2016 FINANCIAL REPORT

UNIVERSITY *of* WASHINGTON

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UNIVERSITY FACTS

	FISCAL YEAR 2016 Academic Year 2015–2016	FISCAL YEAR 2011 Academic Year 2010–2011	FISCAL YEAR 2006 Academic Year 2005–2006
STUDENTS			
Autumn Enrollment [1]			
Undergraduate	40,163	35,615	31,086
Graduate	13,595	12,389	10,540
Professional	2,009	1,936	1,802
TOTAL	**55,767**	**49,940**	**43,428**
Extension course and conference registrations	78,426	64,961	44,823
Number of Degrees Awarded			
Bachelor's	10,589	9,325	8,296
Master's	4,072	3,524	2,866
Doctoral	803	723	631
Professional	518	528	496
TOTAL	**15,982**	**14,100**	**12,289**
FACULTY [1] (Professorial, Instructional, Research)	4,703	4,235	3,650
FACULTY AND STAFF[2]	28,910	25,143	23,935
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,367,366	$ 1,396,435	$ 967,456
SELECTED REVENUES *(in thousands of dollars)*			
Patient Service and Other Medical-Related Revenues [3]	$ 2,408,791	$ 1,362,594	$ 834,638
Gifts, Grants and Contracts	1,409,443	1,401,584	1,094,023
Tuition and Fees [4]	948,751	594,915	358,130
Auxiliary Enterprises and Other Revenues	623,438	393,850	237,808
State Appropriations (Operating)	302,097	296,769	339,117
Investment Income	44,877	394,670	294,305
SELECTED EXPENSES *(in thousands of dollars)*			
Medical Related [3]	$ 2,152,161	$ 1,160,595	$ 654,768
Instruction, Academic Support and Student Services	1,617,202	1,233,770	956,517
Research and Public Service	790,218	821,081	632,007
Institutional Support and Physical Plant	506,015	325,980	260,926
Auxiliary Enterprises	422,474	169,876	125,591
CONSOLIDATED ENDOWMENT FUND[5] *(in thousands of dollars)*	$2,968,000	$ 2,168,000	$ 1,700,000
SQUARE FOOTAGE[6] *(in thousands of square feet)*	23,129	21,655	18,097

[1] Headcount
[2] Full time equivalents
[3] Includes Valley Medical Center (2016 only) and Northwest Hospital (2016 and 2011 only)
[4] Net of scholarship allowances of $144,543,000 in 2016, $91,403,000 in 2011 and $53,780,000 in 2006
[5] Stated at fair value
[6] Gross square footage, all campuses

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Washington:

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Washington (the University), an agency of the state of Washington, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University of Washington as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

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, the changes in financial position, and where applicable, cash flows of only the respective portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the state of Washington that are attributable to the transactions of the University of Washington and its discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2016 and 2015, the changes in its financial position or, where applicable, its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

As discussed in note 1 to the financial statements, on July 1, 2014, the University adopted new accounting guidance requiring governments providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net position liability or net pension asset, as well as recognizing most changes in the net position liability within pension expense. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 12, and the schedules of required supplementary information on pages 50 through 51, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying information under the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Seattle, Washington
October 21, 2016

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, 2016 and 2015, with comparative financial information for 2014. This discussion has been prepared by management, and since it includes highly summarized data, should be read in conjunction with the financial statements and accompanying notes which follow this section.

Financial Highlights for Fiscal Year 2016

The University recorded a decrease in net position of $82 million in fiscal year 2016, compared to an increase in net position of $235 million in 2015. Revenues from tuition and patient services continued to show growth during 2016, and together with modest increases in revenues from research activities contributed to an overall increase in operating revenues. Offsetting this, however, was an increase in operating expenses, and a decrease in nonoperating revenues, primarily investment income, which was impacted by decreased investment market values during the year. The University adjusts the carrying value of investments to market value each year, with the change recorded as investment income or loss.

Key Financial Results for Fiscal Years 2016, 2015 and 2014

(in millions)	2016	2015	2014
Total operating revenues	$ 4,352	$ 4,212	$ 3,914
Total operating expenses	5,034	4,676	4,384
Operating loss	(682)	(464)	(470)
State appropriations	302	255	262
Investment income	45	227	481
Gifts	220	200	191
Other nonoperating revenues, net	33	17	14
Increase (decrease) in net position	(82)	235	478
Net position, beginning of year	6,046	6,643	6,165
Cumulative effect of accounting change	–	(832)	–
Net position, beginning of year as restated	6,046	5,811	6,165
Net position, end of year	**$ 5,964**	**$ 6,046**	**$ 6,643**

Governmental Accounting Standards Board (GASB) principles require that revenues from state appropriations, Pell grants, and gifts be considered nonoperating while the expenses funded from these revenues are categorized as operating. As a result, the University will typically reflect an operating loss on its Statements of Revenues, Expenses and Changes in Net Position.

The University implemented GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*" during fiscal year 2015. This Statement changed how the University reports its participation in certain cost sharing, defined-benefit pension plans administered by the state of Washington Department of Retirement Systems (DRS). It requires governments providing defined-benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, which is measured as the total pension liability less the amount of the pension plan's fiduciary net position. This Statement also requires most changes in the net pension liability to be included in pension expense in the period of the change, and others to be reported as deferred outflows of resources or deferred inflows of resources on the Statements of Net Position. Prior to adopting this Statement, the University reported pension expense based on cash contributions paid to the pension plan administrator. With the adoption of GASB Statement No. 68, net position was restated at July 1, 2014 by a decrease of $832 million. Fiscal years 2016 and 2015 financial results reflect application of the accounting changes required by Statement No. 68, but those changes have not been applied to fiscal year 2014 amounts due to the constraints of available information.

Economic Factors Affecting the Future

The state of Washington, which provided 7% of the University's total revenues in fiscal year 2016, continues to emerge from the recession with moderate economic growth and commensurate increases in state tax collections. However, the state continues to face significant budgetary pressure as a result of court-mandated increases to K-12 education funding (McCleary v. Washington). As a result, non-mandatory state programs, including higher education, have an uncertain funding outlook for the 2017-19 biennium.

During the previous biennium (2013-15), the University committed to freezing resident undergraduate tuition rates in fiscal years 2014 and 2015 in exchange for increases in state funding in both years. In 2015-17, the state mandated reductions in resident undergraduate tuition to 5% below 2015 rates in fiscal year 2016, and 15% below 2015 rates in fiscal year 2017. The state provided funds to backfill the lost tuition revenue in both years.

The University's fiscal year 2017 general operating appropriation from the state (excluding amounts appropriated for specific purposes) is approximately $332 million, an increase from $293 million in 2016 and $246 million in 2015. The significant increases in the latter two years are largely attributable to tuition backfill funding, but also include targeted investments in medical and computer science education.

The University's Board of Regents continues to have broad tuition and fee setting authority for categories other than resident undergraduate tuition. State funding for capital appropriations continues to be under pressure, though some state bonding capacity was provided this biennium for critical capital projects.

UW Medicine formed an Accountable Care Network (ACN) in 2014 with other selected healthcare organizations and healthcare professionals in Western Washington to form a care delivery network to assume responsibility for the healthcare of contracted populations of patients in order to improve the healthcare experience for the individual, improve health for the overall population, and provide more affordable care.

- The ACN has contracted with the Washington Health Care Authority (HCA) to participate in its new Puget Sound Accountable Care Program (ACP) as a healthcare benefit option for Public Employees Benefits Board (PEBB) members. The ACP is offered to all PEBB members who reside in Snohomish, King, Kitsap, Pierce, and Thurston Counties, with

Unaudited – see accompanying notes to financial statements

possible expansion into a number of additional counties planned in 2017. This contract with HCA to cover PEBB members began January 1, 2016.

- A subset of the network members have also agreed to participate with the ACN in a contract with Premera as part of its new Accountable Health System (AHS) product. As an AHS, the UW Medicine ACN will share in accountability for the quality and cost of healthcare for Premera members who select this plan. This product was sold both on and off the Washington Health Exchange in select counties with coverage that began January 1, 2016 and must have 5,000 plan-wide members per product, per region to share in financial savings and risk.
- The UW Medicine ACN also entered into an agreement to provide healthcare services to non-union employees of a large local employer with coverage that began January 1, 2015.

These arrangements provide an opportunity for shared savings between the ACN and the contracted entity based on achieving quality and financial benchmarks. If certain financial benchmarks are not attained, UW Medicine, along with its network members, is at risk for reductions in payment levels from the contracted entity based on the agreement.

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University. Employer pension funding rates for the Public Employees' Retirement System (PERS) pension plans increased 21% during fiscal year 2016, from 9.21% to 11.18% of covered salary, and will be increasing to 12.52% of covered salary during fiscal year 2018. Likewise, the monthly employer base rate paid by the University for employee healthcare increased 27% during fiscal year 2016, from $662 to $840 per active employee, and will be increasing to $888 per active employee during fiscal year 2017. Both rates are likely to continue increasing over the next few years.

Using the Financial Statements

The University's financial statements are prepared in accordance with GASB principles, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements be presented on a consolidated basis in order to focus on the University as a whole. These financial statements include the following components:

- Independent Auditors' Report presents an unmodified opinion prepared by our auditors, KPMG LLP, on the fairness in all material respects of our financial statements.
- Statements of Net Position present the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of the University at a point in time (June 30, 2016 and 2015). Their purpose is to present a financial snapshot of the University. This statement aids the reader in determining the assets available to continue the University's operations, how much the University owes to employees and vendors, whether the University has any deferred outflows or inflows other than assets or liabilities, and a provides a picture of net position and its availability for expenditure by the University.
- Statements of Revenues, Expenses and Changes in Net Position present the total revenues earned and expenses incurred by the University for operating, nonoperating and other related activities, during a period of time (fiscal years ended June 30, 2016 and 2015). Their purpose is to assess the University's operating and nonoperating activities.
- Statements of Cash Flows present cash receipts and payments of the University during a period of time (the fiscal years ended June 30, 2016 and 2015). Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.
- Notes to the Financial Statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

The University has been affiliated with Northwest Hospital & Medical Center (Northwest Hospital) since 2010, and has had a strategic alliance with Valley Medical Center, a Washington public hospital district, since 2011. GASB standards require that these entities be presented as discrete component units of the University; therefore, their financial position at June 30, 2016 and 2015, and the results of their operations for the years ended June 30, 2016 and 2015, are reported in a separate column for financial statement presentation purposes (see Note 1 and Note 18 to the Financial Statements).

The analysis presented below includes the consolidated balances of the University of Washington and its blended component units (see Note 1), but excludes the financial position and results of operations of its discrete component units (Northwest Hospital and Valley Medical Center).

Financial Health

STATEMENTS OF NET POSITION

A summarized comparison of the University's assets, liabilities, deferrals and net position as of June 30, 2016, 2015 and 2014, follows:

(in millions)	2016	2015	2014
Current assets	$ 1,539	$ 1,402	$ 1,537
Noncurrent assets:			
Capital assets, net	4,353	4,172	4,045
Investments, net of current portion	4,108	4,297	3,959
Other	507	491	358
Total assets	10,507	10,362	9,899
Deferred outflows	179	111	14
Total assets and deferred outflows	10,686	10,473	9,913
Current liabilities	1,060	998	872
Noncurrent liabilities:			
Bonds payable	2,177	1,911	1,966
Other	1,363	1,249	432
Total liabilities	4,600	4,158	3,270
Deferred inflows	122	269	–
Total liabilities and deferred Inflows	4,722	4,427	3,270
Net position	**$ 5,964**	**$ 6,046**	**$ 6,643**

Unaudited – see accompanying notes to financial statements

The University continues to maintain and protect its strong financial foundation. This financial health, as reflected in the Statements of Net Position, results from the prudent utilization of financial resources including careful cost controls, preservation of endowment funds, conservative utilization of debt and adherence to a long-range capital plan for the acquisition, maintenance and replacement of the physical plant.

Current assets include those that may be used to support current operations, and consist primarily of cash, short-term investments and accounts receivable. Current liabilities generally are due and payable over the course of the following fiscal year, and include accounts payable and other accrued liabilities, unearned revenues, and the current portion of long-term debt.

The excess of current assets over current liabilities of $479 million in 2016 and $404 million in 2015 reflects the continuing ability of the University to meet its short-term obligations. Current assets increased $137 million in 2016, partly due to an increase in accounts receivable of $107 million associated with pending sales of investments, and decreased $135 million in 2015, partly due to a decrease in the value of short-term investments of $106 million. Current liabilities increased $62 million in 2016, partly due to an increase in the liability for accrued annual leave of $11 million, together with an accrual for $16 million associated with the University's portion of a settlement against the state of Washington in the Moore vs. HCA litigation. Current liabilities increased $126 million in 2015, primarily due to an increase in accounts payable of $102 million associated with pending purchases of investments.

Noncurrent assets were mostly unchanged in 2016, as an increase in capital assets of $181 million was offset by a decrease in long-term investments as a result of market value changes during the year for the University's investments. Realized and unrealized losses in fiscal year 2016 totaled $54 million, compared to $151 million of net realized and unrealized gains in 2015. Noncurrent assets increased $598 million in 2015, primarily due to an increase in long-term investments.

Deferred outflows of resources and deferred inflows of resources primarily represent pension-related deferrals associated with the implementation of GASB Statement No. 68 in 2015. The increase in deferred outflows in 2016 primarily reflects the University's proportionate share of an increase in the state-wide amounts reported by the DRS due to differences between expected and actual experience related to actuarial assumptions. In 2015, the University recorded $86 million of pension-related deferred outflows for the first time, primarily the deferral of pension contributions paid during the year. Similarly, the decrease in deferred inflows in 2016 reflects the University's proportionate share of a decrease in the state-wide amounts due to differences between projected and actual investment earnings on pension plan assets. These deferred inflows were recorded for the first time in 2015.

Noncurrent liabilities increased $380 million in 2016, primarily due to $328 million of new general revenue and lease revenue bonds issued during the year, and an increase in the University's net pension liability, offset by $112 million of commercial paper debt that was refunded by the new general revenue bonds. The net pension liability was recorded for the first time in 2015 as a result of implementing GASB Statement No.68, and represents the University's proportionate share of the collective amounts reported by the DRS. This noncurrent liability increased $183 million during 2016, reflecting a corresponding increase in the state-wide amounts associated with these cost sharing, defined-benefit pension plans.

The difference between total assets and deferred outflows, and total liabilities and deferred inflows, is referred to as net position or "equity". Over time, the change in net position is one indicator of the improvement or decline in the University's overall financial health when considered with nonfinancial factors such as enrollment, research awards, patient levels, and the condition of facilities.

The University reports its "equity" in four categories:

- Net Investment in Capital Assets – This is the University's total investment in capital assets, net of accumulated depreciation and amortization and outstanding debt obligations related to those capital assets.
- Restricted Net Position:
  - Nonexpendable net position, primarily endowments, represents the historical cost (corpus) of gifts to the University's permanent endowment funds. These are funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditure, but rather for investment purposes only in order to produce income that is to be expended for the purposes specified.
  - Expendable net position consists of resources which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed by donors and/or other external parties, and includes the net appreciation of permanent endowments.
- Unrestricted Net Position – This is all other funds available to the University for any purpose associated with its mission. Unrestricted net position is not subject to externally imposed stipulations, but often is internally designated for specific purposes.

The University's net position at June 30, 2016, 2015 and 2014 is summarized as follows:

(in millions)	2016	2015	2014
Net investment in capital assets	$ 2,278	$ 2,156	$ 2,018
Restricted:			
Nonexpendable	1,419	1,322	1,257
Expendable	1,591	1,699	1,629
Unrestricted	676	869	1,739
Total net position	**$ 5,964**	**$ 6,046**	**$ 6,643**

Unaudited – see accompanying notes to financial statements

Net investment in capital assets increased $122 million, or 6%, in 2016, and $138 million, or 7%, in 2015. This balance increases as debt is paid off, or when the University funds fixed asset purchases without the use of external financing, for example by using internal reserves. This balance decreases as assets are depreciated.

Restricted nonexpendable net position increased $97 million, or 7%, in 2016, and $65 million, or 5%, in 2015. For both years, the increase reflects the receipt of new endowment gifts, offset by a decrease in the fair value of endowment investments.

