

# 2018

## Annual Financial Report

FISCAL YEAR ENDED JUNE 30, 2018

AN AGENCY OF THE STATE OF WASHINGTON



WASHINGTON STATE  
UNIVERSITY

# 18

## ANNUAL FINANCIAL REPORT

For information about the financial data included  
in this report, contact:

Business Services/Controller  
Washington State University  
PO Box 641025  
Pullman, Washington 99164-1025  
509-335-2022

You may view the financial report at  
[genacct.wsu.edu/finstat.html](http://genacct.wsu.edu/finstat.html).

For information about enrollment, degrees awarded,  
research, or academic programs at WSU, contact:

Institutional Research  
Washington State University  
PO Box 641009  
Pullman, Washington 99164-1009  
509-335-4553

or

Visit the WSU home page at [wsu.edu](http://wsu.edu).

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# INTRODUCTION





# Regents and Administrative Officers

## BOARD OF REGENTS

Ron Sims, Chair of the Board  
Brett Blankenship, Vice Chair of the Board  
Theodor Baseler, Past Chair of the Board  
Jordan Frost, Student Regent  
Scott E. Carson  
Marty Dickinson  
Lura J. Powell  
Heather Redman  
Lisa K. Schauer  
Mike C. Worthy  
Kirk H. Schulz, Secretary Ex-Officio  
Stacy Pearson, Treasurer Ex-Officio  
Jay Inslee, Governor, State of Washington,  
Advisory Member Ex-Officio

## EXECUTIVE OFFICERS

Kirk H. Schulz, President  
Daniel J. Bernardo, Provost and Executive Vice President  
Lisa Calvert, Vice President for Advancement and CEO  
of the WSU Foundation  
Asif Chaudhry, Vice President for International Programs  
Patrick Chun, Director of Athletics  
David R. Cillay, Vice President for Academic Outreach  
and Innovation  
Theresa Elliot-Cheslek, Associate Vice President and  
Chief Human Resource Officer  
Mary Jo Gonzales, Vice President of Student Affairs  
Christopher Keane, Vice President for Research  
Colleen E. Kerr, Vice President for External Affairs  
and Government Relations  
Heather Lopez, Director of Internal Audit  
Stacy Pearson, Vice President for Finance and Administration  
Sasi K. Pillay, Vice President of Information Technology Services  
and Chief Information Officer  
Phil Weiler, Vice President for Marketing and Communications

## ADMINISTRATIVE OFFICERS

Matthew Skinner, Associate Vice President for Finance  
and Administration  
Manali Bettendorf, Director/Controller, Business Services

## CHANCELLORS

### WSU EVERETT

Paul E. Pitre, Chancellor

### WSU SPOKANE

Daryll DeWald, Chancellor

James Mohr, Vice Chancellor for Student Affairs

### WSU TRI-CITIES

Sandra Haynes, Chancellor

Akram Hossain, Vice Chancellor for Research, Graduate Studies,  
and External Programs

Martin Klotz, Vice Chancellor for Academic Affairs

Chris Meiers, Vice Chancellor of Enrollment Management  
and Student Services

### WSU VANCOUVER

Mel Netzhhammer, Chancellor

Lynn Valenter, Vice Chancellor for Finance and Operations

Nancy Youlden, Vice Chancellor for Student Affairs

## DEANS

Lisa Gloss, Interim Dean, Graduate School  
Joyce P. Griffin-Sobel, Dean, College of Nursing  
Larry W. (Chip) Hunter, Dean, Carson College of Business  
Matthew Jockers, Dean, College of Arts and Sciences  
M. Grant Norton, Dean, Honors College  
Bruce Pinkleton, Dean, The Edward R. Murrow College  
of Communication  
Gary M. Pollack, Dean, College of Pharmacy and  
Pharmaceutical Sciences  
Mary Rezac, Dean, Voiland College of Engineering  
and Architecture  
Bryan K. Slinker, Dean, College of Veterinary Medicine  
Joseph (Jay) Starratt, Dean, Libraries  
John Tomkowiak, Dean, Elson S. Floyd College of Medicine  
Michael Trevisan, Dean, College of Education  
André-Denis Girard Wright, Dean, College of Agricultural,  
Human, and Natural Resource Sciences

## LEGAL COUNSEL

Danielle A. Hess, Senior Assistant Attorney General  
and WSU Division Chief, Washington State Office  
of the Attorney General

Officer list effective 12/6/18



# Message from the President



## Elevating our state in the global arena

I am pleased to present Washington State University's annual report for the 2018 fiscal year. This publication provides detailed information about the University's fiscal health and operations during the period beginning on July 1, 2017, and concluding on June 30, 2018.

During the past twelve months, the University continued to advance its mission to transform lives and contribute to the common good—a commitment that has served as the institution's roadmap since its founding in 1890. We strove to strengthen our efforts to serve the entire state, delivering education, research, economic stimulus, and service through our multiple locations and online resources.

Equally important, in the last year the University progressed in its initiative to become one of the nation's top 25 public research universities by 2030. Reaching that apex will enhance our ability to prepare graduates for success in the global marketplace and cultivate an enriched environment for discovery and innovation at our campuses.

The list of recent institutional accomplishments that support the Drive to 25 is remarkable and wide ranging. Among the achievements indicative of our growing impact on the region:

- System-wide enrollment for the fall semester grew to 31,478 students—a new record. Undergraduate enrollment system-wide increased 3.2 percent.
- There is mounting evidence that WSU is a higher education institution of choice among first-generation college students. More than 33 percent of students enrolled fall semester were first-generation. In addition, ethnically diverse students made up 30 percent of the system enrollment.
- The University achieved record research and development expenditures totaling nearly \$357 million last year, an indication of the significant research that faculty are conducting in fields including health, agriculture, sustainable resources, and smart systems.
- The Elson S. Floyd College of Medicine welcomed its second class of 60 medical students to the Spokane campus in the fall—another milestone in our commitment to improve access to health care in underserved areas of the state.
- The Northwest Commission on Colleges and Universities reaffirmed WSU's accreditation through 2025. The University received six commendations as part of the accreditation, including commendations for effective initiatives to improve student access and success, the fostering of a strong esprit de corps, and our approach to assessing student learning outcomes.

Now in my third year as the University's president, I continue to marvel at the energy and passion of the talented students, faculty, and staff who define our organization. I eagerly look forward to the opportunities that lie ahead of us.

Best regards,

Kirk H. Schulz  
President  
Washington State University



# FINANCIAL SECTION







**Office of the Washington State Auditor  
Pat McCarthy**

**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

February 6, 2019

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, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 Athletics Department (Athletics), the Washington State University

Housing and Dining System (Housing), or the Washington State University Alumni Association (Alumni Association), which in aggregate represent 15.3 percent, 1.9 percent, and 12.7 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, Housing, and Alumni Association, 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, Housing, and Alumni Association 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, 2018 and 2017, and the respective changes in financial position and 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 2018, the University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, 2018, and 2017 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.

### ***Supplementary and Other Information***

Our audit was conducted for the sole purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements as a whole. The information identified in the table of contents as the Introduction and Acknowledgments are presented for purposes of additional analysis and is not a

required part of the basic financial statements of the University. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we will also issue our report dated February 6, 2019, 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.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA



# 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, 2018, with comparative information for the fiscal years 2017 and 2016. 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

The University's 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.

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.

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 for Fiscal Year 2018

The University's overall net financial position as of June 30, 2018 reflects a slight decrease of \$6 million (0.4%) over the previous year, resulting in a net position of \$1.3 billion.

In fiscal year 2018, the University implemented GASB 75 (Governmental Accounting Standards Board Statement) *Accounting and Financial Reporting for Other Post-Employment Benefits other than Pensions* (OPEB), which required the University to report the proportionate share of the State of Washington's actuarially determined liabilities for these other post-employment benefits. To account for the cumulative effect of the accounting principle change, the University restated its operating expense and net position for 2017, resulting in a \$336.6 million decrease in unrestricted net assets.

Below are financial highlights from fiscal year 2018:

- Assets and deferred outflows decreased by \$29 million to end the year at \$2.7 billion
- Liabilities and deferred inflows decreased by \$23 million to end the year at \$1.4 billion
- Capital assets, net of depreciation decreased by \$50 million, totaling \$1.7 billion
- Pension and OPEB non-current liability decreased \$92 million, totaling \$460 million due to changes in actuarial assumptions and discount rates
- Net position, which is the residual of assets after deducting liabilities, decreased by \$6 million to end the year at \$1.3 billion

Other significant changes to operations were as follows:

- Operating revenues totaled \$750 million, decreasing \$1 million from last year
- Operating expenses decreased by \$313 million to end the year at \$1.1 billion, largely due to the \$337 million expense for OPEB reflected in restated 2017 benefits expense

## Condensed Financial Information and Analysis

### ***Financial Position - Statement of Net Position***

The Statement of Net Position presents the financial condition of the University at the end of the fiscal year and reports all assets, liabilities, and deferrals of the University.

Assets are classified as current, non-current, or capital. Current assets are expected to benefit the University within twelve 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 twelve 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:** 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 – non-expendable:** The University's endowment funds, land grant endowment funds, and similar funds for which donors or external parties have imposed the restriction that the corpus is not available for expenditures but for investment purposes only.
- **Restricted – expendable:** Funds that are subject to externally imposed restrictions in which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions; such as scholarships, fellowships, research, loans, professorships, capital projects, and debt service.
- **Restricted – loans:** Funds that have been established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- **Unrestricted:** Funds that are available to the University for any lawful purpose.





Condensed **Statements of Net Position** for the last three fiscal years are as follows:

(in millions)	June 30, 2018	Restated June 30, 2017	Restated June 30, 2016
<b>Assets</b>			
Current assets	\$ 236	\$ 185	\$ 215
Non-current assets:			
Long-term investments	109	140	209
Endowment and other restricted investments	585	568	528
Other non-current assets	28	35	47
Capital assets, net of accumulated depreciation	1,703	1,753	1,670
<b>Total assets</b>	<b>2,661</b>	<b>2,681</b>	<b>2,669</b>
<b>Deferred outflows of resources</b>	<b>37</b>	<b>46</b>	<b>28</b>
<b>Total assets and deferred outflows of resources</b>	<b>2,698</b>	<b>2,727</b>	<b>2,697</b>
<b>Liabilities</b>			
Current liabilities	145	134	133
Non-current liabilities:			
Accrued leave and deferred compensation	30	24	23
Unearned revenue	8	9	9
Long-term liabilities	633	659	688
Pension	177	215	206
OPEB liabilities	283	337	
Other non-current liabilities	26	16	22
<b>Total liabilities</b>	<b>1,302</b>	<b>1,394</b>	<b>1,081</b>
<b>Deferred inflows of resources</b>	<b>92</b>	<b>23</b>	<b>16</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>1,394</b>	<b>1,417</b>	<b>1,097</b>
<b>Net position</b>			
Net investment in capital assets	1,051	1,074	966
Restricted nonexpendable	534	522	504
Restricted loans	29	33	28
Restricted expendable	162	157	217
Unrestricted	(473)	(477)	(115)
<b>Total net position</b>	<b>\$ 1,303</b>	<b>\$ 1,309</b>	<b>\$ 1,600</b>

## Significant Changes in the Statements of Net Position from 2017 to 2018

- Total current assets increased by approximately \$51 million from the prior year primarily due to \$18 million of increased net cash activities including the sale of land to the Pullman-Moscow Regional Airport project and an increase in short-term investments by \$48 million. These increases were offset by a decrease in accounts receivable of \$15 million due to improved collection efforts and decreased activity from state grants.
- Non-current assets, other than capital assets, decreased by \$20 million from fiscal year 2017. This was primarily due to long-term investments decreasing by \$31 million as more funds were moved to short term investments. Deposits held in escrow for construction companies decreased by \$6 million due to project completions offset by the \$17 million increase in endowment investments due to stronger investment returns, realized and unrealized gains over the last three years.
- For capital projects, in fiscal year 2018, buildings were placed in full year service including the Elson S. Floyd Cultural Center, the Jordan Schnitzer Museum of Art WSU, and additional expenditures for WSU Everett improvements, the SPARK, and Food Quality Building, totaling \$65 million in additions to capital assets, net of retirements. This amount was offset by construction in process, which decreased by \$19 million due to completion of many projects and offset by the total increase in accumulated depreciation of \$96 million, net of retirements, totaling \$50 million decrease in net capital assets.
- Current liabilities increased by \$11 million in fiscal year 2018, primarily as the result of a \$26 million increase in the current portion of long-term OPEB liabilities and a decrease in accounts payable of \$15 million attributable to less spending in departments, overall budget decreases, and quicker payments to vendors.
- Non-current liabilities decreased by \$103 million in fiscal year 2018 primarily due to the \$90 million decrease in pension and OPEB liability reflected by increased performance returns and a higher discount rate as compared to previous years. The University continues to pay down long-term debt without additions, which makes up the remainder of the decreased activity.
- Overall net position remained steady at \$1.3 billion with a slight decrease of \$6 million from fiscal year 2017 restated net position.

## Significant Changes in the Statements of Net Position from 2016 to 2017

- Total current assets decreased by \$30 million from 2016 to 2017. Short-term investments and cash declined \$33 million due to the spend down of reserve by academic and administrative units, intercollegiate athletics, startup of the new medical school, and the construction of the new art museum. The decline was partially offset by a \$3 million increase in accounts receivable from the prior year.
- Non-current assets, other than capital assets, decreased by \$41 million from 2016 to 2017. Long-term investments decreased by \$69 million as bond proceeds were spent to finish the SPARK, the Elson S. Floyd Cultural Center, and the Chinook Student Center remodel. Endowment investments increased by \$40 million due to investment income, realized gains, 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.
- Capital assets, net of accumulated depreciation, increased by \$83 million from 2016 to 2017 with the completion of multiple construction projects. The WSU Everett Center remodel and the WSU 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.
- Non-current liabilities increased by \$313 million in 2017 primarily due to the GASB 75 restatement of \$337 million, increasing OPEB liability, offset by long-term liabilities decreasing by \$29 million with the payment of debt service and no new debt issued and deposits held in custody of others decreased by \$5 million.
- Overall net position decreased from 2016 to restated 2017 numbers by \$291 million due to the \$337 million restatement for GASB 75 and \$48 million restatement for GASB 73, which impacted Unrestricted Net Assets. This decrease is offset by an increase in net investment in capital assets of \$124 million, restricted nonexpendable net position increase of \$18 million due to the increase in the land-grant permanent fund balances and \$4 million increase in restricted loans offset by a \$75 million decrease in restricted expendable net position.

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

The Statements of Revenues, Expenses and Changes in Net Position present the University's results of operations and non-operating items that result in the changes in net position for the year. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or non-operating.

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.

