VII. STANDING COMMITTEE

B. Finance, Audit and Facilities Committee

Audit Plans for Fiscal Year Ending 6/30/08

Please see attached documents.
Peterson Sullivan PLLC
University of Washington Metropolitan Tract Audit
For the Year Ended June 30, 2008

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, 2008, will be the fifth year we have conducted the financial audit of the Metropolitan Tract. This is “second year” in our two-year extension based on the first amendment of our original 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 changes 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
- Cobb Building lease compliance agreed-upon procedures

SUMMARY OF AUDIT PLANS

Metropolitan Tract

A new audit standard now officially requires us to communicate with those charged with governance (the Board of Regents) for the Metropolitan Tract for the following matters:

- Our responsibilities under generally accepted auditing standards
  
  - We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects in conformity with generally accepted accounting principles.
  
  - The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

These responsibilities will be stated in our audit engagement letter.
• An overview of the planned scope and timing of the audit
  o We have provided details of our planned scope and timing of the audit below.

• Significant findings (internal control related or other findings) from the audit
  o We will communicate with any significant findings in a management letter at the conclusion of the Metropolitan Tract audit and also at an annual meeting with the members of the Board of Regents in January 2009 or earlier if requested.

In addition, a new suite of risk assessment audit standards now requires the following:

• The Metropolitan Tract must provide us with more extensive documentation of internal control prior to the audit. This documentation will not just focus on procedures, but on the emphasis placed on top quality accounting.

• We must conduct increased testing of the Metropolitan Tract’s internal control so that we have a better understanding of how the accounting information is developed.

The audits are expected to be more time-consuming based on the above standards. We plan to perform our reviews of the Metropolitan Tract’s internal control systems prior to starting our financial statement audit.

We focus our audit procedures in the areas deemed to be the highest risk. At the Metropolitan Tract, we have determined that cash, accounts receivable from Unico, and revenue represent the largest dollar value and the highest volume of activity and, therefore, the highest audit risk. Also, the Metropolitan Tract is converting to a new accounting system, which includes a new fixed asset system. We will review whether the conversion has been completed properly during our review of the internal control systems. 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 audit this activity and also audit the separate results of operations and net changes in cash for the Rainier Tower. We expect to focus our audit procedures on rental revenue recognition and capital expenditures.

Fairmont Olympic Hotel
The financial results from the Fairmont Olympic Hotel gross revenue and percentage rentals are included in the Metropolitan Tract financial statements. We also audit the financial results related to the gross revenue and percentage rentals 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. These procedures include testing to ensure that the Fairmont classifies revenue properly in accordance with the lease because the percentage of rent that it pays to the Metropolitan Tract varies depending on the classifications.

Unico Properties, Inc.
The financial results from the Unico Properties, Inc. gross rental income and percentage rentals are included in the Metropolitan Tract financial statements. We audit this activity and also audit the financial results related to the gross rental income and percentage rentals on a stand-alone basis. We focus our audit procedures on revenue recognition and revenue classification between commercial space and office space. We particularly focus on the ground level space in all buildings where a tenant leases the ground floor and the second floor and the allocation of use between commercial space and office space can be difficult to determine. We will also select applicable tenants and test the calculation of percentage rents. In addition, we will perform and report on specific agreed-upon procedures related to lease compliance. These procedures include, but are not limited to, lease compliance with the Cobb lease and the allocation of parking revenue at Palomar Garage where Unico and the Metropolitan Tract share the parking revenue.

AUDIT TIMELINE

Our audit procedures are expected to take place as follows:

Agreed-upon procedures (Fairmont, Unico, Cobb) Begins June 2, 2008
Rainier Tower audit Begins August 4, 2008
Metropolitan Tract audit Begins August 11, 2008

Reports for Fairmont and Unico are prepared for the year ended December 31, 2007, and will be issued by the end of August 2008.

Reports for the Metropolitan Tract and Rainier Tower are prepared for the year ended June 30, 2008, and will be issued by September 30, 2008.
Executive Summary

Washington State Auditor’s Office
University of Washington Audit
July 1, 2007 through June 30, 2008

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?

