2019 FINANCIAL REPORT

UNIVERSITY *of* WASHINGTON

Table of Contents

University Facts

	FISCAL YEAR 2019 Academic Year 2018–2019	FISCAL YEAR 2014 Academic Year 2013–2014	FISCAL YEAR 2009 Academic Year 2008–2009
STUDENTS			
Autumn Enrollment (headcount)			
Undergraduate	42,578	37,895	34,076
Graduate	14,498	13,177	11,453
Professional	2,176	2,000	1,847
TOTAL	**59,252**	**53,072**	**47,376**
Professional and Continuing Education – Course and Conference Registrations	81,361	75,412	62,447
Number of Degrees Awarded			
Bachelor's	11,761	9,921	8,458
Master's	4,687	3,925	2,988
Doctoral	915	762	686
Professional	565	563	495
TOTAL	**17,928**	**15,171**	**12,627**
FACULTY [1]	4,369	4,494	4,101
FACULTY AND STAFF[2]	31,439	26,538	24,808
RESEARCH FUNDING – ALL SOURCES *(in thousands of dollars)*	$ 1,579,056	$1,385,743	$ 1,146,135
SELECTED REVENUES *(in thousands of dollars)*			
Net Patient Service and Other Medical-Related Revenues	$ 2,933,682	$ 2,042,029	$ 1,035,731
Gifts, Grants and Contracts	1,643,142	1,439,932	1,149,083
Tuition and Fees [4]	1,052,222	838,796	458,061
Auxiliary Enterprises and Other Revenues	751,650	556,191	323,632
State Appropriations (Operating)	378,656	262,146	384,810
Investment Income (Loss)	339,878	480,645	(469,492)
SELECTED EXPENSES *(in thousands of dollars)*			
Medical-Related [3]	$ 2,457,318	$ 1,831,649	$ 778,583
Instruction, Academic Support, and Student Services	2,070,077	1,515,435	1,278,455
Institutional Support and Physical Plant	849,930	733,194	527,998
Research and Public Service	814,717	807,863	673,322
Auxiliary Enterprises	553,511	285,561	170,602
CONSOLIDATED ENDOWMENT FUND [5] *(in thousands of dollars)*	$ 3,588,000	$ 2,833,000	$ 1,649,000
SQUARE FOOTAGE [6] *(in thousands of square feet)*	27,327	21,836	18,036

1 Prior to 2018, this number represents headcount for core faculty (Professorial, Instructional and Research). Starting in 2018, this number represents full time faculty from all campuses including the Medical Centers.
2 Full time equivalents – restated (historically) using centralized data source and enterprise definitions
3 Includes Valley Medical Center and Northwest Hospital in 2019 and 2014 only
4 Net of scholarship allowances of $159.4 million in 2019, $139.8 million in 2014 and $82.8 million in 2009
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 the discretely presented component unit of the University of Washington (the University), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University of Washington as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

As discussed in note 1 to the financial statements, the financial statements of the University of Washington, an agency of the state of Washington, are intended to present the financial position, the changes in financial position, and where applicable, cash flows of only the respective portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the state of Washington that are attributable to the transactions of the University of Washington and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2019 and 2018, the changes in its financial position or, where applicable, its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, on July 1, 2017, the University adopted new accounting guidance requiring governments providing postemployment benefits other than pensions (OPEB) to employees of state and local government employers to recognize the OPEB liability, as well as recognize most changes in the OPEB liability within benefits expense. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, on July 1, 2017, the University adopted new accounting guidance requiring governments receiving irrevocable split-interest agreements to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 15, and the schedules of required supplementary information on pages 54 through 56, 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University of Washington's basic financial statements. The accompanying information under the table of contents titled "University Facts" is presented for purposes of additional analysis and 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 25, 2019

MANAGEMENT'S DISCUSSION & ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis below provides an overview of the financial position and activities of the University of Washington ("University") for the fiscal years ended June 30, 2019 and 2018, with comparative financial information for 2017. This discussion has been prepared by management, and since it includes highly summarized data, should be read in conjunction with the financial statements and accompanying notes to financial statements that follow this section.

Financial Highlights for Fiscal Year 2019

The University recorded an increase in net position of $481 million in 2019. This was very similar to the increase of $490 million recorded in 2018. A decrease in the University's operating loss of $108 million in 2019 was mostly offset by similar decreases in revenue from nonoperating sources. The increase in net position for 2018 was offset by a $1.7 billion net position restatement due to the implementation of GASB Statement No. 75, resulting in a total net decrease of $1.2 billion for the year. GASB Statement No. 75 changed the way the University reflects costs associated with other post-employment benefits (OPEB).

Key Financial Results for Fiscal Years 2019, 2018 and 2017

(in millions)	2019	2018	2017
Total operating revenues	$ 5,485	$ 5,172	$ 4,893
Total operating expenses	6,064	5,859	5,666
Operating loss	(579)	(687)	(773)
State appropriations	379	362	342
Gifts	166	167	166
Investment income	340	404	442
Other nonoperating revenues, net	175	244	185
Increase in net position	481	490	362
Net position, beginning of year	5,097	6,267	6,053
Cumulative effect of accounting changes (described below):			
GASB 73 – UW Supplemental Retirement pension	–	–	(215)
GASB 75 – Other post-employment benefits	–	(1,660)	–
GASB 81 – Split interest agreements	–	–	67
Net position, beginning of year as restated	5,097	4,607	5,905
Net position, end of year	**$ 5,578**	**$ 5,097**	**$ 6,267**

Operating Revenues

Operating revenues increased $313 million, or 6%, in 2019 driven primarily by increases in revenue from patient services and student tuition. Net patient services revenue increased $127 million, or 6%, due to strong volumes and improved commercial payer mix. Revenue from student tuition and fees increased $62 million, or 6%, as a result of operating fee increases together with growing student enrollment. Revenue generated from student housing and food services grew $22 million, or 16%, in 2019 reflecting an increase in rentable bed space and associated food sales from three new residence halls that were placed in service during the past two fiscal years. Additionally, revenue from other auxiliary sources increased $57 million in 2019, primarily representing fees collected from Harborview Medical Center to reimburse the University for the cost of strategic projects and shared operational departments which were moved into a shared service model during the year.

Operating Expenses

Operating expenses increased $205 million, or 4%, in 2019. An increase in costs associated with employee salaries of $143 million, primarily due to merit increases and a 1% increase in University FTE's, was partially offset by a $71 million decrease in the cost of employee benefits, primarily due to favorable changes in the actuarial assumptions used to calculate pension and OPEB expense. Also contributing to higher operating expenses was an increase in the cost of supplies and materials of $43 million primarily pertaining to patient services, an increase of $40 million in the cost of purchased services, such as consulting and contract labor, and an increase of $49 million in other operating expenses, such as rent expense and claims costs associated with the University's self-insurance program.

Nonoperating Revenues

Revenues from nonoperating and other sources, net of interest on capital related debt, decreased $117 million, or 10%, in 2019 primarily due to a decrease in investment income of $65 million and a decrease in capital gifts of $106 million. The decrease in capital gifts is primarily the result of an $85 million capital gift received in 2018 from the Bill & Melinda Gates Foundation for the University's Population Health Initiative. The 2019 decreases were partially offset by a $40 million increase in gifts to permanent endowments.

Changes in Accounting Standards

The University implemented 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" during fiscal year 2017. This statement changed how the University reports its obligation for retiree benefits associated with the University of Washington Supplemental Retirement Plan (UWSRP). With the adoption of GASB Statement No. 73, unrestricted net position was restated at July 1, 2016 by a decrease of $215 million for the difference between the beginning total pension liability and the amount previously reported as the UWSRP pension liability.

The University implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (OPEB) during fiscal year 2018. As a result of implementing Statement No. 75, the University recognized its proportionate share of the state of Washington's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to adopting this Statement the University's financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expense based on cash contributions paid to the OPEB plan administrator. In addition to the reporting changes described above, unrestricted net position was restated at July 1, 2017 by a decrease of $1.7 billion. Financial results for fiscal years 2018 and 2019 reflect application of the accounting changes required by Statement No. 75, but those changes were not applied to fiscal year 2017 results due to the constraints of available information from the Washington State Office of the State Actuary.

The University also implemented GASB Statement No. 81, "Irrevocable Split-Interest Agreements" during fiscal year 2018. This Statement changed the way that governments reflect resources received pursuant to irrevocable split-interest agreements, both at inception and throughout the life of the associated contract. Specifically, where the University has a remainder interest in a trust that is also managed by the University, revenues are no longer recognized when the asset is acquired and upon periodic revaluation, but are instead recorded as a deferred inflow of resources and recognized at termination of the contract. This change resulted in the restatement of July 1, 2016 restricted nonexpendable net position together with an increase in deferred inflows. Additionally, where the University has a lead interest in a trust that is not managed by the University, revenues are now recognized both when the asset is received or communicated to the University, and upon periodic revaluation. These events were previously not reflected in the financial statements of the University. This change also resulted in the restatement of July 1, 2016 restricted nonexpendable net position, together with an increase in investments. The net impact of implementing these accounting changes was an increase in beginning restricted nonexpendable net position of $67 million. All fiscal years presented in this management's discussion and analysis reflect application of the accounting changes required by Statement No. 81. This is different than the Basic Financial Statements following this section, which reflect these restatements applied as of July 1, 2017.

The University implemented GASB Statement No. 83, "Certain Asset Retirement Obligations" during fiscal year 2019. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments that have legal obligations to perform future tangible asset retirement activities are now required to recognize a liability and offsetting deferred outflow of resources when these costs are incurred and are reasonably estimable. The basis of the estimate is the current value of the future outlays expected to be incurred, and is adjusted annually for inflation and any changes in relevant factors. The deferral is recognized as expense in a systematic and rational manner over the life of the tangible capital asset. The liability is extinguished as retirement costs are paid. The University's 2015 Decommissioning Funding Plan, prepared in accordance with Washington Administrative Code 246-235-075, estimated disposal and clean-up costs related to all radioactive materials used for research, clinical applications, and education and was used as the basis for recording the initial ARO liability. Prior to adopting this Statement, the University's financial statements did not reflect any ARO liability or associated deferred outflow, and reported costs associated with these retirement activities as expense at the time of asset disposal. Implementation of this Statement resulted in the recognition of a liability of $8 million, deferred outflow of $4 million and amortization expense of $4 million in fiscal year 2019.

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.
- 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, 2019 and 2018). Their purpose is to present a financial snapshot of the University. This statement aids the reader in determining the assets available to continue the University's operations, how much the University owes to employees and vendors, whether the University has any deferred outflows or inflows other than assets or liabilities, and provides a picture of net position and its availability for expenditure by the University.
- Statements of Revenues, Expenses and Changes in Net Position present the total revenues earned and expenses incurred by the University for operating, nonoperating and other related activities, during a period of time (the fiscal years ended June 30, 2019 and 2018). 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, 2019 and 2018). Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.
- Notes to the Financial Statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found.

The University has had a strategic alliance with Valley Medical Center, a Washington public hospital district, since 2011. GASB standards require that this entity be presented as a discrete component unit of the University; therefore, its financial position at June 30, 2019 and 2018, and results of operations for the fiscal years ended June 30, 2019 and 2018, are reported in a separate column for financial statement presentation purposes (see Note 1 to the Financial Statements). The analysis that follows includes the consolidated balances of the University of Washington and its blended component units, but excludes the financial position and results of operations of Valley Medical Center.

Financial Health

STATEMENTS OF NET POSITION

A summarized comparison of the University's assets, liabilities, deferrals and net position as of June 30, 2019, 2018 and 2017 is shown below:

Summarized Statements of Net Position

(in millions)	2019	2018	2017
Current assets	$ 1,574	$ 1,486	$ 1,427
Noncurrent assets:			
Capital assets, net	4,935	4,980	4,737
Investments, net of current portion	5,375	5,105	4,834
Other	525	481	454
Total assets	12,409	12,052	11,452
Deferred outflows	414	244	269
Total assets and deferred outflows	12,823	12,296	11,721
Current liabilities	1,166	1,267	1,315
Noncurrent liabilities:			
Bonds payable	2,353	2,334	2,275
Pensions and OPEB	2,498	2,750	1,422
Other	335	332	287
Total liabilities	6,352	6,683	5,299
Deferred inflows	893	516	155
Total liabilities and deferred inflows	7,245	7,199	5,454
Net position	**$ 5,578**	**$ 5,097**	**$ 6,267**

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

The excess of current assets over current liabilities of $408 million in 2019, and $219 million in 2018, reflects the continuing ability of the University to meet its short-term obligations. Current assets increased $88 million, or 6%, in 2019 due to an increase in accounts receivable of $60 million, driven by patient receivables and pending investment sales, and an increase of $64 million in short-term investments. These amounts were partially offset by a $59 million decrease in cash and cash equivalents. Current assets increased $59 million, or 4%, in 2018 mostly due to an $80 million increase in cash and cash equivalents, partially offset by a $33 million decrease in short-term investments. Current liabilities decreased $101 million, or 8%, in 2019 driven by a $65 million decrease in commercial paper debt together with a $33 million decrease in other operating and vendor payables. Current liabilities decreased $48 million, or 4%, in 2018 due in part to an $87 million decrease in the accrual for investment purchases, a $16 million decrease in the current portion of Revenue Bonds Payable, and a $10 million decrease in the current portion of the self-insurance reserve. These amounts were partly offset by a $23 million increase in commercial paper debt.

Noncurrent assets increased $269 million, or 3%, in 2019 primarily due to an increase in the market value of the University's long-term investments. Noncurrent assets increased $541 million, or 5%, in 2018 driven by an increase in long-term investments of $271 million, and an increase in capital assets of $243 million.

Noncurrent liabilities decreased $230 million, or 4%, in 2019 primarily due to changes in the University's pension and OPEB liabilities. The net pension liability pertaining to the University's proportionate share of the pension plans administered by the Washington Department of Retirement Systems (DRS) decreased $223 million as a result of better than expected investment returns on pension plan assets and a decrease in the University's proportionate share of the statewide PERS 1 liability. The pension liability pertaining to the UWSRP increased $182 million due to lower than expected investment returns on the model portfolio used to calculate retiree benefit eligibility, an unfavorable change to the actuarial assumption regarding the discount rate, and salary growth that was higher than expected. The OPEB liability decreased $211 million due primarily to a reduction in the actuarial assumptions surrounding future healthcare cost trends. Noncurrent liabilities increased $1.4 billion, or 36%, in 2018 primarily due to the initial implementation of GASB Statement No. 75. The ending OPEB liability, recognized for the first time in 2018 due to the requirements of Statement No. 75, was $1.6 billion. In addition, the long-term portion of bonds payable increased $59 million in 2018 due to the net increase in general revenue bonds outstanding. These amounts were partially offset by a $238 million decrease in the University's pension liabilities, primarily those pertaining to the plans administered by the DRS.

Deferred outflows of resources and deferred inflows of resources primarily represent pension and OPEB-related deferrals, and the University's remainder interest in split-interest agreements. The increase in deferred outflows of $170 million, or 70%, in 2019 primarily pertains to the UWSRP and OPEB plans. UWSRP deferred outflows increased $141 million due to the impact of changes in actuarial assumptions regarding the discount rate and investment performance, and differences between expected and actual experience when calculating the plan's ending liability, primarily regarding salary growth. The University's share of OPEB deferred outflows increased $47 million, also due to differences between expected and actual experience. The decrease in deferred outflows of $25 million, or 9%, in 2018 primarily reflected the University's proportionate share of a decrease in the state-wide amounts reported by the DRS due to differences between projected and actual investment earnings on pension plan assets, offset by the first-time deferral of $25 million representing post-measurement date OPEB contributions associated with the implementation of GASB Statement No. 75.

Deferred inflows increased $377 million, or 73%, in 2019. The University's share of deferred inflows associated with the DRS plans increased $83 million due to the impact of changes in actuarial assumptions, and differences between expected and actual experience when calculating the ending liabilities. OPEB deferred inflows increased $312 million, primarily due to changes in actuarial assumptions pertaining to future medical cost trends. The increase in deferred inflows in 2018 included the impact of the University's corresponding proportionate share of an increase in the state-wide difference between projected and actual earnings on pension plan assets. This was accompanied by the first-time deferral of $216 million representing the University's proportionate share of state-wide deferred inflows related to changes in actuarial assumptions used in the 2018 OPEB valuation.

