Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Washington State University

For the period July 1, 2015 through June 30, 2017

Published March 19, 2018

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Office of the Washington State Auditor
Pat McCarthy

March 19, 2018

Board of Regents
Washington State University
Pullman, Washington

Report on Financial Statements

Please find attached our report on the Washington State University's financial statements.

We are issuing this report in order to provide information on the University's financial condition.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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July 1, 2016 through June 30, 2017

2017-001 The University did not have adequate internal controls in place for the fiscal year to ensure the accurate presentation of its permanent endowment fund additions, and investment and component unit footnotes.

Background

University management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. These controls should ensure the University follows all generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) statements.

The University has high standards for ensuring accurate reporting and a long history of correctly identifying and applying accounting methodology. However, our current audit identified internal control weaknesses that hindered the University's ability to produce reliable financial statements.

Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- The University did not have a process to ensure sufficient research was performed to correctly and timely implement new GASB standards. GASB Statement No. 72 – *Fair Value Measurement and Applicatio*n, which affects accounting and financial reporting for investments, was not properly implemented.
- The University did not dedicate the necessary time and resources to properly report financial statement balances and footnote disclosures required by existing GASB standards, including:
  - Statement No. 39 – Determining Whether Certain Organizations Are Component Units – An Amendment Of GASB Statement No. 14
  - Statement No. 31 – Accounting And Financial Reporting for Certain Investments And For External Investment Pools

    - Statement No. 61 – The Financial Reporting Entity: Omnibus-An Amendment Of GASB Statements No. 14 and 34

- Although the University reviews the financial statements and required footnote disclosures, the review was not adequate to detect and correct errors before the audit.

Cause of Condition

The University experienced turnover in key financial statement preparation positions, which prevented it from establishing and maintaining necessary controls to ensure financial statements and footnote disclosures were accurately prepared.

Effect of Condition

Our audit identified the following errors in the financial statements and schedules provided for audit. The University did not:

- Disclose key elements in its investment note disclosure as required by GASB 72.

- Adequately research reporting requirements related to its foundation, a discretely presented component unit, as required by GASB 39 and 14.

- Properly classify capital additions to its Land Grant Endowment as required by GASB 31. Contributions of $8.4 million were initially classified as investment income.

- Disclose required information about the Alumni Association, a blended component unit. Notes to the financial statements should include condensed financial statement data for the blended component unity as required by GASB 61.

Other less significant errors were also identified in the financial statements provided for audit. All material misstatements noted above were corrected.

Recommendation

We recommend University management develop and maintain adequate internal controls over financial statement reporting that ensure accurate and complete financial statements and footnotes. Specifically, the University should:

- Develop a process to ensure sufficient research is performed to correctly and promptly implement new GASB standards

- Analyze changes to the University's financial operations to determine the effect, if any, on its reporting required by GAAP and GASB
- Conduct an effective, independent financial statement review that ensures the statements and footnotes are prepared in accordance with all GASB standards and GAAP reporting principles

University's Response

We appreciate the SAO's recommendations in regards to internal controls over financial statement preparation and agree that improvements can be made to enhance the areas noted. We are investing in training and technical resources to ensure that all future changes to accounting guidance are researched and applied to our financial statements and footnotes in a timely manner. Further, we have new management in place with significant experience to bring appropriate oversight and review to future financial statement reporting activities.

Auditor's Remarks

We thank the University for its cooperation, assistance and immediate responses during the audit. We appreciated the University's commitment to resolve this finding. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Controls Related Matter Identified in an Audit, paragraph 7.

RCW 43.88.160 Fiscal management – Powers and duties of officers and agencies, establishes expectations for developing and maintaining internal controls for state agencies

The Office of Financial Management's State Administrative and Accounting Manual (SAAM), Section 20.15 establishes the responsibilities for identifying risks and establishing, maintaining, and reviewing agency internal controls systems.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Washington State University
July 1, 2015 through June 30, 2017

Board of Regents
Washington State University
Pullman, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Washington State University, Whitman County, Washington, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 28, 2018. As discussed in Note 1 to the financial statements, during the year ended June 30, 2017, the University implemented Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Our report includes a reference to other auditors who audited the financial statements of the Washington State University Foundation (the Foundation), Washington State University Intercollegiate Athletic Department (Athletics), and Washington State University Housing and Dining System (Housing), as described in our report on the University's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation, Athletics, and Housing were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation, Athletics, or Housing.

The financial statements of the Washington State University, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the University and its aggregate discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, and 2016 the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of the University's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

UNIVERSITY'S RESPONSE TO FINDINGS

The University's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

February 28, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington State University
July 1, 2015 through June 30, 2017

Board of Regents
Washington State University
Pullman, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Washington State University, Whitman County, Washington, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Washington State University Foundation (the Foundation), which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component unit. We also did not audit the financial statements of the Washington State University Intercollegiate Athletic Department (Athletics), or the Washington State University Housing and Dining System (Housing), which in aggregate represent 14.6 percent, 2 percent, and 12.2 percent, respectively, of the assets, net position and revenues of the University business-type activities. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for the Foundation, Athletics, and Housing, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation, Athletics, and Housing were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Washington State University, as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2017, the University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Washington State University, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the University and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017, and 2016 the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University’s internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

February 28, 2018

FINANCIAL SECTION

Washington State University
July 1, 2015 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017 and 2016

BASIC FINANCIAL STATEMENTS

Washington State University Statement of Net Position – 2017 and 2016
Washington State University Statement of Revenues, Expenses and Changes in Net Position – 2017 and 2016
Washington State University Statement of Cash Flows – 2017 and 2016
Washington State University Foundation Consolidated Statements of Financial Position – 2017 and 2016
Washington State University Foundation Consolidated Statements of Activities – 2017 and 2016
Washington State University Foundation Consolidated Statements of Cash Flows – 2017 and 2016
Notes to the Financial Statements – 2017 and 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of WSU Contributions to Pensions – PERS, TRS, LEOFF 2 – 2017 and 2016
Schedule of WSU Contributions – WSURP Supplemental – 2017
Schedule of WSU's Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, TRS 1, TRS 3 – 2016
Schedule of WSU's Proportionate Share of Net Pension Asset – LEOFF 2 – 2016
Schedule of Changes in Total Pension Liability and Related Ratios – WSURP Supplemental – 2017

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Washington State University (the University) for the fiscal year ended June 30, 2017, with comparative information for the fiscal years 2016 and 2015. This overview has been prepared by management and should be read in conjunction with the University's financial statements and accompanying footnote disclosures.

Using the Financial Statements

Washington State University is pleased to present its financial statements for fiscal year 2017. Condensed operations and financial position data for the year will be presented alongside audited data for fiscal years 2016 and 2015 in this section in order to illustrate certain increases and decreases. The emphasis of discussions about these statements will be on current year data.

The financial statements presented in this report encompass the University and its discretely presented component unit, the Washington State University Foundation. The University's financial reports include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The University presents component unit information on pages immediately following the statements of the University.

The financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the University as a whole. The full scope of the University's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

Management's discussion and analysis provides additional information regarding the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position.

Financial Highlights

The University's overall financial position as of June 30, 2017 reflects an increase over the previous year. This year the University implemented GASB (Governmental Accounting Standards Board) statement number 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB 68*, which required the University to report the total liability and expense for the Washington State University's Supplemental Retirement Plan. To account for the cumulative effect of the accounting principle change, the University restated its operating expense and net position for 2016. The result was a $48 million increase in benefit expense and a corresponding $48 million decrease in unrestricted net assets. After these changes, the University's overall financial portion as of June 30, 2017 reflects an increase of $45 million over the previous year. For the current year:

- Assets and deferred outflows increased by $23 million to end the year at $2.7 billion.
- Liabilities and deferred inflows decreased by $22 million to end the year at $1.1 billion.
- Capital assets, net of depreciation, totaled $1.8 billion, an increase of $83 million.
- Current investments decreased by $21 million due to the completion of multiple bond funded projects.
- Net position, which is the residual of assets after deducting liabilities, increased by $45 million to end the year at $1.6 billion.

Other significant changes to operations were as follows:

- Operating revenues totaled $751 million, an increase of $20 million.
- Operating expenses decreased by $35 million to end the year at $1.1 billion.
- Non-operating revenues, net of expense, totaled $335 million, an increase of $55 million.

Condensed Financial Information and Analysis

Financial Position - Statement of Net Position

The Statement of Net Position is a snapshot of the University's financial position at fiscal year-end. It lists the University's assets (economic resources), liabilities (creditors' claims) and net position (residual interest in assets after paying creditors) based on end-of-year data.

Assets are classified as current, non-current or capital. Current assets are expected to benefit the University within 12 months and include cash, accounts receivable, inventories, prepaid expenses, and investments that can easily be converted into cash to meet University expenses. Non-current assets include endowment fund assets, student loans receivable, and investments expected to be held more than one year. Capital assets include construction in progress, library materials, furniture and equipment, land, buildings and improvements and are reported net of accumulated depreciation.

Liabilities are classified as current or non-current. Current liabilities are claims that are due and payable within 12 months and include payroll and benefits, amounts payable to suppliers for goods and services received and debt principal payments due within one year. Non-current liabilities are obligations payable beyond one year and include bond obligations, installment contracts, leases and earned but unused vacation and sick leave.

Net position is divided into five categories

- **Net investment in capital assets:** represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted–nonexpendable:** University endowment funds, Land-Grant Endowment funds and similar funds for which donors or outside sources have stipulated as a condition of the gift that the principal be maintained in perpetuity.
- **Restricted–loans:** funds that have been established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- **Restricted–expendable:** funds that are subject to externally imposed restrictions governing their use, such as scholarships, fellowships, research, loans, professorships, capital projects, and debt service.
- **Unrestricted:** represent those assets that are available to the University for any lawful purpose.

Summarized Statement of Net Position

	June 30, 2017	Restated June 30, 2016	June 30, 2015
Assets			
Current assets	$ 185,002,557	$ 215,251,620	$ 325,451,640
Non-current assets:			
Long term investments	139,930,216	209,337,581	160,994,873
Endowment and other restricted investments	568,114,032	528,459,093	518,231,277
Other non-current assets	34,714,491	47,074,725	47,990,811
Net investment in capital assets	1,753,088,428	1,669,599,783	1,621,637,839
Total assets	**2,680,849,724**	**2,669,722,802**	**2,674,306,440**
Deferred outflows of resources	**$40,546,935**	**$28,445,750**	**$15,982,114**
Total assets and deferred outflows of resources	**2,721,396,659**	**2,698,168,552**	**2,690,288,554**
Liabilities			
Current liabilities	128,835,681	133,319,810	116,964,042
Non-current liabilities:			
Accrued leave and deferred compensation	23,561,608	23,397,340	30,271,337
Unearned revenue	8,630,570	9,249,795	9,865,694
Long term liabilities	874,089,900	893,400,528	792,294,277
Other non-current liabilities	16,836,506	22,376,540	24,234,118
Total liabilities	**1,051,954,265**	**1,081,744,013**	**973,629,468**
Deferred inflows of resources	**23,454,796**	**15,974,353**	**32,420,928**
Total liabilities and deferred inflows of resources	**1,075,409,061**	**1,097,718,366**	**1,006,050,396**
Net position			
Net investment in capital assets	1,062,707,768	950,874,978	931,981,850
Restricted nonexpendable	522,143,459	504,300,813	481,182,685
Restricted loans	32,503,898	28,363,946	28,145,314
Restricted expendable	169,285,124	232,126,994	250,389,405
Unrestricted	(140,652,651)	(115,216,545)	(7,461,096)
Total net position	**$ 1,645,987,598**	**$ 1,600,450,186**	**$ 1,684,238,158**

Significant Changes in the Statements of Net Position

- Current assets decreased by $30 million from 2016 to 2017. Short term investments and cash declined $33 million due to the spend down of reserves by academic and administrative units, intercollegiate athletics, start up of the new medical school, and the construction of the new museum of art. The decline was partially offset by a $3 million increase in accounts receivable from the prior year. Receivables from the Federal government, student tuition and fees increased slightly while auxiliary receivables decreased. Current assets decreased from 2015 to 2016 resulted in the decrease of current assets by $110 million. Cash equivalents increased by $8 million. Current investments decreased by $130 million due to increased cash needs for construction projects, primarily the Everett University Center, the Digital Classroom Building, the Clean Technology Laboratory and the Spokane Teaching Health Center. Merchandisable and consumable inventories decreased by $1 million and accounts receivable increased by $13 million. Accounts receivable included the amount due from the Office of the State Treasurer which rose $7 million while Federal government receivables were $3 million more than last year. Local and state grant receivables increased by $3 million from 2015 to 2016.
- Non-current assets, other than capital assets, decreased by $42 million from 2016 to 2017. Long term investments decreased by $69 million to help offset the spend down of University reserves. Endowment and other restricted investments increased by $25 million due to investment income and realized and unrealized gains. Deposits held in escrow for construction companies increased by $3 million and assets held in trust for other agencies decreased by $1 million. In 2016 non-current assets, other than capital assets, showed an increase from 2015 by $58 million. This increase included a $10 million increase in endowment and other restricted investments because of increased endowment earnings and an increase in long term investments of $48 million.

- Capital assets, net of accumulated depreciation, increased by $83 million from 2016 to 2017 with the completion of multiple construction projects. The Everett Center remodel and the Tri-Cities Student Union were completed in May 2017 and the remodel of the Chinook Student Center concluded in time for student use in the spring semester. In 2016, capital assets increased by $48 million, as the PACCAR Environmental Technology Building, the Spokane Teaching Health Center, the Global Scholars Residence Hall, the Chief Joseph Village, and the Washington Building Pharmacy were completed.
- Current liabilities decreased by $4 million in 2017 as the result of a decrease in accounts payable of $6 million, an increase in the current portion of long term liabilities by $1 million and a combination of unearned revenue and deposits totaling $1 million. Current liabilities increased by $16 million from 2015 to 2016 with the GASB 73 restatement to fiscal year 2016. A $10 million increase in accounts payable included a change in how the current accrued leave was calculated, a $3 million increase in unearned revenue due to the timing of summer session, a $2 million increase in the current portion amounts on new bond issues and a $1 million increase in the amount held on behalf of the Washington State University Foundation.
- Non-current liabilities decreased by $25 million in 2017. Long term liabilities decreased by $29 million with the payment of debt service and no new debt issued. Pension liability increased by $9 million caused by increased recognition of liability under GASB changes. Deposits held in custody of others decreased by $5 million. In 2016, non-current liabilities increased by $92 million. General Revenue Bonds were issued in the amount of $31 million to remodel the Chinook Building and construct a new WSU Tri-Cities Student Union Building, at a premium of $6 million. $58 million in General Revenue Bonds were issued to refund $65 million in series 2007, 2008 and 2009 bonds. The net pension obligation on the University's pension plans increased by $83 million including the restatement of GASB 73 of $48 million. Other non-current liabilities decreased by $9 million.
- Overall net position increased by $45 million from 2016-2017. Net investment in capital assets increased by $111 million. Construction in progress decreased by $44 million as a result of the completion of multiple buildings. Buildings increased by $138 million because of the completion of the SPARK, the Everett University Center, and the Chinook Student Center. Other improvements and equipment decreased by $11 million because of depreciation expense. Long term debt decreased $28 million. Restricted nonexpendable net position increased by $18 million due to the increase in the land-grant permanent fund balances. Restricted expendable net position decreased by $62 million due to the spending of unspent bond proceeds for the completion of bond funded projects. Unrestricted net position decreased $25 million. This amount includes the change in accounting principal for GASB 73. During 2016, net position decreased by $83 million. Net investment in capital assets increased by $19 million due to the completion of several construction projects, including the PACCAR Environmental Technology Building, the Spokane Teaching Health Center, the Global Scholars Residence Hall, the Chief Joseph Village, and the Washington Building Pharmacy, offset by depreciation and normal retirements. Restricted nonexpendable net assets increased by $23 million, the result of increased earnings in the endowment investments. Restricted expendable net assets decreased by $18 million reflecting use of cash from bond proceeds, decreased capital appropriations, and decreased capital gifts. Overall, unrestricted net assets decreased by $107 million. Of that decrease, $7 million represents WSU's portion of the settlement of the *Moore v. HCA* lawsuit. The court ruled that the state wrongly omitted certain class members from employer-paid health insurance under the "nonpermanent" employee category. This decrease also includes the $48 million decrease due to the restatement on GASB 73.

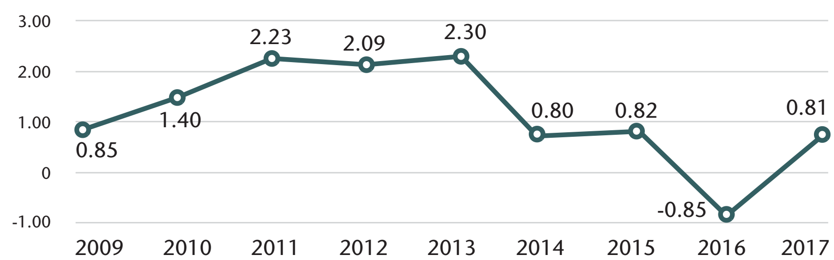
Financial Health and Flexibility

There are many ratios used to gauge financial health and flexibility. Each ratio measures one aspect of performance. The composite financial index (CFI), recommended in the book, *Strategic Financial Analysis for Higher Education, Seventh Edition*, combines four core ratios into a single measure. Blending the four key measures of financial health into a single number provides a more balanced view of the state of the institution's finances. A weakness in one measure may be offset by the strength of another measure.

