VII. STANDING COMMITTEES

B. Finance and Asset Management Committee

2015 Audit Plans (KPMG & Peterson Sullivan)

For information only.

Attachments
KPMG – University of Washington 2015 Audit Plan
Peterson Sullivan LLP – University of Washington 2015 Audit Plan
## Contents

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**Appendix**
I. Executive Summary

Scope of our Audit
We will audit the statements of net position of the University of Washington (the University) as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended. These financial statements are the responsibility of the University’s management.

Additionally, we will report separately on our audits for the UW Medical Center, Intercollegiate Athletics, Commuter Services, Internal Lending Program, and Housing and Food Services. We also issue reports on many of the audits of component units, including the discretely presented component units of UW Medicine/Northwest and Valley Medical Center. See page 5 for a listing of those entities.

Specialized Team
We bring a specialized team to the audit that has significant experience working with other higher education entities and medical institutions in the Pacific Northwest. Furthermore, we have a very knowledgeable national network that we can draw upon as needed in order to bring the best client service to the University.

Risk Based Approach
We utilize a risk based approach to plan and perform our audit. Our time and effort is spent on the areas that we see as most critical to the University. We are in constant communication with the University throughout the year to stay abreast of new and emerging issues or risks that the University may be dealing with in order to update our audit plan accordingly.

Consolidation of Entities
We audit a number of entities of the University on a stand alone basis that consolidate into the University’s financial report. Many of these entities have separate governing bodies and reporting structures that KPMG reports through as part of our audit process, in addition to the communications that are made as part of the University’s financial report communications process. This ensures that individuals at the appropriate level of management at these entities are kept aware of any issues and audit findings.

In addition, we audit a number of entities that do not get consolidated into the University’s financial report. Each of these entities has its own separate governing bodies and reporting structures as well that KPMG reports through as part of our audit process.

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, Shallo, Galluscio, Bianchi and Fucito, Clifton Larson Allen (in relation to the audit of GASB 68 information provided by DRS) 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 accelerated to that of the previous year by one week. 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. Required Communications

Generally accepted auditing standards require we cover these topics in planning and completion of our audit process with the Audit Committee:

- The Auditor’s Responsibility under Auditing Standards Generally Accepted in the United States of America
- Significant Accounting Policies and Unusual Transactions
- Management Judgments and Accounting Estimates
- Significant Audit Adjustments/Passed Audit Differences
- Other Information in Documents Containing Audited Financial Statements
- Issues Discussed Prior to Retention
- Disagreements with Management
- Consultations with Other Accountants
- Difficulties Encountered in Performing the Audit
- Deficiencies in Internal Control
- Auditor Independence
- Illegal acts, fraud or noncompliance with laws and regulations
II. Responsibilities of Management and KPMG

Responsibilities of Management

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Establishing and maintaining effective internal control over financial reporting (ICFR)
- Identifying and confirming that the University complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to, management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of ICFR that could adversely affect the University’s ability to initiate, authorize, record, process, or report financial data
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud

The Board is responsible for:

- Oversight of the financial reporting process and oversight of ICFR

Management and the Board are responsible for:

- Establishing and maintaining internal controls to prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards
- The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities

Responsibilities of KPMG

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- Evaluating whether the University’s controls sufficiently address:
  - Identified risks of material misstatement due to fraud
  - The risk of management override of other controls
- Communicating to the Board in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management deficiencies that, in our professional judgment, are of sufficient importance to merit management’s attention
- Conducting our audit in accordance with professional standards
- Complying with the rules and regulations of the Code of Professional Conduct of the AICPA, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Planning and performing our audit with an attitude of professional skepticism
- Communicating all required information, including significant matters, to management and the Board

KPMG Quality Control Procedures

- Annual concurring partner review process
- Internal Quality Performance Review
- Internal in-depth reviews every five years associated with debt financings
- PCAOB/External Peer Review – PriceWaterhouse
III. Financial Reporting Entity

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

University of Washington Financial Report
Financial Statements

2014 Assets and Deferred Outflows of Resources

Entities
University of Washington
Research, Teaching, and Public Service Activities (Main Campus)*
UW Medical Center*
Commuter Services*
Intercollegiate Athletics*
Internal Lending Program*
Airlift Northwest*
Housing and Food Services*
Metropolitan Tract