Restricted expendable net position decreased by $108 million, or 6%, in 2016, and increased $70 million, or 4%, in 2015. This category is primarily affected by new operating and capital gifts, and earnings or losses on restricted investments, including endowments. The change in market value for the Consolidated Endowment Fund was the primary cause for the increase or decrease each year.

Unrestricted net position decreased $193 million, or 22%, in 2016, and decreased by $870 million, or 50%, in 2015. The use of institutional reserves to partly fund select capital maintenance and construction projects contributed approximately $82 million to the 2016 decrease, together with a $51 million decline in the market value for the Diversified Investment Pool. The decrease in 2015 was primarily due to the impact of restating fiscal year 2015 beginning net position as a result of implementing GASB Statement No. 68. In addition, the University began a formal program in 2015 to fund the construction of capital assets using internal reserves by directing that a limited portion of the Invested Funds Pool be available for investment in institutional infrastructure, as opposed to financial assets. As a result, $128 million of construction costs were sourced during 2015 using internal reserves. These amounts were reflected as a reduction of unrestricted net position, and an increase in net investment in capital assets.

Endowment and Other Investments

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

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

The CEF has experienced considerable growth over the past 10 years due to gifts and endowment returns. The number of individual endowments in the CEF has grown to 4,506, and the market value of the CEF has increased significantly, rising from $1.7 billion at June 30, 2006 to $3.0 billion at June 30, 2016.

The impact to program support has been substantial, with $870 million distributed over the past 10 years touching every part of the University. Programs supported by endowment returns include academic programs, scholarships, fellowships, professorships, chairs and research activities. Under the Board of Regents' approved long-term spending policy for the CEF, quarterly distributions to programs are made based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. An additional 1% is distributed to support fundraising and stewardship activities (0.80%) and investment management (0.20%). Similar to program distributions, the fee is based on the endowment's five-year average market value.

In September of 2015, the Board of Regents approved the establishment of an internal investment management company, known as the University of Washington Investment Management Company (UWINCO). Under the new structure, the UWINCO advisory committee was transitioned to an investment company advisory board (UWINCO Board). This change reflects industry best practices and trends among other peer institutions.

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

The CEF asset allocation includes two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2016, 77% of the CEF was invested in Capital Appreciation and 23% in Capital Preservation. Following an expectation that market returns for equities will exceed bonds over the next decade, a medium-term objective is maintained of generally overweighting equity-oriented strategies with a focus on quality companies and downside protection. The University also maintains ample liquidity within Capital Preservation to meet its funding requirements, as well as to take advantage of market dislocations if opportunities arise.

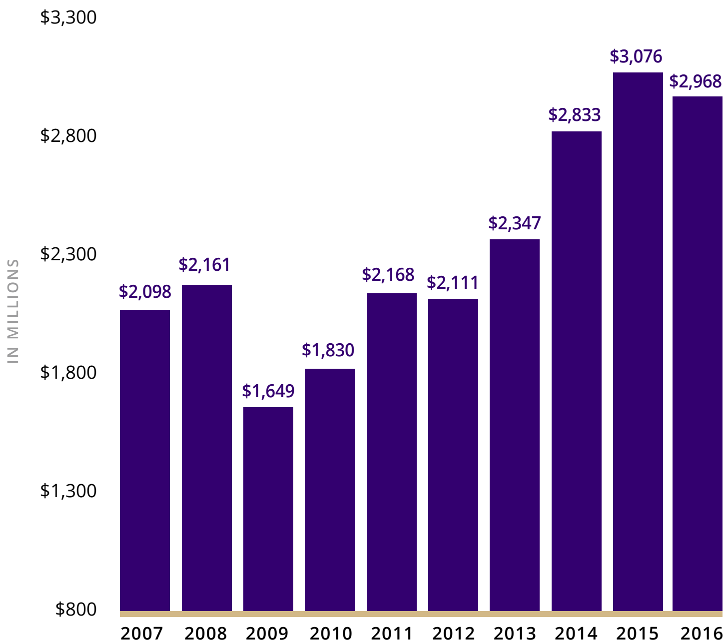
For the fiscal year ended June 30, 2016, the CEF returned -1.6% versus -0.2% for the passive benchmark. The CEF's Emerging Markets Equity, Developed Markets Equity and Fixed Income strategies drove both absolute and relative underperformance. All other CEF strategies had strong relative performance against their benchmarks. Market conditions were exceptionally tough, particularly during late 2015, when a sluggish Chinese economy and falling energy prices weighed heavily on markets. With the exception of the S&P 500, every major equity index had negative returns in fiscal year 2016 and nearly all, including the S&P 500, posted lower returns than fiscal year 2015. This lower return trend is expected to continue, with the negative to low interest rate environment remaining a major driver of investment performance.

Longer-term, the CEF has consistently maintained solid absolute and relative performance. The CEF has outperformed both the passive benchmark, and public university peers with $1 billion to $5 billion of assets, for the 5, 10 and 20-year periods. The 20-year return for the CEF stands at +8.4%.

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.

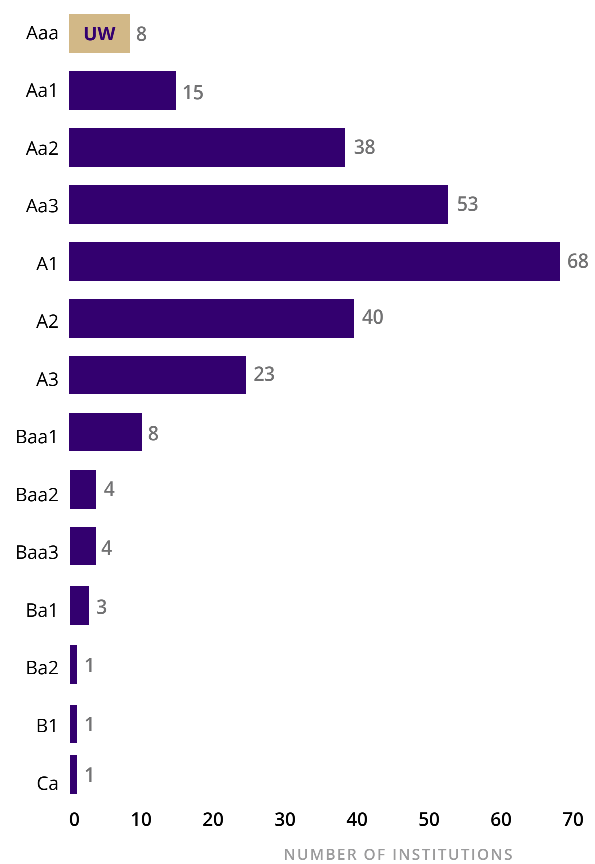
Consolidated Endowment Fund Market Value

(in millions)



Moody's Fiscal Year 2015 Public College and University Rating Distribution

(As of the July 2016 Moody's Median Report)



A portion of the University's operating funds, the Diversified Investment Pool, are invested in the CEF. As of June 30, 2016, these funds comprise $731 million of the CEF market value.

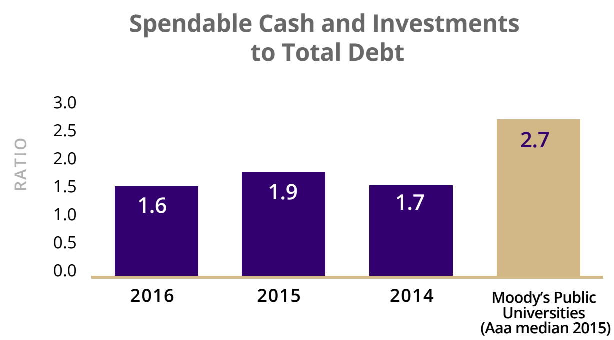
Debt and Related Capital Improvements

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. The University's debt portfolio consists primarily of fixed rate debt in the form of General Revenue Bonds, Lease Revenue Bonds and state issued bonds, as well as variable rate debt such as commercial paper.

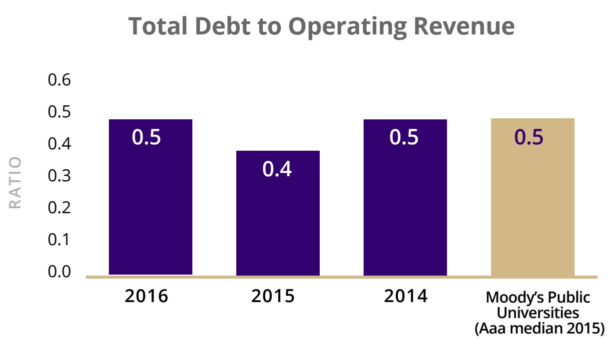
Credit ratings are a reflection of the University's strength. During fiscal year 2016, the University was rated Aaa (Stable) (the highest rating) by Moody's Investors Service and AA+ (Stable) by Standard & Poor's. These strong ratings carry substantial advantages for the University: continued and wider access to capital markets when the University issues debt, lower interest rates on bonds and the ability to negotiate favorable bond terms.

Unaudited – see accompanying notes to financial statements

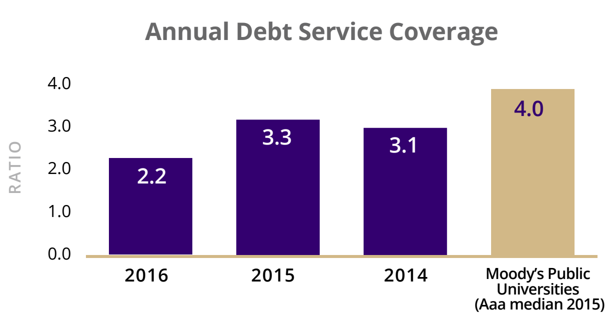
The University uses three debt-related financial ratios as performance benchmarks to evaluate institutional debt capacity and financial health. Spendable Cash and Investments to Total Debt is a measure of all available resources to pay debt, Total Debt to Operating Revenue is a measure of financial leverage, and Annual Debt Service Coverage is a measure of cash flow available to pay debt obligations. Each ratio is defined by Moody's Investors Service, and evaluated relative to the University's debt policy and the appropriate peer group comparison.



This ratio shows that in 2016 the University had sufficient non-restricted cash and investments to pay its outstanding debt 1.6 times.



This ratio shows that in 2016 the University generated enough operating revenue to pay its total outstanding debt twice over.



This ratio shows that in 2016 the net operating income of the University was sufficient to pay the principal and interest payments on its outstanding debt 2.2 times.

In September 2015, the University issued $196 million of General Revenue Bonds with an average coupon of 4.03%. A portion of the proceeds was used to pay off $112 million of commercial paper. The balance was used to fund various projects such as renovation of Denny Hall, construction of Animal Care and Research Facilities, South West Campus Central Utility Plant and other projects.

In October 2015, the University, through Washington Biomedical Research Properties 3.2, issued $132 million in Lease Revenue Bonds with an average coupon of 4.42%. Proceeds were used to fund the design, construction, and equipping of a new biomedical research facility.

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, faculty and staff. Significant capital asset expenditures (greater than $20 million) during fiscal year 2016 included $65 million for the Animal Care and Research Facilities, $38 million for Phase 2 of the UW Medical Center expansion, $37 million for the Molecular Engineering & Sciences Building, $36 million for the renovation of Denny Hall, and $23 million for the South West Campus Central Utility Plant.

Key projects placed in service during 2016 include:

- Maple Hall and Terry Hall - $112 million. These new eight-story residential buildings include five wood-frame stories of housing consisting of two-bedroom suites, all with private bathrooms. The lower two floors of each building will be occupied by Housing and Food Services administration offices, common space for students, and some additional two-bedroom suites. A below-grade parking garage connected to the Lander Hall garage and the Lander Hall loading dock will extend below the new Maple and Terry residence halls. The two new buildings will total approximately 440,000 square feet, with a target bed count of 1,150 beds.
- UW Medical Center Expansion Phase 2 - $121 million. This project included a build-out of three inpatient bed floors, including the addition of intensive care and medical/surgical beds as well as new operating rooms.
- Montlake/Rainier Vista - $24 million. The scope of this project included lowering NE Pacific Place, and construction of the Rainier Vista Land Bridge to span over NE Pacific Place and connect the Montlake Triangle in a seamless pedestrian experience. Also included were landscaping, hard surfacing, lighting and other site improvements.

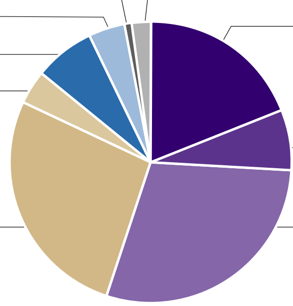
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses and Changes in Net Position present the University's results of operations and nonoperating items that result in the changes in net position for the year. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A condensed comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2016, 2015 and 2014 follows:

(in millions)	2016	2015	2014
Total operating revenues	$ 4,352	$ 4,212	$ 3,914
Total operating expenses	5,034	4,676	4,384
Operating loss	(682)	(464)	(470)
Nonoperating revenues, net of expenses	450	590	859
Other revenues	150	109	89
Increase (decrease) in net position	(82)	235	478
Net position, beginning of year	6,046	6,643	6,165
Cumulative effect of accounting change	–	(832)	–
Net position, beginning of year as restated	6,046	5,811	6,165
Net position, end of year	**$ 5,964**	**$ 6,046**	**$ 6,643**

The University has a diversified revenue base. No single source generated more than 29% of the total fiscal year 2016 revenues of $5.0 billion.

Sources of Funds



The following table summarizes revenues from all sources for the years ended June 30, 2016, 2015 and 2014:

(in millions)	2016	2015	2014
Tuition and fees	$ 949	$ 914	$ 839
Patient services	1,435	1,362	1,207
Grants and contracts	1,348	1,334	1,327
Sales and services of educational departments	225	223	213
Auxiliary enterprises	349	319	261
State funding for operations	302	255	262
Gifts	220	200	191
Investment income	45	227	481
State funding for capital projects	39	21	8
Other	112	136	164
Total revenue - all sources	**$ 5,024**	**$ 4,991**	**$ 4,953**

Grant Revenue

One of the largest sources of revenue (27%) continues to be grants and contracts. Total grants and contracts revenue increased $14 million, or 1%, in 2016, compared to an increase of $7 million, or 1%, in 2015.

While federal revenue saw an increase during fiscal year 2016 from several of the University's top sponsors (National Science Foundation, Department of Defense, Department of Commerce), this increase was offset by a decrease in funding related to a significant federal flow-through relationship. During 2016, University researchers successfully completed the development and implementation of the Ocean Observatories Initiative's Cabled Array, an underwater ocean observatory off the Pacific Northwest coast. In fiscal year 2015, the project generated $24.0 million in revenue, with a decline to $0.8 million as the project came to a close in fiscal year 2016.

Overall, consistent with fiscal year 2015, the slight decrease in federal grant and contract revenues was offset by increases in state and local, and nongovernmental, revenues. State and local revenues increased as a result of a boost in funding from the State Need Grant totaling $4.4 million. Nongovernmental revenue continued its five-year increasing trend, due to the cultivation of relationships with new sponsors and the addition of new grants and contracts related to the portfolios of long-standing sponsor relationships.

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

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

Facility and administrative expenses necessary to support grants and contracts are reimbursed by sponsors, along with direct costs, by an indirect cost recovery. The current indirect cost recovery rate for research grants is approximately 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 increased during the last few fiscal years, but is still significantly below historical levels.

Operating Support for Instruction

(in millions)	2016		2015		2014	
State operating appropriations	$ 302	24%	$ 255	22%	$ 262	24%
Operating tuition and fees	661	53%	638	55%	594	54%
Fees for self-sustaining educational programs	288	23%	276	23%	245	22%
Total educational support	**$ 1,251**	**100%**	**$1,169**	**100%**	**$1,101**	**100%**

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

Total revenue from tuition and fees, net of scholarship allowances, increased to $949 million in fiscal year 2016, from $914 million in 2015 and $839 million in 2014. The 2016 increase was the result of enrollment growth, and moderate tuition and fee rate increases for most student groups. Full-time equivalent (FTE) enrollment in undergraduate tuition- and fee-based programs increased by 1.5% in the resident student category, and by 6.4% in the nonresident student category. FTE enrollment in graduate and professional tuition- and fee-based programs decreased by 1.7% in the resident student category and increased by 5.4% in the nonresident student category. Nonresident undergraduate tuition rates increased in 2016 by 2%, while graduate and professional tuition rate increases were generally in the 2-5% range, with variation by program and student residency. Rates for fee-based programs generally grew by 3-5%, with significant variation by program. These enrollment growth and tuition and fee rate increases were partially offset by a state legislatively mandated reduction in resident undergraduate tuition rates of 5% below the prior year.