The four core ratios are the primary reserve ratio, the net operating revenues ratio, the return on net assets ratio, and the viability ratio. Each of these ratios is converted to a strength factor using a common scale then multiplied by specific weighting factors and combined to form the composite financial index.

The graph below shows Washington State University's Composite Financial Index over the past nine years. The ratio was climbing until the global economic downturn reduced operating budgets and investment returns. The University put proactive measures in place to generate greater diversity of revenues and combined that with strategic spending increases. The rate dropped dramatically for 2014 as a result of recognizing WSU's share of the State's pension liability. It increased again slightly in 2015, then dipped in 2016 due to a spending down of reserves and the restatement of pension liability with GASB 73. In 2017 we see an increase as more budget controls are put in place by the University.

Composite Financial Index



Results of Operations—Statements of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position is the University's equivalent of an income statement. It shows the sources and amounts of revenues earned and nature and amount of expenses incurred during the year, classified as operating, non-operating, or other.

Operating revenues are the inflows of funds from providing goods and services to the University's customers. They include tuition and fees, grant and contract payments, and sales and service revenue generated by student housing, student dining, and other University enterprises. Operating expenses are the funds used up in generating operating revenues and in carrying out the University's mission.

Non-operating revenues are revenues earned for which goods and services are not provided and include state appropriations, current-use gifts, and grants that are designated for purposes other than capital construction, land grant endowment income, endowment distributions and investment income. Non-operating expenses include interest expense on long term debt.

Other revenues and expenses include capital appropriations, capital gifts or grants, additions to permanent endowments, and gains or losses on the disposal of capital assets.

Summarized Statements of Revenues, Expenses and Changes in Net Position

	June 30, 2017	Restated June 30, 2016	June 30, 2015
Operating revenues(expenses)			
Student tuition and fees, net	$ 286,137,428	$ 286,292,496	$ 292,867,105
Grants and contracts	256,390,068	251,187,759	237,393,082
Sales and services, net	185,143,675	177,882,770	167,245,337
Other operating revenues	23,374,670	15,681,211	15,014,923
Total operating revenues	**751,045,841**	**731,044,236**	**712,520,447**
Operating expenses	(1,103,460,588)	(1,139,104,834)	(1,048,103,906)
Operating loss	**(352,414,747)**	**(408,060,598)**	**(335,583,459)**
Non-operating revenues (expenses)			
State and federal appropriations	234,725,943	209,813,173	189,277,010
Federal financial aid	33,477,484	36,820,890	35,506,235
Non-capital gifts and grants	35,912,859	37,331,743	37,397,111
Investment income, net	51,845,990	27,294,303	33,918,886
Interest on debt	(28,813,394)	(26,761,921)	(26,298,696)
Federal interest subsidy on debt	2,645,551	2,685,298	2,701,584
Settlement of lawsuit		(6,688,000)	
Other non-operating revenues (expenses)	5,891,939	12,508	924,046
Net non-operating revenues (expenses)	**335,686,372**	**280,507,994**	**273,426,176**
Income (loss) before other changes	**(16,728,375)**	**(127,552,604)**	**(62,157,283)**
Capital appropriations	52,380,539	28,230,835	32,992,075
Capital gifts and grants	1,279,686	3,695,683	6,836,860
Additions to permanent endowments	8,605,562	11,838,114	11,512,657
	62,265,787	43,764,632	51,341,592
Increase (decrease) in net position	**45,537,412**	**(83,787,972)**	**(10,815,691)**
Net position, beginning of year	1,600,450,186	1,684,238,158	1,695,053,849
Net position, end of year	**$ 1,645,987,598**	**$ 1,600,450,186**	**$ 1,684,238,158**

Significant Changes in the Statement of Revenues, Expenses and Changes in Net Position:

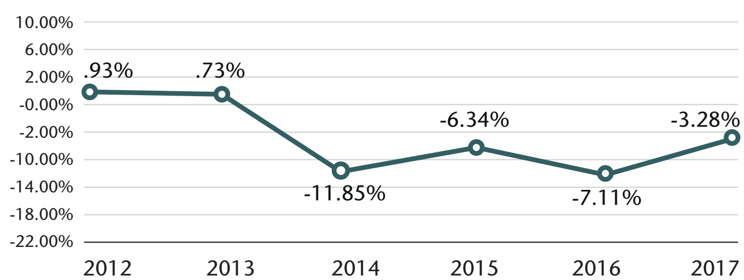
- Current operating revenue increased by $20 million in 2017. Grant and contract revenue increased by $5 million with an increase in federal grants for the new Elson S. Floyd College of Medicine. Sales and services increased by $7 million mainly owing to the increase in auxiliary income. Other operating revenue increased by $8 million. Other operating revenue includes an increase in income from property sales and an increase in collection and late payment fees. For 2016, gross tuition and fees remained flat while waivers increased by $4 million and scholarship allowance increased by $2 million for a net reduction in tuition revenue of $6 million from the prior year. Federal, state, and local grant revenues increased by $14 million. Sales and services net increased by $11 million as a result of increased enrollment. This also includes housing revenue which increased by $4.5 million and athletics revenue that increased by $5.6 million.
- Overall operating expenses decreased by $35 million. Because of the implementation of GASB 73 in 2017, benefit expense was restated in 2016. This caused the decrease of $51 million in benefit expense in 2017. Salaries and wages expense increased by $16 million in part by a 1.8% mass salary increase for classified staff. Scholarship and fellowship expense decreased by $2 million while purchased services expense increased by $2 million. For 2016, benefits expense increased by $69 million due to an increase in the state health insurance rate, an increase in enrolled employees and the restatement of GASB 73. Salaries increased by $25 million as a result of a 1.8% pay increase for faculty, graduate assistants, and administrative employees and also an increase in employee headcount. Payments for goods, services and utilities decreased by $13 million as purchases of non-capital equipment slowed, for completed new buildings, costs associated with the medical school, and other new programs. Depreciation expense increased by $6 million due to new buildings and equipment. Scholarship expense increased by $4 million because of increased state support.

- In 2017 non-operating revenue increased by $55 million. State appropriations increased by $25 million because of the additional appropriation from the state college affordability act. Investment income, net of expense, increased by $24 million caused by an increase in investment earnings and an increase in realized and unrealized gains. Other non-operating revenue increased by $6 million. This includes a $3 million reduction in amortization and a $3 million sale of property. In 2016, non-operating revenues increased by $7 million. State operating appropriations increased by $20 million. Federal PELL grant revenues increased by $1 million. Investment income decreased by $6 million and the settlement of the *Moore v. HCA* lawsuit amounted to $7 million.
- Capital additions increased by $18 million. Capital appropriations increased by $24 million. The state appropriates capital on a biennium basis. The second year in the biennium has more expenditures so that projects are finished by the end of the two year cycle. Capital grants and gifts decreased by $3 million. Additions to permanent endowment decreased by $3 million. This decrease was due to a decrease in contributions from the Department of Natural Resources to WSU's land-grant endowment. As expected, in 2016, capital appropriations decreased by $5 million. Capital gifts and grants decreased by $3 million. Overall, other revenues decreased $8 million in 2016.

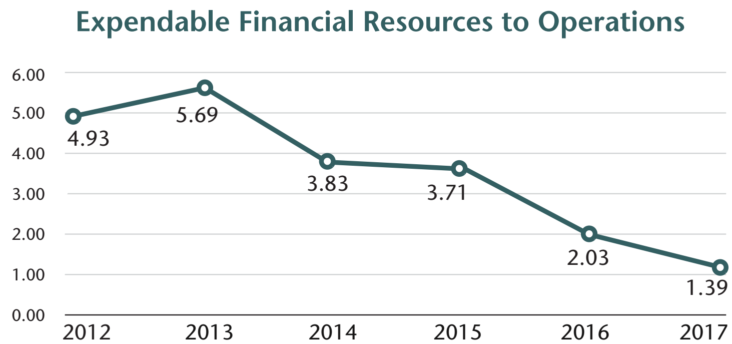
Operating Performance

Rating agencies use many ratios to assess operating performance. One of the ratios more commonly used by Moody's is annual operating margin, which compares the operating surplus (or deficit) to operating revenues. Moody's definition of operating revenues includes several non-operating revenues in determining margin and an estimated spending rate of the University's investments rather than actual investment income. This ratio indicates the extent to which the University is balancing revenues with expenses and growing its resource base. GASB 68 was implemented in 2015, which required a restatement of the fiscal 2014 Statement of Net Position to record the University's share of the State's net pension obligation. The result of that change in accounting principle caused operating expenses to increase by $85 million. In 2015, additional pension expense was recognized that increased operating expenses by $14 million. In 2017, GASB 73 was implemented which required a restatement of pension expense in 2016. The change in accounting principle caused WSU to record the full amount of its supplemental pension and increase benefits expense by $48 million. In 2017, operating expenditures decreased by $35 million.

Annual Operating Margin

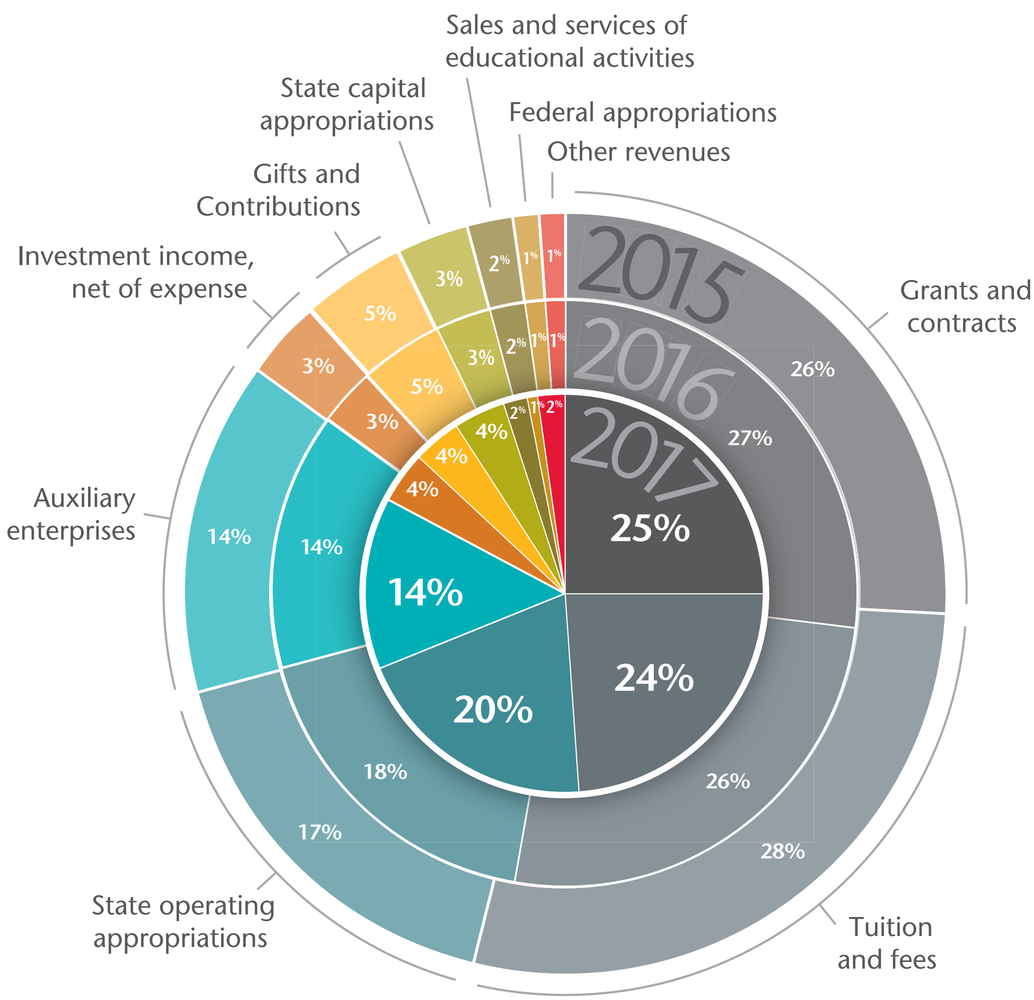


The ratio of expendable financial resources to operations (as defined by Moody's) measures the strength of net position. This ratio, illustrated in the chart below, shows that in 2014, the University recorded its share of the State's pension liability in accordance with GASB pronouncement 68. This restatement reduced expendable resources by $85 million. In 2017, the University implemented GASB pronouncement 73 which restated benefit expense in 2016. The restatement caused an increase of $48 million in expense and reduced net position by the same amount. For 2017, WSU has resources available to fund operations for 1.39 months.



Revenues from all Sources

For the Years Ended June 30, 2017, 2016 and 2015

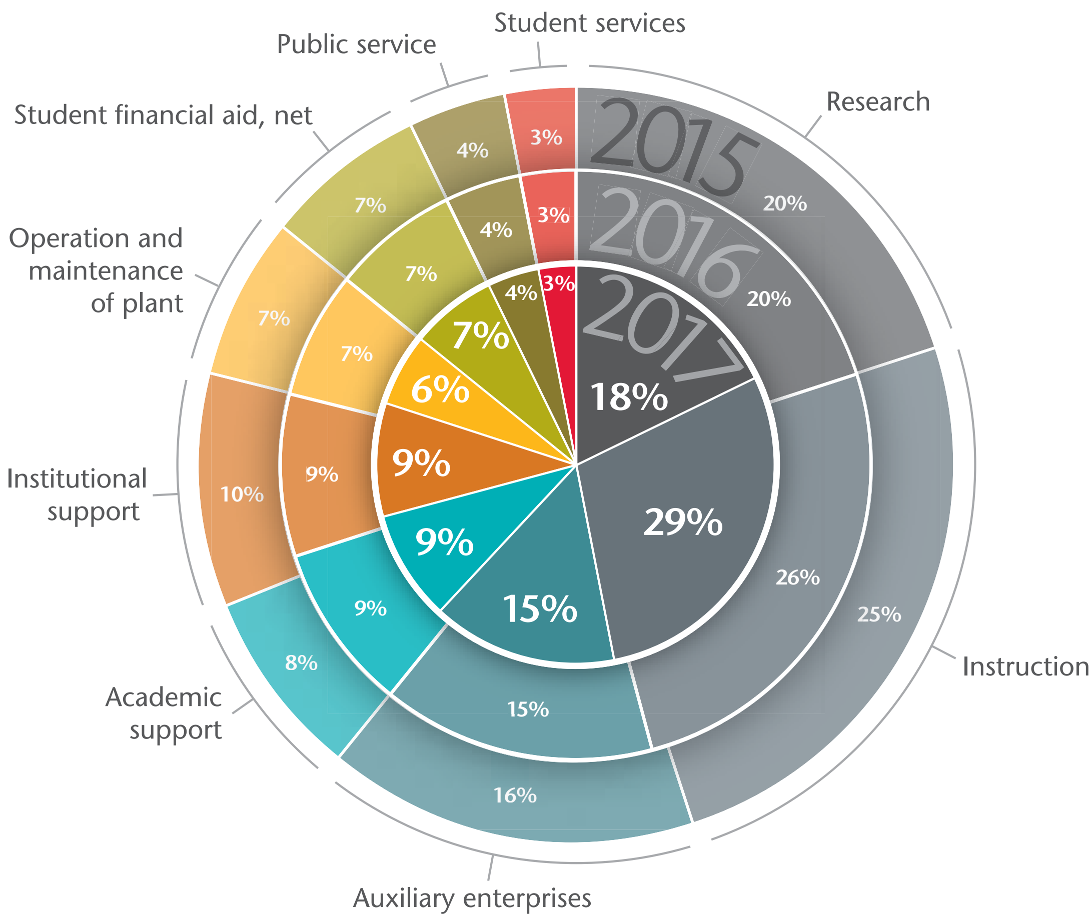


As the above graphs show, the University has a diversified revenue base. No single source of revenue generated more than 25% of the total fiscal year revenues for 2017. Grant revenues and tuition revenues were the largest sources of revenue at 25% and 24% respectively, followed by state appropriations at 20%. Auxiliary revenue represented 14% of the total and has stayed consistent for the last three years. Investment income, net of expenses, decreased to 4% of total revenue. Gifts and contributions decreased to 4% of revenue, while state capital appropations increased to 4% of revenue.

In 2016, grants and contracts generated $288 million or 27% of total revenue. These funds support the university's research activities, which allow students to work with nationally recognized faculty as part of their educational experience. Tuition and fees generated $285 million or 26% in 2016. The state legislature sets tuition rates for all public universities in Washington. State appropriations revenue increased in 2016 and 2017 in an effort to offset a reduction of tuition rates. The decrease to tuition was 5% and 10% respectively. In 2015, tuition and grants were the largest sources of revenue at 28% and 26% followed by state appropriations at 17%

Operating Expenditures by Functional Classification

For the Years Ended June 30, 2017, 2016 and 2015
(Note: for the purposes of these graphs, depreciation and 2015 pension expense has been allocated to the programs.)



The cost of instruction increased to 29% in 2017. Instruction costs have continued to rise over the last three years. The increase in 2017 was driven by a 1% increase in faculty and staff and a 1.8% increase in salaries. Research costs decreased slightly after staying consistent for 2016 and 2015. Operation and maintenance of plant decreased by 1%. Auxiliary enterprise expense, public service expense, student service expense, and student financial aid expense continue to stay constant.