• Cash receipting and revenues for the following areas: UWMC Administration, Parking rental income, Residential Halls/Family Housing, University Press, Dentistry – Dean’s Office, Bothell Campus facility services, Experimental Education Unit, Library, Center for Career Services, Burke Museum, Cafeterias, Intercollegiate Athletics, the HUB and follow-up on areas included in the FY07 finding
• Procurement/bid law of public works projects
• Procurement/bid laws equipment and services

• Constituent referrals
• Open Public Meetings Act
• Safeguarding of public assets
• Contracts & Agreements
• Indirect cost allocation
• Payroll – Information systems and high risk testing
• General disbursements, including travel, procard, pretty cash/imprest funds
• Tuition and fees
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:

  - National Center for Research Resources
  - Follow-up over Gaining Early Awareness and Readiness
  - Student Financial Aid Cluster

  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
  - Regional Primate Center
  - Student Financial Aid
  - Health Services Office of Minority Affairs

- **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.
University of Washington
2008 Audit Plan
Contents

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   Parking System 5
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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, 2008, 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, Shallo, Galluscio, Bianchi and Fucito, 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 and 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 if excluded.

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.
## II. Financial Reporting Entity

The following illustration depicts the entities included in the University of Washington Annual Report.

<table>
<thead>
<tr>
<th>2007 Assets (in millions)</th>
<th>Entities</th>
<th>Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 6,521</td>
<td>University of Washington</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Research, Teaching, and Public Service Activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>UW 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>$ 49</td>
<td>Wholly Owned Insurance Company</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Portage Bay Insurance*</td>
<td></td>
</tr>
<tr>
<td>$ 138</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>$ 340</td>
<td>Affiliated Organizations - Real Estate Properties</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Community Development Properties C-D</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Radford Court Properties</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Educational Research Properties</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Washington Biomedical Research Properties I</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Washington Biomedical Research Properties II</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TSB Properties</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Twenty-fifth Avenue Properties</td>
<td></td>
</tr>
<tr>
<td>$ 32</td>
<td>Affiliated Organization - Alumni Entity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>University of Washington Alumni Association*</td>
<td></td>
</tr>
</tbody>
</table>

* Audited by KPMG LLP (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, 2008 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 U.S. GAAP. 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 University’s internal control over financial reporting. Accordingly, 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, 2008. We will conduct our audit in accordance with U.S. GAAP. 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.
III. Scope of Our Audits

Intercollegiate Athletics (ICA)
An audit of the ICA will also be performed for the year ended June 30, 2008. This audit is designed to meet the requirements of the outstanding debt and will be in accordance with U.S. GAAP.

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’s revenue bonds.
IV. KPMG LLP (KPMG) Team Overview

University of Washington
Annual Report

Ann Nelson
Client Service Partner

Steve DeVetter
Technical Resource Partner

Steve Huebner
Lead Engagement Partner

Michael Isensee
Information Risk Management Partner

Mark Thomas
Concurring Review Partner

Karissa Lackey
Audit Senior Manager

Regina Prince
Tax Managing Partner

Lisa Pascuzzi
Audit Manager

Walter Wang
Senior

Individual Auxiliary Audits:

UW Medical Center
Jacque Cabe
Audit Partner
Amy Banovich
Audit Senior Manager
Lindsay Pedersen
Senior

Parking System
Steve Huebner
Audit Partner
Lisa Pascuzzi
Audit Manager
Leslie Woodworth
Senior

Intercollegiate Athletics
Steve Huebner
Audit Partner
Lisa Pascuzzi
Audit Manager
Leslie Woodworth
Senior
V. KPMG Audit Process

We apply our audit process through our three-step audit approach. Each step allows us to identify more clearly 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).
V. KPMG Audit Process (Continued)

In Scope Applications

University of Washington

<table>
<thead>
<tr>
<th>Audit Program, and relevant audit objective references</th>
<th>Application Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student database</td>
<td>SDB</td>
</tr>
<tr>
<td>Human Resources and Payroll</td>
<td>Higher Education Payroll and Personnel System (HEPPS)</td>
</tr>
<tr>
<td>General Ledger</td>
<td>FAS/FIN</td>
</tr>
<tr>
<td>Expenditures</td>
<td>eProcurement</td>
</tr>
<tr>
<td>Expenditures</td>
<td>PAS</td>
</tr>
</tbody>
</table>

UW Medical Center

<table>
<thead>
<tr>
<th>Audit Program, and relevant audit objective references</th>
<th>Application Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Ledger</td>
<td>PFM</td>
</tr>
<tr>
<td>AR/Billing</td>
<td>PFS</td>
</tr>
</tbody>
</table>