Wholly Owned Insurance Company
Portage Bay Insurance*

Affiliated Organizations – Medical entities
University of Washington Physicians*
University of Washington Neighborhood Clinics*

Affiliated Organizations – Real Estate Properties
Washington Biomedical Research Properties I
Washington Biomedical Research Properties II
Washington Biomedical Research Facilities 3
TSB Properties

Affiliated Organizations (discretely presented components)
UW Medicine/Northwest*
Valley Medical Center*

Organizations Not included in University of Washington Annual Report
Harborview Medical Center*
University of Washington Alumni Association*
University of Washington Foundation*
Henry Gallery Association, Inc.
Washington Law School Foundation
Washington Pulp and Paper Foundation

* Audited by KPMG LLP (KPMG).
* KPMG performs Review Procedures
IV. Scope of Our Audits

University Financial Report
We will audit the financial statements of the University as of and for the year ended June 30, 2015. We will conduct our audit in accordance with U.S. GAAP.

Governance Reporting: Audit Advisory Committee

University of Washington Medical Center
We will audit the financial statements of the University of Washington Medical Center as of and for the year ended June 30, 2015. 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 Financial Report.

Governance Reporting: UWMC Committee of the UW Medicine Board

In addition to issuing an opinion on the consolidated financial statement of the University of Washington we will also issue reports on the following departmental financial statements:

Intercollegiate Athletics
Commuter Services
Internal Lending Program
Housing and Food Services

We will audit the financial statements of each of the above departments of the University as of and for the year ended June 30, 2015. We will conduct our audits in accordance with U.S. GAAP.

Governance Reporting: Audit Advisory Committee

Portage Bay Insurance
We will audit the financial statements of Portage Bay Insurance as of and for the year ended June 30, 2015. We will conduct our audit in accordance with U.S. GAAP, as well as applicable statutory requirements.

Governance Reporting: Portage Bay Finance Committee

As shown in the table on page 5 there are several other organizations that we perform audits over as well. We refer to these as the Affiliated Organizations. Some of these entities are considered component units of the University and are either shown blended with the University’s operations or discretely in a separate column of the financial statements, while others are not included in the financial report of the University of Washington. An audit of each of the following affiliated organizations will be performed as of and for the year ended June 30, 2015:

University of Washington Physicians
We will audit the financial statements of University of Washington Physicians as of and for the year ended June 30, 2015. We will conduct our audit in accordance with U.S. GAAP.

Type of Component Unit: Blended

Governance Reporting: UWP Finance and Audit Committee

University of Washington Neighborhood Clinics
We will audit the financial statements of University of Washington Physicians Network as of and for the year ended June 30, 2015. We will conduct our audit in accordance with U.S. GAAP.

Type of Component Unit: Blended

Governance Reporting: UWNC Finance Committee
IV. Scope of Our Audits (continued)

UW Medicine/Northwest
We will audit the financial statements of UW Medicine/Northwest as of and for the year ended June 30, 2015. We will conduct our audit in accordance with U.S. GAAP.

Type of Component Unit: Discrete

Governance Reporting: Audit Committee of the Board of Trustees

Valley Medical Center
We will audit the financial statements of Valley Medical Center as of and for the year ended June 30, 2015. We will conduct our audit in accordance with U.S. GAAP.

Type of Component Unit: Discrete

Governance Reporting: Board of Commissioners

Harborview Medical Center
We will audit the financial statements of Harborview Medical Center as of and for the year ended June 30, 2015. We will conduct our audit in accordance with U.S. GAAP.

Not included in the financial report of the University of Washington based on accounting criteria

Governance Reporting: Finance Committee

University of Washington Foundation
We will audit the financial statements of the University of Washington Foundation as of and for the year ended June 30, 2015. We will conduct our audit in accordance with U.S. GAAP.

Not included in the financial report of the University of Washington based on accounting criteria

Governance Reporting: University of Washington Foundation Executive Committee

University of Washington Alumni Association
We will audit the financial statements of the University of Washington Alumni Association as of and for the year ended June 30, 2015. We will conduct our audit in accordance with U.S. GAAP.