Capital Assets and Long-Term Liabilities

Capital Assets

In 2017, capital assets increased by $83 million to end the year at $1.8 billion. At June 30, 2016, the value of the University's net investment in capital assets was $1.7 billion. This represents an increase of $48 million over 2015, as shown in the table below:

	June 30, 2017	June 30, 2016	June 30, 2015
Land	$ 34,557,582	$ 34,517,614	$ 34,126,589
Construction in Process	50,418,892	93,914,857	118,988,436
Buildings, net	1,370,762,155	1,232,998,860	1,149,307,574
Other improvements and infrastructure, net	175,578,090	180,707,532	186,316,774
Equipment, net	65,159,935	72,021,158	78,230,441
Library resources, net	56,611,774	55,439,762	54,668,026
Total Capital Assets, net	**$ 1,753,088,428**	**$ 1,669,599,783**	**$ 1,621,637,840**

The increase in 2017 is a result of continued completion of construction on multiple campuses. Completion of the Troy Hall renovation, the Chinook Student Center renovation, the SPARK, and the Everett University Center aided in the increase. In 2016, construction in process decreased by $25 million as construction concluded on the Clean Technology Laboratory, the Spokane Teaching Health Center, the Global Scholars Residence Hall, the Chief Joseph Village, and the Washington Building Pharmacy. A detailed schedule of changes in capital assets is disclosed in Note 6.

Long Term Liabilities

In 2017 the Universities long term liabilities decreased by $18 million to end the year at $898 million. The University did not issue any new debt this year allowing for a decrease in general revenue bonds, State of Washington General Obligation bonds and capital leases. Pension obligation was restated for 2016 to include the $48 million GASB 73 adjustment. Pension obligation continues to rise each year.

In 2016 the University had $711 million in outstanding bond debt and leases, representing an increase of $19 million over the prior year. The University issued $31 million in general revenue bonds to finance the construction of a new WSU Tri-Cities Student Union and remodel the Chinook Student Center. The bonds were issued at a premium of $6 million. Principal payments during 2016 decreased revenue bonds outstanding by $17 million. General obligation bonds decreased by $3 million as a result of principal payments. The University issued $58 million in general revenue bonds to defease $65 million in Housing and Dining, Student Recreation, and Athletics bonds for an aggregate debt service decrease of $11 million. Capital leases increased by $1 million.

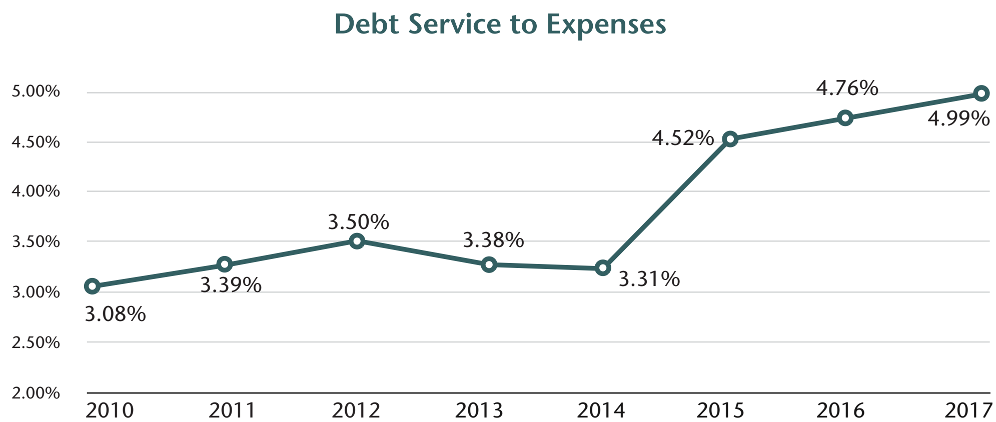
In 2015, the University implemented GASB 68, requiring WSU to record its proportionate share of the State's pension liabilities which totaled $72 million. In 2016, the net pension obligation for the University's pension plan, increased by $35 million based on the most recent, 2015, actuarial study.

The table below summarizes outstanding liabilities:

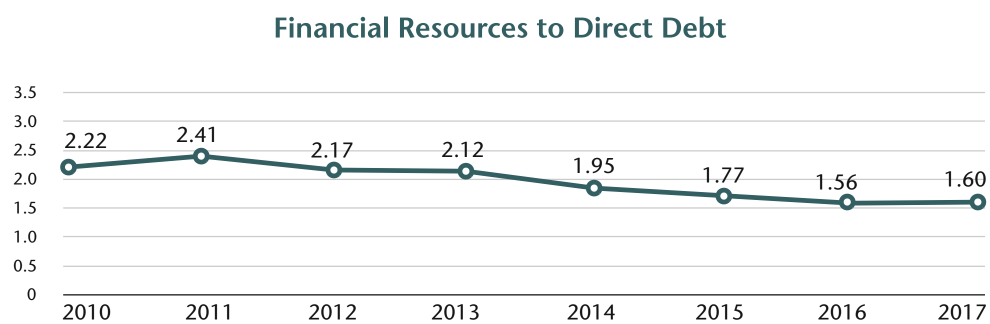
	June 30, 2017	Restated June 30, 2016	June 30, 2015
Revenue and refunding bonds payable	$ 646,695,888	$ 668,164,009	$ 646,692,894
State of Washington general obligation bonds	21,330,000	25,470,000	28,525,000
Capital leases	15,507,695	17,689,469	16,721,538
Pension obligation liability	215,040,786	205,605,925	122,354,878
Total long-term liabilities	**$ 898,574,369**	**$ 916,929,403**	**$ 814,294,310**

Debt Ratios

The debt service to operating expense ratio provides an indicator of the University's ability to repay annual principal and interest relative to its overall operating expenses. A lower percentage indicates the greater ability to repay debt service. In 2016 the University issued general revenue bonds that increased the amount of principal and interest payments in 2017. The graph below show the University's debt service to expense for the past eight years.



The 2017 ratio of financial resources to debt (as defined by Moody's) shows a slight increase over the 2016 ratio. This shows that the University has sufficient expendable resources to pay its long term debt obligations 1.6 times over.



Economic Outlook

The Washington State Economic and Revenue Forecast Councils September 2017 estimate of state general fund revenues indicated an increase of $279 million for the current biennium due to forecast changes and an additional $2.1 billion increase due to tax increases approved by the legislature. The September forecast found the state economy slightly stronger than expected.

WSU's 2017-2019 state biennial budget provided new state funding for medical education, faculty and staff salary increases, and research initiatives. The University's other, non-state appropriated operating revenue sources are expected to be stable or increase slightly in the coming fiscal year. Resident undergraduate tuition was increased by 2.2% for the 2017-18 academic year as allowed by the state legislature. Tuition for veterinary medicine students increased by 7% and tuition rates for other student categories remained the same as the prior academic period. Student services and activities (S&A) fees decreased or remained flat at all campuses except Spokane where the fee increased by 2.2%. Other student fees either remained flat or increased slightly. Enrollment is expected to be about 26,900 annual average full time equivalent students in the 2017-18 academic year for the four-campus system, a slight increase over the prior year.

The 2017-2019 state capital budget is pending. WSU submitted a 2018 supplemental capital budget that requests $158 million for the 2017-2019 biennium. Federal appropriations for the University's land-grant programs are expected to remain near the $10 million funding level in 2018.

Federally sponsored research programs are the largest portion of externally funded grant expenditures. 68% of University sponsored projects were supported by federal funding and 32% by non-federal funding in 2017. Federal and non-federal funded project expenditures in 2017 were about 2.0% higher than in fiscal year 2016. The first four months of fiscal year 2018 indicate that sponsored program expenditures will be about the same as the fiscal year 2017 levels. The longer term outlook is uncertain, due to possible federal funding constraints and economic conditions nationwide, which could constrain both federal and non-federal project activities.

Washington State University
Statement of Net Position as of June 30, 2017, and June 30, 2016

	2017	Restated 2016
Assets		
Current assets		
Cash and cash equivalents (Note 2)	$ 79,480,649	$ 92,098,086
Prepaid expenses	687,426	811,216
Inventories (Note 5)	15,167,254	15,051,579
Accounts receivable, net (Note 6)	78,145,345	74,668,087
Investments, current portion (Note 3)	11,521,883	32,622,652
Subtotal current assets	185,002,557	215,251,620
Non-current assets		
Long-term investments (Note 3)	139,930,216	209,337,581
Endowment investment (Note 3)	568,114,032	528,459,093
Deposits in escrow	7,876,241	4,101,580
Assets held in trust by Washington State University Foundation	-	13,427,968
Assets held in trust for agencies	3,959,811	5,410,794
Loans receivable, net (Note 7)	22,326,001	23,177,768
Capital assets, net of accumulated depreciation (Note 8)	1,753,088,428	1,669,599,783
Pension assets, net (Note 15)	552,438	956,615
Subtotal non-current assets	2,495,847,167	2,454,471,182
Total assets	**2,680,849,724**	**2,669,722,802**
Deferred outflows of resources (Note 14)	40,546,935	28,445,750
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	81,723,468	88,279,347
Due to Washington State University Foundation	3,548,668	3,286,647
Deposits	5,833,440	5,418,326
Unearned revenue, current portion (Note 10)	13,245,636	12,735,517
Long-term liabilities, current portion (Note 14)	24,484,469	23,528,873
Pollution remediation obligation	-	71,100
Subtotal current liabilities	128,835,681	133,319,810
Non-current liabilities		
Accrued leave (Note 9)	23,561,608	23,397,340
Deposits held in custody for others	16,836,506	22,376,538
Unearned revenue (Note 10)	8,630,570	9,249,795
Long-term liabilities (Note 14)	659,049,114	687,794,605
Pension Liability (Note 15)	215,040,786	205,605,925
Subtotal non-current liabilities	923,118,584	948,424,203
Total liabilities	**1,051,954,265**	**1,081,744,013**
Deferred inflows of resources (Note 10)	23,454,796	15,974,353
Net Position		
Net Investment in capital assets	1,062,707,768	950,874,978
Restricted nonexpendable	522,143,459	504,300,813
Restricted loans	32,503,898	28,363,946
Restricted expendable	169,285,124	232,126,994
Unrestricted	(140,652,651)	(115,216,545)
Total net position	**$ 1,645,987,598**	**$ 1,600,450,186**

The footnote disclosures are an integral part of the financial statements.

Washington State University
Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2017, and June 30, 2016

Revenues	**2017**	**Restated 2016**
Operating revenues		
Tuition and fee revenue, net	$ 286,137,428	$ 286,292,496
Federal grants and contracts	135,289,800	130,114,394
State grants and contracts	90,500,606	91,328,486
Local grants and contracts	30,599,662	29,744,879
Sales and services of educational departments	24,874,984	24,082,341
Auxiliary enterprises	160,268,691	153,800,429
Other operating revenues	23,374,670	15,681,211
Total operating revenues	751,045,841	731,044,236
Expenses		
Operating expenses		
Salaries and wages	513,459,638	497,999,719
Benefits	155,628,972	207,124,236
Scholarships and fellowships	65,496,337	67,957,820
Utilities	25,935,110	25,518,460
Payments to suppliers	147,079,552	146,611,113
Purchased services	97,005,654	95,533,031
Depreciation	98,855,325	98,360,455
Total operating expenses	1,103,460,588	1,139,104,834
Net operating loss	**(352,414,747)**	**(408,060,598)**
Non-operating revenues (expenses)		
State appropriations	224,658,120	198,805,066
Federal appropriations	10,067,823	11,008,107
Federal Pell Grants	33,477,484	36,820,890
Interest on capital assets—related debt	(28,813,394)	(26,761,921)
Federal bond interest subsidy	2,645,551	2,685,298
Gifts and contributions	35,912,859	37,331,743
Investment income, net of expense	51,845,990	27,294,303
Settlement of lawsuit	-	(6,688,000)
Other non-operating revenues (expenses)	5,891,939	12,508
Total non-operating revenues (expenses)	335,686,372	280,507,994
Income before other revenues, expenses, gains or losses	**(16,728,375)**	**(127,552,604)**
Capital additions (deductions)		
Capital appropriations	52,380,539	28,230,835
Capital grants and gifts	1,279,686	3,695,683
Additions to permanent endowments	8,605,562	11,838,114
Total other revenues	62,265,787	43,764,633
Increase (decrease) in net position	**45,537,412**	**(83,787,972)**
Net Position		
Net position, beginning of year	1,600,450,186	1,684,238,158
Change in accounting principle as a result of GASB 73		(48,352,792)
Net position, beginning of year restated	1,600,450,186	1,635,885,366
Increase (decrease) in net position	**45,537,412**	**(35,435,180)**
Net position, end of year	**$ 1,645,987,598**	**$ 1,600,450,186**

The footnote disclosures are an integral part of the financial statements.

Washington State University
Statement of Cash Flows
for the Years Ended June 30, 2017, and June 30, 2016

	2017	2016
Cash flows from operating activities		
Tuition and fees	$ 333,957,168	$ 341,558,580
Grants and contracts	253,638,628	245,972,681
Payments to suppliers	(145,170,639)	(142,884,642)
Payments for utilities	(27,112,762)	(24,295,076)
Purchased services	(97,004,633)	(96,433,607)
Payments to employees	(513,930,748)	(498,097,575)
Payments for benefits	(152,450,346)	(146,968,710)
Payments for scholarships and fellowships	(116,018,631)	(124,708,060)
Loans issued to students	(2,966,773)	(5,869,730)
Collection of loans to students	4,515,760	4,524,196
Auxiliary enterprise receipts	162,628,596	154,101,016
Sales and service of educational departments	25,165,025	24,183,240
Other receipts	21,919,167	15,179,239
Net cash used by operating activities	**(252,830,188)**	**(253,738,448)**
Cash flows from noncapital financing activities		
State appropriations	218,390,821	204,212,794
Federal appropriations	7,601,344	8,820,403
Gifts for other than capital purposes		
Private gifts	35,121,482	36,491,928
Additions to permanent endowment	94,837	138,115
Agency fund receipts	37,662,028	35,998,588
Agency fund disbursements	(36,769,288)	(37,206,700)
Federal Direct Loan receipts	169,734,707	166,552,858
Federal Direct Loan disbursements	(163,448,967)	(165,575,718)
Federal Pell Grants	33,522,369	36,776,005
Cash received from property	3,656,554	2,084,586
Net cash provided by noncapital financing activities	**305,565,887**	**288,292,859**
Cash flows from capital and related financing activities		
Proceeds of capital debt	-	36,991,674
Capital appropriations	52,737,076	31,632,955
Capital grants and gifts received	1,151,618	1,671,776
Purchases of capital assets	(181,603,980)	(139,270,020)
Principal paid on capital debt and leases	(23,347,690)	(19,107,703)
Interest paid on capital debt and leases	(29,458,820)	(33,307,354)
Net cash used by capital and related financing activities	**(180,521,796)**	**(121,388,672)**
Cash flows from investing activities		
Proceeds from sales of investments	241,574,907	477,962,782
Purchases of investments	(161,402,943)	(412,118,854)
Investment income	34,996,696	29,340,701
Net cash provided by investing activities	**115,168,660**	**95,184,629**
Net increase (decrease) in cash and cash equivalents	(12,617,437)	8,350,368
Cash—beginning of year	92,098,086	83,747,718
Cash—end of year	**$ 79,480,649**	**$ 92,098,086**

The footnote disclosures are an integral part of the financial statements.