Condensed *Statements of Revenues, Expenses and Changes in Net Position* for the last three fiscal years are as follows:

(in millions)	June 30, 2018	Restated June 30, 2017	Restated June 30, 2016
<b>Operating revenues (expenses)</b>			
Tuition and fees, net	\$ 280	\$ 286	\$ 286
Grants and contracts	258	256	251
Sales and services, net	189	186	178
Other operating revenues	23	23	16
<b>Total operating revenues</b>	<b>750</b>	<b>751</b>	<b>731</b>
Operating expenses	(1,126)	(1,440)	(1,139)
<b>Operating loss</b>	<b>(376)</b>	<b>(689)</b>	<b>(408)</b>
<b>Non-operating revenues (expenses)</b>			
State and federal appropriations	243	235	210
Federal financial aid	39	33	37
Interest on debt	(31)	(29)	(27)
Federal interest subsidy on debt	2	3	3
Gifts and contributions	35	36	37
Investment income, net	48	52	27
Other non-operating revenues(expenses)	16	6	(7)
<b>Net non-operating revenues (expenses)</b>	<b>352</b>	<b>336</b>	<b>280</b>
<b>Income (loss) before other changes</b>	<b>(24)</b>	<b>(353)</b>	<b>(128)</b>
Capital appropriations	5	52	28
Capital gifts and grants	2	1	4
Additions to permanent endowments	11	9	12
<b>Total other revenues</b>	<b>18</b>	<b>62</b>	<b>44</b>
<b>Decrease in net position</b>	<b>(6)</b>	<b>(291)</b>	<b>(84)</b>
Net position, beginning of year	1,309	1,600	1,684
Change in accounting principle		(337)	
Change in net positions	(6)	46	(84)
<b>Net position, end of year</b>	<b>\$ 1,303</b>	<b>\$ 1,309</b>	<b>\$ 1,600</b>



## Significant Changes in the Statement of Revenues, Expenses, and Changes in Net Position from 2017 to 2018

Current operating revenue remained steady with a \$1 million decrease in fiscal year 2018 due to the following:

- Gross tuition and fees increased by \$14 million largely driven by a 2.2 percent increase in resident undergraduate tuition rates and 2 percent increase in students enrolled. The increase was offset by a \$2 million decrease in accrued tuition revenue and a \$18 million increase in waivers and scholarship allowance, resulting in a net tuition decrease of \$6 million.
- Grants and contracts from federal, state, and private sources increased approximately \$2 million to \$258 million. The majority of the increase this fiscal year came in the federal research area, with \$6 million growth led by increased awards in the Department of Defense, Education, Health, and Human Sciences offset by a decrease in spending of state awards of \$4 million.
- Sale and services revenue increased by \$3 million, primarily due to housing and dining increases for fall fiscal year 2018.

Overall operating expenses decreased by \$313 million primarily due to the following:

- The cumulative effect of the change in accounting principle for OPEB (GASB 75) has the largest impact on benefit expense decreasing by \$322 million. Fiscal year 2017 benefit expense was restated to properly account for the cumulative effect of the accounting change, resulting in \$337 million increase in cumulative benefit expense to reflect the retroactive adjustment to date. The fiscal year 2018 benefits expense totaled \$25 million with a proportionate share of \$313 million of the state's OPEB liability. The decrease in the year over year liability is attributable to a lower discount rate and changes in actuarial assumptions.
- Salaries and wage increases of \$11 million are attributable to a 2% increase for classified employees in July 2017, 1% increase for faculty, exempt staff, and graduate students effective January 1, 2018, totaling at just over \$3 million. In addition, there was new salary cost of \$4 million for medical salaries and a \$4 million increase in salary costs for other departments (period incremental increases and hiring new employees at higher rates). The overall number of employees remained flat from fiscal year 2017 to fiscal year 2018.
- Payments to suppliers decreased by \$8 million due to conservative spending of lab supplies, interdepartmental supplies, and delays on major repairs for facilities.
- Depreciation increased \$5 million due to new buildings placed in service at the end of fiscal year 2017, incurring a full year of depreciation, including the Elson S. Floyd Cultural Center, Jordan Schnitzer Museum of Art, and WSU Everett Campus Center.

Non-operating revenues (net of expenses) increased by \$16 million due to the following:

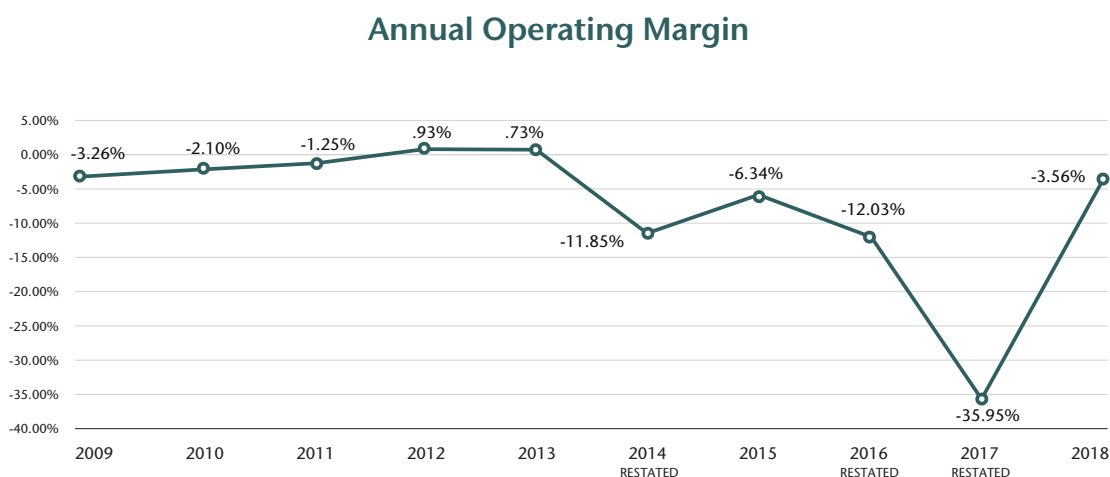
- State appropriations increased by \$8 million due to funding for Elson S. Floyd College of Medicine of \$3 million, salary appropriations of \$4 million, and other programs increasing by approximately \$1 million.
- Federal Pell Grants increased by \$5 million due to increased need on campus for grants after the Perkins Loans program expired in September 2017.
- Interest on capital assets increased by \$2 million.
- Investment income, net of expenses decreased by \$4 million due to larger unrealized gains in fiscal year 2017. The overall portfolio continuously generates income, however, fiscal year 2018 was slightly lower than fiscal year 2017 due to the increase in the permanent land trust endowment and increase in market value.
- Other non-operating revenues increased by \$10 million primarily due to sale of the land to the City of Pullman Airport project compared to previous year sales, change of \$13 million. This change was offset by the loss on the disposal of buildings (removal due to airport land sale) of \$3 million.

## Significant Changes in the Statements of Revenues, Expenses, and Changes in Net Position from 2016 to 2017

- Current operating revenue increased by \$20 million in 2017 from the previous year. Federal grant and contract revenue increased by \$5 million with an increase in federal grants for the new medical school. 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.
- Overall operating expenses increased by \$301 million primarily due to the GASB restatement now found in 2017 benefits expense of \$337 million. This amount is offset by the restatement of GASB 73 that decreased benefits expense from 2016 by \$51 million and an increase in salaries and wages expense that increased by \$16 million in part due to a 1.8% mass salary increase for classified staff.
- In 2017, non-operating revenue increase by \$55 million. State appropriations increased by \$26 million because of the additional appropriation from the state college affordability act. Investment income, net of expense, increased by \$25 million caused by an increase in investment earning 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.
- Capital appropriations increased by \$24 million in 2017 from 2016. 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.

## Financial Health and Flexibility

Below are commonly used ratios by Moody's Rating Agency to assess annual operating performance. The annual operating margin 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.

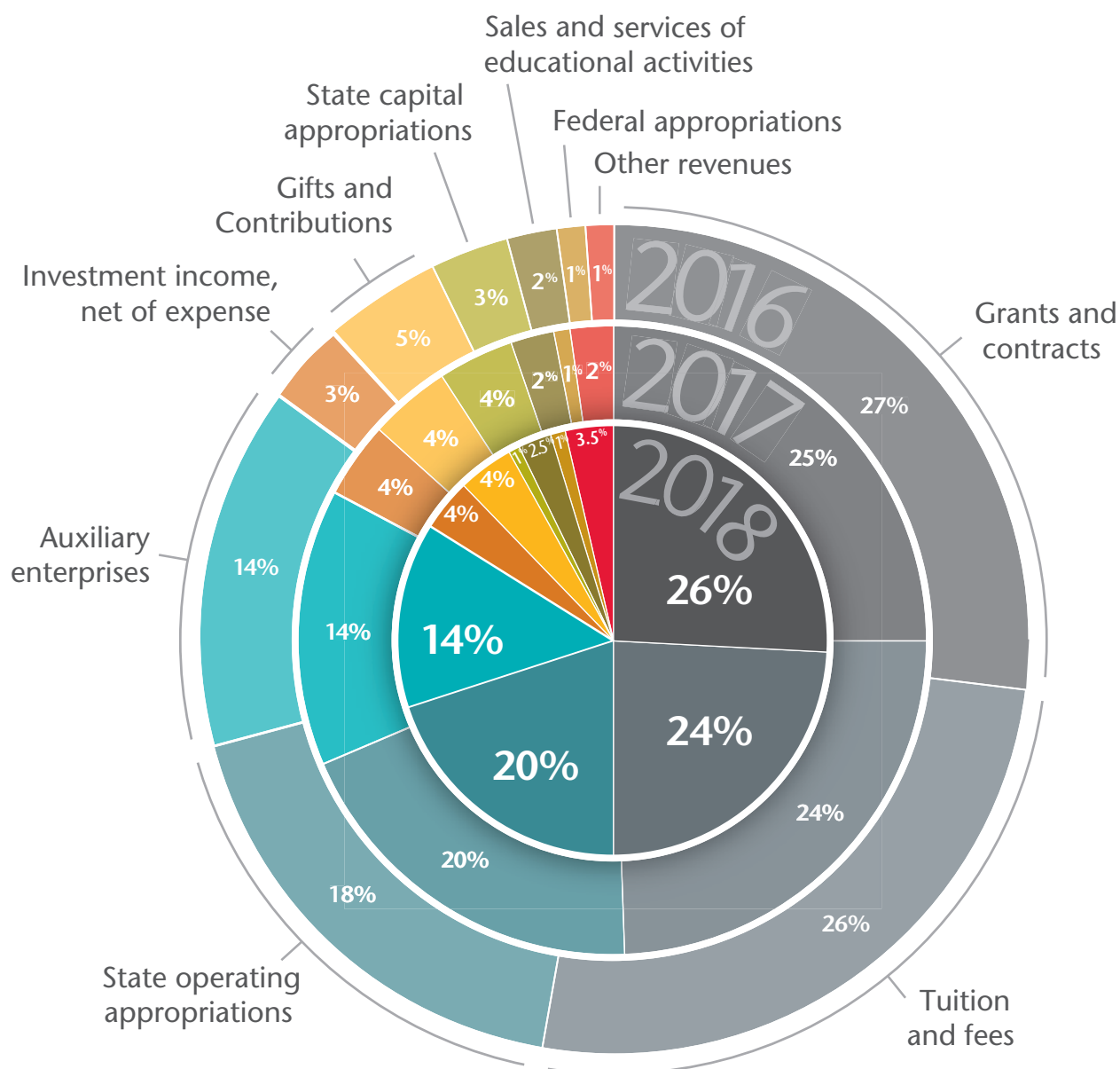


In fiscal year 2014 and onward, there have been numerous changes in accounting principles that have impacted this ratio and others. In fiscal year 2015, GASB 68 (pensions) was implemented which required a restatement of the fiscal year 2014 Statement of Net Position to record the University's share of the State's net pension obligation resulting in operating expenses increasing by \$85 million. In fiscal year 2016, additional pension expense of \$14 million increased operating expenses. Also in fiscal year 2016, GASB 73 was implemented, which required a restatement of pension expense of \$48 million. In fiscal years 2017 and 2018, GASB 75 (OPEB) resulted in a restatement of \$337 million for fiscal year 2017 and an additional benefit expense of \$25 million in fiscal year 2018.

Fiscal year 2018 experienced considerable improvement compared to both fiscal years 2017 and 2016, increasing to -3.56%, the highest this ratio has achieved since fiscal year 2013.

## Revenues from all Sources

For the Years Ended June 30, 2018, 2017, and 2016



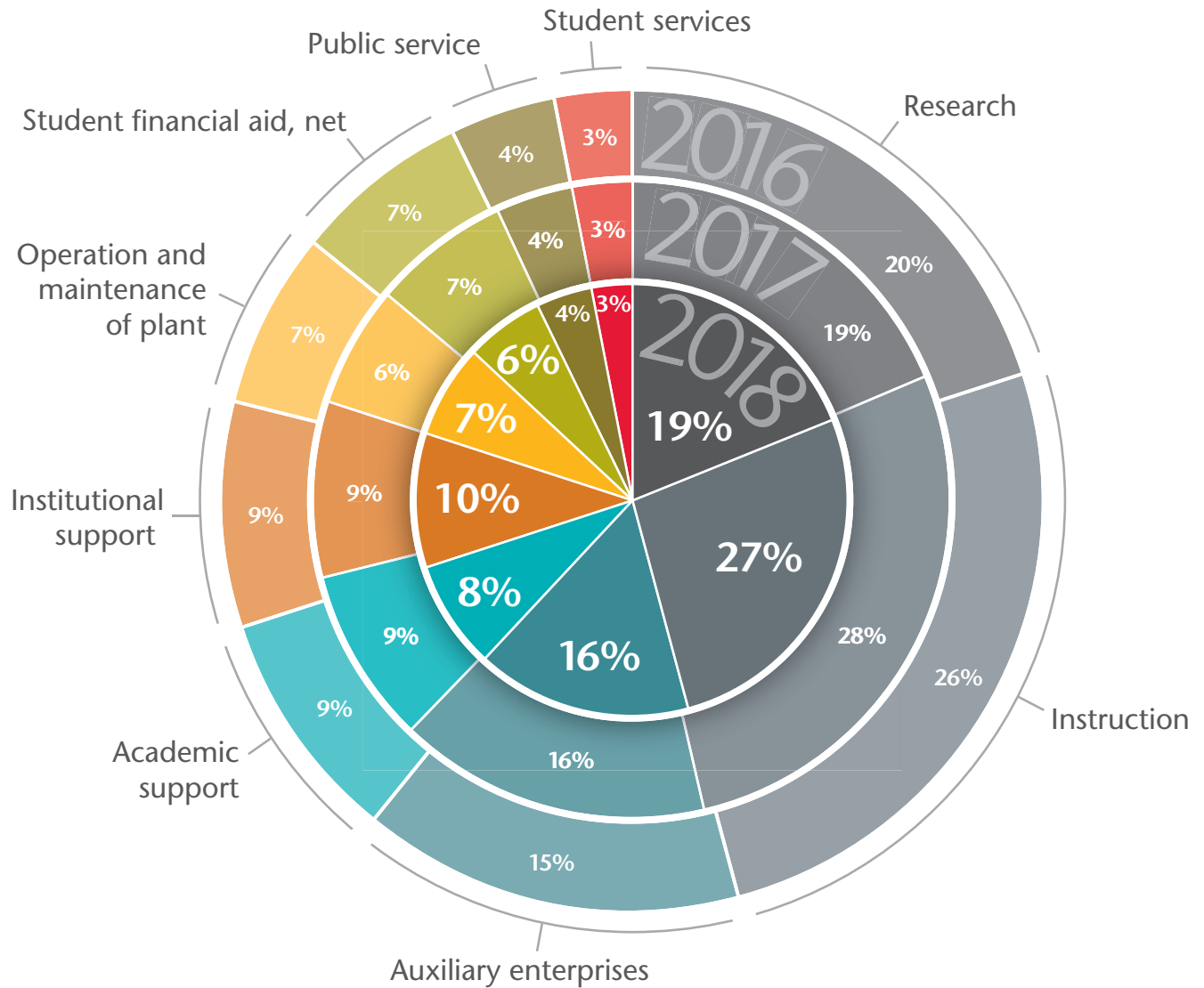
As the above chart shows, the University has a diversified revenue base. No single source of revenue generated more than 26% of the total fiscal year revenues for fiscal year 2018. In fiscal year 2018, grants and contracts generated \$297 million or 26% of total combined revenue. These funds support the university's research activities, which allow students to work with nationally recognized faculty as part of their educational experience. Net tuition and fees set by the state legislature for all public universities in Washington generated \$280 million or 24% in 2018, 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, represents 4% of total revenue, similar to gifts and contributions.



