURRENT LIABILITIES	1,192,741	1,135,270
TOTAL LIABILITIES	1,771,723	2,305,633
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	1,943,511	1,815,857
RESTRICTED:		
NONEXPENDABLE	883,942	902,635
EXPENDABLE	1,005,154	1,395,775
UNRESTRICTED	930,163	1,023,043
TOTAL NET ASSETS	4,762,770	5,137,310
TOTAL LIABILITIES AND NET ASSETS	**$ 6,534,493**	**$ 7,442,943**

Dollars in thousands

See accompanying notes to financial statements.

Statements *of* Revenues, Expenses *and* Changes *in* Net Assets

REVENUES	June 30, 2009	2008
OPERATING REVENUES		
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF $82,813 AND $69,027)	$ 458,061	$ 419,690
PATIENT SERVICES (NET OF CHARITY CARE OF $33,058 AND $30,582)	988,370	923,869
FEDERAL GRANTS AND CONTRACTS	865,053	832,299
STATE AND LOCAL GRANTS AND CONTRACTS	69,002	56,045
NONGOVERNMENTAL GRANTS AND CONTRACTS	150,943	140,986
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	111,405	110,873
AUXILIARY ENTERPRISES:		
HOUSING AND FOOD SERVICES	54,486	51,556
PARKING SERVICES	9,661	8,397
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCES OF $3,977 AND $3,004)	37,041	42,407
OTHER AUXILIARY ENTERPRISES	48,946	43,595
OTHER MEDICAL CENTER REVENUE	47,361	44,346
OTHER OPERATING REVENUE	62,093	55,687
TOTAL OPERATING REVENUES	**2,902,422**	**2,729,750**

EXPENSES	2009	2008
OPERATING EXPENSES (NOTE 13)		
SALARIES	1,730,957	1,622,349
BENEFITS	501,091	464,461
SCHOLARSHIPS AND FELLOWSHIPS	71,394	71,087
UTILITIES	55,434	53,433
SUPPLIES AND MATERIALS	308,736	323,700
PURCHASED SERVICES	439,852	435,140
DEPRECIATION	206,978	200,287
OTHER	114,518	113,325
TOTAL OPERATING EXPENSES	**3,428,960**	**3,283,782**
OPERATING LOSS	**(526,538)**	**(554,032)**

NONOPERATING REVENUES (EXPENSES)	June 30, 2009	2008
STATE APPROPRIATIONS	384,810	388,485
GIFTS	38,753	66,381
INVESTMENT INCOME (LOSS) (NET OF INVESTMENT EXPENSE OF $5,759 AND $8,888)	(469,492)	77,379
INTEREST ON CAPITAL ASSET-RELATED DEBT	(44,732)	(41,653)
PELL GRANTS	25,332	20,263
OTHER NONOPERATING REVENUES	2,486	12,233
NET NONOPERATING REVENUES (EXPENSES)	**(62,843)**	**523,088**
LOSS BEFORE OTHER REVENUES	**(589,381)**	**(30,944)**
CAPITAL APPROPRIATIONS	101,304	71,218
CAPITAL GRANTS AND GIFTS	27,453	18,880
GIFTS TO PERMANENT ENDOWMENTS	86,084	104,191
TOTAL OTHER REVENUES	**214,841**	**194,289**
INCREASE (DECREASE) IN NET ASSETS	**(374,540)**	**163,345**

NET ASSETS	2009	2008
NET ASSETS – BEGINNING OF YEAR	5,137,310	4,973,965
NET ASSETS – END OF YEAR	**$ 4,762,770**	**$ 5,137,310**

Dollars in thousands

See accompanying notes to financial statements.

Statements *of* Cash Flows

CASH FLOWS FROM OPERATING ACTIVITIES	June 30, 2009	2008
STUDENT TUITION AND FEES	$ 432,411	$ 396,343
PATIENT SERVICES	978,666	927,573
GRANTS AND CONTRACTS	1,064,735	1,050,420
PAYMENTS TO SUPPLIERS	(310,333)	(343,495)
PAYMENTS FOR UTILITIES	(55,373)	(57,900)
PURCHASED SERVICES	(441,676)	(446,773)
OTHER OPERATING DISBURSEMENTS	(125,057)	(107,769)
PAYMENTS TO EMPLOYEES	(1,727,376)	(1,617,317)
PAYMENTS FOR BENEFITS	(497,527)	(451,454)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(71,394)	(71,087)
LOANS ISSUED TO STUDENTS	(26,541)	(24,860)
COLLECTION OF LOANS TO STUDENTS	24,966	24,154
OTHER MEDICAL CENTER RECEIPTS	47,361	44,346
AUXILIARY ENTERPRISE RECEIPTS	133,013	168,151
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	114,051	108,148
OTHER RECEIPTS	79,588	36,116
NET CASH USED BY OPERATING ACTIVITIES	**(380,486)**	**(365,404)**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	385,097	396,697
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	25,332	20,263
PRIVATE GIFTS	29,279	45,179
ADDITIONS TO PERMANENT ENDOWMENTS	86,084	104,191
DIRECT LENDING RECEIPTS	189,153	162,103
DIRECT LENDING DISBURSEMENTS	(187,752)	(161,561)
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	562,573	495,651
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(568,805)	(517,164)
OTHER	1,791	12,699
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**522,752**	**558,058**

