VII. STANDING COMMITTEE

B. Finance, Audit and Facilities Committee

2006 Audit Plans – KPMG, State Auditors and Peterson Sullivan

See attachments.
Executive Summary

Washington State Auditor’s Office
University of Washington Audit
July 1, 2005 through June 30, 2006

The State Auditor’s Office strives to ensure the best use of state resources. To this end, we make every attempt to avoid duplication of audit efforts by considering work performed by other auditors or oversight agencies, including the University’s internal auditors, when appropriate.

In keeping with general auditing practices, we do not examine every portion of the University’s financial activities during each audit. The areas examined are those areas we have determined have the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years.

Our scope of responsibility is primarily to audit financial records to ensure public funds are accounted for and controls are in place to protect public resources from misappropriation and misuse and secondly; legal compliance to ensure units of state and local government adhere to required laws and regulations relating to financial matters.

ELEMENTS OF THE AUDIT

- **Compliance with laws and regulations:**
  The State Constitution, Article 3, Section 20 (Audits of Public Accounts) establishes the Office as the auditor of public accounts, and to have such powers and perform such duties as may be prescribed by law. RCW 43.09 grants the auditor authority to examine the financial affairs of public agencies to ensure their integrity in the assessment, collection, and expenditure of public funds.

  **How?**
  We examine the University’s compliance with laws, regulations, and policies. To plan the audit we applied our professional knowledge and experience with University operations and analyzed electronic University data to identify areas at the highest risk for non-compliance, misappropriation or abuse. If, during the course of the audit, we identify other areas not scheduled for review, we consider adjusting our audit scope accordingly and notify University management.

  **Which areas?**
  - Conflict of Interest
  - Open Public Meeting
  - Pharmaceutical Inventory
  - Competitive Bid Law
  - Contracts and Agreements
  - Restricted Fund/Budget Compliance
  - Safeguarding of Assets
  - State Grant
  - Motorpool
  - Educational Outreach
  - University Press
  - Office of Intellectual Property and Technology Transfer
  - Constituent Referrals
  - General Disbursement
  - Payroll
  - IT Infrastructure Support Fund
  - Intercollegiate Athletics
  - School of Dentistry
  - Consolidated Laundry
  - University Police Department

Planned computer assisted audit tests of payroll and vendor payment transactions may lead us to additional departments.
• **Single Audit:**

The State Auditor’s Office is responsible for performing a single audit of the State of Washington, as required by the revised Single Audit Act and Office of Management and Budget Circular A-133. We have identified three major federal programs at the University that are scheduled for audit:

  - Research and Development Cluster
  - Aids Education & Training Center

The federally funded transactions and related internal controls will be examined in the following departments:

- Office of Sponsored Programs
- Grant and Contact Accounting
- Management Accounting & Analysis
- AID’s Education & Training Center
- Joint Institute for the Study of the Atmosphere and Ocean
- Center for Experimental Nuclear Physics and Astrophysics
- Epidemiology
- Chemistry
- Dean Graduate School
- Biostatistics
- Electrical Engineering
- Lake Union Rosen-Microbiology
- Aeronautics and Astronautics

• **Financial Statements:**

The State Auditor’s Office is responsible for performing an audit of the financial statements for the State of Washington. University of Washington financial data is included in these statements. We will attest to the fairness of presentation of certain University account balances considered significant to the state’s financial statements.

**REPORTING**

Any conditions considered significant enough to report as a finding will be included in one or two statewide reports:

- Single audit report (for all findings involving federal funds)
- Accountability report (for all findings)

We will also provide the University with a separate accountability report to include all University findings.
Peterson Sullivan PLLC
University of Washington Metropolitan Tract Audit
For the year ended June 30, 2006

Peterson Sullivan PLLC has been providing audit services to the University of Washington for over fifteen years. We value our relationship with the University and welcome the opportunity to communicate with the Regents about our audit plan.

AUDIT CONTRACT

The fiscal year ended June 30, 2006, will be the third year we have conducted the financial audit of the Metropolitan Tract. This is "year three" in our three year contract with the University of Washington for the Metropolitan Tract audit.