Washington State University
Statement of Cash Flows—*continued*
Reconciliation of New Loss to Net Cash Used by Operating Activities

	2017	2016 Restated
Operating loss	$ (352,414,747)	$ (408,060,598)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	98,855,325	98,360,455
Changes in assets and liabilities		
Changes in assets		
Deposits in escrow	3,774,660	(1,037,729)
Prepaid expenses	(123,790)	66,850
Inventories	115,675	(1,120,841)
Accounts receivable, net	3,477,257	12,742,587
Investments	(69,507,128)	59,081,212
Changes in liabilities		
Accounts payable and accrued liabilities	(2,528,012)	(3,835,576)
Deferred revenue	(510,119)	(2,896,165)
Due to Washington State University Foundation	(262,021)	(1,144,345)
Deposits	(415,112)	35,211
Long term debt-current portion	27,789,895	(19,384,047)
Pension obligation	38,917,929	13,454,538
Net cash used by operating activities	**$ (252,830,188)**	**$ (253,738,448)**
Significant noncash transactions		
Gain/Loss on disposal of capital assets	$ 503,748	$ (3,450,615)
Amortization expense	$ 3,150,514	$ 1,353,876
Capital assets acquired through gifts	$ 128,068	$ 82,460

Washington State University Foundation
(A Nonprofit Corporation)
Consolidated Statements of Financial Position as of June 30, 2017, and June 30, 2016

Assets	**2017**	**2016**
Cash and cash equivalents	$ 314,068	$ 333,665
Due from Washington State University	3,548,668	3,286,647
Other receivables	3,096,916	891,347
Pledges receivable, net	38,584,903	36,087,529
Endowment investment securities (including assets held for Washington State University of $0 and $13,427,968, respectively)	407,062,978	379,368,772
Notes receivable, net	564,755	593,786
Furniture, fixtures, and equipment (net of accumulated depreciation of $1,592,814 and $1,502,106, respectively)	151,318	242,027
Land, Cougar property holdings	35,000	35,000
Land and real estate	1,502,500	1,578,250
Assets held in charitable trusts	32,129,310	32,669,629
Contributions receivable from charitable trusts	7,154,472	6,215,049
Beneficial interest in perpetual trusts	31,806,751	30,051,856
Total assets	**525,951,639**	**491,353,557**
Liabilities		
Accounts payable and accrued liabilities	1,298,739	926,590
Annuities payable	13,747,985	14,728,565
Remainder interest payable	1,819,704	1,665,540
Assets held for Washington State University	—	13,427,968
Total liabilities	**16,866,428**	**30,748,663**
Net Assets		
Without donor restrictions	3,522,389	3,727,223
With donor restrictions	505,562,822	456,877,671
Total net assets	**509,085,211**	**460,604,894**
Total liabilities and net assets	**$ 525,951,639**	**$ 491,353,557**

The footnote disclosures are an integral part of the financial statements

Washington State University Foundation (A Nonprofit Corporation)

Consolidated Statements of Activities for the Years Ended June 30, 2017, and June 30, 2016

	2017		
	Without donor restrictions	**With donor restrictions**	**Total**
Revenue and support:			
Contributions	$ 490	$ 57,838,525	$ 57,839,015
Investment return, net of expenses	(49,133)	52,548,747	52,499,614
Management and advancement fees	6,363,221	—	6,363,221
Change in value of split-interest agreements	—	(3,520,807)	(3,520,807)
Support provided by Washington State University	4,520,680	—	4,520,680
Other income	241,822	547,904	789,726
Total revenue and support	**11,077,080**	**107,414,369**	**118,491,449**
Net assets released from restrictions	58,729,218	(58,729,218)	—
Expenses:			
Support provided to/for Washington State University:			
Restricted distributions	37,418,751	—	37,418,751
Endowment income distributions	15,713,238	—	15,713,238
Endowment administration fee	5,405,309	—	5,405,309
Fundraising	7,068,105	—	7,068,105
General and administrative expenses	4,405,729	—	4,405,729
Total expenses	**70,011,132**	**—**	**70,011,132**
Change in net assets	(204,834)	48,685,151	48,480,317
Net assets—beginning of year	3,727,223	456,877,671	460,604,894
Net assets—end of year	**$ 3,522,389**	**$ 505,562,822**	**$ 509,085,211**

	2016		
	Without donor restrictions	**With donor restrictions**	**Total**
Revenue and support:			
Contributions	$ 3,679	$ 50,465,745	$ 50,469,424
Investment return, net of expenses	(46,272)	(4,613,256)	(4,659,528)
Management and advancement fees	6,549,270	—	6,549,270
Change in value of split-interest agreements	—	(2,636,821)	(2,636,821)
Support provided by Washington State University	4,645,265	—	4,645,265
Other income	219,862	2,726,068	2,945,930
Total revenue and support	**11,371,804**	**45,941,736**	**57,313,540**
Net assets released from restrictions	59,152,184	(59,152,184)	—
Expenses:			
Support provided to/for Washington State University:			
Restricted distributions	38,375,513	—	38,375,513
Endowment income distributions	15,576,023	—	15,576,023
Endowment administration fee	5,074,825	—	5,074,825
Fundraising	6,918,452	—	6,918,452
General and administrative expenses	3,579,400	—	3,579,400
Total expenses	**69,524,213**	**—**	**69,524,213**
Change in net assets	999,775	(13,210,448)	(12,210,673)
Net assets—beginning of year	2,727,448	470,088,119	472,815,567
Net assets—end of year	**$ 3,727,223**	**$ 456,877,671**	**$ 460,604,894**

The footnote disclosures are an integral part of the financial statements

Washington State University Foundation
(A Nonprofit Corporation)
Consolidated Statements of Cash Flows for Years Ended June 30, 2017, and June 30, 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 48,480,317	$ (12,210,673)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	90,708	92,914
Net realized and unrealized (gains) losses on investments	(49,466,532)	7,940,724
Decrease in value of split-interest agreements	3,520,807	2,636,821
Contributions and income restricted for investments in endowments and trusts	(13,380,660)	(33,800,911)
Changes in assets and liabilities:		
Due from Washington State University	(262,021)	(1,144,345)
Other receivables	(2,205,569)	16,377,830
Pledges receivable	(2,497,374)	8,596,539
Contribution receivable from charitable trusts	22,495	22,495
Accounts payable and accrued liabilities	543,762	18,310
Assets held on behalf of other organizations	—	(290,389)
Assets held for Washington State University	—	(1,633,247)
Net cash used in operating activities	**(15,154,067)**	**(13,393,932)**
Cash flows from investing activities:		
Purchases of investments	(118,362,701)	(143,852,742)
Sales of investments	120,011,730	122,547,179
Purchase of property and equipment	—	(26,415)
Proceeds from sale of land	75,750	610,000
Proceeds from principal payments on notes receivable	29,031	27,720
Net cash used in investing activities	**1,753,810**	**(20,694,258)**
Cash flows from financing activities:		
Contributions and income restricted for investments in endowments and trusts	13,380,660	33,800,911
Net decrease in cash and cash equivalents	**(19,597)**	**(287,279)**
Cash and cash equivalents—beginning of year	333,665	620,944
Cash and cash equivalents—end of year	**$ 314,068**	**$ 333,665**

The footnote disclosures are an integral part of the financial statements

Notes to the Financial Statements

June 30, 2017
These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Washington State University (WSU) is a constituent agency of the state of Washington and is included as an integral part of the state's Comprehensive Annual Financial Report. Washington State University issues separate financial statements which encompass the University and its discretely presented component unit, the Washington State University Foundation.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Codification Section 2100, *Defining the Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statement to be misleading or incomplete. The accompanying financial statements present all funds belonging to WSU, including individual colleges and departments of the University. WSU's component unit is discretely presented in the University's financial statements. Legally separate, related organizations are included in WSU's operations if they meet the criteria for blending or discrete presentation as set forth in GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*.

Discretely Presented Component Unit

The WSU Foundation ("the Foundation") is a legally separate, tax-exempt entity, and serves contractual asset management functions in support of the University's mission. The Foundation is a significant component unit based on the criteria of GASB Statement 39. This report presents the Foundation's financial condition and activities as a discretely presented separate component unit in the University's financial statements.

The Foundation reports its financial results in accordance with Financial Accounting Standards Board (FASB) pronouncements and guidance. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation's financial information in the University's financial statements for these differences. The Foundation presents information about its financial position and activities according to the following two classes of net assets, depending on the existence and nature of donor restrictions. Under FASB, the Foundation's net assets are described as follows:

- Without Donor Restrictions-Net assets without donor restrictions represent resources which are not subject to donor restrictions and over which the trustees of the Foundation retain control to use the funds in order to achieve the Foundation's purpose.
- With Donor Restrictions-Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that are restricted by the donor for a particular purpose and that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are to maintain resources in perpetuity. This consists predominantly of endowment funds and charitable trusts. Donor-restricted endowment funds represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. Also included are trust funds that represent donor contributions of irrevocable trusts and other instruments wherein the Foundation has a remainder interest in the trust assets upon the death of the last surviving income beneficiary.

For clearer presentation purposes, the University has included the Foundation's statements and selected notes in this report.

The Foundation's full financial statements can be acquired at the following address:

WSU Foundation
P.O. Box 641925
Pullman, WA 99164-1925

Blended Component Units

The Washington State Alumni Association (WSUAA) is a 501(c)-(3) corporation that is presented as a blended component unit of WSU. Condensed financial information can be found in Note 17. The WSUAA full financial statements can be obtained by contacting the Lewis Alumni Centre on the WSU Pullman campus or calling (509)335-2586.

Affiliated Organizations

The Students Book Corporation is legally separate 501(c)-(3) corporation, for whom the University acts as the fiscal agent. Their balances and transactions are reported within agency funds of the University and reported as assets and liabilities held in trust by the University.

Financial statements for the Students Book Corporation may be obtained by contacting the Business Services/Controller's Office at 240 French Administration Bldg., P. O. Box 641025, Pullman, WA 99164-1025 or calling (509) 335-2022.

Basis of Presentation

The financial statements of the University have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis, as amended by GASB Statement No. 35, for Public Colleges and Universities." The University, along with its discretely presented component unit, is considered a special purpose government engaged in business type activities (BTA). In accordance with BTA reporting, the University presents management's discussion and analysis, statement of net positions, statements of revenues, expenses, and changes in net positions, statements of cash flows, and notes to the financial statements. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, deferred outflows, deferred inflows, changes in net position, and cash flows.

Basis of Accounting

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Non-exchange transactions, in which the University receives (or gives) value without directly giving (or receiving) equal value in exchange includes state and federal appropriations, and certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Bond premiums/discounts and insurance costs are deferred and amortized over the term of the bonds using the effective interest method. Unamortized balances are presented as reductions of the face amount of bonds payable. Related amortization is included in interest expense in the statements of revenues, expenses and changes in net positions.

Gains or losses on bond refundings are deferred and amortized over the term of the bonds using the effective interest method. Unamortized balances are presented as deferred outflows or inflows of resources.

During the course of operations, numerous transactions occur between individual funds for goods provided, services rendered or interfund loans. For the financial statements, the interfund receivables and payables have been eliminated. Both revenue and expenses relating to internal services, such as central stores, printing and publications, and information technology, have been eliminated.

New Accounting Pronouncements

GASB has issued Statement No. 72, Fair Value Measurement and Application, which would generally require state and local governments to measure investments at fair value. GASB's goal is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. This standard expands fair value disclosures to provide comprehensive information for financial statement users about the impact of financial statements for periods beginning after June 15, 2015, with early application encouraged. The University has implemented this pronouncement for both fiscal years 2016 and 2017.

GASB has issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68 – effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016. See note 13.

GASB has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB) – effective for fiscal years beginning after June 15, 2017. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45.

GASB has issued Statement No. 85, Omnibus 2017. This statement is to address issues that have been identified during implementation and application of certain GASB statements. Effective for fiscal years beginning after June 15, 2017. These issues have been addressed by the University and were found to be in compliance.

GASB has issued Statement No. 86, Certain Debt Extinguishment Issues, effective for reporting periods beginning after June 15, 2017. This statement applies to financial statements using the economic resources measurement focus to improve consistency in accounting and financial reporting for in-substance defeasance of debt. It provides guidance for transactions in which cash and other monetary assets are acquired with only existing resources-resources other than the proceeds or refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt.

GASB has issued Statement No. 87, Leases. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. It increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases. It will recognize the inflows and outflows of resources based on the payment provision of the contract. This will be effective for reporting periods beginning after December 15, 2019.

Cash, Cash Equivalents, and Investments

Cash balances in excess of current requirements are pooled and invested in treasury securities, time deposits, deposits with the Washington State Local Government Investment Pool (LGIP), federal agency bills, and notes. Cash equivalents are short term, highly liquid investments convertible to known amounts of cash without change in value or risk of loss. The University considers investments with a maturity of three months or less when purchased to be cash equivalents. Interest income earned on the investment pool is distributed on a quarterly basis based on daily cash balances in various funds. In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, cash, cash equivalents, and investments are stated at fair value.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's sponsored agreements. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost using various methods.

Capital Assets

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair value at the date of the gift. Capital additions, replacements, and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs.

Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, only fixed assets with a unit cost of $5,000 or greater are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and components, 20 to 25 years for infrastructure and land improvements, 20 years for library resources, and 5 to 7 years for equipment.

Interest is capitalized on assets acquired or constructed with tax-exempt financing. The amount of interest to be capitalized is calculated by offsetting interest expense incurred while activities necessary to get the asset ready for its intended use are in progress, with interest earned on invested proceeds over the same period. The net capitalized interest for fiscal year 2017 and 2016 was $4,167,147 and $4,988,121 respectively.

In accordance with GASB Statement 42, the University reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2017 and at June 30, 2016 no assets had been written down.

Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net position by the University that are applicable to future reporting periods. Similar to assets, they have a positive effect on the University's net positions.

Unearned Revenues

Unearned revenues include funds that have been collected in advance of an event, such as summer semester tuition and certain auxiliary activities prior to the end of the fiscal year but are related to the subsequent fiscal year.

Deferred Inflows of Resources

Deferred inflows of resources are an acquisition of net position that is applicable to future reporting periods. Similar to liabilities, they have a negative effect on net positions.

Tax Exemption

The University is a tax-exempt organization under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Net Position

The University's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of capital assets.
- *Restricted—nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted—loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted—expendable*. These include resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues

The University has classified its revenues as either operating or non-operating revenue according to the following criteria:

Operating Revenues. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts.

Non-operating Revenues. This includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the published charge for goods and services provided by the University and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and an allowance. Discounts and allowances for the years ending June 30, 2017 and June 30, 2016 were $120,197,457 and $127,279,120 respectively.

Reclassifications

For comparative purposes in the Management Discussion and analysis section, certain accounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements. With GASB No. 73, fiscal year 2016 has been restated.

2. Cash, Cash Equivalents

Cash

Cash includes cash on hand, petty cash and bank deposits. Cash equivalents include treasury securities that are readily convertible to known amounts of cash and present insignificant risk of value changes due to interest rate changes. As of June 30, 2017 and as of June 30, 2016, the carrying amount of these University's cash funds, were $54,327,556 and $34,929,282 respectively as represented in the table below.

Custodial Credit Risks—Deposits

Custodial credit risk for bank demand deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. All cash, except for change funds and petty cash held by the University, is insured by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Washington Public Deposit Protection Commission (PDPC). The majority of the University's demand deposits are with the Bank of America.

Table 1: Cash and Cash Equivalents

	2017	2016
Cash	$ 54,327,556	$ 34,929,282
Cash Equivalents	25,130,487	57,146,199
Deposits with fiscal agents	22,606	22,605
Cash and cash equivalents	**$ 79,480,649**	**$ 92,098,086**

3. Investments

(A) University Investments

University investments are classified as cash equivalents, current investments, or non-current, long-term investments. Cash equivalents include investments in Rule 2a-7 type funds, commercial paper, discount notes, repurchase agreements, and Treasury bills. Current investments include short-term debt securities with less than one year to maturity and do not fit the University's definition of cash equivalents. Non-current, long-term investments include debt securities with more than one year to maturity.

Cash Equivalents, Current and Non-Current, Long-Term Investments

University invested assets include operating funds, current use gift funds, and proceeds from bond issues dedicated to specific capital projects. As of June 30, 2017 the University had the following investments, maturities, credit ratings and effective durations:

Table 1: Cash equivalents, current and non-current, long term investments

		2017 Maturity					
University investments	**Fair value**	**Less than 1 year**	**1–5 years**	**6–10 years**	**More than 10 years**	**Effective duration**	**Credit rating**
Cash equivalents							
Other—bank short-term investment funds	$ 5,931	$ 5,931				0.08	NR
Local Government Investment Pool	25,124,556	25,124,556				0.08	NR
Total cash equivalents	**25,130,487**						
Current Investments							
U.S. Government Treasury	9,790,757	9,790,757				0.58	AAA
U.S. agency obligations							
Mortgage backed	1,731,126	1,731,126				0.07	AAA
Total current investments	**11,521,883**						
Non-current, long-term investments							
U.S. Government Treasury	56,797,570		$ 56,797,570			1.37	AAA
U.S. agency obligations	13,291,669		13,291,669			0.88	AAA
Mortgage pass through	58,903,615		6,806,426		$ 52,097,192	0.43	AAA
Fixed income mutual funds	9,986,213		9,986,213			0.79	
Subtotal non-current operating fund investments	138,979,067						
Non-marketable equity	951,149						
Total non-current, long-term investments	**139,930,216**						
Total University investments	**$ 176,582,586**						

As of June 30, 2016 the University had the following investments, maturities, credit ratings, and effective durations:

Table 1: Cash equivalents, current and non-current, long term investments

		2016 Maturity					
University investments	**Fair value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Effective duration**	**Credit rating**
Cash equivalents							
Commercial paper	$ 19,464,656	$19,464,656				0.57	A1/P1
U.S. Government Treasury	12,710,748	12,710,748				0.98	AAA
Other-bank short-term investment funds	4,194	4,194				0.01	NR
Local Government Investment Pool	24,966,601	24,966,601				0.10	NR
Total cash equivalents	**57,146,199**						
Current investments							
U.S. Government Treasury	19,795,197	19,795,197				0.98	AAA
U.S. agency obligations	12,517,750	12,517,750				0.65	AAA
Mortgage backed	309,705	309,705				0.07	AAA
Total current investments	**32,622,652**						
Non-current, long-term investments							
U.S. Government Treasury	141,292,556		$141,292,556			1.41	AAA
Mortgage backed	57,077,249		14,810,348	$1,116,369	$41,150,532	0.37	AAA
Fixed income mutual funds	10,016,627		10,016,627			1.99	
Subtotal non-current operating fund investments	208,386,432						
Non-marketable equity	951,149						
Total non-current, long-term investments	**209,337,581**						
Total University investments	**$ 299,106,432**						

Interest Rate Risk—Investments

Through its investment policies, the University manages exposure to fair value losses arising from increasing interest rates by limiting the modified duration of the operating portfolio to 1.1 years and by cash matching the dedicated bond portfolios to the anticipated construction schedules of the underlying projects.

