UNIVERSITY *of* WASHINGTON

2011 FINANCIAL REPORT

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University Facts

	2010-2011	2005-2006	2000-2001
STUDENTS			
Autumn Enrollment			
Undergraduate	35,201	31,086	28,691
Graduate	11,911	10,540	8,835
Professional	1,934	1,802	1,724
TOTAL	**49,046**	**43,428**	**39,250**
Extension course registrations	64,961	44,823	26,444
Number of Degrees Awarded			
Bachelor's	9,325	8,296	7,505
Master's	3,524	2,866	2,489
Doctoral	723	631	456
Professional	528	496	476
TOTAL	**14,100**	**12,289**	**10,926**
INSTRUCTIONAL FACULTY	4,141	3,650	3,360
FACULTY AND STAFF[1]	30,616	27,897	23,462
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,513,000	$ 990,000	$ 708,000
SELECTED REVENUES *(in thousands of dollars)*			
Gifts, Grants and Contracts	$ 1,401,584	$ 1,094,023	$ 695,320
Auxiliary Enterprises[2] and Other Revenues	1,875,275	1,366,751	848,767
State Appropriations (Operating)	296,769	339,117	341,451
Tuition and Fees[3]	594,915	358,130	266,223
SELECTED EXPENSES *(in thousands of dollars)*			
Instruction, Academic Support and Student Services	$ 1,233,770	$ 956,517	$ 676,852
Research and Public Service	821,081	632,007	483,720
Auxiliary Enterprises[2]	1,043,661	780,359	687,003
Institutional Support and Physical Plant	325,980	260,926	201,124
CONSOLIDATED ENDOWMENT FUNDS[4] *(in thousands of dollars)*	$ 2,168,000	$ 1,700,000	$ 839,000
SQUARE FOOTAGE[5] *(in thousands of square feet)*	22,099	17,239	15,900

1 Full-time equivalents
2 Includes UW Medical Center
3 Net of scholarship allowances of $91,403,000 in 2010-2011 and $53,780,000 in 2005-2006
4 Stated at fair value
5 Gross square footage, all campuses

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801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the business-type activities of the University of Washington (the University), an agency of the state of Washington, as of and for the years ended June 30, 2011 and 2010, and its discretely presented component unit as of and for the year ended June 30, 2011. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

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, where applicable, 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 and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2011 and 2010, the changes in its financial position or, where applicable, 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, and the financial position of its discretely presented component unit as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 8 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

December 9, 2011

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, 2011 and 2010. 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 2011

The University recorded an increase in net assets of $534 million in fiscal year 2011, compared to an increase in net assets of $431 million in fiscal year 2010: a bottom line improvement of $103 million. This is primarily related to an increase in investment income of $86 million, a result of increased market values during fiscal year 2011. The University adjusts the carrying value of investments to market value each year, with the change recorded as investment income or loss. Gift revenue was also strong during 2011, increasing over the prior year by $58 million. However, federal education funding of $44 million received in 2010 under the American Recovery and Reinvestment Act of 2009 (ARRA) was a one-time event, and partially offsets these increases in revenue.

Key Financial Results for Fiscal Years 2011, 2010 and 2009:

(in millions)	2011	2010	2009
Total operating revenues	$ 3,390	$ 3,124	$ 2,902
Operating expenses	3,769	3,493	3,429
Operating loss	(379)	(369)	(527)
State appropriations	297	303	385
Federal ARRA Education Funding	–	44	–
Investment income (loss)	395	309	(469)
Gifts	177	119	143
Other nonoperating revenue, net	44	25	94
Increase (decrease) in net assets	534	431	(374)
Net assets, beginning of year	5,194	4,763	5,137
Net assets, end of year	**$ 5,728**	**$ 5,194**	**$ 4,763**

Operating revenues minus operating expenses typically result in an operating loss in the University's financial statements. Nonoperating items, including state support, investment income, and gifts have brought each year's results to a modest increase in the net assets, or "equity" of the University, with the exception of 2009. 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 period of economic instability.

Economic factors affecting the future

A number of contingencies face the University over the next few years. The continuing economic downturn is a primary source of uncertainty.

The state of Washington, which provided 7% of the University's total revenues in fiscal year 2011, continues to face declining tax revenues. The University's 2012 operating appropriation from the state is roughly $200 million, a 33% decline from 2011. A projected deficit in state revenue in 2012 will likely result in additional funding pressure in the upcoming years, in both operating and capital appropriations. To help alleviate the effects of this educational funding shortfall, the Legislature extended the University's Board of Regent's tuition setting authority to include undergraduate in-state tuition.

Funding for research activities was temporarily boosted in 2011 and 2010 by $163 million and $86 million, respectively, of Federal ARRA funding for basic research and activities in the health sciences. The University has $73 million of unspent ARRA awards that will be exhausted in fiscal year 2012 or later. As the federal budget remains under pressure, federal funding for research could also be impacted.

Rising benefit costs, particularly for health care and pensions, continue to impact the University. Pension funding rates for the state pension plans are likely to increase over the next few years. State support for benefit expenses continues to shrink along with the University's state funding subsidy.

In March 2010, health care reform was passed by the U.S. Congress and signed into law by President Obama. While the major changes in coverage will take effect beginning in 2014, there may be significant changes by the state and federal government to implementation plans for health care reform between now and 2014. Thus, the environment in which health care organizations currently operate is dynamic and uncertain.

While the economic downturn continues to put pressure on operating results, 2011 remained relatively stable for the University of Washington Medical Center compared with 2010 due to the complex level of care provided. Operating results of Northwest Hospital & Medical Center (Northwest Hospital) reflect a volume reduction in outpatient and inpatient activities; however, many initiatives are underway that should improve Northwest Hospital's performance in the future.

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.

On January 1, 2010, the University affiliated with Northwest Hospital & Medical Center (Northwest Hospital). GASB standards require that this affiliation be presented discretely; therefore, a separate column displays its financial position at June 30, 2011 and the results of its operations for the year ended June 30, 2011. (See Note 1 to the Financial Statements.)

On July 1, 2010, Airlift Northwest, a preeminent provider of air medical services in the Pacific Northwest, dissolved its separate 501(c)(3) status and became a self-sustaining unit of the University of Washington.

Effective July 1, 2011, the University affiliated with Valley Medical Center, a Washington public hospital district which owns and operates a 303-bed full-service acute care hospital and 22 clinics located throughout southeast King County. The strategic alliance provides opportunities to combine efforts on important initiatives that will benefit patients and the community. For the fiscal year ending June 30, 2012, Valley Medical Center will be a discretely presented component unit of the University, similar to Northwest Hospital.

The analysis presented below includes the consolidated balances of the University of Washington and its blended component units, but excludes the financial position and results of operations of Northwest Hospital, unless otherwise noted.

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, 2011, 2010, and 2009, follows:

(in millions)	2011	2010	2009
Current assets	$ 924	$ 851	$ 907
Noncurrent assets:			
Capital assets, net	3,246	2,958	2,840
Other	3,843	3,191	2,788
Total assets	8,013	7,000	6,535
Current liabilities	651	548	579
Noncurrent liabilities	1,634	1,258	1,193
Total liabilities	2,285	1,806	1,772
Net assets	**$ 5,728**	**$ 5,194**	**$ 4,763**

The excess of current assets over current liabilities of $273 million in 2011 reflects the continuing ability of the University to meet its short-term obligations. Current assets consist primarily of cash, short-term investments and accounts receivable. The June 30, 2011 current asset balance of $924 million was an increase of $73 million from 2010, due to increases in the value of cash 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, 2011 increased by $658 million from 2010, as a result of market gains during the year in the value of the University's investments. Realized and unrealized gains in fiscal year 2011 totaled $324 million, versus $224 million in 2010.

The difference between total assets and total liabilities, referred to as 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 capital assets, net of accumulated depreciation and amortization 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 other 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 – are 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, 2011, 2010, and 2009 are summarized as follows:

(in millions)	2011	2010	2009
Invested in capital assets, net of related debt	$ 2,060	$ 1,982	$ 1,944
Restricted:			
Nonexpendable	1,075	959	884
Expendable	1,227	1,090	1,005
Unrestricted	1,366	1,163	930
Total net assets	**$ 5,728**	**$ 5,194**	**$ 4,763**

Net investment in capital assets increased $78 million, or 4%, in 2011, and increased $38 million, or 2%, in 2010. 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.

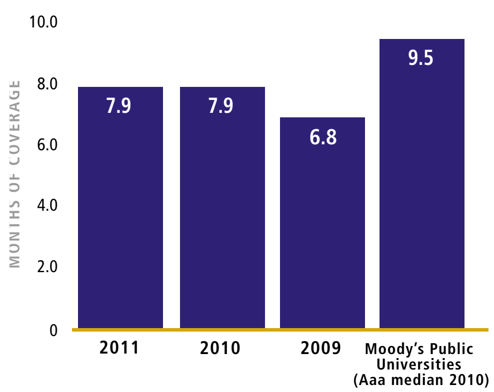
Restricted nonexpendable net assets increased $116 million, or 12%, in 2011, and $75 million, or 8% in 2010. For both years the increase was the result of new endowment gifts, and recovery of the value of underwater investments in the Consolidated Endowment Fund.

Restricted expendable net assets increased $137 million, or 13%, in 2011, and increased $85 million, or 8%, in 2010. 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 had a significant effect on the University's investments in 2009, was partially recovered during 2010 and 2011.