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	June 30, 2009	2008
PROCEEDS FROM CAPITAL DEBT	109,162	241,768
CAPITAL APPROPRIATIONS	95,864	70,237
CAPITAL GRANTS AND GIFTS RECEIVED	27,453	13,393
PURCHASES OF CAPITAL ASSETS	(323,274)	(292,305)
PRINCIPAL PAID ON CAPITAL DEBT AND LEASES	(49,512)	(282,761)
INTEREST PAID ON CAPITAL DEBT AND LEASES	(47,237)	(46,737)
OTHER	(5,277)	(9,174)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(192,821)**	**(305,579)**

CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM SALES OF INVESTMENTS	5,873,091	3,077,404
PURCHASES OF INVESTMENTS	(5,878,173)	(3,056,907)
INVESTMENT INCOME	74,684	74,677
NET CASH PROVIDED BY INVESTING ACTIVITIES	**69,602**	**95,174**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**19,047**	**(17,751)**
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	16,707	34,458
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 35,754**	**$ 16,707**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	(526,538)	(554,032)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	206,978	200,287
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	(35,532)	(12,783)
INVENTORIES	1,139	(2,345)
OTHER ASSETS	806	(5,870)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	(688)	(25,230)
DEFERRED REVENUE	277	46,717
OTHER LONG-TERM LIABILITIES	(25,353)	(11,443)
U.S. GOVERNMENTAL GRANTS REFUNDABLE	366	1,421
LOANS TO STUDENTS	(1,941)	(2,126)
NET CASH USED BY OPERATING ACTIVITIES	**$ (380,486)**	**$ (365,404)**

Dollars in thousands

See accompanying notes to financial statements.

Notes *to* Financial Statements

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

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

The financial statements include the individual schools, colleges and departments of the University, the University of Washington Medical Center, 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.

The University of Washington Alumni Association, University of Washington Physicians, University of Washington Physicians Network, Community Development Properties C-D, Educational Research Properties, Radford Court Properties, Twenty-Fifth Avenue Properties, TSB Properties and Washington Biomedical Research Properties I and II are included in the reporting entity as blended component units. These legally separate entities are included in the University's financial reporting entity because of the nature of their relationship to the University. Financial information for these affiliated organizations may be obtained from their respective administrative offices.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with 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 University is reporting as a special purpose government engaged in business type activities (BTA). In accordance with BTA reporting, the University presents management's discussion and analysis, balance sheets, statements of revenues, expenses and changes in net assets, 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, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated. The University has elected not to apply any FASB pronouncements issued after November 30, 1989. The University reports capital assets net of accumulated depreciation (as applicable), and reports depreciation expense in the statements of revenues, expenses and changes in net assets.

On July 1, 2007, the University adopted GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," effective for the year ending June 30, 2008. This pronouncement requires the recognition and disclosure of the accumulated obligation for retiree health care and life insurance costs (Note 15).

On July 1, 2007, the University adopted GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." This pronouncement includes provisions for recognition and disclosure of estimated costs for cleanup of pollution that the University may have an obligation to remediate. Pursuant to this accounting pronouncement, the University has recorded liabilities totaling $6.6 million primarily for the remediation and management of contamination of several adjoining parcels at the Tacoma campus. The University has filed a feasibility plan that the Washington State Department of Ecology is reviewing. The University has also identified a number of small sites for which it may have pollution remediation liabilities that are not significant.

On July 1, 2007, the University adopted GASB Statement No. 50, "Pension Disclosure – an amendment of GASB Statements No. 25 and No. 27." This pronouncement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (Note 16).

On July 1, 2008, the University adopted GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments." This Statement requires endowments to report their land and other real estate held for investment at fair value. The University increased the carrying value of real estate held for investment in its endowment by approximately $1.0 million.

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 and liabilities and revenues and expenses during the period. Actual results could differ from those estimates; however, in each case, the University believes that allowances, reserves and estimates of expected liabilities are adequate.

The pollution remediation liability is estimated 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 for doubtful accounts (Notes 4 and 5) are estimates based on the historical experience of the University and current economic circumstances with respect to the collectability of accounts and loans receivable.

The liability and expense related to the supplemental component of the University of Washington Retirement Plan (UWRP) (Note 16), is based on an actuarial valuation. The results of an actuarial valuation are estimates based on historical data and the demographics of the employee population.

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

OTHER ACCOUNTING POLICIES

Investments. Investments, other than miscellaneous investments, are stated at fair value. Miscellaneous investments are stated at cost or, in the case of gifts, at fair values at the date of donation. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations from national securities exchanges. The 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 non-current. Short-term investments consist primarily of cash equivalents and fixed income vehicles with maturities of less than one year.

Securities Lending Transactions. Cash collateral received from borrowers through securities lending transactions is recorded as a current asset with an offsetting current liability. At June 30, 2009, the University did not participate in any securities lending transactions.

Inventories. Inventories are carried at the lower of cost or market value. Consumable inventories, consisting of expendable materials and supplies held for consumption, 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 and library books 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, 15 years for library books and five to seven years for equipment.

Capitalized construction-related interest was $1,960,000 and $6,256,000 during 2009 and 2008, respectively. These amounts are net of interest earned of $0 and $5,105,000, respectively.

Deferred Revenues. Deferred revenues occur when funds have been collected in advance of an event, such as advance ticket sales, summer quarter tuition and unspent cash advances on certain grants.

Deferred Giving – Split Interest Agreements. Under these agreements, donors make initial gifts to trusts or directly to the University. The University has beneficial interests, but is not necessarily the sole beneficiary. The University records an asset related to these agreements at fair market value at year end. The University also records a liability related to the split interest agreements equal to the present value of expected future distributions; the discount rates applied range from 4.6% to 8.0%.

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. Annual leave accrued at June 30, 2009 and 2008 was $73,163,000 and $63,680,000, respectively. Sick leave accrued as of June 30, 2009 and 2008 was $29,991,000 and $25,965,000, respectively. These liabilities were included in Accrued Liabilities.