Tuition revenue increases were partially offset by an increase in scholarships and fellowships expense, and scholarship allowances of $12 million in 2016, $11 million in 2015, and $2 million in 2014.

Self-sustaining educational programs (fee-supported programs) include the following amounts for each of the fiscal years 2016, 2015 and 2014: UW Educational Outreach (the continuing education branch of the University) $108 million, $97 million and $96 million, respectively, summer quarter tuition $54 million, $59 million and $42 million, respectively, and for Business School and School of Medicine programs $50 million, $47 million and $45 million, respectively.

Patient Services–UW Medicine

The financial statements of the University include the operations of the School of Medicine, three hospitals, associated physician group and clinics, Airlift Northwest, and the University's share of two joint ventures. These entities, together with Harborview Medical Center (not included in the University's financial statements – see Note 13) comprise UW Medicine, an umbrella organization serving to coordinate these activities and promote quality healthcare 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 529-bed hospital that provides comprehensive healthcare services to the Puget Sound community and patients from throughout the Pacific Northwest and beyond. UWMC also serves as the major clinical, teaching and research site for students and faculty in the Health Sciences at the University. Over 18,000 patients receive inpatient care at UWMC each year. Specialized inpatient care needs are met by the Cancer Center, the Regional Heart Center, the Neonatal Intensive Care Unit (NICU) and the Organ Transplantation program.

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

Northwest Hospital & Medical Center (NWH) is a full-service medical facility with 281 beds, and treats approximately 10,000 inpatients per year. NWH joined UW Medicine in January, 2010. NWH's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position are presented in a discrete column together with VMC on the financial statements of the University.

UW Neighborhood Clinics (Neighborhood Clinics) is a network of clinics with 12 neighborhood locations throughout the greater Puget Sound area, providing primary, urgent and selected specialty care with a staff of 99 healthcare providers. The revenues, expenses, assets and liabilities of Neighborhood Clinics are included in the University's financial statements.

UW Physicians (UWP) is the physician practice group for more than 1,800 faculty physicians and healthcare providers associated with UW Medicine. The revenues, expenses, assets and liabilities of UWP are included in the University's financial statements.

Airlift Northwest is the preeminent provider of air medical transport services in the Pacific Northwest. The revenues, expenses, assets and liabilities of Airlift Northwest are included in the University's financial statements.

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

In combination, these organizations (not including VMC and NWH) contributed $1,435 million in patient services revenue in fiscal year 2016, $1,362 million in fiscal year 2015 and $1,207 million in fiscal year 2014. UWMC generated 75% of this revenue in 2016, 76% in 2015 and 77% in 2014. UWMC admissions exceeded 18,000 in 2016, a slight increase from 2015. Average patient length of stay was nearly 7.2 days, up from 7.0 days in 2015. The increase in patient services revenue during 2016 is partly due to higher capacity with the opening of three patient bed floors in the Montlake Tower, as well as strong case volumes in oncology, cardiology and neurosurgery.

Gifts, Endowments and Investment Revenues

Net investment income for the years ended June 30, 2016, 2015 and 2014 consisted of the following:

(in millions)	2016	2015	2014
Interest and dividends	$ 69	$ 66	$ 73
Metropolitan Tract net income	22	16	8
Seattle Cancer Care Alliance increase in equity	19	6	12
Net appreciation (depreciation) of fair value of investments	(54)	151	398
Investment expenses	(11)	(12)	(10)
Net investment income	**$ 45**	**$ 227**	**$ 481**

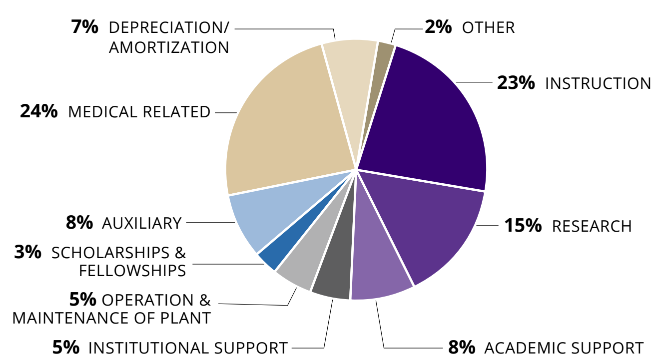
Net appreciation (depreciation) includes both realized and unrealized gains and losses. The unrealized gains, however, are not available until the underlying securities have been sold. Net investment income decreased by $182 million in 2016, compared to a decrease of $254 million in 2015. The change in realized and unrealized gains and losses was the major factor in the decrease for both years.

Donor support increased by $20 million, or 10%, to $220 million in 2016 from $200 million in 2015. Gifts are a key and necessary source of support for a variety of purposes including capital improvements, scholarships, research, and endowments for various academic and research positions.

Expenses

Two primary functions of the University, instruction and research, comprised 38% of total operating expenses. These dollars provided instruction to nearly 56,000 students and funded over 5,000 research awards. Medical-related expenses, such as those related to patient care, also continue to be one of the largest individual components.

Uses of Funds



Unaudited – see accompanying notes to financial statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

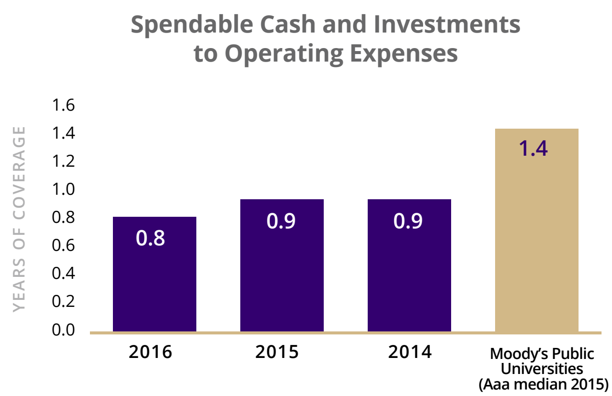
A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2016, 2015 and 2014 follows:

(in millions)	2016	2015	2014
Operating expenses:			
Educational and general instruction	$ 1,172	$ 1,114	$ 1,037
Research	751	730	766
Public service	39	35	42
Academic support	398	337	297
Student services	47	43	43
Institutional support	267	223	224
Operation and maintenance of plant	239	241	201
Scholarships and fellowships	156	147	138
Auxiliary enterprises	422	302	286
Medical-related	1,218	1,193	1,042
Depreciation/amortization	325	311	308
Total operating expenses	**$ 5,034**	**$ 4,676**	**$ 4,384**

Overall, the University's operating expenses increased by $358 million, or 8%, during 2016. Salaries expense increased $171 million, or 8%, due to employee merit increases and a modest increase in FTE's. Expenses associated with employee benefits increased $99 million, or 15%, primarily due to higher costs paid by the University for employee healthcare ($70 million), together with an increase in pension-related expenses as calculated under GASB Statement No. 68 ($19 million).

In 2015, operating expenses increased by $292 million, or 7%, over the prior year. Salaries expense increased $166 million, or 8%, due to merit increases and a small increase in FTE's. Despite an increase in the associated salaries, benefits expense decreased by $12 million, or 2%, due primarily to a reduction in pension expense as calculated under GASB Statement No. 68 when compared to the prior year, before implementation of the new accounting standard. Supplies and materials expense increased $44 million, or 11%, partly due to higher demand for medical supplies required by UWMC to support an increase in volumes related to patient care. Other operating expense increased by $35 million, or 34%, primarily due to increases in rental expense and costs associated with the University's self-insurance program.

The ratio of spendable cash and investments to operating expenses (as defined by Moody's Investors Service) measures the strength of available resources to cover annual operating expenses. This ratio, illustrated in the chart below, shows that in 2016 the University had sufficient available resources to fund operations for a period of 9.6 months.



Operating Loss

The University's operating loss increased to $682 million in 2016, from $464 million in 2015. The 2015 operating loss was a slight decrease from $470 million in 2014. State appropriations are shown as nonoperating revenue, pursuant to GASB standards. If state appropriations were classified as operating revenue, the operating loss would have been $380 million in 2016, $209 million in 2015 and $208 million in 2014. The University continues to rely on nonoperating revenues such as gift revenues and investment income distributions, in addition to state appropriations, to fund its operations.

Unaudited – see accompanying notes to financial statements


UNIVERSITY of WASHINGTON
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STATEMENTS OF NET POSITION

	University of Washington June 30, 2016	University of Washington June 30, 2015	Discrete Component Units [1] June 30, 2016	Discrete Component Units [1] June 30, 2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 93,485	$ 82,905	$ 63,998	$ 39,960
INVESTMENTS, CURRENT PORTION (NOTE 6)	700,821	679,505	16,460	24,477
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $58,643 AND $66,902) (NOTE 5)	687,248	596,453	120,361	110,297
OTHER CURRENT ASSETS	57,262	43,459	64,854	63,444
TOTAL CURRENT ASSETS	1,538,816	1,402,322	265,673	238,178
NONCURRENT ASSETS:				
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	59,929	51,647	–	–
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	4,108,149	4,297,157	56,229	66,168
METROPOLITAN TRACT (NOTE 7)	133,525	121,146	–	–
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF $6,209 AND $4,974) (NOTE 4)	71,721	73,384	–	–
DUE FROM DISCRETE COMPONENT UNITS	84,946	93,240	–	–
OTHER NONCURRENT ASSETS	156,726	150,323	129,118	110,753
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF $3,798,831 AND $3,566,289) (NOTE 8)	4,353,141	4,172,378	461,017	467,701
TOTAL NONCURRENT ASSETS	8,968,137	8,959,275	646,364	644,622
TOTAL ASSETS	10,506,953	10,361,597	912,037	882,800
DEFERRED OUTFLOWS OF RESOURCES:				
UNAMORTIZED LOSS ON BOND REFUNDING	23,465	25,813	6,066	6,435
PENSION-RELATED DEFERRED OUTFLOWS (NOTE 15)	155,890	85,602	–	–
TOTAL DEFERRED OUTFLOWS OF RESOURCES	179,355	111,415	6,066	6,435
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 10,686,308**	**$ 10,473,012**	**$ 918,103**	**$ 889,235**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 652,471	$ 626,085	$ 136,970	$ 121,160
UNEARNED REVENUES	173,379	155,114	–	–
OTHER CURRENT LIABILITIES	97,170	92,982	16,932	11,743
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-11)	137,036	124,137	13,619	9,001
TOTAL CURRENT LIABILITIES	1,060,056	998,318	167,521	141,904
NONCURRENT LIABILITIES:				
U.S. GOVERNMENT GRANTS REFUNDABLE	58,754	51,985	–	–
DUE TO PRIMARY GOVERNMENT	–	–	84,946	93,240
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-11)	2,676,019	2,484,522	307,901	320,232
NET PENSION LIABILITY (NOTE 15)	805,174	622,589	–	–
TOTAL NONCURRENT LIABILITIES	3,539,947	3,159,096	392,847	413,472
TOTAL LIABILITIES	4,600,003	4,157,414	560,368	555,376
DEFERRED INFLOWS OF RESOURCES:				
PROPERTY TAXES	–	–	26,744	9,625
PENSION-RELATED DEFERRED INFLOWS (NOTE 15)	122,417	269,135	–	–
TOTAL DEFERRED INFLOWS OF RESOURCES	122,417	269,135	26,744	9,625
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,722,420	4,426,549	587,112	565,001
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	2,277,608	2,156,229	71,275	67,033
RESTRICTED:				
NONEXPENDABLE	1,419,311	1,321,979	1,927	1,943
EXPENDABLE	1,591,440	1,699,135	8,788	8,471
UNRESTRICTED	675,529	869,120	249,001	246,787
TOTAL NET POSITION	5,963,888	6,046,463	330,991	324,234
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 10,686,308**	**$ 10,473,012**	**$ 918,103**	**$ 889,235**

[1] See Note 18

See accompanying notes to financial statements.

Dollars in thousands

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNITS [1]	
	Year ended June 30,		Year ended June 30,	
REVENUES	2016	2015	2016	2015
OPERATING REVENUES:				
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $144,543 AND $142,685)	$ 948,751	$ 914,419	$ –	$ –
NET PATIENT SERVICE REVENUES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $17,219 AND $15,947)	1,434,696	1,362,279	877,461	822,421
FEDERAL GRANTS AND CONTRACTS	990,396	999,189	–	–
STATE AND LOCAL GRANTS AND CONTRACTS	90,213	87,629	–	–
NONGOVERNMENTAL GRANTS AND CONTRACTS	213,834	193,840	–	–
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	224,747	223,494	–	–
AUXILIARY ENTERPRISES:				–
HOUSING AND FOOD SERVICES	114,448	111,531	–	–
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $8,231 AND $6,495)	62,690	67,727	–	–
OTHER AUXILIARY ENTERPRISES	171,712	139,974	–	–
OTHER MEDICAL-RELATED REVENUE	51,001	45,157	45,633	53,165
OTHER OPERATING REVENUE	49,841	66,340	–	–
TOTAL OPERATING REVENUES	**4,352,329**	**4,211,579**	**923,094**	**875,586**
EXPENSES				
OPERATING EXPENSES (NOTE 12):				
SALARIES	2,363,848	2,192,781	422,294	384,254
BENEFITS	749,407	649,923	103,837	99,346
SCHOLARSHIPS AND FELLOWSHIPS	155,449	146,570	–	–
UTILITIES	51,421	60,454	8,673	8,480
SUPPLIES AND MATERIALS	481,428	463,624	138,058	161,694
PURCHASED SERVICES	750,078	707,678	158,279	142,741
DEPRECIATION/AMORTIZATION	324,602	310,960	46,822	49,238
OTHER	157,932	144,087	55,993	20,048
TOTAL OPERATING EXPENSES	**5,034,165**	**4,676,077**	**933,956**	**865,801**
OPERATING INCOME (LOSS)	**(681,836)**	**(464,498)**	**(10,862)**	**9,785**
NONOPERATING REVENUES (EXPENSES)				
STATE APPROPRIATIONS	302,097	255,156	–	–
GIFTS	115,000	115,636	297	342
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $10,871 AND $11,741)	44,877	227,404	7,182	4,385
INTEREST ON CAPITAL ASSET-RELATED DEBT	(72,678)	(79,259)	(22,023)	(23,004)
PELL GRANT REVENUE	47,699	48,471	–	–
PROPERTY TAX REVENUE	–	–	19,902	18,132
OTHER NONOPERATING REVENUES	13,133	22,273	12,475	630
NET NONOPERATING REVENUES	**450,128**	**589,681**	**17,833**	**485**
INCOME (LOSS) BEFORE OTHER REVENUES	**(231,708)**	**125,183**	**6,971**	**10,270**
CAPITAL APPROPRIATIONS	39,221	20,812	–	–
CAPITAL GRANTS, GIFTS AND OTHER	21,645	21,986	(214)	2
GIFTS TO PERMANENT ENDOWMENTS	88,267	67,359	–	167
TOTAL OTHER REVENUES	**149,133**	**110,157**	**(214)**	**169**
INCREASE (DECREASE) IN NET POSITION	**(82,575)**	**235,340**	**6,757**	**10,439**
NET POSITION				
NET POSITION – BEGINNING OF YEAR (NOTE 1)	6,046,463	5,811,123	324,234	313,795
NET POSITION – END OF YEAR	**$ 5,963,888**	**$ 6,046,463**	**$ 330,991**	**$ 324,234**

[1] See Note 18

See accompanying notes to financial statements.