Unrestricted net assets increased by $203 million, or 17%, in 2011, and by $233 million, or 25%, in 2010. For both years the increase was driven by an increase in tuition and patient services revenue, conservative spending, and an increase in the market value of investments related to unrestricted funds.

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 2011 the University had enough expendable resources from various sources to fund operations for a period of 7.9 months.

Expendable Financial Resources to Operations[1]



Endowment and Other Investments

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

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 experienced considerable growth over the past 10 years. The number of endowments in the CEF increased from 1,666 to 3,545, and the market value rose to $2.2 billion as of June 30, 2011.

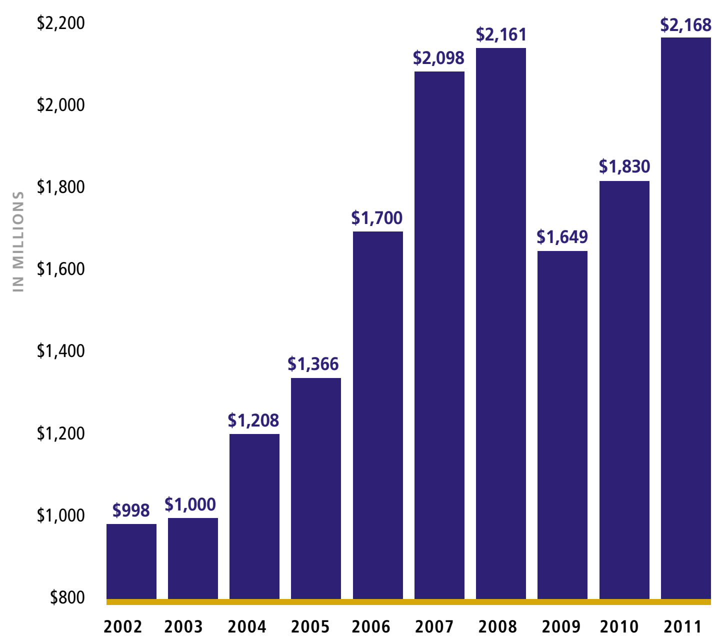
The impact to program support has been substantial with $687 million distributed over the past 10 years. Programs supported by the endowment include academic support, scholarships, fellowships, professorships, chairs and research activities.

For the 10 years ended June 30, 2011, investment returns remain solid, with the CEF returning an average of +6.7%, while a comparable blended benchmark (70% MSCI ACWI and 30% BC Government Bond) returned 5.7%. In fiscal year 2011, the CEF earned an investment return of +16%, the highest return since fiscal year 2007. While this is strong absolute performance, the CEF underperformed its policy benchmark. Longer-term performance is weighed down substantially by the 2008-2009 global financial crisis and recovery from the losses incurred over that period may take many years. The CEF remains conservatively positioned with the primary focus on risk-adjusted returns.

During fiscal year 2011, the Board of Regents approved a new long-term spending policy for the CEF. Quarterly distributions to programs are made based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. The new policy was effective with the December 2010 quarterly distributions with the five-year averaging period implemented incrementally. The administrative fee of 1% supporting fundraising and stewardship activities (0.80%) and investment management (0.20%) continues. Similar to program distributions, the fee is based on the endowment's five-year average market value. The new policy replaces the interim policy which was in effect during fiscal years 2010 and 2009.

A portion of the University's operating funds are invested in the CEF. As of June 30, 2011 these funds comprise $447 million of the CEF market value.

Consolidated Endowment Fund Market Value
(in millions)



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. Includes results for Northwest Hospital in 2011 only.

DEBT AND RELATED CAPITAL IMPROVEMENTS

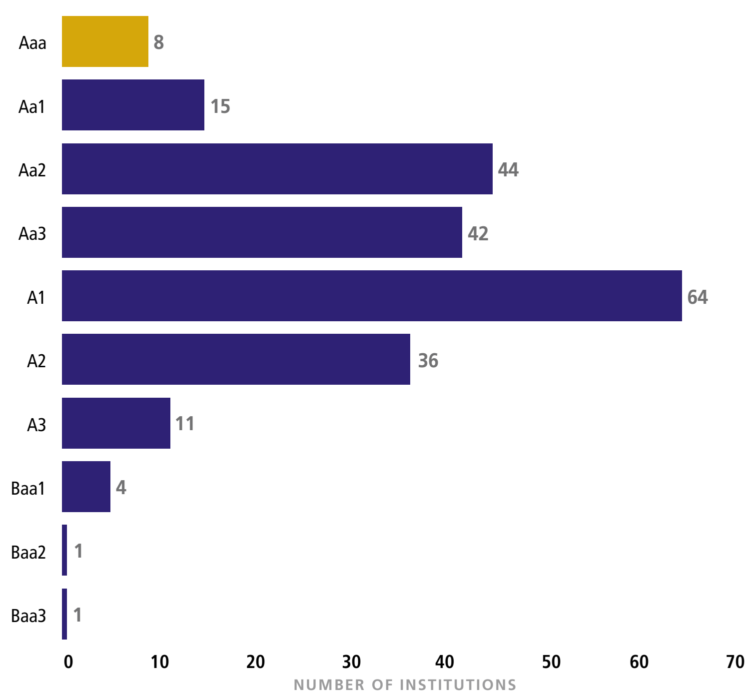
The University's general revenue borrowing platform, established in 2003, has been used to fund buildings that support the educational, research and service missions of the institution. For example, the $165 million UW General Revenue Bond issued in November 2010 is partially funding an expansion of the medical center, new student housing and a renovation of the Husky Union Building.

In July 2011, Moody's Investors Service placed the University on credit watch based on its exposure to the federal government through research and clinical activities. In August 2011, Moody's reaffirmed the University's Aaa rating, with a negative outlook.

Strong ratings carry substantial advantages for the University: 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.

Moody's Fiscal Year 2010 Public College and University Rating Distribution (Issued in July 2011)

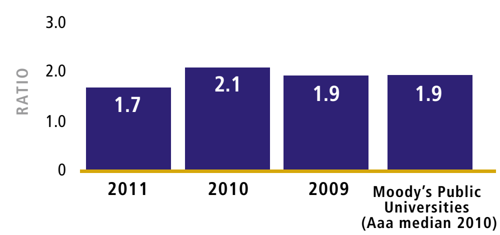


During 2011, capital expenditures included $70 million for the construction of new student housing, $67 million for the expansion of the University of Washington Medical Center (UWMC), $31 million for the renovation of the Husky Union Building, $30 million for the new Molecular Engineering building, $21 million for Phase 3 of the UW Tacoma campus and $16 million for the renovation of Balmer Hall.

During 2010, capital expenditures included $54 million on Phase 1 of PACCAR Hall for the business school, $43 million for the expansion of UWMC, $16 million for the new Molecular Engineering building and $13 million for Phase 3 of the UW Tacoma campus.

The 2011 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 1.7 times over.

Expendable Financial Resources to Direct Debt[2]



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

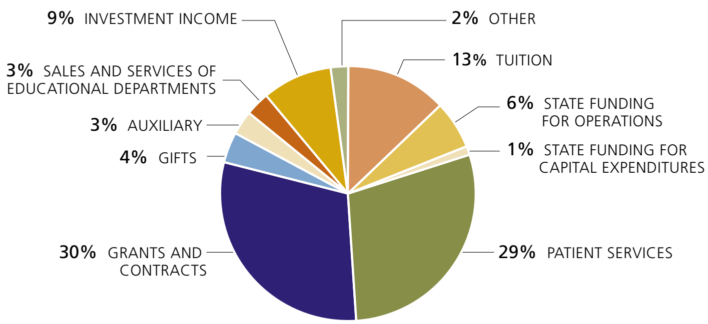
The Statements of Revenues, Expenses, and Changes in Net Assets present the University's results of operations and nonoperating items that result in the changes in net assets for the year. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A condensed comparison of the University's revenues, expenses and changes in net assets for the years ended June 30, 2011, 2010, and 2009 follows:

(in millions)	2011	2010	2009
Total operating revenues	$ 3,390	$ 3,124	$ 2,902
Operating expenses	3,769	3,493	3,429
Operating loss	(379)	(369)	(527)
Nonoperating revenues, net of expenses	766	707	(62)
Other revenues	147	93	215
Increase (decrease) in net assets	534	431	(374)
Net assets, beginning of year	5,194	4,763	5,137
Net assets, end of year	**$ 5,728**	**$ 5,194**	**$ 4,763**

2 The sum of Unrestricted Net Assets and Restricted Expendable Net Assets, divided by total capital lease obligations, bonds and notes payable outstanding. Includes results for Northwest Hospital in 2011 only.

The University has a diversified revenue base. No single source generated more than 30% of the total fiscal year 2011 revenues of $4.6 billion.

Sources of Funds*



*Includes Northwest Hospital

The following table summarizes revenues from all sources for the years ended June 30, 2011, 2010, and 2009:

(in millions)	2011	2010	2009
Tuition and fees	$ 595	$ 528	$ 458
Patient services	1,064	988	964
Grants and contracts	1,365	1,256	1,120
Sales and services of educational departments	165	167	152
Auxiliary Enterprises	154	147	154
State funding for operations	297	303	385
Federal ARRA education funding	–	44	–
Gifts	177	119	143
Investment income (loss)	395	309	(469)
State funding for capital projects	37	33	101
Other	111	72	91
Total revenue – all sources	**$ 4,360**	**$ 3,966**	**$ 3,099**

Grant Revenue

The largest source of revenues (30%) continues to be grants and contracts. This revenue increased $109 million, or 9%, in 2011, compared to an increase of $136 million, or 12%, in 2010.