Endowment and Other Investments

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

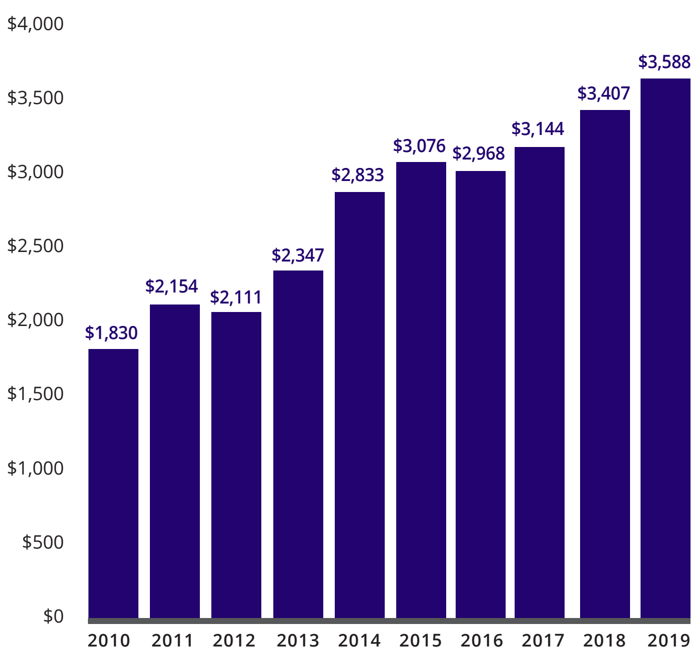
The University of Washington Board of Regents is vested by statute with responsibility for the University's properties and investments, and for establishing investment policy. The University of Washington Investment Management Company (UWINCO), led by the Chief Investment Officer, carries out the day-to-day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

Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. Most endowments are commingled in the Consolidated Endowment Fund (CEF), a diversified investment fund. 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 endowment gifts and investment returns. The number of individual endowments in the CEF has grown significantly, from 3,334 at June 30, 2010 to 5,079 at June 30, 2019. The market value of the CEF has similarly increased, from $1.8 billion at June 30, 2010 to $3.6 billion at June 30, 2019.

Consolidated Endowment Fund Market Value

(in millions)



The impact to program support has been substantial with $984 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 in fiscal year 2019 were 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 fees are based on the endowment's five-year average market value.

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

The CEF asset allocation is divided into two clearly defined categories of investments: those which facilitate growth or appreciation (Capital Appreciation), and those which preserve endowment values (Capital Preservation). At June 30, 2019, 71% of the CEF was invested in Capital Appreciation and 29% 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 ending June 30, 2019, the CEF returned +5.8% versus +6.2% for the passive benchmark. The CEF's Private Equity strategy led absolute returns this year. The CEF's Capital Appreciation portfolio outperformed its passive benchmark, while Capital Preservation substantially underperformed its passive benchmark due to the sharp decrease in government bond yields.

A portion of the University's operating funds are invested in the CEF. As of June 30, 2019, these funds comprise $649 million of the CEF market value.

Capital Improvements

The University continues to expand its campuses and renovate existing facilities to meet the needs of its students, patients, faculty and staff. Significant capital asset expenditures (greater than $20 million) during fiscal year 2019 included $62 million for the Population Health Facility, and $26 million for the UW Medicine clinical transformation program ("Destination: One").

Key projects placed in service during fiscal year 2019 include:

- Life Sciences Building – $174 million. This five-floor, 169,000 square foot building was constructed with sufficient laboratory and office space to allow the Department of Biology to expand its faculty size in order to address a significant increase in undergraduate student demand. The building has approximately 20 research labs, associated offices and conference spaces, 3 undergraduate research/teaching laboratories, growth chambers and imaging facilities.

- Washington Biomedical Research Properties 3.2 – $133 million. This new building provides approximately 165,000 square feet of biomedical research facilities, with a primary care clinic, diabetes clinic, an ophthalmology clinic focused on retinal diseases, and associated clinical research space. Research activities are expected to include new programs, and the expansion of existing programs, including microbiology, global health, kidney research, immunology, biomedical informatics, neurosciences, protein design, and gastrointestinal and behavioral assays.
- Bill & Melinda Gates Center for Computer Science & Engineering (Gates Center) - $107 million. The Gates Center contains classroom, office and collaborative spaces, expanded research labs, a 250-seat auditorium, and a flexible event space. The facility will enable the Paul G. Allen School of Computer Science & Engineering to double its annual degree production. It includes a Maker Space, an undergraduate commons, a wet lab for research in molecular information systems, a 3,000 square foot robotics lab, workrooms for the interdisciplinary computer animation capstone, and interview rooms where industry representatives can meet with students.
- McCarty Hall – $95 million, and Madrona Hall – $53 million. Phase 4a of the Housing Master Plan included demolition of the existing McCarty Hall and construction of a new McCarty Hall along with Madrona and Willow Halls. Willow Hall was available for occupancy in June 2018, whereas McCarty and Madrona Halls opened in September 2018. McCarty Hall has over 330 student rooms, all including private baths, and is home to The MILL which is a state-of-the-art Maker Space and wet lab. Madrona Hall has over 220 student rooms, and is home to the Learning Resource Center which offers students study rooms and lecture halls, as well as providing office space.

Debt

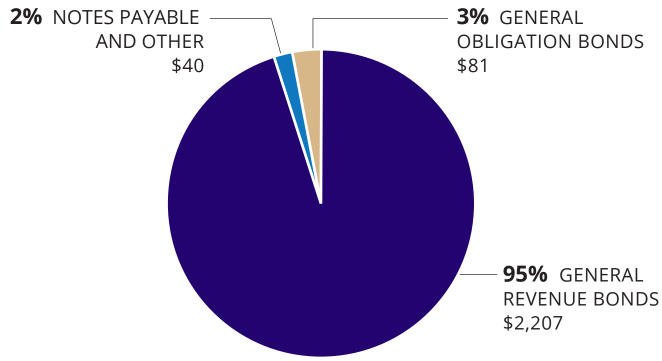
The University's Debt Policy governs the type and amount of debt the University may incur. The Debt Policy is designed to maintain access to capital markets and to minimize the risk-adjusted cost of capital.

The University's debt portfolio consists primarily of fixed-rate debt in the form of General Revenue Bonds, Lease Revenue Bonds and state-issued General Obligation Bonds. As of June 30, 2019, the University had $2.3 billion of bonds and notes payable outstanding, an increase of 1% from June 30, 2018. Debt outstanding on the Metropolitan Tract is not included in these amounts (see Note 7).

In February 2019, the University issued $100 million of tax-exempt General Revenue bonds with an all-in true interest cost of 6.73%. Proceeds were used to fund construction of various facilities including Housing and Food Services residence halls (Phase 4a), the Northwest Hospital Childbirth Center, the Intercollegiate Athletics Ballpark, and the Life Sciences Building.

Bonds and Notes Payable

(in millions)



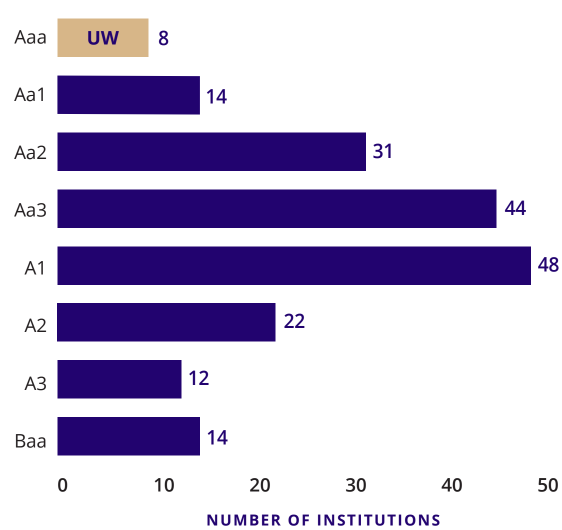
The University has a $250 million commercial paper program, which is typically used to fund project expenditures until long-term funding is secured. As of June 30, 2019, there was $25 million in commercial paper outstanding.

The Board of Regents typically authorizes the long-term debt (excluding commercial paper) issuance on a fiscal year basis, and for fiscal year 2020 has authorized $102 million. Any increase would require additional approval by the Board.

During fiscal year 2019, both Moody's (Aaa, Negative Watch) and Standard and Poor's (AA+, Stable) reaffirmed the University's credit ratings. These ratings carry substantial advantages for the University: continued and wider access to capital markets, lower interest rates on bonds, and the ability to negotiate favorable bond terms. The University's short-term credit ratings were also affirmed at P-1 (Moody's) and A-1+ (Standard and Poor's).

Moody's Fiscal Year 2018
Public College and University Rating Distribution

(As of the June 2019 Moody's Median Report)



Net Position

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

The University reports its "equity" in four categories:

- Net Investment in Capital Assets – This is the University's total investment in capital assets, net of accumulated depreciation and amortization and outstanding debt obligations related to those capital assets.
- Restricted Net Position:
  - — Nonexpendable net position, primarily endowments, represents gifts to the University's permanent endowment funds. These are funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditure, but rather for investment purposes only, in order to produce income that is to be expended for the purposes specified.
  - — Expendable net position consists of resources 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, 2019, 2018 and 2017 is summarized as follows:

Categories of Net Position

(in millions)	2019	2018	2017
Net investment in capital assets	$ 2,489	$ 2,484	$ 2,455
Restricted:			
Nonexpendable	1,878	1,722	1,603
Expendable	2,192	2,129	1,859
Unrestricted	(981)	(1,238)	350
Total net position	**$ 5,578**	**$ 5,097**	**$ 6,267**

Net investment in capital assets was largely unchanged in 2019. This balance typically 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. The small increase in 2019 reflects a nearly equal decrease in both the carrying value of net capital assets, and the outstanding balance of capital asset-related debt. This category of net position increased $29 million, or 1%, in 2018, representing greater additions to net capital assets during 2018 than the associated increase in capital asset-related debt. This was a result of continued capital spend on previously approved projects combined with a reduced pace for new debt issuances.

Restricted nonexpendable net position increased $156 million, or 9%, in 2019 primarily as a result of receiving $135 million in new endowment gifts during the year. This category of net position increased $119 million, or 7%, in 2018 due to receiving $96 million of new endowment gifts, together with an increase in the market value of underwater endowment investments.

Restricted expendable net position increased $63 million, or 3%, in 2019. This category is primarily affected by new operating and capital gifts, and earnings or losses on restricted investments, including endowments. Unrealized and realized gains in the market value of the CEF contributed $31 million to the increase for the year, with the remainder being comprised of the excess of new operating and capital gifts compared to spending of gifts received in prior years. This category of net position increased $270 million, or 15%, in 2018. Unrealized gains of $219 million were the primary reason for the increase in 2018, partially offset by $77 million of realized losses. Additionally, unspent capital gifts increased $73 million in 2018 as a result of gifts received from the Bill & Melinda Gates Foundation for the University's Population Health Initiative.

Unrestricted net position increased $257 million, or 21%, in 2019. Operating losses associated with unrestricted activities were $358 million and interest expense on capital asset related debt was $89 million. These amounts were more than offset by state operating appropriations of $379 million and investment income related to unrestricted investments of $294 million. These results are an improvement over the prior year, primarily due to the $108 million decrease in operating loss resulting, in part, from the reduction in the University's proportionate share of statewide OPEB expense, and the $81 million increase in investment income on unrestricted investments. This category of net position decreased $1.6 billion in 2018, primarily due to the impact of restating fiscal year 2018 beginning net position as a result of implementing GASB Statement No. 75. The change in accounting treatment required by Statement No. 75 reduced fiscal year 2018 beginning unrestricted net position by $1.7 billion. Excluding the impact of this accounting change, unrestricted net position increased $72 million, or 21%, in 2018. Operating losses associated with unrestricted activities were $435 million and interest expense on capital asset-related debt was $77 million. These amounts were more than offset by $362 million of state operating appropriations, and $213 million of investment income on unrestricted investments.

As of June 30, 2019, Unrestricted Net Position reflects a deficit of $981 million due to implementation of GASB Statement No. 68 (pensions) during fiscal year 2015, and the implementation of Statement No. 75 (OPEB) during fiscal year 2018. These statements require the University to record its proportionate share of the state of Washington's actuarially determined liabilities for pension and OPEB. As a result of these implementations, Unrestricted Net Position is negative despite historically positive operating results.

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

Unrestricted Net Position Excluding Pensions and OPEB

(in millions)	2019	2018	2017
Unrestricted net position, as reported	$ (981)	$ (1,238)	$ 350
Impact of GASB 68 - Pensions	584	706	762
Impact of GASB 75 - OPEB	1,817	1,764	–
Unrestricted net position, excluding pensions and OPEB	**$ 1,420**	**$ 1,232**	**$ 1,112**

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, 2019, 2018 and 2017 follows:

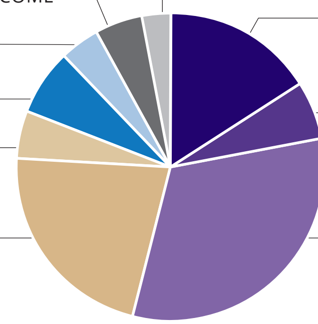
Operating Results

(in millions)	2019	2018	2017
Tuition and fees, net	$ 1,052	$ 990	$ 942
Net patient services	2,136	2,008	1,869
Grants and contracts	1,426	1,409	1,359
Other operating revenues	871	765	723
Total operating revenues	5,485	5,172	4,893
Salaries and benefits	3,732	3,661	3,519
Other Operating Expenses	2,332	2,198	2,147
Operating Loss	**(579)**	**(687)**	**(773)**
State appropriations	379	362	342
Gifts	166	167	166
Investment income	340	404	442
Other nonoperating revenues	264	321	262
Interest on capital asset-related debt	(89)	(77)	(77)
Increase in Net Position	**$ 481**	**$ 490**	**$ 362**

The University's operating loss decreased to $579 million in 2019, from $687 million in 2018. 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 $200 million in 2019, and $325 million in 2018.

The University has a diversified revenue base. No single source generated more than 32% of the total fiscal year 2019 revenues of $6.6 billion.

Sources of Funds



The following table summarizes revenues from all sources for the years ended June 30, 2019, 2018 and 2017:

Revenues from All Sources

(in millions)	2019		2018		2017	
Net patient services	$ 2,136	32%	$ 2,008	31%	$1,869	31%
Grants and contracts	1,492	22%	1,468	23%	1,422	23%
Tuition and fees, net	1,052	16%	990	15%	942	15%
Auxiliary enterprises	483	7%	403	6%	374	6%
State funding for operations	379	6%	362	6%	342	6%
Investment income	340	5%	404	6%	442	7%
Gifts	331	5%	398	6%	289	5%
Sales and services of educational departments	260	4%	243	4%	217	4%
State funding for capital projects	25	0%	26	0%	64	1%
Other	136	3%	124	3%	144	2%
Total revenue – all sources	**$ 6,634**	**100%**	**$ 6,426**	**100%**	**$6,105**	**100%**

Patient Services–UW Medicine

The financial statements of the University include the operations of the School of Medicine (SOM), three hospitals, associated physician group and clinics, Airlift Northwest, and the University's share of two joint ventures. These entities, together with Harborview Medical Center (not included in the University's financial statements – see Note 14) and shared services providing IT, accounting, financial services and human resources comprise UW Medicine. UW Medicine is governed and administered as an enterprise of the University whose mission is to improve the health of the public. UW Medicine also strives to facilitate the education of physicians and other health care providers, support research activities in collaboration with the SOM and render other services designed to achieve the "Triple Aim" which is to improve the healthcare experience for the individual, improve health of the population, and provide more affordable care.

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

UW Medical Center (UWMC) is 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 Health Sciences at the University. Approximately 19,000 patients receive inpatient care at UWMC each year. Specialized inpatient care needs are met by the Cancer Center, the Regional Heart Center, the Neonatal Intensive Care Unit and the Organ Transplantation program, among others.

Valley Medical Center (VMC) is a 321-bed acute care hospital and network of clinics that treats over 18,000 inpatients per year, and is the oldest and largest public hospital district in the state of Washington. VMC joined UW Medicine in July, 2011. VMC's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position are presented in a discrete column on the financial statements of the University.