Dollars in thousands

STATEMENTS OF CASH FLOWS

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
STUDENT TUITION AND FEES	$ 913,941	$ 882,465
PATIENT SERVICES	1,449,111	1,328,801
GRANTS AND CONTRACTS	1,317,899	1,291,442
PAYMENTS TO SUPPLIERS	(469,826)	(466,542)
PAYMENTS FOR UTILITIES	(51,952)	(60,056)
PURCHASED SERVICES	(740,575)	(708,302)
OTHER OPERATING DISBURSEMENTS	(153,006)	(139,559)
PAYMENTS TO EMPLOYEES	(2,357,060)	(2,186,431)
PAYMENTS FOR BENEFITS	(683,786)	(588,216)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(155,449)	(146,570)
LOANS ISSUED TO STUDENTS	(14,474)	(24,858)
COLLECTION OF LOANS TO STUDENTS	22,906	23,530
OTHER MEDICAL CENTER RECEIPTS	51,001	45,157
AUXILIARY ENTERPRISE RECEIPTS	347,924	305,523
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	222,515	220,004
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	766,993	714,996
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(757,478)	(712,292)
OTHER RECEIPTS	37,227	91,322
NET CASH USED BY OPERATING ACTIVITIES	**(254,089)**	**(129,586)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	304,786	255,613
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	47,699	48,471
PRIVATE GIFTS	95,519	91,574
PERMANENT ENDOWMENT RECEIPTS	88,267	67,359
DIRECT LENDING RECEIPTS	219,000	239,000
DIRECT LENDING DISBURSEMENTS	(231,295)	(240,607)
TRANSFERS (TO) FROM COMPONENT UNITS	6,143	(100,945)
OTHER	15,387	65,744
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**545,506**	**426,209**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	388,420	450,469
STATE CAPITAL APPROPRIATIONS	41,078	20,928
CAPITAL GRANTS AND GIFTS RECEIVED	20,499	21,651
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(471,545)	(432,885)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(234,825)	(386,874)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(79,780)	(98,911)
OTHER	(7,407)	5,427
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(343,560)**	**(420,195)**

UNIVERSITY OF WASHINGTON		
	Year Ended June 30,	
CASH FLOWS FROM INVESTING ACTIVITIES	**2016**	**2015**
PROCEEDS FROM SALES OF INVESTMENTS	8,495,341	6,931,799
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(8,512,358)	(6,874,325)
INVESTMENT INCOME	79,740	69,875
NET CASH PROVIDED BY INVESTING ACTIVITIES	**62,723**	**127,349**
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,580	3,777
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	82,905	79,128
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 93,485**	**$ 82,905**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (681,836)	$ (464,498)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	324,602	310,960
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES	10,625	(13,716)
OTHER ASSETS	(17,749)	(39,571)
PENSION-RELATED DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES	(217,007)	264,460
NET PENSION LIABILITY	182,585	(289,763)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	66,750	24,763
UNEARNED REVENUE	18,265	(10,813)
OTHER LONG-TERM LIABILITIES	51,244	89,920
U.S. GOVERNMENTAL GRANTS REFUNDABLE	6,769	(442)
LOANS TO STUDENTS	1,663	(886)
NET CASH USED BY OPERATING ACTIVITIES	**$ (254,089)**	**$ (129,586)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
STOCK GIFTS	$ 19,481	$ 24,062
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	18,932	6,319
NET UNREALIZED GAINS (LOSSES)	(94,881)	79,724
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ (56,468)**	**$ 110,105**

See accompanying notes to financial statements.
Dollars in thousands

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

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

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

Harborview Medical Center (HMC), a component unit of King County, Washington, is a related party to the University, but is not reflected as part of the financial reporting entity (Note 13).

Component units are legally separate organizations for which the University is financially accountable. Financial accountability is demonstrated when one of several conditions exist such as when the University appoints a voting majority of the organization's board, is able to impose its will on the organization, receives specific financial benefit or incurs specific financial burdens from the organization, or the organization is fiscally dependent on the University. These entities may be reported in the financial statements of the University in one of two ways: the component units' amounts may be blended with the amounts reported by the University, or they may be shown in a separate column, depending on the application of the criteria of Governmental Accounting Standards Board (GASB) Statement No. 61, "*The Financial Reporting Entity: Omnibus*." All component units of the University meet the criteria for blending except Northwest Hospital & Medical Center and Valley Medical Center. They are reported discretely, since they have separate boards of directors and they do 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 Association of University Physicians dba UW Physicians (UWP)

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 $234,798,000 and $204,079,000 in 2016 and 2015, respectively.

UW Medicine Neighborhood Clinics (Neighborhood Clinics)

Neighborhood Clinics was established as a tax-exempt entity for the benefit of UWSOM, UWP and its affiliated medical centers, HMC and UWMC, exclusively for charitable, scientific and educational purposes. Neighborhood Clinics was organized to coordinate and develop patient care in a community clinical setting. They enhance the academic environment of UWSOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of $15,076,000 and $16,008,000 in 2016 and 2015, respectively.

Real estate financing entities

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

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

These entities collectively have net capital assets of $277,820,000 and $278,928,000, and long-term debt of $424,766,000 and $281,550,000, in 2016 and 2015, respectively. These amounts are reflected in the University's financial statements.

DISCRETELY PRESENTED COMPONENT UNITS

Northwest Hospital

UW Medicine and Northwest Hospital & Medical Center (NWH), a 281-bed full-service acute care hospital, have been affiliated since January 1, 2010. The University is the sole corporate member of NWH. The audited financial statements of NWH are available by contacting Northwest Hospital & Medical Center at 1550 N. 115th Street, Seattle, Washington 98133-9733, Mailstop X-112.

Valley Medical Center

UW Medicine and Public Hospital District No. 1 of King County, a Washington public hospital district dba Valley Medical Center (VMC), have had a strategic alliance since July 1, 2011. Valley Medical Center owns and operates a 321-bed full-service acute care hospital and 45 clinics located throughout southeast King County. The audited financial statements of VMC are available by contacting Valley Medical Center at 400 S. 43rd Street, Renton, Washington 98055 or online at the following address: www.valleymed.org/about-us/financial-information/.

JOINT VENTURES

The University, together with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center, established the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA has a one-third interest. The University accounts for its interest in SCCA under the equity method and has recorded $126,636,000 and $107,704,000 in Other Assets, together with $18,932,000 and $6,319,000 in Investment Income, for its share of the joint venture in 2016 and 2015, respectively.

The University and Seattle Children's Hospital established Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care, 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 $16,905,000 and $18,852,000 in 2016 and 2015, respectively.

CHANGES IN REPORTING ENTITY

In fiscal year 2016, Washington Biomedical Research Properties 3.2 began operations and commenced construction of facilities that will be utilized by the University to fulfill its mission. Based on its relationship with the University, management has determined that it meets the criteria of a blended component unit for presentation in the University's financial statements. As such, its financial activities are aggregated with those of the University and intra-entity transactions have been eliminated.

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, Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to the Financial Statements. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

On July 1, 2014, the University adopted GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." This Statement requires governments providing defined benefit pensions to their employees to recognize their proportionate share of the pension plan's net pension liability or net pension asset, which is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The total pension liability is determined by discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. Prior to adopting this Statement, the University reported pension expense based on cash contributions paid to the pension plan administrator. In addition to the reporting changes described above, implementation of this Statement resulted in the restatement of fiscal year 2015 beginning unrestricted net position, reducing it by $831,426,000. Below is a reconciliation of total net position as previously reported at June 30, 2014, to the restated net position.

(Dollars in thousands)	
NET POSITION AT JUNE 30, 2014, AS PREVIOUSLY REPORTED	$ 6,642,549
ADOPTION OF GASB STATEMENT NO. 68	(831,426)
NET POSITION AT JULY 1, 2014, AS RESTATED	**$ 5,811,123**

On July 1, 2014, the University adopted GASB Statement No. 69, "*Government Combinations and Disposals of Government Operations*." This Statement requires disclosures to be made about government combinations and disposals of government operations, in order to enable financial statement users to evaluate the nature and financial effects of those transactions. There was no impact to the financial statements of the University as a result of implementing this Statement.

On July 1, 2014, the University adopted GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," an amendment of GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*." The purpose of this Statement is to address application of the transition provisions of GASB Statement No. 68, and to clarify guidance regarding contributions made by a state or local government employer, or nonemployer contributing entity, to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Implementation of this Statement impacted the restatement of fiscal year 2015 beginning unrestricted net position required by GASB Statement No. 68, reducing it by $80,926,000.

On July 1, 2015, the University adopted GASB Statement No. 72 "*Fair Value Measurement and Application*". This Statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. There was no impact to the fair value measurements presented in the Statements of Net Position or Statements of Revenues, Expenses and Changes in Net Position of the University as a result of implementing this Statement. University disclosures related to fair value measurement, however, have been updated where necessary (Note 6).

On July 1, 2015, the University adopted the portion of the guidance in GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*" that pertains to amendments to Statement No. 68. There was no impact to the financial statements of the University as a result of implementing this portion of the Statement.

On July 1, 2015, the University adopted Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to the financial statements of the University as a result of implementing this Statement.

On July 1, 2015, the University adopted GASB Statement No. 82, "*Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*". This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance of Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The University either already complies with, or is unaffected by, the topics addressed by this Statement, therefore, there was no impact to the University's financial statements, note disclosures or required supplementary information as a result of implementation.

ACCOUNTING STANDARDS IMPACTING THE FUTURE

In June 2015, the GASB issued Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The portion of this guidance pertaining to pension plans not within the scope of Statement No. 68 will be effective for the fiscal year ending June 30, 2017. The guidance is intended to improve the financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, and improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68. The University of Washington Supplemental Retirement Plan (UWSRP, Note 15) does not currently fall within the scope of GASB 68 since the assets set aside to pay retiree benefits have not been segregated and restricted in a trust or equivalent arrangement. Implementing this Statement will require that the University recognize the remaining unamortized pension plan liability for the UWSRP, together with any associated deferred inflows and deferred outflows of resources, and to restate net position for all periods presented.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" (OPEB), which will be effective for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The University's participation in OPEB is described in Note 14, and does not currently impact the University's financial statements. As a result of implementing this Statement, the University will be required to recognize its proportionate share of the state's actuarially determined OPEB liability, net of any assets segregated and restricted in a qualified trust, together with any associated deferred inflows and deferred outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented.

In August 2015, the GASB issued Statement No. 77, "*Tax Abatement Disclosures*", which will be effective for the fiscal year ending June 30, 2017. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues, and in exchange, the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires governments that enter into tax abatement agreements to disclose information about these agreements. VMC, a discretely presented component unit of the University, is the only organization within the University's financial reporting entity that receives tax revenues. VMC does not enter into tax abatement agreements, therefore, implementation of this Statement is not expected to have an impact on the financial statements of the University.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units*", which will be effective for the fiscal year ending June 30, 2017. This Statement amends requirements for the financial statement presentation of component units of all state and local governments. New criteria will require presenting a component unit's balances and activities blended with the primary government, and the elimination of intra-entity transactions, when the component unit is incorporated as a not-for-profit corporation and the primary government is the corporation's sole corporate member. The University is the sole corporate member of NWH, which is currently presented as a discretely presented component unit. Implementation of this Statement will require that the University begin reflecting NWH as a blended component unit, beginning in the fiscal year ending June 30, 2017.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*", which will be effective for the fiscal year ending June 30, 2018. Irrevocable split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Implementation of this Statement will require the University to report its beneficial interest in irrevocable split-interest agreements, including those held by an intermediary such as an outside trust. The University has lead income rights in many outside trusts. This Statement will require that the beneficial interest received be initially recorded at fair value as a deferred inflow of resources, and then revalued at the end of each financial reporting period with the change in fair value recognized as revenue. The University currently reports revenue based on income distributions received.

USE OF ESTIMATES

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

The University estimates the pollution remediation liability (Note 9) by reviewing the current status of known polluted sites and developing estimates of cleanup costs. These estimates are subject to change due to improvements in technology, inflation, changes in the scope of work, and the pursuit of reimbursement from other responsible parties.

Allowances (Notes 4 and 5) are estimates based on the historical experience of the University and current economic circumstances with respect to the collectability of accounts and loans receivable.

The University's share of pension plan assets, liabilities, deferrals and expenses related to the plans administered by the Washington Department of Retirement Systems, and the liability and expense related to the UWSRP (Note 15), are based on actuarial valuations prepared by an external actuary. The results of an actuarial valuation are estimates based on historical data, actuarial assumptions, and the demographics of the employee population.

The self-insurance reserve (Note 16) is estimated through an externally prepared actuarial calculation using individual case-basis valuations and statistical analyses. Considerable variability is inherent in such estimates.

OTHER ACCOUNTING POLICIES

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

Investments under long-term strategies are considered noncurrent. Short-term investments consist primarily of cash equivalents and fixed income vehicles which management has identified as available to meet the day-to-day obligations of the University.

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

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

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

Interest incurred on capital asset-related debt was $85,856,000 and $86,931,000 during 2016 and 2015, respectively. The University capitalized $13,178,000 and $7,672,000 of this cost during 2016 and 2015, respectively.

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

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

Split-Interest Agreements. Under such agreements, donors/beneficiaries receive income for their lifetime or for a stated term, with the University receiving the remaining principal. 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 3.4% to 7.5%.

Compensated Absences. University employees accrue annual leave at rates based on length of service, and for sick leave at the rate of one day per month. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal compensation rate for any balance that exceeds 480 hours, or for any balance upon retirement or death. Annual leave accrued at June 30, 2016 and 2015 was $104,330,000 and $93,328,000, respectively, and is included in Accounts Payable and Accrued Liabilities. Sick leave accrued at June 30, 2016 and 2015 was $42,191,000 and $37,984,000, respectively, and is included in Long-Term Liabilities (Note 9).

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

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

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

For more information about Net Patient Services Revenue, see the audited financial statements of the UW Medicine Clinical Enterprise - UW Division, which are contained in the latest Bondholders Report at http://f2.washington.edu/treasury/policies-reports/reports/financing.

Charity Care. Charity care provides patient care without charge or at amounts less than established rates to patients who meet certain criteria under the charity care policy. Records are maintained to identify and monitor the level of charity care provided. These records include charges foregone for services and supplies furnished under the charity care policy to the uninsured and the underinsured. Collection of these amounts is not pursued and as such they are not reported as net patient service revenue. The cost of charity provided is calculated based on the aggregate relationship of costs to charges. The estimated cost of charity care provided for fiscal years ended June 30, 2016 and 2015 was $14,690,000 and $11,530,000, respectively.

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 Position when underlying expenditures are made.

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

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

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

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

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

Unrestricted net position: Net position not subject to externally-imposed restrictions 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 and certain federal excise taxes.

Reclassifications. Certain amounts in the 2015 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2016 financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 2:

Cash and Cash Equivalents

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

At June 30, 2016 and 2015, bank balances not covered by FDIC or PDPC protection were $334,000 and $391,000, respectively.

NOTE 3:

Deposit with State of Washington

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

NOTE 4:

Student Loans Receivable

Net student loans of $71,721,000 and $73,384,000 at June 30, 2016 and 2015, respectively, consist of $55,804,000 and $55,537,000 from federal programs, and $15,917,000 and $17,847,000 from University programs, at June 30, 2016 and 2015, respectively. Interest income from student loans for the years ended June 30, 2016 and 2015 was $1,881,000 and $1,690,000, 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, 2016 and 2015 were:

(Dollars in thousands)	**2016**	**2015**
NET PATIENT SERVICES	$ 303,109	$ 325,813
GRANTS AND CONTRACTS	172,429	179,621
INVESTMENTS	137,359	31,392
DUE FROM OTHER AGENCIES	54,819	47,851
SALES AND SERVICES	34,590	32,357
TUITION	16,040	12,094
ROYALTIES	3,234	4,893
STATE APPROPRIATIONS	1,384	5,930
OTHER	22,927	23,404
SUBTOTAL	**745,891**	**663,355**
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(58,643)	(66,902)
TOTAL	**$ 687,248**	**$ 596,453**

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 of Regents establishes investment policy, which is carried out by the Chief Investment Officer. In 2016, the Board of Regents approved the establishment of the University of Washington Investment Management Company ("UWINCO"), an internal investment management company. The former investment management advisory committee was replaced with an investment management advisory board known as the University of Washington Investment Management Company Board ("UWINCO Board").