Not included in the financial report of the University of Washington based on accounting criteria

Governance Reporting: University of Washington Alumni Association Executive Committee
V. KPMG LLP (KPMG) Team Overview

University of Washington Financial Report

Ann Nelson
Client Service Partner

Jacqueline Cabe
Senior Audit Partner

Eileen McGinn
Concurring Review Partner

Karissa Marker
Lead Engagement Partner

Multiple Actuarial Specialists

Michael Ortman
Manager

Paige Rachor
Audit Senior

Michael Isensee
Information Risk Management Partner

Regina Prince
Tax Managing Partner

Individual Department and Auxiliary Audits:

UW Medicine Entities

Jacqueline Cabe/Amy Banovich
Audit Partners

Multiple Audit Managers and Seniors

Portage Bay Insurance

Karen Saunders
Audit Partner

Adam Janicki
Audit Manager

Erin Walstrom
Senior

UW Commuter Services

Karissa Marker
Audit Partner

Michael Ortman
Audit Manager

Kat Lee
Senior

Intercollegiate Athletics

Karissa Marker
Audit Partner

Michael Ortman
Audit Manager

Paige Rachor
Senior

Internal Lending Program

Karissa Marker
Audit Partner

Michael Ortman
Audit Manager

Paige Rachor
Senior
VI. KPMG Audit Process

We apply our audit process through our four-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:

Engagement Setup
- Tailor the eAudIT workflow to your circumstances
- Access global knowledge specific to your industry

Risk Assessment
- Understand your business and financial processes
- Identify significant risks in your business
- Determine audit approach
- Evaluate design and implementation of your internal controls

Completion
- Form and issue audit opinion on financial statements
- Issue management letter
- Debrief audit process

Testing
- Test effectiveness of your internal controls
- Perform substantive tests
- Check financial statements
VII. University of Washington
Business and Financial Risks

Risk Assessment

How possible is the risk?
Low

How significant is the risk?
Low

BUSINESS IMPACT

Decentralized Responsibility
Affiliate Relations/Synergies
Implementing New IT Systems
Effective Execution of Strategic Initiatives
Reimbursement Issues facing Medical centers
Changing Revenue Streams
Contracting and Related Processes
Valuation of Alternative Investments
Changing Demographics
Online Learning
Changing Competitive Environment
Valuation of Patient A/R
Maintaining Safety
Student Experience
Cost of regulatory Compliance and non-compliance
Privacy/Information Security
Changing Revenue Streams
的有效执行

Effectiveness of
Implementation of
New IT Systems

Reimbursement
Issues

Changing
Revenue

Changing
Demographics

Maintaining
Safety

Decentralized
Responsibility

Low

High
## VIII. Consideration of Fraud in the Audit

**Fraud approach – what we consider**

<table>
<thead>
<tr>
<th>Incentives/Pressures</th>
<th>Opportunities (easiest to commit/hardest to detect)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational pressures</td>
<td>Identified financial statement or assertion level fraud risks</td>
</tr>
<tr>
<td>Internal pressures</td>
<td>Account balances or classes of transactions</td>
</tr>
<tr>
<td>Third party pressures</td>
<td>Related party or significant unusual transactions</td>
</tr>
<tr>
<td>Communications to public</td>
<td>Ineffective controls or oversight</td>
</tr>
<tr>
<td>Organizational pressures</td>
<td></td>
</tr>
<tr>
<td>Internal pressures</td>
<td></td>
</tr>
<tr>
<td>Third party pressures</td>
<td></td>
</tr>
<tr>
<td>Communications to public</td>
<td></td>
</tr>
</tbody>
</table>

**Attitudes/Rationalizations**

<table>
<thead>
<tr>
<th>Knowledge of suspected or alleged fraud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrity</td>
</tr>
<tr>
<td>Attitude toward selection and implementation of accounting policies and practices</td>
</tr>
<tr>
<td>Attitudes toward internal control over financial reporting</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

**Specific UW Fraud Risks**

- Misappropriation of assets
- Misuse of grant funds
- Intentional manipulation of significant estimates in financial statements
- Inappropriate use of public funds
- Pressure to meet certain financial targets (i.e., for debt rating agencies)
- Compliance related matters, i.e. Medicare or Medicaid fraud, where doctors charge a procedure that is not supported by the underlying procedure actually performed
- Reserving process for patient accounts receivable and third party for UW Medicine entities. There is an inherent risk that the Organization could manage earnings by taking on additional reserves during good years in order to release those reserves in bad years.
IX. Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a qualitative characteristic which information must have if it is to be useful.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
### Overview of Audit Procedures