SUMMARY OF SERVICES PROVIDED

We perform the following audit services:
- Metropolitan Tract financial statement audit
- Rainier Tower sublease audit of the schedules of results of operations and net change in cash
- Fairmont Olympic Hotel audit of the schedule of gross rental income and percentage rent and lease compliance agreed upon procedures
- Unico Properties, Inc. audit of the schedule of gross rental income and percentage rent and lease compliance agreed upon procedures

SUMMARY OF AUDIT PLANS

Metropolitan Tract
We focus our audit procedures in the areas deemed to be the highest risk. At the Metropolitan Tract we have determined that cash and revenues represent the largest dollar value, highest volume of activity and therefore, highest audit risk. In addition, there are significant Cobb building capital expenditures and related debt this year. We have prepared our audit programs to focus audit efforts in these areas.

Rainier Tower Sublease
The Rainier Tower sublease financial results are included in the Metropolitan Tract financial statements. We also audit the separate schedules of results of operations and net change in cash. The risk areas where we focus our audit procedures related to these two schedules is rent revenue recognition and capital expenditures.

Fairmont Olympic Hotel
The financial results from the Fairmont Olympic Hotel schedules of gross revenue amounts and percentage rentals are included in the Metropolitan Tract financial statements. We also audit the schedules on a stand-alone basis. We focus our audit procedures on revenue by testing revenue recognition, completeness of reported revenue and proper classification and presentation of revenue. In addition, we perform and report on specific agreed upon procedures related to lease compliance. We will also ensure that the Fairmont obtained an
audit of replacements and renewals expenditures as required by the lease (this was a finding last year since it was not done).

Unico Properties, Inc.
The financial results from the Unico Properties, Inc. schedule of gross rental income are included in the Metropolitan Tract financial statements. We also audit the schedule on a stand-alone basis. We focus our audit procedures on revenue recognition and revenue classification between commercial space and office space. We will also be selecting applicable tenants and testing the calculation of percentage rents since this was a finding last year. In addition, we perform and report on specific agreed upon procedures related to lease compliance.

AUDIT TIMELINE

Our audit procedures are expected to take place as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fairmont</td>
<td>May 22-24, 2006</td>
</tr>
<tr>
<td>Unico</td>
<td>May 24-26, 2006</td>
</tr>
<tr>
<td>Metropolitan Tract</td>
<td>August 1-10, 2006</td>
</tr>
<tr>
<td>Rainier Tower</td>
<td>August 8-10, 2006</td>
</tr>
</tbody>
</table>

Reports for Fairmont and Unico are prepared for the year ended December 31, 2005, and will be issued the end of July 2006.

Reports for the Metropolitan Tract and Rainier Tower are prepared for the year ended June 30, 2006, and will be issued by September 15, 2006.

In addition, we communicate any internal control related or other findings noted during our audits to the University in a management letter at the conclusion of the Metropolitan Tract audit.
University of Washington

2006 Audit Plan

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Fax • 206-913-4444
email • shuebner@kpmg.com
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I. Executive Summary

Scope of Audit

We will audit the balance sheet of the University of Washington (University) as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on the financial statements based on our audit, however we will not express any opinion on the effectiveness of internal controls over financial reporting.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control over financial reporting. Accordingly, we will express no such opinion.

Additionally, we will report separately on our audits for the UW Medical Center, Intercollegiate Athletics, and the Parking System.

Coordination with Other Auditors

We will coordinate and rely on audit testwork performed by the following other auditors: Peterson Sullivan, the Washington State Auditor’s Office and the University’s Internal Audit Department as considered necessary.

This coordinated approach allows us to reduce duplicative testwork during the audit of the University and increase overall efficiency.

Tentative Timetables

Our timetable is expected to be similar to that of the previous year. We will coordinate with the Office of Financial Management an Internal Audit for a more detailed schedule of events and prepare an outline of specific data requirements, timelines and individuals responsible.
II. Financial Reporting Entity

The financial statements of the University of Washington consist of (a) the University of Washington, (b) organizations for which the University is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University’s financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. An entity is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the entity. An entity may also be financially accountable for governmental organizations that are fiscally dependent on it.

An entity has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the entity (a) is entitled to the organization’s resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.
The following illustration depicts the entities included in the University of Washington Annual Report.

