



WASHINGTON STATE



UNIVERSITY

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2006



FINANCIAL  
REPORT

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Office of the Attorney General  
Washington State University Division

*Officer list effective as of 10/31/2006*

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# FINANCIAL REPORT 2006

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  
[www.wsu.edu/~genacct/finstat.htm](http://www.wsu.edu/~genacct/finstat.htm)

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  
[www.wsu.edu](http://www.wsu.edu)

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# Message from the President

January 2007

We are pleased to share with you this annual report for Washington State University's 2006 fiscal year ending June 30, 2006. The pages that follow provide an in-depth look at the fiscal health and operations of WSU, the statewide university for Washington with campuses in Pullman, Spokane, the Tri-Cities and Vancouver as well as many research and extension locations in all regions of the state.

This publication, marking the fourth year of the Strategic Plan adopted in 2002 by the Board of Regents, is a compass for our progress in serving our students, the citizens of Washington and the wider world. The year has been an exceptional one, with the following highlights:

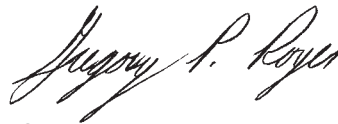
- Washington State University was recognized as one of the nation's top tier research universities by the Carnegie Foundation for the Advancement of Teaching. Only 96 public and private research institutions achieved this recognition. Both WSU and the University of Washington are in this top tier.
- The first building in a planned biosciences/biotechnology complex was opened on the Pullman campus, enhancing research and instruction related to human health and a safe and abundant food supply. Funding was secured to start construction of the next building.
- A record 23,544 undergraduate and graduate students attended WSU at its four campuses and through Distance Degree Programs.
- WSU's Pullman campus welcomed the most talented freshman class in its history, as witnessed by higher grade point averages and college test scores.
- WSU Vancouver recruited its first freshman class for fall 2006 enrollment, while the Washington Legislature gave WSU Tri-Cities the go-ahead to recruit its first freshmen to start in fall 2007.
- A Freshman Focus program was launched on the Pullman campus, enriching the academic and residence life experiences for students.
- WSU began work with the National Coalition Building Institute on an extensive program of diversity education, part of a larger vision to enhance diversity.

We remain committed to enhancing the intellectual, creative and practical abilities of the individuals, institutions and communities that we serve by fostering learning, inquiry and engagement. Please take a few minutes to look at this report and see how we are contributing to a stronger future for the University and the State of Washington.

Sincerely,



V. Lane Rawlins  
President  
Secretary Ex-Officio, Board of Regents



Gregory P. Royer  
Vice President for Business Affairs  
Treasurer, Board of Regents

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# Independent Auditor's Report

December 20, 2006

Board of Regents  
Washington State University  
Pullman, Washington

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Washington State University as of and for the years ended June 30, 2006 and 2005, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Washington State University Foundation. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Washington State University Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Washington State University are intended to present the financial position, and the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the state of Washington that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2006 and 2005, 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.

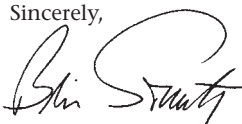
In our opinion, based on our audit, and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Washington State University, as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2005, the University implemented the Governmental Accounting Standards Board's Statement 40, *Deposit and Investment Risk Disclosures*.

The management's discussion and analysis on pages 4 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying information listed as supplemental information on page 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,



Brian Sonntag, CGFM  
State Auditor

## Management's Discussion and Analysis

### Introduction

The Management's Discussion and Analysis that follows is a review of the financial position and operations of Washington State University ("the University") for the year ended June 30, 2006. It should be read in conjunction with the University's financial statements and notes.

Founded in Pullman in 1890 as the state's land-grant research university, Washington State University today has campuses in Pullman, Spokane, Tri-Cities and Vancouver. Ten regional learning centers and award-winning Distance Degree Programs offer access to the University's degrees statewide and around the world. Enrollment exceeds 23,500 students who are served by over 2,300 faculty and 3,500 staff members. Among the University's faculty are seven members of the National Academy of Sciences and National Academy of Engineering.

Considered one of the country's top public research universities, the University has nine academic colleges, an Honors College and the Graduate School. The colleges include: Agricultural, Human, and Natural Resource Sciences; Business; Education; Engineering and Architecture; Liberal Arts; Nursing; Pharmacy; Sciences; and Veterinary Medicine. The University offers more than 250 fields of study including more than 150 majors plus many minors, options and certificate programs. Bachelor's degrees are available in all major areas with master's and doctoral degrees available in most. Professional degrees are offered in Pharmacy and Veterinary Medicine. Over 5,500 degrees, including bachelor's, master's, professional and doctoral degrees, are conferred annually.

The University is known for research strengths in such diverse areas as biotechnology, reproductive biology, shock physics, viticulture, sleep research, wood technology, computer chips and advertising's impact on healthy decision-making. Research stations are located in Lind, Long Beach, Mount Vernon, Othello, Prosser, Puyallup and Wenatchee. There are extension offices in all 39 Washington counties.

### Financial Highlights

Overall, the University's financial position improved during the year ended June 30, 2006:

- Assets increased by \$116.8 million to end the year at \$1,632.6 million.
- Liabilities increased by \$93.6 million to end the year at \$365.6 million.
- Net assets, which represent the residual of assets after deducting liabilities, increased by \$23.2 million to end the year at \$1,267.0 million.

Other significant changes to operations were as follows:

- Revenues from all sources totaled \$733.1 million, \$23.2 million more than expenses.
- Expenses totaled \$709.9 million, an increase of \$34.3 million.
- Capital additions, net of depreciation and deductions, totaled \$11.5 million.
- Non-current long-term debt increased by a net \$83.9 million.

Explanations for major variances are included in the detail of significant changes for each of the primary financial statements on pages 5–9.

### Basic Financial Statements and Notes

Central to the University's financial report are the three primary financial statements, prepared in accordance with Governmental Accounting Standard Board principles: the *Statement of Net Assets*; the *Statement of Revenues, Expenses and Changes in Net Assets*; and the *Statement of Cash Flows*. Information relative to evaluating the University's financial position is presented in the *Statement of Net Assets*. Data relative to evaluating operating results are displayed in the *Statement of Revenues, Expenses, and Changes in Net Assets*. Sources and uses of cash are shown in the *Statement of Cash Flows*. Details, explanations and required disclosures supporting the amounts reported in the financial statements are provided in the *Notes to the Financial Statements* and are an integral part of the financial statements.

### Condensed Financial Information and Analysis

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

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

Assets are classified as current, non-current or capital. Current assets are expected to benefit the University within 12 months and include cash, accounts receivable, inventories, pre-paid 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 to be held more than one year. Capital assets include construc-

tion in-progress, library materials, furniture and equipment, land, buildings and improvements and are reported net of accumulated depreciation.

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

Net assets are divided into five categories:

- **Invested in capital assets – net of related debt:** represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted – nonexpendable net assets:** University endowment funds, Land Grant Endowment funds and similar funds for which donors or outside sources have stipulated as a condition of the gift that the principal be maintained in perpetuity.
- **Restricted – loans** – Loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- **Restricted – expendable net assets:** subject to externally imposed restrictions governing their use, such as scholarships, fellowships, research, loans, professorships, capital projects and debt service.
- **Unrestricted net assets** – represent those assets not subject to externally imposed stipulations, but may be designated for specific purposes by management or the Board of Regents.

### Summarized Statement of Net Assets

(Revised for presentation)

As of June 30, 2006, June 30, 2005 and June 30, 2004

	June 30, 2006	June 30, 2005	June 30, 2004
<b>Assets</b>			
Current assets	\$ 178,477,769	\$ 125,572,486	\$ 119,479,993
Non-current assets	510,625,301	458,225,719	427,161,481
Capital assets, net of depreciation	943,486,402	932,037,163	872,819,965
<b>Total assets</b>	<b>\$ 1,632,589,472</b>	<b>\$ 1,515,835,368</b>	<b>\$ 1,419,461,439</b>
<b>Liabilities</b>			
Current liabilities	\$62,364,855	\$55,252,884	\$ 49,999,149
Non-current liabilities	303,245,129	216,789,144	196,064,299
<b>Total liabilities</b>	<b>\$ 365,609,984</b>	<b>\$ 272,042,028</b>	<b>\$ 246,063,448</b>
<b>Net Assets</b>			
Invested in capital assets, net of debt	\$ 777,403,560	\$ 769,248,881	\$ 718,072,655
Restricted nonexpendable – endowments	370,529,242	372,287,137	352,149,963
Restricted loans	25,009,080	24,430,077	23,520,016
Restricted expendable	32,805,402	25,442,568	20,946,869
Unrestricted	61,232,204	52,384,677	58,708,488
<b>Total net assets</b>	<b>\$1,266,979,488</b>	<b>\$1,243,793,340</b>	<b>\$1,173,397,991</b>

### Significant Changes in the Statement of Net Assets – 2006 vs. 2005

- Current assets were up \$52.9 million and non-current assets were up \$52.4 million largely due to temporary investment of \$86 million from bond financing and \$10 million in advance lease payments in connection with the Tri-Cities Bioproducts, Sciences and Engineering Laboratory (BSEL).
- Capital assets, net of depreciation, grew by \$11.5 million. Total additions of \$71.9 million, including \$31.6 million for buildings, \$16.7 million in construction-in-progress, \$13.2 million for equipment and \$5.3 million for library resources were largely offset by \$56.3 million in depreciation charges and asset disposals of \$4.2 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

- Current liabilities increased by \$7.1 million, with the majority being a \$10.0 million increase in deferred revenue from the advance lease payments on the Tri-Cities BSEL and a \$3.9 reduction in accounts payable.
- Non-current liabilities increased by \$86.5 million primarily due to an \$87.3 million increase in revenue bonds payable due to the financing of the student union construction, \$1.7 million increase in capital leases for equipment and \$5.0 million reduction in general obligation bonds payable due to scheduled principal payments.
- Net assets increased by \$23.2 million, reflecting increases of \$8.2 million invested in capital assets net of related debt, \$6.2 million in restricted balances and \$8.8 million in unrestricted balances.