The University holds significant amounts of investments that are measured at fair value on a recurring basis. Shown below is a tabular format for disclosing the levels within the fair value hierarchy. The three-tier hierarchy of inputs is summarized as follows:

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date
- Level 2 Inputs – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly
- Level 3 Inputs – Unobservable inputs for an asset or liability

TABLE 1 – INVESTMENTS *(Dollars in thousands)*

		Fair Value Measurement Inputs		
INVESTMENTS BY FAIR VALUE LEVEL	2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 640,448	$ 13,646	$ 626,802	$ –
U.S. GOVERNMENT AGENCY	535,750	–	535,750	–
MORTGAGE BACKED	172,199	–	172,199	–
ASSET BACKED	133,567	–	133,567	–
CORPORATE AND OTHER	141,644	21,243	120,401	–
TOTAL FIXED INCOME SECURITIES	**1,623,608**	**34,889**	**1,588,719**	**–**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	626,622	573,552	52,025	1,045
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	11,291	6,160	–	5,131
REAL ESTATE	3,851	–	–	3,851
OTHER	226	–	–	226
TOTAL EQUITY SECURITIES	**641,990**	**579,712**	**52,025**	**10,253**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**2,265,598**	**$ 614,601**	**$ 1,640,744**	**$ 10,253**
INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)				
GLOBAL EQUITY INVESTMENTS	1,055,272			
ABSOLUTE RETURN STRATEGY FUNDS	463,366			
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	329,719			
REAL ASSETS FUNDS	183,481			
OTHER	106,729			
TOTAL INVESTMENTS MEASURED USING NAV	**2,138,567**			
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	4,404,165			
CASH EQUIVALENTS AT AMORTIZED COST	404,805			
TOTAL INVESTMENTS	**$ 4,808,970**			

TABLE 1 – INVESTMENTS *continued (Dollars in thousands)*

INVESTMENTS BY FAIR VALUE LEVEL	2015	Fair Value Measurement Inputs: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 607,182	$ 3,484	$ 603,698	$ –
U.S. GOVERNMENT AGENCY	585,745	–	585,745	–
MORTGAGE BACKED	204,546	–	204,546	–
ASSET BACKED	227,077	–	227,077	–
CORPORATE AND OTHER	103,781	23,211	80,570	–
TOTAL FIXED INCOME SECURITIES	**1,728,331**	**26,695**	**1,701,636**	**–**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	939,403	839,007	99,943	453
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	11,405	6,458	–	4,947
REAL ESTATE	7,829	–	–	7,829
OTHER	514	–	–	514
TOTAL EQUITY SECURITIES	**959,151**	**845,465**	**99,943**	**13,743**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**2,687,482**	**$ 872,160**	**$1,801,579**	**$ 13,743**
INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)				
GLOBAL EQUITY INVESTMENTS	823,675			
ABSOLUTE RETURN STRATEGY FUNDS	510,975			
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	340,231			
REAL ASSETS FUNDS	191,083			
OTHER	137,496			
TOTAL INVESTMENTS MEASURED USING NAV	**2,003,460**			
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	4,690,942			
CASH EQUIVALENTS AT AMORTIZED COST	285,720			
TOTAL INVESTMENTS	**$ 4,976,662**			

Fixed income and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income and equity securities classified in Level 2 are valued using observable inputs including quoted prices for similar securities and interest rates. Private equity, real assets and other investments classified in Level 3 are valued using either discounted cash flow or market comparable techniques.

The University's interests in certain non-readily marketable alternative investments, such as hedge funds and private equity limited partnerships, are stated at fair value based on net asset value (NAV) estimates used as a practical expedient reported to the University by investment fund managers.

The valuation method for investments measured using NAV per share (or its equivalent) is presented on the following table.

TABLE 2 – INVESTMENTS MEASURED USING NAV *(Dollars in thousands)*

2016	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,055,272	$ 23,846	MONTHLY TO ANNUALLY	30-60 DAYS
ABSOLUTE RETURN STRATEGY FUNDS	463,366	15,728	QUARTERLY TO ANNUALLY	30-60 DAYS
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	329,719	204,399	N/A	–
REAL ASSETS FUNDS	183,481	55,503	N/A	–
OTHER	106,729	850	QUARTERLY TO ANNUALLY	30-95 DAYS
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,138,567**			

2015	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 823,675	$ 16,798	MONTHLY TO ANNUALLY	30-60 DAYS
ABSOLUTE RETURN STRATEGY FUNDS	510,975	68,820	QUARTERLY TO ANNUALLY	30-60 DAYS
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	340,231	129,715	N/A	–
REAL ASSETS FUNDS	191,083	90,883	N/A	–
OTHER	137,496	23,685	QUARTERLY TO ANNUALLY	30-95 DAYS
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,003,460**			

1. **Global Equity:** This investment category includes public equity investments in separately managed accounts, long-only comingled funds, unconstrained limited partnerships, and passive market indices. Fair values have been determined using the NAV per share of the investments, except for the separately managed accounts. For 2016 and 2015, approximately 62% of the value of the investments in this category can be redeemed within 60 days, and 94% can be redeemed within one year. The remaining balance of these investments contain restrictions that do not allow for redemption within one year.
2. **Absolute Return:** This category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and/or hedges against market downturns. Fair values have been determined using the NAV per share of the investments. Approximately 89% of the value of the investments in this category can be redeemed within one year. The remaining balance of these investments contain restrictions that do not allow for redemption within one year.
3. **Private equity:** This category includes buyout, venture, and special situations funds. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years.
4. **Real assets:** This category includes real estate, natural resources, and other hard assets. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years.
5. **Other:** This category consists of fixed income and opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. Fair values have been determined using the NAV per share (or its equivalent) of the ownership interest in partners' capital. Approximately 45% of the value of the investments in this category can be redeemed or anticipate distribution within one year. The remaining balance of these investments contain restrictions on redemption within one year or will be distributed as underlying investments are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 10 years.

INVESTMENT POOLS

The University combines most short-term cash balances into the Invested Funds Pool. At June 30, 2016 and 2015, the Invested Funds Pool totaled $1,491,692,000 and $1,526,380,000, respectively. The Invested Funds Pool also owns units in the Consolidated Endowment Fund (CEF) valued at $730,501,000 and $806,198,000 at June 30, 2016 and 2015, respectively. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 2% in fiscal years 2016 and 2015. Endowment operating and gift accounts received 3% in fiscal years 2016 and 2015. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in the CEF, a pooled fund. Individual endowments purchase units in the pool on the basis of a per-unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. RCW 24.55 of the Washington State Code and the Uniform Prudent Management of Institutional Funds Act allow for total return expenditure under comprehensive prudent standards.

Under the CEF spending policy approved by the Board of Regents, quarterly distributions to programs are based on an annual percentage rate of 4%, applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1% supporting campus-wide fundraising and stewardship activities (0.80%) and offsetting the internal cost of managing endowment assets (0.20%).

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value is $12,170,000 and $2,986,000 at June 30, 2016 and 2015, 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 $107,800,000 and $111,442,000 at June 30, 2016 and 2015, respectively. Income received from these trusts, which is included in Investment Income, was $4,487,000 and $6,162,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

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 $41,086,000 and $71,485,000 in fiscal years 2016 and 2015, 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 (depreciation) of these investments reported in the prior year(s). The net appreciation (depreciation) in the fair value of investments during the years ended June 30, 2016 and 2015 were $(53,795,000) and $151,209,000, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2016 and 2015, the University had outstanding commitments to fund alternative investments of $300,326,000 and $329,901,000, respectively. These commitments are expected to be called over a multi-year time frame. The University believes it has adequate liquidity and funding sources to meet these obligations.

DERIVATIVES

The University's investment policies allow investing in various derivative instruments, including futures, swaps and forwards, to manage exposures within or across the portfolio and to improve the portfolio's risk/return profile. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price. Total return swaps involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The fair value and notional amount of investment derivative instruments outstanding at June 30, 2016 and 2015, categorized by type, are as follows:

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

Notational Amount as of June 30			Fair Value as of June 30			Change in Fair Value		
DESCRIPTION	2016	2015	ASSET CLASSIFICATION	2016	2015	INCOME CLASSIFICATION	2016	2015
FUTURES CONTRACTS	$ 64,428	$100,747	INVESTMENTS	$ 65,218	$ 100,286	INVESTMENT INCOME	$ 790	($ 461)

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, 2016 or 2015. No derivative instruments have been reclassified from a hedging instrument to an investment instrument.

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

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio. Effective duration is a commonly used measure of interest rate risk. The longer the duration, the more sensitive the portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income portfolio was 2.77 years and 2.28 years at June 30, 2016 and 2015, respectively.

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

Duration and credit risk figures at June 30, 2016 and 2015 exclude $13,860,000 and $12,019,000, respectively, of fixed income securities held outside the CEF and the IF. These amounts make up 0.85% and 0.70%, respectively, of the University's fixed income investments, and are not included in the duration figures detailed in Table 4.

The composition of fixed income securities at June 30, 2016 and 2015, along with credit quality and effective duration measures, is summarized as follows:

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

2016

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	$ 636,485	$ –	$ –	$ –	$ 636,485	3.24
U.S. GOVERNMENT AGENCY	531,795	–	–	–	531,795	2.54
MORTGAGE BACKED	–	94,054	54,797	23,348	172,199	2.20
ASSET BACKED	–	113,715	2,627	17,225	133,567	0.96
CORPORATE AND OTHER	–	111,977	20,225	3,500	135,702	4.04
TOTAL	**$ 1,168,280**	**$ 319,746**	**$ 77,649**	**$ 44,073**	**$ 1,609,748**	**2.77**

2015

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURIES	$ 603,698	$ –	$ –	$ –	$ 603,698	2.00
U.S. GOVERNMENT AGENCY	582,472	–	–	–	582,472	2.72
MORTGAGE BACKED	–	107,070	75,060	22,415	204,545	2.01
ASSET BACKED	–	195,968	6,998	24,111	227,077	1.73
CORPORATE AND OTHER	–	98,320	–	200	98,520	3.25
TOTAL	**$ 1,186,170**	**$ 401,358**	**$ 82,058**	**$ 46,726**	**$ 1,716,312**	**2.28**

* Investment Grade securities are those that are rated BBB and higher by Standard and Poor's or Baa and higher by Moody's

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policies permit investments in international equity and other asset classes, which can include foreign currency exposure. The University also enters into foreign currency forward contracts, futures contracts, and options to manage the foreign currency exposure. The University held non-U.S. denominated securities at June 30, 2016 and 2015 of $1,009,602,000 and $1,195,070,000, respectively.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	2016	2015
EURO (EUR)	$ 123,075	$ 174,487
INDIAN RUPEE (INR)	122,738	112,679
CHINESE RENMINBI (CNY)	109,170	211,184
JAPANESE YEN (JPY)	79,512	110,617
BRAZIL REAL (BRL)	74,582	54,225
HONG KONG DOLLAR (HKD)	58,655	60,046
SOUTH KOREAN WON (KRW)	53,278	56,835
RUSSIAN RUBLE (RUB)	50,132	36,218
BRITISH POUND (GBP)	44,802	54,880
CANADIAN DOLLAR (CAD)	30,634	35,385
SWISS FRANC (CHF)	28,931	39,061
MEXICAN PESO (MXN)	28,693	23,898
TAIWANESE DOLLAR (TWD)	27,573	27,055
PHILIPPINE PESO (PHP)	25,265	29,100
REMAINING CURRENCIES	152,562	169,400
TOTAL	**$ 1,009,602**	**$ 1,195,070**

NOTE 7:

Metropolitan Tract

The University of Washington Metropolitan Tract ("the Metropolitan Tract"), located in downtown Seattle, comprises approximately 11 acres of developed property, including office space, retail space, residential apartments, parking, and a luxury hotel. This land was the original site of the University from 1861 until 1895 when the University moved to its present location on Lake Washington. Since the early 1900s, the Metropolitan Tract has been leased by the University to entities responsible for developing and operating the property.

The balances as of June 30, 2016 and 2015 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 $177,659,000 and $166,124,000, respectively, and are net of the outstanding balance of the associated long-term debt.

In March 2015, $8,500,000 of Metropolitan Tract commercial paper was refinanced and replaced by the issuance of University General Revenue and Refunding Bonds, 2015 A&B, as described in the refunding activity section of Note 11. The loan amount as of June 30, 2016 and 2015 was $5,710,000 and $8,535,000, respectively. In addition, $33,400,000 of bond proceeds were loaned to the Metropolitan Tract as part of the Cobb Building lease termination. The loan amount as of June 30, 2016 and 2015 was $32,890,000 and $33,564,000, respectively. Both loans are unsecured, but expected to be repaid through revenues generated by the Metropolitan Tract properties.

OFFICE PROPERTIES

From July 18, 1953 to October 31, 2014, the University leased a significant portion of the 11 acre site to Unico Properties, LLC ("Unico"). Upon expiration of the Unico Lease, the following events occurred:

- The University entered into an agreement with Wright Runstad to undertake activities relating to the redevelopment of the site currently occupied by the Rainier Square ("Predevelopment Agreement"). The agreement commenced on November 1, 2014 and expires upon the completion of certain development milestones. An 80-year ground lease with Wright Runstad will commence upon fulfillment of the terms of the Predevelopment Agreement
- The University terminated the ground lease with Unico for the Cobb Building, and paid a termination price of $33,400,000

- Ownership of the Palomar Garage property transferred to the University as agreed to in the Unico Lease
- In accordance with the Predevelopment Agreement, the University entered into an Interim Agreement for the Rainier Square development site that provides Wright Runstad with significant control over the management and operation of the Rainier Square Building in exchange for a fixed rent schedule for up to seven years
- In connection with the Interim Agreement for the Rainer Square site, the University entered into a property management agreement with Wright Runstad for the Rainier Tower Building
- The University hired Unico Properties, LLC to oversee leasing for all of the office buildings and property management for all of the office buildings except the Rainer Tower

HOTEL

On January 18, 1980, the Board of Regents entered into a lease ("the Hotel Lease") for the Olympic Hotel property, which expires in 2040. The hotel was operated as the Four Seasons Olympic Hotel until July 31, 2003. On August 1, 2003, the remaining lease term was assigned to LHCS Hotel Holding (2002), LLC. The hotel was renamed the Fairmont Olympic Hotel and managed by Fairmont Hotels and Resorts, Inc.

On June 1, 2015, the University consented to the assignment of the Hotel Lease from LHCS Hotel Holding (2002), LLC to IC/RCDP Seattle Hotel, an entity owned by affiliates of Rockwood IX REIT, Inc. and an affiliate of DiNapoli Capital Partners, LLC. The tenant under the Hotel Lease remained the same, and the management of the hotel by Fairmont Hotels and Resorts, Inc. did not change.