Federal ARRA research funding generated revenues of $163 million in fiscal year 2011, compared to $86 million in 2010.

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

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

Facility and administrative expenses necessary to support grants and contracts are reimbursed by an indirect cost recovery. The current indirect cost recovery for research grants is approximately 29 cents on every direct expenditure dollar.

Primary Nongrant Funding Sources

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support its nongrant funded educational operating expenses. State support for education has declined since fiscal year 2008, with a sharp cut in fiscal year 2010, although part of the reduction in state support was offset by federal ARRA education funding in 2010, as reflected in the table below:

Operating Support for Instruction

(in millions)	2011		2010		2009	
State operating appropriations	$ 297	33%	$ 303	35%	$ 385	46%
Federal ARRA education funding	–	–	44	5%	–	–
Operating tuition and fees	410	46%	351	40%	296	35%
Fees for self-sustaining education programs	185	21%	177	20%	162	19%
Total educational support	**$ 892**	**100%**	**$ 875**	**100%**	**$ 843**	**100%**

Noncapital state appropriations are considered nonoperating revenue under GASB Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities," 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.

Tuition and fees, net of scholarship allowances, increased from $458 million in 2009 to $528 million in 2010, and to $595 million in 2011. The increases were primarily due to a 14% increase in average undergraduate resident tuition rates in 2010 and 2011.

Tuition increases were partially offset by the increase in scholarships and fellowships, and scholarship allowances of $18 million in 2011, $21 million in 2010, and $15 million in 2009.

Self-sustaining educational programs include $67 million for UW Educational Outreach (the continuing education branch of the University), $31 million for summer quarter, and $36 million for Business School and School of Medicine programs.

Patient Services–UW Medicine

The financial statements of the University include the operations of the School of Medicine, two hospitals, associated physicians and clinics, Airlift Northwest, and the University's share of two joint ventures. These entities and Harborview Medical Center (activities not included in the University's financial statements - see footnote 14) comprise UW Medicine, an umbrella organization serving to coordinate these activities and promote quality health care in the Pacific Northwest and beyond, and to conduct cutting edge medical research with worldwide benefit.

Patient care activities included in the University's financial statements include:

UW Medical Center (UWMC) is a 450-bed hospital that provides comprehensive health care services to the Puget Sound community and patients from throughout the Pacific Northwest. UWMC also serves as the major clinical, teaching and research site for students and faculty in the Health Sciences at the University. Over 18,000 patients receive inpatient care at UWMC each year. Specialized inpatient care needs are met by the Cancer Center, the Regional Heart Center, Neonatal ICU and Organ Transplantation program. During fiscal year 2011, work continued on Phase 1 of a new five-story UWMC tower, which will create space for expansion of patient care activities with an emphasis on neonatal and oncology patients.

Northwest Hospital & Medical Center (Northwest Hospital) is a full-service medical facility with 281 beds, and treats approximately 11,000 inpatients each year. Northwest Hospital joined UW Medicine in January 2010. Northwest Hospital's Balance Sheet as of June 30, 2011 and Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2011 are presented in a discrete column on the financial statements of the University.

UW Neighborhood Clinics is a network of primary care clinics with eight neighborhood locations throughout the greater Seattle area, providing primary and selected specialty care with a staff of nearly 70 health care providers.

UW Physicians (UWP) is the physician practice group for more than 1,500 faculty physicians and health care providers associated with UW Medicine. The revenues, expenses, assets and liabilities of UWP are included in the University's financial statements.

Airlift Northwest is a preeminent provider of air medical services in the Pacific Northwest.

The University is also a participant in two joint ventures: Seattle Cancer Care Alliance and Children's University Medical Group. The University's share in these activities is reflected in the University's financial statements.

In combination, these organizations (not including Northwest Hospital) contributed $1,064 million in patient service revenues in fiscal year 2011, $988 million in fiscal year 2010, and $964 million in 2009. UWMC generated 77% of this revenue in 2011, 79% in 2010, and 74% in 2009. UWMC admissions decreased slightly in 2011 compared to 2010, and remained stable in 2010 compared to 2009. Patient length of stay increased to 6.1 days in 2011, and remained unchanged at 5.9 days in 2010 and 2009. Other factors contributing to the increase in hospital revenue over the period have been the increased acuity of patients and improved documentation and coding.

Gifts, Endowments and Investment Revenues

Net investment returns for the years ended June 30, 2011, 2010, and 2009 consisted of the following:

(in millions)	2011	2010	2009
Interest and dividends	$ 59	$ 78	$ 66
Metropolitan Tract net income	7	8	6
Investment in Seattle Cancer Care Alliance	12	7	8
Net appreciation (depreciation) of fair value of investments	324	224	(544)
Investment expenses	(7)	(8)	(5)
Net investment income (loss)	**$ 395**	**$ 309**	**$ (469)**

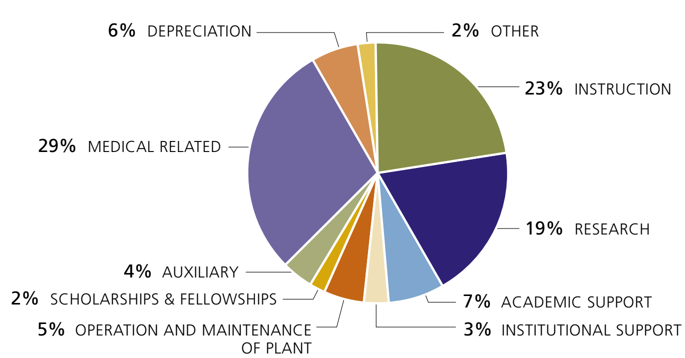
Net appreciation includes both realized and unrealized gains and losses; however, the unrealized gains are not expendable until the underlying securities have been sold. Net investment income increased by $86 million in 2011 over 2010, and increased by $778 million in 2010 from 2009. The change in unrealized gain or loss was the major factor in the variance each year. The sharp decline in the University's investment performance in 2009 was related to market declines which began in the prior fiscal year.

Donor support increased by $58 million, or 49%, in 2011. Gifts are a key, necessary source of support for a variety of purposes including capital improvements, scholarships, research and endowments for various academic and research positions.

Expenses

Two primary functions of the University, instruction and research, comprised 42% of total operating expenses. These dollars provided instruction to more than 49,000 students and funded 5,400 research awards.

Uses of Funds*



*Includes Northwest Hospital

A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2011, 2010, and 2009 follows:

(in millions)	2011	2010	2009
Operating expenses:			
Educational and general instruction	$ 920	$ 905	$ 908
Research	791	700	640
Public service	30	34	33
Academic support	279	259	265
Student services	35	34	34
Institutional support	133	141	143
Operation and maintenance of plant	192	155	178
Scholarships and fellowships	101	93	71
Auxiliary enterprises	170	166	171
Medical-related	874	777	779
Depreciation/amortization	244	229	207
Total operating expenses	**$ 3,769**	**$ 3,493**	**$ 3,429**

Research expenditures, which represent sponsored research, increased $91 million, or 13%, in 2011, reflective of the increase in grant and contract revenue, including ARRA funds.

Operation and maintenance of plant increased $37 million, or 24%, in 2011 due primarily to an increase in capital project expenses that did not meet the criteria for capitalization as fixed assets.

Medical-related expenses increased $97 million, or 12%, over 2010 due to the addition of Airlift Northwest during fiscal year 2011 and an increase in operating expenses for UWMC.

Overall, the University's operating expenses increased by $276 million, or 8%, over 2010. Supplies and materials, and purchased services increased $148 million, or 19%, driven by equipment purchased for the National Science Foundation's Ocean Observatory Initiative (the University is the administrator, but not the owner, of these assets), increased medical supplies and pharmaceuticals for UWMC, the addition of Airlift Northwest, and increases driven by higher grant and contract revenue.

Salaries expense increased $68 million, or 4%, during 2011, driven in part by a modest increase in staffing and the addition of Airlift Northwest. Benefits expense increased $48 million, or 9% during 2011, resulting mostly from a 14% increase in the health care premium per employee paid by the University.

In 2010, the University's operating expenses increased by $64 million, or 2%, over 2009, primarily driven by increased activity on grants, due to ARRA, and by increased depreciation/amortization expense due to 2010 asset additions. Expense associated with scholarships and fellowships also contributed to the increase, primarily due to an increase in federal funding for Pell Grants.

OPERATING LOSS

The University's operating loss increased to $379 million in 2011 from $369 million in 2010. The 2010 operating loss was a decrease from an operating loss of $527 million in 2009.

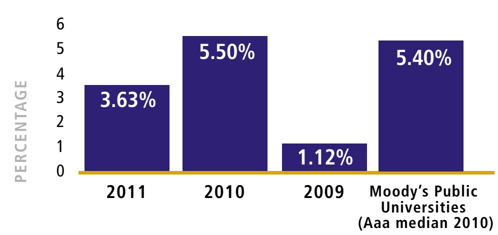
State appropriations have declined; however, they are shown as nonoperating, pursuant to GASB standards. If state appropriations were classified as operating, the operating loss would be as follows for 2011, 2010 and 2009, respectively: $82 million, $21 million, and $142 million. The amount for 2010 includes $44 million of Federal ARRA education funding, a one-time event. The University continues to rely on nonoperating revenues, in addition to state appropriations, to fund its operations including operating gift revenues and investment income distributions.