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.

State Appropriations. The state of Washington appropriates funds to the University on both annual and biennial bases. These revenues are reported as nonoperating revenues in the Statements of Revenues, Expenses, and Changes in Net Assets. The University of Washington Medical Center received $8,458,000 and $8,296,000 in operating state appropriations in 2009 and 2008, respectively. These amounts are included in Other Medical Center Revenue in the Statements of Revenues, Expenses, and Changes in Net Assets.

Operating Activities. The University's policy for reporting operating activities in the Statements of Revenues, Expenses, and Changes in Net Assets 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 Assets. The University's net assets are classified as follows:

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

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

Restricted net assets – expendable: Net assets which the University is obligated to spend in accordance with restrictions imposed by external parties, generally scholarships, research and department uses;

Unrestricted net assets: Net assets not subject to externally imposed restrictions and 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.

Reclassifications. Certain amounts in the 2008 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2009 financial statements.

NOTE 2:

Cash and Cash Equivalents

Cash includes cash on hand, petty cash and bank deposits. Most cash, except for cash held at the University, is covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). At June 30,2009 and 2008, bank balances of $2,917,000 and $1,427,000, respectively, were insured by the FDIC and balances of $33,395,000 and $31,411,000, respectively, were collateralized under the PDPC.

NOTE 3:

Deposit with State of Washington

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

NOTE 4:

Student Loans Receivable

Net student loans of $68,467,000 and $66,526,000 at June 30, 2009 and 2008, respectively, consist of $51,618,000 and $51,252,000 from federal programs and $16,849,000 and $15,274,000 from University programs. Interest income from student loans for the years ended June 30, 2009 and 2008 was $1,225,000 and $1,148,000, respectively. These unsecured loans are made primarily to students who reside in the state of Washington.

NOTE 5:

Accounts Receivable

The major components of accounts receivable as of June 30, 2009 and 2008 were:

(Dollars in thousands)	2009	2008
PATIENT SERVICES	$ 241,342	$ 235,863
GRANTS AND CONTRACTS	152,528	138,202
PENDING INVESTMENT SALES	5,019	6,133
SALES AND SERVICES	9,880	12,525
TUITION	32,957	26,991
STATE APPROPRIATIONS	12,516	7,362
OTHER	90,567	83,408
	544,809	510,484
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(82,873)	(88,120)
TOTAL	**$ 461,936**	**$ 422,364**

NOTE 6:

Investments

INVESTMENTS – GENERAL

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy which is carried out by the Chief Investment Officer. The University of Washington Investment Committee (UWINCO), comprised of Board members and investment professionals, advises on matters relating to the management of the University's investment portfolios.

The composition of the carrying amounts of investments by type at June 30, 2009 and 2008 are listed in Table 1.

TABLE 1 – UNIVERSITY INVESTMENTS AND COLLATERAL FROM SECURITIES LENDING *(Dollars in thousands)*

	Carrying Value	
Investment Type	**2009**	**2008**
CASH EQUIVALENTS	$ 440,742	$ 163,725
CASH EQUIVALENTS-LOANED	–	77,383
DOMESTIC FIXED INCOME	968,847	475,958
DOMESTIC FIXED INCOME – LOANED	–	465,144
FOREIGN FIXED INCOME	12,272	34,117
DOMESTIC EQUITY	279,589	561,295
DOMESTIC EQUITY – LOANED	–	59,491
FOREIGN EQUITY	399,056	171,330
FOREIGN EQUITY-LOANED	–	24,024
NON-MARKETABLE ALTERNATIVES	377,946	758,043
MARKETABLE ALTERNATIVES	341,032	497,332
REAL ESTATE	8,463	8,313
MISCELLANEOUS	5,717	5,742
TOTAL INVESTMENTS	2,833,664	3,301,897
COLLATERAL FROM SECURITIES LENDING – CASH	–	628,279
TOTAL INVESTMENTS AND COLLATERAL	**$ 2,833,664**	**$ 3,930,176**

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2009, the Invested Funds Pool totaled $884,679,000 compared to $868,552,000 at June 30, 2008. The fund also owns units in the Consolidated Endowment Fund valued at $322,324,000 on June 30, 2009 and $445,985,000 on June 30, 2008. 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. 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 a pooled fund called the Consolidated Endowment Fund (CEF). 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. During fiscal year 2009, in light of the 2008-2009 financial crises and the decline in the CEF market value, the Board of Regents implemented an interim spending policy. Under the interim policy, year-over-year CEF distributions decreased from the fiscal year 2008 level by 25% in fiscal years 2009 and 2010. Thereafter, distributions will be held constant at the reduced levels until no later than fiscal year 2013, by which time the Board will determine the appropriate next steps. In fiscal year 2008, the CEF annual income distribution was 5% of the average fair market value of the CEF for the previous three years. RCW 24.44.050 of the Washington State Code allows for the spending of appreciation in the CEF.

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Assets category. Of the total $1,032,987,000 and $1,280,085,000 permanent endowment funds (at fair value) as of June 30, 2009 and 2008, the aggregate amount of the deficiencies where the fair value of the assets is less than the original gifts is $80,694,000 and $3,256,000 at June 30, 2009 and 2008, respectively.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was $43,365,000 at June 30, 2009 compared to $53,219,000 at June 30, 2008. Income received from these trusts, which is included in Investment Income, was $2,329,000 for the year ended June 30, 2009 and $1,997,000 for the year ended June 30, 2008.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net losses of $(67,054,000) in 2009 and gains of $156,467,000 in 2008 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 (depreciation) appreciation in the fair value of investments during the years ended June 30, 2009 and 2008 was $(544,176,000) and $2,702,000, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2009, the University had outstanding commitments to fund alternative investments of $254,228,000 which may be called during the period June 30, 2009 through 2020.