NOTE 8:

Capital Assets

Capital asset activity for the two-year period ended June 30, 2016 is summarized as follows:

(Dollars in thousands)	Balance at June 30, 2014	Additions/ Transfers	Retirements	Balance at June 30, 2015	Additions/ Transfers	Retirements	Balance at June 30, 2016
LAND	$ 126,795	$ 1,953	$ –	$ 128,748	$ –	$ –	$ 128,748
INFRASTRUCTURE	194,002	11,068	–	205,070	36,738	–	241,808
BUILDINGS	5,244,985	70,936	2,575	5,313,346	307,470	9,142	5,611,674
FURNITURE, FIXTURES AND EQUIPMENT	1,223,811	104,985	84,785	1,244,011	119,989	96,495	1,267,505
LIBRARY MATERIALS	325,663	13,521	1,767	337,417	13,933	1,834	349,516
CAPITALIZED COLLECTIONS	7,093	65	–	7,158	25	–	7,183
INTANGIBLE ASSETS	105,319	25,484	6,946	123,857	16,538	1,240	139,155
CONSTRUCTION IN PROGRESS	121,696	224,043	1,931	343,808	9,057	3,280	349,585
INTANGIBLES IN PROCESS	25,412	17,615	7,775	35,252	22,669	1,123	56,798
TOTAL COST	**7,374,776**	**469,670**	**105,779**	**7,738,667**	**526,419**	**113,114**	**8,151,972**
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION:							
INFRASTRUCTURE	95,351	4,921	–	100,272	6,281	–	106,553
BUILDINGS	1,946,659	175,159	2,106	2,119,712	187,934	6,425	2,301,221
FURNITURE, FIXTURES AND EQUIPMENT	982,794	101,464	71,228	1,013,030	104,453	84,248	1,033,235
LIBRARY MATERIALS	239,087	12,546	1,317	250,316	12,740	1,387	261,669
INTANGIBLE ASSETS	66,089	16,870	–	82,959	13,194	–	96,153
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	**3,329,980**	**310,960**	**74,651**	**3,566,289**	**324,602**	**92,060**	**3,798,831**
CAPITAL ASSETS, NET	**$ 4,044,796**	**$ 158,710**	**$ 31,128**	**$ 4,172,378**	**$ 201,817**	**$ 21,054**	**$ 4,353,141**

NOTE 9:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

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

(Dollars in thousands)	Balance at June 30, 2014	Additions/ Transfers	Reductions	Balance at June 30, 2015	Additions/ Transfers	Reductions	Balance at June 30, 2016	Current Portion 2015	Current Portion 2016
BONDS PAYABLE:									
GENERAL OBLIGATION BONDS PAYABLE (NOTE 11)	$ 165,044	$ 260	$ 15,740	$ 149,564	$ 30,145	$ 52,655	$ 127,054	$ 18,290	$ 17,230
REVENUE BONDS PAYABLE (NOTE 11)	1,764,855	291,750	347,540	1,709,065	327,580	43,700	1,992,945	41,055	47,555
UNAMORTIZED PREMIUM ON BONDS	101,456	39,709	15,978	125,187	28,980	17,025	137,142	13,416	14,974
TOTAL BONDS PAYABLE	**2,031,355**	**331,719**	**379,258**	**1,983,816**	**386,705**	**113,380**	**2,257,141**	**72,761**	**79,759**
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER -CAPITAL ASSET RELATED (NOTE 11)	24,008	7,205	2,975	28,238	1,715	5,306	24,647	5,020	5,721
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	1,822	–	65	1,757	1,000	1,441	1,316	1,546	1,318
CAPITAL LEASE OBLIGATIONS (NOTE 10)	20,457	–	4,641	15,816	–	4,594	11,222	3,479	2,676
TOTAL NOTES PAYABLE AND CAPITAL LEASES	**46,287**	**7,205**	**7,681**	**45,811**	**2,715**	**11,341**	**37,185**	**10,045**	**9,715**
OTHER LONG-TERM LIABILITIES:									
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	36,684	5,614	–	42,298	3,889	7,033	39,154	–	3,517
POLLUTION REMEDIATION LIABILITY (NOTE 1)	22,000	–	–	22,000	–	1,000	21,000	4,000	3,000
UNEARNED REVENUE (NOTE 13)	16,366	11,760	5,500	22,626	43,215	38,231	27,610	8,500	10,400
SICK LEAVE (NOTE 1)	36,174	6,852	5,042	37,984	9,861	5,654	42,191	4,974	5,348
SELF-INSURANCE (NOTE 16)	67,450	29,495	14,744	82,201	24,778	27,826	79,153	20,459	21,285
COMMERCIAL PAPER	–	111,545	–	111,545	–	111,545	–	–	–
UWSRP NET PENSION OBLIGATION (NOTE 15)	198,895	53,057	3,766	248,186	53,057	4,257	296,986	3,398	4,012
OTHER NONCURRENT LIABILITIES	–	12,192	–	12,192	7,443	7,000	12,635	–	–
TOTAL OTHER LONG-TERM LIABILITIES	**377,569**	**230,515**	**29,052**	**579,032**	**142,243**	**202,546**	**518,729**	**41,331**	**47,562**
TOTAL LONG-TERM LIABILITIES	**$ 2,455,211**	**$ 569,439**	**$ 415,991**	**$ 2,608,659**	**$ 531,663**	**$ 327,267**	**$ 2,813,055**	**$ 124,137**	**$ 137,036**

DISCRETE COMPONENT UNITS

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

(Dollars in thousands)	Balance at June 30, 2014	Additions/ Transfers	Reductions	Balance at June 30, 2015	Additions/ Transfers	Reductions	Balance at June 30, 2016	Current Portion 2015	Current Portion 2016
VALLEY MEDICAL CENTER									
LIMITED TAX GENERAL OBLIGATION BONDS	$ 243,503	$ –	$ 6,271	$ 237,232	$ –	$ 6,487	$ 230,745	$ 6,535	$ 6,780
REVENUE BONDS	18,858	–	1,376	17,482	–	1,523	15,959	1,650	1,720
BUILD AMERICA BONDS	61,155	–	–	61,155	–	–	61,155	–	–
NOTES PAYABLE & OTHER	1,407	–	513	894	–	291	603	291	259
TOTAL LONG-TERM LIABILITIES	**$ 324,923**	**$ –**	**$ 8,160**	**$ 316,763**	**$ –**	**$ 8,301**	**$ 308,462**	**$ 8,476**	**$ 8,759**
NORTHWEST HOSPITAL									
REVENUE BONDS	$ 73,400	$ –	$ 73,400	$ –	$ –	$ –	$ –	$ –	$ –
NOTES PAYABLE & CAPITAL LEASES	13,645	–	1,175	12,470	1,520	932	13,058	525	4,860
TOTAL LONG-TERM LIABILITIES	**$ 87,045**	**$ –**	**$ 74,575**	**$ 12,470**	**$ 1,520**	**$ 932**	**$ 13,058**	**$ 525**	**$ 4,860**

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments, as of June 30, 2016, are as follows:

CAPITAL LEASES

Year *(Dollars in thousands)*	**Future Payments**
2017	$ 2,898
2018	1,580
2019	1,494
2020	1,494
2021	1,494
THEREAFTER	3,106
TOTAL MINIMUM LEASE PAYMENTS	12,066
LESS: AMOUNT REPRESENTING INTEREST COSTS	844
PRESENT VALUE OF MINIMUM PAYMENTS	**$ 11,222**

OPERATING LEASES

The University has certain lease agreements in effect that are considered operating leases, which are primarily for leased building space. During the years ended June 30, 2016 and 2015, the University recorded rent expense of $44,047,000 and $44,736,000, respectively, for these leases. Future lease payments of June 30, 2016 are as follows:

Year *(Dollars in Thousands)*	**Future Payments**
2017	$ 84,387
2018	80,324
2019	77,774
2020	74,483
2021	57,991
2022 - 2026	136,722
2027 - 2031	54,132
2032 - 2036	52,538
2037 - 2041	55,882
2042 - 2046	31,621
2047 - 2051	21,661
2052 - 2056	25,011
2057 - 2061	28,884
2062 - 2066	12,336
TOTAL MINIMUM LEASE PAYMENTS	**$ 793,746**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2016 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 0.61% to 6.40%. Debt service requirements at June 30, 2016 were as follows:

BONDS AND NOTES PAYABLE *(Dollars in thousands)*

	STATE OF WASHINGTON GENERAL OBLIGATION BONDS		UNIVERSITY OF WASHINGTON GENERAL REVENUE BONDS		NOTES PAYABLE AND OTHER	
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2017	$ 17,230	$ 6,132	$ 47,555	$ 84,791	$ 7,039	$ 859
2018	13,890	5,256	74,585	83,197	4,762	697
2019	13,920	4,520	54,135	80,895	3,261	555
2020	10,385	3,905	55,380	78,735	3,178	425
2021	10,890	3,374	58,650	76,418	3,108	296
2022 - 2026	51,035	8,234	308,220	342,419	3,991	397
2027 - 2031	9,704	424	345,185	269,845	232	96
2032 - 2036	–	–	372,705	195,434	232	96
2037 - 2041	–	–	384,030	103,037	160	77
2042 - 2046	–	–	282,750	16,798	–	–
2047 - 2051	–	–	9,750	589	–	–
TOTAL PAYMENTS	**$ 127,054**	**$ 31,845**	**$1,992,945**	**$1,332,158**	**$ 25,963**	**$ 3,498**

State law requires that the University reimburse the state for debt service payments relating to its portion of the state of Washington General Obligation and Refunding Bonds from Medical Center patient revenues, tuition, timber sales and other revenues.

ISSUANCE ACTIVITY

On September 9, 2015, the University issued $195,510,000 in General Revenue Bonds, 2015 C&D, at a premium of $13,279,000. The proceeds were used to fund various projects such as renovation of Denny Hall, construction of Animal Care and Research Facilities, South West Campus Central Utility Plant, and other projects. In addition, proceeds were used to pay off $111,545,000 in commercial paper. The 2015 C&D bonds have coupon rates ranging from 1.40% to 5.00% with an average coupon rate of 4.03%. The average life of the 2015 C&D General Revenue bonds is 15.60 years with final maturity on December 1, 2045.

On October 7, 2015, the Washington Biomedical Research Properties 3.2 issued $132,070,000 in Lease Revenue Bonds 2015 A&B, at a premium of $10,926,000. The 2015 A&B bonds have coupon rates ranging from 1.49% to 5.00% with an average coupon rate of 4.42%. The average life of the 2015 A&B Lease Revenue Bonds is 15.87 years with final maturity on January 1, 2048.

REFUNDING ACTIVITY

On August 21, 2014, the Washington Biomedical Research Properties II refunded Lease Revenue Bonds totaling $118,915,000 with new bond issuances totaling $115,660,000 and premium of $13,263,000. The refunded bonds had coupon rates ranging from 4.40% to 5.50% with an average interest rate of 5.03%; the new bonds have an average interest rate of 4.48%. The refunding decreased the total debt service payments to be made over the next 12.2 years by $15,026,000 and resulted in a total economic gain of $12,572,000. The average life of the Washington Economic Development Finance Authority Lease Revenue Refunding Bonds, 2014 is 11.95 years with final maturity on June 1, 2038.

On March 4, 2015, the University issued $218,270,000 in General Revenue & Refunding Bonds, 2015 A&B, at a premium of $26,315,000. A portion of the proceeds (new par of $176,090,000 plus premium of $26,396,000) was used to refund existing debt of $190,195,000. The refunded bonds had coupon rates ranging from 4.00% to 5.00% with an average interest rate of 4.98%; the new bonds have an average coupon of 4.22% with an average interest rate of 4.40%. The refunding decreased the total debt service payments to be made over the next 14.92 years by $74,997,000 and resulted in a total economic gain of $38,083,000. The remainder of the proceeds, issued at a slight discount, was used to pay off $42,500,000 in commercial paper. The average life of the 2015 A&B General Revenue bonds is 14.82 years with final maturity on December 1, 2044.

On October 8, 2015, the state of Washington refunded General Obligation Bonds totaling $34,285,000 (UW portion) with new bond issuances totaling $30,145,000 and premium of $4,775,000. The refunded bonds had an average interest rate and coupon rate of 5.00%; the new bonds have an average coupon rate of 5.00%. The refunding decreased the total debt service payments to be made over the next 10 years by $5,621,000 and resulted in a total economic gain of $5,230,000.

COMMERCIAL PAPER PROGRAM

The University has a commercial paper program with a maximum borrowing limit of $250,000,000, payable from University general revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2016 and 2015, there was $50,000,000 and $161,545,000, respectively, in outstanding commercial paper.

During fiscal year 2015, the University issued $111,545,000 and refunded $42,500,000 of commercial paper debt with General Revenue Bonds, 2015 A&B.

During fiscal year 2016, the University refunded $111,545,000 of commercial paper debt with General Revenue Bonds, 2015 C&D.

SUBSEQUENT DEBT ACTIVITY

On July 14, 2016, the state of Washington refunded General Obligation Bonds totaling $9,800,000 (UW portion) with new bond issuances totaling $9,100,000 and premium of $1,700,000. The refunded bonds had an average interest rate and coupon rate of 5.00%; the new bonds have an average coupon rate of 4.90%. The refunding decreased the total debt service payments to be made over the next seven years by $1,100,000 and resulted in a total economic gain of $961,000.

On July 20, 2016, the University issued of $45,000,000 of commercial paper debt. The proceeds will be used to fund various projects such as Phases 3 and 4a of the Housing Master Plan, Animal Research and Care Facilities and UWMC Expansion Phase 2.

On October 18, 2016, the University sold $205,160,000 in General Revenue & Refunding Bonds, 2016A&B, at a premium of $35,596,000. Part of the proceeds were used to refund existing debt, as well as retire $45,000,000 of commercial paper debt and pay cost of issuance. The amount refunded was $38,220,000; the new par was $35,020,000 (plus premium of $4,989,000). Proceeds are expected to fund various University projects. The closing date is November 9, 2016.

DEFEASED BONDS

The University defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The trust account assets and the liability for the defeased bonds are not included in the University's financial statements. As of June 30, 2016 and 2015, $139,038,000 and $252,973,000, respectively, of bonds outstanding are considered defeased.

NOTE 12:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2016 and 2015 are summarized as follows:

OPERATING EXPENSES *(Dollars in thousands)*	**2016**	**2015**
INSTRUCTION	$ 1,171,803	$ 1,113,959
RESEARCH	751,262	729,608
PUBLIC SERVICE	38,956	35,428
ACADEMIC SUPPORT	398,286	336,747
STUDENT SERVICES	47,113	43,101
INSTITUTIONAL SUPPORT	267,070	223,217
OPERATION & MAINTENANCE OF PLANT	238,945	241,719
SCHOLARSHIPS & FELLOWSHIPS	155,449	146,570
AUXILIARY ENTERPRISES	422,474	301,543
MEDICAL-RELATED	1,218,205	1,193,225
DEPRECIATION/AMORTIZATION	324,602	310,960
TOTAL OPERATING EXPENSES	**$ 5,034,165**	**$ 4,676,077**

Instruction

Instruction includes expenses for all activities that are part of an institution's instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; and tutorial instruction are included in this category. The University's professional and continuing education programs are also included.

Research

The research category includes all expenses for activities specifically organized to produce research, which are funded by federal, state, and private institutions.

Public Service

Public service includes activities conducted primarily to provide non-instructional services to individuals and groups other than the University and its students, such as community service programs, conferences, institutes and general advisory services.

The activities of the University's public radio stations, Center for Educational Leadership and clinical trials are included in this category.

Academic Support

Academic support includes expenses incurred to provide support services for the institution's primary missions: instruction, research, and public service. The activities of the University's academic administration, libraries, museums and galleries, and information technology support for academic activities are included in this category.

Student Services

The student services category includes the Offices of Admissions and the University Registrar. The activities of the Center for Undergraduate Advising, Diversity, and Student Success, and the operations of the Rubenstein Pharmacy in the student health center are also included in this category.

Institutional Support

The institutional support category includes central activities that manage long-range planning for the institution, such as planning and programming operations, legal services, fiscal operations, space management, procurement and activities concerned with community and alumni relations. The University's central administration departments and information technology support for non-academic activities are included in this category.

Operation and Maintenance of Plant

The operation and maintenance of plant category includes the administration, operation, maintenance, preservation, and protection of the institution's physical plant.

Scholarships and Fellowships

This category includes expenses for scholarships and fellowships and other financial aid not funded from existing University resources. Financial aid funded from existing University resources are considered scholarship allowances, which are reflected as an offset to tuition revenues. Expenditure of amounts received from the Washington State Need grant, Washington Higher Education grant, and Pell grants are reflected in this manner.

Auxiliary Enterprises

Auxiliary enterprises furnish goods or services to students, faculty, staff or the general public. These units charge a fee directly related to the cost of the goods or services. A distinguishing characteristic of an auxiliary enterprise is that it operates as a self-supporting activity. The activities of the University's Intercollegiate Athletics, Commuter Services and Housing and Food Services departments are included in this category.

Medical-related

The medical-related category includes all expenses associated with patient-care operations, including nursing and other professional services, general services, administrative services, and fiscal services. The activities of UWMC, UWP, and Neighborhood Clinics are included in this category.

Depreciation/Amortization

Depreciation and amortization reflect a periodic expensing of the cost of capitalized assets such as buildings, equipment, software or other intangible assets, spread over their estimated useful lives.

NOTE 13:

Related Parties

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center located in Seattle, is a component unit of King County, Washington. It has been managed by the University under a management contract between King County and the University since 1967. In February 2016, the University and King County entered into a Hospital Services Agreement. The term of the agreement, including extensions, will expire on December 31, 2045.

Under the agreement, 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. HMC expenses, including payroll, are reimbursed to the University from HMC fund sources.

HMC revenues and expenses are not recognized in the University's financial statements. The University's financial statements do, however, include accounts receivable from HMC of $32,322,000 as of June 30, 2016 and $25,923,000 as of June 30, 2015, as well as HMC investments of $3,256,000 and $3,467,000, current accrued liabilities of $20,394,000 and $19,363,000, and long-term liabilities of $27,610,000 and $22,626,000, as of June 30, 2016 and 2015, respectively.