OPERATING MARGIN

Moody's measures the net result of revenue and expense activity by including several nonoperating revenues in the margin.

The 2011 operating margin decreased to 3.63% from 5.50% in 2010. Operating margin calculations include an estimated return on the University's investments rather than actual investment income. Therefore, variances in investment performance in a given year will not impact the operating margin.

Operating Margin[3]



3. Operating loss, (including interest expense, operating appropriations, nonoperating federal grants, an assumed 5% spending rate on investments and nonpermanent endowment gifts), divided by operating revenues (less scholarship expenses, and including operating appropriations, nonoperating federal grants, an assumed 5% return on investments and nonpermanent endowment gifts). Includes results for Northwest Hospital in 2011 only.

Balance Sheets

	UNIVERSITY OF WASHINGTON		NORTHWEST HOSPITAL & MEDICAL CENTER[1]
	June 30,		June 30,
ASSETS	2011	2010	2011
CURRENT ASSETS:			
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 42,715	$ 31,902	$ 11,579
INVESTMENTS (NOTE 6)	366,995	314,721	2,322
ACCOUNTS RECEIVABLE (NET OF $86,177 AND $92,341 ALLOWANCE) (NOTE 5)	480,637	470,194	34,142
INVENTORIES	28,710	29,934	4,350
OTHER CURRENT ASSETS	5,252	4,536	2,196
TOTAL CURRENT ASSETS	924,309	851,287	54,589
NONCURRENT ASSETS:			
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	50,616	72,170	–
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	3,505,273	2,847,279	48,127
METROPOLITAN TRACT (NOTE 7)	115,101	115,902	–
STUDENT LOANS RECEIVABLE (NET OF $9,207 AND $9,136 ALLOWANCE) (NOTE 4)	69,669	70,507	–
OTHER ASSETS	101,271	85,393	1,496
CAPITAL ASSETS (NET OF $2,722,752 AND $2,530,067 ACCUMULATED DEPRECIATION) (NOTE 8)	3,246,486	2,957,777	132,955
TOTAL NONCURRENT ASSETS	7,088,416	6,149,028	182,578
TOTAL ASSETS	**$ 8,012,725**	**$ 7,000,315**	**$ 237,167**
LIABILITIES			
CURRENT LIABILITIES:			
ACCOUNTS PAYABLE	$ 126,184	$ 93,705	$ 11,665
ACCRUED LIABILITIES	250,545	221,587	30,982
COMMERCIAL PAPER (NOTE 11)	50,000	30,000	–
DEFERRED REVENUES	134,143	121,486	–
FUNDS HELD FOR OTHERS	18,343	16,752	–
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-12)	71,721	64,857	4,643
TOTAL CURRENT LIABILITIES	650,936	548,387	47,290
NONCURRENT LIABILITIES:			
DEFERRED REVENUES, NET OF CURRENT PORTION	9,410	18,055	–
U.S. GOVERNMENT GRANTS REFUNDABLE	54,545	50,873	–
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-12)	1,569,469	1,189,331	103,770
TOTAL NONCURRENT LIABILITIES	1,633,424	1,258,259	103,770
TOTAL LIABILITIES	2,284,360	1,806,646	151,060
NET ASSETS			
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	2,059,911	1,981,797	44,702
RESTRICTED:			
NONEXPENDABLE	1,074,824	959,442	1,717
EXPENDABLE	1,226,792	1,089,464	1,468
UNRESTRICTED	1,366,838	1,162,966	38,220
TOTAL NET ASSETS	5,728,365	5,193,669	86,107
TOTAL LIABILITIES AND NET ASSETS	**$ 8,012,725**	**$ 7,000,315**	**$ 237,167**

[1] A component unit of the University of Washington (NOTE 1)
See accompanying notes to basic financial statements.
Dollars in thousands

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

	UNIVERSITY OF WASHINGTON		NORTHWEST HOSPITAL & MEDICAL CENTER[1]
	Year Ended June 30,		Year Ended June 30,
REVENUES	2011	2010	2011
OPERATING REVENUES:			
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF $91,403 AND $82,461)	$ 594,915	$ 527,958	$ –
PATIENT SERVICES (NET OF CHARITY CARE OF $54,761 AND $46,945)	1,063,827	987,917	265,329
FEDERAL GRANTS AND CONTRACTS	1,092,973	982,413	–
STATE AND LOCAL GRANTS AND CONTRACTS	70,188	73,540	–
NONGOVERNMENTAL GRANTS AND CONTRACTS	151,600	155,876	–
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	165,475	166,810	–
AUXILIARY ENTERPRISES:			
HOUSING AND FOOD SERVICES	59,663	58,516	–
PARKING SERVICES	14,008	11,418	–
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $4,735 AND $3,858)	43,128	41,302	–
OTHER AUXILIARY ENTERPRISES	37,099	35,868	–
OTHER MEDICAL-RELATED REVENUE	22,928	27,325	10,510
OTHER OPERATING REVENUE	74,477	55,132	–
TOTAL OPERATING REVENUES	**3,390,281**	**3,124,075**	**275,839**
EXPENSES			
OPERATING EXPENSES (NOTE 13)			
SALARIES	1,776,699	1,708,798	123,794
BENEFITS	563,660	515,284	29,044
SCHOLARSHIPS AND FELLOWSHIPS	101,388	93,219	–
UTILITIES	54,406	51,190	3,076
SUPPLIES AND MATERIALS	384,530	324,133	69,742
PURCHASED SERVICES	556,643	468,717	40,941
DEPRECIATION / AMORTIZATION	243,638	228,714	20,213
OTHER	88,554	102,600	–
TOTAL OPERATING EXPENSES	**3,769,518**	**3,492,655**	**286,810**
OPERATING LOSS	**(379,237)**	**(368,580)**	**(10,971)**
NONOPERATING REVENUES (EXPENSES)			
STATE APPROPRIATIONS	296,769	303,454	–
FEDERAL ARRA EDUCATION FUNDING (NOTE 1)	–	43,971	–
GIFTS	86,823	65,300	505
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $6,419 AND $7,788)	394,670	308,752	6,095
INTEREST ON CAPITAL ASSET-RELATED DEBT	(42,726)	(42,980)	(4,290)
PELL GRANT REVENUE	44,044	37,356	–
OTHER NONOPERATING REVENUES (EXPENSES)	(12,946)	(8,861)	271
NET NONOPERATING REVENUES	**766,634**	**706,992**	**2,581**
INCOME (LOSS) BEFORE OTHER REVENUES	**387,397**	**338,412**	**(8,390)**
CAPITAL APPROPRIATIONS	37,255	32,539	–
CAPITAL GRANTS, GIFTS, AND OTHER	35,622	16,005	210
GIFTS TO PERMANENT ENDOWMENTS	74,422	43,943	–
TOTAL OTHER REVENUES	**147,299**	**92,487**	**210**
INCREASE (DECREASE) IN NET ASSETS	**534,696**	**430,899**	**(8,180)**
NET ASSETS			
NET ASSETS – BEGINNING OF YEAR	5,193,669	4,762,770	94,287
NET ASSETS – END OF YEAR	**$ 5,728,365**	**$ 5,193,669**	**$ 86,107**

[1] A component unit of the University of Washington (NOTE 1)

See accompanying notes to basic financial statements.
Dollars in thousands

Statements *of* Cash Flows

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	2011	2010
STUDENT TUITION AND FEES	$ 559,936	$ 531,730
PATIENT SERVICES	1,071,683	922,570
GRANTS AND CONTRACTS	1,328,507	1,171,348
PAYMENTS TO SUPPLIERS	(369,292)	(320,184)
PAYMENTS FOR UTILITIES	(53,619)	(51,522)
PURCHASED SERVICES	(551,365)	(464,839)
OTHER OPERATING DISBURSEMENTS	(89,572)	(103,653)
PAYMENTS TO EMPLOYEES	(1,773,919)	(1,707,863)
PAYMENTS FOR BENEFITS	(501,858)	(467,299)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(101,388)	(93,219)
LOANS ISSUED TO STUDENTS	(22,510)	(29,102)
COLLECTION OF LOANS TO STUDENTS	27,020	26,317
OTHER MEDICAL-RELATED RECEIPTS	22,928	27,325
AUXILIARY ENTERPRISE RECEIPTS	144,823	159,117
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	165,685	166,283
OTHER RECEIPTS	39,512	95,480
NET CASH USED BY OPERATING ACTIVITIES	**(103,429)**	**(137,511)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	314,371	286,098
FEDERAL ARRA EDUCATION FUNDING	–	43,971
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	44,044	37,356
PRIVATE GIFTS	57,999	55,600
PERMANENT ENDOWMENTS RECEIPTS	74,422	43,942
DIRECT LENDING RECEIPTS	237,439	227,033
DIRECT LENDING DISBURSEMENTS	(237,601)	(217,575)
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	623,058	600,562
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(621,873)	(611,240)
OTHER	(11,395)	(8,730)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**480,464**	**457,017**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	525,856	121,461
STATE CAPITAL APPROPRIATIONS	36,864	42,559
CAPITAL GRANTS AND GIFTS RECEIVED	19,982	15,302
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(491,762)	(353,206)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(143,506)	(77,098)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(57,379)	(47,538)
OTHER	21,796	1,474
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(88,149)**	**(297,046)**