SECURITIES LENDING

The University's investment policies permit it to lend its securities to broker dealers and other entities. Due to market conditions, the University terminated this program in September, 2008 and as of June 30, 2009 the University had no securities on loan. Securities on loan at June 30, 2008 totaled $626,042,000 and are listed by investment type in Table 1. Non-cash collateral at June 30, 2008 was $13,615,000.

INTEREST RATE RISK

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. Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on a calculation entitled Macaulay duration. Macaulay is an accepted calculation developed for a portfolio of bonds assembled to fund a fixed liability. Macaulay duration is calculated as follows: sum of discounted time-weighted cash flows divided by the bond price. Modified duration is calculated using the following formula: Macaulay duration divided by (one plus yield-to-maturity divided by the number of coupon payments per year). As of June 30, 2009 and 2008, modified duration of the University's investments for which duration is measured is as follows:

Duration figures at June 30, 2009 and 2008 exclude $209,235,000 and $185,177,000, respectively, of fixed-income securities held outside the Consolidated Endowment Fund and the Invested Funds Pool. These amounts make up 7.4% and 5.6%, respectively, of the University's investments, and are not included in the duration figures detailed in Table 2.

CREDIT RISK

The University Investment Policies limit fixed income exposure to investment grade assets. The Investment Policy for the Invested Funds' cash pool requires each manager to maintain an average quality rating of "AA" as issued by a nationally recognized rating organization. The Invested Funds' liquidity pool requires each manager to maintain an average quality rating of "A" and to hold 50% 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.

FOREIGN CURRENCY RISK

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.

At June 30, 2009 and 2008, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $40,164,000 and $19,056,000, respectively, which equals 1.42% and 0.58% of the total portfolio.

Table 3 details the market value of foreign denominated securities by currency type in the Consolidated Endowment Fund at June 30, 2009 and 2008.

TABLE 2 – INVESTMENTS MANAGED BY THE UNIVERSITY *(Dollars in thousands; modified duration in years)*

	Duration as of June 30, 2009				Duration as of June 30, 2008			
	Consolidated Endowment Fund		Invested Funds		Consolidated Endowment Fund		Invested Funds	
Asset Category	Asset Value	Duration	Asset Value	Duration	Asset Value	Duration	Asset Value	Duration
DOMESTIC FIXED INCOME								
ASSET BACKED SECURITIES	$ 9,827	2.94	$ 29,852	1.26	$ 4,151	2.74	$ 39,457	1.40
CASH EQUIVALENTS	144,911	0.38	106,190	0.17	20,996	0.04	135,280	0.01
CORPORATE BONDS	32,563	4.05	52,040	2.28	17,585	8.28	7,288	1.95
GOVERNMENT & AGENCIES	118,068	2.43	662,331	3.14	53,175	4.39	468,864	3.11
MORTGAGE RELATED	22,579	3.42	34,266	1.70	37,087	4.71	216,936	2.95
SUBTOTAL	327,948	1.77	884,679	2.61	132,994	4.26	867,825	2.50
FOREIGN FIXED INCOME								
CASH EQUIVALENTS	–	–	–	–	82	–	–	–
INTERNATIONAL FIXED	–	–	–	–	29,522	4.05	727	3.03
SUBTOTAL	–	–	–	–	29,604	4.04	727	3.03
TOTAL	**$ 327,948**	**1.77**	**$ 884,679**	**2.61**	**$ 162,598**	**4.22**	**$ 868,552**	**2.50**

TABLE 3 – INVESTMENTS IN FOREIGN CURRENCY

Foreign Currency *(Dollars in thousands)*	June 30, 2009 Market Value	Percentage
EURO (EUR)	$ 83,621	17%
JAPANESE YEN (JPY)	63,786	13%
CHINESE RENMINBI (RMB)	41,397	8%
BRITISH POUND (GBP)	38,244	8%
BRAZILIAN REAL (BRL)	34,117	7%
INDIAN RUPEE (INR)	31,374	6%
HONG KONG DOLLAR (HKD)	27,188	5%
CANADIAN DOLLAR (CAD)	20,910	4%
RUSSIAN RUBLE (RUB)	17,051	3%
SINGAPORE DOLLAR (SGD)	15,685	3%
OTHER (LESS THAN 3% EXPOSURE EACH)	129,983	26%
TOTAL	**$ 503,356**	**100%**

	June 30, 2008	
EURO (EUR)	$ 149,730	30%
JAPANESE YEN (JPY)	58,160	12%
BRITISH POUND (GBP)	49,498	10%
CHINESE RENMINBI (RMB)	32,173	6%
CANADIAN DOLLAR (CAD)	30,936	6%
RUSSIAN RUBLE (RUB)	25,986	5%
INDIAN RUPEE (INR)	22,274	5%
BRAZILIAN REAL (BRL)	19,799	4%
TAIWAN NEW DOLLARS (TWD)	14,849	3%
OTHER (LESS THAN 3% EXPOSURE EACH)	96,520	19%
TOTAL	**$ 499,925**	**100%**

NOTE 7:

Metropolitan Tract

The Metropolitan Tract, located in downtown Seattle, is comprised of approximately 11 acres of developed property, including office space, retail space, 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. Since the early 1900's, the Metropolitan Tract has been leased by the University to entities responsible for developing and operating the property.