<table>
<thead>
<tr>
<th>Assets (in millions)</th>
<th>Entities</th>
<th>Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,702</td>
<td>University of Washington</td>
<td></td>
</tr>
<tr>
<td></td>
<td>UW Activity (teaching, research, public service)*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Medical Center*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Parking System*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intercollegiate Athletics*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Housing and Food Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Metropolitan Tract</td>
<td></td>
</tr>
<tr>
<td>$27</td>
<td>Wholly Owned Insurance Company</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Portage Bay Insurance</td>
<td></td>
</tr>
<tr>
<td>$100</td>
<td>Affiliated Organizations - Medical Entities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>University of Washington Physicians*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>University of Washington Physicians Network*</td>
<td></td>
</tr>
<tr>
<td>$160</td>
<td>Affiliated Organizations - Real Estate Properties</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Commodore Duchess Student Housing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nordheim Court Student Housing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Radford Court Student Housing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Roosevelt I</td>
<td></td>
</tr>
<tr>
<td></td>
<td>South Lake Union - Blue Flame</td>
<td></td>
</tr>
<tr>
<td>$30</td>
<td>Affiliated Organization - Alumni Entity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>UW Alumni Association*</td>
<td></td>
</tr>
</tbody>
</table>

* Audited by KPMG

Organizations Not included in University of Washington Annual Report

- Harborview Medical Center*
- University of Washington Foundation *
- Henry Gallery Association, Inc.
- Washington Law School Foundation
- Washington Pulp and Paper Foundation
III. Scope of Our Audits

University Annual Report

We will audit the balance sheet of the University as of June 30, 2006 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on the financial statements based on our audit.

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control over financial reporting. Accordingly, we will express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In planning and performing our audit of the financial statements, we consider internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. If, however, during our audit we note matters involving internal control and other operational matters, they will be presented for your consideration. These comments and recommendations, all of which will be discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Universities internal control over financial reporting. According we express no such opinion.

This audit meets the needs of the Board of Regents and the administration to manage the University and assist in meeting the University’s financial reporting requirements as a public agency and the State of Washington.

UW Medical Center

We will also audit the financial statements of the UW Medical Center as of June 30, 2006. We will conduct our audit in accordance with auditing standards generally accepted in the United States of America. We will provide an audit
report on the UW Medical Center and will use our audit as support in our overall opinion on the University.

**Intercollegiate Athletics (ICA)**

An audit of the ICA will also be performed for the year ended June 30, 2006. This audit is designed to meet the requirements of the outstanding debt and will be in accordance with auditing standards generally accepted in the United States of America.

We will also be performing required agreed upon procedures to meet the requirements of the National Collegiate Athletic Association (NCAA).

**Parking System**

Our audit of the Parking System is designed to provide the necessary information to meet the compliance requirements of the outstanding debt associated with the parking system revenue bonds.

**All Other UW Activity**

All other UW activity consists of instruction, research, public service, and all other activities included in the University of Washington Annual Report, but not subject to separate reporting requirements.
IV. KPMG Team Overview

- **University of Washington Annual Report**
  - **Ann Nelson** Lead Partner
    - **Steve DeVetter** Technical Resource Partner
    - **Steve Huebner** University Partner
    - **Mark Thomas** Concurring Review Partner
    - **Karissa Lackey** Audit Manager
    - **Regina Prince** Tax Managing Partner
    - **Carrie Faulhaber** Audit Manager
  - **Medical Center**
    - **Jacque Cabe** Audit Partner
    - **Sarah Tallon** Audit Manager
    - **Gabe Saucedos** Supervising Senior
  - **Parking System**
    - **Steve Huebner** Audit Partner
    - **Karissa Lackey** Audit Manager
    - **Walter Wang** Senior
  - **Intercollegiate Athletics**
    - **Steve Huebner** Audit Partner
    - **Karissa Lackey** Audit Manager
    - **Walter Wang** Senior
  - **UW Activity** (Teaching, Research, Public Service)
    - **Steve Huebner** Audit Partner
    - **Karissa Lackey** Audit Manager
    - **Walter Wang** Senior

**A S S U R A N C E**
V. KPMG Audit Process

We apply our audit process through our three-step audit approach. Each step allows us to more clearly identify the University’s business risks, and hence our audit risks, and to focus our audit approach on the risks of material misstatements in the financial statements.