## Operating Expenditures by Functional Classification

For the Years Ended June 30, 2018, 2017, and 2016

(Note: For the purposes of these graphs, depreciation pension expense, and other post-employment benefit expenses has been allocated to the programs.)



The cost of instruction lands at approximately 27% in fiscal year 2018, slightly lower than the previous year. The increase in fiscal year 2017 was driven by a 1% increase in faculty and staff and 1.8% increase in salaries. Research costs have remained steady around 19% and auxiliary enterprises have remained at 16%. Institutional support, public service expense, student service expense, and student financial aid expense continue to stay constant.

## Capital Assets and Long-Term Liabilities

### Capital Assets

In fiscal year 2018, key projects were substantially completed and placed in full year service, including the Elson S. Floyd Cultural Center, the Jordan Schnitzer Museum of Art WSU, and additional expenditures for WSU Everett campus improvements, the SPARK, and the Food Quality Building, totaling \$65 million. Construction in process decreased by \$19 million due to completion of many projects and total accumulated depreciation increased by \$96 million, net of retirements, totaling \$50 million decrease in net capital assets.

The increase in fiscal year 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 WSU Everett University Center aided in the increase.

See note 8 for more information.

	June 30, 2018	June 30, 2017	June 30, 2016
Land	\$ 34.4	\$ 34.6	\$ 34.5
Buildings, net	1,357.7	1,370.8	1,233.0
Construction in process	31.0	50.4	93.9
Other improvements and infrastructure, net	169.0	175.6	180.7
Equipment, net	52.7	65.1	72.0
Library resources, net	57.7	56.6	55.5
<b>Total capital assets, net</b>	<b>\$ 1,702.5</b>	<b>\$ 1,753.1</b>	<b>\$ 1,669.6</b>

### Long-Term Liabilities

In fiscal year 2018, the University's long-term liabilities decreased by \$91 million to end the year at \$1.1 billion

In fiscal year 2018, and in fiscal year 2017, the University did not issue any new debt allowing for decreases in general revenue bonds, state of Washington general obligation bonds, and capital leases.

Pension obligation was restated for fiscal year 2016 to include the \$48 million GASB 73 adjustment. Pension obligation continues to fluctuate year after year to accommodate changes in actuarial assumptions and the discount rate as determined by the state.

In fiscal year 2018, the University implemented GASB 75, *Accounting and Financial Reporting for Other Post-Employment Benefits other than Pensions* (OPEB), which required the University to report the proportionate share of the state of Washington's actuarially determined liabilities for these post-employment benefits. This cumulative change reflects \$337 million in fiscal year 2017 and a slight decrease in liability for fiscal year 2018 to \$313 million due to changes in actuarial assumptions and the discount rate.

See note 14 for more information.

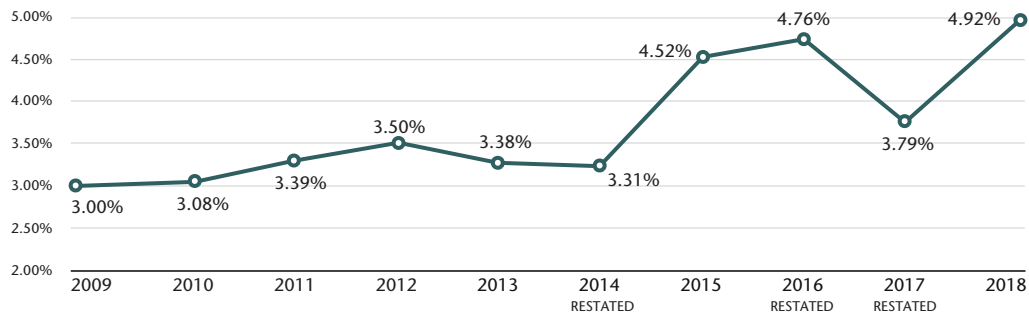
The table below summarizes outstanding liabilities:

	June 30, 2018	Restated June 30, 2017	Restated June 30, 2016
Revenue and refunding bonds payable	\$ 624.0	\$ 646.7	\$ 668.1
State of Washington general obligation bonds	18.7	21.3	25.5
Capital leases	13.9	15.5	17.7
Pension obligation liability	178.9	215.0	205.6
Other post-employment benefits	313.4	341.8	-
<b>Total long-term liabilities</b>	<b>\$ 1,148.9</b>	<b>\$ 1,240.3</b>	<b>\$ 916.9</b>

## Debt Ratios

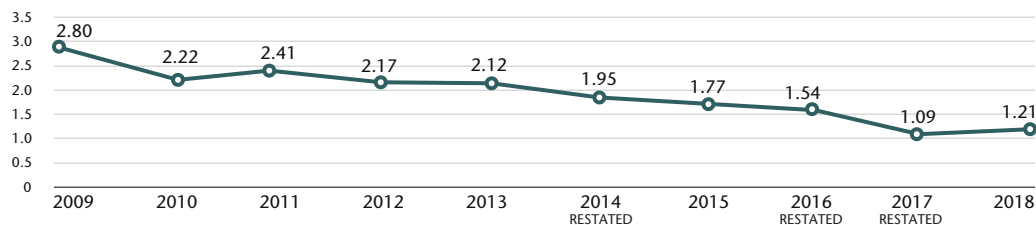
The debt service to operating expense ratio provides an indicator of the University's ability to repay annual principal and interest relative to its overall operating expenses. A lower percentage indicates the greater ability to repay debt service. In fiscal year 2016, the University issued general revenue bonds that increased the amount of principal and interest payments in fiscal year 2017, however, the OPEB restatement increased operating expenses by \$337 million in that same year. As a result, the ratio improved to 3.79 percent for fiscal year 2017. For fiscal year 2018, total debt service levels remained flat, and operating expenses declined versus fiscal year 2017, resulting in a ratio of 4.92 percent.

### Debt Service to Expenses



The financial reserves ratio (as defined by Moody's) measures coverage of debt by financial reserves or funds a university can access in the intermediate term. The fiscal year 2018 ratio shows a slight increase over the fiscal year 2017 ratio, after several years of decline, increasing expendable resources to debt to 1.23 times over.

### Financial Resources to Direct Debt



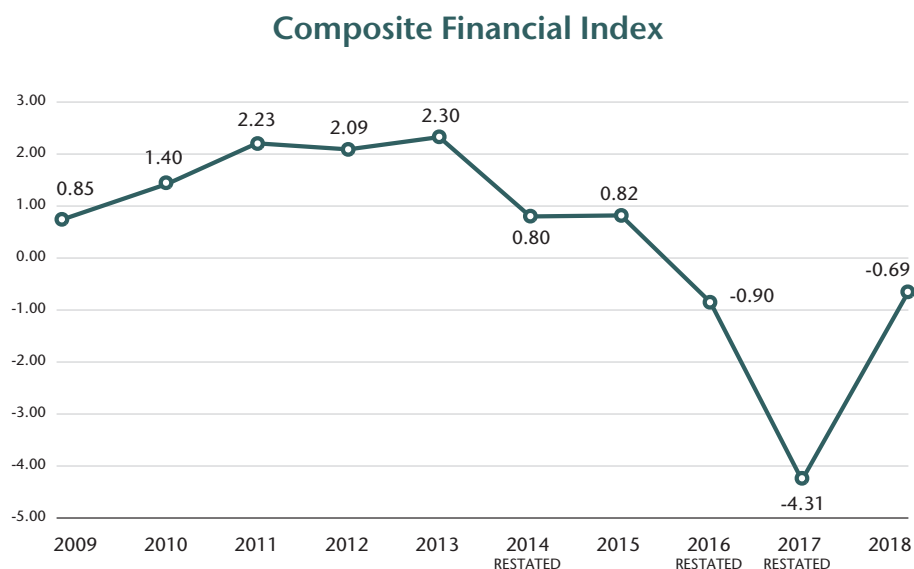


## Financial Health and Flexibility

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 ten 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 in fiscal year 2014 as a result of recognizing WSU's share of the state's pension liability (GASB 68), decreasing in fiscal year 2016 due to a spending down of reserves and the restatement of the supplemental retirement plan (GASB 73). In fiscal year 2017, there was a dramatic decrease due to the OPEB restatement (GASB 75) with a slight recovery in fiscal year 2018 to a level just higher than fiscal year 2016.



## Economic Outlook

The Washington State Economic and Revenue Forecast Council September 2018 estimate of state general fund revenues indicated an increase of \$275 million for the current biennium over the June forecast. The September forecast includes higher personal income and employment than the June forecast, and revenue collections in the current biennium continue to increase from strong retail sales and business transactions.

WSU's 2017-19 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 increase slightly in the coming fiscal year due to tuition rate increases and increased enrollment. Resident undergraduate tuition was increased by 2% for the 2018-19 academic year as allowed by the Washington State Legislature. Tuition for professional programs in Veterinary Medicine, Pharmacy, and Medicine increased between 5% - 10% for the 2018-19 academic year. Student services and activities (S&A) fees decreased or remained flat at all campuses except Spokane, where the fee increased by 2%. Other student fees either remained flat or increased slightly. Enrollment is expected to be about 27,400 annual average full time equivalent students in the 2018-19 academic year for the four-campus system, about a 1% increase over the prior year.

The capital budget for 2017-19 is estimated at \$157.3 million. The budget includes state appropriations and locally funded capital projects. Federal appropriations for the University's land-grant programs are expected to remain near the \$10 million funding level in 2019.

Federally sponsored research programs are the largest portion of externally funded grant expenditures. 71% of University sponsored projects were supported by federal funding and 29% by non-federal funding in 2018. Federal and non-federal funded project expenditures in 2018 were about the same as in fiscal year 2017. The first four months of fiscal year 2019 indicate that sponsored program expenditures have grown about 10% over the same time period in 2018, so overall higher sponsored project expenditures for the entire fiscal year are expected. 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.



Assets	2018	Restated 2017
<b>Current assets</b>		
Cash and cash equivalents (Note 2)	\$ 97,334,330	\$ 79,480,649
Prepaid expenses	686,927	687,426
Inventories (Note 5)	15,394,531	15,167,254
Accounts receivable, net (Note 6)	62,579,997	78,145,345
Investments, current portion (Note 3)	59,807,678	11,521,883
Subtotal current assets	235,803,463	185,002,557
<b>Non-current assets</b>		
Long-term investments (Note 3)	109,283,818	139,930,216
Endowment investment (Note 3)	584,706,672	568,114,032
Deposits in escrow	1,646,176	7,876,241
Assets held in trust for agencies	3,965,140	3,959,811
Loans receivable, net (Note 7)	21,918,704	22,326,001
Capital assets, net of accumulated depreciation (Note 8)	1,702,512,761	1,753,088,428
Pension assets, net (Note 15)	1,259,899	552,438
Subtotal non-current assets	2,425,293,170	2,495,847,167
<b>Total assets</b>	<b>2,661,096,633</b>	<b>2,680,849,724</b>
<b>Deferred outflows of resources (Note 14)</b>	37,213,623	45,708,870
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 9)	66,253,920	81,723,468
Due to Washington State University Foundation	5,118,612	3,548,668
Deposits	6,543,848	5,833,440
Unearned revenue, current portion (Note 10)	12,058,140	13,245,636
Long-term liabilities, current portion (Note 14)	55,427,191	29,646,404
Subtotal current liabilities	145,401,711	133,997,616
<b>Non-current liabilities</b>		
Accrued leave (Note 9)	29,670,238	23,561,608
Deposits held in custody for others	26,464,181	16,836,506
Unearned revenue (Note 10)	8,007,924	8,630,570
Long-term liabilities (Note 14)	633,619,618	659,049,114
Pension liability (Note 15)	177,094,847	215,040,786
Other post-employment benefits liability (Note 16)	282,670,933	336,630,932
Subtotal non-current liabilities	1,157,527,741	1,259,749,516
<b>Total liabilities</b>	<b>1,302,929,452</b>	<b>1,393,747,132</b>
<b>Deferred inflows of resources (Note 10)</b>	91,851,165	23,454,796
<b>Net position</b>		
Net investment in capital assets	1,051,010,988	1,074,755,115
Restricted nonexpendable	534,361,171	522,143,459
Restricted loans	29,153,308	32,503,898
Restricted expendable	162,351,349	157,237,777
Unrestricted	(473,347,177)	(477,283,583)
<b>Total net position</b>	<b>\$ 1,303,529,639</b>	<b>\$ 1,309,356,666</b>

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



<b>Assets</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 320,903	\$ 314,068
Due from Washington State University	5,118,612	3,548,668
Other receivables	6,065,528	3,096,916
Pledges receivable, net	35,417,044	38,584,903
Endowment investment securities	439,594,009	407,062,978
Notes receivable, net	534,072	564,755
Notes receivable with joint venture	800,000	-
Furniture, fixtures, and equipment (net of accumulated depreciation of \$1,682,042 and \$1,592,814, respectively)	62,091	151,318
Land and real estate	1,360,433	1,537,500
Assets held in charitable trusts	31,857,922	32,129,310
Contributions receivable from charitable trusts	5,768,728	7,154,472
Beneficial interest in perpetual trusts	33,851,262	31,806,751
<b>Total assets</b>	<b>560,750,604</b>	<b>525,951,639</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1,097,688	1,298,739
Annuities payable	13,671,976	13,747,985
Remainder interest payable	1,613,739	1,819,704
Notes payable with joint venture	850,000	-
<b>Total liabilities</b>	<b>17,233,403</b>	<b>16,866,428</b>
<b>Net assets</b>		
Without donor restrictions	5,310,614	3,522,389
With donor restrictions	538,206,587	505,562,822
<b>Total net assets</b>	<b>543,517,201</b>	<b>509,085,211</b>
<b>Total liabilities and net assets</b>	<b>\$ 560,750,604</b>	<b>\$ 525,951,639</b>

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

Statement of Revenues, Expenses, and Changes in Net Position  
for the Years Ended June 30, 2018 and June 30, 2017