On July 18, 1953, the Board of Regents of the University and the entity now known as Unico Properties, Inc. entered into a lease agreement for office, retail and parking facilities, which will expire in 2014. On January 19, 1980, the Board of Regents of the University entered into a lease with the Urban/Four Seasons Hotel Venture for the Olympic Hotel property, which will expire 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 now managed by Fairmont Hotels & Resorts.

The balances as of June 30, 2009 and 2008 represent operating assets, net of liabilities, and land, buildings and improvements stated at appraised value as of November 1, 1954. The balances also include subsequent capital additions and improvements at cost, less retirements and accumulated depreciation of $117,606,000 and $109,406,000, respectively, and are net of the outstanding balance of the line of credit described below.

In July 2004, the University obtained a 10-year term, variable rate revolving credit line for the Metropolitan Tract of up to $25,000,000 for capital repairs and improvements. The credit line is secured by future revenues of the Metropolitan Tract. As of June 30, 2009 and 2008, $8,500,000 was outstanding on the credit line.

NOTE 8:

Capital Assets

Capital asset activity for the two-year period ended June 30, 2009 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2007	Additions/ Transfers	Retirements	Balance at June 30, 2008	Additions/ Transfers	Retirements	Balance at June 30, 2009
LAND*	$ 106,280	$ –	$ –	$ 106,280	$ 6,405	$ –	$ 112,685
INFRASTRUCTURE	173,487	–	–	173,487	2,650	–	176,137
BUILDINGS	2,999,412	250,220	1,468	3,248,164	157,686	–	3,405,850
FURNITURE, FIXTURES AND EQUIPMENT	932,587	94,458	44,680	982,365	93,712	66,329	1,009,748
LIBRARY MATERIALS	247,302	14,845	1,320	260,827	16,685	1,401	276,111
CAPITALIZED COLLECTIONS*	5,513	6	2	5,517	–	–	5,517
CONSTRUCTION IN PROGRESS*	195,552	(50,104)	–	145,448	60,651	–	206,099
TOTAL	4,660,133	309,425	47,470	4,922,088	337,789	67,730	5,192,147
LESS ACCUMULATED DEPRECIATION							
INFRASTRUCTURE	65,907	3,887	–	69,794	3,980	–	73,774
BUILDINGS	1,096,730	98,738	1,418	1,194,050	106,914	–	1,300,964
FURNITURE, FIXTURES AND EQUIPMENT	729,423	85,916	41,377	773,962	83,840	61,439	796,363
LIBRARY MATERIALS	158,978	11,746	871	169,853	12,244	952	181,145
TOTAL ACCUMULATED DEPRECIATION	2,051,038	200,287	43,666	2,207,659	206,978	62,391	2,352,246
CAPITAL ASSETS, NET	**$ 2,609,095**	**$ 109,138**	**$ 3,804**	**$ 2,714,429**	**$ 130,811**	**$ 5,339**	**$ 2,839,901**

*Non-depreciable

NOTE 9:

Long-Term Liabilities:

Long-term liability activity for the two-year period ended June 30, 2009 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2007	Additions	Reductions	Balance at June 30, 2008	Additions	Reductions	Balance at June 30, 2009	Current Portion 2008	Current Portion 2009
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	$ 268,224	$ -	$ 13,820	$ 254,404	$ -	$ 14,418	$ 239,986	$ 14,418	$ 11,719
REVENUE BONDS PAYABLE (NOTE 11)	541,620	229,380	118,200	652,800	75,835	16,195	712,440	16,195	17,335
UNAMORTIZED PREMIUM ON BONDS	8,934	7,487	988	15,433	-	1,647	13,786	1,647	1,608
TOTAL BONDS PAYABLE	818,778	236,867	133,008	922,637	75,835	32,260	966,212	32,260	30,662
NOTES PAYABLE & CAPITAL LEASES:									
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED	172,000	1,902	139,041	34,861	2,625	3,090	34,396	2,822	3,229
NOTES PAYABLE & OTHER – NON-CAPITAL ASSET RELATED	1,707	468	2	2,173	420	1,117	1,476	1,317	742
CAPITAL LEASE OBLIGATIONS (NOTE 10)	35,194	-	10,712	24,482	702	11,162	14,022	11,027	6,952
TOTAL NOTES PAYABLE & CAPITAL LEASES	208,901	2,370	149,755	61,516	3,747	15,369	49,894	15,166	10,923
OTHER LONG-TERM LIABILITIES:									
CHARITABLE & DEFERRED GIFT ANNUITY LIABILITY	44,868	1,360	8,148	38,080	1,023	9,783	29,320	7,118	8,965
POLLUTION REMEDIATION LIABILITY (NOTE 1)	-	6,000	-	6,000	580	-	6,580	-	580
SICK LEAVE (NOTE 1)	28,073	-	2,108	25,965	4,026	-	29,991	1,533	1,054
SELF-INSURANCE (NOTE 17)	40,133	13,286	5,904	47,515	14,606	10,471	51,650	6,474	8,188
NET PENSION OBLIGATION (NOTE 16)	14,515	7,743	781	21,477	26,080	745	46,812	809	763
TOTAL OTHER LIABILITIES	127,589	28,389	16,941	139,037	46,315	20,999	164,353	15,934	19,550
TOTAL LONG-TERM LIABILITIES	**$ 1,155,268**	**$ 267,626**	**$ 299,704**	**$ 1,123,190**	**$ 125,897**	**$ 68,628**	**$ 1,180,459**	**$ 63,360**	**$ 61,135**

NOTE 10:

Leases

CAPITAL LEASES

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2009, are as follows:

Year	*(Dollars in thousands)* Principal
2010	$ 6,952
2011	4,389
2012	1,888
2013	1,233
2014	355
TOTAL MINIMUM LEASE PAYMENTS	**14,817**
LESS: AMOUNT REPRESENTING INTEREST COSTS	(795)
PRESENT VALUE OF MINIMUM PAYMENTS	**$ 14,022**

Buildings and equipment under capital lease were as follows:

(Dollars in thousands)	Balance at June 30, 2007	Additions	Retirements	Balance at June 30, 2008	Additions	Retirements	Balance at June 30, 2009
EQUIPMENT	$ 63,467	$ –	$ –	$ 63,467	$ 702	$ 12,177	$ 51,992
REAL ESTATE	9,987	–	–	9,987	–	–	9,987
TOTAL	73,454	–	–	73,454	702	12,177	61,979
LESS ACCUMULATED DEPRECIATION							
EQUIPMENT	44,308	12,863	–	57,171	6,128	12,177	51,122
REAL ESTATE	6,991	999	–	7,990	999	–	8,989
TOTAL ACCUMULATED DEPRECIATION	51,299	13,862	–	65,161	7,127	12,177	60,111
LEASED CAPITAL ASSETS, NET	**$ 22,155**	**($ 13,862)**	**$ –**	**$ 8,293**	**($6,425)**	**$ –**	**$ 1,868**

OPERATING LEASES

The University has certain lease agreements in effect that are considered operating leases, primarily for leased building space. During the years ended June 30, 2009 and 2008, the University recorded rent expenses of $36,198,000 and $35,399,000, respectively, for these leases. Future lease payments under these leases as of June 30, 2009, are as follows:

Year	*(Dollars in thousands)*
2010	$ 29,191
2011	25,650
2012	22,877
2013	18,955
2014	16,046
2015-2019	43,481
2020-2024	30,879
2025-2029	33,759
2030-2051	50,908
TOTAL MINIMUM LEASE PAYMENTS	**$ 271,746**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2009, consist of State of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 2.5% to 7.38%. Debt service requirements at June 30, 2009 were as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*

	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON REVENUE BONDS		NOTES PAYABLE AND OTHER	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 11,719	$ 12,093	$ 17,335	$ 34,664	$ 3,971	$ 1,601
2011	12,528	11,469	18,500	36,693	3,722	1,458
2012	13,535	10,788	19,440	35,840	3,315	1,314
2013	14,515	10,041	20,720	34,927	3,374	1,161
2014	15,215	9,331	21,880	33,900	1,988	1,535
2015 – 2019	83,010	33,594	112,275	153,831	11,053	3,451
2020 – 2024	62,210	15,381	115,875	128,545	7,734	790
2025 – 2029	27,254	2,484	84,845	104,145	715	–
2030 – 2034	–	–	60,870	80,661	–	–
2035 – 2039	–	–	164,865	47,859	–	–
2040 – 2044	–	–	75,835	–	–	–
TOTAL	**$ 239,986**	**$ 105,181**	**$ 712,440**	**$ 691,065**	**$ 35,872**	**$ 11,310**

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. The University has pledged the net revenues from the Housing and Dining System, the Parking System and a special student fee to retire the related revenue bonds.

SUBSEQUENT DEBT OFFERING

On July 8, 2009, the state of Washington refunded General Obligation Bonds totaling $29,780,000 (UW portion) with new bond issuances totaling $27,430,000. The refunded bonds had coupon rates ranging from 3.50% to 5.00%; the new bonds have an average interest rate of 4.871%. The refunding decreased the total debt service payments to be made over the next 14.5 years by $3,318,339 and resulted in a total economic gain of $4,279,188.

On December 22, 2009, the University issued $77,710,000 in General Revenue Bonds, with a fixed interest rate of 5.40% that mature on June 1, 2036. The bond proceeds will partially fund various projects including the UWMC expansion, PACCAR Business School building, Phase 1 of Housing and Food Services' Housing Master Plan and the new Molecular Engineering building.

INTEREST RATE SWAP AGREEMENT

In October 2004, the University issued General Revenue Bonds in the amount of $60,720,000 to fund construction. In connection with this bond issuance, the University entered into an interest rate swap agreement with a notional amount of $60,720,000. The intention of the swap was to effectively change the variable-rate debt to a synthetic fixed rate of 3.27% as of the closing date of the bonds. In May 2008, the underlying bonds were refinanced, and the University paid $1,628,000 to terminate the swap.

COMMERCIAL PAPER PROGRAM

In July 2006, the Board of Regents authorized a commercial paper program with a maximum borrowing limit of $250 million, payable from University General Revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2009, there was $30 million in outstanding commercial paper.

NOTE 12:

Pledged Revenues

The University has pledged specific revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

(Dollars in thousands) Source of Revenue Pledged	Total Future Revenues Pledged*	Description of Debt	Purpose of Debt	Term of Commitment	Proportion of Debt Service to Pledged Revenues (current year)
Housing and Dining Revenues, net of operating expenses	$46,308	Housing and Dining Bonds, issued in 2002 and 2004	Construction and renovation of student housing	2032	17.2%
Student Housing gross rent from Component Unit Entities, net of permitted operating expenses	$155,965	Student Housing Revenue Bonds (Component Unit Entities), issued in 1996, 2000, and 2002	Construction and renovation of student housing	2033	78.1%
Student Facilities Fees and earnings on invested fees	$71,840	Student Facilities Revenue Bonds, issued in 2000 and Student Facilities Refunding Revenue Bonds, issued in 2005	Construction of student recreational sports facilities	2030	21.2%
Parking Revenues from the University Parking System, net of operating expenses — reported as Auxiliary Revenues.	$28,109	University of Washington Parking System and Refunding Bonds, issued in 2004	Construction of improvements and additions to the University's parking system	2030	17.6%