An overview of KPMG’s standard four-step audit approach follows:

1. Planning
   • Perform risk assessment procedures and identify risks
   • Determine audit strategy and identify critical accounting matters
   • Determine planned audit approach

2. Control Evaluation
   • Understand accounting and reporting activities
   • Evaluate design and implementation of selected controls
   • Test operating effectiveness of selected controls
   • Assess control risk and risk of significant misstatement

3. Substantive Testing
   • Plan substantive procedures
   • Perform substantive procedures
   • Consider if audit evidence is sufficient and appropriate
   • Conclude on critical accounting matters

4. Completion
   • Perform completion procedures
   • Perform overall evaluation of the financial statement and disclosures
   • Form an audit opinion

---

**IT General Controls**

Throughout the audit phases outlined above KPMG will be testing IT General Controls in Access to Programs and Data, Program Change Program Development, Computer Operations, and End-User Computing. In addition, when applicable, KPMG will also test IT application controls in the areas of: application access (segregation of duties), key reports, key calculations and interfaces (to ensure completeness and accuracy of data transfer).
### Overview of Audit Procedures

#### Balance Sheet

<table>
<thead>
<tr>
<th>Financial Statement Caption</th>
<th>Audit Considerations</th>
<th>Key Audit Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Investments</td>
<td>Accounting for and control over cash and investments focused on the completeness, existence and accuracy of the account balances</td>
<td>Test account reconciliations</td>
</tr>
<tr>
<td>($2.7 billion)</td>
<td></td>
<td>Confirm key cash and investment balances</td>
</tr>
<tr>
<td>Accounts Receivable- Patient Services</td>
<td>Existence of receivables</td>
<td>Substantive audit and controls procedures to test reasonableness of accounts receivable contractual and bad debt allowances and bad debt reserves</td>
</tr>
<tr>
<td>($202 million)</td>
<td>Reasonableness of contractual and bad debt allowances</td>
<td>Accounts receivable testing for existence of account balances</td>
</tr>
<tr>
<td></td>
<td>Collectibility of receivables</td>
<td>Test account reconciliation</td>
</tr>
<tr>
<td>Accounts Receivable- Grants and Contracts</td>
<td>Existence of receivables</td>
<td>Coordination, review and reliance on the State Auditor testwork over grants and contracts</td>
</tr>
<tr>
<td>($141 million)</td>
<td>Accuracy of receivables</td>
<td>Evaluate internal controls</td>
</tr>
<tr>
<td></td>
<td>Collectibility of receivables</td>
<td>Assess the validity and collectibility of billed and unbilled receivables.</td>
</tr>
<tr>
<td>MetroTract</td>
<td>Proper recording of net assets of MetroTract</td>
<td>Obtain and review the audit report of Peterson &amp; Sullivan</td>
</tr>
<tr>
<td>($118 million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Statement Caption</td>
<td>Audit Considerations</td>
<td>Key Audit Procedures</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>----------------------</td>
<td>----------------------</td>
</tr>
</tbody>
</table>
| • Capital Assets ($2.3 billion) | • Proper capitalization and classification of assets  
• Appropriate depreciation/amortization  
• Safeguarding assets | • Review a reconciliation of capital asset activity  
• Test and evaluate internal controls over capital asset additions  
• Test a sample of significant additions and retirements by examining supporting documentation. |
| • Accounts Payable and Accrued Liabilities ($306 million) | • Recognition of transaction in proper accounting period  
• Accuracy of amounts recorded and assessment of management’s estimates | • Perform review of subsequent disbursements  
• Review reasonableness of balances compared to expectations |
| • Self Insurance Reserve ($29 million) | • Valuation of management’s estimates for legal liabilities | • Test the internal control system for monitoring litigation, claims, and assessments  
• Obtain and review audit report of the captive insurance company. |
| • Long-term liabilities ($846 million) | • Proper classification  
• Compliance with financial covenants | • Confirm balances  
• Test disclosure and classification  
• Test financial covenants |
| • Net Assets ($4.0 billion) | • Proper classification of restrictions | • Review reasonableness of balances compared to expectations |
## Statement Of Revenues Expense And Changes In Net Assets