Revenues	2018	Restated 2017
Operating revenues		
Tuition and fee revenue, net	\$ 279,746,459	\$ 286,137,428
Federal grants and contracts	141,353,800	135,289,800
State grants and contracts	86,412,571	90,500,606
Local grants and contracts	30,441,829	30,599,662
Sales and services of educational departments	25,617,049	24,874,984
Auxiliary enterprises	163,827,555	160,268,691
Other operating revenues	22,628,651	23,374,670
Total operating revenues	750,027,914	751,045,841
Expense		
Operating expenses		
Salaries and wages	524,282,994	513,459,638
Benefits	170,024,695	492,259,903
Scholarships and fellowships	63,480,962	65,496,337
Utilities	27,731,982	25,935,110
Payments to suppliers	138,855,246	147,079,552
Purchased services	97,875,474	97,005,654
Depreciation	104,315,068	98,855,325
Total operating expenses	1,126,566,421	1,440,091,519
<b>Net operating loss</b>	<b>(376,538,507)</b>	<b>(689,045,678)</b>
<b>Non-operating revenues (expenses)</b>		
State appropriations	232,903,044	224,658,120
Federal appropriations	9,769,670	10,067,823
Federal Pell Grants	38,623,107	33,477,484
Interest on capital assets—related debt	(31,089,282)	(28,813,394)
Federal bond interest subsidy	2,596,254	2,645,551
Gifts and contributions	35,493,876	35,912,859
Investment income, net of expense	48,314,441	51,845,990
Other non-operating revenues (expenses)	15,809,027	5,891,939
Total non-operating revenues (expenses)	352,420,137	335,686,372
<b>Income before other revenues, expenses, gains or losses</b>	<b>(24,118,370)</b>	<b>(353,359,306)</b>
<b>Capital additions (deductions)</b>		
Capital appropriations	5,401,080	52,380,539
Capital grants and gifts	1,565,894	1,279,686
Additions to permanent endowments	11,324,369	8,605,562
Total other revenues	18,291,343	62,265,787
<b>Decrease in net position</b>	<b>(5,827,027)</b>	<b>(291,093,519)</b>
<b>Net Position</b>		
Net position, beginning of year	1,309,356,666	1,600,450,186
Change in accounting principle as a result of GASB 75		(336,630,932)
Net position, beginning of year restated	1,309,356,666	1,263,819,254
<b>Increase (decrease) in net position</b>	<b>(5,827,027)</b>	<b>45,537,412</b>
<b>Net position, end of year</b>	<b>\$ 1,303,529,639</b>	<b>\$ 1,309,356,666</b>

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

	2018		
	Without donor restrictions	With donor restrictions	Total
<b>Revenue and support:</b>			
Contributions	\$ 1,571,634	\$ 61,639,954	\$ 63,211,588
Investment return, net of expenses	(99,068)	34,874,819	34,775,751
Management and advancement fees	6,642,001		6,642,001
Change in value of split-interest agreements		(4,618,521)	(4,618,521)
Support provided by Washington State University	4,695,255		4,695,255
Other income	469,549	2,055,010	2,524,559
<b>Total revenue and support</b>	<b>13,279,371</b>	<b>93,951,262</b>	<b>107,230,633</b>
Net assets released from restrictions	61,307,497	(61,307,497)	-
<b>Expenses:</b>			
Support provided to/for Washington State University:			
Restricted distributions	39,774,551		39,774,551
Endowment income distributions	15,958,512		15,958,512
Endowment administration fees	5,741,176		5,741,176
Fundraising	6,858,665		6,858,665
General and administrative expenses	4,465,739		4,465,739
<b>Total expenses</b>	<b>72,798,643</b>	<b>-</b>	<b>72,798,643</b>
Change in net assets	1,788,225	32,643,765	34,431,990
Net assets—beginning of year	3,522,389	505,562,822	509,085,211
Net assets—end of year	<b>\$ 5,310,614</b>	<b>\$ 538,206,587</b>	<b>\$ 543,517,201</b>

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

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and support:</b>			
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
<b>Total revenue and support</b>	<b>11,077,080</b>	<b>107,414,369</b>	<b>118,491,449</b>
Net assets released from restrictions	58,729,218	(58,729,218)	
<b>Expenses:</b>			
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
<b>Total expenses</b>	<b>70,011,132</b>	<b></b>	<b>70,011,132</b>
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	<b>\$ 3,522,389</b>	<b>\$ 505,562,822</b>	<b>\$ 509,085,211</b>

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



	2018	2017
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 347,215,358	\$ 333,957,168
Grant and contracts	270,774,299	253,638,628
Payments to suppliers	(137,288,348)	(145,170,639)
Payments for utilities	(26,389,832)	(27,112,762)
Purchased services	(97,739,974)	(97,004,633)
Payments to employees	(523,390,791)	(513,930,748)
Payments for benefits	(157,536,182)	(152,450,346)
Payments for scholarships and fellowships	(131,542,809)	(116,018,631)
Loans issued to students	(3,244,610)	(2,966,773)
Collection of loans to students	2,674,786	4,515,760
Auxiliary enterprise receipts	163,835,999	162,628,596
Sales and service of educational departments	24,787,403	25,165,025
Other receipts	25,354,391	21,919,167
<b>Net cash used by operating activities</b>	<b>(242,490,310)</b>	<b>(252,830,188)</b>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	230,936,487	218,390,821
Federal appropriations	9,324,259	7,601,344
<b>Gifts for other than capital purposes</b>		
Private gifts	35,403,059	35,121,482
Additions to permanent endowment	11,324,369	94,837
Agency fund receipts	38,584,459	37,662,028
Agency fund disbursements	(36,967,739)	(36,769,288)
Federal Direct Loan receipts	176,371,753	169,734,707
Federal Direct Loan disbursements	(168,915,172)	(163,448,967)
Federal Pell Grants	38,623,107	33,522,369
Cash received from property	16,056,989	3,656,554
<b>Net cash provided by noncapital financing activities</b>	<b>350,741,571</b>	<b>305,565,887</b>
<b>Cash flows from capital and related financing activities</b>		
Capital appropriations	19,451,536	52,737,076
Capital grants and gifts received	1,570,862	1,151,618
Purchases of capital assets	(59,949,029)	(181,603,980)
Principal paid on capital debt and leases	(24,276,031)	(23,347,690)
Interest paid on capital debt and leases	(29,146,700)	(29,458,820)
<b>Net cash used by capital and related financing activities</b>	<b>(92,349,362)</b>	<b>(180,521,796)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	1,057,490,595	241,574,907
Purchases of investments	(1,098,290,553)	(161,402,943)
Investment income	42,751,740	34,996,696
<b>Net cash provided by investing activities</b>	<b>1,951,782</b>	<b>115,168,660</b>
Net increase (decrease) in cash and cash equivalents	17,853,681	(12,617,437)
Cash—beginning of year	79,480,649	92,098,086
<b>Cash—end of year</b>	<b>\$ 97,334,330</b>	<b>\$ 79,480,649</b>

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

	2018	Restated 2017
<b>Operating loss</b>	\$ (376,538,507)	\$ (689,045,678)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	104,315,068	98,855,325
Changes in assets and liabilities		
<b>Changes in assets</b>		
Deposits in escrow	(6,230,064)	3,774,660
Prepaid expenses	(498)	(123,790)
Inventories	227,277	115,675
Accounts receivable, net	(15,565,348)	3,477,257
Investments	35,137,508	(69,507,128)
<b>Changes in liabilities</b>		
Accounts payable and accrued liabilities	15,469,548	(2,528,012)
Deferred revenue	1,810,143	(510,119)
Due to Washington State University Foundation	(1,569,945)	(262,021)
Deposits	(10,358,936)	(415,112)
Long-term debt-current portion	(1,437,679)	27,789,895
Pension and other post-employment benefits obligation	12,251,123	375,548,860
<b>Net cash used by operating activities</b>	<b>\$ (242,490,310)</b>	<b>\$ (252,830,188)</b>
Significant noncash transactions		
Loss on disposal of capital assets	\$ 3,177,193	\$ 503,748
Amortization expense	3,226,475	3,150,514
Capital assets acquired through gifts	-	\$ 128,068



# Washington State University Foundation (A Nonprofit Corporation)

## Consolidated Statements of Cash Flows for Years Ended June 30, 2018, and June 30, 2017

<b>Cash flows from operating activities:</b>	<b>2018</b>	<b>2017</b>
Change in net assets	\$ 34,431,990	\$ 48,480,317
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	89,228	90,708
Net realized and unrealized (gains) on investments	(31,956,489)	(49,466,532)
Decrease in value of split-interest agreements	4,618,521	3,520,807
Contributions and income restricted for investments in endowments and trusts	(25,268,043)	(13,380,660)
Changes in assets and liabilities:		
Due from Washington State University	(1,569,944)	(262,021)
Other receivables	(2,968,612)	(2,205,569)
Pledges receivable	3,167,859	(2,497,374)
Contributions receivable from charitable trusts	22,495	22,495
Accounts payable and accrued liabilities	(174,444)	543,762
<b>Net cash used in operating activities</b>	<b>(19,607,439)</b>	<b>(15,154,067)</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(139,719,759)	(118,362,701)
Sales of investments	133,682,807	120,011,730
Issuance of notes receivable with joint venture	(800,000)	-
Proceeds from sale of land	302,500	75,750
Proceeds from principal payments on notes receivable	30,683	29,031
<b>Net cash provided by (used in) investing activities</b>	<b>(6,503,769)</b>	<b>1,753,810</b>
<b>Cash flows from financing activity:</b>		
Contributions and income restricted for investments in endowments and trusts	25,268,043	13,380,660
Issuance of debt with joint venture	850,000	-
<b>Net cash provided by financing activities</b>	<b>26,118,043</b>	<b>13,380,660</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>6,835</b>	<b>(19,597)</b>
Cash and cash equivalents—beginning of year	314,068	333,665
Cash and cash equivalents—end of year	<b>\$ 320,903</b>	<b>\$ 314,068</b>

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

# Notes to the Financial Statements

June 30, 2018

*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 19. The WSUAA full financial statements can be obtained by contacting the Lewis Alumni Centre on the WSU Pullman campus or calling (509) 335-2586.



# Notes to the Financial Statements

## ***Affiliated Organizations***

The Students Book Corporation is a 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 220 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, include 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 statements 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 to the face amount of bonds payable. Related amortization is included in interest expense in the statements of revenues, expenses and changes in net position.

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**

In 2018, the University implemented GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions (OPEB). This statement replaces the requirements of Statement No. 45 and applies to government employers who provide OPEB plans to their employees. More details can be found in Note 16.

GASB has issued Statement No. 81, Irrevocable Split-Interest Agreements, of which the University has none. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement, effective for financial statements for periods beginning after December 15, 2016.

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. This is effective for fiscal years beginning after June 15, 2018. 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 and are placed in an irrevocable trust for the sole purpose of extinguishing debt. The University holds no debt that is defeased in-substance.

## 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 acquisition 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 2018 and 2017 was \$500,159 and \$4,167,147 respectively.

In accordance with GASB Statement No. 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, 2018 and at June 30, 2017 no assets had been written down.

## Deferred Outflows of Resources

Deferred outflow 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 position.

## 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 position.

## 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 principal.
- *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 revenues 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 year ending June 30, 2018 and June 30, 2017 were \$139,941,085 and \$120,197,457 respectively.

## Reclassifications, Restatements and Changes in Accounting Principles

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 the implementation of GASB Statement No. 75, fiscal year 2017 has been restated.

The University implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) for the fiscal year 2018 financial reporting. Since the University reports two years of comparison information on the Statement of Revenues, Expenses, and Changes in Net Positions, this change in accounting principle resulted in a restatement of ending net position for fiscal year 2017.

GASB No. 75 establishes new actuarial methods and discount rate standards for the measurement and recognition of the cost of post-employment benefits provided to the employees of State and local governmental employers. This statement replaces GASB No. 45 *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. As a result of implementing GASB No. 75, the University now recognizes a proportionate share of the State of Washington's actuarially determined total OPEB liability, deferred inflows of resources, deferred outflows of resource and OPEB expense. Prior to adopting this Statement the University's financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expense based on cash contributions paid to the OPEB plan administrator. In addition to the reporting changes above, implementation of this statement resulted in a restatement of fiscal year 2017 ending net position. The change is reflected in the Statement of Revenues, Expenses, and Change in Net Position. Note 16 Other Post-Employment Benefits gives more information and a two year comparison.

Net position at June 30, 2017 (As previously reported)	\$1,645,987,598
Change in accounting principle as a result of GASB 75	(336,630,932)
Net position at June 30, 2017 (As restated)	<b>\$1,309,356,666</b>



## 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, 2018 and as of June 30, 2017, the carrying amount of these University's cash funds, were \$48,669,639 and \$54,327,556 respectively, as represented in the table below.

Table 1: Cash and cash equivalents

	2018	2017
Cash	\$ 48,669,639	\$ 54,327,556
Cash equivalents	48,642,086	25,130,487
Deposits with fiscal agents	22,605	22,606
<b>Cash and cash equivalents</b>	<b>\$ 97,334,330</b>	<b>\$ 79,480,649</b>

### 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.





### 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.

Investments in the Local Government Investment Pool, the Bank short term investment funds and bank deposits, including savings accounts and certificates of deposit are reported at amortized cost and all other University investments are reported at fair value as permitted by GASB 31.