## Results of Operations – Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the results of operations. It shows revenues earned and expenses incurred during the year, classified as operating, non-operating or other.

Operating revenues are earned for providing goods and services to the University's customers. They include tuition and fees, grant and contract revenues, and sales and service revenue generated by student housing, student dining and other enterprises. Operating expenses are paid to acquire or produce the goods and services that generate operating revenues and to carry out the University's mission.

Non-operating revenues are revenues earned for which goods and services are not provided and include state appropriations, non-capital current-use gifts and grants, 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, and additions to permanent endowments.

The following tables present revenue and expense detail.

### Summarized Statement of Revenues, Expenses and Changes in Net Assets

*(Revised for presentation)*

For the Years Ended June 30, 2006, June 30, 2005 and June 30, 2004

	June 30, 2006	June 30, 2005	June 30, 2004
<b>Operating revenues/ (expenses)</b>			
Operating revenues	\$ 424,233,163	\$ 411,538,935	\$ 378,939,842
Operating expenses	(698,900,751)	(664,386,335)	(631,058,726)
<b>Net operating income (loss)</b>	<b>\$ (274,667,588)</b>	<b>\$ (252,847,400)</b>	<b>\$ (252,118,884)</b>
<b>Non-operating revenues/ (expenses)</b>			
Non-operating revenues	\$ 267,042,138	\$ 269,480,435	\$ 235,121,630
Non-operating expenses	(11,043,639)	(11,237,364)	(9,906,908)
<b>Net non-operating revenues/(expenses)</b>	<b>\$ 255,998,499</b>	<b>\$ 258,243,071</b>	<b>\$ 225,214,722</b>
<b>Income before other revenues, expenses, gains, losses and transfers</b>	<b>\$ (18,669,089)</b>	<b>\$ 5,395,671</b>	<b>\$ (26,904,162)</b>
Other revenues	\$41,855,237	\$64,999,678	\$55,436,299
<b>Increase in net assets</b>	<b>\$ 23,186,148</b>	<b>\$ 70,395,349</b>	<b>\$ 28,532,137</b>
Net assets, beginning of year	\$ 1,243,793,340	\$ 1,173,397,991	\$ 1,144,865,854
<b>Net assets, end of year</b>	<b>\$1,266,979,488</b>	<b>\$1,243,793,340</b>	<b>\$1,173,397,991</b>

## Revenues from all Sources

*(Revised for presentation)*

**For the Fiscal Years Ended June 30, 2006, 2005 and 2004**

	June 30, 2006	June 30, 2005	June 30, 2004
Tuition and fees	\$ 133,647,940	\$ 124,748,937	\$ 112,748,554
Federal grants and contracts	105,416,790	107,636,584	103,456,495
State and local grants and contracts	67,057,802	66,482,829	54,392,788
Sales, services and auxiliary enterprises	99,112,753	93,847,741	89,321,881
State operating appropriations	209,657,000	195,794,008	186,201,628
Federal appropriations	9,730,402	8,549,908	9,636,282
Gifts	18,492,891	16,991,729	13,385,542
Investment and endowment income	29,754,226	44,796,818	24,020,695
State capital appropriations	41,401,837	61,781,747	54,271,308
Other	18,858,897	25,388,747	22,062,598
<b>Total revenue</b>	<b>\$733,130,538</b>	<b>\$746,019,048</b>	<b>\$669,497,771</b>

## Summarized Statement of Expenses by Natural Classification

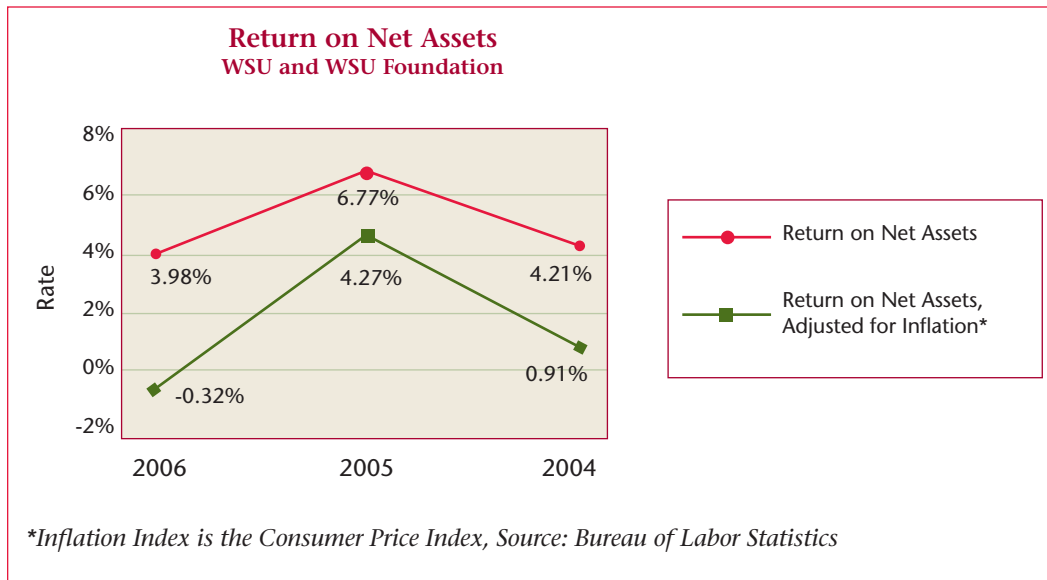
**For the Fiscal Years ended June 30, 2006, 2005 and 2004**

	June 30, 2006	June 30, 2005	June 30, 2004
Salaries and wages	\$ 334,758,449	\$ 319,922,176	\$ 307,216,025
Benefits	91,615,549	82,758,252	74,682,969
Supplies	108,326,440	107,605,829	96,104,403
Services	42,239,333	41,922,680	41,701,500
Utilities	30,188,076	25,405,463	22,982,046
Scholarships and fellowships	33,605,563	32,659,930	31,357,521
Depreciation	56,279,000	52,395,800	55,249,773
Interest on debt	11,043,639	11,237,364	9,906,908
Other	1,888,341	1,716,205	1,764,489
<b>Total expenses</b>	<b>\$709,944,390</b>	<b>\$675,623,699</b>	<b>\$640,965,634</b>

*Detail on operating expenses by program is presented in Note 17.*

## Significant Changes in the Statement of Revenues, Expenses and Changes in Net Assets – 2006 vs. 2005

- Operating revenues increased by \$12.7 million largely due to the increase in tuition and fees. Auxiliary enterprises generated \$4.1 million more due to \$1.9 million more in revenue from athletic events.
- Operating expenses increased by \$34.5 million primarily due to higher salaries and benefits, medical coverage and higher PERS employer contribution rate. Utilities were up \$4.8 million due to an 8.5% increase in electricity and 38% increase in natural gas base rates and switch from coal to environmentally-friendly natural gas as the primary fuel source for the new Pullman campus Energy Plant. Depreciation expense was \$3.9 million higher due to \$71.9 million in capital additions.
- Net non-operating revenues/expenses decreased by \$2.2 million. Major variances include \$13.9 million increase in state operating appropriations and \$4.3 million increase in private gifts that were offset by lower non-operating revenues and \$15.0 million reduction in investment income, resulting from unrealized losses within the Land Grant Endowment portfolios due to rising interest rates.
- Net other revenues declined by \$23.1 million primarily due to lower capital expenditure activity, reflecting a \$20.4 million reduction in capital expenditures submitted to the state for reimbursement. Capital appropriations are provided for the biennium and less than half of the biennium appropriation was expended in fiscal year 2006.



## Return on Net Assets Ratio

The Return on Net Assets Ratio is a basic measure of the effectiveness of managing the University's financial and physical assets to produce an economic return. It compares the change in net assets over the course of the fiscal year to net assets at the beginning of the year to provide a comprehensive measure of the growth or decline in the institution's total wealth.

The graph above displays the return on net assets over the past three years. The upper series measures the return on the University's and the Foundation's net assets. The positive ratios indicate that the institution is in good financial condition.

The lower series on the graph is adjusted for inflation. The return on net assets less an inflation index is known as the real return on net assets. For 2004 and 2005, the University's and the Foundation's financial and capital resources obtained returns that were able to be reinvested. In 2006, expenses significantly increased as inflation nearly doubled. The University continues to give thought to meeting the challenges of the erosion of inflation while providing high quality programs.

## Sources and Uses of Cash – Statement of Cash Flows

The Statement of Cash Flows provides information about the University's cash activities for the year. The sources and uses of cash are categorized as operating activities, non-capital financing activities, capital financing activities and investing activities.