<table>
<thead>
<tr>
<th>Financial Statement Caption</th>
<th>Audit Considerations</th>
<th>Key Audit Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Student tuition and fees</td>
<td>• Accounting for and</td>
<td>• Review reasonableness of</td>
</tr>
<tr>
<td>($331 million)</td>
<td>control over the</td>
<td>balances compared to</td>
</tr>
<tr>
<td></td>
<td>tuition cycle</td>
<td>expectation</td>
</tr>
<tr>
<td></td>
<td>• Proper accounting</td>
<td>• Test and evaluate</td>
</tr>
<tr>
<td></td>
<td>for scholarship</td>
<td>internal controls</td>
</tr>
<tr>
<td></td>
<td>allowances</td>
<td></td>
</tr>
<tr>
<td>• Patient services</td>
<td>• Proper recording of</td>
<td>• Charge capture</td>
</tr>
<tr>
<td>($747 million)</td>
<td>revenues</td>
<td>testing for appropriate</td>
</tr>
<tr>
<td></td>
<td>• Proper cut-off of</td>
<td>capture of revenues</td>
</tr>
<tr>
<td></td>
<td>revenue between</td>
<td>at set charge master</td>
</tr>
<tr>
<td></td>
<td>periods</td>
<td>rates</td>
</tr>
<tr>
<td></td>
<td>• Accuracy of</td>
<td>• Revenue cut-off</td>
</tr>
<tr>
<td></td>
<td>recording of</td>
<td>testing for appropriate</td>
</tr>
<tr>
<td></td>
<td>contractual</td>
<td>revenue recognition</td>
</tr>
<tr>
<td></td>
<td>deductions from</td>
<td></td>
</tr>
<tr>
<td></td>
<td>revenue</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Proper recording of</td>
<td>• Test and evaluate</td>
</tr>
<tr>
<td></td>
<td>charity care amounts</td>
<td>internal controls</td>
</tr>
<tr>
<td></td>
<td>in accordance with</td>
<td></td>
</tr>
<tr>
<td></td>
<td>charity care policy</td>
<td></td>
</tr>
<tr>
<td>• Grants and Contracts</td>
<td>• Proper recording of</td>
<td>• Coordination, review</td>
</tr>
<tr>
<td>revenue ($954 million)</td>
<td>revenues and</td>
<td>and reliance on the</td>
</tr>
<tr>
<td></td>
<td>collections</td>
<td>State Auditor testwork</td>
</tr>
<tr>
<td></td>
<td>• Accuracy of account</td>
<td>over compliance</td>
</tr>
<tr>
<td></td>
<td>balances</td>
<td></td>
</tr>
<tr>
<td>• Auxiliary Enterprise</td>
<td>• Proper consolidation</td>
<td>• Test and evaluate</td>
</tr>
<tr>
<td>revenue ($117 million)</td>
<td>of entities</td>
<td>internal controls</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Notes
- Student tuition and fees ($331 million)
- Patient services ($747 million)
- Grants and Contracts revenue ($954 million)
- Auxiliary Enterprise revenue ($117 million)
### Financial Statement Caption

<table>
<thead>
<tr>
<th>Audit Considerations</th>
<th>Key Audit Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Salaries and Benefits ($1.7 billion)</td>
<td>• Recognized in proper accounting period</td>
</tr>
<tr>
<td></td>
<td>• Accuracy of amounts recorded</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>• State Appropriations ($380 million)</td>
<td>• Accuracy of amounts recorded</td>
</tr>
<tr>
<td>• Investment Income ($219 million)</td>
<td>• Accuracy of amounts recorded</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Coordination with Other Auditors

When necessary we will coordinate and rely on audit testwork performed by the following other auditors.

<table>
<thead>
<tr>
<th>Auditor</th>
<th>University Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peterson Sullivan</td>
<td>Metro Tract, Housing &amp; Food Services</td>
</tr>
<tr>
<td>Washington State Auditor’s Office</td>
<td>Research – Compliance with Laws and Regulations</td>
</tr>
<tr>
<td>University of Washington Internal Audit</td>
<td>Statewide Debt</td>
</tr>
</tbody>
</table>

This coordinated approach allows us to reduce duplicative testwork during the audit of the University and increase overall efficiency.
VI. New Accounting Pronouncements


GASB No. 42 was issued in November 2003 and is effective for the University’s fiscal year ended June 30, 2006.

This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.
### VII. Tentative Timetable

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We will coordinate with the controller’s office a more detailed schedule of events which outlines specific data requirements, timelines and individuals responsible for each will be prepared.