Current use gift funds are segmented into short-term, intermediate-term, and long-term pools. University policies limit the portfolio average maturity of the short-term pool to one year or less, the portfolio average maturity of the intermediate-term pool to three years or less, and the portfolio average maturity of the long-term pool to ten years or less.

Concentration of Credit Risk—Investments

State law limits University operating investments to obligations of the U.S. government, obligations of U.S. government agencies, highest quality commercial paper, and highest quality corporate notes. University policy does not limit the amount the University may invest in any one issuer.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2017 and June 30, 2016, $140,805,666 and $263,384,357 of the University's operating fund investments, held by Wells Fargo in the bank's name as agent for the University, and $290,928 and $234,496 of endowment assets, held in street name by E*trade for the account of the University, are exposed to custodial credit risk as follows:

Table 2: Investments exposed to custodial credit risk

University investment type	Fair value 2017	Fair value 2016
Commercial paper		$ 19,464,656
U.S. Government treasuries	$ 66,588,327	173,798,501
U.S. agency obligations	13,291,669	12,517,750
Mortgage backed	60,634,742	57,368,954
Subtotal	140,514,738	263,149,861
Marketable global equities	290,928	234,496
Total investments exposed to custodial credit risk	**$ 140,805,666**	**$ 263,384,357**

Investment Expenses

Under implementation of GASB 35, investment income for the University is shown net of investment expenses. The investment expenses incurred for the fiscal years ended June 30, 2017 and June 30, 2016 were $291,332 and $418,972 respectively.

(B) University Investments measured by fair value level

Investments are measured at fair value on a recurring basis. The three-tier hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
- **Level 2** – Pricing inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly
- **Level 3** – Pricing inputs that are generally unobservable from objective sources for an asset or liability.

Table 3: Investments by Fair Value Hierarchy

Investments by fair value level	2017	Level 1	Level 2	Level 3
Fixed income				
U.S. Government Treasury	$ 66,588,327	$ 66,588,327	-	-
U.S. agency obligation	13,291,669	-	$ 13,291,669	-
Mortgage backed	60,634,741	-	60,634,741	-
Fixed income mutual funds	9,986,213	9,986,213	-	-
Total fixed income investments	**150,500,950**	**76,574,540**	**73,926,410**	
Equity				
Non-marketable equities	951,149	-	-	$ 951,149
Total equity investments	**951,149**	-	-	**951,149**
Total fair value by level investments	**151,452,099**			
Total investments at fair value	151,452,099			
Cash equivalents at amortized cost	25,130,487			
Total investments	**$ 176,582,586**			

Table 3: Investments by Fair Value Hierarchy

Investments by fair value level	2016	Level 1	Level 2	Level 3
Fixed income				
U.S. Government Treasury	$ 173,798,501	$ 173,798,501		
U.S. agency obligation	12,517,750		$ 12,517,750	
Mortgage backed	57,386,954		57,386,954	
Fixed income mutual funds	10,016,627	10,016,627		
Commercial paper	19,464,656		19,464,656	
Total fixed income investments	**273,184,488**	**183,815,128**	**89,369,360**	-
Equity				
Non-marketable equities	951,149		-	$ 951,149
Total equity investments	**951,149**	-	-	**951,149**
Total fair value by level investments	**274,135,637**			
Total investments at fair value	274,135,637			
Cash equivalents at amortized cost	24,970,795			
Total investments	**$ 299,106,432**			

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

(C) Land-Grant and Permanent Fund

The University has two land-grant endowments and two permanent funds established by legislation. The University's two land-grant endowments total 155,335 acres of timber, agricultural, and grazing lands managed by the Washington State Department of Natural Resources. The income from this land is distributed to the Agricultural College Permanent Fund, established under RCW 43.79.136, and the Scientific School Permanent Fund, established under RCW 43.79.110. The Washington State Investment Board manages these two permanent funds for the sole benefit of the University. All distributed income is used for capital projects, facility maintenance, or debt service. The fair value of these funds after settlement of all pending transactions, receivables and payables, is shown in the table below.

Table 4: Permanent fund

University permanent fund investments	Fair value 2017	Effective duration	Credit rating	Fair value 2016	Effective duration	Credit rating
Cash and cash equivalents	$ 768,580			$ 1,348,778		
Commingled monthly bond fund	337,152,474	6.2	Aa3	340,930,528	6.4	Aa3
Commingled monthly equity fund	167,564,374			145,634,412		
Cash at state treasurer	910,065			1,070,096		
Pending transactions, receivables and payables	(1,406,851)			(1,699,610)		
Total permanent fund investments	**$ 504,988,642**			**$ 487,284,204**		

(D) University Endowments

Total University endowed investments consist of University-held endowments valued at $63,125,390 and 41,174,889 as of June 30, 2017 and June 30, 2016 respectively (as detailed below in table 5), and permanent fund endowment of $504,988,642 and $487,284,204 (as detailed above in table 4). The total of $568,114,032 as of June 30, 2017 and $528,459,093 as of June 30, 2016 is found on the Statement of Net Position.

As of June 30, 2017 the University had the following endowment investments, maturities, credit ratings, and effective durations:

Table 5: University endowments by classification

		2017 Maturity					
University endowments	**Fair value**	**Less than 1 year**	**1–5 years**	**6–10 years**	**More than 10 years**	**Effective duration**	**Credit rating**
Fixed income mutual funds	$ 2,856,609			$ 2,856,609		3.94	A+
Marketable global equities	8,387,311						
Marketable liquid real assets	3,506,775						
Non-marketable equities	7,924,516						
Equity funds	8,683,253						
Fixed income funds	2,346,677				$ 2,346,677	5.15	A+
Hedge funds	11,295,152						
Illiquid real assets	4,509,072						
Private equity funds	12,101,438						
Cash equivalents at amortized cost	1,514,587						
Total endowment investments	**$ 63,125,390**						

As of June 30, 2016 the University had the following endowment investments, maturities, credit ratings, and effective durations:

Table 5: University endowments by classification

		2016 Maturity					
University endowments	**Fair value**	**Less than 1 year**	**1–5 years**	**6–10 years**	**More than 10 years**	**Effective duration**	**Credit rating**
Fixed income mutual funds	$ 2,017,157			$ 2,017,157		4.98	A
Marketable global equities	7,918,260						
Marketable liquid real assets	2,582,294						
Non-marketable equities	2,463,107						
Equity funds	5,208,558						
Fixed income funds	1,660,421				$ 1,660,421	6.15	A+
Hedge funds	7,519,924						
Illiquid real assets	3,948,647						
Private equity funds	7,370,055						
Cash equivalents at amortized cost	486,466						
Total endowment investments	**$41,174,889**						

Foreign Currency Risk—Investments

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Washington State University Foundation (Foundation) invests the University's endowed assets. As such the Foundation's investment policy controls foreign currency exposure by limiting foreign equity and fixed income investments to 24%-36% of the total endowment with a current target of 22%. University endowment exposure to foreign currency risk at June 30, 2017 and June 30, 2016 is described in the table below.

Table 6: University foreign currency risk

Foreign currency	Fair value 2017	Fair value 2016
Japan—Yen	$ 2,069,212	$ 1,544,400
Euro	1,791,926	1,580,441
UK—Pound	1,497,243	1,173,861
Switzerland—Francs	690,377	
S. Korea—Won	594,742	
Other (less than 5%)	4,783,678	4,672,367
Total foreign currency	**$ 11,427,178**	**$ 8,971,069**

Consolidated Endowment Investment Pool

The University contracts with the Foundation for the management of the consolidated endowment investment pool. University and Foundation endowment assets are pooled and invested with the objectives of long-term capital appreciation and stable but growing income stream. The total amount of the consolidated endowment pool is $470,188,368 and $420,543,662 for 2017 and 2016 respectively. See note 4(A) for information on the Foundation's endowment investment securities. In the past the Foundation has held certain endowments in trust for the University. In 2017 the Foundation removed those endowments from the face of their financial report due to a change in the memorandum of understanding between the parties. The University is now reporting these endowments as part of their consolidated endowments. The fair values of the University's equity in the consolidated endowment pool at June 30, 2017 were $63,125,390 and $41,174,889 at June 30, 2016. See table below:

Table 7: Consolidated endowment pool

	2017	
University endowments	$ 63,125,390	13.43%
Foundation endowments	407,062,978	86.57%
Total pooled endowments	**$470,188,368**	**100.00%**

Table 7: Consolidated endowment pool

	2016	
University endowments	$ 41,174,889	9.79%
Foundation endowments	379,368,772	90.21%
Total pooled endowments	**$420,543,662**	**100.00%**

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. At June 30, 2017 net appreciation of the University's portion of the consolidated endowment pool $45,970,573 was available to be spent, all of which is restricted to specific purposes and is included in restricted expendable net position. At June 30, 2016 net appreciation of $27,833,754 was available to be spent, but was restricted to specific purposes. This amount was included in restricted expendable net position.

(E) University Endowments measured by fair value level

The Foundation reports their results of the consolidated endowment pool in accordance with FASB pronouncements and guidance. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation presentation of the internal endowment pool. See note 4 (B) for information on the Foundation's endowments measured at fair value.

Investments are measured at fair value on a recurring basis. The three-tier hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
- **Level 2** – Pricing inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly
- **Level 3** – Pricing inputs that are generally unobservable from objective sources for an asset or liability.

Table 8: Investments by Fair Value Hierarchy

Investments by fair value level	**2017**	**Level 1**	**Level 2**	**Level 3**
Fixed income				
Fixed income mutual funds	$ 2,856,609	$ 2,856,609	-	-
Total fixed income investments	**2,856,609**	**2,856,609**	-	
Equity				
Marketable global equities	8,387,311	8,387,311	-	-
Marketable liquid real assets	3,506,775	3,506,775	-	-
Non-marketable equities	7,924,516	-	$ 7,924,516	-
Total equity investments	**19,818,602**	**11,894,086**	**7,924,516**	-
Total fair value by level investments	**22,675,211**			
Investments by NAV				
Equity funds	8,683,253			
Fixed income funds	2,346,677			
Hedge funds	11,295,152			
Illiquid real assets	4,509,072			
Private equity funds	12,101,438			
Total NAV investments	**38,935,592**			
Total investments at fair value	61,610,803			
Cash equivalents at amortized cost	1,514,587			
Total investments	**$ 63,125,390**			

Table 8: Investments by Fair Value Hierarchy

Investments by fair value level	2016	Level 1	Level 2	Level 3
Fixed income mutual funds	$ 2,017,157	$ 2,017,157	-	-
Total fixed income investments	**2,017,157**	**2,017,157**	-	-
Equity				
Marketable global equities	7,918,260	7,918,260	-	-
Marketable liquid real assets	2,582,294	2,582,294	-	-
Non-marketable equities	2,463,107	-	$ 2,463,107	-
Total equity investments	**12,963,661**	**10,500,554**	**2,463,107**	-
Total fair value by level investments	**14,980,818**			
Investments by NAV				
Equity funds	5,208,558			
Fixed income funds	1,660,421			
Hedge funds	7,519,924			
Illiquid real assets	3,948,647			
Private equity funds	7,370,055			
Total NAV investments	**25,707,605**			
Total investments at fair value	40,688,423			
Cash equivalents at amortized cost	486,466			
Total investments	**$ 41,174,889**			

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

The University's interest in certain non-readily marketable alternative investments, such as hedge funds and private equity funds, are stated at fair value based on net asset values (NAV) estimates reported by investment fund managers.

The valuation method for investments measured using the NAV for June 30, 2017 and June 30, 2016 are presented below:

Table 9: Investments measured using NAV

2017	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity funds	$ 8,683,253		Daily to semimonthly	5–30 days
Fixed income funds	2,346,677		Monthly	30 days
Hedge funds	11,295,152		Monthly to biennially	30–100 days
Illiquid real assets and private equities funds	16,610,510	$ 10,652,792	Years: 2017–2029	End of agreement
Total NAV investments	**$ 38,935,592**	**$ 10,652,792**		

Table 9: Investments measured using NAV

2016	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity funds	$ 5,208,558		Daily to semimonthly	5–30 days
Fixed income funds	1,660,421		Monthly	30 days
Hedge funds	7,519,924		Monthly to biennially	30–100 days
Illiquid real assets and private equities funds	11,318,702	$ 8,641,213	Years: 2016–2029	End of agreement
Total NAV investments	**$ 25,707,605**	**$ 8,641,213**		

- **Equities, fixed income, and hedge funds** - Certain common stock securities, U.S. government securities, and mutual funds for which market prices are not readily available or for which market prices do not represent the value at the time of pricing are fair valued by the investment manager based upon other inputs. These inputs include valuations of securities that are comparable in coupon, rating, maturity, and industry. The investments cover a broad range of risk and diversification by industry with the dual objectives of generating income and providing long-term growth.
- **Illiquid real assets and private equities** – Multiple limited partnerships that invest in securities designed for generating current income and/or long-term growth using conservative, moderate, and aggressive risk strategies, and real estate. Risk strategies for private equities range from moderate to aggressive with growth of capital being the primary objective.

Hedge fund investments allow for monthly, quarterly, annual, and biennial redemptions. Illiquid real assets and private equities investments do not allow for periodic redemptions, but rather liquidate upon the termination date as stated in the partnership agreement.

4. Washington State University Foundation Endowments

Note 4 is an excerpt of the Foundation's published financial statements. The Foundation reports their results in accordance with FASB pronouncements and guidance. As such, certain revenue recognition criteria and presentation features are different from GASB.
No modification have been made to the Foundation's presentation of the notes below. The full set of notes and other financial information for the Foundation can be acquired at the following address:

WSU Foundation
PO Box 641925
Pullman, WA 99164-1925

(A) Endowment Investment Securities

The Foundation's endowment consists of approximately 2,232 individual funds, established for a variety of purposes, which are jointly managed with the University's endowments. Of the total value of the investments managed, the Foundation's endowment funds represent 86.57% and 90.21% of that total at June 30, 2017 and 2016, respectively. The remainder of the pool comprises the University's true endowments and the University's funds functioning as endowments (quasi-endowments) which are not recorded in the Foundation's financial statements. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including quasi-funds that function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no board-designated endowments.

In 2017, management adjusted the 2016 presentation of footnotes 3(f) and 3(g) to properly show the net assets of the endowment. Adjustments were made to remove the impact of the endowment investment securities the Foundation held for the Washington State University Alumni Association, which totaled $13,427,968 and $15,061,215 as of June 30, 2016 and 2015, respectively.

Interpretation of Relevant Law
The board of directors of the Foundation, on the advice of legal counsel and the Foundation's investment committee, has interpreted Washington State's Uniform Prudent Management of Institutional Funds Act (WA-UPMIFA) as requiring the prudent management of donor-restricted gifts based on the spending and other investment policies of the organization, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified the following amounts as net assets with donor restrictions in the accompanying consolidated financial statements:

- The fair value of the gifts donated to the donor-restricted endowment
- Accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument or statute at the time the accumulation is added to the fund
- The remaining portion of the donor-restricted endowment funds that is not required to be held in perpetuity consisting of accumulated investment gains and losses which are included in net assets with donor restrictions until those amounts are appropriated to WSU in a manner consistent with the donor's stipulations.

In accordance with WAUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donorrestricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donorrestricted endowment fund
- The fund's special relationship or value to the Foundation's and WSU's mission
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that either the donor or WA-UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are classified in net assets with donor restrictions. Deficiencies of this nature totaled $ 1,613,704 and $ 9,010,811 at June 30, 2017 and 2016, respectively, and are included in the accumulated investment gains (loss) in the tables below.

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor-restricted contributions and continued appropriation for certain programs. These appropriations were made under the terms of the gift use agreement executed between the donor and the Foundation or in accordance with the board's prudent interpretation of WA-UPMIFA. The board allows for continued appropriations to sustain programs with a moratorium on distributions if an endowment's market value is 30% or more below contributions to the fund. Continued appropriation by the board was deemed prudent during the year ended June 30, 2017.

Underwater Endowment Funds

	Year Ended June 30, 2017			
	Without donor restrictions	With donor restrictions		
		Original gift	Accumulated gains/(losses)	Total
Donor-restricted funds:				
Underwater funds	-	$ 54,945,146	$ (1,613,704)	$ 53,331,442
Other funds	-	309,024,419	44,707,117	353,731,536
Total endowment funds	-	**$ 363,969,565**	**$ 43,093,413**	**$ 407,062,978**

	Year Ended June 30, 2016			
	Without donor restrictions	With donor restrictions		
		Original gift	Accumulated gains/(losses)	Total
Donor-restricted funds				
Underwater funds	-	$ 180,754,888	$ (9,010,811)	$ 171,744,077
Other funds	-	168,378,719	25,818,008	194,196,727
Assets held in endowment for WSU	-	13,266,961	161,007	13,427,968
Total endowment funds	-	**$ 362,400,568**	**$ 16,968,204**	**$ 379,368,772**

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as quasi-endowments (funds functioning as endowments). Under this policy, as approved by the Investment Committee of the Foundation, the endowment assets are invested in a manner that is intended to produce a relatively predictable and stable payout stream each year and maintain purchasing power of the assets over the investment horizon.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's spending policy allows for the fund to distribute 5.5% per year (4% for individual accounts and 1.5% for the endowment administration fees) computed quarterly based on the average market value for the 36 months preceding and including the quarter ended prior to the distribution date, adjusted for new gifts on the first day of the distribution quarter.