Northwest Hospital & Medical Center (NWH) is a full-service medical facility with 281 beds, and treats approximately 10,000 inpatients per year. NWH joined UW Medicine in January, 2010. Specialized patient needs are met by the Stroke Center, Multiple Sclerosis Center, and other inpatient and outpatient services to the surrounding community.

UW Neighborhood Clinics (Neighborhood Clinics) is a network of clinics with 15 neighborhood locations throughout the greater Puget Sound area, providing primary, urgent and selected specialty care with a staff of 120 healthcare providers.

UW Physicians (UWP) is the physician practice group for more than 2,200 faculty physicians and healthcare providers associated with UW Medicine.

Airlift Northwest provides rapid emergency air transport services to critically ill or injured patients throughout Washington, Alaska, Montana and Idaho.

Joint Ventures – The University is also a participant in 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.

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

In combination, these organizations (not including VMC) contributed $2.1 billion in net patient services revenue in fiscal year 2019 and $2.0 billion in fiscal year 2018. UWMC generated 62% of this revenue in 2019 and 59% in 2018. UWMC admissions were 18,948 in 2019, a decrease of 2% from the prior year. Admissions were 19,350 in 2018, which was a 2% increase from the prior year. Despite the 2019 decrease, patient services revenue increased during the year primarily due to strong volumes in surgery cases, solid organ transplants, pharmacy and cardiology, as well as a stronger commercial payer mix than the prior year. The increase in net patient services revenue during 2018 was primarily due to strong volumes in inpatient stays, surgery cases, cardiology, pharmacy and solid organ transplants.

Grant and Contract Revenue

One of the largest sources of revenue (22%) continues to be grants and contracts. Grant and contract revenue is received from federal sponsors, by far the largest component, and also from state, local and nongovernmental sources. Total grant and contract revenue increased $24 million in 2019, compared to an increase of $46 million in 2018.

Federal grant and contract revenue decreased $7 million, or 1%, in 2019 due primarily to two large projects that ended part way through the current fiscal year. Refurbishing work on the R/V Thomas G. Thompson research vessel to extend the vessel's useful life another 20 to 25 years was completed in September, 2018. The University also completed a major genome sequencing contract in the first half of the current fiscal year. Federal grant and contract revenue increased $23 million, or 2%, in 2018 primarily driven by genome sequencing and HIV clinical service delivery projects within the National Institutes of Health and the Centers for Disease Control and Prevention.

State and local grant and contract revenue increased $13 million, or 12%, in 2019 primarily due to the Washington State Need Grant, which increased $9 million as a result of increased support from the state legislature as well as a higher number of eligible students. State and local grant and contract revenue increased $10 million, or 10%, in 2018 largely due to a $9 million contract with the Washington State Department of Early Learning to implement a regional evaluation system, offer high-quality professional development opportunities to early learning professionals, and implement evidence-based curriculum training.

Nongovernmental grant and contract revenue increased $10 million, or 4%, in 2019. Contributing to this growth was a 20% boost in clinical trial activity within the School of Medicine, as well as increased spending related to a $10 million, four-year grant from the Paul Allen Family Foundation to create the Allen Discovery Center for Cell Lineage Tracing. The Center will focus on developing the first global maps of cell lineage in complex organisms, which will help to advance research in disciplines such as developmental biology, neuroscience, cancer biology and regenerative medicine. Nongovernmental grant and contract revenue increased $18 million, or 7%, in 2018 primarily due to The Bill & Melinda Gates Foundation's continued support of the University's Institute for Health Metrics and Evaluation.

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 2019 and 2018 indirect cost recovery rate for research grants was approximately 30 cents on every direct expenditure dollar.

Primary Nongrant Funding Sources

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

Operating Support for Instruction

(in millions)	2019		2018		2017	
Operating tuition and fees	$ 716	50%	$ 675	50%	$ 639	50%
Fees for self-sustaining educational programs	336	24%	315	23%	303	23%
Subtotal - tuition and fees	1,052	74%	990	73%	942	73%
State operating appropriations	379	26%	362	27%	342	27%
Total educational support	**$ 1,431**	**100%**	**$1,352**	**100%**	**$1,284**	**100%**

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

Revenue from tuition and fees, net of scholarship allowances, increased $62 million in 2019, compared to an increase of $48 million in 2018. The increases for both years were partially due to the state allowing a 2.2% operating fee increase in resident undergraduate tuition. Other tuition categories also contributed to these increases. Nonresident undergraduate operating fees increased 3% in 2019, most graduate and professional operating fees increased 2%, and other program rates increased 0-10%.

Most fee-based program rates increased 0-10%. These fee increases were consistent with those implemented during 2018. Revenue growth for both years was also partly due to increases in student enrollment. Full-time equivalent (FTE) enrollment in 2019 in undergraduate tuition-and fee-based programs increased 0.4% in the resident student category, and by 5.2% in the nonresident student category. FTE enrollment in graduate and professional tuition- and fee-based programs increased 2.7% in the resident student category and by 3.7% in the nonresident student category. In 2018 FTE enrollment in undergraduate tuition-and fee-based programs increased 1.5% in the resident student category, and by 2.9% in the nonresident student category. FTE enrollment in graduate and professional tuition- and fee-based programs increased 0.7% in the resident student category and by 3.1% in the nonresident student category.

Gifts, Endowments and Investment Revenues

Net investment income for the years ended June 30, 2019, 2018 and 2017 consisted of the following:

Net Investment Income

(in millions)	2019	2018	2017
Interest and dividends, net	$ 72	$ 72	$ 68
Metropolitan Tract net income	26	16	23
Seattle Cancer Care Alliance change in equity	24	17	15
Realized Gains	169	62	48
Unrealized Gains	49	237	288
Net investment income	**$ 340**	**$ 404**	**$ 442**

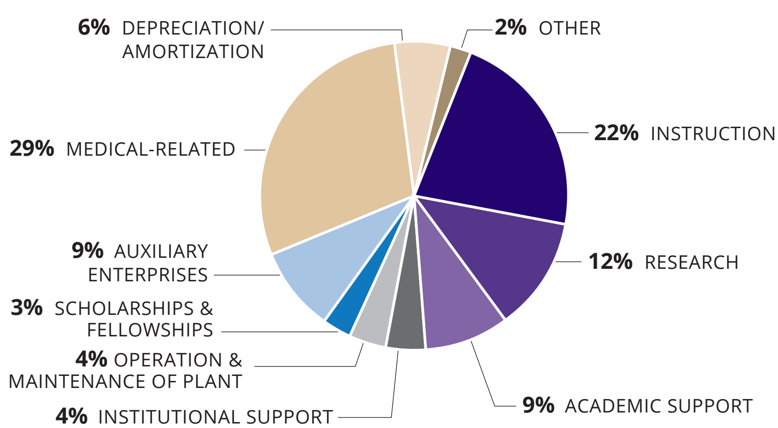
Net investment income decreased $64 million, or 16%, in 2019 compared to a decrease of $38 million, or 9%, in 2018. Increases in realized gains were more than offset by decreases in unrealized gains in both years. Returns on the CEF were +13.6% in fiscal year 2017, but decreased to +9.6% in 2018 and +5.8% in 2019.

Gifts are a key and necessary source of support for a variety of purposes, including current operating activities. Gifts support scholarships and research, capital improvements, and are used to fund permanent endowments for various academic and research purposes. Current use gifts in 2019 were largely unchanged from 2018. Capital gifts decreased $106 million in 2019, after a similar increase in 2018 that was driven by $85 million in support received from the Bill & Melinda Gates Foundation to benefit the University's Population Health Initiative. Gifts to permanent endowments increased $40 million in 2019, compared to an increase of $10 million in 2018.

Expenses

Two primary functions of the University, instruction and research, comprised 34% of total operating expenses in 2019. These dollars provided instruction to over 69,000 students and funded nearly 5,500 research awards. Medical-related expenses, such as those related to patient care, also continue to be one of the largest individual components, accounting for 29% of the University's total operating expenses in 2019.

Uses of Funds



A comparative summary of the University's expenses by functional classification (purpose for which the costs are incurred) for the years ended June 30, 2019, 2018 and 2017 follows:

Operating Expenses by Function

(in millions)	2019		2018		2017	
Educational and general instruction	$ 1,320	22%	$ 1,268	22%	$ 1,204	21%
Research	749	12%	785	13%	768	14%
Public service	66	1%	49	1%	39	1%
Academic support	540	9%	512	9%	507	9%
Student services	54	1%	53	1%	49	1%
Institutional support	226	4%	251	4%	240	4%
Operation and maintenance of plant	252	4%	201	3%	206	4%
Scholarships and fellowships	155	3%	149	3%	137	2%
Auxiliary enterprises	554	9%	495	8%	495	9%
Medical-related	1,776	29%	1,712	29%	1,658	29%
Depreciation/amortization	372	6%	384	7%	363	6%
Total operating expenses	**$ 6,064**	**100%**	**$ 5,859**	**100%**	**$ 5,666**	**100%**

Overall, the University's operating expenses increased $205 million, or 4%, in 2019 and $193 million, or 3%, in 2018. Approximately 62% of amounts incurred for operating expenses in both 2019 and 2018 were related to faculty and staff compensation and benefits.

In 2019, expense associated with faculty and staff salaries increased $143 million, or 5%, primarily due to merit increases and a 1% increase in University FTE's.

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

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

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

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

In 2018, expense associated with faculty and staff salaries increased $80 million, or 3%, as the impact from employee merit increases during the year was somewhat offset by an overall 1% reduction in University FTE's.

Benefits expense increased $61 million, or 7%, in 2018 primarily due to the implementation of GASB Statement No. 75. The difference between cash funding paid to the plan administrator, which was the basis for recording OPEB expense in the prior year, and OPEB expense reflecting application of Statement No. 75, was an increase in expense of approximately $100 million. This increase in benefits expense was partially offset by a $28 million reduction in expense associated with the defined-benefit pension plans administered by the DRS due to better than expected earnings on plan investments, and an $11 million reduction in pension expense associated with the UWSRP.

Supplies and materials expense increased $41 million, or 8%, in 2018 primarily due to increased costs of $21 million associated with drugs and medical supplies used at UW Medicine, together with a combination of other, smaller, increases associated with SOM and the University's blended component units.

Economic Factors That May Affect the Future

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

STATE OPERATING AND CAPITAL APPROPRIATIONS

The state of Washington, which provided approximately 6% of the University's total revenues in fiscal year 2019, continues to experience moderate economic growth and commensurate increases in state tax collections. In recent biennia, however, additional state tax collections and new revenue have largely been consumed by court-mandated increases to K-12 education funding (McCleary v. Washington). As part of the 2019-21 compromise budget package, which was passed during the 2019 legislative session and is effective for fiscal years 2020 and 2021, the legislature approved HB 2158, which created a dedicated source of funding for higher education through an increase to Business and Occupation (B&O) taxes on professional services. In addition to funding foundational support allocations to public colleges and universities, this revenue will maintain the legislature's commitment to fully-fund the State Need Grant program (re-named the "Washington College Grant" program) by fiscal

Unaudited – see accompanying notes to financial statements

year 2021, and will make significant investments in science, technology, engineering and math (STEM) enrollments across all three University campuses. Looking forward, state economic and revenue forecasts reflect a strong state economy, and projections for future state revenue collections continue to increase with each forecast.

During the 2013-15 biennium, the University committed to freezing resident undergraduate tuition rates in 2014 and 2015 in exchange for increases in state funding in both years. In the 2015-17 biennium, the state approved a new tuition policy that reduced resident undergraduate tuition rates to 5% below the 2015 rates in 2016, and to 15% below the 2015 rates in 2017. The state provided funds to offset the lost tuition revenue in both years. The same tuition policy allowed for future increases tied to a rolling average of median hourly wage in the state. Under this current policy, the state allowed resident undergraduate tuition to increase by just over 2% in 2018 and again in 2019. While the legislature can always modify its policy, it has so far chosen to maintain it through the 2019-21 biennium, so the expectation is that resident undergraduate tuition increases will continue to be limited to approximately 2% each year for the near future. The University's Board of Regents continues to have broad tuition and fee setting authority for categories other than resident undergraduate tuition.

The University's fiscal year 2020 general operating appropriation from the state (excluding certain amounts appropriated for specific purposes) is expected to total nearly $398 million. This amount is an increase from approximately $368 million in 2019 and $353 million in 2018. Recent increases are largely attributable to targeted investments in foundational support and STEM enrollments included in HB 2158. The University also received new appropriations for compensation, medical education, hospital and dental clinic safety net support, and targeted research investments.

After failing to pass a biennial state capital budget during their 2017 legislative session, the state approved a compromise 2017-19 biennial capital budget when they reconvened in 2018. Therefore, some projects that were slated to receive funding for the beginning of 2018 were delayed by several months. State funding for capital appropriations continues to be constrained, but the state's 2019-21 biennial capital budget provided state bonding capacity or other funding for several critical capital projects that the University requested for the 2019-21 biennium. These include a health sciences education building, STEM-related buildings across all three campuses, and seismic upgrades. The state also provided significant funding for the University to expand mental health services through a new behavioral health teaching facility.

UW MEDICINE

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

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

Embright

UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance in 2017 to expand access to high quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. UW Medicine, MultiCare and LifePoint Health formed the Pacific Northwest Clinically Integrated Network, LLC dba Embright, following approval by the University's Board of Regents in October 2018. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright aims to enable the partners to develop care delivery models that will improve patient care and the patient experience at a more affordable cost. Together, the founding organizations represent 14 hospitals, more than 6,500 providers and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols and care pathways, standardized processes and care management services for complex patients. UW Medicine currently has an equity ownership interest of 45% in Embright at June 30, 2019.

Investments in Information Technology

In July 2018, the University Board of Regents granted approval to proceed with the UW Medicine clinical transformation program, called Destination: One. This multi-year program aims to improve patient engagement, physician and practitioner experience and to achieve business and operating efficiencies through development of foundational systems and improved staffing workflows. Patient engagement is expected to be enhanced through development of a single online patient portal for activities between the patient and UW Medicine. More online service opportunities and easy navigation are expected to create additional opportunities for communication between the patient and their care team. UW Medicine is anticipated to achieve business and operating efficiencies through simplification and standardization across operations and IT, resulting in revenue cycle improvements and optimized resource utilization. Total program costs are estimated to be $180 million, of which $129 million will be financed through the University's Internal Lending Program. Destination: One is expected to be fully implemented in October, 2020.

Northwest Hospital Integration

In February 2018, the University Board of Regents granted approval to proceed with the dissolution and subsequent integration of Northwest Hospital into UW Medical Center. As changes in the national and regional healthcare environment evolve, adopting a new model of one hospital on two campuses will provide additional opportunities for cost savings, improved coordination of care, and a better patient experience. Upon dissolution of the Northwest Hospital corporation, Northwest Hospital assets and debts will be assumed by UW Medical Center and Northwest Hospital staff will become University employees. Full integration is planned to occur on January 1, 2020.

OTHER

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 were unchanged during fiscal year 2019, but will be increasing 1% during fiscal year 2020, from 12.70% to 12.86% of covered salary. Likewise, the monthly employer base rate paid by the University for employee healthcare was mostly unchanged during 2019, but will be increasing 3% in 2020, from $916 to $939 per active employee. Both rates are likely to continue increasing over the next few years.