Operating sources of cash include tuition and fees, grant and contract revenues and room and board. Operating uses of cash are primarily salaries, benefits and payments to vendors. Non-capital financing cash sources include appropriations, agency fund receipts and non-capital gifts. Non-capital financing cash uses represent agency disbursements for federal student financial aid programs. Capital financing sources of cash are largely proceeds from issuing debt, capital appropriations and capital grants and gifts. The major uses of capital financing are purchases of capital assets and payment of principal and interest on debt. Investing sources of cash include proceeds from sales and redemptions of investments, dividends and interest income and distributions from endowments. Investing uses are the purchases of investments.

## Summarized Statement of Cash Flows

*(Revised for presentation)*

**For the Fiscal Years Ended June 30, 2006, 2005 and 2004**

	2006	2005	2004
Used by operating activities	\$ (215,683,359)	\$ (199,543,053)	\$ (194,068,517)
Provided by noncapital financing activities	250,944,365	232,838,712	215,776,061
Provided/(used) by capital and related activities	46,521,645	(41,998,685)	(54,623,615)
Provided/(used) by investing activities	(67,426,415)	2,224,372	26,271,459
Net increase (decrease) in cash and cash equivalents	14,356,236	(6,478,654)	(6,644,612)
Cash and cash equivalents, beginning of year	38,052,175	44,530,829	51,175,441
<b>Cash and cash equivalents, end of year</b>	<b>\$ 52,408,411</b>	<b>\$ 38,052,175</b>	<b>\$ 44,530,829</b>

### Significant Changes in the Statement of Cash Flows – 2006 vs. 2005

- Cash used by operations increased by \$16.1 million. Operating sources were higher primarily due to the increase of receipts from tuition and fees and higher athletic ticket revenues. These were partially offset by lower receipts from grants and contracts principally caused by the timing of reimbursements. Operating uses were higher largely due to an increase in payments for salaries and benefits, utilities and scholarships.
- Cash provided by non-capital financing increased by \$18.1 million due primarily to higher receipts from the state for operations and current-use private gifts.
- Cash provided by capital financing increased by \$88.5 million. Capital financing increased due to additional debt proceeds and was partially offset by a reduction in state appropriations for capital. Capital uses decreased due to reduced construction activity on buildings and other improvements.
- Cash used by investing increased \$69.7 million due primarily to the investment of bond proceeds for the student union building renovation.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Capital Assets

At June 30, 2006, the University had \$943,486,402 invested in capital assets, net of accumulated depreciation. This represents an increase of \$11,449,239, or 1.2 %, over last year, as shown in the table below:

### Capital Assets

	June 30, 2006	June 30, 2005	June 30, 2004
Land	\$ 27,849,472	\$ 29,403,652	\$ 26,741,865
Construction in progress	65,631,591	48,920,496	30,345,815
Buildings	669,649,627	673,563,444	653,912,608
Other improvements and infrastructure	99,992,320	102,785,517	88,862,690
Equipment	37,490,401	35,911,223	33,288,898
Library resources	42,872,991	41,452,831	39,668,089
<b>Total capital assets, net</b>	<b>\$943,486,402</b>	<b>\$932,037,163</b>	<b>\$872,819,965</b>

The University's major additions during fiscal year 2006 included:

### Major Construction Additions

Campus/project description	Completed	Financing sources	Cost in \$ millions
<b>Pullman:</b>			
Renovation of the 19,000 square foot <b>Regents Dining Center</b> to update the facility.	July 2005	Bond proceeds	\$8.2
Construction of the 27,700 square foot <b>Education Addition</b> to provide additional classrooms, offices, meeting and project rooms to Cleveland Hall for the College of Education.	August 2005	State appropriations	12.7
Improvements to <b>North Fairway Road</b> to enhance visibility, safety and accessibility to student facilities.	October 2005	State appropriations, City contributions, University resources	2.2
Remodel of the <b>Washington Building</b> to convert the former Pullman Memorial Hospital space into retail space for CUB tenants and consolidate WSU Health and Wellness Services to a single location.	June 2006	State appropriations	10.3
<b>Vancouver:</b>			
Improvements to <b>Campus Infrastructure</b> to enhance utilities and accessibility.	January 2006	State appropriations	4.8
<b>Other WSU Locations:</b>			
Construction of the <b>Prosser Multi-Purpose Building</b> to provide a research facility for the Viticulture program and shell space for future Enology Laboratory.	February 2006	State appropriations	2.0

The following major construction projects were in physical construction or planning and design phases at year-end:

## Major Construction Projects

Campus/project description	Estimated completion	Financing sources	Estimated cost in \$ millions
<b>Pullman:</b>			
Renovation of the 30,000 square foot <b>Rotunda Dining Center</b> to update the facility and improve utilities, accessibility and safety.	November 2007	Bond proceeds	\$10.2
Replacement and expansion of <b>Golf Course</b> to improve student practice facility and expand capabilities to a championship 18-hole course to provide a regional amenity for students, faculty, staff and community.	May 2008	Private gifts	8.4
Renovation of the 235,000 square foot <b>Compton Union Building</b> (student union) to replace utilities, renovate facilities, and enhance comfort, efficiency and functionality for students.	August 2008	Bond proceeds	86.0
Construction of the 128,000 square foot <b>Biotechnology Life Sciences Facility</b> to provide administrative offices for the Center for Integrated Biotechnology and research labs, conference rooms and office space for faculty and postdoctoral students. Relocation of Outdoor Tennis Court facility required by new building location.	May 2009	State appropriations To be determined	14.7 57.3
<b>Spokane:</b>			
Phase I renovation of <b>South Campus Facility</b> to add offices, studios, classrooms and support spaces, including a sleep research component.	July 2006	State appropriations, University resources	4.7
Construction of 106,000 square foot <b>Academic Center Library &amp; Classroom</b> Building to provide classrooms, computer labs, campus and nursing libraries, student services, student study spaces and academic, public service and administrative offices.	August 2006	State appropriations	33.9
Development of design for 80,000 square foot <b>Nursing Building</b> to replace off-campus space with cutting-edge teaching facilities on-campus and increase graduate and undergraduate nursing student capacity by 50 percent.	August 2008	State appropriations	34.6
<b>Tri-Cities:</b>			
Construction of 57,000 square foot <b>Bio-products, Sciences and Engineering Laboratory</b> , a collaborative venture with Pacific Northwest National Laboratory (PNNL), to provide research and teaching laboratories, classrooms, faculty and staff offices for WSU and PNNL programs, promoting science and engineering education and developing bio-products technology.	September 2007	State appropriations, University resources	24.8
<b>Vancouver:</b>			
Construction of 18,000 square foot <b>Student Services Center</b> to provide office space for student service operations, student resource center and relocated bookstore. Remodel and expansion of Firstenburg Student Commons to convert the former Bookstore Building into a student lounge and space for student government, counseling and outdoor recreation.	Summer 2007	State appropriations, Private gifts, University resources	14.6
Pre-design and design work for <b>Undergraduate Classroom Building</b> to provide program space for the Education Department and General Education Academy.	May 2009	State appropriations, To be determined	3.7 24.3
Pre-design work for Applied Technology Building to provide research and teaching space for Computer Sciences and Electrical Engineering.	Summer 2013	To be determined	39.2
<b>Other WSU locations:</b>			
Construction of the <b>Mount Vernon Agriculture Research &amp; Technology Building</b> to provide a research greenhouse and research labs, offices and auditorium.	November 2006	University resources	8.0
Construction of the <b>Prosser Agricultural Technology Building</b> to provide office, laboratory and large equipment space.	August 2007	State appropriations	2.5

*Additional information about the University's capital assets is presented in Note 7.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2006, the University had \$266,732,995 in outstanding debt (including the current portion), representing an increase of \$84,541,835, or 46.4%, in debt from the prior year. The table below summarizes outstanding debt:

<b>Long-Term Debt</b>			
	<b>June 30, 2006</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>
Bonds payable – general obligation	\$ 62,207,283	\$ 67,175,952	\$ 72,085,035
Bonds payable – revenue	196,055,000	108,785,000	91,730,000
Capital leases	13,969,938	12,256,315	9,819,086
Unamortized discounts/premiums/ deferred costs	(5,499,226)	(6,026,107)	(3,337,661)
<b>Total debt</b>	<b>\$266,732,995</b>	<b>\$182,191,160</b>	<b>\$170,296,460</b>

## Long Term Debt Activities

The major change in long-term debt was the issuance of Series 2006A (\$53.4 million tax-exempt) and Series 2006B (\$36.3 million taxable) Student Fee Revenue Bonds in May 2006 to fund renewal of the 235,000 square foot Compton Union Building (CUB). The CUB is the University's student union building located on the Pullman campus. This project is scheduled to be completed in August 2008 and debt service will be supported by fees charged students enrolled at the Pullman campus, student union operating income and retail leases.

The University's bond ratings on the Series 2006A and Series 2006B issues were Aa3 by Moody's Investors Services and AA by Standard and Poor's. The University's long-term rating was affirmed at Aa3 by Moody's in April 2006.

Other long-term obligations include accrued vacation pay and sick leave. More detailed information about the University's long-term liabilities is presented in Notes 11 through 14.

## Economic Outlook

The State of Washington's revenue collections are higher than forecast for the first quarter of the 2007 fiscal year due to higher construction and real estate related revenues. As a result, revenue forecasts for the biennium ending June 30, 2007 are \$350 million higher than what was projected in June 2006 and the University is optimistic that its fiscal year 2007 budget will remain intact.