#### 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, 2018, the University had the following investments, maturities, credit ratings and effective durations:

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

	2018 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	\$ 22,922,790	\$ 22,922,790				0.18	A1/P1	
U.S. Treasury	240,537	240,537				0.11	AAA	
Other—Bank short term investment funds*	1,447	1,447				0.01	NR	
Local Government Investment Pool*	25,477,312	25,477,312				0.09	NR	
Total cash equivalents	48,642,086							
Current investments								
U.S. Treasury	46,056,868	46,056,868				0.65	AAA	
Agency securities	13,270,495	13,270,495				0.28	AAA	
Mortgage backed securities	480,315	480,315				0.07	AAA	
Total current investments	59,807,678							
Non-current, long term investments								
U.S. Treasury	39,584,300		\$39,584,300			1.38	AAA	
Mortgage-backed securities	58,963,969		8,612,827	\$8,884,310	\$41,466,832	0.86	AAA	
Fixed income mutual funds	9,864,553		9,864,553			1.02	N/A	
Subtotal non-current operating fund investments	108,412,822							
Non-marketable equity	870,996							
Total non-current, long term investments	109,283,818							
Total university investments	\$ 217,733,582							

\*Valued at amortized cost as per GASB79

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. Treasury	9,790,757	9,790,757				0.58	AAA
Agency securities							
Mortgage backed securities	1,731,126	1,731,126				0.07	AAA
Total current investments	11,521,883						
Non-current, long term investments							
U.S. Treasury	56,797,570		\$ 56,797,570			1.37	AAA
Agency securities	13,291,669		13,291,669			0.88	AAA
Mortgage backed securities	58,903,615		6,806,423		\$ 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						

\*Valued at amortized cost as per GASB79

### 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, 2018, and June 30, 2017, \$181,956,893 and \$140,805,666 of the University's operating fund investments, held by Wells Fargo in the bank's name as agent for the University, and \$437,619 and \$290,928 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 2018	Fair value 2017
Commercial paper	\$ 22,922,790	
U.S. Treasury	85,881,705	\$ 66,588,327
Agency securities	13,270,495	13,291,669
Mortgage backed securities	59,444,284	60,634,742
Subtotal	181,519,274	140,514,738
Marketable global equities	437,619	290,928
<b>Total investments exposed to custodial credit risk</b>	<b>\$ 181,956,893</b>	<b>\$ 140,805,666</b>

## 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, 2018 and June 30, 2017, were \$237,933 and \$291,332 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	2018	Level 1	Level 2	Level 3
<b>Fixed income</b>				
U.S. Treasury	\$ 85,881,705	\$ 85,881,705	-	-
Agency securities	13,270,495	-	\$ 13,270,495	-
Mortgage backed securities	59,444,284	-	59,444,284	-
Fixed income mutual funds	9,864,553	9,864,553	-	-
Commercial paper	22,922,790	-	22,922,790	-
<b>Total fixed income investments</b>	<b>191,383,827</b>	<b>95,746,258</b>	<b>95,637,569</b>	-
<b>Equity</b>				
Non-marketable equities	870,996	-	-	\$ 870,996
<b>Total equity investments</b>	<b>870,996</b>	-	-	<b>870,996</b>
<b>Total fair value by level investments</b>	<b>192,254,823</b>			
Total investments at fair value	192,254,823			
Cash equivalents at amortized cost	25,478,759			
<b>Total investments</b>	<b>\$ 217,733,582</b>			

Table 3: Investments by fair value hierarchy

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

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 2018	Effective duration	Credit rating	Fair value 2017	Effective duration	Credit rating
Cash and cash equivalents	\$ 1,247,085			\$ 768,580		
Commingled monthly bond fund	356,860,359	6.1	Aa3	337,152,474	6.2	Aa3
Commingled monthly equity fund	159,193,861			167,564,374		
Cash at state treasurer	1,473,910			910,065		
Pending transactions, receivables, and payables	(1,787,020)			(1,406,851)		
<b>Total permanent fund investments</b>	<b>\$ 516,988,195</b>			<b>\$ 504,988,642</b>		



# Notes to the Financial Statements

## (D) University Endowments

Total University endowed investments consist of University-held endowments valued at \$67,718,477 and \$63,125,390 as of June 30, 2018, and June 30, 2017, respectively (as detailed below in table 5), and permanent fund endowment of \$516,988,195 and \$504,988,642 (as detailed above in table 4). The total of \$584,706,672 as of June 30, 2018, and \$568,114,032 as of June 30, 2017, is found on the Statement of Net Position.

As of June 30, 2018, the University had the following endowment investments, maturities, credit ratings and effective durations:

Table 5: University endowments by classification

University endowments	Fair value	2018 Maturity				Effective duration	Credit rating
		Less than 1 year	1–5 years	6–10 years	More than 10 years		
Fixed income mutual funds	\$ 2,857,515			\$ 2,857,515		5.94	A+
Marketable global equities	9,107,390						
Marketable liquid real assets	3,715,024						
Non-marketable equities	9,017,326						
Equity funds	9,318,933						
Fixed income funds	2,346,831			2,346,831		2.96	A+
Hedge funds	13,469,123						
Illiquid real assets	4,380,643						
Private equity funds	12,638,272						
Cash equivalents at amortized cost	867,420						
<b>Total endowment investments</b>	<b>\$ 67,718,477</b>						

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

University endowments	Fair value	2017 Maturity				Effective duration	Credit rating
		Less than 1 year	1–5 years	6–10 years	More than 10 years		
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						
<b>Total endowment investments</b>	<b>\$ 63,125,390</b>						

## 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, 2018 and June 30, 2017, is described in the table below.

Table 6: University foreign currency risk

Foreign currency	Fair value 2018	Fair value 2017
Japan—Yen	\$ 3,212,331	\$ 2,680,012
Euro	2,386,357	2,332,669
UK—Pound	1,949,015	1,939,206
China—Yuan	936,657	710,144
Switzerland—Francs	835,052	894,166
S. Korea—Won	793,911	770,301
Other (less than 5%)	5,782,602	5,622,480
<b>Total foreign currency</b>	<b>\$ 15,895,925</b>	<b>\$ 14,948,978</b>

## 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 \$507,312,486 and \$470,188,368 for 2018 and 2017 respectively. See note 4(A) for information on the Foundations 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, 2018, were \$67,718,477 and \$63,125,390 at June 30, 2017. See table below:

Table 7: Consolidated endowment pool

	2018	
University endowments	\$ 67,718,477	13.35%
Foundation endowments	439,594,009	86.65%
<b>Total pooled endowments</b>	<b>\$ 507,312,486</b>	<b>100.00%</b>

	2017	
University endowments	\$ 63,125,390	13.43%
Foundation endowments	407,062,978	86.57%
<b>Total pooled endowments</b>	<b>\$ 470,188,368</b>	<b>100.00%</b>

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. At June 30, 2018 net appreciation of the University's portion of the consolidated endowment pool, \$50,345,501 was available to be spent, all of which is restricted to specific purposes and is included in restricted expendable net position. At June 30, 2017, net appreciation of \$45,970,573 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 Foundations 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	2018	Level 1	Level 2	Level 3
<b>Fixed income</b>				
Fixed income mutual funds	\$ 2,857,515	\$ 2,857,515	-	-
<b>Total fixed income investments</b>	<b>2,857,515</b>	<b>2,857,515</b>	-	-
<b>Equity</b>				
Marketable global equities	9,107,390	9,107,390	-	-
Marketable liquid real assets	3,715,024	3,715,024	-	-
Non-marketable equities	9,017,326	-	\$ 9,017,326	-
<b>Total equity investments</b>	<b>21,839,740</b>	<b>12,822,414</b>	<b>9,017,326</b>	-
<b>Total fair value by level investments</b>	<b>24,697,255</b>			
<b>Investments by NAV</b>				
Equity funds	9,318,933			
Fixed income funds	2,346,831			
Hedge funds	13,469,123			
Illiquid real assets	4,380,643			
Private equity funds	12,638,272			
<b>Total NAV investments</b>	<b>42,153,802</b>			
Total investments at fair value	66,851,057			
Cash equivalents at amortized cost	867,420			
<b>Total investments</b>	<b>\$ 67,718,477</b>			

Table 8: Investments by fair value hierarchy

Investments by fair value level	2017	Level 1	Level 2	Level 3
<b>Fixed income</b>				
Fixed income mutual funds	\$ 2,856,609	\$ 2,856,609	-	-
<b>Total fixed income investments</b>	<b>2,856,609</b>	<b>2,856,609</b>	-	-
<b>Equity</b>				
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	-
<b>Total equity investments</b>	<b>19,818,602</b>	<b>11,894,086</b>	<b>7,924,516</b>	-
<b>Total fair value by level investments</b>	<b>22,675,211</b>			
<b>Investments by NAV</b>				
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			
<b>Total NAV investments</b>	<b>38,935,592</b>			
Total investments at fair value	61,610,803			
Cash equivalents at amortized cost	1,514,587			
<b>Total investments</b>	<b>\$ 63,125,390</b>			

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, 2018 and June 30, 2017, are presented below:

Table 9: Investments measured using NAV

2018	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity funds	\$ 9,318,933		Daily to semimonthly	5–30 days
Fixed income funds	2,346,831		Monthly	30 days
Hedge funds	13,469,123		Monthly to biennially	30–100 days
Illiquid real assets and private equities funds	17,018,915	\$ 12,806,125	Years: 2018–2029	End of agreement
<b>Total NAV investments</b>	<b>\$ 42,153,802</b>	<b>\$ 12,806,125</b>		
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
<b>Total NAV investments</b>	<b>\$ 38,935,592</b>	<b>\$ 10,652,792</b>		



- **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.

## Washington State University Foundation

### 4. Washington State University Foundation Endowments

The following notes are 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 modifications 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 2,314 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 86.64% and 86.54% of that total at June 30, 2018, and 2017, respectively. The remainder of the pool comprises the University's true endowments and the University's funds functioning as endowments (quasiendowments) 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 quasifunds that function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions. There are no board-designated endowments.

#### *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 donors' stipulations.

In accordance with WA-UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor restricted 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 \$716,885 and \$1,613,704 at June 30, 2018 and June 30, 2017, 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 of Director'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, 2018.

Year ended June 30, 2018					
	Without donor restrictions	With donor restrictions		Total	Total funds as of June 30, 2018
		Original gift	Accumulated gains/(losses)		
Donor-restricted funds:					
Underwater funds	-	\$ 55,570,790	\$ (716,885)	\$ 54,853,905	\$ 54,853,905
Other funds	-	331,214,692	53,525,412	384,740,104	384,740,104
<b>Total endowment funds</b>	<b>-</b>	<b>\$ 386,785,482</b>	<b>\$ 52,808,527</b>	<b>\$ 439,594,009</b>	<b>\$ 439,594,009</b>

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

# Notes to the Financial Statements

## 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 the University's 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, 2018		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount	- \$	386,785,482	\$ 386,785,482
Accumulated investment gains	-	52,808,527	52,808,527
<b>Total</b>	-	<b>\$ 439,594,009</b>	<b>\$ 439,594,009</b>

	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
<b>Total</b>	-	<b>\$ 407,062,978</b>	<b>\$ 407,062,978</b>

### Changes in Endowment Net Assets

Year ended June 30, 2018			
	Without donor restrictions	With donor restrictions	Total
Net asset balance—beginning of year	-	\$ 407,062,978	\$ 407,062,978
Investment return	-	31,335,523	31,335,523
Contributions	-	22,895,196	22,895,196
Distribution of endowment assets to/for WSU	-	(21,699,688)	(21,699,688)
<b>Total</b>	-	<b>\$ 439,594,009</b>	<b>\$ 439,594,009</b>

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)
<b>Total</b>	-	<b>\$ 407,062,978</b>	<b>\$ 407,062,978</b>

### 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 excluded from on the Foundation's financial statements as they are not an agent nor a principal in these endowments. The breakout of the jointly managed funds of the University and the Foundation is as follows:

Year ended June 30			
	2018	2017	
Jointly managed endowment funds:			
Cash and short-term investments	\$ 5,655,121	\$ 10,755,966	
Accrued interest and dividends	406,155	35,333	
Managed investments	501,251,210	459,397,069	
Endowment investments at fair value	507,312,486	470,188,368	
Less University endowment funds	(67,718,477)	(63,125,390)	
<b>Managed endowment funds recorded by the Foundation</b>	<b>\$ 439,594,009</b>	<b>\$ 407,062,978</b>	

### Endowments Managed at Cost

Year ended June 30			
	2018	2017	
Investments at cost	\$ 380,063,934	\$ 363,016,267	
Less University endowment funds, at cost	(50,756,157)	(48,856,269)	
<b>Managed endowment funds recorded by the Foundation, at cost</b>	<b>\$ 329,307,777</b>	<b>\$ 314,159,998</b>	



## (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 year end 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, 2018:

	Level 1	Level 2	Level 3	Total
<b>Endowment investments:</b>				
Cash and equivalents	\$ 5,485,901	-	-	\$ 5,485,901
<b>Marketable equities:</b>				
Equities	59,465,112	-	-	59,465,112
Fixed income mutual funds	18,539,659	-	-	18,539,659
Liquid real assets	24,103,210	-	-	24,103,210
<b>Total marketable equities</b>	<b>102,107,981</b>	<b>-</b>	<b>-</b>	<b>102,107,981</b>
<b>Non-marketable equities</b>	<b>\$ 58,504,736</b>			58,504,736
<b>Investments measured at NAV:</b>				
Equity funds	-			60,461,576
Fixed income funds	-			15,226,326
Hedge funds	-			87,388,154
Illiquid real assets	-			28,421,773
Private equities funds	-			81,997,562
<b>Total investments measured at NAV</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>273,495,391</b>
<b>Total endowment investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>439,594,009</b>
<b>Assets in charitable trusts:</b>				
Cash equivalents	661,548	-	-	661,548
<b>Marketable equities:</b>				
Equities	17,189,570			17,189,570
Fixed income mutual funds	9,641,829			9,641,829
Liquid real assets	4,364,975			4,364,975
<b>Total marketable equities</b>	<b>31,196,374</b>	<b>-</b>	<b>-</b>	<b>31,196,374</b>
<b>Total assets in charitable trusts</b>	<b>\$ 31,857,922</b>	<b>-</b>	<b>-</b>	<b>\$ 31,857,922</b>
<b>Other:</b>				
Beneficial interest in perpetual trusts	-	-	\$ 33,851,262	\$ 33,851,262

The following table presents the change in fair value measurements for the Level 3 investments during the year ended June 30, 2018:

	Beneficial interest in perpetual trusts
<b>Other:</b>	
Balance—July 1, 2017	\$ 31,806,751
Contributions	1,000,000
Change in value, net	1,044,511
Balance—June 30, 2018	<u>\$ 33,851,262</u>

# Notes to the Financial Statements

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:

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

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

## 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, 2018, and June 30, 2017, respectively.

	NAV		Redemption schedule	Redemption notice period
	2018	2017		
Equity funds	\$ 60,461,576	\$ 56,236,109	Daily to semimonthly	5–30 days
Fixed income funds	15,226,326	15,089,815	Monthly	30 days
Hedge funds	87,388,154	72,631,108	Monthly to biennially	30–90 days
Illiquid real assets and private equities funds	110,419,335	106,810,402	Years: 2017–2029	End of agreement
<b>Total</b>	<b>\$ 273,495,391</b>	<b>\$ 250,767,434</b>		

## 5. Inventories

Inventories as of June 30, 2018 and June 30, 2017, were as follows:

Location	Method	2018	2017
Athletics	FIFO	\$ 1,677,441	\$ 1,658,485
Bulletin office	FIFO	128,271	128,226
University stores	FIFO	238,621	226,721
Facilities services	FIFO	1,275,180	1,259,768
Ferdinand's	FIFO	4,828,653	4,719,286
Housing and dining	LIFO	664,687	628,810
Telecommunications	FIFO	413,065	410,420
University publishing	FIFO	501,374	497,773
Veterinary hospital and pharmacy	FIFO	1,546,769	1,467,294
Veterinary microbiology/pathology	FIFO	2,067,990	2,067,350
Other inventory	Various	2,052,480	2,103,121
<b>Inventories</b>		<b>\$ 15,394,531</b>	<b>\$ 15,167,254</b>

# Notes to the Financial Statements

## 6. Accounts Receivable

At June 30, 2018, and June 30, 2017, accounts receivable were as follows:

	2018	2017
Student tuition and fees	\$ 41,320,760	\$ 44,139,101
Due from the federal government	12,368,627	15,690,548
Due from the office of the state treasurer	8,001,260	12,377,188
Due from other state agencies	6,260,469	12,400,234
Interest and dividends receivable	664,812	406,223
Auxiliary enterprises	11,840,319	11,827,669
Due from other governments	916,488	816,819
Other	2,388,628	2,258,841
Subtotal accounts receivable	83,761,363	99,916,623
Less allowance for doubtful accounts	(21,181,366)	(21,771,278)
Accounts receivable, net	<u>\$ 62,579,997</u>	<u>\$ 78,145,345</u>

## 7. Loans Receivable

Loans receivable consisted of the following at June 30, 2018, and June 30, 2017:

	2018	2017
Federal programs	\$ 22,114,661	\$ 22,530,015
Institutional loans	479,955	484,614
Subtotal	22,594,616	23,014,629
Less allowance for doubtful accounts	(675,912)	(688,628)
Loans receivable, net	<u>\$ 21,918,704</u>	<u>\$ 22,326,001</u>

## 8. Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2018, is presented as follows:

Capital assets, non-depreciable	Beginning balance	Additions/ transfers	Retirements	Ending balance
Land	\$ 34,557,582		\$ (113,839)	\$ 34,443,743
Construction in progress	50,418,892	\$ 24,412,792	(43,845,142)	30,986,542
<b>Total capital assets, non-depreciable</b>	<b>84,976,474</b>	<b>24,412,792</b>	<b>(43,958,981)</b>	<b>65,430,285</b>
<b>Capital assets, depreciable</b>				
Buildings	2,298,860,836	51,226,716	(3,891,107)	2,346,196,445
Other improvements and infrastructure	356,252,228	5,005,771		361,257,999
Machinery and equipment	320,387,053	13,328,464	(7,358,885)	326,356,632
Library resources	164,383,525	6,792,962	(162,519)	171,013,968
<b>Total capital assets, depreciable</b>	<b>3,139,883,642</b>	<b>76,353,913</b>	<b>(11,412,511)</b>	<b>3,204,825,044</b>
<b>Less accumulated depreciation</b>				
Buildings	928,098,681	62,277,454	(1,885,309)	988,490,826
Other improvements and infrastructure	180,674,138	11,563,063		192,237,201
Machinery and equipment	255,227,118	24,758,763	(6,296,360)	273,689,521
Library resources	107,771,751	5,715,788	(162,519)	113,325,020
<b>Total accumulated depreciation</b>	<b>1,471,771,688</b>	<b>104,315,068</b>	<b>(8,344,188)</b>	<b>1,567,742,568</b>
<b>Total capital assets, depreciable, net</b>	<b>1,668,111,954</b>	<b>(27,961,155)</b>	<b>(3,068,323)</b>	<b>1,637,082,476</b>
<b>Capital assets, net</b>	<b>\$ 1,753,088,428</b>	<b>\$ (3,548,363)</b>	<b>\$ (47,027,304)</b>	<b>\$ 1,702,512,761</b>



The current year depreciation expense was \$104,315,068. Total interest expense was \$28,195,490 of which \$500,159 was capitalized.