**Statement of Financial Position as of June 30, 2014**

<table>
<thead>
<tr>
<th>Financial Statement Caption</th>
<th>Audit Considerations</th>
<th>Key Audit Procedures: Control (C) and Substantive (S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Existence and accuracy of cash</td>
<td>(S) Confirm key cash balances and test corresponding account reconciliations</td>
</tr>
<tr>
<td>($79 million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>Accounting for and controls over investments focused on the completeness, existence, accuracy, and valuation.</td>
<td>(C) Test quarterly investment reconciliations</td>
</tr>
<tr>
<td>($4.7 billion)</td>
<td></td>
<td>(C) Test that the CIO approves new external investment managers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(C) Test that portfolio managers maintain contact with external investment managers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(S) Confirm key investment balances</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(S) Procedures in accordance with the AICPA practice aid to test the existence and valuation of investments with special emphasis on alternative investments and other hard-to-value investments</td>
</tr>
<tr>
<td>Accounts Receivable – Patient Services</td>
<td>Existence of receivables</td>
<td>(S) A/R lookback analysis is performed</td>
</tr>
<tr>
<td>($296 million)</td>
<td>Reasonableness of contractual and bad debt allowances</td>
<td>(S) Sample year end gross A/R balance for existence</td>
</tr>
<tr>
<td></td>
<td>Collectibility of receivables</td>
<td>(S) Analytically review reserves as a percentage of gross A/R and write-offs as a percentage of gross revenue</td>
</tr>
<tr>
<td>Accounts Receivable – Grants and Contracts</td>
<td>Existence of receivables</td>
<td>(S) Test zero balance historical collection report used in setting bad debt and contractual allowances</td>
</tr>
<tr>
<td>($186 million)</td>
<td>Accuracy of receivables</td>
<td>(S) Understand any changes in reserve methodology</td>
</tr>
<tr>
<td></td>
<td>Collectibility of receivables</td>
<td>(S) Test account reconciliations</td>
</tr>
<tr>
<td>MetroTract</td>
<td>Proper recording of net position of MetroTract</td>
<td>(S) Obtain and review the audit report of Peterson &amp; Sullivan</td>
</tr>
<tr>
<td>($113 million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Assets, net</td>
<td>Proper capitalization and classification of assets</td>
<td>(C) Review of contract/invoice approval</td>
</tr>
<tr>
<td>($4.0 billion)</td>
<td>Appropriate depreciation/amortization</td>
<td>(C) Ensure significant projects are approved the Board of Regents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(S) Review a reconciliation of capital asset activity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(S) Test a sample of significant additions and retirements by examining supporting documentation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(S) Test the reasonableness of useful lives of projects placed into service</td>
</tr>
<tr>
<td>Financial Statement Caption</td>
<td>Audit Considerations</td>
<td>Key Audit Procedures: Control (C) and Substantive (S)</td>
</tr>
<tr>
<td>----------------------------</td>
<td>---------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>Accounts Payable and Accrued Liabilities ($512 million)</td>
<td>Recognition of transaction in proper accounting period</td>
<td>(S) Perform review of management’s liability estimation method.</td>
</tr>
<tr>
<td></td>
<td>Accuracy of amounts recorded and assessment of management’s estimates</td>
<td>(S) Review reasonableness and test the underlying data of the Triangle Accrual</td>
</tr>
<tr>
<td></td>
<td>(S) Perform review of management’s liability estimation method.</td>
<td>(S) Review reasonableness of balances compared to expectations</td>
</tr>
<tr>
<td>Self Insurance Reserve ($67 million)</td>
<td>Valuation of management’s estimates for legal liabilities</td>
<td>(S) Obtain and review actuarial calculation</td>
</tr>
<tr>
<td></td>
<td>(S) Review reasonableness of balances compared to expectations</td>
<td>(S) Test the underlying data of the actuarial calculation</td>
</tr>
<tr>
<td>Long-term liabilities ($2.4 billion)</td>
<td>Proper classification with financial covenants</td>
<td>(S) Confirm balances</td>
</tr>
<tr>
<td></td>
<td>(S) Test disclosure and classification</td>
<td>(S) Test financial covenants as applicable</td>
</tr>
<tr>
<td>Net Position ($6.6 billion)</td>
<td>Proper classification of restrictions</td>
<td>(S) Review reasonableness of balances and net position calculations</td>
</tr>
</tbody>
</table>

Statement of Revenues, Expenses, and Changes in Net Position for the year ending June 30, 2014