State appropriations for operations will continue to be a significant portion of the University's financial support in fiscal year 2007. The appropriation for operations is \$221.3 million and reflects an increase of \$11.7 million (a 5.6% increase) from fiscal year 2006. Capital appropriations are approved for a two-year period and the appropriations for the 2005-07 biennium were \$166.2 million. Of that total, \$112.1 million remains available for fiscal year 2007. Federal appropriations for the University's land grant programs are expected to remain near the 2006 fiscal year level of \$9.5 million.

As in prior years, student tuition and fees will be increased, with a portion of the incremental revenue used for financial aid. Tuition rate hikes for non-resident students will be similar to those for resident students, with increases between 7 and 10 percent, depending on the program. Enrollment is expected to be marginally higher than 2006, at 21,400 annual average full time equivalents for the four-campus system. Overall, the University expects net tuition and fee revenues to provide \$140.9 million to support operations, a 5.5% increase over 2006.

Federal sponsored research and other programs are the largest portion of externally funded grant expenditures. In 2006, 82% of the University's research was supported by federal funding and 18% by non-federal funding. While federal research has increased substantially in recent years, the longer term outlook is more uncertain due to federal deficits, funding constraints and the uncertainty of congressional support for growth in overall federal research programs. Non-federal sponsored programs have grown in recent years, offsetting the federal sponsored program slow-down. This trend is expected to continue in fiscal year 2007. Overall, externally sponsored research and other programs are expected to grow over fiscal year 2006 revenues, but at a slower pace than previous years.

Private gift support is expected to continue to grow, with a target of \$75 million during fiscal year 2007, a 27% increase over fiscal year 2006 gifts, grants and pledges. The University is working closely with the WSU Foundation in the planning stages of a major fund-raising campaign.



# STATEMENTS

**Washington State University**  
**Statement of Net Assets**  
**As of June 30, 2006 and June 30, 2005**

<b>Assets</b>	<b>2006</b>	<b>2005</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 52,408,411	\$ 38,052,175
Prepaid expenses	733,324	694,392
Inventories	14,549,592	12,622,133
Net accounts receivable	39,276,832	37,015,674
Investments, current portion	71,509,610	37,188,112
Subtotal current assets	178,477,769	125,572,486
<b>Non-current assets</b>		
Investments	114,928,669	61,141,380
Deposits in escrow	1,703,148	1,450,188
Due from Washington State University Foundation	19,188,846	17,775,512
Net loans receivable	21,548,229	21,424,909
WSU endowment	34,562,281	31,965,436
Land Grant Endowment	318,694,128	324,468,294
Capital assets, net of accumulated depreciation	943,486,402	932,037,163
Subtotal non-current assets	1,454,111,703	1,390,262,882
<b>Total assets</b>	<b>\$ 1,632,589,472</b>	<b>\$1,515,835,368</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 34,103,166	\$ 37,975,544
Due to Washington State University Foundation	1,399,120	1,513,290
Deposits	2,000,981	1,760,891
Deferred revenue	15,578,505	5,316,644
Long-term debt, current portion	9,283,083	8,686,515
Subtotal current liabilities	62,364,855	55,252,884
<b>Non-current liabilities</b>		
Accrued leave	31,149,783	30,762,185
Deferred compensation	1,751,474	1,294,550
Deposits held in custody for others	12,893,960	11,227,764
Long-term debt	257,449,912	173,504,645
Subtotal non-current liabilities	303,245,129	216,789,144
<b>Total liabilities</b>	<b>\$ 365,609,984</b>	<b>\$ 272,042,028</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	777,403,560	769,248,881
Restricted		
Nonexpendable	370,529,242	372,287,137
Loans	25,009,080	24,430,077
Expendable	32,805,402	25,442,568
Unrestricted	61,232,204	52,384,677
<b>Total net assets</b>	<b>\$ 1,266,979,488</b>	<b>\$1,243,793,340</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,632,589,472</b>	<b>\$1,515,835,368</b>

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

## Washington State University Foundation

(A Nonprofit Corporation)

### Combined Statements of Financial Position As of June 30, 2006 and June 30, 2005

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 967,647	\$ 832,466
Due from Washington State University	1,399,120	1,513,290
Other receivables	113,065	39,554
Pledges receivable	5,746,526	4,506,459
Endowment investment securities	229,647,479	199,695,882
Notes receivable	1,283,714	1,268,770
Furniture, fixtures, and equipment	105,420	-
Land, Cougar Property Holdings	295,000	245,000
Land and real estate	2,675,000	2,997,000
Assets held in charitable trusts	35,528,630	32,361,077
Contributions receivable from charitable trusts	3,778,434	3,796,991
Beneficial interest in perpetual trusts	9,050,395	5,550,994
<b>Total assets</b>	<b>\$ 290,590,430</b>	<b>\$ 252,807,483</b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 273,194	\$ 16,546
Annuities payable	16,051,788	14,742,859
Remainder interest payable	4,598,072	4,399,156
Assets held for other organizations	759,108	992,601
Assets held in endowments for Washington State University	19,188,846	17,775,512
<b>Total liabilities</b>	<b>\$ 40,871,008</b>	<b>\$ 37,926,674</b>
<b>Net assets</b>		
Unrestricted	\$ 2,789,544	\$ 2,519,336
Temporarily restricted	41,773,613	24,946,050
Permanently restricted	205,156,265	187,415,423
<b>Total net assets</b>	<b>\$ 249,719,422</b>	<b>\$ 214,880,809</b>
<b>Total liabilities and net assets</b>	<b>\$ 290,590,430</b>	<b>\$ 252,807,483</b>

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

**Washington State University**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30, 2006 and June 30, 2005**

<b>Revenues</b>	<b>2006</b>	<b>2005</b>
Operating revenues:		
Tuition & fees, net of scholarship allowances	\$ 133,647,940	\$ 124,748,937
Federal grants and contracts	105,416,790	107,636,584
State grants and contracts	41,620,964	38,968,358
Local grants and contracts	25,436,838	27,514,471
Sales and services of educational departments	15,007,248	13,824,320
Auxiliary enterprises	84,105,505	80,023,421
Other operating revenues	18,997,878	18,822,844
<b>Total operating revenues</b>	<b>424,233,163</b>	<b>411,538,935</b>
<b>Expenses</b>		
Operating expenses:		
Salaries and wages	334,758,449	319,922,176
Benefits	91,615,549	82,758,252
Scholarships and fellowships	33,605,563	32,659,930
Utilities	30,188,076	25,405,463
Payments to suppliers	108,326,440	107,605,829
Purchased services	42,239,333	41,922,680
Other operating expenses	1,888,341	1,716,205
Depreciation	56,279,000	52,395,800
Total operating expenses	698,900,751	664,386,335
<b>Operating loss</b>	<b>(274,667,588)</b>	<b>(252,847,400)</b>
<b>Non-operating revenues/(expenses)</b>		
State appropriations	209,657,000	195,794,008
Federal appropriations	9,730,402	8,549,908
Gifts	18,357,547	14,107,237
Interest on capital assets, related debt	(11,043,639)	(11,237,364)
Investment income, net of expense	29,754,226	44,796,818
Other non-operating revenues	(457,037)	6,232,464
Total non-operating revenues/(expenses)	255,998,499	258,243,071
<b>Income before other revenues, expenses, gains or losses</b>	<b>(18,669,089)</b>	<b>5,395,671</b>
Capital appropriations	41,401,837	61,781,747
Capital grants & gifts	318,056	333,439
Additions to permanent endowments	135,344	2,884,492
<b>Increase in net assets</b>	<b>23,186,148</b>	<b>70,395,349</b>
<b>Net assets</b>		
Net assets, beginning of year	1,243,793,340	1,173,397,991
Increase in net assets	23,186,148	70,395,349
<b>Net assets, end of year</b>	<b>\$ 1,266,979,488</b>	<b>\$ 1,243,793,340</b>

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

**Washington State University Foundation**  
(A Nonprofit Corporation)

**Combined Statement of Activities**  
For the Years Ended June 30, 2006 and June 30, 2005

<b>Revenue and support</b>	<b>2006</b>	<b>2005</b>
Contributions	\$ 43,146,536	\$ 34,647,232
Investment income	3,700,095	4,387,626
Gain (loss) on investments	24,805,912	14,247,418
Management and advancement fee	3,300,000	3,100,000
Change in value of split-interest agreements	(3,794,435)	(4,133,918)
Support provided by Washington State University	2,119,525	1,979,865
Recapture of expenses on transfer of Cougar Property Holdings land to WSU	-	1,071,644
Other income	427,455	513,541
<b>Total revenue and support</b>	<b>73,705,088</b>	<b>55,813,408</b>
<b>Expenses</b>		
Support provided to/for Washington State University:		
Restricted distributions	23,815,991	20,038,835
Endowment income distributions	6,888,354	6,118,119
Management and advancement fees	2,700,820	2,411,291
Interest expense	-	50,572
Fund raising	3,984,637	3,908,807
General and administrative expenses	1,476,673	1,238,214
<b>Total expenses</b>	<b>38,866,475</b>	<b>33,765,838</b>
<b>Change in net assets</b>	<b>34,838,613</b>	<b>22,047,570</b>
Net assets, beginning of year	214,880,809	192,833,239
<b>Net assets, end of year</b>	<b>\$ 249,719,422</b>	<b>\$ 214,880,809</b>