CASH FLOWS FROM INVESTING ACTIVITIES	Year Ended June 30, 2011	2010
PROCEEDS FROM SALES OF INVESTMENTS	5,021,145	3,987,515
PURCHASES OF INVESTMENTS	(5,358,025)	(4,091,814)
INVESTMENT INCOME	58,807	77,987
NET CASH USED BY INVESTING ACTIVITIES	**(278,073)**	**(26,312)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,813**	**(3,852)**
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	31,902	35,754
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 42,715**	**$ 31,902**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	$ (379,237)	$ (368,580)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE / AMORTIZATION	243,638	228,714
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	(15,591)	3,920
INVENTORIES	1,224	(1,868)
OTHER ASSETS	(15,877)	(12,982)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	29,418	12,364
DEFERRED REVENUE	3,625	(25,258)
OTHER LONG-TERM LIABILITIES	24,861	28,964
U.S. GOVERNMENTAL GRANTS REFUNDABLE	3,672	(745)
LOANS TO STUDENTS	838	(2,040)
NET CASH USED BY OPERATING ACTIVITIES	**$ (103,429)**	**$ (137,511)**

See accompanying notes to basic financial statements.
Dollars in thousands

Notes *to* Financial Statements

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

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

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

On July 1, 2010, Airlift Northwest, (Airlift NW) a preeminent provider of air medical services in the Pacific Northwest, dissolved its separate 501(c)(3) status and became a self-sustaining unit of the University of Washington. The affiliation with Airlift NW resulted in a contribution of capital of $13,227,000 that is reflected in Capital Grants, Gifts, and Other on the Statement of Revenues, Expenses and Changes in Net Assets in the year ending June 30, 2011.

Component units are legally separate organizations for which the University is financially accountable. These entities may be reported in the financial statements of the primary government in one of two ways: the component units' amounts may be blended with the amounts reported by the primary government, or they may be shown in a separate column, depending on the application of the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14." All component units of the University meet the criteria for blending except Northwest Hospital & Medical Center. It is reported discretely since it has a separate board of directors and it does not provide services exclusively to the University.

BLENDED COMPONENT UNITS

The following entities are presented as blended component units because they provide service exclusively or almost exclusively to the University. Financial information for these affiliated organizations is available from their respective administrative offices.

The University of Washington Alumni Association was established as a tax-exempt entity to connect and celebrate alumni and to support the University's mission. The Alumni Association had operating revenues of $4,303,000 and $5,304,000 in 2011 and 2010, respectively.

The Association of University Physicians dba UW Physicians (UWP) was established as a tax-exempt entity for the exclusive benefit of the University of Washington School of Medicine (UWSOM). UWP employs UWSOM faculty and bills and collects for their clinical services as an agent for UWSOM. UWP had operating revenues of $145,524,000 and $174,998,000 in 2011 and 2010, respectively.

UW Medicine Neighborhood Clinics (Neighborhood Clinics) was established as a tax-exempt entity for the benefit of UWSOM, UWP and its affiliated medical centers, Harborview Medical Center (HMC) and UWMC, exclusively for charitable, scientific and educational purposes. The Neighborhood Clinics were organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of $12,283,000 and $10,928,000 in 2011 and 2010, respectively.

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

- Community Development Properties C-D
- Educational Research Properties
- Radford Court Properties
- TSB Properties
- Twenty-Fifth Avenue Properties
- Washington Biomedical Research Properties I
- Washington Biomedical Research Properties II
- Washington Biomedical Research Facilities 3

These entities collectively have net capital assets of $268,936,000 and $262,577,000 in 2011 and 2010, respectively. They collectively have long-term debt of $456,577,000 and $300,325,000 in 2011 and 2010, respectively. These amounts are reflected in the University's financial statements.

On July 28, 2011, the University refunded three series of lease-backed "63-20" bonds as part of the Series 2011A University of Washington General Revenue Bonds issue. The refunded bonds were Series 1996 Community Development Properties - Commodore Duchess, Series 1999A Educational Research Properties, and Series 2000 Radford Court Properties. As a result of this refunding, the three entities that issued the lease-backed 63-20 bonds have been dissolved. All net assets that belonged to these entities are now University net assets.

DISCRETELY PRESENTED COMPONENT UNIT

UW Medicine and Northwest Hospital & Medical Center (Northwest Hospital), a 281-bed full-service acute care hospital, entered into an affiliation agreement effective January 1, 2010. The University is the sole corporate member of Northwest Hospital.

The audited financial statements of Northwest Hospital are available by contacting Northwest Hospital & Medical Center at 1550 N. 115th Street, Seattle, WA 98133-9733, Mailstop X-112.

Subsequent Affiliation with Valley Medical Center

UW Medicine and Public Hospital District No. 1 of King County, a Washington public hospital district d/b/a Valley Medical Center, have entered into a strategic alliance, effective July 1, 2011. Valley Medical Center owns and operates a 303-bed full-service acute care hospital and 22 clinics located throughout southeast King County. The alliance will provide an opportunity to combine efforts on important initiatives that will benefit patients and the community.

Beginning in the fiscal year ending June 30, 2012, Valley Medical Center will be a discretely presented component unit of the University, similar to Northwest Hospital.

JOINT VENTURES

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 $75,130,000 and $63,390,000 in "Other Assets," together with $11,740,000 and $7,392,000 in "Investment Income," for its share of the joint venture in 2011 and 2010, respectively.

In 1986, the University entered into an agreement with Seattle Children's Hospital to establish Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care, charitable, educational, and scientific missions. CUMG employs UWSOM faculty physicians, and bills and collects for their services as an agent for UWSOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (Note 5) includes amounts due from CUMG of $19,704,000 and $15,229,000 in 2011 and 2010, respectively.

BASIS OF ACCOUNTING

The financial statements of the University have been prepared in accordance with 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 reports capital assets net of accumulated depreciation/amortization (as applicable), and reports depreciation/amortization expense in the Statements of Revenues, Expenses and Changes in Net Assets.

On July 1, 2009, the University adopted GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This Statement requires that all intangible assets not specifically excluded by its scope be classified as capital assets. The University recognized $2,707,000 in new intangible assets and $2,540,000 in intangible projects in process in the fiscal year ended June 30, 2010.

On July 1, 2009, the University adopted GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." There was no financial statement impact to the University as a result of the implementation. Additional disclosure is included in Note 6.

USE OF ESTIMATES

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

The University estimates the pollution remediation liability 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 noncurrent. Short-term investments consist primarily of cash equivalents and fixed income vehicles with maturities of less than one year.

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

Capitalized construction-related interest was $17,187,000 and $5,848,000 during 2011 and 2010, 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 directly to the University. The University has beneficial interest, 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 5.1% 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, 2011 and 2010 was $78,528,000 and $72,797,000, respectively, and is included in Accrued Liabilities. Sick leave accrued as of June 30, 2011 and 2010 was $31,491,000 and $29,014,000, respectively, and is included in Long-Term 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.

Federal ARRA Education Funding. As a result of the American Recovery and Reinvestment Act of 2009 (ARRA), the federal government granted funds to the state of Washington to support K-12 and higher education. Accordingly, the state of Washington passed through $43,971,000 to the University in fiscal year 2010. These revenues are reported as nonoperating revenues 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/amortization, 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 2010 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2011 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).

As of June 30, 2011, Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides for unlimited insurance of deposits in all noninterest-bearing accounts in FDIC insured depository institutions.

At June 30, 2011 and 2010, bank balances of $54,439,000 and $4,770,000, respectively, were insured by the FDIC and balances of $9,046,000 and $30,020,000, 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 bond reserve funds. The fair value of these funds approximates the carrying value.

NOTE 4:

Student Loans Receivable

Net student loans of $69,669,000 and $70,507,000 at June 30, 2011 and 2010, respectively, consist of $54,545,000 and $50,873,000 from federal programs and $15,124,000 and $19,634,000 from University programs. Interest income from student loans for the years ended June 30, 2011 and 2010 was $1,425,000 and $1,306,000, 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, 2011 and 2010 were:

(Dollars in thousands)	2011	2010
PATIENT SERVICES	$ 262,101	$ 267,083
GRANTS AND CONTRACTS	163,524	151,380
SALES AND SERVICES	10,196	10,406
TUITION	10,742	12,094
DUE FROM OTHER AGENCIES	35,702	35,135
ROYALTIES	14,242	14,839
STATE APPROPRIATIONS	2,642	19,852
OTHER	67,665	51,746
	566,814	562,535
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(86,177)	(92,341)
TOTAL	$ 480,637	$ 470,194

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, comprising 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, 2011 and 2010 are listed in Table 1.