Under an annual agreement, HMC provides strategic funding to Neighborhood Clinics. Funding from HMC to Neighborhood Clinics was $10,339,000 and $6,400,000 during fiscal years 2016 and 2015, respectively, and is presented as Other Nonoperating Revenue in the Statements of Revenues, Expenses and Changes in Net Position. Additionally, UWMC provided $6,926,000 and $3,444,000 to NWH for strategic funding of operations during fiscal years 2016 and 2015, respectively. These amounts are presented in the Statements of Revenues, Expenses and Changes in Net Position for the University as Other Nonoperating Expense and for NWH as Other Nonoperating Revenue.

UW Medicine information technology operates as a self-sustaining activity of the University (ITS department). The ITS department records enterprise-wide information technology capital assets that are purchased for use by UW Medicine entities. The Unearned Revenue reflected in long-term liabilities (Note 9) of $27,610,000 and $22,626,000 at June 30, 2016 and 2015, respectively, represents HMC's funding of the enterprise-wide information technology capital assets which will be included in the recharge rates of the ITS department over the useful life of the assets.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2016 and 2015, the UWF transferred $113,464,000 and $82,502,000, 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.

The University of Washington Alumni Association is a tax-exempt entity that was established to connect and celebrate alumni and to support the University's mission. The Alumni Association received $3,393,000 and $2,818,000 from the University in support of its operations in fiscal years 2016 and 2015, respectively. These amounts were expensed by the University.

During fiscal year 2015, NWH entered into a long-term financing agreement with the University to obtain funds for the defeasance and advance refunding of Series 2007 Revenue Bonds. Under the terms of this agreement, NWH is required to maintain annual debt service coverage equal to at least 1.25 and days cash on hand equal to at least 50 days. As of June 30, 2016 and 2015, $68,609,000 and $71,306,000, respectively, is payable to the University as a result of this financing agreement. The portion which is due in the next fiscal year is reported by NWH as Other Current Liabilities, and by the University as Other Current Assets, on the Statements of Net Position. The remaining long-term portion is reported on the Statements of Net Position by NWH as Due to Primary Government and by the University as Due from Discrete Component Units.

In addition, as of June 30, 2016 and 2015, respectively, NWH has a payable to the University of $28,894,000 and $29,402,000 for services purchased from the University during the current and prior fiscal years. The current portion of the payable is reported by NWH as Other Current Liabilities, and by the University as Other Current Assets, on the Statements of Net Position as of June 30, 2016 and 2015. The remaining long-term portion is reported on the Statements of Net Position by NWH as Due to Primary Government, and by the University as Due from Discrete Component Units.

NOTE 14:

Other Post Employment Benefits (OPEB)

Healthcare 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 healthcare 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 both calendar years 2016 and 2015, this amount was $150 per retiree eligible for parts A and B of Medicare. This is also passed through to state agencies through 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 every two years by the Washington Office of the State Actuary, calculated that the total OPEB obligation of the state of Washington at January 1, 2015 and 2013 was $5.3 billion and $3.7 billion, respectively. The annual required contribution was $498 million and $342 million for the state of Washington for 2015 and 2013, 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 and HMC (an unconsolidated related party), was estimated at approximately $997 million and $671 million for 2015 and 2013, respectively. These amounts are not included in the University's financial statements.

The University paid $324 million and $248 million for healthcare expenses in fiscal years 2016 and 2015, respectively, which included its pay-as-you-go portion of the OPEB liability, calculated by the actuary at $7.9 million in both 2016 and 2015.

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

NOTE 15:

Pension Plans

The University offers four contributory pension plans: 1) the Washington State Public Employees' Retirement System (PERS) plan, 2) the Washington State Teachers' Retirement System (TRS) plan, 3) the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) plan, and 4) the University of Washington Retirement Plan (UWRP). PERS, TRS, and LEOFF are cost sharing multiple-employer defined benefit pension plans administered by the Washington State Department of Retirement Systems (DRS). The University of Washington Retirement Plan (UWRP), a defined contribution plan, is administered by the University. The University of Washington Supplemental Retirement Plan, a noncontributory defined benefit pension plan which operates in tandem with the UWRP, is closed to new participants.

PLAN DESCRIPTIONS OF THE DRS PLANS

Public Employees' Retirement System

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

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

Teachers' Retirement System

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

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

Law Enforcement Officers' and Fire Fighters' Retirement System

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

VESTING AND BENEFITS PROVIDED

PERS Plan 1 and TRS Plan 1

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

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

PERS Plan 2/3 and TRS Plan 2/3

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

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered early retirement. Members are eligible for early retirement with a reduced benefit at age 55 with at least 20 years of service credit. The benefit is reduced by a factor that varies according to age, for each year before age 65. Members who are age 55 with at least 30 years of service credit can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has less, or no, reduction (depending on age) but imposes stricter return-to-work rules

If hired on or after May 1, 2013, members have the option to receive a benefit that is reduced by five percent for each year before age 65.

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

LEOFF Plan 2

LEOFF Plan 2 provides retirement, disability and death benefits. Members are vested after completing five years of eligible service. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service, based on the member's 60 highest-paid consecutive service months. Members are eligible for retirement with a full benefit at age 53 with at least five years of service credit. Members who retire prior to age 53 receive reduced benefits. At age 50, members with at least 20 years of service credit can receive a benefit that is reduced by three percent for each year prior to age 53. LEOFF plan 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

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

FIDUCIARY NET POSITION

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

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

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

ACTUARIAL ASSUMPTIONS

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The University's 2016 pension liability is based on an OSA valuation performed as of June 30, 2014, with the results rolled forward to the measurement date of June 30, 2015. Likewise, the University's 2015 pension liability is based on the valuation performed as of June 30, 2013, with the results rolled forward to the measurement date of June 30, 2014. The following actuarial assumptions have been applied to all prior periods included in the measurement:

INFLATION	3.0% TOTAL ECONOMIC INFLATION, 3.75% SALARY INFLATION
SALARY INCREASE	EXPECTED TO GROW BY PROMOTIONS AND LONGEVITY IN ADDITION TO SALARY INFLATION ASSUMPTION
INVESTMENT RATE OF RETURN	7.50%

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

The actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of OSA's 2007-2012 Experience Study, which is a comprehensive review and update of prior actuarial assumptions. Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

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

The long-term expected rate of return of 7.50% approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short term changes that are not expected over the entire 50-year measurement period.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each pension plan, as of the measurement dates of June 30, 2015 and 2014, are summarized in the following table:

	2016 *(Measurement Date 2015)*		**2015** *(Measurement Date 2014)*	
Asset Class	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
FIXED INCOME	20.00%	1.70%	20.00%	0.80%
TANGIBLE ASSETS	5.00%	4.40%	5.00%	4.10%
REAL ESTATE	15.00%	5.80%	15.00%	5.30%
GLOBAL EQUITY	37.00%	6.60%	37.00%	6.05%
PRIVATE EQUITY	23.00%	9.60%	23.00%	9.05%

The inflation components used to create the above table are 2.20% and 2.70% the measurement dates as of June 30, 2015 and 2014 respectively, and represents WSIB's most recent long-term estimate of broad economic inflation.

DISCOUNT RATE

The discount rate used to measure the total pension liabilities as of June 30, 2016 and 2015 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan in which the University participates was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.50% future investment rate of return on pension plan investments was assumed for the test. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liabilities for PERS 1 and TRS 1, respectively, as provided for in chapter 41.45 of the RCW).

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

The following table presents the University's net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

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

	2016			2015		
Plan	**1 % Decrease**	**Current Discount Rate**	**1% Increase**	**1 % Decrease**	**Current Discount Rate**	**1% Increase**
PERS 1	$ 530,652	$ 435,853	$ 354,335	$ 514,278	$ 417,231	$ 333,926
PERS 2/3	1,065,241	364,303	(172,379)	843,524	202,225	(287,608)
TRS 1	5,089	4,049	3,154	3,707	2,881	2,172
TRS 2/3	4,100	969	(1,359)	2,191	252	(1,189)
LEOFF 2	2,086	(2,083)	(5,221)	1,217	(2,844)	(5,891)

EMPLOYER CONTRIBUTION RATES

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

Description *(Dollars in Thousands)*	**PERS 1**	**PERS 2/3**[a]	**TRS 1**	**TRS 2/3**[a]	**LEOFF 2**
2016					
CONTRIBUTION RATE	11.18%	11.18%	13.13%	13.13%	8.59%
CONTRIBUTIONS MADE	$ 47,976	$ 59,820	$ 374	$ 606	$ 376
2015					
CONTRIBUTION RATE	9.21%	9.21%	10.39%	10.39%	8.59%
CONTRIBUTIONS MADE	$ 38,503	$ 45,896	$ 286	$ 307	$ 299

[a] Plan 2/3 employer rate includes a component to address the Plan 1 unfunded actuarial accrued liability

UNIVERSITY PROPORTIONATE SHARE

Collective pension amounts are determined as of a measurement date, which can be no earlier than an employer's prior fiscal year. The measurement date for the net pension liabilities recorded by the University as of June 30, 2016 was June 30, 2015. Employer contributions received and processed by the DRS during fiscal year ended June 30, 2015 have been used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in their June 30, 2015 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by the University as of June 30, 2015 was June 30, 2014, with employer contributions received and processed by the DRS during fiscal year 2014 used as the basis for determining each employer's proportionate share of the June 30, 2014 collective pension amounts. The University's proportionate share for each DRS plan is shown in the table below.

PROPORTIONATE SHARE *(Dollars in thousands)*

	PERS 1	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**
YEAR ENDED JUNE 30, 2016	8.33%	10.20%	0.13%	0.12%	0.20%
YEAR ENDED JUNE 30, 2015	8.28%	10.00%	0.10%	0.08%	0.21%

UNIVERSITY AGGREGATED BALANCES

The University's aggregated balances of net pension liabilities and net pension asset as of June 30, 2016 and 2015, respectively are presented in the table below.

(Dollars in Thousands)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	Total
2016						
NET PENSION LIABILITY	$ 435,853	$ 364,303	$ 4,049	$ 969	$ –	$ 805,174
NET PENSION ASSET	$ –	$ –	$ –	$ –	$ 2,083	$ 2,083
2015						
NET PENSION LIABILITY	$ 417,231	$ 202,225	$ 2,881	$ 252	$ –	$ 622,589
NET PENSION ASSET	$ –	$ –	$ –	$ –	$ 2,844	$ 2,844

PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

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

PROPORTIONATE SHARE OF PENSION EXPENSE *(Dollars in thousands)*	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
YEAR ENDED JUNE 30, 2016	$ 28,799	$ 45,100	$ 1,248	$ 414	$ (66)	$ 75,495
YEAR ENDED JUNE 30, 2015	$ 23,023	$ 32,567	$ 1,052	$ 237	$ (144)	$ 56,735

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2016						
CHANGE IN ASSUMPTIONS	$ –	$ 587	$ –	$ 1	$ 5	$ 593
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	38,726	–	153	182	39,061
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	6,453	–	564	61	7,078
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [a]	47,976	59,826	374	606	376	109,158
TOTAL	**$ 47,976**	**$ 105,592**	**$ 374**	**$ 1,324**	**$ 624**	**$ 155,890**
2015						
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	$ –	$ 410	$ –	$ 311	$ –	$ 721
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY	38,503	45,486	286	307	299	84,881
TOTAL	**$ 38,503**	**$ 45,896**	**$ 286**	**$ 618**	**$ 299**	**$ 85,602**

[a] Amounts will be recognized as a reduction of the net pension liability as of June 30, 2017

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2016						
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 23,846	$ 97,252	$ 300	$ 376	$ 631	$122,405
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	–	–	–	12	12
TOTAL	**$ 23,846**	**$ 97,252**	**$ 300**	**$ 376**	**$ 643**	**$122,417**
2015						
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 52,172	$ 214,360	$ 505	$ 578	$ 1,505	$269,120
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	–	–	–	15	15
TOTAL	**$ 52,172**	**$ 214,360**	**$ 505**	**$ 578**	**$ 1,520**	**$269,135**

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

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES (a) *(Dollars in thousands)*						
YEAR	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2017	$ (9,242)	$ (24,475)	$ (116)	$ 26	$ (202)	$ (34,009)
2018	(9,242)	(24,475)	(116)	26	(202)	(34,009)
2019	(9,242)	(24,534)	(116)	26	(202)	(34,068)
2020	3,880	21,998	48	212	154	26,292
2021	–	–	–	52	46	98
THEREAFTER	–	–	–	–	11	11
TOTAL	**$ (23,846)**	**$ (51,486)**	**$ (300)**	**$ 342**	**$ (395)**	**$ (75,685)**

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

University of Washington Retirement Plan (403(B))

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

403(b) Plan Description

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

The number of participants in the 403 (b) plan for the years ended June 30, 2016 and 2015 were 15,962 and 15,415, respectively.

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. Employer contributions for the years ended June 30, 2016 and 2015 were $111,015,000 and $105,266,000, respectively.

University of Washington Supplemental Retirement Plan (401(A))

The University of Washington Supplemental Retirement Plan (UWSRP), a 401(a) defined-benefit retirement plan, operates in tandem with the 403(b) plan to supplement the expected defined contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011.

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

(Dollars in thousands)	2015	2013	2011
UAL	$ 373,711	$ 292,535	$ 235,048
NORMAL COST	$ 14,250	$ 9,529	$ 10,774
AMORTIZATION OF UAL, INCLUDING INTEREST	38,807	29,021	19,607
ARC	**$ 53,057**	**$ 38,550**	**$ 30,381**

Actuarial Assumptions *(Dollars in thousands)*	2015	2013	2011
PAYROLL COVERED BY PLAN	$ 1,050,000	$ 1,047,000	$ 1,129,000
RATE OF RETURN ASSUMPTION	4.00%	4.25%	4.25%
SALARY INCREASES FOR YEARS 1 AND 2	3.75%	3.00%	2.00%
SALARY INCREASE FOR THIRD YEAR	3.75%	3.00%	4.00%
SALARY INCREASES THEREAFTER	3.75%	3.00%	4.00%

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

The following table reflects the activity in the UWSRP Net Pension Obligation for the years ended June 30, 2016, 2015 and 2014:

(Dollars in thousands)	2016	2015	2014
BALANCE AT BEGINNING OF FISCAL YEAR	$ 248,186	$ 198,895	$ 163,372
ARC	53,057	53,057	38,550
PAYMENTS TO BENEFICIARIES	(4,257)	(3,766)	(3,027)
BALANCE AT END OF FISCAL YEAR	**$ 296,986**	**$ 248,186**	**$ 198,895**

401(a) Plan Description

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

401(a) Plan Funding

The University received an actuarial valuation of the UWSRP with a valuation date of July 1, 2015. The previous evaluations were performed in 2013 and 2011. The University has set aside $198,831,000 and $188,881,000 as of June 30, 2016 and 2015, respectively, for this liability. These funds do not meet the GASB technical definition of "Plan Assets" since they have not been segregated and restricted in a trust or equivalent arrangement. The UAL shown in the table above, therefore, does not reflect a credit for these amounts.

NOTE 16:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2016 and 2015 were $245,773,000 and $157,034,000, respectively. These expenditures will be funded from institutional reserves, debt proceeds and state appropriations.

The University receives and expends substantial amounts under federal and state grants, contracts and programs. This funding is used for research, student aid, Medical Center operations and other programs, and is subject to audit by governmental granting agencies. Certain grant and contract costs billed to the federal government are subject to audit under 2 CFR 200 , "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards." The University is also involved in various other claims and legal actions arising in the ordinary course of business. University management believes that any liabilities arising from these matters will not have a material effect on the University's financial statements.