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

**Washington State University  
Statement of Cash Flows**

**For the Years Ended June 30, 2006 and June 30, 2005**

<b>Cash flows from operating activities</b>	<b>2006</b>	<b>2005</b>
Tuition and fees	\$ 148,088,462	\$ 135,727,086
Grant and contracts	171,042,051	176,567,644
Payments to suppliers	(103,220,209)	(109,704,045)
Payments for utilities	(30,182,785)	(24,825,043)
Purchased services	(42,014,188)	(42,876,458)
Payments to employees	(334,602,644)	(317,560,461)
Payments for benefits	(91,837,581)	(82,845,036)
Other operating expenses	(1,885,091)	(1,713,124)
Payments for scholarships and fellowships	(48,013,597)	(44,458,589)
Loans issued to students	(6,233,213)	(7,670,871)
Collection of loans to students	5,892,806	7,098,744
Auxiliary enterprise receipts	83,514,707	80,621,415
Sales and service of educational departments	14,925,150	13,814,523
Other receipts	18,842,773	18,281,162
<b>Net cash used by operating activities</b>	<b>(215,683,359)</b>	<b>(199,543,053)</b>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	207,933,519	195,702,461
Federal appropriations	9,506,258	8,927,086
<b>Gifts for other than capital purposes</b>		
Private gifts	18,306,654	13,562,911
Additions to permanent endowment	135,344	2,884,492
Agency fund receipts	124,988,296	126,253,848
Agency fund disbursements	(123,463,243)	(121,605,974)
Other nonoperating revenues	13,537,537	7,113,888
<b>Net cash provided by noncapital financing activities</b>	<b>250,944,365</b>	<b>232,838,712</b>
<b>Cash flows from capital and related financing activities</b>		
Proceeds of capital debt	93,290,605	20,039,992
Capital appropriations	45,703,157	58,796,392
Capital grants and gifts received	154,311	220,441
Purchases of capital assets	(73,017,984)	(102,137,988)
Principal paid on capital debt and leases	(9,076,565)	(8,217,543)
Interest paid on capital debt and leases	(10,531,879)	(10,699,979)
<b>Net cash used by capital and related financing activities</b>	<b>46,521,645</b>	<b>(41,998,685)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	255,299,733	179,349,104
Purchases of investments	(354,005,415)	(205,808,926)
Investment income	31,279,267	28,684,194
<b>Net cash provided by investing activities</b>	<b>(67,426,415)</b>	<b>2,224,372</b>
Net increase (decrease) in cash and cash equivalents	14,356,236	(6,478,654)
Cash and cash equivalents, beginning of year	38,052,175	44,530,829
<b>Cash and cash equivalents, end of year</b>	<b>\$ 52,408,411</b>	<b>\$ 38,052,175</b>

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

**Washington State University**  
**Statement of Cash Flows – continued**

**Reconciliation of net loss to net cash used by operating activities:**

	<b>2006</b>	<b>2005</b>
<b>Operating loss</b>	\$ (274,667,588)	\$ (252,847,400)
<b>Adjustments to reconcile net loss to net cash used by operating activities</b>		
Depreciation expense	56,279,000	52,395,800
<b>Changes in assets and liabilities</b>		
<b>Changes in assets</b>		
Prepaid expenses	(38,932)	(58,718)
Inventories	(1,927,459)	(120,880)
Net accounts receivable	(2,261,158)	(3,755,037)
Deposits in escrow	(252,960)	(625,864)
<b>Changes in liabilities</b>		
Accounts payable and accrued liabilities	(3,872,378)	5,288,197
Due to Washington State University Foundation	(114,170)	(591,919)
Deposits	240,090	117,725
Deferred revenue	10,261,861	(73,521)
Bonds payable - current portion	600,970	639,586
Lease obligations - current portion	69,365	88,978
<b>Net cash used by operating activities</b>	<b>\$ (215,683,359)</b>	<b>\$(199,543,053)</b>
<b>Significant noncash transactions</b>		
Loss on disposal of fixed assets	(2,066,460)	(3,534,268)
Amortization expense	(350,928)	(138,739)

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



## Notes to the Financial Statements

June 30, 2006

These notes form an integral part of the financial statements.

### 1. Summary of Significant Accounting Policies

#### Financial Reporting Entity

Washington State University, an agency of the State of Washington, is a comprehensive degree-granting research university. It is governed by a ten member Board of Regents, appointed by the Governor and confirmed by the State senate. WSU is included in the general-purpose financial statements of the State.

#### Nature of Operations

Washington State University ("the University") was created as a land grant public university by the Washington State Legislature in 1890. The University opened its doors January 13, 1892, on land donated by the citizens of Pullman. Today, Washington State University has campuses in Pullman, Spokane, the Tri-Cities and Vancouver, with extension offices and learning centers across the state. Washington State University's 23,544 undergraduate, graduate and professional students have the opportunity to work one-on-one with internationally acclaimed professors and researchers. The primary missions of the University are instruction, research and public service.

#### Financial Statement Presentation

The financial statements are presented in accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB). The University has reflected changes in comparative data in the Financial Report, Notes to the Financial Statements and Management's Discussion and Analysis.

**Reporting Entity.** The financial reporting entity is Washington State University and the WSU Foundation as a discretely reported component unit.

**Component Unit.** The WSU Foundation ("the Foundation") is a legally separate, tax-exempt entity, and serves contractual asset management functions in support of the WSU mission. The Foundation is a significant compo-

nent unit based on the requirements of GASB Statement 39 criteria as to the nature and significance of its relationship with WSU. This report presents the Foundation's financial condition and activities in discretely separate financial statements because of differences between the reporting models.

The Foundation reports its financial results in accordance with Financial Accounting Standards Board (FASB) Statement 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. 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 three classes of net assets, depending on the existence and nature of donor restrictions. Under FASB, the Foundation's net assets are described as follows:

- Unrestricted net assets – Support received that is not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control.
- Temporarily restricted net assets – Support received subject to donor-imposed use restrictions or time restrictions.
- Permanently restricted net assets – Support received subject to donor-imposed restrictions stipulating that funds be invested in perpetuity.

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

WSU Foundation  
PO Box 641925  
Pullman WA 99164-1925

#### Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged in Business Type Activities (BTA). In accordance with BTA reporting, the University presents a Management's Discussion and Analysis; a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; a Statement of Cash Flows; and Notes to the Financial Statements. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

#### Elimination of Interfund Transactions

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.

Designated auxiliary enterprises have revenue and expense transactions, which are treated as though the University were dealing with private vendors. For all other funds, transactions that are reimbursements of expenses are recorded as reductions of expense.

#### Cash and Investments

Cash balances in excess of current requirements are pooled and invested in Treasury Bills, time deposits, 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. Interest income earned on the investment pool is distributed on a quarterly basis based on daily cash balances in various funds. Cash 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. It also includes amounts due from the federal government, state and local governments or private sources in connec-

tion with reimbursement of allowable expenditures made pursuant to the University's sponsored agreements. Accounts receivable are shown net of estimated uncollectible amounts.

### Inventories

Inventories are stated at cost using various methods in the separate enterprise and internal service funds.

### Capital Assets

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. Capital additions, replacements and major renovations are reflected as expenditures and capitalized. 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 15-50 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.

### Deferred Revenues

Deferred revenues occur when funds 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 related to the subsequent fiscal year.

### 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 Assets

The University's net assets are classified as follows:

- Invested in Capital Assets – Net of Related Debt. 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 Net Assets – 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 permanently.
- Restricted Net Assets – Loans. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- Restricted Net Assets – Expendable. These include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by third parties.
- Unrestricted Net Assets. 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

Operating revenues include 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

Non-operating revenues include 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 Assets. Scholarship discounts and allowances are the difference between the published charge for goods and services provided by the University and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and an allowance.

Discounts and allowances for the years ending June 30, 2006 and June 30, 2005 are \$38,895,528 and \$37,597,859 respectively.

## 2. Cash and Investments

During fiscal year 2005, the University implemented GASB Statement 40, *Deposit and Investment Risk Disclosure*. Statement 40 amends GASB Statement 3, and addresses common deposit and investment risks: credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

**Cash-** As of June 30, 2006 and 2005, the carrying amounts of the University's change funds, petty cash and bank demand deposit accounts with financial institutions are \$11,614,396 and \$13,728,236 respectively, as represented in Table 1.

Table 1: Cash and Cash Equivalents (revised for consistency)

	2006	2005
Cash	\$ 11,614,396	\$ 13,728,235
Cash equivalents	40,210,329	23,705,218
Deposits with fiscal agents	583,686	618,722
<b>Cash and cash equivalents</b>	<b>\$ 52,408,411</b>	<b>\$ 38,052,175</b>

# NOTES TO THE FINANCIAL STATEMENTS

## Custodial Credit Risk – 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 WSU demand deposits are with the Bank of America.

**Investments-** Investments are classified as cash equivalents, current investments or non-current investments. University invested assets include operating funds, current use gift funds, proceeds from bond issues dedicated to specific capital projects and University endowment and trust funds. The carrying amount of University investments at June 30, 2006 is \$261,210,889, as represented in Table 3.

**University Endowments-** The University contracts with the WSU Foundation for the management of privately endowed assets. University and Foundation endowments are pooled and invested with the objectives of

long-term capital appreciation and stable but growing income stream. The fair market values of the University endowment investments are \$34,422,801 and \$31,971,025, respectively, at June 30, 2006 and 2005.

**Land Grant Endowment-** The University's land grant investments are described in Table 2 and the net asset value in Note 6. Transactions in process are not represented in Table 2.