TABLE 1 – UNIVERSITY INVESTMENTS

(Dollars in thousands)	Carrying Value	
Investment Type	2011	2010
CASH EQUIVALENTS	$ 544,489	$ 337,842
DOMESTIC FIXED INCOME	1,311,329	1,105,961
FOREIGN FIXED INCOME	28,292	18,909
DOMESTIC EQUITY	414,524	421,489
FOREIGN EQUITY	614,061	479,014
NONMARKETABLE ALTERNATIVES	618,705	407,847
ABSOLUTE RETURN	329,723	376,730
REAL ASSETS	7,525	9,737
MISCELLANEOUS	3,620	4,471
TOTAL INVESTMENTS	$ 3,872,268	$ 3,162,000

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2011, the Invested Funds Pool totaled $1,254,850,000 compared to $1,068,762,000 at June 30, 2010. The fund also owns units in the Consolidated Endowment Fund valued at $447,353,000 on June 30, 2011 and $354,942,000 on June 30, 2010. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 2.0% in fiscal years 2011 and 2010. Endowment operating and gift accounts received 3% in both fiscal years 2011 and 2010. 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. RCW 24.55 of the Washington State Code allows for the spending of appreciation in the CEF.

During fiscal year 2011, the Board of Regents adopted a new long-term spending policy for the CEF replacing the interim spending policy which was effective in fiscal years 2010 and 2009. Under the new policy, quarterly distributions to programs are based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. The new policy was effective with the December 2010 quarterly distributions with the five-year averaging period implemented incrementally. The administrative fee of 1% supporting campus-wide fundraising and stewardship activities (0.80%) and offsetting the internal cost of managing endowment assets (0.20%) continues but is now based on a five-year average value similar to program distributions.

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 $1,312,987,000 and $1,122,974,000 permanent endowment funds (at fair value) as of June 30, 2011 and 2010, the aggregate amount of the deficiencies where the fair value of the assets is less than the original gifts is $21,892,000 and $53,318,000 at June 30, 2011 and 2010, 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 $51,806,000 at June 30, 2011 compared to $45,580,000 at June 30, 2010. Income received from these trusts, which is included in Investment Income, was $2,029,000 for the year ended June 30, 2011 and $2,215,000 for the year ended June 30, 2010.

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. The University realized net gains of $128,089,000 and $138,053,000 in 2011 and 2010, respectively, from the sale of investments. The calculation of realized gains and losses is independent of the net appreciation of the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and are sold in the current year include the net appreciation of these investments reported in the prior year(s). The net appreciation in the fair value of investments during the years ended June 30, 2011 and 2010 was $324,123,000 and $223,803,000, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2011 and 2010, the University had outstanding commitments to fund alternative investments of $241,967,000 and $215,300,000, respectively.

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. As of June 30, 2011 and 2010 the University had no securities on loan.

DERIVATIVES

The University enters into total return swaps to manage its exposure to market fluctuations in various asset classes. Total return swaps involve commitments to pay interest in exchange for a market linked return, both based on notional amounts. The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011 and 2010, categorized by type, the changes in fair value and the counterparty credit ratings of such derivatives for the years then ended are as follows:

TABLE 2 – INVESTMENT DERIVATIVES *(Dollars in thousands)*

Notional amount			Fair Value			Changes in Fair Value			Counterparty Credit Rating	
	2011	2010	ASSET CLASSIFICATION	2011	2010	INCOME CLASSIFICATION	2011	2010	2011	2010
EQUITY SWAP	–	$92,940	INVESTMENTS	–	($5,110)	INVESTMENT INCOME	–	($5,110)	NA	A-1

Values are based on quoted market prices. Credit exposure represents exposure to counterparties relating to financial instruments where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2011 or June 30, 2010. No derivative instruments have been reclassified from a hedging instrument to an investment instrument.

Details on foreign currency derivatives are disclosed under Foreign Currency Risk.

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, 2011 and 2010, modified duration of the University's investments for which duration is measured is as follows:

TABLE 3 – INVESTMENTS MANAGED BY THE UNIVERSITY *(Dollars in thousands; duration in years)*

	Duration as of June 30, 2011				Duration as of June 30, 2010			
	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 CASH AND CASH EQUIVALENTS	$ 28,968	–	$ 332,658	–	$ 54,932	0.17	$ 252,486	0.02
FOREIGN CASH AND CASH EQUIVALENTS	1,877	–	–	–	3	–	–	–
DOMESTIC FIXED INCOME	265,455	1.90	916,485	3.50	272,983	2.30	809,061	3.10
FOREIGN FIXED INCOME	19,795	2.44	5,707	1.76	5,620	3.89	7,215	2.21
TOTAL	**$ 316,095**	**1.54**	**$ 1,254,850**	**2.56**	**$ 333,538**	**2.14**	**$1,068,762**	**2.36**

CREDIT RISK

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

Duration and credit risk figures at June 30, 2011 and 2010 exclude $313,165,000 and $60,412,000, respectively, of fixed-income securities held outside the CEF and the Invested Funds Pool. These amounts make up 8.09% and 1.91%, respectively, of the University's investments, and are not included in the duration figures detailed in Tables 3 and 4.

Investments subject to credit risk are presented in the table below:

TABLE 4 – INVESTMENTS CREDIT RATING *(Dollars in thousands)*

	Credit rating as of June 30, 2011				Credit rating as of June 30, 2010			
	Consolidated Endowment Fund		Invested Funds		Consolidated Endowment Fund		Invested Funds	
Credit Rating	Asset Value	%	Asset Value	%	Asset Value	%	Asset Value	%
AAA	$ 229,100	72.5%	$ 1,172,898	93.5%	$ 241,123	72.3%	$ 1,018,221	95.3%
AA	47,780	15.1%	42,629	3.4%	38,473	11.5%	20,504	1.9%
A	29,331	9.3%	12,183	1.0%	30,979	9.3%	5,062	0.5%
BBB	2,704	0.9%	2,696	0.2%	8,384	2.5%	2,930	0.3%
BB	–	0.0%	4,691	0.4%	188	0.1%	1,514	0.1%
B	–	0.0%	4,697	0.4%	449	0.1%	1,564	0.1%
CCC	253	0.1%	8,863	0.7%	485	0.1%	7,936	0.7%
CC	159	0.0%	386	0.0%	203	0.1%	1,612	0.2%
C	152	0.0%	–	0.0%	–	0.0%	–	0.0%
D	–	0.0%	863	0.0%	–	0.0%	–	0.0%
NR	6,616	2.1%	4,944	0.4%	13,254	4.0%	9,419	0.9%
TOTAL	**$ 316,095**	**100.0%**	**$ 1,254,850**	**100.0%**	**$ 333,538**	**100.0%**	**$ 1,068,762**	**100.0%**

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, 2011 and 2010, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $7,085,000 and $4,701,000, respectively, which equals 0.18% and 0.15% of the total portfolio.

Table 5 details the market value of foreign denominated securities by currency type in the CEF at June 30, 2011 and 2010.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)

	June 30, 2011		
Foreign Currency	Foreign Cash & Fixed Income	Foreign Equity	Alternatives and Other Investments
EURO (EUR)	$ 2,632	$ 72,863	$ 71,586
BRITISH POUND (GBP)	5,955	66,882	10,393
CHINESE RENMINBI (RMB)	–	54,054	9,888
JAPANESE YEN (JPY)	–	38,759	12,035
INDIAN RUPEE (INR)	56	29,543	23,601
BRAZILIAN REAL (BRL)	41	43,694	679
RUSSIAN RUBLE (RUB)	–	35,108	2,607
HONG KONG DOLLAR (HKD)	44	25,117	5,439
CANADIAN DOLLAR (CAD)	4,258	11,792	10,510
SWISS FRANC (CHF)	753	19,792	777
TAIWANESE DOLLAR (TWD)	567	17,294	3,286
AUSTRALIAN DOLLAR (AUD)	1,924	10,614	6,061
REMAINING CURRENCIES	5,442	174,785	26,274
TOTAL	**$ 21,672**	**$ 600,297**	**$ 183,136**

The above schedule does not include $5,707 thousand of foreign investments held in the Invested Funds Pool or $15,337 thousand of U.S. Dollar denominated foreign mutual funds.

	June 30, 2010		
Foreign Currency	Foreign Cash & Fixed Income	Foreign Equity	Alternatives and Other Investments
EURO (EUR)	$ 1,681	$ 52,258	$ 59,432
BRITISH POUND (GBP)	4,134	34,199	16,970
CHINESE RENMINBI (RMB)	–	43,613	7,511
JAPANESE YEN (JPY)	–	40,845	13,273
INDIAN RUPEE (INR)	–	30,865	22,170
BRAZILIAN REAL (BRL)	–	43,553	306
RUSSIAN RUBLE (RUB)	–	27,717	2,070
HONG KONG DOLLAR (HKD)	–	31,300	4,804
CANADIAN DOLLAR (CAD)	1,224	9,023	15,353
SWISS FRANC (CHF)	1,600	18,971	3,431
TAIWANESE DOLLAR (TWD)	3	19,845	2,648
AUSTRALIAN DOLLAR (AUD)	–	7,159	4,436
REMAINING CURRENCIES	–	107,083	23,812
TOTAL	**$ 8,642**	**$ 466,431**	**$ 176,216**

The above schedule does not include $6,252 thousand of foreign investments held in the Invested Funds Pool or $16,598 thousand of U.S. Dollar denominated foreign mutual funds.

NOTE 7:

Metropolitan Tract

The Metropolitan Tract, located in downtown Seattle, comprises 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, 2011 and 2010 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 $126,575,000 and $125,861,000, 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, 2011 and 2010, $8,500,000 was outstanding on the credit line.