In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return. Distribution to colleges or departments from quasi-endowments (funds functioning as endowments) can be in full or in $50,000 increments upon six months' notice to the Foundation.

Endowment Net Asset Composition, by Type of Fund

	Year Ended June 30, 2017		
	Without donor restrictions	**With donor restrictions**	**Total**
Donor-restricted endowment funds			
Original donor-restricted gift amount	-	$ 363,969,565	$ 363,969,565
Accumulated investment gains	-	43,093,413	43,093,413
Total	-	**$ 407,062,978**	**$ 407,062,978**

	Year Ended June 30, 2016		
	Without donor restrictions	**With donor restrictions**	**Total**
Donor-restricted endowment funds			
Original donor-restricted gift amount	-	$ 349,133,607	$ 349,133,607
Accumulated investment gains	-	16,807,197	16,807,197
Total	-	**$ 365,940,804**	**$ 365,940,804**

Changes in Endowment Net Assets

	Year Ended June 30, 2017		
	Without donor restrictions	**With donor restrictions**	**Total**
Net asset balance - beginning of year	-	$ 365,940,804	$ 365,940,804
Investment return	-	46,022,171	46,022,171
Contributions	-	16,218,550	16,218,550
Distribution of endowment assets to/for WSU	-	(21,118,547)	(21,118,547)
Total	-	**$ 407,062,978**	**$ 407,062,978**

	Year Ended June 30, 2016		
	Without donor restrictions	**With donor restrictions**	**Total**
Net assets - beginning of year	-	$ 352,608,004	$ 352,608,004
Investment return	-	(5,163,573)	(5,163,573)
Contributions	-	39,147,221	39,147,221
Distribution of endowment assets to/for WSU	-	(20,650,848)	(20,650,848)
Total	-	**$ 365,940,804**	**$ 365,940,804**

Endowments Managed at Fair Value

The Foundation's endowment funds are jointly managed with certain endowments of the University. The University's endowment funds are not recorded on the Foundation's financial statements as they are neither an agent nor a principal in these endowments. The breakout of the jointly managed funds of the University and the Foundation is as follows:

	Years Ended June 30	
	2017	**2016**
Jointly managed endowment funds:		
Cash and short-term investments	$ 10,755,966	$ 4,520,112
Accrued interest and dividends	35,333	41,180
Managed investments	459,397,069	415,982,369
Endowment investments at fair market value	470,188,368	420,543,661
Less University endowment funds	(63,125,390)	(41,174,889)
Managed endowment funds recorded by the Foundation	**$ 407,062,978**	**$ 379,368,772**

Endowments Managed at Cost

	Years Ended June 30	
	2017	**2016**
Investments at cost	$ 363,016,267	$ 337,858,142
Less University endowment funds, at cost	(48,856,269)	(33,079,256)
Managed endowment funds recorded by the Foundation at cost	**$ 314,159,998**	**$ 304,778,886**

(B) Fair Value Measurements

The Foundation adopted the provisions of FASB guidance on fair value related to its financial assets measured at fair value on a recurring basis. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- ***Level 1*** – Quoted prices are available in active markets for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- ***Level 2*** – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.
- ***Level 3*** – Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to the endowment's needs.

As required by FASB guidance on fair value, financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and their placement within the fair value hierarchy levels.

Investments are stated at fair value according to U.S. GAAP (note 3), which requires that the valuation of investments reported at fair value be made in the context of market conditions as of the valuation date. Whenever available, quotations from organized securities exchanges are used as the basis for fair value. For investments not traded on organized exchanges, fair value estimates are provided by investment managers. For applicable investments, manager-reported net asset value (NAV) is used as a practical expedient to estimate fair value. Valuations provided by fund managers consider variables such as the financial performance and sales of underlying investments and other pertinent information. In addition, actual market exchanges at yearend provide additional observable market inputs of the exit price. The Foundation reviews valuations and assumptions provided by fund managers for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of the fair value. Investments are stated at fair value, which is determined by using market quotations and other information available at the valuation date.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table discloses by level, within the fair value hierarchy, investment assets measured at fair value on a recurring basis as of June 30, 2017:

2017

	Level 1	Level 2	Level 3	Total
Endowment investments:				
Cash and equivalents	$ 10,487,350	-	-	$ 10,487,350
Marketable equities:				
Equities	53,932,848	-	-	53,932,848
Fixed income mutual funds	18,368,824	-	-	18,368,824
Liquid real assets	22,549,581	-	-	22,549,581
Total marketable equities	**94,851,253**	-	-	**94,851,253**
Non-marketable equities		**$ 50,956,941**		**50,956,941**
Investments measured at NAV				
Equity funds	-	-	-	56,236,109
Fixed income	-	-	-	15,089,815
Hedge fund	-	-	-	72,631,108
Illiquid real assets	-	-	-	28,994,643
Private equities	-	-	-	77,815,759
Total investments measured at NAV	-	-	-	**250,767,434**
Total endowment investments	-	-	-	**407,062,978**
Assets in charitable trusts:				
Cash equivalents	794,821	-	-	794,821
Marketable equities				
Equities	17,706,607	-	-	17,706,607
Fixed income	9,455,203			9,455,203
Liquid real assets	4,172,679	-	-	4,172,679
Total marketable equities	**31,334,489**			**31,334,489**
Total assets in charitable trusts	**$ 32,129,310**	-	-	**$ 32,129,310**
Other:				
Beneficial interest in perpetual trusts	-	-	$31,806,751	$ 31,806,751

The following table presents the change in fair value measurements for the Level 3 investments during the year ended June 30, 2017:

	Beneficial interest in perpetual trusts
Other:	
Balance—July 1, 2016	30,051,856
Change in value, net	1,754,895
Balance—June 30, 2017	$31,806,751

The following table discloses by level, within the fair value hierarchy, investment assets measured at fair value on a recurring basis as of June 30, 2016:

2016

	Level 1	Level 2	Level 3	Total
Endowment investments:				
Cash and equivalents	$ 4,114,705	-	-	$ 4,114,705
Marketable equities:				
Equities	73,323,049	-	-	73,323,049
Fixed income	18,585,266	-	-	18,585,266
Liquid real assets	23,792,209	-	-	23,792,209
Total marketable equities	**115,700,524**	-	-	**115,700,524**
Non-marketable equities	-	**$ 22,694,074**	-	**22,694,074**
Investments measured at NAV				
Equity funds	-	-	-	47,989,543
Fixed income	-	-	-	15,298,447
Hedge fund	-	-	-	69,285,535
Illiquid real assets	-	-	-	30,442,598
Private equities	-	-	-	73,843,346
Total Investments measured at NAV	-	-	-	**236,859,469**
Total endowment investments	-	-	-	**379,368,771**
Assets in charitable trusts:				
Cash equivalents	683,835	-	-	683,835
Marketable equities				
Equities	17,802,486	-	-	17,802,486
Fixed income	9,833,237			9,833,237
Liquid real assets	4,350,071	-	-	4,350,071
Total marketable equities	**31,985,794**			**31,985,794**
Total assets in charitable trusts	**$ 32,669,629**	-	-	**$ 32,669,629**
Other:				
Beneficial interest in perpetual trusts	-	-	$30,051,856	30,051,856

The following table presents the change in fair value measurements for the Level 3 investments during the year ended June 30, 2016:

	Beneficial interest in perpetual trusts
Other:	
Balance—July 1, 2015	30,410,761
Change in value, net	(358,905)
Balance—June 30, 2016	$30,051,856

Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)

Equities, Fixed Income, and Hedge Funds

Certain common stock securities, U.S. government securities, and mutual funds for which market prices are not readily available or for which market prices do not represent the value at the time of pricing, are fair valued by the investment manager based upon other inputs (including valuations of securities that are comparable in coupon, rating, maturity, and industry). These investments cover a broad range of risk and diversification by industry with the dual objectives of generating income and providing long-term growth.

Illiquid Real Assets and Private Equities

Multiple limited partnerships that invest in securities designed for generating current income and/or long-term growth using conservative, moderate, and aggressive risk strategies, and real estate. Risk strategies for private equities range from moderate to aggressive with growth of capital being the primary objective.

Hedge fund investments allow for monthly, quarterly, annual, and biennial redemptions. Illiquid real assets and private equities investments do not allow for periodic redemptions, but rather liquidate upon the termination date as stated in the partnership agreement.

The following table presents the redemption frequency for investments measured at net asset value at June 30, 2017 and June 30, 2016, respectively.

	NAV			
	2017	**2016**	**Redemption schedule**	**Redemption notice period**
Equity funds	$ 56,236,109	$ 47,989,543	Daily to semi monthly	5–30 days
Fixed Income	15,089,815	15,298,447	Monthly	30 days
Hedge funds	72,631,108	69,285,535	Monthly to biennially	30–100 days
Illiquid real assets and private equities	106,810,402	104,285,944	Years: 2017–2029	End of agreement
Total	**$ 250,767,435**	**$ 236,859,469**		

5. Inventories

Inventories as of June 30, 2017, and June 30, 2016, were as follows:

Location	**Method**	**2017**	**2016**
Athletics	FIFO	$ 1,658,485	$ 1,452,671
Bulletin office	FIFO	128,226	109,484
University stores	FIFO	226,721	275,855
Facilities services	FIFO	1,259,768	1,299,700
Ferdinand's	FIFO	4,719,286	4,803,320
Housing and dining	LIFO	628,810	714,451
Telecommunications	FIFO	410,420	351,843
University publishing	FIFO	497,773	474,207
Veterinary hospital and pharmacy	FIFO	1,467,294	1,368,579
Veterinary microbiology/pathology	FIFO	2,067,350	2,078,400
Other inventory	Various	2,103,121	2,123,069
Inventories		**$ 15,167,254**	**$ 15,051,579**

6. Accounts Receivable

At June 30, 2017, and June 30, 2016, accounts receivable were as follows:

	2017	2016
Student tuition and fees	$ 44,139,101	$ 37,777,522
Due from the federal government	15,690,548	12,361,897
Due from the office of the state treasurer	12,377,188	16,668,297
Due from other state agencies	12,400,234	12,874,049
Interest and dividends receivable	406,223	412,998
Auxiliary enterprises	11,827,669	13,749,332
Due from other governments	816,819	651,078
Other	2,258,841	1,893,756
Subtotal accounts receivable	99,916,623	96,388,929
Less allowance for doubtful accounts	(21,771,278)	(21,720,842)
Accounts receivable, net	**$ 78,145,345**	**$ 74,668,087**

7. Loans Receivable

Loans receivable consisted of the following at June 30, 2017, and June 30, 2016:

	2017	2016
Federal programs	$ 22,530,015	$ 23,426,191
Institutional loans	484,614	466,688
Subtotal	23,014,629	23,892,879
Less allowance for doubtful accounts	(688,628)	(715,111)
Loans receivable, net	**$ 22,326,001**	**$ 23,177,768**

8. Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

Capital assets, non-depreciable	**Beginning balance**	**Additions/ transfers**	**Retirements**	**Ending balance**
Land	$ 34,517,614	$ 39,968		$ 34,557,582
Construction in progress	93,914,857	153,892,454	$ (197,388,419)	50,418,892
Total capital assets, non-depreciable	**128,432,471**	**153,932,422**	**(197,388,419)**	**84,976,474**
Capital assets, depreciable				
Buildings	2,105,216,599	195,566,906	(1,922,669)	2,298,860,836
Other improvements and infrastructure	349,939,079	6,313,149		356,252,228
Machinery and equipment	312,223,687	17,762,854	(9,599,488)	320,387,053
Library resources	157,812,247	6,761,754	(190,476)	164,383,525
Total capital assets, depreciable	2,925,191,612	226,404,663	(11,712,633)	3,139,883,642
Less accumulated depreciation				
Buildings	872,217,739	57,706,218	(1,825,276)	928,098,681
Other improvements and infrastructure	169,231,547	11,442,591		180,674,138
Machinery and equipment	240,202,529	24,116,773	(9,092,184)	255,227,118
Library resources	102,372,485	5,589,742	(190,476)	107,771,751
Total accumulated depreciation	1,384,024,300	98,855,324	(11,107,936)	1,471,771,688
Total capital assets, depreciable, net	**1,541,167,312**	**127,549,339**	**(604,697)**	**1,668,111,954**
Capital assets, net	**$ 1,669,599,783**	**$ 281,481,761**	**$ (197,993,116)**	**$ 1,753,088,428**

The current year depreciation expense was $98,855,324. Total interest expense was $28,813,394, of which $4,167,147 was capitalized.

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

Capital assets, non-depreciable	Beginning balance	Additions/ transfers	Retirements	Ending balance
Land	$ 34,126,588	$ 2,403,022	$ (2,011,996)	$ 34,517,614
Construction in progress	118,988,436	111,050,293	(136,123,872)	93,914,857
Total capital assets, non-depreciable	**153,115,024**	**113,453,315**	**(138,135,868)**	**128,432,471**
Capital assets, depreciable				
Buildings	1,964,458,169	141,943,911	(1,185,481)	2,105,216,599
Other improvements and infrastructure	343,759,199	6,192,512	(12,632)	349,939,079
Machinery and equipment	300,342,375	19,517,593	(7,636,281)	312,223,687
Library resources	151,768,214	6,203,037	(159,004)	157,812,247
Total capital assets, depreciable	2,760,327,957	173,857,053	(8,993,398)	2,925,191,612
Less accumulated depreciation				
Buildings	815,150,596	57,092,618	(25,475)	872,217,739
Other improvements and infrastructure	157,442,423	11,789,124		169,231,547
Machinery and equipment	222,111,934	24,047,413	(5,956,818)	240,202,529
Library resources	97,100,189	5,431,300	(159,004)	102,372,485
Total accumulated depreciation	1,291,805,142	98,360,455	(6,141,297)	1,384,024,300
Total capital assets, depreciable, net	**1,468,522,815**	**75,496,598**	**(2,852,101)**	**1,541,167,312**
Capital assets, net	**$ 1,621,637,839**	**$ 188,949,913**	**$ (140,987,969)**	**$ 1,669,599,783**

The current year depreciation expense was $98,360,455. Total interest expense was 26,761,921, of which $4,988,121 was capitalized.

9. Accounts Payable and Accrued Liabilities

At June 30, 2017, and June 30, 2016, accrued liabilities were as follows:

Current accrued liabilities	2017	2016
Accounts payable	$ 28,251,822	$ 39,068,144
Contract retainage	7,876,239	4,199,889
Payroll	24,791,400	24,385,435
Accrued leave, current portion	20,804,007	20,625,879
Subtotal	81,723,468	88,279,347
Non-current accrued liabilities		
Accrued annual leave	19,654,127	18,718,533
Accrued sick leave	3,889,411	4,458,550
Accrued compensatory leave	18,070	220,257
Subtotal	23,561,608	23,397,340
Total accrued liabilities	**$ 105,285,076**	**$ 111,676,687**

10. Unearned Revenue and Deferred Inflow of Resources

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria.

Current unearned revenue	**2017**	**2016**
Athletics	$ 3,155,013	$ 3,086,976
ALIVE! program	520,655	593,261
Pre-paid Tri-Cities BSEL building rent	500,000	500,000
Bookie building	119,225	115,899
Housing and dining services	1,585,006	1,530,623
Summer session	6,984,612	6,589,551
Parking	381,125	319,207
Subtotal	13,245,636	12,735,517
Non-current unearned revenue		
Pre-paid Tri-Cities BSEL building rent	4,940,278	5,440,278
Bookie building	3,690,292	3,809,517
Subtotal	8,630,570	9,249,795
Total unearned revenue	**$ 21,876,206**	**$ 21,985,312**

Deferred inflows of resources include revenue received that is intended for future periods and deferred inflows related to pension.

Deferred inflows of resources	**2017**	**2016**
General obligation bonds		
R2011A(2002A)	$ 210,664	$ 236,997
R2011B(2002A)	22,500	25,000
R2012A(R2002A(1995A-HEWSU))	135,000	180,000
R2014A(2004)(1995C)	55,713	74,284
R2014(2004)(1996A)	51,428	68,571
R2015SC(R2005A(1997A-HE-WSU))	109,451	133,738
R2017C(R2007A(2001A))	1,062,050	
Subtotal general obligation bonds	1,646,806	718,590
Pension		
Pension net difference between projected and actual	2,181,937	15,126,000
Pension changes in proportion	19,626,053	129,763
Subtotal pension	21,807,990	15,255,763
Total deferred inflows of resources	**$ 23,454,796**	**$ 15,974,353**

11. Risk Management

The University, in accordance with state policy, self-insures unemployment compensation for all eligible employees. The University assesses all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2016 through June 30, 2017, were $560,158 and for July 1, 2015 through June 30, 2016 were $613,725. Cash reserves for unemployment compensation for all employees at June 30, 2017 and June 30, 2016, were $5,128,530 and $4,893,275 respectively. Buildings that were acquired with bond proceeds are insured either through WSU's commercial insurance program or the state's self-insurance program, according to each covenant. The University assumes its potential property losses for most other buildings and contents. Liability exposures are insured through the state of Washington Self-Insurance Liability Program as covered by the Tort Claims Act (RCW 4.92 et seq.)