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	UNIVERSITY OF WASHINGTON June 30, 2019	UNIVERSITY OF WASHINGTON June 30, 2018	DISCRETE COMPONENT UNIT June 30, 2019	DISCRETE COMPONENT UNIT June 30, 2018
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS (NOTE 2)	$ 85,516	$ 144,136	$ 35,373	$ 48,186
INVESTMENTS, CURRENT PORTION (NOTE 6)	616,484	552,641	67,198	41,431
ACCOUNTS RECEIVABLE (NET OF ALLOWANCE OF $21,673 AND $19,447) (NOTE 5)	817,762	738,743	86,924	83,950
OTHER CURRENT ASSETS	54,675	50,482	24,246	53,314
TOTAL CURRENT ASSETS	1,574,437	1,486,002	213,741	226,881
NONCURRENT ASSETS:				
DEPOSIT WITH STATE OF WASHINGTON (NOTE 3)	72,843	67,655	–	–
INVESTMENTS, NET OF CURRENT PORTION (NOTE 6)	5,375,352	5,104,848	545	1,377
METROPOLITAN TRACT (NOTE 7)	168,292	152,233	–	–
STUDENT LOANS RECEIVABLE (NET OF ALLOWANCE OF $1,656 AND $4,339) (NOTE 4)	60,737	63,541	–	–
OTHER NONCURRENT ASSETS	221,994	197,948	152,759	81,399
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION OF $4,898,154 AND $4,607,053) (NOTE 8)	4,935,336	4,979,731	385,901	380,445
TOTAL NONCURRENT ASSETS	10,834,554	10,565,956	539,205	463,221
TOTAL ASSETS	12,408,991	12,051,958	752,946	690,102
DEFERRED OUTFLOWS OF RESOURCES (NOTE 12)	414,063	244,041	16,119	12,491
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$12,823,054**	**$12,295,999**	**$ 769,065**	**$ 702,593**
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 750,853	$ 784,036	$ 124,460	$ 108,245
UNEARNED REVENUES	188,702	188,077	–	–
OTHER CURRENT LIABILITIES	85,285	158,082	–	–
LONG-TERM LIABILITIES, CURRENT PORTION (NOTES 9-11)	141,368	136,517	10,550	10,208
TOTAL CURRENT LIABILITIES	1,166,208	1,266,712	135,010	118,453
NONCURRENT LIABILITIES:				
U.S. GOVERNMENT GRANTS REFUNDABLE	43,346	45,535	–	–
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (NOTES 9-11)	2,644,445	2,620,587	338,374	299,262
PENSION LIABILITIES (NOTE 15)	1,143,483	1,184,852	–	–
OTHER POST-EMPLOYMENT BENEFITS (NOTE 16)	1,354,177	1,565,213	–	–
TOTAL NONCURRENT LIABILITIES	5,185,451	5,416,187	338,374	299,262
TOTAL LIABILITIES	6,351,659	6,682,899	473,384	417,715
DEFERRED INFLOWS OF RESOURCES (NOTE 12)	893,069	516,323	23,849	25,031
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	7,244,728	**7,199,222**	**497,233**	**442,746**
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	2,489,083	2,483,814	102,937	87,817
RESTRICTED:				
NONEXPENDABLE	1,877,816	1,721,927	–	–
EXPENDABLE	2,192,163	2,128,692	3,525	8,240
UNRESTRICTED	(980,736)	(1,237,656)	165,370	163,790
TOTAL NET POSITION	5,578,326	5,096,777	271,832	259,847
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$12,823,054**	**$12,295,999**	**$ 769,065**	**$ 702,593**

See accompanying notes to financial statements.
Dollars in thousands

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	UNIVERSITY OF WASHINGTON		DISCRETE COMPONENT UNIT	
	Year ended June 30,		Year ended June 30,	
REVENUES	2019	2018	2019	2018
OPERATING REVENUES:				
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCE OF $159,390 AND $154,854)	$ 1,052,222	$ 989,912	$ –	$ –
NET PATIENT SERVICE REVENUES (NET OF PROVISION FOR UNCOLLECTIBLE ACCOUNTS OF $29,140 AND $29,411)	2,135,733	2,008,317	622,824	598,633
FEDERAL GRANTS AND CONTRACTS	1,041,103	1,048,088	–	–
STATE AND LOCAL GRANTS AND CONTRACTS	115,969	103,267	–	–
NONGOVERNMENTAL GRANTS AND CONTRACTS	268,449	257,966	–	–
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	260,176	242,886	–	–
AUXILIARY ENTERPRISES:				
HOUSING AND FOOD SERVICES	152,965	131,369	–	–
SPORTS PROGRAMS (NET OF SCHOLARSHIP ALLOWANCE OF $8,014 AND $7,590)	93,304	91,924	–	–
OTHER AUXILIARY ENTERPRISES	236,906	179,574	–	–
OTHER OPERATING REVENUE	128,391	118,497	55,033	38,092
TOTAL OPERATING REVENUES	**5,485,218**	**5,171,800**	**677,857**	**636,725**
EXPENSES				
OPERATING EXPENSES (NOTE 13):				
SALARIES	2,879,442	2,736,630	347,820	315,905
BENEFITS	852,888	924,253	84,177	75,902
SCHOLARSHIPS AND FELLOWSHIPS	155,158	149,378	–	–
UTILITIES	67,977	59,884	6,024	5,179
SUPPLIES AND MATERIALS	631,511	588,476	90,764	83,246
PURCHASED SERVICES	884,334	844,729	81,907	73,613
DEPRECIATION/AMORTIZATION	372,435	384,004	37,202	33,167
OTHER	220,485	171,442	33,429	36,082
TOTAL OPERATING EXPENSES	**6,064,230**	**5,858,796**	**681,323**	**623,094**
OPERATING INCOME (LOSS)	**(579,012)**	**(686,996)**	**(3,466)**	**13,631**
NONOPERATING REVENUES (EXPENSES)				
STATE APPROPRIATIONS	378,656	362,267	–	–
GIFTS	165,831	166,721	–	–
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE OF $8,700 AND $10,790)	339,878	404,412	7,787	2,468
INTEREST ON CAPITAL ASSET-RELATED DEBT	(88,498)	(76,642)	(14,853)	(14,258)
PELL GRANT REVENUE	51,790	51,097	–	–
PROPERTY TAX REVENUE	–	–	23,258	22,722
OTHER NONOPERATING REVENUES	8,363	4,749	(689)	15,723
NET NONOPERATING REVENUES	**856,020**	**912,604**	**15,503**	**26,655**
INCOME BEFORE OTHER REVENUES	**277,008**	**225,608**	**12,037**	**40,286**
CAPITAL APPROPRIATIONS	24,797	26,399	–	–
CAPITAL GRANTS, GIFTS AND OTHER	44,260	142,573	–	–
GIFTS TO PERMANENT ENDOWMENTS	135,484	95,890	–	–
TOTAL OTHER REVENUES	**204,541**	**264,862**	**–**	**–**
INCREASE IN NET POSITION	**481,549**	**490,470**	**12,037**	**40,286**
NET POSITION				
NET POSITION – BEGINNING OF YEAR (NOTE 1)	5,096,777	4,606,307	259,795	219,561
NET POSITION – END OF YEAR	**$ 5,578,326**	**$ 5,096,777**	**$ 271,832**	**$ 259,847**

See accompanying notes to financial statements.
Dollars in thousands

STATEMENTS OF CASH FLOWS

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES	2019	2018
STUDENT TUITION AND FEES	$ 1,007,157	$ 958,966
PATIENT SERVICES	2,097,521	1,989,098
GRANTS AND CONTRACTS	1,454,338	1,376,235
PAYMENTS TO SUPPLIERS	(661,940)	(567,439)
PAYMENTS FOR UTILITIES	(69,370)	(59,381)
PURCHASED SERVICES	(903,559)	(832,124)
OTHER OPERATING DISBURSEMENTS	(220,428)	(169,606)
PAYMENTS TO EMPLOYEES	(2,870,989)	(2,732,923)
PAYMENTS FOR BENEFITS	(858,285)	(823,136)
PAYMENTS FOR SCHOLARSHIPS AND FELLOWSHIPS	(155,158)	(149,378)
LOANS ISSUED TO STUDENTS	(16,009)	(17,148)
COLLECTION OF LOANS TO STUDENTS	16,624	18,614
AUXILIARY ENTERPRISE RECEIPTS	482,011	401,799
SALES AND SERVICES OF EDUCATIONAL DEPARTMENTS	248,804	260,364
RECEIPTS FROM OUTSIDE AFFILIATED AGENCIES	902,277	904,189
DISBURSEMENTS TO OUTSIDE AFFILIATED AGENCIES	(920,315)	(901,659)
OTHER RECEIPTS	109,276	116,012
NET CASH USED BY OPERATING ACTIVITIES	**(358,045)**	**(227,517)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	360,803	362,267
GIFTS AND GRANTS FOR OTHER THAN CAPITAL PURPOSES	51,790	51,097
PRIVATE GIFTS	130,496	132,796
PERMANENT ENDOWMENT RECEIPTS	135,484	95,890
DIRECT LENDING RECEIPTS	236,348	237,500
DIRECT LENDING DISBURSEMENTS	(233,837)	(241,317)
OTHER	8,897	4,700
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**689,981**	**642,933**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
PROCEEDS FROM CAPITAL DEBT	184,003	186,339
STATE CAPITAL APPROPRIATIONS	23,704	24,228
CAPITAL GRANTS AND GIFTS RECEIVED	38,068	141,648
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(314,652)	(622,412)
PRINCIPAL PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(225,447)	(116,809)
INTEREST PAYMENTS ON CAPITAL-RELATED DEBT AND LEASES	(89,443)	(90,401)
OTHER	(2,885)	(1,205)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(386,652)**	**(478,612)**

	UNIVERSITY OF WASHINGTON	
	Year Ended June 30,	
CASH FLOWS FROM INVESTING ACTIVITIES	**2019**	**2018**
PROCEEDS FROM SALES OF INVESTMENTS	11,323,460	10,549,300
DISBURSEMENTS FOR PURCHASES OF INVESTMENTS	(11,425,292)	(10,493,626)
INVESTMENT INCOME	97,928	87,623
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	**(3,904)**	**143,297**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(58,620)**	**80,101**
CASH AND CASH EQUIVALENTS-BEGINNING OF THE YEAR	144,136	64,035
CASH AND CASH EQUIVALENTS-END OF THE YEAR	**$ 85,516**	**$ 144,136**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	$ (579,012)	$ (686,996)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
DEPRECIATION/AMORTIZATION EXPENSE	372,435	384,004
CHANGES IN ASSETS, LIABILITIES AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:		
RECEIVABLES	(31,151)	(52,983)
OTHER ASSETS	(28,711)	(20,093)
PENSION AND OPEB RELATED DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES	202,777	387,381
PENSION LIABILITIES	(41,368)	(237,559)
OPEB LIABILITY	(211,036)	(95,235)
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	(48,309)	59,732
UNEARNED REVENUE	625	(7,776)
OTHER LONG-TERM LIABILITIES	5,090	40,541
U.S. GOVERNMENTAL GRANTS REFUNDABLE	(2,189)	(4,373)
LOANS TO STUDENTS	2,804	5,840
NET CASH USED BY OPERATING ACTIVITIES	**$ (358,045)**	**$ (227,517)**
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
STOCK GIFTS	$ 36,844	$ 31,729
INCREASE IN INTEREST IN SEATTLE CANCER CARE ALLIANCE	24,231	17,332
NET UNREALIZED GAINS	41,208	237,197
EXTERNALLY MANAGED TRUSTS	8,109	112,821
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	**$ 110,392**	**$ 399,079**

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 (see note 14).

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

BLENDED COMPONENT UNITS

The following entities are presented as blended component units of the University. Financial information for these affiliated organizations is available from their respective administrative offices.

MEDICAL ENTITIES

Northwest Hospital & Medical Center (NWH)

NWH is a Washington nonprofit corporation formed in 1949, whose sole corporate member is the University. Northwest Hospital is a 281 licensed-bed, full-service medical facility primarily serving the healthcare needs of residents of King and Snohomish counties in Washington. NWH had operating revenues of $378.7 million and $370.8 million for the years ended June 30, 2019 and 2018, respectively.

The Association of University Physicians dba UW Physicians (UWP)

UWP is a Washington nonprofit corporation formed in 1983 for the exclusive benefit of the University of Washington School of Medicine (SOM). UWP employs SOM faculty and bills and collects for their clinical services as an agent for SOM. UWP had operating revenues of $309.7 million and $329.8 million for the years ended June 30, 2019 and 2018, respectively.

UW Medicine Neighborhood Clinics (Neighborhood Clinics)

Neighborhood Clinics is a Washington nonprofit corporation formed in 1996 exclusively for charitable, scientific and educational purposes for the benefit of SOM, UWP and its affiliated medical centers, HMC and UWMC. Neighborhood Clinics was organized to coordinate and develop patient care in a community clinical setting. Neighborhood Clinics enhances the academic environment of SOM by providing additional sites of primary care practice and training for faculty, residents and students. Neighborhood Clinics had operating revenues of $32.0 million and $27.9 million for the years ended June 30, 2019 and 2018, respectively.

REAL ESTATE ENTITIES

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

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

As of June 30, 2019 and 2018, these entities had net capital assets of $348.5 million and $360.5 million, respectively, and long-term debt of $354.5 million and $370.8 million, respectively. These amounts are reflected in the University's financial statements.

DISCRETELY PRESENTED COMPONENT UNIT

Valley Medical Center

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

JOINT VENTURES

The University, together with Seattle Children's Hospital and Fred Hutchinson Cancer Research Center, are members of the Seattle Cancer Care Alliance (SCCA). The SCCA integrates the cancer research, teaching and clinical cancer programs of all three institutions to provide state-of-the-art cancer care. Each member of the SCCA holds a one-third interest in the joint venture. The University accounts for its interest in the SCCA under the equity method of accounting. As of June 30, 2019 and 2018, the University's investment in the SCCA totaled $183.4 million and $159.1 million, respectively. The University's investment in the SCCA is included in Other Noncurrent Assets in its Statements of Net Position. The University reported investment income of $24.2 million and $17.3 million for its share of the joint venture for the years ended June 30, 2019 and 2018, respectively.

The University and Seattle Children's Hospital established Children's University Medical Group (CUMG) to assist the organizations in carrying out their pediatric patient care and charitable, educational, and scientific missions. CUMG employs SOM faculty physicians, and bills and collects for their services as an agent for SOM. The University records revenue from CUMG based on the income distribution plan effective December 31, 2008. The University's patient services receivable (see note 5) as of June 30, 2019 and 2018 includes amounts due from CUMG of $16.6 million and $17.6 million, respectively.

BASIS OF ACCOUNTING

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

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

On July 1, 2017, the University adopted GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* (OPEB), which established new actuarial methods and discount rate standards for the measurement and recognition of the cost of postemployment benefits provided to the employees of state and local governmental employers. This Statement replaced the requirements of GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions."* As a result of implementing Statement No. 75, the University recognized its proportionate share of the state of Washington's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to adopting this Statement the University's financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expense based on employer contributions paid to the OPEB plan administrator. In addition to the reporting changes described above, implementation of this Statement resulted in the restatement of fiscal year 2018 beginning Unrestricted Net Position, reducing it by $1.7 billion.

On July 1, 2017, the University adopted GASB Statement No. 81, *"Irrevocable Split-Interest Agreements."* 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 changed the way that governments reflect resources received pursuant to irrevocable split-interest agreements, both at inception and throughout the life of the associated contract. Specifically, when the University has a remainder interest in a trust that is also managed by the University, revenues are no longer recognized when the asset is received and upon periodic revaluation, but are instead deferred and recognized at termination of the contract. This change resulted in the restatement of fiscal year 2018 beginning Restricted Nonexpendable Net Position, reducing it by $47.2 million, together with an increase in Deferred Inflows. When the University has a lead interest in a trust that is not managed by the University, revenues are now recognized both when the asset is received and upon periodic revaluation. These events were previously not reflected in the financial statements of the University. Revenue will also continue to be recognized as periodic payments are received, as was the case prior to implementation of GASB 81. This change also resulted in the restatement of fiscal year 2018 beginning Restricted Nonexpendable Net Position, increasing it by $112.8 million, together with an increase in Investments. The net impact of implementing these accounting changes was an increase in beginning Restricted Nonexpendable Net Position of $65.6 million.

With the adoption of GASB Statements No. 75 and No. 81, net position was restated at July 1, 2017. Below is a reconciliation of total net position as previously reported at June 30, 2017, to the restated net position.

(Dollars in thousands)

NET POSITION AT JUNE 30, 2017, AS PREVIOUSLY REPORTED	$ 6,201,106
ADOPTION OF GASB STATEMENT NO. 75	(1,660,447)
ADOPTION OF GASB STATEMENT NO. 81	65,648
NET POSITION AT JULY 1, 2017, AS RESTATED	**$ 4,606,307**

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

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

ACCOUNTING STANDARDS IMPACTING THE FUTURE

In January 2017, the GASB issued Statement No. 84, *"Fiduciary Activities,"* which will be effective for the fiscal year ending June 30, 2020. This Statement establishes criteria for identifying and reporting fiduciary activities of all state and local governments. Governments with activities meeting the criteria are required to present a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Custodial assets held for three months or less are exempt from the reporting requirements. The University will be required to report fiduciary activities that do not meet the exception criteria, primarily consisting of funds invested by other agencies and organizations in the Consolidated Endowment Fund.