**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 portfolio to the anticipated construction schedule 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.

University endowments fall under the Foundation investment policy, which employs broad asset class diversification to control overall endowment fund volatility, and limits fixed income investments to a maximum of 12% of total endowment fund assets.

**Concentration of Credit Risk – Investments.** State law limits University operating investments to the highest quality sectors of the domestic fixed income market and specifically excludes corporate stocks, corporate and foreign bonds, futures contracts, commodities, real estate, limited partnerships and negotiable certificates of deposit. University policy does not limit the amount the University may invest in any one issuer. More than 5% of the University's investments were invested in an overnight repurchase agreement issued by Lehman Brothers, Inc. This security represented 10.8% of the University's investments as of June 30, 2006.

**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

Table 2: Land Grant Permanent Fund Investments:

University Land Grant permanent fund investments	Fair value	Maturity				Effective duration	Credit rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years		
Collateralized mortgage obligations	\$ 78,844,088	\$ 2,412,264	\$ 3,886,701	\$ 57,067,011	\$ 15,478,112	6.0	AAA
Mortgage pass throughs	1,386,456		1,386,456			2.2	AAA
Commercial mortgage backed securities	12,704,585		5,496,133	7,208,452		4.7	AAA
Corporate bonds, domestic	115,719,071	17,624,466	53,531,905	30,260,340	14,302,360	4.5	Multiple
Government securities, domestic:							
U.S. Government Treasuries	51,131,459	6,099,762	11,944,543	16,296,009	16,791,145	7.0	AAA
US TIPS	31,663,530	11,709,517	13,833,399	6,120,614		2.1	AAA
Money market funds	24,092,783	24,092,783					N/A
Cash held by State Treasurer	1,057,958	1,057,958					
<b>Total Land Grant permanent fund investments</b>	<b>\$ 316,599,930</b>	<b>\$ 62,996,750</b>	<b>\$ 90,079,137</b>	<b>\$ 116,952,426</b>	<b>\$ 46,571,617</b>	<b>4.7</b>	

Table 3: University Investments by Type

University investments	Fair value	Maturity				Effective duration	Credit rating
		Less than 1 year	1-5 years	6-10 years	More than 10 years		
<b>Cash equivalents</b>							
Commercial paper	1,965,458	1,965,458				0.01	A1/P1
Repurchase agreements	29,890,144	29,890,144				0.01	NR
US agency obligations - Discount notes	3,269,965	3,269,965				0.03	AAA
Other - bank STIF	5,084,762	5,084,762				0.00	NR
<b>Total cash equivalents</b>	<b>\$ 40,210,329</b>						
<b>Current investments</b>							
US TIPS	1,651,295	1,651,295				0.19	AAA
US agency obligations	69,858,315	69,858,315				0.51	AAA
<b>Total current investments</b>	<b>\$ 71,509,610</b>						
<b>Non-current investments</b>							
<b>Operating funds</b>							
US government treasuries	525,244		525,244			1.53	AAA
US TIPS	6,473,029		6,473,029			0.51	AAA
US agency obligations	87,679,888		87,679,888			1.51	AAA
Mortgage pass throughs	9,331,195				9,331,195	2.35	AAA
Fixed income mutual funds	9,965,929		9,965,929			2.55	AAA
Subtotal non-current Operating fund investments	113,975,285						
Miscellaneous	953,384						
<b>Total non-current investments</b>	<b>\$ 114,928,669</b>						
<b>University endowments</b>							
US stocks	175,594						
-US fixed income	4,876,075	87,079	620,723	3,849,962	318,311	5.46	AAA
-Foreign fixed income	1,617,786			1,617,786		5.22	AAA
-US equity	7,844,585						
-Foreign equity	9,141,057						
-Private equity	1,450,790						
-Hedge funds	5,194,066						
-Timber	88,032						
-Real estate	2,069,055						
-Oil & gas	31,775						
-Commodities	1,933,986						
<b>Total University endowments</b>	<b>34,422,801</b>						
Pending trades	139,480						
<b>WSU endowment</b>	<b>\$ 34,562,281</b>						
<b>Total University investments</b>	<b>\$ 261,210,889</b>						

Note: "NR" means Not Rated.

collateral securities that are in the possession of an outside party. At June 30, 2006 \$210,644,532 of the University's operating fund investments, held by Bank of New York in the bank's name as agent for the University, and \$175,498 of endowment assets, held in street name by E\*trade for the account of the University, are exposed to custodial credit risk as described in Table 4.

Table 4: Investments exposed to Custodial Credit Risk

University investment type:	Fair Value
Commercial paper	\$ 1,965,457
Repurchase agreements	29,890,185
US agency discount notes	3,269,964
US agency obligations	157,538,163
US government treasuries	525,244
US Treasury Inflation Protected Securities (TIPS)	8,124,324
Mortgage pass through	9,331,195
<b>Subtotal</b>	<b>\$ 210,644,532</b>
US common stocks	175,499
<b>Total investments exposed to custodial credit risk</b>	<b>\$ 210,820,031</b>

**Foreign Currency Risk – Investments.** University endowment exposure to foreign currency risk at June 30, 2006 is described in Table 5 and is limited by Foundation investment policy.

Table 5: University Foreign Currency Risk

Foreign Currency	Fair Value
Euro	\$ 2,067,811
Japan (yen)	1,649,778
UK (pound)	1,288,058
Australia (dollar)	551,967
Other	5,201,229
<b>Total foreign currency</b>	<b>\$ 10,758,843</b>

**Investment Expenses.** Under implementation of GASB 35, investment income for the University is shown net of investment expenses. The investment expenses incurred for June 30, 2006 and June 30, 2005 are \$395,977 and \$309,839 respectively.

### 3. Accounts Receivable

At June 30, 2006, accounts receivable are as follows:

Student tuition and fees	\$11,304,400
Due from the federal government	12,418,477
Due from the office of the state treasurer	8,063,049
Due from other state agencies	4,421,509
Interest and dividends receivable	2,591,146
Auxiliary enterprises	2,037,416
Due from other governments	345,814
Other	37,733
Subtotal accounts receivable	41,219,544
Less: allowance for doubtful accounts	(1,942,712)
<b>Net accounts receivable</b>	<b>\$39,276,832</b>

### 4. Student Loans Receivable

Student loans receivable consisted of the following at June 30, 2006:

Federal programs	\$ 21,943,849
Institutional loans	268,667
Subtotal loans receivable	22,212,516
Less: allowance for doubtful accounts	(664,287)
<b>Net loans receivable</b>	<b>\$ 21,548,229</b>



## 5. Inventories

Inventories, stated at cost using various methods: First-in, First-out (FIFO), Last-in, First-out (LIFO), or Weighted Average, consist of the following at June 30, 2006:

Location	Valuation method	Amount
Athletics	FIFO	\$ 533,397
Bulletin office	LIFO	797,419
Central stores	FIFO	422,871
Facilities operations	LIFO	1,076,061
Ferdinand's creamery	FIFO	5,232,380
Housing and dining	LIFO	612,990
Motor pool	FIFO	59,019
University publishing	FIFO	2,632,070
Veterinary hospital and Pharmacy	FIFO	810,518
Veterinary microbiology/pathology	FIFO	692,159
Other inventory	FIFO	1,680,708
<b>Total inventories</b>		<b>\$14,549,592</b>

## 6. Endowment

**Land Grant Endowment.** The University's Land Grant Endowment is comprised of 151,188 acres of timber, agricultural and grazing lands managed by the Washington State Department of Natural Resources. The income from this land is added 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 investment income is used for capital projects. The fair value of investments for the two Land Grant permanent funds totaled \$316,599,930 at June 30, 2006. The net asset value is \$318,694,128, after the settlement of all pending transactions, receivables and payables. At June 30, 2005 fair values of investments were \$322,914,427 and net asset value was \$324,468,294.

## 7. Capital Assets

The current year depreciation expense is \$56,279,000. Following are the changes in capital assets for the year ended June 30, 2006.

	Beginning balance	Additions/transfers	Retirements	Ending balance
<b>Nondepreciable capital assets</b>				
Land	\$ 29,403,652	\$ 588,188	\$ (2,142,368)	\$ 27,849,472
Construction in progress	48,920,496	16,711,095	-	65,631,591
<b>Total nondepreciable capital assets</b>	<b>78,324,148</b>	<b>17,299,283</b>	<b>(2,142,368)</b>	<b>93,481,063</b>
<b>Depreciable capital assets</b>				
Buildings	1,075,835,573	31,646,761	(2,381,104)	1,105,101,230
Other improvements and infrastructure	169,799,767	4,341,493	(874,686)	173,266,574
Equipment	160,698,934	13,349,203	(6,218,339)	167,829,798
Library resources	95,967,478	5,300,326	(100,616)	101,167,188
<b>Subtotal</b>	<b>1,502,301,752</b>	<b>54,637,783</b>	<b>(9,574,745)</b>	<b>1,547,364,790</b>
<b>Less accumulated depreciation</b>				
Buildings	402,272,129	34,574,300	(1,394,826)	435,451,603
Other improvements and infrastructure	67,014,250	6,784,816	(524,812)	73,274,254
Equipment	124,787,711	11,039,718	(5,488,032)	130,339,397
Library resources	54,514,647	3,880,166	(100,616)	58,294,197
<b>Total accumulated depreciation</b>	<b>648,588,737</b>	<b>56,279,000</b>	<b>(7,508,286)</b>	<b>697,359,451</b>
<b>Total depreciable capital assets</b>	<b>853,713,015</b>	<b>(1,641,217)</b>	<b>(2,066,459)</b>	<b>850,005,339</b>
<b>Total capital assets</b>	<b>\$ 932,037,163</b>	<b>\$ 15,658,066</b>	<b>\$ (4,208,827)</b>	<b>\$ 943,486,402</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 8. Accounts Payable

At June 30, 2006, accounts payable are the following:

Accounts payable	\$ 16,722,361
Contract retainage	1,808,097
Payroll	15,572,708
<b>Total accounts payable</b>	<b>\$34,103,166</b>

## 9. Deferred Revenue

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

Athletics	\$ 2,486,155
Housing & dining services	1,296,679
Summer session	1,502,622
Parking	293,049
Pre-paid Tri-Cities BSEL building rent	10,000,000
<b>Deferred revenue</b>	<b>\$15,578,505</b>

## 10. Risk Management

The University, in accordance with State policy, self-insures unemployment compensation for all employees. The University assesses all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2005 through June 30, 2006 were \$513,145. Cash reserves for unemployment compensation for all employees at June 30, 2006 were \$2,506,663.