* Total future principal and interest payments on the debt

NOTE 13:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2009 and 2008 are summarized as follows:

(Dollars in thousands)

Operating Expenses	2009	2008
EDUCATIONAL AND GENERAL INSTRUCTION	$ 908,394	$ 823,734
RESEARCH	640,261	622,913
PUBLIC SERVICE	33,061	31,555
ACADEMIC SUPPORT	264,507	265,183
STUDENT SERVICES	34,160	33,771
INSTITUTIONAL SUPPORT	142,889	155,877
OPERATION AND MAINTENANCE OF PLANT	178,131	168,736
SCHOLARSHIPS AND FELLOWSHIPS	71,394	71,087
AUXILIARY ENTERPRISES	170,602	161,807
MEDICAL RELATED	778,583	748,832
DEPRECIATION	206,978	200,287
TOTAL OPERATING EXPENSES	$3,428,960	$3,283,782

NOTE 14:

Related Parties

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center 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. The current management contract will be in force through June 30, 2010 but it can be extended until June 30, 2015 unless either party gives notice of intent to not renew it.

Under the contract, the HMC Board of Trustees determines major institutional policies and retains control of programs and fiscal matters, while King County retains ultimate control over capital programs and capital budgets. 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 of Washington. HMC expenses, including payroll, are reimbursed to the University from HMC fund sources.

HMC revenues and expenses are not recognized in the University's financial statements. The University's financial statements do, however, include accounts receivable from HMC of $21,715,000 at June 30, 2009 and $20,522,000 at June 30, 2008, as well as HMC investments of $2,125,000 and $2,717,000, respectively, and accrued liabilities of $16,012,000 and $15,369,000, respectively.

The University of Washington Foundation (UWF) is a non-profit organization that performs fundraising activities on behalf of the University of Washington. 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 2009 and 2008, the UWF transferred $46,393,000 and $61,758,000, 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.

In 1998, the University entered into an agreement with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center to establish the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA has a one-third interest. The University accounts for its interest in SCCA under the equity method and has recorded $56.0 million and $48.2 million in "Other Assets," together with $7.8 million and $5.2 million in "Investment Income," for its share of the joint venture in 2009 and 2008, respectively.

SUBSEQUENT AFFILIATION WITH NORTHWEST HOSPITAL

UW Medicine and Northwest Hospital and Medical Center, a 281-bed full service acute care hospital, have entered into an affiliation agreement, effective January 1, 2010. This agreement will expand Northwest Hospital's existing cooperative program agreement with UW Medicine to become an integral part of the UW Medicine health system.

NOTE 15:

Other Post Employment Benefits (OPEB)

Health care and life insurance programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

The health care premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the OPEB obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). For 2008 this amount was $164 per retiree eligible for parts A and B of Medicare. This is also passed through to state agencies via active employee rates charged to the agency.

There is no formal state or University plan that underlies the subsidy of retiree health and life insurance.

ACTUARIAL STUDY

Actuarial studies performed by the Washington Office of the State Actuary calculated that the total OPEB obligation of the state of Washington at January 1, 2008 was $4.0 billion compared to $3.8 billion as of January 1, 2007. The annual cost was $332 million and $314 million for 2009 and 2008, respectively. The actuary calculated the OPEB obligation based on individual state employee data, including age, retirement eligibility and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

The actuary's allocation of the cumulative statewide liability related to the University, including its unconsolidated affiliates, was estimated at approximately $590 million and $600 million for 2009 and 2008, respectively. These amounts are not included in the University's financial statements.

The University paid $186 million for healthcare expenses in 2009, which included its pay-as-you-go portion of the OPEB liability, calculated by the actuary at $6.9 million.

The State actuary's report is available at:
http://osa.leg.wa.gov/actuarial_services/opeb/pdf_docs/2008_opeb_report.pdf

NOTE 16:

Pension Plans

The University offers two contributory plans: the Washington State Public Employees Retirement System (PERS) plan, a defined-benefit retirement plan; and the University of Washington Retirement Plan (UWRP), a defined-contribution plan with supplemental payments to beneficiaries, when required.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description: The University of Washington contributes to PERS, a cost sharing, multiple-employer, defined-benefit pension plan administered by the state of Washington Department of Retirement Systems. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases beginning at age 66 to eligible non-academic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living allowance to eligible non-academic plan members hired on or after October 1, 1977. In addition, PERS Plan 3 has a defined-contribution component, which is fully funded by employee contributions. The authority to establish and amend benefit provisions resides with the legislature. The Washington State Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Department of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380, or visiting www.drs.wa.gov/administration.

Funding Policy: The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method, and may vary over time. The contribution rate for Plan 2 employees at June 30, 2009 and 2008 was 5.45% and 4.15%, respectively. Plan 3 members can choose contributions ranging from 5% to 15% of salary, based on the age of the member. The defined-contribution benefit for PERS 3 will depend on the member's contributions, the investment earnings on those contributions, and if an annuity is taken, the age at which the member receives payment. The contribution rate for the University at June 30, 2009 and 2008, for each of PERS Plans 1, 2, and 3 was 8.31% and 6.13%, for the respective years.

The University's contributions to PERS for the years ended June 30, 2009, 2008 and 2007 were $64,169,000, $45,351,000 and $30,996,000, respectively, which were equal to the annual required contributions for each year.