In June 2017, the GASB issued Statement No. 87, *"Leases,"* which will be effective for the fiscal year ending June 30, 2021. This Statement changes the current classification of lease arrangements as either operating or capital leases, and establishes a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. This Statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessees will be required to recognize a lease liability and an intangible right-to-use lease asset, and lessors will be required to recognize a lease receivable and a deferred inflow of resources. The University expects implementation of this Statement to materially increase the reported amounts for assets and liabilities on the Statements of Net Position. The University is currently evaluating the overall impact of this Statement on its financial statements.

In June 2018, the GASB issued Statement No. 89, *"Accounting for Interest Cost Incurred before the End of a Construction Period,"* which will be effective for the fiscal year ending June 30, 2021. This Statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will no longer be included in the capitalized cost of capital assets reported by the University. This Statement will be applied on a prospective basis, and interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated. The University estimates that implementation of this Statement will result in approximately $10.0 million of additional interest expense being recognized annually.

In August 2018, the GASB issued Statement No. 90, *"Majority Equity Interests,"* which will be effective for the fiscal year ending June 30, 2020. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. When a majority equity interest meets the definition of an investment as defined by GASB, the equity interest is required to be reported as an investment for financial reporting purposes and is required to be measured using the equity method of accounting. Majority equity interests that do not meet the definition of an investment are required to be reported as a component unit. This Statement also provides guidance for valuing the acquisition of assets and liabilities of wholly-owned equity interests that remain legally separate, and brings this reporting in line with existing standards that apply to acquisitions that do not remain legally separate. Review of the University's equity interests has not revealed any majority interests that would fall within the scope of this Statement.

In December 2018, the GASB issued Statement No. 91, *"Conduit Debt Obligations,"* which will be effective for the fiscal year ending June 30, 2022. This Statement provides a single method for reporting conduit debt obligations of issuers. The Statement clarifies the existing definition of a conduit debt obligation, creates standards for accounting for commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improves related financial statement disclosures. The Statement provides guidance for arrangements when capital assets are acquired with proceeds of conduit debt obligations used by a third party that is obligated to pay the debt service. The University has not issued conduit debt; therefore, implementation of this Statement will have no impact on the University's financial statements.

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

The self-insurance reserve (see note 17) 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 in Other Current Assets on the University's Statements of Net Position. Consumable inventories, consisting of expendable materials and supplies, are generally valued using the weighted-average method. Merchandise inventories are generally valued using the first-in, first-out method.

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

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

Interest incurred on capital asset-related debt was $91.7 million and $91.8 million for the years ended June 30, 2019 and 2018, respectively. The University capitalized $3.2 million and $15.2 million of this cost for the years ended June 30, 2019 and 2018, 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.

Asset Retirement Obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. AROs are measured at the current value of the estimated costs required to dispose of the asset. AROs are included in Long-Term Liabilities on the University's Statements of Net Position (see Remediation Liabilities, note 9), and represent costs related to two cyclotrons used for research, clinical applications, and education. Disposal of these assets must be accomplished in accordance with Washington Administrative Code Chapter 246, "Department of Health". The University used the decommissioning guidance provided by the U.S. Nuclear Regulatory Commission to estimate the disposal costs. The assets identified have estimated remaining useful lives of 10 and 15 years. The University has issued a statement of intent to the Washington Department of Health to request funding from the state legislature to fund the decommissioning of these assets. The University has no assets restricted for payment of these obligations. The University has not recognized an obligation for costs that would be incurred in the event that the University relinquished its license from the Department of Health and ceased use of radioactive materials in its operations as the likelihood of this occurring is remote.

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

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

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

Split-Interest Agreements. Under such agreements, donors make gifts to the University but the University is not the sole beneficiary and receives either a lead interest (distributions during the term of the agreement) or a remainder interest (distribution of assets remaining at the end of the agreement). Charitable trusts, charitable gift annuities, pooled income funds and beneficial interests in charitable trusts are examples of split-interest gifts. Where the University holds a remainder interest in a trust that is also administered by the University, an asset related to these agreements is recorded at fair market value, a deferred inflow is recorded for the remainder value, and a liability is recorded equal to the present value of expected future distributions to the income beneficiaries. The liability is calculated using discount rates ranging from 3.2% to 7.5%. Additionally, donors have established and funded trusts which are administered by organizations other than the University. Under the terms of these trusts, the University has the irrevocable right to receive all or a portion of the income earned on the trust assets in perpetuity. The University does not control the assets held by the outside trusts but recognizes an interest in the trusts, based on the fair value of the assets contributed to the trusts, mostly as permanently restricted contributions. Fluctuation in the fair value of these assets are recorded annually as revenue and impact Restricted Nonexpendable Net Position.

Compensated Absences. University employees accrue annual leave at rates based on length of service, and for sick leave at the rate of one day per month. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal compensation rate for any balance that exceeds 480 hours, or for any balance upon retirement or death. Annual leave accrued at June 30, 2019 and 2018 was $132.5 million and $127.0 million, respectively, and is included in Accounts Payable and Accrued Liabilities in the University's Statements of Net Position. Sick leave accrued at June 30, 2019 and 2018 was $51.3 million and $49.6 million, respectively, and is included in Long-Term Liabilities (see note 9) in the University's Statements of Net Position.

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

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

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

For more information about Net Patient Service Revenue, see the audited financial statements of the UW Medicine Clinical Enterprise – UW Division, which are contained in the latest Bondholders Report at finance.uw.edu/treasury/bondholders/other-investor-material.

Financial Assistance. Financial assistance provides patient care without charge to patients who meet certain criteria under the financial assistance policy. Records are maintained to identify and monitor the level of financial assistance provided. These records include charges foregone for services and supplies furnished under the financial assistance policy to the uninsured and the underinsured. Collection of these amounts is not pursued and, as such, they are not reported as net patient service revenue. The cost of financial assistance provided is calculated based on the aggregate relationship of costs to charges. The estimated cost of financial assistance provided during the years ended June 30, 2019 and 2018 was $21.9 million.

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

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

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

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

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

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

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

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

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).

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 building fee collected from students. The fair value of these funds approximates the carrying value.

NOTE 4:

Student Loans Receivable

As of June 30, 2019 and 2018, net student loans of $60.7 million and $63.5 million, respectively, consist of $43.3 million and $48.5 million, respectively, from federal programs, and $17.4 million and $15.0 million, respectively, from University programs. For the years ended June 30, 2019 and 2018, interest income from student loans was $1.6 million and $1.7 million, 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, 2019 and 2018 were as follows:

(Dollars in thousands)	2019	2018
NET PATIENT SERVICES	$ 360,301	$ 319,956
GRANTS AND CONTRACTS	186,498	204,602
INVESTMENTS	86,013	57,092
DUE FROM OTHER AGENCIES	94,723	86,993
SALES AND SERVICES	46,188	34,816
STATE APPROPRIATIONS	26,635	7,688
TUITION	11,735	12,563
ROYALTIES	2,937	3,090
OTHER	24,405	31,390
SUBTOTAL	839,435	758,190
LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(21,673)	(19,447)
TOTAL	**$ 817,762**	**$ 738,743**

NOTE 6:

Investments

INVESTMENTS – GENERAL

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

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

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

TABLE 1 – INVESTMENTS *(Dollars in thousands)*

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

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

INVESTMENTS BY FAIR VALUE LEVEL	2018	Fair Value Measurements Inputs: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FIXED INCOME SECURITIES				
U.S. TREASURY SECURITIES	$ 652,611	$ 3,967	$ 648,644	$ –
U.S. GOVERNMENT AGENCY	545,478	10,879	534,599	–
MORTGAGE BACKED	231,974	–	231,974	–
ASSET BACKED	175,449	–	175,449	–
CORPORATE AND OTHER	495,926	72,390	423,536	–
TOTAL FIXED INCOME SECURITIES	**2,101,438**	**87,236**	**2,014,202**	**–**
EQUITY SECURITIES				
GLOBAL EQUITY INVESTMENTS	719,261	711,232	8,029	–
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	27,224	–	25,885	1,339
REAL ESTATE	10,097	5,016	–	5,081
OTHER	11,385	6,917	–	4,468
TOTAL EQUITY SECURITIES	**767,967**	**723,165**	**33,914**	**10,888**
EXTERNALLY MANAGED TRUSTS	**122,686**	**–**	**–**	**122,686**
TOTAL INVESTMENTS BY FAIR VALUE LEVEL	**2,992,091**	**$ 810,401**	**$ 2,048,116**	**$ 133,574**

INVESTMENTS MEASURED USING NET ASSET VALUE (NAV)	
GLOBAL EQUITY INVESTMENTS	1,311,637
ABSOLUTE RETURN STRATEGY FUNDS	622,479
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	369,888
REAL ASSET FUNDS	193,341
OTHER	48,228
TOTAL INVESTMENTS MEASURED USING NAV	**2,545,573**
TOTAL INVESTMENTS MEASURED AT FAIR VALUE	5,537,664
CASH EQUIVALENTS AT AMORTIZED COST	119,825
TOTAL INVESTMENTS	**$ 5,657,489**

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

The University's interests in certain non-readily marketable alternative investments, such as hedge funds and private equity limited partnerships, are stated at fair value based on NAV estimates used as a practical expedient reported to the University by investment fund managers. The valuation method for investments measured using NAV per share (or its equivalent) is presented in the following table:

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

2019	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,495,365	$ 14,523	MONTHLY TO ANNUALLY	15-180 DAYS
ABSOLUTE RETURN STRATEGY FUNDS	651,054	13,190	QUARTERLY TO ANNUALLY	30-90 DAYS
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	451,191	387,288	N/A	–
REAL ASSETS FUNDS	164,931	67,229	N/A	–
OTHER	69,189	38,916	QUARTERLY TO ANNUALLY	30-95 DAYS
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,831,730**			

2018	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
GLOBAL EQUITY INVESTMENTS	$ 1,311,637	$ 22,308	MONTHLY TO ANNUALLY	15-180 DAYS
ABSOLUTE RETURN STRATEGY FUNDS	622,479	–	QUARTERLY TO ANNUALLY	30-90 DAYS
PRIVATE EQUITY AND VENTURE CAPITAL FUNDS	369,888	347,263	N/A	–
REAL ASSETS FUNDS	193,341	55,105	N/A	–
OTHER	48,228	850	QUARTERLY TO ANNUALLY	30-95 DAYS
TOTAL INVESTMENTS MEASURED USING NAV	**$ 2,545,573**			

1. **Global Equity:** This investment category includes public equity investments in separately managed accounts, long-only comingled funds, unconstrained limited partnerships, and passive market indices. As of June 30, 2019 and 2018, approximately 79% and 72%, respectively, of the value of the investments in this category can be redeemed within 90 days. As of June 30, 2019 and 2018, approximately 92% can be redeemed within one year.

2. **Absolute Return:** This category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and/or hedges against market downturns. As of June 30, 2019 and 2018, approximately 72% and 88%, respectively, of the value of the investments in this category can be redeemed within one year.

3. **Private equity:** This category includes buyout, venture, and special situations funds. 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 majority of underlying assets of the funds will be liquidated over the next 7 to 10 years.

4. **Real assets:** This category includes real estate, natural resources, and other hard assets. These investments 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 majority of underlying assets of the funds will be liquidated over 7 to 10 years.

5. **Other:** This category consists of opportunistic investments and includes various types of non-investment grade and non-rated credit plus nominal equity exposure. As of June 30, 2019 and 2018, approximately 25% and 15%, respectively, 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, 2019 and 2018, the Invested Funds Pool totaled $1.9 billion and $1.8 billion, respectively. The Invested Funds Pool also owns units in the Consolidated Endowment Fund (CEF) which was valued at $649.0 million and $643.1 million at June 30, 2019 and 2018, respectively. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 0.75% in fiscal years 2019 and 2018. University Advancement received 3.0% of the average balances in endowment operating and gift accounts in fiscal years 2019 and 2018. 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 4.0%, applied to the five-year rolling average of the CEF's market valuation. Additionally, the policy allows for an administrative fee of 1.0% supporting campus-wide fundraising and stewardship activities (0.8%) and offsetting the internal cost of managing endowment assets (0.2%).

The University records its permanent endowments at the lower of original gift value or current market value in the Restricted Nonexpendable Net Position category. Of the endowments that are recorded at current market value, the net deficiency from the original gift value was $30 thousand and $0.4 million at June 30, 2019 and 2018, 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 $169.0 million and $62.3 million in fiscal years 2019 and 2018, 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 in the fair value of investments during the years ended June 30, 2019 and 2018 was $220.7 million and $299.5 million, respectively.

FUNDING COMMITMENTS

The University enters into contracts with investment managers to fund alternative investments. As of June 30, 2019 and 2018, the University had outstanding commitments to fund alternative investments of $521.1 million and $425.5 million, respectively. These commitments are expected to be called over a multi-year time frame, generally 2-5 years depending on the type of fund. The University believes it has adequate liquidity and funding sources to meet these obligations.

DERIVATIVES

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

Total return swaps involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. Derivative instruments are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The notional amount and fair value of investment derivative instruments outstanding as of June 30, 2019 and 2018, categorized by type, are as follows:

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

Notional Amount as of June 30			Fair Value as of June 30			Change in Fair Value		
DESCRIPTION	**2019**	**2018**	**ASSET CLASSIFICATION**	**2019**	**2018**	**INCOME CLASSIFICATION**	**2019**	**2018**
OPTIONS PURCHASED–PUTS	$ –	$ 161	INVESTMENTS	$ –	$ 137	INVESTMENT INCOME	$ –	$ (24)
SWAPS FIXED INCOME–LONG	113,705	119,807	INVESTMENTS	113,705	119,010	INVESTMENT INCOME	–	(797)
SWAPS FIXED INCOME SHORT	(113,705)	(119,001)	INVESTMENTS	(115,748)	(115,391)	INVESTMENT INCOME	(2,043)	3,610

As of June 30, 2019 and 2018, the University had outstanding futures contracts with notional amounts totaling $189.6 million and $115.5 million, respectively. As of June 30, 2019, accumulated unrealized gains on these contracts totaled $0.9 million. As of June 30, 2018, accumulated unrealized losses on these contracts totaled $0.3 million. These accumulated unrealized gains and losses are included in Investments on the Statements of Net Position. Futures are financial contracts obligating the buyer to purchase an asset at a predetermined future date and price.

Credit exposure represents exposure to counterparties relating to financial instruments, where gains exceed collateral held by the University or losses are less than the collateral posted by the University. There was no credit exposure as of June 30, 2019 or 2018. 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 2.86 years and 1.74 years at June 30, 2019 and 2018, respectively.

CREDIT RISK

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

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

Duration and credit risk figures at June 30, 2019 and 2018 exclude $41.5 million and $16.3 million, respectively, of fixed income securities held by component units. These amounts make up 1.79% and 0.77%, 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, 2019 and 2018, along with credit quality and effective duration measures, is summarized as follows:

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

2019

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

2018

Investments	U.S. Government	Investment Grade*	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. TREASURY SECURITIES	$ 648,644	$ –	$ –	$ –	$ 648,644	1.85
U.S. GOVERNMENT AGENCY	540,529	–	–	–	540,529	2.85
MORTGAGE BACKED	–	164,675	42,247	25,052	231,974	1.99
ASSET BACKED	–	147,713	1,134	26,602	175,449	0.71
CORPORATE AND OTHER	–	368,800	31,830	87,938	488,568	1.14
TOTAL	**$ 1,189,173**	**$ 681,188**	**$ 75,211**	**$ 139,592**	**$ 2,085,164**	**1.74**

*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 both June 30, 2019 and 2018 of $1.5 billion.