12. Leases Payable

The University finances some capital asset purchases through the Washington State Treasurer's leasing program. Under this program, the interest rates range from .7% to 5.3% and the lease periods range from 4 to 15 years. As of June 30, 2017, the University had $20,917,893 and as of June 30, 2016, the University had $27,427,003 in machinery, software, and equipment acquired under capital lease. Depreciation for the capital assets associated with capital leases is included in depreciation expense. The University also has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2017, the minimum lease payments under capital leases and operating leases consisted of the following:

Leases Payable

Fiscal year	Capital leases	Operating leases
2018	$ 3,142,840	$ 3,096,123
2019	2,345,297	2,243,729
2020	2,250,557	1,906,638
2021	2,151,539	1,642,196
2022	2,108,260	1,476,389
2023-2027	6,320,826	4,198,284
2028-2032	-	2,673,138
2033-2037		292,246
Total minimum lease payments	**18,319,319**	**17,528,743**
Amount representing interest	(2,811,625)	-
Net present value	**$ 15,507,694**	**$ 17,528,743**

13. Bonds Payable

Bonds payable consists of specific and general revenue bonds issued by the University for construction and renovation of University buildings, for Housing and Dining System Facilities, for the Student Recreation Center, Parking Services, Compton Union Building and Athletics, as well as the University's share of Washington State General Obligation bonds issued for the construction of academic buildings. Washington State General Obligation bonds are backed by the full faith, credit, and taxing power of the state. A portion of tuition and matriculation fees paid to the University are pledged for the payment of principal and interest on the University's share of these bonds.

Revenue bonds issued by the University include certain restrictive covenants. Certain revenue bonds have a specific revenue stream pledged to pay them. General revenue bonds are special fund obligations of the University payable from general revenues which include non-appropriated, unrestricted income and revenues, including available auxiliary system revenues.

For the year ending June 30, 2017, no new bonds were issued.

On May 25, 2016, the University issued $30,980,000 in General Revenue Bonds, Series 2016. $27.3 million will be used to remodel the Chinook Student Center, as approved by the Board of Regents on May 8, 2016 pursuant to Resolution 150508-510. $3.6 million will be used to construct a new WSU Tri-Cities Student Union Building, approved by the Board of Regents on May 8, 2016 pursuant to Resolution 150508-510. The bonds were issued at a premium of $6,011,675. The issue costs were $186,327. The average interest rate is 4.86%. Interest is payable semiannually on April 1 and October 1, commencing October 1, 2016. Principal payments are due annually on October 1.

Bond Refunding Activity

The scheduled liabilities as of June 30, 2017 do not include revenue bonds that were advance refunded. Government obligations in amounts, maturities and bearing interest rates sufficient to fund retirement of these bonds are held in irrevocable trusts.

For the year ending June 30, 2017 no bonds were advance refunded.

On May 25, 2016 the University issued $58,130,000 in General Revenue Bonds, Series 2016 (refunding portion) to defease $17,585,000 in Series 2007 Athletics Bonds, $21,505,000 in Series 2008 Housing and Dining Bonds, and $26,150,000 in Series 2009 Student Recreation Center Fees Bonds. The net proceeds were used to purchase U.S. Government securities that were deposited to an irrevocable trust with an escrow agent to provide for all future debt service payment on the bonds. The refunding resulted in an aggregate debt service decrease of $10,952,333 and an economic gain of $8,360,440. The outstanding par value on the refunded bonds on June 30, 2016 is $65,240,000.

Neither the assets of these trusts, nor their outstanding obligations, are included in the Statement of Net Position.

As of June 30, 2017 the University was indebted for bonds payable for the purposes shown in the following table:

Purpose	Series	Interest rate/ ranges	Final maturity date	Principal outstanding 2017	Principal outstanding 2016	Current portion 2017	See table below
Housing and Dining System	2008	3.2%–5.25%	2017	$ 600,000	$ 1,175,000	$ 600,000	1
	2010	3%–5%	2024	9,460,000	10,465,000	1,035,000	
	2010B	7.1%–7.4%	2041	35,305,000	35,305,000	-	
Student Recreation Center	2009	3%–5.25%	2019	2,785,000	4,095,000	1,365,000	2
Compton Union Building	2006B	5%–6%	2038	24,795,000	26,545,000	1,850,000	3
Intercollegiate Athletics	2007	4%–4.255	2017	-	820,000	-	4
Trust and Building Fee Revenue Bonds	2009B	3%–6.41%	2034	89,985,000	93,445,000	3,565,000	5
General revenue bonds	2012A & B	2%–5%	2037	90,290,000	92,930,000	2,730,000	
	2013A & B	3%–5%	2038	46,375,000	48,110,000	1,810,000	
	2014A & B	1.75%–5%	2039	51,465,000	52,785,000	1,375,000	
	2015	3%–5%	2045	145,580,000	149,100,000	3,670,000	
	2016	3%–5%	2041	89,110,000	89,110,000	1,405,000	
State of Washington General Obligation bonds	HE-WSU	3.5%–6.4%	2022	4,585,000	6,110,000	1,205,000	
	2001A	5%–5.6%	2025	8,425,000	10,360,000	755,000	
	2001C	5%–5.3%	2026	4,930,000	5,355,000	450,000	
	2002A	4%–6%	2026	3,390,000	3,645,000	265,000	
				607,080,000	**629,355,000**	**22,080,000**	
Less: unamortized insurance costs				(69,981)	(76,646)		
Plus: unamortized premiums				61,015,869	64,355,656		
Net bonds payable				**$ 668,025,888**	**$ 693,634,010**		

The University has pledged future revenues, net of specific operating expenses, to repay the principal and interest on revenue bonds. The following is a schedule of pledged revenues and related debt, as of June 30, 2017.

Ref		Total future pledged revenues	2017 revenues, net of expenses	2017 principal and interest	2016 revenues, net of expenses	2016 principal and interest
1	Housing and Dining System (2008 & 2010)	$ 43,576,350	$ 25,394,851	$ 2,039,275	$ 27,800,194	$ 3,073,593
2	Student Recreation Center (2009)	37,528,950	3,893,921	1,483,800	2,269,783	2,929,475
3	Compton Union Building (2006B)	33,005,440	5,233,165	3,277,484	6,112,215	3,275,836
4	Intercollegiate Athletics (2007)	-	-	-	(3,596,789)	1,587,281
5	Trust and Building Fee Bonds (2009B)	$147,083,821	$ 30,442,881	$ 8,999,282	$ 30,889,557	$ 9,050,706

Annual Debt Service Requirements

Future debt service requirements at June 30, 2017 are as follows:

	Revenue bond obligations			State of Washington General Obligation bonds		
Fiscal year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2018	$ 19,405,000	$ 27,331,855	$ 46,736,855	$ 2,675,000	$ 1,020,443	$ 3,695,443
2019	20,115,000	26,532,336	46,647,336	2,755,000	876,975	3,631,975
2020	20,815,000	25,640,688	46,455,688	2,900,000	737,850	3,637,850
2021	21,790,000	24,666,017	46,456,017	2,335,000	607,850	2,942,850
2022	22,815,000	23,643,252	46,458,252	2,060,000	498,975	2,558,975
2023–2027	125,955,000	100,583,266	226,538,266	8,605,000	1,010,950	9,615,950
2028–2032	147,895,000	68,680,242	216,575,242	-	-	-
2033–2037	116,955,000	35,608,444	152,563,444	-	-	-
2038–2040	90,005,000	6,829,320	96,834,320	-	-	-
Subtotal	**585,750,000**	**339,515,420**	**925,265,420**	**21,330,000**	**4,753,043**	**26,083,043**
Less: unamortized issuance costs	(69,981)		(69,981)			
Plus: unamortized premiums	61,015,869		61,015,869			
Total	**$ 646,695,888**	**$ 339,515,420**	**$ 986,211,308**	**$ 21,330,000**	**$ 4,753,043**	**$ 26,083,043**

14. Deferred Outflows of Resources and Schedule of Long-Term Liabilities

Following are the changes in refunding of debt (representing the difference between the reacquisition price and the net carrying amount of the old debt), deferred outflows of resources related to pensions, bonds payable, capital leases, and other post-employment benefit obligations for the years ending June 30, 2017, and June 30, 2016.

			2017			
Deferred outflows of resources	**Total amount issued**	**Balances outstanding 6/30/2016**	**Additions**	**Reductions**	**Balance outstanding 6/30/2017**	**Current portion**
Revenue bonds						
Student recreation series 2009		$ 1,172,590		$ (73,729)	$ 1,098,861	
Student fee 2006A refunding (CUB)		1,970,332		(86,814)	1,883,518	
General revenue bonds Athletics 2007 refunding		928,009		(58,350)	869,659	
Parking series 2005		54,251		(7,049)	47,202	
General revenue bonds series 2013 refunding		538,336		(61,524)	476,812	
Housing and Dining Services (HDS) series 2005		143,643		(10,488)	133,155	
Housing and Dining Services (HDS) series 2010		769,642		(96,205)	673,437	
General revenue bond 2016 HDS 2008 refunding		1,740,421		(75,987)	1,664,434	
Subtotal revenue bonds		7,317,224	-	(470,146)	6,847,078	
Certificate of participation						
Consolidated information center 365-272-1		-	$ 16,445	(8,223)	8,222	
Subtotal certificate of participation		-	16,445	(8,223)	8,222	
Pension						
Pension differences between expected and actual expense		4,771,373		(1,166,176)	3,605,197	
Pension differences between projected and actual investment earnings			9,837,545		9,837,545	
Pension changes in assumption		70,934	605,261		676,195	
Pension changes in proportion		2,551,420	1,944,908		4,496,328	
Pension contributions		13,734,799	1,341,570		15,076,369	
Subtotal pension		21,128,526	13,729,284	(1,166,176)	33,691,634	
Total		**$ 28,445,750**	**$ 13,745,730**	**$ (1,644,545)**	**$ 40,546,935**	
Schedule of long-term liabilities						
Revenue and refunding bonds, net	$ 631,375,000	$ 668,164,009		$ (21,468,121)	$ 646,695,888	$ 19,405,000
State of Washington General Obligation bonds, net	31,365,000	25,470,000	$ 8,425,000	(12,565,000)	21,330,000	2,675,000
Capital leases		17,689,469	355,737	(2,537,511)	15,507,695	2,404,469
Pension obligation, net		205,605,925	30,911,256	(21,476,395)	215,040,786	
Total	**$ 662,740,000**	**$ 916,929,403**	**$ 39,691,993**	**$ (58,047,027)**	**$ 898,574,369**	**$ 24,484,469**

Deferred outflows of resources	Total amount issued	Balances outstanding 6/30/2015	Additions	Reductions	Balance outstanding 6/30/2016	Current portion
		2016 Restated				
Revenue bonds						
Student Recreation Series 2009		$ 1,020,400	$ 1,179,660	$ (1,027,470)	$ 1,172,590	
Student fee 2006A refunding (CUB)		2,057,148		(86,816)	1,970,332	
General revenue bonds Athletics 2007 refunding			933,604	(5,595)	928,009	
Parking series 2005		61,300		(7,049)	54,251	
General revenue bonds series 2013 refunding		599,860		(61,524)	538,336	
Housing and Dining Services (HDS) series 2005		154,131		(10,488)	143,643	
Housing and Dining Services (HDS) series 2010		865,847		(96,205)	769,642	
General revenue bond 2016 HDS 2008 refunding			1,747,707	(7,286)	1,740,421	
Subtotal revenue bonds		4,758,686	3,860,971	(1,302,433)	7,317,224	
Pension					-	
Pension differences between expected and actual expense			4,771,373		4,771,373	
Pension changes in assumption			70,934		70,934	
Pension changes in proportion		995,523	1,555,897		2,551,420	
Pension contributions		10,227,905	3,506,894		13,734,799	
Subtotal pension		**11,223,428**	**9,905,098**	-	**21,128,526**	
Total		**$ 15,982,114**	**$ 13,766,069**	**$ (1,302,433)**	**$ 28,445,750**	
Schedule of long-term liabilities						
Revenue and refunding bonds, net	$ 631,375,000	$ 646,692,893	$ 107,795,635	$ (86,324,519)	$ 668,164,009	$ 18,135,000
State of Washington General Obligation bonds, net	37,275,000	28,525,000		(3,055,000)	25,470,000	3,025,000
Capital leases		16,721,538	3,223,052	(2,255,121)	17,689,469	2,368,873
Pension obligation, net		122,354,878	84,764,509	(1,513,462)	205,605,925	
Total	**$ 668,650,000**	**$ 814,294,309**	**$ 195,783,196**	**$ (93,148,102)**	**$ 916,929,403**	**$ 23,528,873**

15. Pension Plans

The University implemented Statement No. 73 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Pensions and Related Assets That are not within the Scope of GASB Statement 68 for the fiscal year 2017 financial reporting. This change in accounting principle updated how pension liabilities are computed for plans not covered under GASB 68 for entities that prepare a separate financial statement, thus requiring WSU to record the liability on our books. In accordance with Statement No. 73, the University has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities for the supplemental portion of the Washington State University Retirement Plan (WSURP).

The University offers four contributory pension plans: the Washington State Public Employees Retirement System (PERS) plan, the Washington State Teachers Retirement System (TRS), the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF), cost sharing multiple-employer defined benefit pension plans administered by the State of Washington Department of Retirement Services, and the Washington State University Retirement Plan (WSURP), a defined contribution pension plan with a supplemental payment to beneficiaries when required. Supplemental Retirement Plan (SRP) is a closed plan with contributions coming from the WSURP.

WSURP is not administered through a trust and is not subject to GASB 68 or 73 but the supplemental portion (SRP) is subject to GASB 73. The pension liabilities herein calculated are consistent with prior years.

The University employs approximately 7,170 full-time employees eligible for participation in one of the various retirement plans.

For the year ended June 30, 2017, the payroll for employees covered by PERS was $120,938,855, the payroll for employees covered by TRS was $10,512,086, the payroll for employees covered by LEOFF was $1,705,430 and the payroll for employees covered by the WSURP was $196,596,000.

PERS, TRS and LEOFF

The state of Washington, through the Department of Retirement Systems, administers the PERS, TRS, and LEOFF plans. Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The authority to establish and amend benefit provisions resides with the legislature. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW, TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and LEOFF retirement benefits provisions are established in chapter 41.26 RCW. The plans may be amended only by the legislature. The Washington State Department of Retirement System (DRS) issues a publicly available financial report that includes financial statements and required supplementary information for PERS, TRS, and LEOFF. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or on-line at http://www.drs.wa.gov/administration.

Plan Descriptions. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases beginning at age 66 to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living adjustment to eligible nonacademic plan members hired on or after October 1, 1977. Retirement benefits are vested after five years of eligible service. PERS Plan 3 has a defined contribution component that members may elect to self-direct as established by the Employee Retirement Benefits Board. PERS 3 defined benefit plan benefits are vested after an employee completes five year of eligible service.

TRS 1 provides retirement and disability benefits, a lump sum death benefit, and minimum benefits increases beginning at age 65 to certain eligible faculty hired prior to October 1, 1977. TRS 2 and 3 provide retirement benefits, and cost-of-living adjustment to certain eligible faculty hired on or after October 1, 1977. In addition, TRS 3 has a defined contribution component which is fully funded by employee contributions. Defined benefit plan benefits are vested after an employee completes five years of eligible service.

LEOFF 2 provides retirement benefits and a cost-of-living adjustment for eligible law enforcement officers. LEOFF System benefits are vested after an employee complete five years of eligible service.

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute. Under LEOFF, employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund the plan. All employers are required to contribute at the level established by state law.

Federal Retirement Plans

Selected positions related to the College of Agricultural, Human, and Natural Resource Sciences are eligible to participate in two federal retirement systems maintained by the Office of Personnel Management.

Civil Service Retirement System

Civil Service Retirement System (CSRS) is a defined benefit retirement plan for employees with federal appointments hired prior to January 1, 1984, and who chose not to transfer to Federal Employees Retirement System (FERS). Retirement benefits are vested after an employee completes five years of eligible service.

As of June 30, 2017 the University had 3 employees enrolled in the plan.

Federal Employees Retirement System

The Federal Employees Retirement System (FERS) is a defined benefit retirement plan for employees with federal appointments hired after December 31, 1983, and those Civil Service Retirement System (CSRS) employees choosing to transfer into this system. Retirement benefits are vested after an employee completes five years of eligible service.

As of June 30, 2017 the University had 7 employees enrolled in the plan.

Washington State University Retirement Plan

Plan Description. Faculty and professional and other staff are eligible to participate in the Washington State University Retirement Plan (WSURP), a 403b defined contribution plan. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased. Employees have a 100% vested interest in their accumulations at all times.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in TIAA-CREF.

WSURP has a supplemental payment (SRP) component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The University makes direct payments to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with ten years of full-time service.

The minimum retirement benefit goal is 2% of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10% TIAA-CREF contribution after age 49, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

The University's Board of Regents are authorized to amend benefit provisions under RCW 28B.10.400. In 2011, the plan was amended to eliminate the supplemental benefit provisions for all employees hired after June 30, 2011.

Contributions for all Plans

The required contribution rates expressed as a percentage of current year covered payroll are shown below. The University and the employees made the required contributions.