The University purchases commercial insurance for auxiliary enterprise

buildings that were acquired with bond proceeds when the bond agreement requires the University to insure property and earnings. The University assumes its potential property losses for most other buildings and contents and insures its liabilities through the State of Washington self-insurance liability pool.

## 11. Accrued Leave Liability

The total amount of accrued leave as of June 30, 2006 is \$31,149,784, and is broken down as follows: accrued annual leave is \$23,297,328 and consists

of unused vacation leave earned for exempt professionals, classified staff and faculty on annual appointments; accrued sick leave is \$7,627,271 and consists of unused sick leave earned and limited to an estimate of fifteen times the prior three-year average of the amount paid at the time of separation; accrued compensatory time is \$225,185 and consists of unused compensated leave earned for classified staff.

For reporting purposes, all vacation leave is shown as a non-current liability. Employees are limited by statute as to how many hours they may carry forward.

## 12. Deferred Compensation

There are a limited number of contractual deferred compensation agreements. The deferred compensation obligation as of June 30, 2006 is \$1,751,474 and as of June 30, 2005 is \$1,294,550.

The University offers all employees qualified deferred compensation plans created under Internal Revenue Code Sections 403b and 457. The plans are available to all state employees and permit them to defer a portion of their salary until future years.

## 13. Leases Payable

The University finances some fixed asset purchases through the Washington State Treasurer's leasing program. The University also has leases for office equipment with various vendors. These leases qualify as operating leases.

As of June 30, 2006 the minimum lease payments under capital leases, together with the present value of the net minimum lease payments and operating lease obligations, as shown on the left.

## 14. Bonds Payable

Bonds payable consist of revenue bonds issued by the University for Housing and Dining System facilities, the Student Recreation Center and Parking Services. Bonds payable also consist of the University's share of Washington State General Obligation bonds issued for construction of academic buildings, detailed on the facing page.

### Leases Payable

Fiscal year	Capital leases	Operating leases
2007	\$ 2,271,248	\$ 1,187,704
2008	2,130,391	1,115,902
2009	1,870,365	903,592
2010	1,723,898	675,355
2011	1,593,004	619,226
2012-2016	6,500,970	894,460
2017-2021	1,424,311	1,050
Total minimum lease payments	17,514,187	5,397,289
Amount representing interest	(3,544,249)	-
<b>Net present value</b>	<b>\$13,969,938</b>	<b>\$5,397,289</b>

On May 24, 2006 the University issued Student Fee Revenue Bonds Series 2006A (tax-exempt) and 2006B (taxable) in the amounts of \$53,405,000 and \$36,340,000 respectively. Series 2006A is due serially through 2038 with an interest rate of 5.00%. Series 2006B is due serially through 2027 with interest rates from 5.46% to 5.99%. Bond proceeds of \$89.7 million will be used to renovate the Compton Union Building on the Pullman campus.

### Bond Refunding Activity

On April 20, 2005, the University issued \$16,305,000 in Housing and Dining Service Refunding Revenue Bonds (Series 2005) to defease \$14,725,000 in Housing and Dining Service Revenue Bonds (Series 1999). The net proceeds were used to purchase U.S. Government securities that were deposited to an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. The refunding resulted in an aggregate debt service decrease over the next 25 years of \$1,337,812 and an economic gain of \$828,917. The principal outstanding on the refunded bonds on June 30, 2006 is \$14,725,000.

On May 11, 2005, the University issued \$8,840,000 in Parking Services Refunding Revenue Bonds (Series 2005) to defease \$7,990,000 in Parking Services Revenue Bonds (Series 1999). The net proceeds were used to purchase U.S. Government securities that were deposited to an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. The refunding resulted in an aggregate debt service decrease over the next 19 years of \$732,012 and an economic gain of \$512,698. The principal outstanding on the refunded bonds on June 30, 2006 is \$7,990,000.

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

### Revenue Bond Obligation

Fiscal year	Principal	Interest	Total
2007	\$ 2,925,000	\$ 9,012,126	\$ 11,937,126
2008	3,040,000	9,598,248	12,638,248
2009	3,170,000	9,468,300	12,638,300
2010	4,485,000	9,299,112	13,784,112
2011	4,695,000	9,095,077	13,790,077
2012–2016	26,995,000	41,917,939	68,912,939
2017–2021	34,455,000	34,409,800	68,864,800
2022–2026	39,855,000	24,553,304	64,408,304
2027–2031	34,370,000	15,172,904	49,542,904
2032–2036	25,500,000	7,227,125	32,727,125
2037–2041	16,565,000	1,269,875	17,834,875
<b>Total</b>	<b>\$196,055,000</b>	<b>\$171,023,810</b>	<b>\$367,078,810</b>

### State of Washington General Obligation Bonds

Fiscal year	Principal	Interest	Total
2007	\$ 5,119,639	\$ 3,157,613	\$ 8,277,252
2008	5,299,978	2,890,837	8,190,815
2009	4,312,575	2,629,951	6,942,526
2010	3,027,040	2,440,460	5,467,500
2011	2,878,051	2,286,745	5,164,796
2012–2016	14,485,000	9,324,092	23,809,092
2017–2021	15,065,000	5,352,212	20,417,212
2022–2026	11,560,000	1,802,103	13,362,103
2027–2031	460,000	11,500	471,500
<b>Total</b>	<b>\$62,207,283</b>	<b>\$29,895,513</b>	<b>\$92,102,796</b>



# NOTES TO THE FINANCIAL STATEMENTS

## Schedule of Long-Term Debt

	Total amount issued	Balance outstanding 6/30/05	Additions	Reductions	Balance outstanding 6/30/06	Current portion
<b>Revenue bonds:</b>						
Housing and Dining Service Revenue Bonds, issued 1999, due serially to 2009, interest rate 5.00%	\$ 17,670,000	\$ 1,785,000		\$ (325,000)	\$ 1,460,000	\$ 340,000
Housing and Dining Service Revenue Bonds, issued 2001, due serially to 2024, interest rates 4.125% to 5.10%	22,230,000	19,960,000		(625,000)	19,335,000	655,000
Housing and Dining Service Revenue Bonds, issued 2004, due serially to 2024 interest rates 2.15% to 5.00%	16,600,000	16,600,000		(295,000)	16,305,000	600,000
Housing and Dining Service Revenue Bonds, issued 2005, due serially to 2030 interest rates 3.00% to 4.75%	16,305,000	16,305,000		(20,000)	16,285,000	100,000
Student Activity Facilities Fee Revenue Bonds, issued 1998, due serially to 2032, interest rates 4.50% to 5.15%	46,930,000	44,045,000		(820,000)	43,225,000	855,000
Student Fee Revenue Bonds, issued 2006, due serially to 2038 interest rates 5.00% to 5.99%	89,745,000		\$ 89,745,000		89,745,000	
Parking System Revenue Bonds, issued 1999, due serially to 2009, interest rates 4.95% to 5.10%	10,285,000	1,250,000		(290,000)	960,000	305,000
Parking System Revenue Bonds, issued 2005, due serially to 2024, interest rates 3.00% to 4.40%	8,840,000	8,840,000		(100,000)	8,740,000	70,000
<b>State of Washington general obligation bonds:</b>						
Series AQ, issued 1982 to 2001, due serially to 2010, interest rates 5.25% to 5.75%	\$ 15,595,878	\$ 3,885,952		\$ (703,669)	\$ 3,182,283	\$ 739,639
Series BK, issued 1987 to 2002, due serially to 2008, interest rates 4.00% to 6.75%	30,279,000	7,540,000		(2,100,000)	5,440,000	2,185,000
Series 1990A, due serially to 2010, interest rate 6.75%	2,000,000	775,000		(135,000)	640,000	145,000
Series 1991B, due serially to 2015, interest rates 5.375% to 5.70%	2,180,000	1,340,000		(85,000)	1,255,000	90,000
Series HE-WSU, issued 1992 to 1997, due serially to 2022 interest rates 3.50% to 6.40%	27,600,000	20,670,000		(1,050,000)	19,620,000	1,040,000
Series 2001A, due serially to 2025, interest rates 5.00% to 5.625%	19,190,000	17,525,000		(470,000)	17,055,000	490,000
Series 2001C, due serially to 2026, interest rates 5.0% to 5.25%	10,050,000	9,150,000		(255,000)	8,895,000	265,000
Series 2002A, due serially to 2026, interest rates 4.0% to 5.0%	6,770,000	6,290,000		(170,000)	6,120,000	165,000
<b>Capital leases</b>		\$ 12,256,315	\$ 9,724,238	\$ (8,010,615)	\$ 13,969,938	\$ 1,527,522
<b>Other adjustments:</b>						
Bond discounts and issue costs		\$ (2,689,608)	\$ (1,058,390)	\$ 149,095	\$ (3,598,903)	\$ (173,638)
Bond premium			1,237,469	(3,125)	1,234,344	37,499
Deferred costs of refundings		(3,336,499)		201,832	(3,134,667)	(152,939)
<b>Total</b>	<b>\$342,269,878</b>	<b>\$182,191,160</b>	<b>\$99,648,317</b>	<b>\$(15,106,482)</b>	<b>\$266,732,995</b>	<b>\$ 9,283,083</b>

## 15. Pension Plans

The University offers two contributory pension plans: the Washington State Public Employees Retirement System (PERS) plan, a defined benefit retirement system, and the Washington State University Retirement Plan, consisting of a defined contribution plan modified with a supplemental payment plan, when required.