TABLE 5 – INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

(Dollars in thousands)	2019	2018
CHINESE RENMINBI (CNY)	$ 270,614	$ 232,898
EURO (EUR)	206,129	161,709
JAPANESE YEN (JPY)	167,433	141,518
INDIAN RUPEE (INR)	160,397	154,962
BRITISH POUND (GBP)	89,330	78,660
BRAZIL REAL (BRL)	88,404	78,752
CANADIAN DOLLAR (CAD)	59,636	97,112
SWEDISH KRONA (SEK)	43,459	21,674
SOUTH KOREAN WON (KRW)	42,714	58,605
HONG KONG DOLLAR (HKD)	41,264	55,290
ARGENTINE PESO (ARS)	37,831	19,925
SWISS FRANC (CHF)	35,895	41,690
TAIWANESE DOLLAR (TWD)	30,491	33,151
RUSSIAN RUBLE (RUB)	27,666	30,289
AUSTRALIAN DOLLAR (AUD)	26,747	24,972
MEXICAN PESO (MXN)	26,487	33,643
REMAINING CURRENCIES	138,330	193,283
TOTAL	**$ 1,492,827**	**$ 1,458,133**

NOTE 7:

Metropolitan Tract

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

The balances included on the Statements of Net Position as of June 30, 2019 and 2018 of $168.3 million and $152.2 million, respectively, represent the asset value net of operating liabilities and long-term debt on the property. The asset value is comprised primarily of land, buildings, building improvements and operating assets.

As of June 30, 2019 and 2018, total debt outstanding on the Metropolitan Tract was $30.6 million and $31.3 million, respectively. This debt will be repaid by income generated from the properties. The debt was issued in 2015 to refund commercial paper and to acquire the leasehold on the Cobb Building. These amounts are reflected in the balances for Metropolitan Tract on the Statements of Net Position, and are therefore not included in Note 9 or Note 11.

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

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

NOTE 8:

Capital Assets

Capital asset activity for the years ended June 30, 2019 and 2018 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2017	Additions/ Transfers	Retirements	Balance as of June 30, 2018	Additions/ Transfers	Retirements	Balance as of June 30, 2019
LAND	$ 144,211	$ 413	$ –	$ 144,624	$ 1,694	$ –	$ 146,318
INFRASTRUCTURE	310,088	1,265	55	311,298	3,139	51	314,386
BUILDINGS	6,151,073	286,982	2,606	6,435,449	628,548	33,611	7,030,386
FURNITURE, FIXTURES AND EQUIPMENT	1,476,943	106,634	67,257	1,516,320	101,004	56,461	1,560,863
LIBRARY MATERIALS	364,491	14,253	1,989	376,755	16,656	2,060	391,351
CAPITALIZED COLLECTIONS	7,248	117	–	7,365	313	–	7,678
INTANGIBLE ASSETS	208,528	12,462	302	220,688	2,505	7,761	215,432
CONSTRUCTION IN PROGRESS	349,699	221,651	4,562	566,788	(430,200)	4,255	132,333
INTANGIBLES IN PROCESS	10,510	(2,190)	823	7,497	27,246	–	34,743
TOTAL COST	**9,022,791**	**641,587**	**77,594**	**9,586,784**	**350,905**	**104,199**	**9,833,490**
LESS ACCUMULATED DEPRECIATION/ AMORTIZATION:							
INFRASTRUCTURE	120,556	8,708	55	129,209	8,400	–	137,609
BUILDINGS	2,600,309	218,775	2,597	2,816,487	239,383	26,330	3,029,540
FURNITURE, FIXTURES AND EQUIPMENT	1,193,473	116,503	58,535	1,251,441	105,014	53,419	1,303,036
LIBRARY MATERIALS	273,171	14,140	1,521	285,790	12,559	1,585	296,764
INTANGIBLE ASSETS	98,248	25,878	–	124,126	7,079	–	131,205
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	**4,285,757**	**384,004**	**62,708**	**4,607,053**	**372,435**	**81,334**	**4,898,154**
CAPITAL ASSETS, NET	**$ 4,737,034**	**$ 257,583**	**$ 14,886**	**$ 4,979,731**	**$ (21,530)**	**$ 22,865**	**$ 4,935,336**

NOTE 9:

Long-Term Liabilities

UNIVERSITY OF WASHINGTON

Long-term liability activity for the years ended June 30, 2019 and 2018 is summarized as follows:

(Dollars in thousands)	Balance as of July 1, 2017	Additions/ Transfers	Reductions	Balance as of June 30, 2018	Additions/ Transfers	Reductions	Balance as of June 30, 2019	Current Portion as of June 30, 2018	Current Portion as of June 30, 2019
BONDS PAYABLE:									
UNAMORTIZED PREMIUM ON BONDS	$ 109,199	$ –	$ 13,890	$ 95,309	$ –	$ 13,919	$ 81,390	$ 13,920	$ 10,275
REVENUE BONDS PAYABLE (NOTE 11)	2,112,330	133,785	77,250	2,168,865	100,000	61,375	2,207,490	61,375	63,014
UNAMORTIZED PREMIUM ON BONDS	157,204	22,800	17,106	162,898	8,132	17,288	153,742	17,535	16,515
TOTAL BONDS PAYABLE	**2,378,733**	**156,585**	**108,246**	**2,427,072**	**108,132**	**92,582**	**2,442,622**	**92,830**	**89,804**
NOTES PAYABLE AND CAPITAL LEASES:									
NOTES PAYABLE & OTHER –CAPITAL ASSET RELATED (NOTE 11)	26,639	6,537	5,620	27,556	15,870	5,413	38,013	5,507	5,428
NOTES PAYABLE & OTHER – NONCAPITAL ASSET RELATED (NOTE 11)	1,479	86	134	1,431	153	90	1,494	1,351	1,458
CAPITAL LEASE OBLIGATIONS (NOTE 10)	12,829	216	2,943	10,102	–	2,451	7,651	2,556	2,214
TOTAL NOTES PAYABLE AND CAPITAL LEASES	**40,947**	**6,839**	**8,697**	**39,089**	**16,023**	**7,954**	**47,158**	**9,414**	**9,100**
OTHER LONG-TERM LIABILITIES:									
OBLIGATIONS UNDER SPLIT-INTEREST AGREEMENTS	54,683	8,214	5,712	57,185	6,290	5,839	57,636	5,712	5,840
REMEDIATION LIABILITIES (NOTE 1)	21,000	–	–	21,000	12,153	–	33,153	1,000	900
HMC ITS FUNDING (NOTE 14)	30,258	3,025	3,564	29,719	–	5,897	23,822	11,500	11,100
SICK LEAVE (NOTE 1)	46,771	6,066	3,202	49,635	5,151	3,514	51,272	4,061	3,358
SELF-INSURANCE (NOTE 17)	78,484	42,033	8,307	112,210	22,178	34,225	100,163	12,000	21,266
OTHER NONCURRENT LIABILITIES	19,206	2,133	145	21,194	8,793	–	29,987	–	–
TOTAL OTHER LONG-TERM LIABILITIES	**250,402**	**61,471**	**20,930**	**290,943**	**54,565**	**49,475**	**296,033**	**34,273**	**42,464**
TOTAL LONG-TERM LIABILITIES	**$ 2,670,082**	**$ 224,895**	**$ 137,873**	**$ 2,757,104**	**$ 178,720**	**$ 150,011**	**$ 2,785,813**	**$ 136,517**	**$ 141,368**

DISCRETE COMPONENT UNIT

Long-term liability activity for the years ended June 30, 2019 and 2018 is summarized as follows:

	Balance as of July 1, 2017	Additions/ Transfers	Reductions	Balance as of June 30, 2018	Additions/ Transfers	Reductions	Balance as of June 30, 2019	Current Portion as of June 30, 2018	Current Portion as of June 30, 2019
VALLEY MEDICAL CENTER *(Dollars in thousands)*									
LIMITED TAX GENERAL OBLIGATION BONDS	$ 238,359	$ –	$ 8,509	$ 229,850	$111,580	$ 10,235	$ 331,195	$ 8,260	$ 8,350
REVENUE BONDS	14,318	–	1,725	12,593	–	1,820	10,773	1,870	1,960
BUILD AMERICA BONDS	61,155	–	–	61,155	–	61,155	–	–	–
NOTES PAYABLE & OTHER	5,555	561	244	5,872	1,402	318	6,956	78	240
TOTAL LONG-TERM LIABILITIES	**$ 319,387**	**$ 561**	**$ 10,478**	**$ 309,470**	**$112,982**	**$ 73,528**	**$ 348,924**	**$ 10,208**	**$ 10,550**

NOTE 10:

Leases

Future minimum lease payments under capital leases, and the present value of the net minimum lease payments as of June 30 2019, are as follows:

CAPITAL LEASES

Year *(Dollars in thousands)*	**Future Payments**
2020	$ 2,383
2021	2,118
2022	1,896
2023	1,494
2024	119
TOTAL MINIMUM LEASE PAYMENTS	8,010
LESS: AMOUNT REPRESENTING INTEREST COSTS	359
PRESENT VALUE OF MINIMUM PAYMENTS	**$ 7,651**

OPERATING LEASES

The University has entered into certain lease agreements that are considered to be operating leases, primarily for leased building space. For the years ended June 30, 2019 and 2018, the University recorded rent expense of $89.9 million and $87.5 million, respectively, for these leases.

Future lease payments as of June 30, 2019 are as follows:

Year *(Dollars in Thousands)*	
2020	$ 79,502
2021	67,778
2022	58,767
2023	51,196
2024	36,325
2025-2029	103,765
2030-2034	50,179
2035-2039	56,001
2040-2044	64,783
2045-2049	74,928
2050-2054	86,685
2055-2059	111,549
2060-2064	79,392
TOTAL MINIMUM LEASE PAYMENTS	**$ 920,850**

NOTE 11:

Bonds and Notes Payable

The bonds and notes payable at June 30, 2019 consist of state of Washington General Obligation and Refunding Bonds, University Revenue Bonds, and Notes Payable. These obligations have fixed interest rates ranging from 1.55% to 8.00%. As of June 30, 2019, substantially all of the University's debt was public debt. Amounts from direct borrowings and direct placements were not material. Debt service requirements as of June 30, 2019 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**
2020	$ 10,275	$ 3,824	$ 63,014	$ 104,242	$ 6,886	$ 814
2021	10,765	3,305	66,640	101,362	21,071	623
2022	11,230	2,753	69,685	98,194	2,848	468
2023	11,790	2,162	69,345	97,858	1,252	354
2024	12,300	1,556	68,965	94,646	1,278	302
2025 – 2029	25,030	2,004	377,725	418,903	3,632	905
2030 – 2034	–	–	380,060	325,543	2,293	198
2035 – 2039	–	–	428,960	229,038	247	17
2040 – 2044	–	–	495,565	112,504	–	–
2045 – 2049	–	–	187,531	40,027	–	–
TOTAL PAYMENTS	**$ 81,390**	**$ 15,604**	**$ 2,207,490**	**$ 1,622,317**	**$ 39,507**	**$ 3,681**

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

On February 15, 2018, the University issued $133.8 million in General Revenue & Refunding Bonds, 2018, at a premium of $22.8 million. The proceeds were used to fund various projects such as Phase 4A of the Housing Master Plan, and construction of the Life Sciences Building. In addition, proceeds were used to pay off $125.9 million in commercial paper. The 2018 bonds have a coupon rate of 5.00%. The average life of the 2018 General Revenue Bonds is 15.6 years with final maturity on April 1, 2048.

COMMERCIAL PAPER PROGRAM

The University has a commercial paper program with a maximum borrowing limit of $250.0 million, payable from University general revenues. This short-term borrowing program is primarily used to fund capital expenditures. As of June 30, 2019 and 2018, the University had $25.0 million and $90.0 million, respectively, in outstanding commercial paper.

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

During fiscal year 2018, the University issued $178.0 million of commercial paper debt. The University refunded $125.9 of commercial paper debt with General Revenue Bonds, Series 2018, and repaid $6.1 million with University funds and $23.0 million with state appropriated funds during the same period.

SUBSEQUENT DEBT ACTIVITY

On September 12, 2019, the University issued $15.0 million of commercial paper debt. The proceeds will be used to fund a portion of the Destination: One project.

CREDIT LINE

As of June 30, 2019 and 2018, the University had a master financing agreement with JPMorgan Chase Bank to serve as a non-revolving credit line (LOC) for the financing of short-term assets, including personal property, to be drawn on from time to time in an aggregate amount not to exceed $30.0 million. Outstanding borrowings on the credit line as of June 30, 2019 and 2018 totaled $5.1 million and $7.1 million, respectively.

NOTE 12:

Deferred Outflows and Deferred Inflows of Resources

The composition of deferred outflows and deferred inflows of resources as of June 30, 2019 and 2018 are summarized as follows:

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

2019	Pensions	OPEB	Split-Interest Agreements	Other	Total
DEFERRED OUTFLOWS OF RESOURCES	$ 310,096	$ 72,092	$ –	$ 31,875	$ 414,063
DEFERRED INFLOWS OF RESOURCES	311,507	535,079	46,483	–	893,069
2018	**Pensions**	**OPEB**	**Split-Interest Agreements**	**Other**	**Total**
DEFERRED OUTFLOWS OF RESOURCES	$ 189,227	$ 24,771	$ –	$ 30,043	$ 244,041
DEFERRED INFLOWS OF RESOURCES	248,192	223,156	44,975	–	516,323

NOTE 13:

Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2019 and 2018 are summarized as follows:

OPERATING EXPENSES *(Dollars in thousands)*	2019	2018
INSTRUCTION	$ 1,320,209	$ 1,267,799
RESEARCH	748,976	785,223
PUBLIC SERVICE	65,741	48,916
ACADEMIC SUPPORT	540,359	511,931
STUDENT SERVICES	54,351	51,950
INSTITUTIONAL SUPPORT	225,471	251,569
OPERATION & MAINTENANCE OF PLANT	252,024	201,101
SCHOLARSHIPS & FELLOWSHIPS	155,158	149,378
AUXILIARY ENTERPRISES	553,511	494,956
MEDICAL-RELATED	1,775,995	1,711,969
DEPRECIATION/AMORTIZATION	372,435	384,004
TOTAL OPERATING EXPENSES	**$ 6,064,230**	**$ 5,858,796**

Instruction

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

Research

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

Public Service

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

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

Academic Support

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

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

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

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

Scholarships and Fellowships
This category includes expenses for scholarships and fellowships and other financial aid not funded from existing University resources. 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, NWH, Airlift Northwest and Neighborhood Clinics are included in this category.

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

NOTE 14:

Related Parties

Harborview Medical Center (HMC), a hospital and Level I adult and pediatric trauma center located in Seattle, is a component unit of King County, Washington. It has been managed by the University under a management contract between King County and the University since 1967. In February 2016, the University and King County entered into a Hospital Services Agreement. The agreement has a ten-year term and may be renewed by the parties for two successive ten-year terms.

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

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

HMC revenues and expenses are not recognized in the University's financial statements. As of June 30, 2019, the University's financial statements included accounts receivable from HMC of $39.9 million, HMC investments of $4.1 million and current accrued liabilities and long-term liabilities of $39.9 million and $23.8 million, respectively, related to HMC. As of June 30, 2018, the University's financial statements included accounts receivable from HMC of $32.5 million, HMC investments of $3.8 million and current accrued liabilities and long-term liabilities of $32.6 million and $29.7 million, respectively, related to HMC.

Under an annual agreement, HMC provides strategic funding to Neighborhood Clinics. Funding from HMC to Neighborhood Clinics was $12.4 million and $11.3 million during fiscal years 2019 and 2018, respectively, and is included in Other Operating Revenue in the Statements of Revenues, Expenses and Changes in Net Position.

UW Medicine information technology operates as a self-sustaining activity of the University (ITS department). The ITS department records enterprise-wide information technology capital assets that are purchased for use by UW Medicine entities. The HMC ITS funding reflected in long-term liabilities (see note 9) of $23.8 million and $29.7 million at June 30, 2019 and 2018, respectively, represents HMC's funding of the enterprise-wide information technology capital assets that will be included in the recharge rates of the ITS department over the useful life of the assets.

The University of Washington Foundation (UWF) is a nonprofit organization that performs fundraising activities on behalf of the University. The UWF is not included in the University's financial statements as a component unit because gifts and grants that are made to the UWF are immediately transferred to the University. In 2019 and 2018, the UWF transferred $153.5 million and $132.5 million, respectively, to the University in gifts and grants received on its behalf; these are included in the financial statements of the University. The remaining amounts retained by the UWF are not significant to the University's financial statements.

The University of Washington Alumni Association is a tax-exempt entity that was established to connect and celebrate alumni and to support the University's mission. The Alumni Association received $4.2 million and $4.0 million from the University in support of its operations in fiscal years 2019 and 2018, respectively. These amounts were expensed by the University.