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

<b>Capital assets, non-depreciable</b>	<b>Beginning balance</b>	<b>Additions/ transfers</b>	<b>Retirements</b>	<b>Ending balance</b>
Land	\$ 34,517,614	\$ 39,968		\$ 34,557,582
Construction in progress	93,914,857	153,892,454	\$ (197,388,419)	50,418,892
<b>Total capital assets, non-depreciable</b>	<b>128,432,471</b>	<b>153,932,422</b>	<b>(197,388,419)</b>	<b>84,976,474</b>
<b>Capital assets, depreciable</b>				
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
<b>Total capital assets, depreciable</b>	<b>2,925,191,612</b>	<b>226,404,663</b>	<b>(11,712,633)</b>	<b>3,139,883,642</b>
<b>Less accumulated depreciation</b>				
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
<b>Total accumulated depreciation</b>	<b>1,384,024,300</b>	<b>98,855,324</b>	<b>(11,107,936)</b>	<b>1,471,771,688</b>
<b>Total capital assets, depreciable, net</b>	<b>1,541,167,312</b>	<b>127,549,339</b>	<b>(604,697)</b>	<b>1,668,111,954</b>
<b>Capital assets, net</b>	<b>\$ 1,669,599,783</b>	<b>\$ 281,481,761</b>	<b>\$ (197,993,116)</b>	<b>\$ 1,753,088,428</b>

Fiscal year 2017 depreciation expense was \$98,855,324. Total interest expense was \$28,314,526 of which \$4,167,147 was capitalized.

## 9. Accounts Payable and Accrued Liabilities

At June 30, 2018, and June 30, 2017, accrued liabilities were as follows:

<b>Current accrued liabilities</b>	<b>2018</b>	<b>2017</b>
Accounts payable	\$ 20,915,305	\$ 28,251,823
Contract retainage	1,646,177	7,876,239
Payroll	24,766,084	24,791,400
Accrued leave, current portion	18,926,354	20,804,006
Subtotal	66,253,920	81,723,468
<b>Non-current accrued liabilities</b>		
Accrued annual leave	23,358,738	19,654,127
Accrued sick leave	6,052,003	3,889,411
Accrued compensatory leave	259,497	18,070
Subtotal	<b>29,670,238</b>	<b>23,561,608</b>
<b>Total accrued liabilities</b>	<b>\$ 95,924,158</b>	<b>\$ 105,285,076</b>

## 10. Unearned Revenue and Deferred Inflows of Resources

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

Current unearned revenue	2018	2017
Athletics	\$ 3,514,847	\$ 3,155,013
ALIVE! program	570,699	520,655
Prepaid Tri-Cities BSEL building rent	500,000	500,000
Bookie building	122,646	119,225
Housing and dining services	1,754,007	1,585,006
Summer session	5,219,725	6,984,612
Transportation services	376,216	381,125
Subtotal	12,058,140	13,245,636
Non-current unearned revenue		
Prepaid Tri-Cities BSEL building rent	4,440,278	4,940,278
Bookie building	3,567,646	3,690,292
Subtotal	8,007,924	8,630,570
<b>Total unearned revenue</b>	<b>\$ 20,066,064</b>	<b>\$ 21,876,206</b>

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

Deferred inflows of resources	2018	2017
General obligation bond refundings		
R2011A(2002A)	\$ 184,331	\$ 210,664
R2011B(2002A)	20,000	22,500
R2012A(R2002A(1995A-HEWSU))	90,000	135,000
R2014A(2004)(1995C)	37,142	55,713
R2014(2004)(1996A)	34,285	51,428
R2015SC(R2005A(1997A-HE-WSU))	85,165	109,451
R2017C(R2007A(2001A))	938,163	1,062,050
Subtotal general obligation bonds	1,389,086	1,646,806
Pension		
Pension net difference between projected and actual experience	19,311,390	16,161,525
Pension changes in proportion	1,183,635	39,184
Pension net difference between projected and actual investment earnings on pension plan investments	14,155,543	
Pension changes in assumption	7,461,000	5,607,281
Subtotal pension	42,111,568	21,807,990
OPEB		
OPEB changes in assumption	43,157,600	
OPEB changes in agency proportion	5,192,911	
Subtotal OPEB	48,350,511	-
<b>Total deferred inflows of resources</b>	<b>\$ 91,851,165</b>	<b>\$ 23,454,796</b>

## 11. Risk Management

The University is exposed to risk of loss related to tort liability, injuries to employees and loss of property. In accordance with state policy, the University self-insures unemployment compensation for all eligible employees. Buildings that were acquired with bond proceeds are insured through WSU's commercial insurance program, according to each covenant. The University assumes its potential property losses for most other buildings and contents. Other risk liabilities including professional, general, employment practices, automobile liability, information security and privacy protection are either or both insured through the State of Washington Self-Insurance Liability Program (SILP) as covered by the tort Claims Act (RCW 4.92 et seq.), or WSU commercial policies to provide adequate coverage as determined.

Payments made unemployment compensation claims and cash reserve balances are as follows.

Unemployment compensation		
Fiscal year ending	Claims paid	Cash reserves
June 30, 2018	\$836,658	\$5,121,613
June 30, 2017	\$560,158	\$5,128,530
June 30, 2016	\$613,725	\$4,893,275

For all other insurance settlements the settlements did not exceed the coverages for the last three fiscal years.

## 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, 2018, the University had \$23,261,130 and as of June 30, 2017, the University had \$20,917,893 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, 2018, the minimum lease payments under capital leases and operating leases consisted of the following:

<i>Leases Payable</i>		
Fiscal year	Capital leases	Operating leases
2019	\$ 2,498,890	\$ 3,611,402
2020	2,367,843	3,251,545
2021	2,265,563	2,762,575
2022	2,135,364	2,147,456
2023	1,798,389	1,705,449
2024–2028	5,081,607	1,838,296
2029–2033	-	98,660
2034–2038	-	9,866
<b>Total minimum lease payments</b>	<b>16,147,656</b>	<b>15,425,249</b>
Amount representing interest	(2,270,806)	-
<b>Net present value</b>	<b>\$ 13,876,850</b>	<b>\$ 15,425,249</b>

## 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, 2018, and June 30, 2017, no new bonds were issued.

### Bond Refunding Activity

The scheduled liabilities as of June 30, 2018, 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, 2018, and June 30, 2017, no bonds were advance refunded.

As of June 30, 2018, 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 2018	Principal outstanding 2017	Current portion 2018
Housing and Dining system	2008	3.2%–5.25%	2017	-	\$ 600,000	-
	2010	3%–5%	2024	\$ 8,425,000	9,460,000	\$ 1,060,000
	2010B	7.1%–7.4%	2041	35,305,000	35,305,000	-
Student Recreation Center	2009	3%–5.25%	2019	1,420,000	2,785,000	1,420,000
Compton Union Building	2006B	5%–6%	2038	22,945,000	24,795,000	1,965,000
Trust and building fee revenue bonds	2009B	3%–6.41%	2034	86,420,000	89,985,000	3,675,000
General revenue bonds	2012A & B	2%–5%	2037	87,560,000	90,290,000	2,845,000
	2013A & B	3%–5%	2038	44,565,000	46,375,000	1,895,000
	2014A & B	1.75%–5%	2039	50,090,000	51,465,000	1,450,000
	2015	3%–5%	2045	141,910,000	145,580,000	3,815,000
	2016	3%–5%	2041	87,705,000	89,110,000	1,990,000
	HE-WSU	3.5%–6.4%	2022	3,380,000	4,585,000	1,215,000
State of Washington general obligation bonds	2001A	5%–5.6%	2025	7,670,000	8,425,000	795,000
	2001C	5%–5.3%	2026	4,480,000	4,930,000	465,000
	2002A	4%–6%	2026	3,125,000	3,390,000	280,000
				<b>585,000,000</b>	<b>607,080,000</b>	<b>22,870,000</b>
Less: unamortized insurance costs				(63,316)	(69,981)	
Plus: unamortized premiums				57,676,083	61,015,869	
<b>Net bonds payable</b>				<b>\$ 642,612,767</b>	<b>\$ 668,025,888</b>	



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, 2018.

Ref		Total future pledged revenues	2018 revenues, net of expenses	2018 principal and interest	2017 revenues, net of expenses	2017 principal and interest
1	Housing and Dining system (2008 & 2010)	\$ 40,601,575	\$ 27,150,733	\$ 2,040,175	\$ 25,394,851	\$ 2,039,275
2	Student Recreation Center (2009)	34,858,550	4,600,067	1,486,400	3,893,921	1,483,800
3	Compton Union Building (2006B)	29,732,819	5,747,095	3,272,621	5,233,165	3,277,484
4	Trust and building fee bonds (2009B)	\$ 138,139,108	\$ 37,436,662	\$ 8,944,713	\$ 30,442,881	\$ 8,999,282





# Notes to the Financial Statements

## Annual Debt Service Requirements

Future debt service requirements at June 30, 2018, are as follows:

Fiscal year	Revenue bond obligations			State of Washington general obligation bonds		
	Principal	Interest	Total	Principal	Interest	Total
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	23,920,000	22,532,410	46,452,410	1,885,000	401,350	2,286,350
2024–2028	129,305,000	94,527,910	223,832,910	6,720,000	609,600	7,329,600
2029–2033	149,915,000	61,686,322	211,601,322	-	-	-
2034–2038	127,615,000	29,789,064	157,404,064	-	-	-
2039–2041	50,055,000	3,165,566	53,220,566			
<b>Subtotal</b>	<b>566,345,000</b>	<b>312,183,565</b>	<b>878,528,565</b>	<b>18,655,000</b>	<b>3,732,600</b>	<b>22,387,600</b>
Less: unamortized issuance costs	(63,316)		(63,316)			
Plus: unamortized premiums	57,676,083		57,676,083			
<b>Total</b>	<b>\$ 623,957,767</b>	<b>\$ 312,183,565</b>	<b>\$ 936,141,332</b>	<b>\$ 18,655,000</b>	<b>\$ 3,732,600</b>	<b>\$ 22,387,600</b>



## 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, 2018 and June 30, 2017.

Deferred outflows of resources	Total amount Issued	Restated balances outstanding 6/30/2017	2018			Current portion
			Additions	Reductions	Balance outstanding 6/30/2018	
Revenue bonds refundings						
Student recreation series 2009	\$	1,098,861	\$	(73,729)	\$	1,025,132
Student fee 2006A refunding (CUB)		1,883,518		(86,815)		1,796,703
General revenue bonds Athletics 2007 refunding		869,659		(58,350)		811,309
Parking series 2005		47,202		(7,049)		40,153
General revenue bonds series 2013 refunding		476,812		(61,524)		415,288
Housing and Dining Services (HDS) series 2005		133,155		(10,488)		122,667
Housing and Dining Services (HDS) series 2010		673,438		(96,206)		577,232
General revenue bond 2016 HDS 2008 refunding		1,664,434		(75,988)		1,588,446
Subtotal revenue bonds		6,847,079	-	(470,149)		6,376,930
Certificate of participation refunding						
Consolidated Information Center 365-272-1		8,222		(8,222)		-
Subtotal certificate of participation		8,222	-	(8,222)		-
Pension						
Pension differences between expected and actual expense		3,605,197	\$ 1,170,747			4,775,944
Pension differences between projected and actual investment earnings		9,837,545		(9,837,545)		-
Pension changes in assumption		676,195		(205,060)		471,135
Pension changes in proportion		4,496,328		(1,470,526)		3,025,802
Pension contributions		15,076,369	2,527,070			17,603,439
Subtotal pension		33,691,634	3,697,817	(11,513,131)		25,876,320
OPEB						
Transactions subsequent to the measurement date		5,161,935		(201,562)		4,960,373
Subtotal OPEB		5,161,935	-	(201,562)		4,960,373
Total	\$	45,708,870	\$ 3,697,817	\$ (12,193,064)	\$	37,213,623
Schedule of long-term liabilities						
Revenue and refunding bonds, net	\$ 631,375,000	\$ 646,695,888	\$	(22,738,121)	\$ 623,957,767	\$ 20,115,000
State of Washington general obligation bonds, net	30,835,000	21,330,000		(2,675,000)	18,655,000	2,755,000
Capital leases		15,507,695	929,491	(2,560,334)	13,876,852	
Pension obligation, net		215,040,786	20,843,869	(57,000,839)	178,883,816	1,788,970
OPEB obligation		341,792,867		(28,353,712)	313,439,155	30,768,221
Total	\$ 662,210,000	\$ 1,240,367,236	\$ 21,773,360	\$ (113,328,006)	\$ 1,148,812,590	\$ 55,427,191

# Notes to the Financial Statements

## 2017 Restated

Deferred outflows of resources	Total amount issued	Balances outstanding 6/30/2016	Additions	Reductions	Restated balance outstanding 6/30/2017	Current portion
Revenue bonds refundings						
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)	673,438	
General revenue bond 2016 HDS 2008 refunding		1,740,421		(75,987)	1,664,434	
Subtotal revenue bonds		7,317,224	-	(470,146)	6,847,079	
Certificate of participation refunding						
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	
OPEB						
Transactions subsequent to the measurement date		-	5,161,935		5,161,935	
Subtotal OPEB		-	5,161,935	-	5,161,935	
<b>Total</b>		<b>\$ 28,445,750</b>	<b>\$ 18,907,664</b>	<b>\$ (1,644,545)</b>	<b>\$ 45,708,870</b>	
<b>Schedule of Long-term liabilities</b>						
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	
OPEB obligation			341,792,867		341,792,867	5,161,935
<b>Total</b>	<b>\$ 662,740,000</b>	<b>\$ 916,929,403</b>	<b>\$ 381,484,860</b>	<b>\$ (58,047,027)</b>	<b>\$ 1,240,367,236</b>	<b>\$ 29,646,404</b>

## 15. Pension Plans

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 here in calculated are consistent with prior years.