<table>
<thead>
<tr>
<th>Financial Statement Caption</th>
<th>Audit Considerations</th>
<th>Key Audit Procedures: Control (C) and Substantive (S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student tuition and fees ($839 million)</td>
<td>Accounting for and controls over the tuition cycle</td>
<td>(C) Tuition revenue and receivable accounts are reconciled monthly</td>
</tr>
<tr>
<td></td>
<td>(S) Perform an analytic based on student headcount and published tuition rates</td>
<td></td>
</tr>
<tr>
<td>Patient services ($1.2 billion)</td>
<td>Proper recording of revenues</td>
<td>(C) Perform walkthroughs over significant revenue departments. Trace revenue selection to Zero Balance Account (ZBA) detail</td>
</tr>
<tr>
<td></td>
<td>Proper cut-off of revenue between periods</td>
<td>(S) Charge capture testing for appropriate capture of revenues at set charge master rates</td>
</tr>
<tr>
<td></td>
<td>Accuracy of recording of contractual deductions and bad debts from as deductions from revenue</td>
<td>(C and S) Testing cash posting and Charity care sample</td>
</tr>
<tr>
<td></td>
<td>Proper recording of charity care amounts in accordance with charity care policy</td>
<td>(S) Revenue cut-off testing for appropriate revenue recognition</td>
</tr>
<tr>
<td></td>
<td>(C) Test and evaluate relevant internal controls</td>
<td></td>
</tr>
<tr>
<td>Grants and Contracts revenue ($1.3 billion)</td>
<td>Proper recording of revenues and collections</td>
<td>(C) For new grants, a checklist is completed</td>
</tr>
<tr>
<td></td>
<td>Accuracy of account balances</td>
<td>(C) Cash drawdowns are reviewed and approved</td>
</tr>
<tr>
<td></td>
<td>(S) Test accuracy and eligibility of sampled expenditures that drive revenue recognition</td>
<td></td>
</tr>
</tbody>
</table>
**Coordination with Other Auditors**

*When necessary we will coordinate with the following other auditors.*

<table>
<thead>
<tr>
<th>Auditor</th>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peterson Sullivan</td>
<td>Audit of Metro Tract, as well as the Commodore Duchess, Radford Court, and Nordheim Court real estate entities</td>
</tr>
<tr>
<td>Washington State Auditor’s Office</td>
<td>Audit of University of Washington Annual Report</td>
</tr>
<tr>
<td>University of Washington Internal Audit</td>
<td>Various</td>
</tr>
<tr>
<td>Shallo, Galluscio, Bianchi and Fucito</td>
<td>Audit of Various Real Estate Component Units</td>
</tr>
<tr>
<td>Clifton Larson Allen</td>
<td>Audit of GASB 68 information provided by DRS</td>
</tr>
</tbody>
</table>

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

**Utilization of Internal Audit**

KPMG will utilize the staffing resources of University of Washington Internal Audit to reduce related audit fees. This is the fourth year we will work with internal audit in a direct assist role as they perform some of the external audit procedures on the audit of the University of Washington Financial Report.
X. KPMG Audit Process – IT Considerations

**IT General Controls**
Throughout the audit phases outlined on page 9, 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).

**In Scope Applications**

<table>
<thead>
<tr>
<th>Audit program, and relevant audit objective references</th>
<th>Application Name</th>
<th>Age of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Washington</td>
<td>Student Database</td>
<td>SDB</td>
</tr>
<tr>
<td></td>
<td>Human Resources and Payroll</td>
<td>HEPPS</td>
</tr>
<tr>
<td></td>
<td>General Ledger</td>
<td>FAS</td>
</tr>
<tr>
<td></td>
<td>Expenditures</td>
<td>ARIBA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PAS</td>
</tr>
<tr>
<td>University of Washington Medical Center</td>
<td>General Ledger</td>
<td>PFM</td>
</tr>
<tr>
<td>Harborview Medical Center</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valley Medical Center</td>
<td></td>
<td></td>
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<tr>
<td></td>
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<tr>
<td>University of Washington Medical Center</td>
<td>A/R Billing</td>
<td>EPIC</td>
</tr>
</tbody>
</table>
XI. KPMG Independence Quality Controls

KPMG maintains a comprehensive system of quality controls designed to maintain our independence