The University's contribution rates and required contributions for the above retirement plans for the year ending June 30, 2017 are as follows:

	Contribution Rates		Required Employer Contributions	
	Employee	**University**	**FY2017**	**FY2016**
PERS				
Plan 1	6.00%	11.18%	$ 5,873,872	$ 5,739,650
Plan 2	6.12%	11.18%	$ 4,652,657	$ 4,593,425
Plan 3	5.00 – 15.00%	11.18%	$ 2,776,514	$ 2,609,189
TRS				
Plan 1	6.00%	13.13%	$ 650,835	$ 535,374
Plan 2	5.95%	13.13%	-	-
Plan 3	5.00 – 15.00%	13.13%	$ 701,979	$ 579,531
LEOFF				
Plan 2	8.41%	8.59%	$ 143,426	$ 145,308
FED Plans				
CSRS	7.00%	7.00%	$ 23,122	$ 30,486
FERS	0.80%	13.70%	$ 78,273	$ 89,758
WSURP				
5% Plan	5.00%	5.00%	$ 2,196,696	$ 2,114,195
7.5% Plan	7.50%	7.50%	$ 9,618,236	$ 9,323,459
10% Plan	10.00%	10.00%	$ 13,614,465	$ 13,300,588
SRP				
Supplemental			$ 1,889,570	$ 1,513,432

The University's actual retirement contributions to the above plans for the fiscal years ended June 30, 2017, 2016, and 2015 were:

Fiscal Year Ended		PERS	TRS	LEOFF	CSRS	FERS	WSURP	SRP
2017	Rate	11.18%	13.13%	8.59%	7.00%	13.20%	5.00-10.00%	
2017	Contribution	$13,303,043	$1,352,814	$143,426	$23,122	$ 78,273	$ 25,429,397	$1,889,570
2016	Rate	11.18%	13.13%	8.59%	7.00%	13.20%	5.00-10.00%	
2016	Contribution	$12,942,264	$1,114,905	$145,308	$30,486	$ 89,758	$ 24,738,242	$1,513,432
2015	Rate	9.21%	10.39%	8.59%	7.00%	13.20%	5.00-10.00%	
2015	Contribution	$ 9,731,210	$ 652,437	$136,419	$38,001	$ 82,557	$ 23,765,816	$1,275,987

Pension costs. At June 30, 2017 WSU reported a liability of $125,626,511 for its proportionate share of the state's net pension liability and a liability of $89,414,276 for WSURP supplemental plan. The net pension liability was measured as of June 30, 2016 by an actuarial valuation as of that date for the state plan and June 30, 2017 for SRP. WSUs' share was 1.012% for PERS 1, 1.25% for PERS 2/3, .177% for TRS 1, .178% for TRS 2, and .094% for LEOFF 2 of Washington state's proportionate share of Department of Retirement Systems (DRS) liability.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for WSU as an employer for the fiscal year 2017.

2017	2016	Aggregate Pension Amounts- All Plans
$125,626,511	$ 98,281,815	Pension Liabilities
$ 552,438	$ 956,615	Pension assets
$ 33,691,635	$ 21,128,526	Deferred outflows of resources related to pensions
$ 2,221,119	$ 15,255,763	Deferred inflows of resources related to pensions
$ 2,151,119	$ 80,866	Pension expense/expenditures

The following table represents the pension amounts for WSURP Supplemental plan subject to the requirements of GASB Statement No. 73 for WSU as an employer for the fiscal year 2017.

2017	2016 restated	Aggregate Pension Amounts- All Plans
$ 89,414,276	$107,324,108	Pension Liabilities
-	-	Deferred outflows of resources related to pensions
$ 19,586,869	-	Deferred inflows of resources related to pensions
$ 50,029,828	-	Pension expense/expenditures

The University reported deferred outflow/inflows of resources related to State pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experiences	$ 3,605,197	($2,181,936)
Changes in assumption	676,195	-
Net difference between projected and actual earnings on investments	9,837,545	-
Changes in proportion	4,496,328	(39,184)
Contributions paid subsequent to the measurement date	15,076,369	
Total	**$ 33,691,635**	**($2,221,119)**

The University reported deferred outflows/inflows of resources related to WSURP Supplemental pension from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experiences	-	($13,979,588)
Changes in assumption	-	(5,607,281)
Net difference between projected and actual earnings on investments	-	-
Changes in proportion		
Contributions paid subsequent to the measurement date	-	-
Total	-	**($19,586,869)**

The $15,076,369 reported as deferred outflows of resources related to state pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	State Plan	WSURP Supplemental plan
2017	$ 1,266,633	($3,377,000)
2018	1,165,035	(3,377,000)
2019	8,833,723	(3,377,000)
2020	5,095,705	(3,377,000)
2021	33,050	(3,377,700)
2021	-	(2,701,869)
Total	**$16,394,146**	**($19,586,869)**

Actuarial Assumptions. The WSURP supplemental pension benefits are unfunded and charged to operations in the years in which they are paid. The University makes no contributions other than benefit payments and there are no plan assets. An actuarial study of the supplemental pension benefits was performed as of June 30, 2017. The actuarial assumptions for the evaluation included an investment rate of return of 2.58 percent and projected salary increases of 3.75 percent per year.

The total state pension liability was determined by an actuarial valuation as of June 30, 2015 with the results rolled forward to the June 30, 2016 measurement date using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
Investment rate of return	7.50%
Discount Rate	7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period 2007-2012. Additional assumptions are current for subsequent events and law changes as of the 2014 report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.40%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.60%
Private Equity	23.00%	9.60%
Total	**100.00%**	

Discount Rate. The discount rate used to measure the total state pension liability was 7.5 percent, the same as the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included and assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plan2/3 whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate. The following presents the net pension liability/asset of the state as an employer, calculated using the discount rate of 7.50 percent and an 3.58 percent rate for supplemental, as well as what the net pension liability/asset would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the rate.

	Employers' Proportionate Share State Net Pension Liability (Asset)	
	2017	**2016**
1% Decrease (6.50%)	$195,668,182	$196,574,758
Current Discount Rate	$125,074,073	$ 97,325,201
1% Increase (8.50%)	$ 11,880,809	$ 20,303,127

	Supplemental Pension Liability	
	2017	**2016**
1% Decrease (2.58%)	$102,303,000	N/A
Current Discount Rate	$ 89,414,276	N/A
1% Increase (4.58%)	$ 78,698,000	N/A

Other Post-Employment Benefits

Health care and life insurance programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the OPEB obligation is a payment that is required by the state legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or University plan that underlies the subsidy of retiree health and life insurance.

The state of Washington funds OPEB obligations at a state-wide level on a pay-as-you-go basis. Disclosure information, as required under GASB Statement No. 45, does not exist at department levels, and as a result, the AAL is not available for the University. The state of Washington's Comprehensive Annual Financial Report (CAFR) includes the state's measurement and recognition of OPEB expense/expenditures, liabilities, note disclosures, and required supplementary information specified by GASB Statement No. 45. The State Actuary's report is available at: http://osa.leg.wa.gov/Actuarial_Services/OPEB/OPEB.htm

The University paid $71 million for healthcare expenses in 2017, which included its pay-as-you-go portion of the OPEB liability, at $2.9 million for 2017.

16 Operating Expenses by Program

	2017				
	Compensation and benefits	**Supplies and services**	**Scholarships and fellowships**	**Depreciation**	**Total**
Instruction	$ 250,140,952	$ 32,642,782			$ 282,783,734
Research	130,619,625	60,335,115			190,954,740
Public service	30,880,488	7,662,633			38,543,121
Academic support	64,837,608	20,929,905			85,767,513
Student services	25,411,496	6,424,932			31,836,428
Institutional support	57,855,213	30,232,709			88,087,922
Operation and maintenance of plant	27,944,740	35,191,554			63,136,294
Auxiliary enterprises	81,398,487	76,600,687			157,999,174
Student financial aid			$ 65,496,337		65,496,337
Depreciation				$ 98,855,325	98,855,325
Total operating expenses	**$ 669,088,609**	**$ 270,020,317**	**$ 65,496,337**	**$ 98,855,325**	**$ 1,103,460,588**

	2016 Restated				
	Compensation and benefits	**Supplies and services**	**Scholarships and fellowships**	**Depreciation**	**Total**
Instruction	$ 250,785,622	$ 19,037,319			$ 269,822,941
Research	140,393,672	67,044,620			207,438,292
Public service	35,692,163	8,248,900			43,941,063
Academic support	72,588,782	20,227,979			92,816,761
Student services	28,270,833	5,377,428			33,648,261
Institutional support	65,042,514	32,856,778			97,899,292
Operation and maintenance of plant	30,327,463	40,089,068			70,416,531
Auxiliary enterprises	82,022,907	74,780,511			156,803,418
Student financial aid			$ 67,957,820		67,957,820
Depreciation				$ 98,360,455	98,360,455
Total operating expenses	**$ 705,123,956**	**$ 267,662,603**	**$ 67,957,820**	**$ 98,360,455**	**$ 1,139,104,834**

17 Blended component Unit

Below are the condensed financial statements for the Washington State University Alumni Association

Statement of financial position	2017	2016
Assets		
Total assets	**$ 16,907,422**	**$ 15,991,039**
Liabilities		
Payable to WSU		$ 205,900
Other liabilities	$ 146,094	96,220
Total Liabilities	**146,094**	**302,120**
Net Assets		
Unrestricted	12,092,054	10,983,311
Temporarily restricted	960,076	1,030,134
Permanently restricted	3,709,198	3,675,474
Total net assets	**16,761,328**	**15,688,919**
Total liabilities and net assets	**$ 16,907,422**	**$ 15,991,039**
Statement of activities		
Revenue		
Support from WSU	$ 2,459,784	$ 2,240,160
Income from assets, net	1,842,995	(202,017)
Total revenue	**4,302,779**	**2,038,143**
Expense		
Program services	1,781,177	1,553,731
Support services	1,449,193	1,490,119
Total expenses	**3,230,370**	**3,043,850**
Change in net assets	1,072,409	(1,005,707)
Net assets—beginning of year	15,688,919	16,694,626
Net assets—end of year	**$ 16,761,328**	**$15,688,919**
Statement of cash flows		
Operating activities		
Net cash used by operating activities	$ (774,240)	$ (648,525)
Investing activities		
Distribution from pooled endowment investment securities	677,057	665,215
Net increase (decrease) in cash	(97,183)	16,690
Cash-beginning of year	2,216,965	2,200,275
Cash-end of year	**$ 2,119,782**	**$ 2,216,965**

18. Commitments and Contingencies

The University is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statement.

GASB 75, Accounting Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB) will be effective for fiscal year 2018. The new statement will require a liability for OPEB obligations (implicit and explicit rate subsidies), known as the net OPEB liability (NOL), to be recognized on the balance sheet of the plan and the participating employers. In addition, an OPEB expense will be recognized in the income statement of the participating employer similar to GASB 68 and most likely will have a large impact on the financial statements.

The University has commitments of $33,915,750 for various capital improvement projects that include construction and completion of new buildings and renovation of existing buildings.

Schedule of WSU Contributions to Pensions

Public Employees Retirement System Last 10 Fiscal Years*

	2017	2016	2015	2014
Contractually required contributions	$ 13,303,043	$ 12,942,264	$ 9,731,210	$9,103,597
Contributions in relation to the contractually required contribution	(13,303,043)	(12,942,264)	(9,731,210)	(9,103,597)
Contribution deficiency (excess)	-	-	-	-
Covered-employee payroll	$120,938,855	$116,436,524	108,182,777	98,779,796
Contributions as a percentage of covered-employee payroll	11.20%	11.03%	9.11%	9.22%

**This schedule is to be built prospectively until it contains ten years of data.*

Schedule of WSU Contributions

Teachers' Retirement System Last 10 Fiscal Years*

	2017	2016	2015	2014
Contractually required contributions	$ 1,352,814	$ 1,114,905	$ 652,437	$ 361,856
Contributions in relation to the contractually required contribution	(1,352,814)	(1,114,905)	(652,437)	(361,856)
Contribution deficiency (excess)	-	-	-	-
Covered-employee payroll	$10,512,086	$ 8,491,291	6,453,097	3,791,772
Contributions as a percentage of covered-employee payroll	13.14%	13.49%	10.39%	10.20%

**This schedule is to be built prospectively until it contains ten years of data.*

Schedule of WSU Contributions

Law Enforcement Officers' Retirement System Last 10 Fiscal Years*

	2017	2016	2015	2014
Contractually required contributions	$ 143,426	$ 145,308	$ 136,419	$ 122,092
Contributions in relation to the contractually required contribution	(143,426)	(145,308)	(136,419)	(122,092)
Contribution deficiency (excess)	-	-	-	-
Covered-employee payroll	$1,705,430	$1,691,590	1,638,448	1,461,750
Contributions as a percentage of covered-employee payroll	8.70%	8.42%	8.59%	8.59%

**This schedule is to be built prospectively until it contains ten years of data.*

Schedule of WSU Contributions

WSURP Supplemental Retirement Plan as of June 30*

	2017
Contractually required contributions	$ 25,429,397
Contributions in relation to the contractually required contribution	(25,429,397)
Contribution deficiency (excess)	-
Covered- employee payroll	$196,596,000
Contributions as a percentage of covered-employee payroll	12.94%

** This schedule is to be built prospectively until it contains ten years data.*

Schedule of WSU's Proportionate Share of the Net Pension Liability

Public Employees' Retirement System (PERS) Plan 1
Measurement Date of June 30*

	2016	2015	2014
PERS 1 employers' proportion of the net pension liability	1.01%	0.97%	0.93%
PERS 1 employers' proportionate share of the net pension liability	$ 54,355,128	$ 50,597,060	$ 46,759,620
PERS 1 employers' covered-employee payroll	$ 116,436,524	$108,182,777	$ 98,779,796
PERS 1 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	47.00%	47.00%	47.00%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	61.19%

**As of June 30; this schedule is to be built prospectively until it contains ten years of data.*

Schedule of WSU's Proportionate Share of the Net Pension Liability

Public Employees' Retirement System (PERS) Plan 2/3
Measurement Date of June 30*

	2016	2015	2014
PERS 2 employers' proportion of the net pension liability	1.25%	1.19%	1.12%
PERS 2 employers' proportionate share of the net pension liability	$ 62,818,595	$ 42,397,358	$ 22,694,083
PERS 2 employers' covered-employee payroll	$114,375,414	$105,747,583	$ 95,879,972
PERS 2 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	55.00%	40.00%	24.00%
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%	93.29%

** As of June 30; this schedule is to be built prospectively until it contains ten years of data.*

Schedule of WSU's Proportionate Share of the Net Pension Liability

Teachers' Retirement System (TRS) Plan 1
Measurement Date of June 30*

	2016	2015	2014
TRS 1 employers' proportion of the net pension liability	0.18%	0.13%	0.08%
TRS 1 employers' proportionate share of the net pension liability	$ 6,014,486	$ 4,144,932	$ 2,452,825
TRS 1 employers' covered-employee payroll	$ 8,491,289	$ 6,453,381	$ 3,811,722
TRS 1 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.00%	64.00%	65.00%
Plan fiduciary net position as a percentage of the total pension liability	62.07%	65.70%	68.77%

** As of June 30; this schedule is to be built prospectively until it contains ten years of data.*

Schedule of WSU's Proportionate Share of the Net Pension Liability

Teachers' Retirement System (TRS) Plan 3
Measurement Date of June 30*

	2016	2015	2014
TRS 3 employers' proportion of the net pension liability	0.18%	0.14%	0.08%
TRS 3 employers' proportionate share of the net pension liability	$ 2,438,303	$ 1,141,883	$ 272,606
TRS 3 employers' covered-employee payroll	$ 8,426,012	$ 6,390,132	$ 3,699,860
TRS 3 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	28.94%	17.87%	7.33%
Plan fiduciary net position as a percentage of the total pension liability	88.72%	92.48%	96.81%

** As of June 30; this schedule is to be built prospectively until it contains ten years of data.*

Schedule of WSU's Proportionate Share of the Net Pension Asset

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2
Measurement Date of June 30*

	2016	2015	2014
LEOFF 2 employers' proportion of the net pension asset	0.10%	0.09%	0.09%
LEOFF 2 employers' proportionate share of the net pension asset	$ 552,438	$ 956,615	$1,152,604
LEOFF 2 employers' covered-employee payroll	$1,694,590	$1,638,448	$1,461,750
LEOFF 2 employers' proportionate share of the net pension asset as a percentage of its covered-employee payroll	33.00%	58.00%	79.00%
Plan fiduciary net position as a percentage of the total pension asset	106.04%	111.67%	116.75%

** As of June 30; this schedule is to be built prospectively until it contains ten years of data.* s

Schedule of Changes in Total Pension Liability and Related Ratios

WSURP Supplemental Retirement Plan
As of June 30*

	2017
Total Pension Liability	
Service Costs	$ 3,803,000.00
Interest	3,140,000.00
Changes of benefit terms	-
Differences between expected and actual experience	(16,390,000.00)
Changes in assumptions	(6,574,000.00)
Benefit payments	(1,890,000.00)
Other	-
Net Change in Total pension Liability	**(17,911,000.00)**
Total Pension Liability-Beginning	**107,324,000.00**
Total Pension Liability-Ending	**89,413,000.00**
Covered-employee payroll	**$ 196,596,000.00**
Total Pension Liability as a percentage of covered-employee payroll	45.48%

** As of June 30; this schedule is to be built prospectively until it contains ten years of data.*

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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