The University employs approximately 7,057 full-time employees eligible for participation in one of the various retirement plans.

For the year ended June 30, 2018, the payroll for employees covered by PERS was \$124,750,748, the payroll for employees covered by TRS was \$11,393,621, the payroll for employees covered by LEOFF was \$2,177,248 and the payroll for employees covered by the WSURP was \$186,365,000.

### ***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 years 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 completes 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.

### ***Washington State University Retirement Plan***

**Plan Description.** Faculty, 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 at all times a 100% vested interest in their accumulations.

## Notes to the Financial Statements

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is reemployed 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 University's contribution rates and required contributions for the above retirement plans for the year ending June 30, 2018, are as follows:

	Contribution rates		Required employer contributions	
	Employee	University	FY2018	FY2017
<b>PERS</b>				
Plan 1	6.0%	11.18%	\$ 6,354,037	\$ 5,873,872
Plan 2	6.12%	11.18%	5,526,729	4,652,657
Plan 3	5.0–15.0%	11.18%	3,609,199	2,776,514
<b>TRS</b>				
Plan 1	6.0%	13.13%	806,421	659,336
Plan 2	5.95%	13.13%	0.00	0.00
Plan 3	5.0–15%	13.13%	868,149	701,979
<b>LEOFF</b>				
Plan 2	8.41%	8.59%	189,919	143,426
<b>WSURP</b>				
5% Plan	5%	5%	2,163,314	2,196,694
7.5% Plan	7.5%	7.5%	9,783,778	9,618,236
10% Plan	10%	10%	13,605,760	13,614,465
Supplemental			\$ 2,181,078	\$ 1,889,570



**Pension costs.** At June 30, 2018, WSU reported a liability of \$96,051,672 for its proportionate share of the State net pension liability and a liability of \$82,832,145 for WSURP supplemental plan. The net pension liability was measured as of June 30, 2017, by an actuarial valuation as of that date for the state plan and June 30, 2016 for SRP. WSU's share was .976% for PERS 1, 1.216% for PERS 2/3, .188% for TRS 1, .191% for TRS 2, and .091% for LEOFF 2 of Washington State's proportionate share of Department of Retirement Systems (DRS) liability.

The following table represents the pension amounts for each plan subject to the requirements of GASB Statement No. 68 for WSU as an employer for the fiscal year 2018.

<b>2018</b>						
	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>TRS 1</b>	<b>TRS 2/3</b>	<b>LEOFF 2</b>	<b>Total</b>
Pension liability	\$ 46,335,497	\$ 42,261,445	\$ 5,696,321	\$ 1,758,409		\$ 96,051,672
Pension asset					\$ 1,259,899	\$ 1,259,899
Pension expense	951,928	6,892,868	773,263	928,236	58,584	\$ 9,604,879

<b>2017</b>						
	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>TRS 1</b>	<b>TRS 2/3</b>	<b>LEOFF 2</b>	<b>Total</b>
Pension liability	\$ 54,355,128	\$ 62,818,595	\$ 6,014,486	\$ 2,438,302		\$ 125,626,511
Pension asset					\$ 552,438	\$ 552,438
Pension expense	5,360,930	10,078,915	1,906,709	953,879	192,434	\$ 18,492,867

The University reported deferred outflow of resources related to state pensions from the following sources:

<b>2018 Deferred outflows of resources</b>						
	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>TRS 1</b>	<b>TRS 2/3</b>	<b>LEOFF 2</b>	<b>Total</b>
Differences between expected and actual experience		\$ 4,282,081		\$ 438,488	\$ 55,375	\$ 4,775,944
Changes in assumption		448,897		20,721	1,517	471,135
Net difference between projected and actual earnings on investments						-
Changes in proportion		2,235,242		705,907	84,653	3,025,802
Contributions paid subsequent to the measurement date	\$ 6,356,510	9,358,012	\$ 806,520	888,559	193,838	17,603,439
<b>Total</b>	<b>\$ 6,356,510</b>	<b>\$ 16,324,232</b>	<b>\$ 806,520</b>	<b>\$ 2,053,675</b>	<b>\$ 335,383</b>	<b>\$ 25,876,320</b>

<b>2017 Deferred Outflows of Resources</b>						
	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>TRS 1</b>	<b>TRS 2/3</b>	<b>LEOFF 2</b>	<b>Total</b>
Differences between expected and actual experience		\$ 3,345,046		\$ 184,452	\$ 75,699	\$ 3,605,197
Changes in Assumption		649,281		24,831	2,083	676,195
Net difference between projected and actual earnings on investments	\$ 1,368,577	7,687,183	\$ 190,768	392,505	198,512	9,837,545
Changes in Proportion		3,570,223		853,069	73,036	4,496,328
Contributions paid subsequent to the measurement date	5,886,147	7,660,986	659,768	721,130	148,338	15,076,369
<b>Total</b>	<b>\$ 7,254,724</b>	<b>\$ 22,912,719</b>	<b>\$ 850,536</b>	<b>\$ 2,175,987</b>	<b>\$ 497,668</b>	<b>\$ 33,691,634</b>

# Notes to the Financial Statements

The University reported deferred inflows of resources related to state pension from the following sources:

2018 Deferred inflows of resources						
	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	Total
Differences between expected and actual experience		\$ 1,389,906		\$ 89,707	\$ 47,777	\$ 1,527,390
Changes in assumption						-
Net difference between projected and actual earnings on investments	\$ 1,729,111	11,265,885	\$ 241,325	636,366	282,856	14,155,543
Changes in proportion		1,153,289			30,346	1,183,635
<b>Total</b>	<b>\$ 1,729,111</b>	<b>\$ 13,809,080</b>	<b>\$ 241,325</b>	<b>\$ 726,073</b>	<b>\$ 360,979</b>	<b>\$ 16,866,568</b>

2017 Deferred Inflows of resources						
	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	Total
Differences between expected and actual experience		\$ 2,073,745		\$ 108,190		\$ 2,181,935
Changes in Assumption						-
Net difference between projected and actual earnings on investments						-
Changes in Proportion					\$ 39,184	39,184
<b>Total</b>	<b>\$ -</b>	<b>\$ 2,073,745</b>	<b>\$ -</b>	<b>\$ 108,190</b>	<b>\$ 39,184</b>	<b>\$ 2,221,119</b>

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 fiscal year 2018.

2018	2017	
\$ 82,832,145	\$ 89,414,276	Pension liabilities
-	-	Deferred outflows of resources related to pensions
25,245,000	19,587,000	Deferred inflows of resources related to pensions
\$ 1,257,000	\$ 3,567,000	Pension expense

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

	2018		2017	
	Deferred outflows	Deferred inflows	Deferred outflows	Deferred inflows
Differences between expected and actual experience		\$ (17,784,000)		\$ (13,980,000)
Changes in assumption		(7,461,000)		(5,607,000)
Net difference between projected and actual earnings on investments				
Changes in proportion				
Contributions paid subsequent to the measurement date				
<b>Total</b>		<b>\$ (25,245,000)</b>		<b>\$ (19,587,000)</b>

The \$17,603,439 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	TOTAL	WSURP
2019	\$ (1,168,768)	\$ (3,401,109)	\$ (177,260)	\$ 991	\$ (114,622)	\$ (4,860,768)	\$ (4,767,000)
2020	368,998	1,859,852	66,360	297,862	44,750	2,637,822	(4,767,000)
2021	(85,678)	(1,042,043)	(5,899)	111,319	(16,995)	(1,039,296)	(4,767,000)
2022	(843,663)	(4,714,233)	(124,526)	(202,884)	(124,005)	(6,009,311)	(4,767,000)
2023		197,684		48,282	(1,529)	244,437	(4,092,000)
2024		256,991		183,472	(7,034)	433,429	(2,085,000)
<b>Total</b>	<b>\$ (1,729,111)</b>	<b>\$ (6,842,858)</b>	<b>\$ (241,325)</b>	<b>\$ 439,042</b>	<b>\$ (219,435)</b>	<b>\$ (8,593,687)</b>	<b>\$ (25,245,000)</b>

**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 3.87 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, 2017, with the results rolled forward to the June 30, 2018, 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, 2017, 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 2017 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%	1.70%
Tangible assets	5%	4.90%
Real estate	15%	5.80%
Global equity	37%	6.30%
Private equity	23%	9.30%
<b>Total</b>	<b>100%</b>	

# Notes to the Financial Statements

**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 7.7 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 7.5 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 Plan 2/3 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 a 3.87 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) 2018

Plan	1% decrease	Current discount rate	1% increase
PERS 1	\$ 56,445,492	\$ 46,335,497	\$ 37,578,076
PERS 2/3	113,856,757	42,261,445	(16,400,292)
TRS 1	7,083,251	5,696,321	4,495,838
TRS 2/3	5,972,192	1,758,409	(1,663,972)
LEOFF 2	272,640	(1,259,899)	(2,508,548)

## Employers' proportionate share state net pension liability (asset) 2017

Plan	1% decrease	Current discount rate	1% increase
PERS 1	\$ 65,546,818	\$ 54,355,128	\$ 44,723,991
PERS 2/3	115,660,330	62,818,595	(32,700,704)
TRS 1	7,393,635	6,014,486	4,826,549
TRS 2/3	5,518,211	2,438,303	(2,832,572)
LEOFF 2	1,549,189	(552,438)	(2,136,454)

## 16. Other Post-Employment Benefits (OPEB)

The University implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the fiscal year 2018 financial reporting. This change in accounting principle updated the accounting and financial reporting by state and local governments for postemployment benefits other than pensions. Because of this change, fiscal year 2017 comparative values are not available for comparison purposes.

### Plan Description

The University is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a single employer defined benefit plan administered by the Washington State Health Care Authority (HCA). The PEBB is authorized to design benefits and determine terms and conditions of employee and retired employee participation and coverage. The OPEB plan provides medical, dental, life insurance and long-term disability benefits for public employees and retirees and their dependents on a pay-as-you-go basis.

The OPEB relationship between PEBB employers and employees is not formalized in a contract or plan document. Instead, the benefits are provided in accordance with a substantive plan in which the plan terms are understood by the employers and plan members based on communications between employers and members and the historical pattern of practice with regard to the sharing of benefits costs.

The employer's plan provides benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. This set dollar amount is recommended by PEBB and approved by the state Legislature annually and was set at \$150 per member per month for fiscal year 2018. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

The HCA report for OPEB can be found on the State of Washington State Auditor website: <http://portal.sao.wa.gov/SubscriptionServices/RecentAuditReportSubscriptions.aspx?CID=11856>.

**Employees covered by benefit terms-** The table below shows the University's PEBB membership as of June 30, 2018:

	2018
Active employees	6,638
Inactive employees or beneficiaries currently receiving benefits	1,727
Inactive employees entitled to but not yet receiving benefits	323

### Funding Status and Actuarial Methods and Assumptions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare trends. The differences between these assumptions and actual results could have a significant effect on the University's financial report.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information. However, the state operates on a pay-as-you-go basis so the actuarial value of the plan asset is zero.

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point.

Significant methods and assumptions used in the current valuation are as follows:

Actuarial valuation date	1/1/2017
Actuarial cost method	Projected Unit Credit (PUC)
Inflation rate	3.00%
Health care trend rate	7.00% initial rate, 5.0% ultimate rate in 2080-
Investment rate of return	3.75%
Projected salary increases	3.75%
Discount rate	3.58%

Material assumption changes during the measurement period include a change in the discount rate from 2.85% to 3.58% as required by GASB 75. The increase in discount resulted in a reduction of the total OPEB liability.

### Sensitivity of the OPEB Liability on the Healthcare Cost Trend Rate and Discount Rate

The following presents the total OPEB liability of the state calculated using the current healthcare cost trend rate of 7.00 percent, as well as what the OPEB liability would be if it were calculated using a rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

	1% decrease (6.00%)	Current health care cost trend rate (7.00%)	1% increase (8.00%)
Total OPEB Liability	\$253,215,704	\$ 313,439,155	\$ 394,264,401



## Notes to the Financial Statements

The following presents the total OPEB liability of the state calculated using the discount rate of 3.58 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58%) or 1 percentage point higher (4.58%) than the current rate.

	1% decrease (2.58%)	Current discount rate (3.58%)	1% increase (4.58%)
Total OPEB Liability	\$ 382,434,466	\$ 313,439,155	\$ 260,047,860

### Total OPEB Liability (TOL)

The TOL for the state of Washington was determined by an actuarial valuation, conducted by the Office of the State Actuary, using data as of January 1, 2017. The TOL reported at June 30, 2018, was calculated as of the valuation date and projected to the measurement date of June 30, 2017. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine the University's proportionate share of the statewide TOL is based on the proportionate share of the states total active health care eligible employee head count

The University's proportionate share of the state's TOL was 5.38% and 5.48% as of June 30, 2018, and June 30, 2017, respectively.

### Changes in the total OPEB liability

The following is a schedule of the changes in the total OPEB liability for fiscal year 2018:

Public Employee Benefits Board	2018
<b>Total OPEB Liability at 7/1/2017</b>	\$ 341,792,867
Service cost	21,249,263
Interest	9,953,285
Changes of assumptions	(48,552,300)
Benefit payments	(5,072,353)
Other changes	(5,931,607)
<b>Total OPEB Liability at 6/30/2018</b>	<b>\$ 313,439,155</b>

**OPEB Costs** At June 30, 2018, WSU reported a liability of \$313,439,155 for its proportionate share of the state's OPEB liability. The OPEB liability was measured as of January 1, 2017, by an actuarial valuation. WSU's share of the liability was 5.38%.

The following table represents the pension expense recognized by the University for fiscal year 2018:

Service cost	\$ 21,249,263
Interest cost	9,953,285
Amortization of changes of assumptions	(5,394,700)
Amortization of changes in proportion	(649,114)
<b>Total OPEB expense</b>	<b>\$ 25,158,734</b>

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions		\$ (43,157,600)
Changes in proportion		(5,192,911)
Payments subsequent to the measurement date	\$ 4,960,373	
<b>Total</b>	<b>\$ 4,960,373</b>	<b>\$ (48,350,511)</b>

Deferred outflows of resources of \$4,960,373 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year ended June 30:</b>	
2019	\$ (6,043,814)
2020	(6,043,814)
2021	(6,043,814)
2022	(6,043,814)
2023	(6,043,814)
Thereafter	(18,131,441)
<b>Total</b>	<b>\$ (48,350,511)</b>

## 17. 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, 2018 the University had 2 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, 2018 the University had 6 employees enrolled in the plan.