- Pre-approval of all engagements by the audit engagement team through Sentinel, a KPMG independence verification system
- Monitoring employment relationships
- Tracking partner rotation requirements using PRS, the firm’s automated partner rotation tracking system
- Automated investment tracking system used by all KPMG member firms (KICS)
- Training and awareness programs
- Compliance testing programs
- Annual reporting to the Audit Committee

Current non-audit services provided to the University of Washington by KPMG

- 2014 State and Local Tax Consulting – $7K paid to date
- 2008-2013 Harborview State and Local Tax Revenue Audit – $256K paid to date

In our professional judgment, we are independent with respect to the University of Washington, as that term is defined by the professional standards.
XII. New Accounting Pronouncements

Summary of Statement No. 68, Financial Reporting for Pensions – an amendment of GASB No. 27
The requirements of this Statement are effective for periods beginning after June 15, 2014, or UW’s FY’15 Financials. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

The outcome of this standard is expect to be significant to the University, due to the inclusion of the PERS 1, 2, and 3 defined benefit plan funded or unfunded status in the financial statements for this first time. Management has had an implementation team focused on the effect of this standard on the financial statements for a significant period of time.

<table>
<thead>
<tr>
<th>Pension Accounting</th>
<th>GASB 68</th>
<th>FASB ASC 715</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Similarities</strong></td>
<td>Requires that the funded status of a defined benefit pension plan be reported on the employer’s balance sheet</td>
<td></td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>Limits the change in the liability that does not go through pension expense and requires those changes to be reflected as deferred outflows or inflows of resources on the Statement of Net Position</td>
<td>Allows the change in the unfunded liability not reported in pension expense to be reflected as OCI (or other changes in net assets for not-for-profit entities)</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>Discount rate is the expected long-term rate on plan assets</td>
<td>Discount rate is rate at which the obligation could be effectively settled</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td>Actuarial valuations are required to be performed at least every two years</td>
<td>Requires annual actuarial valuation</td>
</tr>
</tbody>
</table>

Summary of Statement No. 69, Government Combinations and Disposals of Government Operations
The requirements of this Statement are effective for periods beginning after December 15, 2013, or UW’s FY’15 Financials. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This standard is not expected to have a significant impact to the University.

Summary of Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68
The requirements of this Statement should be applied simultaneously with the provisions of Statement 68, which is effective for periods beginning after June 15, 2014, or UW’s FY’15 Financials.

This primary objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. Management is addressing this statement concurrent with the implementation of GASB 68.
### XIII. Key GASB vs. FASB Differences

Below we note some key accounting and financial reporting differences between GASB and FASB entities

<table>
<thead>
<tr>
<th>Description</th>
<th>GASB</th>
<th>FASB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributed Services</td>
<td>No recognition</td>
<td>Allows recognition</td>
</tr>
<tr>
<td>Endowment Pledges</td>
<td>Recognition prohibited</td>
<td>Recognize as permanently restricted</td>
</tr>
<tr>
<td>Restrictions Definition</td>
<td>Any external party can restrict</td>
<td>Only donors can restrict</td>
</tr>
<tr>
<td>Net Assets/Position</td>
<td>GASB F/S separate net investment in capital assets from other unrestricted net position</td>
<td>FASB F/S do not separate net investment in capital assets from other unrestricted net assets</td>
</tr>
<tr>
<td>Net Assets/Position</td>
<td>GASB F/S show &quot;restricted-nonexpendable&quot; net position</td>
<td>This is comparable to the FASB designation of &quot;permanently restricted net assets&quot;</td>
</tr>
<tr>
<td>Net Assets/Position</td>
<td>GASB F/S show &quot;restricted – expendable&quot; net position</td>
<td>This is comparable to the FASB designation of &quot;temporarily restricted net assets&quot;</td>
</tr>
<tr>
<td>Gifts</td>
<td>Gifts are separated by operating and non-operating</td>
<td>Gifts are not separated by operating and non-operating</td>
</tr>
<tr>
<td>Endowment income</td>
<td>Reported as investment income or rental income</td>
<td>Reported as realized or unrealized gain/loss</td>
</tr>
<tr>
<td>Cash Flow Statement</td>
<td>Direct method calculation of cash flows from operating activities is mandatory</td>
<td>Direct method calculation of cash flows from operating activities is NOT mandatory</td>
</tr>
</tbody>
</table>
## XIV. Tentative Timetable