NOTE 8:

Capital Assets

Capital asset activity for the two-year period ended June 30, 2011 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2009	Additions/ Transfers	Retirements	Balance at June 30, 2010	Additions/ Transfers	Retirements	Balance at June 30, 2011
LAND	$ 112,685	$ 1,959	$ –	$ 114,644	$ 7,133	$ –	$ 121,777
INFRASTRUCTURE	176,137	1,722	–	177,859	6,161	–	184,020
BUILDINGS	3,405,850	149,333	–	3,555,183	208,891	1,470	3,762,604
FURNITURE, FIXTURES, AND EQUIPMENT	1,009,748	86,196	50,483	1,045,461	115,118	57,856	1,102,723
LIBRARY MATERIALS	276,111	13,808	1,479	288,440	10,539	1,548	297,431
CAPITALIZED COLLECTIONS	5,517	182	–	5,699	–	–	5,699
INTANGIBLE ASSETS	–	20,035	–	20,035	21,248	–	41,283
INTANGIBLES IN PROCESS	–	2,540	–	2,540	2,616	260	4,896
CONSTRUCTION IN PROGRESS	206,099	71,881	–	277,980	170,825	–	448,805
TOTAL	5,192,147	347,656	51,962	5,487,841	542,531	61,134	5,969,238
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION							
INFRASTRUCTURE	73,774	4,054	–	77,828	4,260	–	82,088
BUILDINGS	1,300,964	115,128	–	1,416,092	120,578	617	1,536,053
FURNITURE, FIXTURES, AND EQUIPMENT	796,363	80,813	49,901	827,275	101,023	49,281	879,017
LIBRARY MATERIALS	181,145	12,465	995	192,615	12,470	1,052	204,033
INTANGIBLE ASSETS	–	16,254	–	16,254	5,307	–	21,561
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	2,352,246	228,714	50,896	2,530,064	243,638	50,950	2,722,752
CAPITAL ASSETS, NET	**$ 2,839,901**	**$ 118,942**	**$ 1,066**	**$ 2,957,777**	**$ 298,893**	**$ 10,184**	**$ 3,246,486**

NOTE 9 :

Long-Term Liabilities

Long-term liability activity for the two-year period ended June 30, 2011 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2009	Additions	Reductions	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Current Portion 2010	Current Portion 2011
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	$ 239,986	$ 31,040	$ 45,124	$ 225,902	$ 48,705	$ 65,368	$ 209,239	$ 12,433	$ 13,435
REVENUE BONDS PAYABLE (NOTE 11)	712,440	77,710	16,835	773,315	329,955	29,900	1,073,370	19,000	20,565
UNAMORTIZED PREMIUM ON BONDS	13,786	2,271	1,799	14,258	9,336	2,290	21,304	1,808	3,206
TOTAL BONDS PAYABLE	966,212	111,021	63,758	1,013,475	387,996	97,558	1,303,913	33,241	37,206
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER – CAPITAL ASSET RELATED (NOTE 11)	34,396	3,049	3,185	34,260	79,782	4,610	109,432	4,499	5,124
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	1,476	213	83	1,606	304	513	1,397	1,353	1,294
CAPITAL LEASE OBLIGATIONS (NOTE 10)	14,022	5,391	8,155	11,258	3,078	6,338	7,998	6,019	3,311
TOTAL NOTES PAYABLE AND CAPITAL LEASES	49,894	8,653	11,423	47,124	83,164	11,461	118,827	11,871	9,729
OTHER LONG-TERM LIABILITIES:									
CHARITABLE AND DEFERRED GIFT ANNUITY LIABILITY	29,320	956	–	30,276	1,467	–	31,743	4,891	4,176
POLLUTION REMEDIATION LIABILITY (NOTE 1)	6,580	–	580	6,000	–	–	6,000	–	–
SICK LEAVE (NOTE 1)	29,991	–	977	29,014	6,649	4,172	31,491	488	3,940
SELF-INSURANCE (NOTE 17)	51,650	21,272	15,298	57,624	6,361	13,893	50,092	12,885	14,596
NET PENSION OBLIGATION (NOTE 16)	46,812	26,080	2,217	70,675	30,381	1,932	99,124	1,481	2,074
TOTAL OTHER LIABILITIES	164,353	48,308	19,072	193,589	44,858	19,997	218,450	19,745	24,786
TOTAL LONG-TERM LIABILITIES	**$ 1,180,459**	**$ 167,982**	**$ 94,253**	**$ 1,254,188**	**$ 516,018**	**$ 129,016**	**$ 1,641,190**	**$ 64,857**	**$ 71,721**

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2011, are as follows below:

CAPITAL LEASES

Year *(Dollars in thousands)*	Future Payments
2012	$ 3,311
2013	2,291
2014	950
2015	627
2016	627
THEREAFTER	1,200
TOTAL MINIMUM LEASE PAYMENTS	9,006
LESS: AMOUNT REPRESENTING INTEREST COSTS	1,008
PRESENT VALUE OF MINIMUM PAYMENTS	**$ 7,998**

Buildings and equipment under capital lease were as follows:

(Dollars in thousands)	Balance at June 30, 2009	Additions	Retirements	Balance at June 30, 2010	Additions	Retirements	Balance at June 30, 2011
EQUIPMENT	$ 51,992	$ 5,391	$ 23,197	$ 34,186	$ 3,078	$ 9,081	$ 28,183
REAL ESTATE	9,987	–	–	9,987	–	–	9,987
TOTAL	61,979	5,391	23,197	44,173	3,078	9,081	38,170
LESS ACCUMULATED DEPRECIATION							
EQUIPMENT	51,122	1,552	23,197	29,477	1,808	9,081	22,204
REAL ESTATE	8,989	998	–	9,987	–	–	9,987
TOTAL ACCUMULATED DEPRECIATION	60,111	2,550	23,197	39,464	1,808	9,081	32,191
LEASED CAPITAL ASSETS, NET	**$ 1,868**	**$ 2,841**	**$ –**	**$ 4,709**	**$ 1,270**	**$ –**	**$ 5,979**

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, 2011 and 2010, the University recorded rent expenses of $28,184,000 and $27,169,000, respectively, for these leases. Future lease payments under these leases as of June 30, 2011, are as follows at right:

Year	*(Dollars in Thousands)*
2012	$ 27,135
2013	24,764
2014	22,722
2015	19,939
2016	22,393
2017 – 2021	52,926
2022 – 2026	27,427
2027 – 2031	25,007
THEREAFTER	39,799
TOTAL MINIMUM LEASE PAYMENTS	**$ 262,112**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2011 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 3.00% to 7.38%. Debt service requirements at June 30, 2011 were as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*

	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNNIVERSITY OF WASHINGTON REVENUE BONDS		NOTES PAYABLE AND OTHER	
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2012	$ 13,435	$ 10,421	$ 20,565	$ 55,247	$ 6,418	$ 3,849
2013	14,240	9,719	21,875	53,902	3,837	4,850
2014	14,920	9,025	36,645	52,681	4,453	4,708
2015	15,470	8,270	30,325	51,301	4,585	4,513
2016	18,300	7,397	27,170	49,979	4,783	4,304
2017 – 2021	68,945	24,507	171,330	230,596	26,671	18,023
2022 – 2026	53,630	8,924	125,185	195,772	19,497	12,379
2027 – 2031	10,299	583	112,070	160,434	20,409	7,864
2032 – 2036	–	–	153,170	132,338	20,176	2,451
2037 – Thereafter	–	–	375,035	43,941	–	–
TOTAL PAYMENTS	**$ 209,239**	**$ 78,846**	**$1,073,370**	**$1,026,191**	**$ 110,829**	**$ 62,941**

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.

REFUNDING ACTIVITY

On July 8, 2009, the state of Washington refunded General Obligation Bonds totaling $29,780,000 (UW portion) with new bond issuances with a par value of $27,430,000 and premium of $2,637,000. 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 $3,318,000 and resulted in a total economic gain of $2,582,000.

On October 28, 2009, the state of Washington refunded General Obligation Bonds totaling $3,715,000 (UW portion) with new bond issuances with a par value of $3,610,000 and premium of $394,000. The refunded bonds had a coupon rate of 5.25%; the new bonds have an average interest rate of 5.00%. The refunding decreased the total debt service payments to be made over the next 16 years by $319,000 and resulted in a total economic gain of $252,000.

On June 15, 2010, the state of Washington refunded Certificates of Participation (COP) totaling $4,455,000 with new COP issuances with a par value of $4,485,000 and premium of $39,000. The refunding decreased the total debt service payments to be made over the next 11 years by $671,000 and resulted in a total economic gain of $609,000.

On August 10, 2010, the State of Washington refunded General Obligation Bonds totaling $28,710,000 (UW portion) with new bond issuances totaling $25,925,000 (plus premium of $4,231,000). The refunded bonds had coupon rates ranging from 3.50% to 5.00%; the new bonds have an average interest rate of 5.00%. The refunding decreased the total debt service payments to be made over the next 14.5 years by $3,508,000 and resulted in a total economic gain of $3,195,000.

On August 10, 2010, the State of Washington refunded General Obligation Bonds totaling $4,265,000 (UW portion) with new bond issuances totaling $3,915,000 (plus premium of $663,000). The refunded bonds had a coupon rate of 5.00%; the new bonds have an average interest rate of 5.00%. The refunding decreased the total debt service payments to be made over the next 11.5 years by $500,000 and resulted in a total economic gain of $426,000.