UNIVERSITY OF WASHINGTON RETIREMENT PLAN (403(B)) & UNIVERSITY OF WASHINGTON SUPPLEMENTAL RETIREMENT PLAN (401(A))
Faculty, librarians and professional staff are eligible to participate in the University of Washington Retirement Plan, a 403(b) defined-contribution plan and the UW Supplemental Retirement Plan, a 401(a) defined-benefit retirement plan which operates in tandem with the 403(b) plan. Both plans are administered by the University.

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

403(b) Funding Policy: Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employee and employer contributions for the year ended June 30, 2009 were each $76,878,000 compared to $69,015,000 each for the year ended June 30, 2008.

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

401(a) Plan Funding: The supplemental component of the UWRP is financed on a pay-as-you-go basis. The University received an actuarial valuation of the supplemental payment component of the UWRP with a valuation date of July 1, 2009. The previous evaluations were performed in 2007 and 2004. The Unfunded Actuarial Accrued Liability (UAL) and Annual Required Contribution (ARC) as of July 1 of the respective year was:

(Dollars in thousands)	2009	2007	2004
UAL	$ 218,036	$ 64,215	$ 32,454
NORMAL COST	8,860	3,369	1,370
AMORTIZATION OF UAL, INCLUDING INTEREST	17,220	4,374	1,993
ARC	$ 26,080	$ 7,743	$ 3,363

(Dollars in thousands) **Actuarial assumptions**	2009	2007	2004
PAYROLL COVERED BY PLAN	$ 976,000	$ 771,000	$ 640,000
RATE OF RETURN ASSUMPTION	5%	5%	4%
SALARY INCREASES FOR YEARS 1 AND 2	2%	4%	2%
SALARY INCREASE FOR THIRD YEAR	4%	4%	2%
SALARY INCREASES THEREAFTER	4%	4%	4%

The UAL and ARC were established using the entry age normal cost method.

The following table reflects the activity in the Net Pension Obligation for the years ended June 30, 2009, 2008 and 2007:

(Dollars in thousands)	2009	2008	2007
BALANCE AT BEGINNING OF FISCAL YEAR	$ 21,477	$ 14,515	$ 7,609
ANNUAL REQUIRED CONTRIBUTION	26,080	7,743	7,743
PAYMENTS TO BENEFICIARIES	(745)	(781)	(837)
BALANCE AT END OF FISCAL YEAR	**$ 46,812**	**$ 21,477**	**$ 14,515**

NOTE 17:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2009, were $158,014,000. These expenditures will be funded from local funds and state appropriations.

The University receives and expends substantial amounts under federal and state grants, contracts and programs such as Medicare. 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 OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The University is also involved in various other claims and legal actions arising in the ordinary course of business. University management believes that any liabilities arising from these matters will not have a material effect on the University's financial statements.

The University is exposed to risk of loss related to tort liability, injuries to employees and loss of property. The University purchases insurance protection for workers' compensation as well as marine, aviation and certain other risks. The University also purchases insurance protection for loss of property at self-sustaining units, bond-financed buildings and where otherwise required by contract; otherwise, the risk of property loss is retained, unfunded. For professional, general, employment and automobile liability, 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 balance sheet date. The reserve includes the amount that will be required for future payments of claims that have been reported and claims related to events that have occurred but have not been reported. The reserve is discounted at 4.25% in the year ended June 30, 2009.

The self-insurance reserve is estimated through an actuarial calculation. Changes in the self-insurance reserve for the years ended June 30, 2009, 2008 and 2007 are noted below.

(Dollars in thousands)	2009	2008	2007
RESERVE AT BEGINNING OF FISCAL YEAR	$ 47,515	$ 40,133	$ 34,028
INCURRED CLAIMS AND CHANGES IN ESTIMATES	14,606	13,286	13,148
CLAIM PAYMENTS	(10,471)	(5,904)	(7,043)
RESERVE AT END OF FISCAL YEAR	**$ 51,650**	**$ 47,515**	**$ 40,133**

BOARD OF REGENTS[1]

Craig W. Cole, *Chair*

Herb Simon, *Vice Chair*

Stanley H. Barer

Kristianne Blake

Jeffrey H. Brotman

William H. Gates

Sally Jewell

Frederick C. Kiga

Constance L. Proctor

Jean-Paul A. Willynck

[1] As of June 30, 2009

ADMINISTRATIVE OFFICERS[1]

Mark A. Emmert
President

Phyllis M. Wise
Provost and Executive Vice President

Eric Godfrey
Vice President and Vice Provost for Student Life

Randy Hodgins
Interim Vice President for External Affairs

Mindy Kornberg
Vice President for Human Resources

Connie Kravas
Vice President for University Advancement

Sheila Edwards Lange
Vice President for Minority Affairs and
Vice Provost for Diversity

Paul G. Ramsey
CEO, UW Medicine, Executive Vice President for
Medical Affairs and Dean of the School of Medicine

Doug Wadden
Executive Vice Provost

V'Ella Warren
Senior Vice President

This publication was prepared jointly by
Financial Management and UW Office of External Affairs.
Published December 2009.

The 2009 UW Annual Report and reports from prior years are available at www.annualreport.uw.edu. For more information, contact Financial Accounting at 206-221-7845 or accountg@uw.edu.

PHOTOGRAPHY
Mel Curtis, Brian Dal Balcon, Mike Fiechtner, Steve Korn, Mary Levin, Doug Plummer, Dennis Wise

EDITORIAL
Rudy Yuly

DESIGN, PRODUCTION AND PRINT COORDINATION
UW Creative Communications, UW Marketing

VISIT THE UW WEB SITE
www.uw.edu

Printed on paper containing 30 percent post-consumer fiber

UNIVERSITY *of*
WASHINGTON