<table>
<thead>
<tr>
<th>Event</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
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<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
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<tbody>
<tr>
<td>Initial planning meetings</td>
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<td>Present audit plan to AAC</td>
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<tr>
<td>Present audit plan to board of regents’ finance and audit committee</td>
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<td>Planning meetings with University of Washington finance department</td>
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<tr>
<td>Interim fieldwork</td>
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<td>Final fieldwork</td>
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<tr>
<td>Financial statements Preparation and reporting</td>
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<td>AAC review draft of Annual Report</td>
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<td>Presentation of financial statement and management letter 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.
Upcoming events
- The Shifting Geopolitical Landscape – Webcast
  - March 26, 2015  11:00 AM EDT
- Audit Committee Quarterly Webcast Series
  - A quarterly Webcast providing updates and insights into issues affecting audit committee/board oversight—from key accounting and regulatory changes to developments in risk oversight.

Recent Publications – included in the Appendix
- Cyber Insecurity: How Safe Can the Company’s Data Assets Be?
- Business Transformation and the Regulatory Environment
- Cost Transparency in Healthcare
- Closing the Gaps: An Ongoing Challenge for Private Company Boards

Resources
- ACI Web site: www.auditcommitteeinstitute.com
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: 1-877-KPMG-ACI
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The following is a summary of the services we will provide for the University of Washington Metropolitan Tract for 2015. Our general audit plans and related timelines are also included.

SUMMARY OF SERVICES TO BE PROVIDED

We will perform the following audit services:

- **Metropolitan Tract:** The audit of the Metropolitan Tract represents the majority of the audit work we perform. It incorporates the financial activities of all of the properties within the eleven acres of the Metropolitan Tract (including the Skinner Building, the Fairmont Olympic Hotel, the IBM Building, the Financial Center, the Puget Sound Plaza, the Rainier Tower, Rainier Square, and the Cobb Building).

- **Unico Properties:** To make sure Unico was remitting its appropriate amount to the University under the previous Master Lease, we audit the schedule of gross rental income and percentage rent, including amounts due to the University for the period ended October 31, 2014 (the expiration date of the Master Lease). We also perform various tests associated with lease compliance.

- **Fairmont Olympic Hotel:** In addition to the property audit, we audit the schedule of gross rental income and percentage rent, including amounts due to the University under the lease agreement with the Fairmont owners. Again, we also perform various tests associated with lease compliance. These procedures are performed for the year ended December 31, 2014.

SUMMARY OF AUDIT PLANS

**Metropolitan Tract**

At the Metropolitan Tract, there have been drastic changes in the operations and how funds flow to the University now that the Master Lease with Unico has expired (on October 31, 2014). A summary of changes are as follows:

- Unico is the property manager of the following five properties/areas
  - Skinner Building
  - Puget Sound Plaza
  - IBM Building
  - Financial Center
  - The Commercial leases of Cobb Building

- B/T Washington LLC, dba Blanton Turner is the property manager of the residential units of the Cobb Building

- Wright Runstad is the property manager of the Rainier Tower (not including the Rainier Square)
• WRC Fourth Avenue Operator LLC (an affiliate of Wright Runstad) is the operator for the Rainier Square. It is also the developer for anticipated property improvements.

The primary issues (or questions) on which we expect to focus include:

• Any remaining issues with the transition from the old Master Lease?
  o All true-up calculations completed timely?
• A substantial increase in operations recognized by the University Real Estate office under the new agreements.
• Four separate property managers are involved in the operations. All of them use the University's accounting system, but we want to make sure they use it in a consistent fashion.
• Each property manager has its own internal control procedures. Are they adequate? If not, what does the University do about it?
• Are the tenant lease agreements meeting the University’s standards/expectations?
• Are expense allocations done correctly at each property manager’s level for shared costs, such as payroll expenses and other administrative costs?
• Would the operations of the Rainier Square be reported on a gross basis or a net basis?
• Are the calculations of management fees done properly?
• How do the property managers (and the University) monitor potential conflicts of interest? (The property managers manage other buildings in downtown Seattle).

Based on the issues and questions noted above, we will design our audit procedures appropriately.

We noted two internal control deficiencies in the prior year. We will follow up on our internal control recommendations from the prior year, and will search for any new recommendations. Our audit procedures will incorporate testing for fraudulent financial reporting, and will be designed to look for material instances of asset misappropriation, as well.

We are also proposing to present the 2015 financial statements in a single year financial statement format. Because of the substantial changes in 2015, the comparative financial statements may not present useful information.