On September 28, 2010, the state of Washington refunded General Obligation Bonds totaling $19,795,000 (UW portion) with new bond issuances with a par value of $18,865,000 and premium of $2,869,000. The refunded bonds had coupon rates ranging from 4.00% to 5.00%; the new bonds have an average interest rate of 4.802%. The refunding decreased the total debt service payments to be made over the next 16.3 years by $2,539,000 and resulted in a total economic gain of $1,891,000.

On October 5, 2010, the University issued $165,005,000 in General Revenue & Refunding Bonds, 2010 A&B. Part of the proceeds were used to partially refund the 2002 Housing and Dining Revenue & Refunding bonds. The amount refunded was $10,890,000; the new par value was $10,400,000 with a premium of $605,000. The refunded bonds had coupon rates ranging from 4.75% to 5.375%; the new bonds have an average interest rate of 3.943%. The refunding decreased the total debt service payments to be made over the next 21 years by $991,000 and resulted in a total economic gain of $640,000. In addition, proceeds were used to pay off $35,000,000 in commercial paper. The remainder of the proceeds will be used to fund a variety of projects including Tacoma Phase 3, Balmer Hall Renovation, UWMC Expansion, and Housing & Dining Phase 1 Master Plan. The average life of the 2010 A&B bonds (new money only) is 23.8 years with final maturity on October 1, 2040. The average interest rate of these bonds is 4.91%.

On December 14, 2010, Washington Biomedical Research Facilities 3 (a blended component unit of the University), issued $13,205,000 in taxable bonds and $154,745,000 in Build America Bonds with a true interest cost of 3.974% and average life of 16 years. The bond proceeds will be used to fund construction of a research facility that the University will occupy through a long-term lease arrangement.

SUBSEQUENT DEBT OFFERING

2011A GRB Issuance: On July 28, 2011, the University issued $211,370,000 in General Revenue & Refunding Bonds, 2011A. Part of the proceeds were used to refund 63-20 financings issued through third parties. The amount refunded was $89,320,000; the new par was $74,515,000 (plus premium of $8,148,000 and debt service reserve contributions of $8,582,000). The refunded bonds had coupon rates ranging from 5.000 to 6.600%; the new bonds have an average interest rate of 4.623%. The refunding decreased the total debt service payments to be made over the next 20.68 years by $16,967,000 and resulted in a total economic gain of $13,703,000. In addition, proceeds were used to pay off $75,000,000 in commercial paper. The remainder of the proceeds will be used to fund a variety of projects including Tacoma Phase 3, Balmer Hall Renovation, UWMC Expansion, and Housing & Dining Phase 1 Master Plan. The average life of the 2011A General Revenue bonds (new money only) is 15.0 years with final maturity on April 1, 2035. The average interest rate of these bonds is 4.839%.

Combined COP Refunding: On August 24, 2011, the State of Washington refunded Certificates of Participation (COP) totaling $11,370,000 with new COP issuances totaling $10,310,000 (plus premium of $1,352,000). The refunding decreased the total debt service payments to be made over the next 11 years by $1,625,000 and resulted in a total economic gain of $1,412,000.

COMMERCIAL PAPER PROGRAM

In July 2006, the Board of Regents authorized a commercial paper program with a maximum borrowing limit of $250,000,000, payable from University General Revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2011 and 2010, there was $50,000,000 and $30,000,000, respectively, in outstanding commercial paper.

On September 3, 2009, the University issued $2,000,000 in short-term commercial paper. The commercial paper was paid off with proceeds from the General Revenue Bond, 2009B, issued on December 22, 2009.

Between July 1, 2010 and September 30, 2010, the University issued $35,000,000 in short-term commercial paper. The commercial paper was paid off with proceeds from the issuance of General Revenue & Refunding Bonds, 2010 A&B.

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	$ 22,611	Housing and Dining Bonds, issued in 2002 and 2004	Contruction and renovation of student housing	2032	11.9%
Student Housing gross rent from Component Unit Entities, net of permitted operating expenses	$ 143,222	Student Housing Revenue Bonds (Component Unit Entities), issued in 1996, 2000, and 2002	Construction and renovation of student housing	2033	81.9%
Student Facilities Fees and earnings on invested fees	$ 65,000	Student Facilities Refunding Revenue Bonds, issued in 2005	Construction of student recreational sports facilities	2030	19.4%
Parking Revenues from the University Parking System, net of operating expenses – reported as Auxiliary Revenues	$ 25,430	University of Washington Parking System and Refunding Bonds, issued in 2004	Construction of improvements and additions to the University's parking system	2030	11.4%

** 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, 2011 and 2010 are summarized as follows:

(Dollars in thousands) **Operating Expenses**	**2011**	**2010**
EDUCATIONAL AND GENERAL INSTRUCTION	$ 920,169	$ 904,812
RESEARCH	791,507	699,955
PUBLIC SERVICE	29,574	33,814
ACADEMIC SUPPORT	278,693	259,388
STUDENT SERVICES	34,908	33,815
INSTITUTIONAL SUPPORT	133,547	141,371
OPERATION & MAINTENANCE OF PLANT	192,433	155,188
SCHOLARSHIPS & FELLOWSHIPS	101,388	93,219
AUXILIARY ENTERPRISES	169,876	165,612
MEDICAL-RELATED	873,785	776,767
DEPRECIATION/AMORTIZATION	243,638	228,714
TOTAL OPERATING EXPENSES	**$ 3,769,518**	**$ 3,492,655**

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, 2015.

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 $20,733,000 in 2011 and $24,501,000 in 2010, as well as HMC investments of $2,685,000 and $2,411,000, respectively, and accrued liabilities of $17,823,000 and $17,288,000, respectively.

The University of Washington Foundation (UWF) is a nonprofit 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 2011 and 2010, the UWF transferred $48,491,000 and $43,831,000, 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.

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 calendar years 2011 and 2010, this amount was $183 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, 2010 and 2009 was $3.5 billion and $3.8 billion, respectively. The annual cost was $321 million and $349 million for 2011 and 2010, 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 $605 million and $636 million for 2011 and 2010, respectively. These amounts are not included in the University's financial statements.

The University paid $293 million and $250 million for healthcare expenses in 2011 and 2010, respectively, which included its pay-as-you-go portion of the OPEB liability, calculated by the actuary at $7.4 million and $6.5 million in 2011 and 2010, respectively.

The State Actuary's report is available at: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm

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 nonacademic 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 nonacademic 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, WA 98504-8380, or visiting http://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 were required to contribute 6% of their annual covered salary in fiscal years 2011 and 2010. 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, 2011 and 2010 was 3.9% in both years. 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, 2011 and 2010, for each of PERS Plans 1, 2, and 3 was 5.31% in both years.

The University's contributions to PERS for the years ended June 30, 2011, 2010, and 2009 were $42,967,000, $41,680,000, and $64,169,000, respectively, as determined by rates established in accordance with RCW 41.45.

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 years ended June 30, 2011 and 2010 were $83,358,000 and $80,018,000, respectively.

The Unfunded Actuarial Accrued Liability (UAL) and Annual Required Contribution (ARC) as of July 1 of the respective year were:

(Dollars in thousands)	2011	2009	2007
UAL	$ 235,048	$ 218,036	$ 64,215
NORMAL COST	10,774	8,860	3,369
AMORTIZATION OF UAL, INCLUDING INTEREST	19,607	17,220	4,374
ARC	$ 30,381	$ 26,080	$ 7,743

(Dollars in thousands)

Actuarial assumptions	2011	2009	2007
PAYROLL COVERED BY PLAN	$ 1,129,000	$ 976,000	$ 771,000
RATE OF RETURN ASSUMPTION	4.25%	5%	5%
SALARY INCREASES FOR YEARS 1 AND 2	2%	2%	4%
SALARY INCREASE FOR THIRD YEAR	4%	4%	4%
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, 2011, 2010, and 2009:

(Dollars in thousands)	2011	2010	2009
BALANCE AT BEGINNING OF FISCAL YEAR	$ 70,675	$ 46,812	$ 21,477
ANNUAL REQUIRED CONTRIBUTION	30,381	26,080	26,080
PAYMENTS TO BENEFICIARIES	(1,932)	(2,217)	(745)
BALANCE AT END OF FISCAL YEAR	**$ 99,124**	**$ 70,675**	**$ 46,812**

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.

During the fiscal year ending June 30, 2011 the University amended the supplemental retirement plan, limiting participation to those individuals who were active participants on February 28, 2011.

401(a) Plan Funding: The University received an actuarial valuation of the supplemental payment component of the UWRP with a valuation date of July 1, 2011. The previous evaluations were performed in 2009, 2007 and 2004. The University has set aside $75,132,000 as of June 30, 2011 for this liability.

NOTE 17:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2011 and 2010, were $537,924,000 and $263,779,000, respectively. 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% in both years ended June 30, 2011 and 2010, and 4.25% in 2009.

The self-insurance reserve is estimated through an actuarial calculation. Changes in the self-insurance reserve for the years ended June 30, 2011, 2010, and 2009 are noted below:

(Dollars in thousands)	2011	2010	2009
RESERVE AT BEGINNING OF FISCAL YEAR	$ 57,624	$ 51,650	$ 47,515
INCURRED CLAIMS AND CHANGES IN ESTIMATES	6,361	21,272	14,606
CLAIM PAYMENTS	(13,893)	(15,298)	(10,471)
RESERVE AT END OF FISCAL YEAR	**$ 50,092**	**$ 57,624**	**$ 51,650**

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