Harborview Medical Center

<table>
<thead>
<tr>
<th>Audit Program, and relevant audit objective references</th>
<th>Application Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Ledger</td>
<td>PFM</td>
</tr>
<tr>
<td>AR/Billing</td>
<td>PFS</td>
</tr>
</tbody>
</table>
V. KPMG Audit Process (Continued)

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,</td>
<td>• Test account reconciliations</td>
</tr>
<tr>
<td>($3.7 billion)</td>
<td>existence, accuracy, and valuation.</td>
<td>• Confirm key cash and investment balances</td>
</tr>
<tr>
<td></td>
<td>• Test account reconciliations</td>
<td>• Procedures in accordance with the AICPA practice aid to test the existence and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>valuation of investments with special emphasis on alternative Investments, subprime,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and Auction Rate securities</td>
</tr>
<tr>
<td>• Accounts Receivable – and</td>
<td>• Existence of receivables</td>
<td>• Substantive audit and controls procedures to test reasonableness of accounts,</td>
</tr>
<tr>
<td>Patient Services</td>
<td>• Reasonableness of contractual and bad debt allowances</td>
<td>receivable contractual allowance, and bad debt reserves</td>
</tr>
<tr>
<td>($235 million)</td>
<td>• Collectibility of receivables</td>
<td>• Accounts receivable testing for existence of account balances</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Test account reconciliation</td>
</tr>
<tr>
<td>• Accounts Receivable – and</td>
<td>• Existence of receivables</td>
<td>• Evaluate internal controls</td>
</tr>
<tr>
<td>Grants and Contracts</td>
<td>• Accuracy of receivables</td>
<td>• Select a sample and agree to underlying contracts.</td>
</tr>
<tr>
<td>($140 million)</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>($121 million)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


## V. KPMG Audit Process (Continued)

<table>
<thead>
<tr>
<th>Financial Statement Caption</th>
<th>Audit Considerations</th>
<th>Key Audit Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Assets ($2.6 billion)</td>
<td>- Proper capitalization and classification of assets &lt;br&gt;- Appropriate depreciation/amortization &lt;br&gt;- Safeguarding assets</td>
<td>- Review a reconciliation of capital asset activity &lt;br&gt;- Test and evaluate internal controls over capital asset additions &lt;br&gt;- Test a sample of significant additions and retirements by examining supporting documentation.</td>
</tr>
<tr>
<td>Accounts Payable and Accrued Liabilities ($378 million)</td>
<td>- Recognition of transaction in proper accounting period &lt;br&gt;- Accuracy of amounts recorded and assessment of management's estimates</td>
<td>- Perform review of subsequent disbursements in management's liability estimation method. &lt;br&gt;- Review reasonableness of balances compared to expectations</td>
</tr>
<tr>
<td>Self Insurance Reserve ($40 million)</td>
<td>- Valuation of management's estimates for legal liabilities</td>
<td>- Obtain and review KPMG audit report of the captive insurance company</td>
</tr>
<tr>
<td>Long-term liabilities ($1.1 billion)</td>
<td>- Proper classification &lt;br&gt;- Compliance with financial covenants</td>
<td>- Confirm balances &lt;br&gt;- Test disclosure and classification &lt;br&gt;- Test financial covenants</td>
</tr>
<tr>
<td>Net Assets ($5.0 billion)</td>
<td>- Proper classification of restrictions</td>
<td>- Review reasonableness of balances compared to expectations</td>
</tr>
</tbody>
</table>
## V. KPMG Audit Process (Continued)

### 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>
</table>
| **Student tuition and fees** ($397 million) | - Accounting for and control over the tuition cycle  
- Proper accounting for scholarship allowances | - Review reasonableness of balances compared to expectation  
- Test and evaluate internal controls |
| **Patient services** ($857 million) | - Proper recording of revenues  
- Proper cut-off of revenue between periods  
- Accuracy of recording of contractual deductions from revenue  
- Proper recording of charity care amounts in accordance with charity care policy | - Charge capture testing for appropriate capture of revenues at set charge master rates  
- Revenue cut-off testing for appropriate revenue recognition  
- Test and evaluate internal controls |
| **Grants and Contracts revenue** ($994 million) | - Proper recording of revenues and collections  
- Accuracy of account balances | - Coordination, review, and reliance on the State Auditor testwork over compliance  
- Test and evaluate internal controls  
- Test accuracy and eligibility of sampled expenditures that drive revenue recognition |
| **Auxiliary Enterprise revenue** ($137 million) | - Proper consolidation of entities | - Obtain and review departmental and component unit statements for proper inclusion in the financial statements |
| **Salaries and Benefits** ($2.0 billion) | - Recognized in proper accounting period  
- Accuracy of amounts recorded | - Test and evaluate the internal controls  
- Review reasonableness of balances compared to expectation |
V. KPMG Audit Process (Continued)