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

The self-insurance reserve is estimated through an actuarial calculation and included in Long-Term Liabilities. Changes in the self-insurance reserve for the years ended June 30, 2016, 2015, and 2014 are noted below:

(Dollars in thousands)	2016	2015	2014
RESERVE AT BEGINNING OF FISCAL YEAR	$ 82,201	$ 67,450	$ 79,708
INCURRED CLAIMS AND CHANGES IN ESTIMATES	24,778	29,495	13,917
CLAIM PAYMENTS	(27,826)	(14,744)	(26,175)
RESERVE AT END OF FISCAL YEAR	**$ 79,153**	**$ 82,201**	**$ 67,450**

NOTE 17:

Blended Component Units

Condensed combining statements for the University and its blended component units are shown below:

(Dollars in thousands) **Statements of Net Position – June 30, 2016**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 1,538,816	$ (30,409)	$ 1,369,221	$ 200,004	$ 65,627	$ 134,377
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	4,614,996	–	4,498,009	116,987	99,473	17,514
CAPITAL ASSETS, NET	4,353,141	–	4,059,598	293,543	15,723	277,820
TOTAL ASSETS	10,506,953	(30,409)	9,926,828	610,534	180,823	429,711
DEFERRED OUTFLOWS OF RESOURCES	179,355	–	179,355	–	–	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 10,686,308**	**$ (30,409)**	**$ 10,106,183**	**$ 610,534**	**$ 180,823**	**$ 429,711**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 1,060,056	$ (6,972)	$ 964,331	$ 102,697	$ 77,832	$ 24,865
TOTAL NONCURRENT LIABILITIES	3,539,947	(9,753)	3,124,372	425,328	–	425,328
TOTAL LIABILITIES	4,600,003	(16,725)	4,088,703	528,025	77,832	450,193
DEFERRED INFLOWS OF RESOURCES	122,417	–	122,417	–	–	–
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,722,420	(16,725)	4,211,120	528,025	77,832	450,193
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,277,608	–	2,277,789	(181)	15,723	(15,904)
RESTRICTED:						
NONEXPENDABLE	1,419,311	–	1,419,311	–	–	–
EXPENDABLE	1,591,440	–	1,591,440	–	–	–
UNRESTRICTED	675,529	(13,684)	606,523	82,690	87,268	(4,578)
TOTAL NET POSITION	5,963,888	(13,684)	5,895,063	82,509	102,991	(20,482)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 10,686,308**	**$ (30,409)**	**$ 10,106,183**	**$ 610,534**	**$ 180,823**	**$ 429,711**

(Dollars in thousands) **Statements of Net Position – June 30, 2015**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 1,402,322	$ (22,327)	$ 1,355,339	$ 69,310	$ 66,437	$ 2,873
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	4,786,897	–	4,675,492	111,405	86,557	24,848
CAPITAL ASSETS, NET	4,172,378	–	3,878,199	294,179	15,251	278,928
TOTAL ASSETS	10,361,597	(22,327)	9,909,030	474,894	168,245	306,649
DEFERRED OUTFLOWS OF RESOURCES	111,415	–	111,415	–	–	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 10,473,012**	**$ (22,327)**	**$ 10,020,445**	**$ 474,894**	**$ 168,245**	**$ 306,649**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 998,318	$ (31,313)	$ 932,905	$ 96,726	$ 66,701	$ 30,025
TOTAL NONCURRENT LIABILITIES	3,159,096	–	2,864,897	294,199	–	294,199
TOTAL LIABILITIES	4,157,414	(31,313)	3,797,802	390,925	66,701	324,224
DEFERRED INFLOWS OF RESOURCES	269,135	–	269,135	–	–	–
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,426,549	(31,313)	4,066,937	390,925	66,701	324,224
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,156,229	–	2,155,933	296	15,251	(14,955)
RESTRICTED:						
NONEXPENDABLE	1,321,979	–	1,321,979	–	–	–
EXPENDABLE	1,699,135	–	1,699,135	–	–	–
UNRESTRICTED	869,120	8,986	776,461	83,673	86,293	(2,620)
TOTAL NET POSITION	6,046,463	8,986	5,953,508	83,969	101,544	(17,575)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 10,473,012**	**$ (22,327)**	**$ 10,020,445**	**$ 474,894**	**$ 168,245**	**$ 306,649**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position – Year ended June 30, 2016**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 948,751	$ –	$ 948,751	$ –	$ –	$ –
PATIENT SERVICES	1,434,696	(20,475)	1,206,817	248,354	248,354	–
GRANT REVENUE	1,294,443	–	1,294,443	–	–	–
OTHER OPERATING REVENUE	674,439	(40,847)	660,223	55,063	1,520	53,543
TOTAL OPERATING REVENUE	**4,352,329**	**(61,322)**	**4,110,234**	**303,417**	**249,874**	**53,543**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	4,709,563	(43,232)	4,434,370	318,425	289,864	28,561
DEPRECIATION / AMORTIZATION	324,602	–	307,928	16,674	1,820	14,854
TOTAL OPERATING EXPENSES	**5,034,165**	**(43,232)**	**4,742,298**	**335,099**	**291,684**	**43,415**
OPERATING INCOME (LOSS)	**(681,836)**	**(18,090)**	**(632,064)**	**(31,682)**	**(41,810)**	**10,128**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	302,097	–	302,097	–	–	–
GIFTS	115,000	–	115,000	–	–	–
INVESTMENT INCOME	44,877	–	43,978	899	899	–
OTHER NONOPERATING REVENUES (EXPENSES)	(11,846)	(4,580)	(36,589)	29,323	42,358	(13,035)
NET NONOPERATING REVENUES (EXPENSES)	**450,128**	**(4,580)**	**424,486**	**30,222**	**43,257**	**(13,035)**
INCOME (LOSS) BEFORE OTHER REVENUES	**(231,708)**	**(22,670)**	**(207,578)**	**(1,460)**	**1,447**	**(2,907)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	60,866	–	60,866	–	–	–
GIFTS TO PERMANENT ENDOWMENTS	88,267	–	88,267	–	–	–
TOTAL OTHER REVENUES	**149,133**	**–**	**149,133**	**–**	**–**	**–**
INCREASE (DECREASE) IN NET POSITION	**(82,575)**	**(22,670)**	**(58,445)**	**(1,460)**	**1,447**	**(2,907)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	6,046,463	8,986	5,953,508	83,969	101,544	(17,575)
NET POSITION – END OF YEAR	**$ 5,963,888**	**$ (13,684)**	**$ 5,895,063**	**$ 82,509**	**$ 102,991**	**$ (20,482)**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position – Year ended June 30, 2015**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 914,419	$ –	$ 914,419	$ –	$ –	$ –
NET PATIENT SERVICE REVENUES	1,362,279	(8,913)	1,151,404	219,788	219,788	–
GRANT REVENUE	1,280,658	–	1,280,658	–	–	–
OTHER OPERATING REVENUE	654,223	(25,677)	642,671	37,229	299	36,930
TOTAL OPERATING REVENUE	**4,211,579**	**(34,590)**	**3,989,152**	**257,017**	**220,087**	**36,930**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	4,365,117	(33,911)	4,134,172	264,856	251,450	13,406
DEPRECIATION / AMORTIZATION	310,960	–	293,441	17,519	1,666	15,853
TOTAL OPERATING EXPENSES	**4,676,077**	**(33,911)**	**4,427,613**	**282,375**	**253,116**	**29,259**
OPERATING INCOME (LOSS)	**(464,498)**	**(679)**	**(438,461)**	**(25,358)**	**(33,029)**	**7,671**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	255,156	–	255,156	–	–	–
GIFTS	115,636	–	115,636	–	–	–
INVESTMENT INCOME (LOSS)	227,404	–	231,471	(4,067)	(4,067)	–
OTHER NONOPERATING REVENUES (EXPENSES)	(8,515)	394	(20,913)	12,004	31,674	(19,670)
NET NONOPERATING REVENUES (EXPENSES)	**589,681**	**394**	**581,350**	**7,937**	**27,607**	**(19,670)**
INCOME (LOSS) BEFORE OTHER REVENUES	**125,183**	**(285)**	**142,889**	**(17,421)**	**(5,422)**	**(11,999)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	42,798	–	42,798	–	–	–
GIFTS TO PERMANENT ENDOWMENTS	67,359	–	67,359	–	–	–
TOTAL OTHER REVENUES	**110,157**	**–**	**110,157**	**–**	**–**	**–**
INCREASE (DECREASE) IN NET POSITION	**235,340**	**(285)**	**253,046**	**(17,421)**	**(5,422)**	**(11,999)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,811,123	9,271	5,700,462	101,390	106,966	(5,576)
NET POSITION – END OF YEAR	**$ 6,046,463**	**$ 8,986**	**$ 5,953,508**	**$ 83,969**	**$ 101,544**	**$ (17,575)**

NOTE 17 CONTINUED

(Dollars in thousands)

Statements of Cash Flows – Year ended June 30, 2016	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (254,089)	$ –	$ (270,971)	$ 16,882	$ 4,432	$ 12,450
NONCAPITAL FINANCING ACTIVITIES	545,506	–	542,546	2,960	2,960	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(343,560)	–	(472,234)	128,674	(102)	128,776
INVESTING ACTIVITIES	62,723	–	216,968	(154,245)	(14,968)	(139,277)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,580**	**–**	**16,309**	**(5,729)**	**(7,678)**	**1,949**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	82,905	(9,728)	73,573	19,060	18,034	1,026
CASH AND CASH EQUIVALENTS – END OF THE YEAR	**$ 93,485**	**$ (9,728)**	**$ 89,882**	**$ 13,331**	**$ 10,356**	**$ 2,975**

(Dollars in thousands)

Statements of Cash Flows – Year ended June 30, 2015	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (129,586)	$ (9,728)	$ (106,453)	$ (13,405)	$ (18,746)	$ 5,341
NONCAPITAL FINANCING ACTIVITIES	426,209	–	403,128	23,081	23,081	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(420,195)	–	(412,579)	(7,616)	(1,612)	(6,004)
INVESTING ACTIVITIES	127,349	–	129,076	(1,727)	(1,727)	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,777**	**(9,728)**	**13,172**	**333**	**996**	**(663)**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	79,128	–	60,401	18,727	17,038	1,689
CASH AND CASH EQUIVALENTS – END OF THE YEAR	**$ 82,905**	**$ (9,728)**	**$ 73,573**	**$ 19,060**	**$ 18,034**	**$ 1,026**

NOTE 18:

Discrete Component Units

Condensed combining statements for the University's discrete component units are shown below:

(Dollars in thousands) **Statements of Net Position**	**June 30, 2016** Total Discrete Component Units	Northwest Hospital	Valley Medical Center	**June 30, 2015** Total Discrete Component Units	Northwest Hospital	Valley Medical Center
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
TOTAL CURRENT ASSETS	$ 265,673	$ 76,962	$ 188,711	$ 238,178	$ 78,426	$ 159,752
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	185,347	51,315	134,032	176,921	48,895	128,026
CAPITAL ASSETS, NET	461,017	111,815	349,202	467,701	117,735	349,966
TOTAL DEFERRED OUTFLOW OF RESOURCES	6,066	6,066	–	6,435	6,435	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 918,103**	**$ 246,158**	**$ 671,945**	**$ 889,235**	**$ 251,491**	**$ 637,744**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES						
TOTAL CURRENT LIABILITIES	$ 167,521	$ 63,516	$ 104,005	$ 141,904	$ 52,083	$ 89,821
TOTAL NONCURRENT LIABILITIES	392,847	93,144	299,703	413,472	105,185	308,287
TOTAL DEFERRED INFLOWS OF RESOURCES	26,744	–	26,744	9,625	–	9,625
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	587,112	156,660	430,452	565,001	157,268	407,733
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	71,275	30,674	40,601	67,033	33,864	33,169
RESTRICTED:						
NONEXPENDABLE	1,927	1,927	–	1,943	1,943	–
EXPENDABLE	8,788	754	8,034	8,471	459	8,012
UNRESTRICTED	249,001	56,143	192,858	246,787	57,957	188,830
TOTAL NET POSITION	330,991	89,498	241,493	324,234	94,223	230,011
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$ 918,103**	**$ 246,158**	**$ 671,945**	**$ 889,235**	**$ 251,491**	**$ 637,744**

(Dollars in thousands) **Statements of Revenues, Expenses and Changes in Net Position**	**Year Ended June 30, 2016** Total Discrete Component Units	Northwest Hospital	Valley Medical Center	**Year Ended June 30, 2015** Total Discrete Component Units	Northwest Hospital	Valley Medical Center
REVENUES						
OPERATING REVENUES:						
PATIENT SERVICES	$ 877,461	$ 357,598	$ 519,863	$ 822,421	$ 341,405	$ 481,016
OTHER OPERATING REVENUE	45,633	15,153	30,480	53,165	15,649	37,516
TOTAL OPERATING REVENUE	**923,094**	**372,751**	**550,343**	**875,586**	**357,054**	**518,532**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	887,134	373,426	513,708	816,563	352,124	464,439
DEPRECIATION / AMORTIZATION	46,822	17,495	29,327	49,238	18,027	31,211
TOTAL OPERATING EXPENSES	**933,956**	**390,921**	**543,035**	**865,801**	**370,151**	**495,650**
OPERATING INCOME (LOSS)	**(10,862)**	**(18,170)**	**7,308**	**9,785**	**(13,097)**	**22,882**
NONOPERATING REVENUES (EXPENSES)						
PROPERTY TAX REVENUE	19,902	–	19,902	18,132	–	18,132
INVESTMENT INCOME	7,182	2,516	4,666	4,385	981	3,404
OTHER NONOPERATING EXPENSES	(9,251)	11,143	(20,394)	(22,032)	6,769	(28,801)
NET NONOPERATING REVENUES (EXPENSES)	**17,833**	**13,659**	**4,174**	**485**	**7,750**	**(7,265)**
INCOME (LOSS) BEFORE OTHER REVENUES	**6,971**	**(4,511)**	**11,482**	**10,270**	**(5,347)**	**15,617**
CAPITAL GRANTS, GIFTS AND OTHER	(214)	(214)	–	169	169	–
INCREASE (DECREASE) IN NET POSITION	**6,757**	**(4,725)**	**11,482**	**10,439**	**(5,178)**	**15,617**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	324,234	94,223	230,011	313,795	99,401	214,394
NET POSITION – END OF YEAR	**$ 330,991**	**$ 89,498**	**$ 241,493**	**$ 324,234**	**$ 94,223**	**$ 230,011**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	8.33%	8.28%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 435,853	$ 417,231
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 22,341	$ 25,376
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	1950.91%	1644.20%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	59.10%	61.19%

Schedule of Contributions

PERS 1

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 2,155	$ 2,058
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 2,155	$ 2,059
CONTRIBUTION DEFICIENCY (EXCESS)	$ –	$ (1)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 19,450	$ 22,341
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	11.08%	9.21%

Schedule of Proportionate Share of the Net Pension Liability

TRS 1

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.13%	0.10%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 4,049	$ 2,881
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 423	$ 514
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	957.21%	560.51%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	65.70%	68.77%

Schedule of Contributions

TRS 1

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 38	$ 44
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 38	$ 42
CONTRIBUTION DEFICIENCY (EXCESS)	$ –	$ 2
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 306	$ 423
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	12.42%	10.40%

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	10.20%	10.00%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 364,303	$ 202,225
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 904,661	$ 856,839
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	40.27%	23.60%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	89.20%	93.29%

Schedule of Contributions

PERS 2/3

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 107,424	$ 83,323
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 108,413	$ 83,342
CONTRIBUTION DEFICIENCY (EXCESS)	$ (989)	$ (19)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 967,955	$ 904,661
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	11.10%	9.21%

Schedule of Proportionate Share of the Net Pension Liability

TRS 2/3

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY	0.12%	0.08%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	$ 969	$ 252
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 5,367	$ 3,391
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	18.05%	7.43%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	92.48%	96.81%

Schedule of Contributions

TRS 2/3

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 956	$ 558
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 985	$ 555
CONTRIBUTION DEFICIENCY (EXCESS)	$ (29)	$ 3
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 7,507	$ 5,367
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	12.73%	10.40%

Schedule of Proportionate Share of the Net Pension Liability (Asset)

LEOFF 2

(Dollars in thousands)	2016	2015
UNIVERSITY'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	0.20%	0.21%
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	$ (2,083)	$ (2,844)
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 3,534	$ 3,581
UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	-58.94%	-79.42%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	111.67%	116.75%

Schedule of Contributions

LEOFF 2

(Dollars in thousands)	2016	2015
CONTRACTUALLY REQUIRED CONTRIBUTION	$ 384	$ 303
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	$ 384	$ 300
CONTRIBUTION DEFICIENCY (EXCESS)	$ –	$ 3
UNIVERSITY'S COVERED-EMPLOYEE PAYROLL	$ 4,474	$ 3,534
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	8.58%	8.57%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

The Office of the State Actuary calculates the actuarially determined contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined in Chapter 41.45 RCW. Consistent with the state's contribution-rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2013, valuation date, completed in the fall of 2014, determines the ADC for the period beginning July 1, 2015, and ending June 30, 2017.

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

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