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). UWRP is a defined-contribution plan with a supplemental noncontributory defined-benefit plan component, and is administered by the University.

As of June 30, 2019 and 2018, the University's share of the total unfunded liability associated with the defined-benefit pension plans administered by the DRS was $549.4 million and $772.4 million, respectively. As of June 30, 2019 and 2018, the liability associated with the defined benefit pension plan administered by the University was $594.0 million and $412.5 million, respectively, but does not reflect assets segregated in a separate investment account to pay future retiree benefits of $327.7 million and $261.1 million, respectively. For the years ended June 30, 2019 and 2018, total pension expense recorded by the University related to both the DRS and University plans was $50.8 million and $92.3 million, respectively.

PLANS ADMINISTERED BY DRS

PLAN DESCRIPTION

Public Employees' Retirement System

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

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

Teachers' Retirement System

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

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

Law Enforcement Officers' and Fire Fighters' Retirement System

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

VESTING AND BENEFITS PROVIDED

PERS Plan 1 and TRS Plan 1

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

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

PERS Plan 2/3 and TRS Plan 2/3

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

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

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

LEOFF Plan 2

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

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

FIDUCIARY NET POSITION

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

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

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

ACTUARIAL ASSUMPTIONS

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

The total pension liability for each DRS plan was determined by an actuarial valuation, conducted by the Washington State Office of the State Actuary (OSA). The University's 2019 pension liabilities are based on an OSA valuation performed as of June 30, 2017, with the results rolled forward to the measurement date of June 30, 2018. Likewise, the University's 2018 pension liabilities are based on a valuation performed as of June 30, 2016, with the results rolled forward to the measurement date of June 30, 2017. The following actuarial assumptions have been applied to all prior periods included in the measurement:

2019	
INFLATION	2.75% TOTAL ECONOMIC INFLATION, 3.50% SALARY INFLATION
SALARY INCREASE	EXPECTED TO GROW BY PROMOTIONS AND LONGEVITY IN ADDITION TO SALARY INFLATION ASSUMPTION OF 3.50%
INVESTMENT RATE OF RETURN	7.40%

2018	
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 OF 3.75%
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 RPEC, the OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the 2007-2012 Experience Study Report and the 2015 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report.

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

The long-term expected rates of return of 7.40% and 7.50% as of June 30, 2018 and 2017, respectively, approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or damper any short-term changes that are not expected over the entire 50-year measurement period.

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

	2019 *(Measurement Date 2018)*		2018 *(Measurement Date 2017)*	
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%	1.70%
TANGIBLE ASSETS	7.00%	4.90%	5.00%	4.90%
REAL ESTATE	18.00%	5.80%	15.00%	5.80%
GLOBAL EQUITY	32.00%	6.30%	37.00%	6.30%
PRIVATE EQUITY	23.00%	9.30%	23.00%	9.30%

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

DISCOUNT RATE

The discount rate used to measure the total pension liabilities as of June 30, 2019 and 2018 was 7.40% and 7.50%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at contractually required rates, and that contributions from employers will be made at statutorily required rates, actuarially determined (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liability for PERS 1 and TRS 1, respectively). Based on those assumptions, the fiduciary net position for each pension plan was projected to be sufficient to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Using the WSIB long-term expected rate of return, a 7.40% and 7.50% future investment rate of return on pension plan investments was assumed as of June 30, 2018 and 2017, respectively. The expected return on plan assets is the estimated long-term rate of return that will be earned on the investments used to fund the pension obligation. Contributions from plan members and employers were assumed to continue to be made at contractually required rates (including the component of PERS 2/3 and TRS 2/3 employer rates pertaining to the unfunded actuarial accrued liability for PERS 1 and TRS 1, respectively, as provided for in chapter 41.45 of the RCW).

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

The following table presents the University's proportionate net pension liabilities calculated using the discount rates of 7.40% and 7.50% as of June 30, 2018 and 2017, respectively, as well as what the net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

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

	2019			2018		
Plan	1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
PERS 1	$ 450,287	$ 366,403	$ 293,743	$ 487,796	$ 400,426	$ 324,746
PERS 2/3	800,058	174,913	(337,635)	980,851	364,073	(141,285)
TRS 1	8,826	7,061	5,534	7,555	6,076	4,795
TRS 2/3	6,642	1,066	(3,464)	6,099	1,796	(1,699)
LEOFF 2	(610)	(4,590)	(7,837)	648	(2,995)	(5,963)

EMPLOYER CONTRIBUTION RATES

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

(Dollars in Thousands)	PERS 1	PERS 2/3[a]	TRS 1	TRS 2/3[a]	LEOFF 2
2019					
CONTRIBUTION RATE	12.70%	12.70%	15.20%	15.20%	8.93%
CONTRIBUTIONS MADE	$ 57,744	$ 83,159	$ 1,244	$ 1,290	$ 427
2018					
CONTRIBUTION RATE	12.70%	12.70%	15.20%	15.20%	8.93%
CONTRIBUTIONS MADE	$ 54,839	$ 79,047	$ 1,006	$ 1,053	$ 392

[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, 2019 was June 30, 2018. Employer contributions received and processed by the DRS during the fiscal year ended June 30, 2018 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, 2018 Schedules of Employer and Nonemployer Allocations. Likewise, the measurement date for the net pension liabilities recorded by the University as of June 30, 2018 was June 30, 2017, with employer contributions received and processed by the DRS during the fiscal year ended June 30, 2017 used as the basis for determining each employer's proportionate share of the collective pension amounts. The following table presents the University's proportionate share for each DRS plan:

PROPORTIONATE SHARE	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
YEAR ENDED JUNE 30, 2019	8.20%	10.24%	0.24%	0.24%	0.23%
YEAR ENDED JUNE 30, 2018	8.44%	10.48%	0.20%	0.19%	0.22%

UNIVERSITY AGGREGATED BALANCES

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

(Dollars in Thousands)	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2019						
NET PENSION LIABILITY	$ 366,403	$ 174,913	$ 7,061	$ 1,066	$ –	$ 549,443
NET PENSION ASSET	–	–	–	–	4,590	4,590
2018						
NET PENSION LIABILITY	$ 400,426	$ 364,073	$ 6,076	$ 1,796	$ –	$ 772,371
NET PENSION ASSET	–	–	–	–	2,995	2,995

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, 2019	$ 20,434	$ (830)	$ 2,035	$ 822	$ (455)	$ 22,006
YEAR ENDED JUNE 30, 2018	23,229	55,060	1,747	927	(144)	80,819

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL
2019						
CHANGE IN ASSUMPTIONS	$ –	$ 2,046	$ –	$ 18	$ 3	$ 2,067
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	21,440	–	501	246	22,187
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	–	–	1,155	–	1,155
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [a]	57,744	83,159	1,244	1,290	427	143,864
TOTAL	**$ 57,744**	**$ 106,645**	**$ 1,244**	**$ 2,964**	**$ 676**	**$ 169,273**
2018						
CHANGE IN ASSUMPTIONS	$ –	$ 3,867	$ –	$ 21	$ 4	$ 3,892
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	36,889	–	448	132	37,469
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	10,216	–	1,038	276	11,530
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE NET PENSION LIABILITY [b]	54,839	79,047	1,005	1,053	392	136,336
TOTAL	**$ 54,839**	**$ 130,019**	**$ 1,005**	**$ 2,560**	**$ 804**	**$ 189,227**

(a) Recognized as a reduction of the net pension liability as of June 30, 2020
(b) Recognized as a reduction of the net pension liability as of June 30, 2019

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*						
2019	**PERS 1**	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**TOTAL**
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 14,561	$ 107,335	$ 302	$ 901	$ 803	$ 123,902
CHANGE IN ASSUMPTIONS	–	49,779	–	428	659	50,866
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	30,624	–	79	107	30,810
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	3,086	–	–	42	3,128
TOTAL	**$ 14,561**	**$ 190,824**	**$ 302**	**$ 1,408**	**$ 1,611**	**$ 208,706**
2018						
DIFFERENCE BETWEEN PROJECTED AND ACTUAL EARNINGS ON PLAN INVESTMENTS, NET	$ 14,943	$ 97,053	$ 257	$ 650	$ 672	$ 113,575
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	–	11,974	–	92	114	12,180
CHANGE IN UNIVERSITY'S PROPORTIONATE SHARE	–	–	–	–	239	239
TOTAL	**$ 14,943**	**$ 109,027**	**$ 257**	**$ 742**	**$ 1,025**	**$ 125,994**

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**
2020	$ 637	$ (15,371)	$ 30	$ 261	$ (132)	$ (14,575)
2021	(3,183)	(36,038)	(63)	14	(252)	(39,522)
2022	(9,551)	(66,352)	(215)	(346)	(515)	(76,979)
2023	(2,464)	(24,982)	(54)	(31)	(166)	(27,697)
2024	–	(9,658)	–	96	(52)	(9,614)
THEREAFTER	–	(14,937)	–	272	(245)	(14,910)
TOTAL	**$ (14,561)**	**$ (167,338)**	**$ (302)**	**$ 266**	**$ (1,362)**	**$ (183,297)**

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

PLANS ADMINISTERED BY UNIVERSITY OF WASHINGTON

University of Washington Retirement Plan

PLAN DESCRIPTION

UWRP, a single-employer 403(b) defined-contribution plan, is administered by the University. Faculty, librarians and professional staff are eligible to participate in the UWRP.

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

The number of participants in the UWRP as of June 30, 2019 and 2018 was 17,528 and 16,815, respectively.

FUNDING POLICY

Employee contribution rates, based on age, are 5%, 7.5% or 10% of salary. The University matches 100% of employee contributions. Within parameters established by the legislature, contribution requirements may be established or amended by the University of Washington Board of Regents. Employer contributions for the years ended June 30, 2019 and 2018 were $126.0 million and $122.8 million, respectively.

University of Washington Supplemental Retirement Plan

PLAN DESCRIPTION

UWSRP, a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the UWRP. The UWSRP was closed to new participants effective March 1, 2011. UWSRP membership requires participation in the UWRP.

NUMBER OF PARTICIPANTS	June 30, 2019	June 30, 2018
ACTIVE EMPLOYEES	6,132	7,046
INACTIVE EMPLOYEES RECEIVING BENEFITS	853	696
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	188	4

VESTING AND BENEFITS PROVIDED

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

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

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

When the goal income exceeds the assumed income, the participant is entitled to benefits under this plan. Benefit payments made during the years ended June 30, 2019 and 2018 were $7.5 million and $6.1 million, respectively.

TOTAL PENSION LIABILITY (TPL)

Assets set aside to pay UWSRP benefits are not held in a qualified trust as defined by GASB. A qualified trust requires that contributions from employers be irrevocable, dedicated to providing pension benefits to plan members, and are legally protected from creditors of the employer and plan administrator. As a result, the University reports the total UWSRP pension liability. This is different from the DRS plans (PERS, TRS, and LEOFF2), which have trusted assets and, therefore, are reported as a net pension liability. As of June 30, 2019 and 2018, the University had set aside $327.7 million and $261.1 million, respectively, to pay future UWSRP retiree benefits. These assets are physically segregated in a separate investment account, and included in investments, net of current portion on the Statements of Net Position.

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY (TPL) *(Dollars in thousands)*	
BALANCE AS OF JULY 1, 2017	**$ 438,753**
SERVICE COST	14,788
INTEREST ON TPL	16,127
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	(33,952)
CHANGE IN ASSUMPTIONS	(17,105)
BENEFIT PAYMENTS	(6,130)
BALANCE AS OF JUNE 30, 2018	**412,481**
SERVICE COST	11,823
INTEREST ON TPL	16,277
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	102,713
CHANGE IN ASSUMPTIONS	58,228
BENEFIT PAYMENTS	(7,482)
BALANCE AS OF JUNE 30, 2019	**$ 594,040**

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

The June 30, 2018 TPL is based on an actuarial valuation performed as of June 30, 2016 using the entry age actuarial cost method. Update procedures performed by the Office of the State Actuary were used to roll forward the TPL to the measurement date of June 30, 2018.

UWSRP pension expense for the years ended June 30, 2019 and 2018 was $28.8 million and $11.5 million, respectively.

ACTUARIAL ASSUMPTIONS

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

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL PENSION LIABILITY *(Dollars in thousands)*		
	2019	**2018**
INFLATION	2.75%	2.75%
SALARY CHANGES	4.25%	4.25%
SOURCE OF MORTALITY ASSUMPTIONS	RP-2000 COMBINED HEALTHY TABLE, WITH GENERATIONAL MORTALITY IMPROVEMENTS USING SCALE BB	RP-2000 COMBINED HEALTHY TABLE, WITH GENERATIONAL MORTALITY IMPROVEMENTS USING SCALE BB
DATE OF EXPERIENCE STUDY	APRIL 2016	APRIL 2016
DISCOUNT RATE	3.50%	3.87%
SOURCE OF DISCOUNT RATE	BOND BUYER'S 20 BOND INDEX AS OF 6/30/2019	BOND BUYER'S 20 BOND INDEX AS OF 6/30/2018
TPL MEASUREMENT AT DISCOUNT RATE	$ 594,040	$ 412,481
TPL DISCOUNT RATE INCREASED 1%	$ 518,334	$ 361,760
TPL DISCOUNT RATE DECREASED 1%	$ 685,507	$ 473,624

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

Material assumption changes during the measurement period ending June 30, 2018 included updating the GASB 73 discount rate from 3.58% to 3.87% ("Change in assumption" which decreased the TPL). Additionally, actual returns for CREF investments were higher than expected ("Difference between expected and actual experience" which also decreased the TPL).

DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

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

DEFERRED INFLOWS OF RESOURCES *(Dollars in thousands)*		
2019		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	72,181
CHANGE IN ASSUMPTIONS		30,620
TOTAL	**$**	**102,801**
2018		
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	$	85,844
CHANGE IN ASSUMPTIONS		36,354
TOTAL	**$**	**122,198**

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(Dollars in thousands)*		
Year		
2020	$	721
2021		721
2022		721
2023		721
2024		721
THEREAFTER		34,417
TOTAL	**$**	**38,022**

NOTE 16:

Other Post Employment Benefits (OPEB)

PLAN DESCRIPTION

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

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

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

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

The explicit subsidy, permitted under RCW 41.05.085, is a set dollar amount which lowers the monthly premium paid by members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The dollar amount of the explicit subsidy increased to $168 per member per month beginning in calendar year 2019. It was set at $150 per member per month for the first half of fiscal year 2019 and for all of fiscal year 2018.

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

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

NUMBER OF PARTICIPANTS	2019 *(Measurement Date: 2018)*	2018 *(Measurement Date: 2017)*
ACTIVE EMPLOYEES	33,070	32,648
INACTIVE EMPLOYEES RECEIVING BENEFITS	8,995	8,626
INACTIVE EMPLOYEES ENTITLED TO, BUT NOT RECEIVING, BENEFITS	1,600	1,612

ACTUARIAL ASSUMPTIONS

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

SIGNIFICANT ASSUMPTIONS USED TO MEASURE THE TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*		
	2019	2018
INFLATION	2.75%	3.00%
HEALTHCARE COST TREND	TREND RATE ASSUMPTIONS VARY SLIGHTLY BY MEDICAL PLAN. INITIAL RATE IS APPROXIMATELY 8.00%, REACHING AN ULTIMATE RATE OF APPROXIMATELY 4.50% IN 2080.	TREND RATE ASSUMPTIONS VARY SLIGHTLY BY MEDICAL PLAN. INITIAL RATE IS APPROXIMATELY 7.00%, REACHING AN ULTIMATE RATE OF APPROXIMATELY 5.00% IN 2080.
SALARY INCREASE	3.50% PLUS SERVICE-BASED SALARY INCREASES	3.75%, PLUS SERVICE-BASED SALARY INCREASES
SOURCE OF MORTALITY ASSUMPTIONS	RP-2000 COMBINED HEALTHY TABLE AND COMBINED DISABLED TABLE, WITH FUTURE IMPROVEMENTS IN MORTALITY PROJECTED USING 100 PERCENT SCALE BB AND UPDATED BASED ON RESULTS OF THE 2007-2012 EXPERIENCE STUDY REPORT	RP-2000 COMBINED HEALTHY TABLE AND COMBINED DISABLED TABLE, WITH FUTURE IMPROVEMENTS IN MORTALITY PROJECTED USING 100 PERCENT SCALE BB AND UPDATED BASED ON RESULTS OF THE 2007-2012 EXPERIENCE STUDY REPORT
DATE OF EXPERIENCE STUDY	2007-2012 EXPERIENCE STUDY REPORT	2007-2012 EXPERIENCE STUDY REPORT
DISCOUNT RATE	3.87%	3.58%
SOURCE OF DISCOUNT RATE	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/18 (MEASUREMENT DATE)	BOND BUYER GENERAL OBLIGATION 20-BOND MUNICIPAL BOND INDEX AS OF 6/30/17 (MEASUREMENT DATE)
POST-RETIREMENT PARTICIPATION PERCENTAGE	65.00%	65.00%
TOL MEASUREMENT AT DISCOUNT RATE	$1,354,177	$1,565,213
TOL DISCOUNT RATE INCREASED 1%	$1,136,776	$1,298,594
TOL DISCOUNT RATE DECREASED 1%	$1,632,819	$1,909,753
TOL MEASUREMENT AT HEALTHCARE COST TREND RATE	$1,354,177	$1,565,213
TOL HEALTHCARE COST TREND RATE INCREASED 1%	$1,676,694	$1,968,827
TOL HEALTHCARE COST TREND RATE DECREASED 1%	$1,111,648	$1,264,476

Material assumption changes during the measurement periods ending June 30, 2018 and 2017 include updating the forecasts of healthcare cost trends, as well as updating the discount rates, as required by GASB 75.