**Fairmont Olympic Hotel**

The rent paid by the Fairmont Olympic Hotel is included in the Metropolitan Tract financial statements. We perform a stand-alone audit of the Hotel’s revenue (and the related percentage rental calculation). We test revenue recognition, completeness of reported revenue, and proper classification and presentation of revenue. In addition, we will perform certain agreed-upon procedures related to the Fairmont activity. These procedures include, but are not limited to, testing to ensure that the Fairmont classifies revenue properly in accordance with the lease, and testing to see that capital expenditures meet certain requirements.

During this fiscal year, there has been an ownership change at the Fairmont Olympic Hotel. We will be cognizant of this change during our procedures.
Unico Properties, Inc.

Unico Properties operated several properties under the Master Lease until October 31, 2014. This activity rolls into the financial statements of the Metropolitan Tract. In addition, we perform a stand-alone audit of the gross rental income for Unico (and the related percentage rental calculation). Historically, this report has been on a calendar year basis. Accordingly, our final report for the Unico activity under the Master Lease will be for the period from January 1, 2014 to October 31, 2014.

We focus our audit procedures to ensure that Unico paid appropriate amounts owed to the University under the Master Lease. The procedures include testing of selected tenants who paid percentage rents, as well as testing of classification between commercial space and office space. Both of these procedures directly affect the rent amounts paid by Unico.

In addition, we will perform certain agreed-upon procedures to test lease compliance. These procedures include, but are not limited to, lease compliance with repair and maintenance requirement levels, and adequacy of rental collection processes.

AUDIT TIMELINE

Our audit procedures are expected to take place as follows:

- The fieldwork for the Metropolitan Tract audit and our procedures related to Unico and Fairmont will take place between April 2015 and August 2015.

- We expect to issue all of the reports by September 15, 2015.
The following is a summary of the services we will provide for the Commodore Duchess Apartments, Radford Court Apartments, and Nordheim Court Apartments for 2015. Our general audit plans and related timelines are also included.

SUMMARY OF SERVICES TO BE PROVIDED

We will audit the financial statements of the Commodore Duchess Apartments, the Radford Court Apartments, and the Nordheim Court Apartments on a combined basis for the year ending June 30, 2015.

The operations for these properties are presented in a combined financial statement (with supplementary combining information). All of the above properties were managed by the University’s Real Estate Office. A third party management company provides on-site management of the properties.

SUMMARY OF AUDIT PLANS

As noted above, we will audit each property separately; however, the basic financial statements of these properties are presented on a combined basis with the combining statement of assets, liabilities, and net assets and the combining statement of revenue, expenses, and changes in net assets as supplementary information.

We focus our audit procedures in the areas deemed to be the highest risk. For these properties, we have determined that rental revenue represents the largest dollar value and the highest volume of activity and, therefore, the highest audit risk. Additionally, the University’s Real Estate Office has an agreement with the University’s Housing and Food Services requiring it to make an annual distribution to the University’s Housing and Food Services. We will review the calculation of this amount and ensure that it is properly calculated and recorded.

AUDIT TIMELINE

Our audit procedures are expected to take place as follows:

- The audits will be performed in mid to late July 2015.
- The audit report will be issued by late August 2015.
The following is a summary of the services we will provide for the University of Washington Student Activities and Facilities Fees – Seattle Campus for 2015. Our general audit plan and related timelines are also included.

SUMMARY OF SERVICES TO BE PROVIDED

We perform the audit for Student Activities and Facilities Fees - Seattle Campus including the statement of cash receipts, cash disbursements, and changes in cash balance for the fiscal year ending June 30, 2015. The financial statements are prepared on the cash basis of accounting.

SUMMARY OF AUDIT PLAN

We have determined that student activities and facilities fees receipts, debt service payments, and cash disbursements made to various entities in the University represent almost all of the activity in this entity. Most of our audit procedures will focus on the collection and disbursement processes.

We did not note any material weaknesses related to the entity’s internal control procedures during our prior-year audit. However, we did note that there was a change in the reporting entity to include the SAF Committee Expenditure Fund, which was not previously identified as a part of this financial reporting. As part of our audit procedures, we will ensure that all applicable budgets are identified and included in the financial statements of this reporting entity for the year ending June 30, 2015.

AUDIT TIMELINE

Our audit procedures are expected to take place as follows:

- The audit fieldwork is planned in mid-September 2015.
- The audit report is expected to be issued by early October 2015.