<table>
<thead>
<tr>
<th>Financial Statement Caption</th>
<th>Audit Considerations</th>
<th>Key Audit Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>• State Appropriations</td>
<td>• Accuracy of amounts</td>
<td>• Confirm balances with</td>
</tr>
<tr>
<td>($440 million)</td>
<td>recorded</td>
<td>information provided from</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the state accounting system</td>
</tr>
<tr>
<td>• Investment Income</td>
<td>• Accuracy of amounts</td>
<td>• Confirmation of amounts</td>
</tr>
<tr>
<td>($503 million)</td>
<td>recorded</td>
<td>with the custodian</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Obtain and review the SAS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>70 internal control report</td>
</tr>
<tr>
<td></td>
<td></td>
<td>provided by the service</td>
</tr>
<tr>
<td></td>
<td></td>
<td>organization.</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>
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<tbody>
<tr>
<td>Peterson Sullivan</td>
<td>Metro Tract, Housing and Food Services</td>
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<tr>
<td>Washington State Auditor's Office</td>
<td>Research – Compliance with Laws and Regulations Statewide Debt</td>
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<tr>
<td>University of Washington Internal Audit</td>
<td>Various</td>
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<tr>
<td>Shallo, Galluscio, Bianchi and Fucito</td>
<td>Various Real Estate Component Units</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

Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

The requirements of this Statement are effective for the University of Washington as of July 1, 2007.

Other Postemployment benefits (OPEB) as well as pensions are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare and other OPEB, are taken after the employees’ services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided.

This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees’ years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Employers who participate in single-employer or agent multiple-employer defined benefit OPEB plans (sole and agent employers) are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer’s annual required contribution (ARC) to the plan, with certain adjustments if the employer has a net OPEB obligation for past undercontributions or overcontributions.

The ARC is defined as the employer’s required contributions for the year, calculated in accordance with certain parameters, and includes (a) the normal cost for the year and (b) a component for amortization of the total unfunded actuarial accrued liabilities (or funding excess) of the plan over a period not to exceed 30 years. The parameters include requirements for the frequency and timing of actuarial valuations as well as for the actuarial methods and assumptions that are acceptable for financial reporting. If the methods and assumptions used in determining a plan’s funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s). However, if a plan’s method of financing does not meet the parameters (for example, the plan is financed on a pay-as-you-go basis), the parameters nevertheless apply for financial reporting purposes.
VI. New Accounting Pronouncements

GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations

The requirements of this Statement are effective for financial statements for periods beginning July 1, 2008, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. The University is early adopting this standard in fiscal year 2008.

This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset.

Once any one of five specified obligating events occurs, the University is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The University is compelled to take pollution remediation action because of an imminent endangerment.
- The University violates a pollution prevention-related permit or license.
- The University is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as the University responsible for sharing costs.
- The University is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The University commences or legally obligates itself to commence pollution remediation.

The measurement of the University’s pollution remediation liability should include remediation work that the University expects to perform for other parties; however, expected recoveries from those other parties, and insurance recoveries, reduce the measurement of the University’s pollution remediation expense when reasonably estimable (and reduce associated expenditures when the recoveries are measurable and available). If the expected recoveries are not yet realized or realizable, they also would reduce the measurement of the University’s pollution remediation liability. If the expected recoveries are realized or realizable, they should be reported as recovery assets (for example, cash or receivables).
VII. Tentative Timetable

<table>
<thead>
<tr>
<th>Event</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
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<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
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<tr>
<td>Initial planning meetings</td>
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<td>Financial statements</td>
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<td>Preparation and reporting</td>
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<td>to board of regents’ finance and audit committee</td>
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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.
Ann C. Nelson
Client Service Partner
KPMG LLP
801 2nd Avenue, Suite 900
Seattle, WA 98104
Telephone • 206-913-4192
Fax • 206-913-7269
email • anelson@kpmg.com

Steven D. Huebner
Lead Engagement Partner
KPMG LLP
801 2nd Avenue, Suite 900
Seattle, WA 98104
Telephone • 206-913-6583
Fax • 206-260-7263
email • shuebner@kpmg.com