CHANGES IN THE TOTAL OPEB LIABILITY

The TOL for the state of Washington as of June 30, 2019 was determined by an actuarial valuation, conducted by the OSA, using data as of June 30, 2018. The TOL for the state of Washington as of June 30, 2018 was determined by an actuarial valuation, conducted by the OSA, using data as of January 1, 2017. The measurement dates for the TOL reported at June 30, 2019 and 2018 are the same as the valuation dates. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine the University's proportionate share of the statewide TOL is the relationship of University active, healthcare-eligible employee headcount to the corresponding statewide total.

The University's proportionate share percentage was 26.7% and 26.9% as of June 30, 2019 and 2018, respectively.

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

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY (TOL) *(Dollars in thousands)*	
BALANCE AS OF JULY 1, 2017	**$ 1,685,909**
SERVICE COST	106,112
INTEREST ON TOL	49,703
CHANGE IN ASSUMPTIONS	(242,454)
BENEFIT PAYMENTS	(25,330)
CHANGE IN PROPORTIONATE SHARE	(8,727)
BALANCE AS OF JUNE 30, 2018	**1,565,213**
SERVICE COST	84,665
INTEREST ON TOL	58,207
DIFFERENCE BETWEEN EXPECTED AND ACTUAL EXPERIENCE	53,132
CHANGE IN ASSUMPTIONS	(370,652)
BENEFIT PAYMENTS	(24,584)
CHANGE IN PROPORTIONATE SHARE	(11,804)
BALANCE AS OF JUNE 30, 2019	**$ 1,354,177**

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

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

PROPORTIONATE SHARE OF OPEB EXPENSE *(Dollars in Thousands)*	**OPEB**
YEAR ENDED JUNE 30, 2019	$ 78,429
YEAR ENDED JUNE 30, 2018	127,921

DEFERRED OUTFLOWS OF RESOURCES *(Dollars in Thousands)*	
2019	**OPEB**
DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE IN THE MEASUREMENT OF THE TOTAL OPEB LIABILITY	$ 47,228
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY	24,864
TOTAL	**$ 72,092**
2018	
UNIVERSITY CONTRIBUTIONS SUBSEQUENT TO THE MEASUREMENT DATE OF THE COLLECTIVE TOTAL OPEB LIABILITY	$ 24,771

DEFERRED INFLOWS OF RESOURCES *(Dollars in Thousands)*	
2019	**OPEB**
CHANGE IN ASSUMPTIONS	$ 516,622
CHANGE IN PROPORTIONATE SHARE	18,457
TOTAL	**$ 535,079**
2018	
CHANGE IN ASSUMPTIONS	$ 215,515
CHANGE IN PROPORTIONATE SHARE	7,641
TOTAL	**$ 223,156**

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

AMORTIZATION OF DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES *(a) (Dollars in Thousands)*	
YEAR	**OPEB**
2020	$ (64,443)
2021	(64,443)
2022	(64,443)
2023	(64,443)
2024	(64,443)
THEREAFTER	(165,636)
TOTAL	**$ (487,851)**

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

NOTE 17:

Commitments and Contingencies

Authorized expenditures for construction projects unexpended as of June 30, 2019 and 2018 were $240.1 million and $105.9 million, respectively. These expenditures will be funded from institutional reserves, debt proceeds and state appropriations.

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

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

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

The self-insurance reserve is estimated using an actuarial calculation. The reserve is included in Long-Term Liabilities in the Statements of Net Position. Changes in the self-insurance reserve for the years ended June 30, 2019 and 2018 are noted below:

(Dollars in thousands)	**2019**	**2018**
RESERVE AT BEGINNING OF FISCAL YEAR	$ 112,210	$ 78,484
INCURRED CLAIMS AND CHANGES IN ESTIMATES	22,178	42,033
CLAIM PAYMENTS	(34,225)	(8,307)
RESERVE AT END OF FISCAL YEAR	**$ 100,163**	**$ 112,210**

REGULATORY COMPLIANCE

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, governmental healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Through its compliance program, UW Medicine maintains an effective and safe program for reporting and addressing potential regulatory concerns. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

Between April 4 and April 12, 2018, the Washington State Department of Health on behalf of the Centers for Medicare and Medicaid Services (CMS) conducted a survey at UW Medical Center. In a letter dated May 15, 2018, CMS informed UW Medical Center that based on the results of the survey, UW Medical Center was not in compliance with certain Medicare Conditions of Participation. The deficiencies identified within the survey relate primarily to UW Medical Center's relationship with the SCCA inpatient hospital located within the same building as UW Medical Center, including related policies, clinical areas, support services and personnel sharing between the two organizations. CMS has informed UW Medical Center that unless an acceptable plan of correction is in place by January 30, 2020, UW Medical Center's Medicare provider agreement could be terminated. CMS has discretion to extend that termination date. UW Medical Center is cooperating with CMS and has submitted a Plan of Correction (the Plan) in response to the CMS survey and is taking steps to comply with the components of the Plan. CMS is currently reviewing the proposed Plan. When CMS approves the Plan, UW Medicine management will take necessary actions to comply with that Plan so UW Medical Center continues to participate in the Medicare program.

NOTE 18:

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

(Dollars in thousands) **Statements of Net Position – June 30, 2018**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
ASSETS						
TOTAL CURRENT ASSETS	$ 1,486,002	$ (24,968)	$ 1,315,967	$ 195,003	$ 161,358	$ 33,645
NONCURRENT ASSETS:						
TOTAL OTHER ASSETS	5,586,225	(133,929)	5,537,440	182,714	157,842	24,872
CAPITAL ASSETS, NET	4,979,731	–	4,503,524	476,207	115,728	360,479
TOTAL ASSETS	12,051,958	(158,897)	11,356,931	853,924	434,928	418,996
DEFERRED OUTFLOWS OF RESOURCES	244,041	–	237,148	6,893	6,893	–
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$12,295,999**	**$ (158,897)**	**$11,594,079**	**$ 860,817**	**$ 441,821**	**$ 418,996**
LIABILITIES						
TOTAL CURRENT LIABILITIES	$ 1,266,712	$ (8,099)	$ 1,139,878	$ 134,933	$ 97,011	$ 37,922
TOTAL NONCURRENT LIABILITIES	5,416,187	(146,270)	5,040,769	521,688	145,217	376,471
TOTAL LIABILITIES	6,682,899	(154,369)	6,180,647	656,621	242,228	414,393
DEFERRED INFLOWS OF RESOURCES	516,323	–	516,323	–	–	–
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	7,199,222	(154,369)	6,696,970	656,621	242,228	414,393
NET POSITION						
NET INVESTMENT IN CAPITAL ASSETS	2,483,814	–	2,362,957	120,857	106,672	14,185
RESTRICTED:						
NONEXPENDABLE	1,721,927	–	1,719,547	2,380	2,380	–
EXPENDABLE	2,128,692	–	2,128,081	611	611	–
UNRESTRICTED	(1,237,656)	(4,528)	(1,313,476)	80,348	89,930	(9,582)
TOTAL NET POSITION	5,096,777	(4,528)	4,897,109	204,196	199,593	4,603
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	**$12,295,999**	**$ (158,897)**	**$11,594,079**	**$ 860,817**	**$ 441,821**	**$ 418,996**

(Dollars in thousands)

Statements of Revenues, Expenses and Changes in Net Position – Year Ended June 30, 2019	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 1,052,222	$ –	$ 1,052,222	$ –	$ –	$ –
PATIENT SERVICES	2,135,733	(27,632)	1,475,975	687,390	687,390	–
GRANT REVENUE	1,041,103	–	1,041,103	–	–	–
OTHER OPERATING REVENUE	1,256,160	(114,732)	1,252,882	118,010	66,453	51,557
TOTAL OPERATING REVENUES	**5,485,218**	**(142,364)**	**4,822,182**	**805,400**	**753,843**	**51,557**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	5,691,795	(107,027)	5,000,164	798,658	776,318	22,340
DEPRECIATION / AMORTIZATION	372,435	–	335,556	36,879	16,754	20,125
TOTAL OPERATING EXPENSES	**6,064,230**	**(107,027)**	**5,335,720**	**835,537**	**793,072**	**42,465**
OPERATING INCOME (LOSS)	**(579,012)**	**(35,337)**	**(513,538)**	**(30,137)**	**(39,229)**	**9,092**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	378,656	–	378,656	–	–	–
GIFTS	165,831	–	165,204	627	627	–
INVESTMENT INCOME	339,878	(2,761)	335,087	7,552	7,552	–
OTHER NONOPERATING REVENUES (EXPENSES)	(28,345)	33,576	(47,132)	(14,789)	(962)	(13,827)
NET NONOPERATING REVENUES (EXPENSES)	**856,020**	**30,815**	**831,815**	**(6,610)**	**7,217**	**(13,827)**
INCOME BEFORE OTHER REVENUES	**277,008**	**(4,522)**	**318,277**	**(36,747)**	**(32,012)**	**(4,735)**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	69,057	(2,000)	68,156	2,901	2,901	–
GIFTS TO PERMANENT ENDOWMENTS	135,484	–	135,484	–	–	–
TOTAL OTHER REVENUES	**204,541**	**(2,000)**	**203,640**	**2,901**	**2,901**	**–**
INCREASE IN NET POSITION	**481,549**	**(6,522)**	**521,917**	**(33,846)**	**(29,111)**	**(4,735)**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	5,096,777	(4,528)	4,897,109	204,196	199,593	4,603
NET POSITION – END OF YEAR	**$ 5,578,326**	**$ (11,050)**	**$ 5,419,026**	**$ 170,350**	**$ 170,482**	**$ (132)**

(Dollars in thousands)

Statements of Revenues, Expenses and Changes in Net Position – Year Ended June 30, 2018	Combined Entities	Eliminations	University of Washington	Total Blended Component Units	Medical Entities	Real Estate Entities
REVENUES						
OPERATING REVENUES:						
STUDENT TUITION AND FEES	$ 989,912	$ –	$ 989,912	$ –	$ –	$ –
PATIENT SERVICES	2,008,317	(8,362)	1,331,023	685,656	685,656	–
GRANT REVENUE	1,409,321	–	1,409,321	–	–	–
OTHER OPERATING REVENUE	764,250	(123,249)	740,306	147,193	76,613	70,580
TOTAL OPERATING REVENUES	**5,171,800**	**(131,611)**	**4,470,562**	**832,849**	**762,269**	**70,580**
EXPENSES						
OPERATING EXPENSES:						
OTHER OPERATING EXPENSES	5,474,792	(99,445)	4,827,842	746,395	727,133	19,262
DEPRECIATION / AMORTIZATION	384,004	–	351,293	32,711	18,132	14,579
TOTAL OPERATING EXPENSES	**5,858,796**	**(99,445)**	**5,179,135**	**779,106**	**745,265**	**33,841**
OPERATING INCOME (LOSS)	**(686,996)**	**(32,166)**	**(708,573)**	**53,743**	**17,004**	**36,739**
NONOPERATING REVENUES (EXPENSES)						
STATE APPROPRIATIONS	362,267	–	362,267	–	–	–
GIFTS	166,721	–	165,910	811	811	–
INVESTMENT INCOME	404,412	(2,895)	398,948	8,359	8,359	–
OTHER NONOPERATING REVENUES (EXPENSES)	(20,796)	35,977	(45,389)	(11,384)	(572)	(10,812)
NET NONOPERATING REVENUES (EXPENSES)	**912,604**	**33,082**	**881,736**	**(2,214)**	**8,598**	**(10,812)**
INCOME BEFORE OTHER REVENUES	**225,608**	**916**	**173,163**	**51,529**	**25,602**	**25,927**
CAPITAL APPROPRIATIONS, GRANTS, GIFTS AND OTHER	168,972	(360)	168,871	461	461	–
GIFTS TO PERMANENT ENDOWMENTS	95,890	–	95,890	–	–	–
TOTAL OTHER REVENUES	**264,862**	**(360)**	**264,761**	**461**	**461**	**–**
INCREASE IN NET POSITION	**490,470**	**556**	**437,924**	**51,990**	**26,063**	**25,927**
NET POSITION						
NET POSITION – BEGINNING OF YEAR	4,606,307	(5,084)	4,459,185	152,206	173,530	(21,324)
NET POSITION – END OF YEAR	**$ 5,096,777**	**$ (4,528)**	**$ 4,897,109**	**$ 204,196**	**$ 199,593**	**$ 4,603**

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

(Dollars in thousands) **Statements of Cash Flows – Year Ended June 30, 2018**	**Combined Entities**	**Eliminations**	**University of Washington**	**Total Blended Component Units**	**Medical Entities**	**Real Estate Entities**
NET CASH PROVIDED (USED) BY:						
OPERATING ACTIVITIES	$ (227,517)	$ –	$ (241,349)	$ 13,832	$ 21,701	$ (7,869)
NONCAPITAL FINANCING ACTIVITIES	642,933	–	629,142	13,791	13,791	–
CAPITAL AND RELATED FINANCING ACTIVITIES	(478,612)	–	(423,927)	(54,685)	(17,160)	(37,525)
INVESTING ACTIVITIES	143,297	–	93,158	50,139	(277)	50,416
NET INCREASE IN CASH AND CASH EQUIVALENTS	**80,101**	**–**	**57,024**	**23,077**	**18,055**	**5,022**
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	64,035	–	33,342	30,693	29,165	1,528
CASH AND CASH EQUIVALENTS – END OF YEAR	**$ 144,136**	**$ –**	**$ 90,366**	**$ 53,770**	**$ 47,220**	**$ 6,550**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

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

(Amounts determined as of the measurement date)

PERS 1 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

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

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

(Amounts determined as of the measurement date)

PERS 2/3 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

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

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

(Amounts determined as of the measurement date)

TRS 1 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

Unaudited – see accompanying notes to financial statements

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

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

(Amounts determined as of the measurement date)

TRS 2/3 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

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

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

(Amounts determined as of the measurement date)

LEOFF 2 – SCHEDULE OF CONTRIBUTIONS

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

(Amounts determined as of the fiscal year end)

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

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

Unaudited – see accompanying notes to financial statements

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2019

Plans administered by DRS

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

Additional Considerations on ADC for All Plans:

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

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

Plans administered by the University

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

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

Material assumption changes during the fiscal year 2018 measurement period include updating the GASB 73 discount rate from 3.58% to 3.87% ("Change in assumption" which decreased the TPL). Additionally, actual returns for CREF investments, which are used in determining a member's "assumed income", were materially higher during the measurement period at 12.32% versus the assumed return of 6.25% ("Difference between expected and actual experience" which decreased the TPL).

OPEB Plan administered by the Healthcare Authority of Washington State

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

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

Material assumption changes during the fiscal year 2017 measurement period relate to an increase in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 2.85% for the June 30, 2016 measurement date, to 3.58% for the June 30, 2017 measurement date.

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

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