The Universities retirement contribution rates for the Federal Retirement Plans are as follows

	<b>Contribution rates</b>		<b>Required employer contributions</b>	
	<b>Employee</b>	<b>University</b>	<b>2018</b>	<b>2017</b>
<b>CSRS</b>	7.0%	7.0%	\$17,551	\$23,122
<b>FERS</b>	0.8%	13.7%	66,920	78,273

## 18. Operating Expenses by Function

Operating expenses by functional classification for June 30, 2018 are as follows:

	2018				
	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 249,580,842	\$ 22,756,100			\$ 272,336,942
Research	133,120,911	61,052,313			194,173,224
Public service	33,708,376	8,458,490			42,166,866
Academic support	67,483,762	18,683,124			86,166,886
Student services	24,278,718	5,936,103			30,214,821
Institutional support	69,667,720	36,068,826			105,736,546
Operation and maintenance of plant	28,711,322	38,906,779			67,618,101
Auxiliary enterprises	87,756,037	72,600,968			160,357,005
Student financial aid			\$ 63,480,962		63,480,962
Depreciation				\$ 104,315,068	104,315,068
<b>Total operating expenses</b>	<b>\$ 694,307,688</b>	<b>\$ 264,462,703</b>	<b>\$ 63,480,962</b>	<b>\$ 104,315,068</b>	<b>\$ 1,126,566,421</b>

Operating expenses by functional classification for June 30, 2017 are as follows:

	2017 Restated				
	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 368,591,253	\$ 32,642,782	-	-	\$ 401,234,035
Research	195,154,762	60,335,115	-	-	255,489,877
Public service	51,321,472	7,662,633	-	-	58,984,105
Academic support	99,111,132	20,929,905	-	-	120,041,037
Student services	38,403,118	6,424,932	-	-	44,828,050
Institutional support	88,903,122	30,232,709	-	-	119,135,831
Operation and maintenance of plant	46,315,666	35,191,554	-	-	81,507,220
Auxiliary enterprises	117,919,015	76,600,687	-	-	194,519,702
Student financial aid	-	-	\$ 65,496,337	-	65,496,337
Depreciation	-	-	-	\$ 98,855,325	98,855,325
<b>Total operating expenses</b>	<b>\$ 1,005,719,540</b>	<b>\$ 270,020,317</b>	<b>\$ 65,496,337</b>	<b>\$ 98,855,325</b>	<b>\$ 1,440,091,519</b>

## 19. Blended Component Unit

Below are the condensed financial statements for the Alumni Association.

<b>Statement of financial position</b>	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Total assets	<b>\$ 17,640,681</b>	<b>\$ 16,907,422</b>
<b>Liabilities</b>		
Other liabilities	177,874	146,094
Total liabilities	<b>177,874</b>	<b>146,094</b>
<b>Net assets</b>		
Unrestricted	12,698,654	12,092,054
Temporarily restricted	1,035,663	960,076
Permanently restricted	3,728,490	3,709,198
Total net assets	<b>17,462,807</b>	<b>16,761,328</b>
Total liabilities and net assets	<b>\$ 17,640,681</b>	<b>\$ 16,907,422</b>
<b>Statement of activities</b>		
<b>Revenue</b>		
Support from WSU	\$ 2,465,941	\$ 2,459,784
Income from assets, net	1,431,963	1,842,995
Total revenue	<b>3,897,904</b>	<b>4,302,779</b>
<b>Expense</b>		
Program services	1,383,515	1,781,177
Support services	1,812,910	1,449,193
Total expenses	<b>3,196,425</b>	<b>3,230,370</b>
<b>Change in net assets</b>	701,479	1,072,409
<b>Net assets beginning of year</b>	16,761,328	15,688,919
<b>Net assets end of year</b>	<b>\$ 17,462,807</b>	<b>\$ 16,761,328</b>
<b>Statement of cash flows</b>		
<b>Operating activities</b>		
Net cash used by operating activities	\$ (503,761)	\$ (774,240)
<b>Investing activities</b>		
Distribution from pooled endowment investment securities	648,044	677,057
<b>Net increase (decrease) in cash</b>	144,283	(97,183)
<b>Cash—beginning of year</b>	2,119,782	2,216,965
<b>Cash—end of year</b>	<b>\$ 2,264,065</b>	<b>\$ 2,119,782</b>

## 20. 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.

The University has commitments of \$22,534,647 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

The University will be issuing General Revenue Bonds in the amount of approximately \$30 million in October 2018. These bond proceeds will be used to transform WSU's human resource, payroll and finance systems to support the growing academic and interdisciplinary research enterprise.



# REQUIRED SUPPLEMENTAL INFORMATION





## Schedule of WSU Contributions

Public Employees' Retirement System (PERS) Plan 1 Last 10 Fiscal Years  
Fiscal year ending June 30\*

	2018	2017	2016	2015	2014
Contractually required contributions	\$ 6,354,037	\$ 5,873,872	\$ 5,739,650	\$ 4,445,539	\$ 4,108,597
Contributions in relation to the contractually required contribution	(6,354,037)	(5,873,872)	(5,739,650)	(4,445,539)	(4,108,597)
Contribution deficiency (excess)	-	-	-	-	-
Covered employee payroll	\$ 124,750,748	\$ 120,938,855	\$ 120,186,698	\$ 107,767,738	\$ 99,541,744
Contributions as a percentage of covered employee payroll	5.09%	4.86%	4.78%	4.13%	4.13%

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

## Schedule of WSU Contributions

Public Employees' Retirement System (PERS) Plan 2/3 Last 10 Fiscal Years  
Fiscal year ending June 30\*

	2018	2017	2016	2015	2014
Contractually required contributions	\$ 9,135,929	\$ 7,429,172	\$ 7,202,615	\$ 5,285,672	\$ 4,742,786
Contributions in relation to the contractually required contribution	(9,135,929)	(7,429,172)	(7,202,615)	(5,285,672)	(4,742,786)
Contribution deficiency (excess)	-	-	-	-	-
Covered employee payroll	\$ 123,376,553	\$ 119,248,641	\$ 118,023,229	\$ 105,292,307	\$ 96,729,193
Contributions as a percentage of covered employee payroll	7.40%	6.23%	6.10%	5.02%	4.90%

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

## Schedule of WSU Contributions

Teachers' Retirement System Last (TRS) Plan 1—10 Fiscal Years  
Fiscal year ending June 30\*

	2018	2017	2016	2015	2014
Contractually required contributions	\$ 806,421	\$ 659,336	\$ 402,431	\$ 292,813	\$ 164,453
Contributions in relation to the contractually required contribution	(806,421)	(659,336)	(402,431)	(292,813)	(164,453)
Contribution deficiency (excess)	-	-	-	-	-
Covered employee payroll	\$ 11,393,621	\$ 10,512,086	\$ 8,871,010	\$ 6,390,188	\$ 3,741,023
Contributions as a percentage of covered employee payroll	7.08%	6.27%	4.54%	4.58%	4.40%

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

## Schedule of WSU Contributions

Teachers' Retirement System (TRS) Plan 2/3 Last 10 Fiscal Years  
Fiscal year ending June 30\*

	2018	2017	2016	2015	2014
Contractually required contributions	\$ 868,149	\$ 701,980	\$ 712,476	\$ 359,625	\$ 207,092
Contributions in relation to the contractually required contribution	(868,149)	(701,980)	(712,476)	(359,625)	(207,092)
Contribution deficiency (excess)	-	-	-	-	-
Covered employee payroll	\$ 11,338,800	\$ 10,446,117	\$ 8,802,686	\$ 6,327,223	\$ 3,642,005
Contributions as a percentage of covered employee payroll	7.66%	6.72%	8.09%	5.68%	5.69%

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

# Required Supplemental Information

## Schedule of WSU Contributions

Law Enforcement Officers' and Fire Fighters' Retirement System Last 10 Fiscal Years  
Fiscal year ending June 30\*

	2018	2017	2016	2015	2014
Contractually required contributions	\$ 189,919	\$ 143,426	\$ 145,308	\$ 136,419	\$ 122,092
Contributions in relation to the contractually required contribution	(189,919)	(143,426)	(145,308)	(136,419)	(122,092)
Contribution deficiency (excess)	-	-	-	-	-
Covered-employee payroll	\$ 2,177,248	\$ 1,705,430	\$ 1,691,590	\$ 1,638,448	\$ 1,461,750
Contributions as a percentage of covered-employee payroll	8.72%	8.41%	8.59%	8.33%	8.35%

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

## Schedule of WSU Contributions

WSURP Supplemental Retirement Plan as of June 30  
Fiscal year ending June 30\*

	2018	2017
Contractually required contributions	\$ 25,552,852	\$ 25,429,397
Contributions in relation to the contractually required contribution	(25,552,852)	(25,429,397)
Contribution deficiency (excess)	-	-
Covered-employee payroll	\$ 186,365,000	\$ 196,596,000
Contributions as a percentage of covered-employee payroll	13.71%	12.93%

\*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\*

	2017	2016	2015	2014
PERS 1 employers' proportion of the net pension liability	0.98%	1.01%	0.97%	0.93%
PERS 1 employers' proportionate share of the net pension liability	\$ 46,335,497	\$ 54,355,128	\$ 50,597,060	\$ 46,759,620
PERS 1 employers' covered-employee payroll	\$ 120,938,855	\$ 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	38.31%	46.68%	46.77%	47.34%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	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\*

	2017	2016	2015	2014
PERS 2 employers' proportion of the net pension liability	1.22%	1.25%	1.19%	1.12%
PERS 2 employers' proportionate share of the net pension liability	\$ 42,261,445	\$ 62,818,595	\$ 42,397,358	\$ 22,694,083
PERS 2 employers' covered-employee payroll	\$ 119,248,641	\$ 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	35.44%	54.92%	40.09%	23.67%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	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\*

	2017	2016	2015	2014
TRS 1 employers' proportion of the net pension liability	0.19%	0.18%	0.13%	0.08%
TRS 1 employers' proportionate share of the net pension liability	\$ 5,696,321	\$ 6,014,486	\$ 4,144,932	\$ 2,452,825
TRS 1 employers' covered-employee payroll	\$ 10,512,086	\$ 8,491,289	\$ 6,453,097	\$ 3,791,772
TRS 1 employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll	54.19%	70.83%	64.23%	64.49%
Plan fiduciary net position as a percentage of the total pension liability	65.58%	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\*

	2017	2016	2015	2014
TRS 3 employers' proportion of the net pension liability	0.19%	0.18%	0.14%	0.08%
TRS 3 employers' proportionate share of the net pension liability	\$ 1,758,409	\$ 2,438,303	\$ 1,141,883	\$ 272,606
TRS 3 employers' covered-employee payroll	\$ 10,446,117	\$ 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	16.83%	28.94%	17.87%	7.37%
Plan fiduciary net position as a percentage of the total pension liability	93.14%	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\*

	2017	2016	2015	2014
LEOFF 2 employers' proportion of the net pension asset	0.09%	0.09%	0.09%	0.09%
LEOFF 2 employers' proportionate share of the net pension asset	\$ 1,259,899	\$ 552,438	\$ 956,615	\$ 1,152,604
LEOFF 2 employers' covered-employee payroll	\$ 1,705,430	\$ 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	73.88%	32.60%	58.39%	78.85%
Plan fiduciary net position as a percentage of the total pension asset	113.36%	106.04%	111.67%	116.75%

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

## Schedule of Changes in Total Pension Liability and Related Ratios

WSURP Supplemental Retirement Plan

Measurement Date of June 30\*

	2018	2017
<b>Total pension liability</b>		
Service costs	\$ 2,763,000	\$ 3,803,000
Interest	3,261,000	3,140,000
Changes of benefit terms	-	-
Differences between expected and actual experience	(7,171,000)	(16,390,000)
Changes in assumptions	(3,255,000)	(6,574,000)
Benefit payments	(2,181,000)	(1,890,000)
Other	1,000	-
<b>Net change in total pension liability</b>	<b>(6,582,000)</b>	<b>(17,911,000)</b>
<b>Total pension liability—beginning</b>	<b>89,413,000</b>	<b>107,324,000</b>
<b>Total pension liability—ending</b>	<b>82,831,000</b>	<b>89,413,000</b>
<b>Covered-employee payroll</b>	<b>\$ 186,365,000</b>	<b>\$ 196,596,000</b>
Total pension liability as a percentage of covered-employee payroll	44.45%	45.48%

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

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

## Schedule of Changes in Total OPEB Liability

Measurement Date of June 30\*

	2018
<b>Total OPEB liability</b>	
Service cost	\$ 21,249,263
Interest	9,953,285
Changes of benefit terms	-
Differences between expected and actual experience	(48,552,300)
Changes in assumption	-
Benefits payments	(5,072,353)
Changes in proportionate share	(5,931,607)
Other	-
<b>Net changes in total OPEB liability</b>	<b>(28,353,712)</b>
<b>Total OPEB liability—beginning</b>	<b>341,792,867</b>
<b>Total OPEB liability—ending</b>	<b>313,439,155</b>
<b>Covered-employee payroll</b>	<b>\$ 70,792,643</b>
Total OPEB liability as a percentage of covered-employee payroll	443%

\*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 OPEB Liability

Measurement Date of June 30\*

	2017
OPEB employers' proportion of the net OPEB liability	5.38%
OPEB employers' proportionate share of the net OPEB liability	\$ 313,439,155
OPEB employers' covered-employee payroll	\$ 70,792,643
OPEB employers' proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	443%



## Notes to Required Supplementary Information for the Year ended June 30, 2018

### **DRS Administered Plans**

The Actuarially Determined Contributions are calculated by the Office of the State Actuary based on the results of an actuarial valuation. The actuarial valuation is performed biennially, in odd numbered years. The results of the valuation determine the actuarially determined contributions for the biennium beginning two years later. Depending on the governing bodies' actions, adopted contribution rates can vary.

The Office of the State Actuary uses the same methods and assumptions to calculate the contractually required contributions for cost-sharing plans as the actuarially determined contributions, with the difference being the contractually required contributions reflect the adopted contribution rates for the time period shown. These rates may differ from the actuarially determined contribution rates.

### **University Administered Plans**

The University's Supplemental Retirement plan has no assets accumulated in a trust meeting the criteria of GASB 73 to pay related benefits.

As required under GASB 73, the discount rate was changed from 3.58% to 3.87%. This increase in discount rate decreased the liability. The change was reflected in the Changes of Assumptions. Also, actual TIAA and CREF investment returns were higher than expected (12.32% actual versus 6.25% expected) which caused a decrease in the liability, reflected in the Differences Between Expected and Actual Experience.

### **Health Care Authority Administered OPEB Plan**

The OPEB plan has no assets accumulated in a trust meeting the criteria of GASB 75 to pay related benefits. The University implemented GASB 75 in fiscal year 2018. As such, fiscal year 2017 values are not available to be reported.



## 2018 Annual Financial Report

Fiscal year ended June 30, 2018

PULLMAN | SPOKANE | TRI-CITIES | VANCOUVER | GLOBAL CAMPUS | EXTENSION | EVERETT

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