The University employs approximately 5,500 full-time employees eligible for participation in one of the two retirement plans.

The payroll for employees covered by PERS was \$89,393,199 and the payroll for employees covered by the Washington State University Retirement Plan was \$187,720,738.

### **Public Employees Retirement System**

**Plan Description.** PERS is a multi-employer mandatory retirement plan for all eligible classified staff University employees. Employees hired into an eligible position prior to October 1, 1977 are enrolled in Plan 1 while employees hired into an eligible position on or after October 1, 1977 are enrolled in Plans 2 or 3. Retirement benefits are vested after five years of eligible service. Plan 3 has a defined contribution component that members may elect to self-direct as established by the Employee Retirement Benefits Board. The authority to establish and amend benefit provisions resides with the legislature. The Washington State Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380.

**Funding Policy.** The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. The basic contribution rates, established by the legislature, match the actuarially determined rates considered necessary to fully fund the tier one system by June 30, 2024 and to continue

to fully fund the tier two systems. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 employees at June 30, 2006 was 2.25%. The contribution rate for the University at June 30, 2006 for all PERS plans was 2.4%.

The summary of rates for the year is as follows:

	Employee	University
Plan 1	6.00%	2.4%
Plan 2	2.25%	2.4%
Plan 3	5% to 15%	2.4%

Employee and employer contributions for the year ended June 30, 2006 are \$2,992,077 and \$2,181,194, respectively.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, estimated to be payable in the future as a result of employee service to date. The pension benefit obligation as of 2004 for PERS as a whole, determined through an actuarial valuation performed as of that date, was \$20,686,000,000. The PERS net assets available for benefits on that date (valued at market) were \$19,905,000,000, leaving an unfunded pension benefit obligation of \$781,000,000. Information for WSU as a stand-alone entity is not available.

Ten-year historical trend information showing the PERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington June 30, 2006 Department of Retirement Systems *Comprehensive Annual Financial Report*.

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

**Plan Description.** Faculty, professional and other staff are eligible to participate in the Washington State University Retirement Plan (WSURP). 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.

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

The plan has a supplemental payment 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 50, the benefit goal is 1.5% for each year of full-time service for those years the lower contribution rate is selected.

No significant changes were made in the benefit provisions for the year.

**Contributions.** Contribution rates for the WSURP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the University. Employee and employer contributions for the year ended June 30, 2006 were each \$15,618,418.

The Washington State University Retirement Plan (supplemental payment) is financed on a pay-as-you-go basis. Supplemental payments made by the University for the year ended June 30, 2006 were \$727,015.

At the latest valuation of July 1, 2004 the total unfunded pension benefit obligation under the Washington State University Retirement Plan (supplemental payment plan) was \$9.6 million, consisting of \$4.8 million for retirees and beneficiaries currently receiving benefits and \$4.8 million for current employees.

### **Federal Retirement Plans**

Selected positions related to the College of Agricultural, Human, and

# NOTES TO THE FINANCIAL STATEMENTS

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 chose not to transfer to Federal Employees Retirement System (FERS). Retirement benefits are vested after an employee completes five years of eligible service.

Employee and employer contributions for the 50 enrolled employees on June 30, 2006 were \$213,349 and \$213,349 respectively.

## 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.

Employee and employer contributions for the 30 enrolled employees on June 30, 2006 were \$16,150 and \$226,098 respectively.

The rates at June 30, 2006 are as follows:

	Employee	University
CSRS	7.00%	7.00%
FERS	0.80%	10.7%

## 16. Segment Information

Revenue Bonds are issued from time to time to build new facilities. Net revenues are pledged to cover the cost of debt service. For financial report display, the following are WSU segments:

### Compton Union Building (CUB)

The Compton Union Building houses student meeting areas, eating establishments and various other vendors for use by students and student groups. Due to student demand and support the Compton Union Building is currently undergoing the largest renovation of any building in WSU history. When open in 2008, the new CUB will feature many amenities including wireless internet access, increased student meeting space, an upgraded and relocated home for the Student Book Corporation (Bookie), and a multitude of new vendors.

### Housing and Dining Services

Housing and Dining Services operates residence and dining halls, apartment complexes, vending operations and student convenience stores on the University Campus.

### Parking Services, Pullman Campus

Parking Services provides host services to the campus community, maintains the parking infrastructure and unobstructed flow of traffic, manages parking facilities and parking spaces and enforces parking rules.

### Student Recreation Center

The Student Recreation Center provides programs and services designed to optimize the personal, cultural, social, physical, ethical and intellectual development of the University community.

Presented on the facing page are the condensed financial statements as audited by LeMaster and Daniels, PPLC.

## 17. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Assets, Operating Expenses are displayed by natural classifications, such as salaries, benefits and goods and services. The table below summarizes Operating Expenses by Program for the year ended June 30, 2006.

## 18. Contingent Liabilities

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 statements.

### Operating Expenses by Program

	Compensation & benefits	Supplies & services	Scholarships & fellowships	Depreciation	Total
Instruction	\$ 151,687,961	\$ 13,578,225			\$ 165,266,186
Research	95,648,619	38,903,379	\$ 2,712,827		137,264,825
Public service	26,878,521	7,802,569			34,681,090
Academic support	37,553,882	12,472,481			50,026,363
Student services	15,637,508	3,793,889			19,431,397
Institutional support	27,667,200	11,980,735			39,647,935
Operation & maintenance of plant	22,735,435	22,405,006			45,140,441
Other operating expenses	8,413,908	27,370,091			35,783,999
Auxiliary enterprises	40,150,964	44,335,815			84,486,779
Student financial aid net			30,892,736		30,892,736
Depreciation				\$ 56,279,000	56,279,000
<b>Total operating expenses</b>	<b>\$426,373,998</b>	<b>\$182,642,190</b>	<b>\$33,605,563</b>	<b>\$56,279,000</b>	<b>\$698,900,751</b>

## Segment Information

	Compton Union Building	Housing and Dining	Parking (Pullman Campus)	Student Recreation Center
<b>Condensed statement of net assets</b>				
<b>Assets</b>				
Current assets	\$ 20,527,999	\$ 16,058,564	\$ 2,107,230	\$ 4,470,040
Non-current assets				
Capital assets, net of accumulated depreciation	7,267,871	65,633,599	16,075,359	36,654,306
Other non-current assets	66,991,156	4,035,859		1,305,580
<b>Total assets</b>	<b>\$ 94,787,026</b>	<b>\$ 85,728,022</b>	<b>\$ 18,182,589</b>	<b>\$ 42,429,926</b>
<b>Liabilities</b>				
Current liabilities	\$ 1,231,235	\$ 8,580,591	\$ 1,008,512	\$ 1,492,303
Non-current liabilities				
Long-term debt	89,745,000	48,230,457	8,411,608	41,064,572
Other liabilities	1,234,344	2,808,013	1,346,972	
<b>Total liabilities</b>	<b>\$ 92,210,579</b>	<b>\$ 59,619,061</b>	<b>\$ 10,767,092</b>	<b>\$ 42,556,875</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	7,267,871	12,057,784	5,747,283	5,803,202
Restricted, expendable		8,336,562		(5,930,151)
Unrestricted	(4,691,424)	5,714,615	1,668,214	
Total net assets	2,576,447	26,108,961	7,415,497	(126,949)
<b>Total liabilities and net assets</b>	<b>\$ 94,787,026</b>	<b>\$ 85,728,022</b>	<b>\$ 18,182,589</b>	<b>\$ 42,429,926</b>
<b>Condensed statement of revenues, expenses and changes in net assets</b>				
Operating revenues	\$ 1,540,192	\$ 38,004,237	\$ 3,235,153	\$ 4,761,732
Operating expenses	(1,218,592)	(33,431,160)	(2,200,042)	(1,694,339)
Depreciation expense	(25,699)	(3,147,493)	(546,299)	(911,122)
Operating income (loss)	295,901	1,425,584	488,812	2,156,271
Non-operating revenues (expenses)	(298,200)	(2,495,570)	(503,384)	(2,039,907)
Other - transfers among funds	2,178,975	305,000	(6,453)	7,235
Increase (decrease) in net assets	2,176,676	(764,986)	(21,025)	123,599
Net assets, beginning of year	399,771	26,873,947	7,436,522	(250,548)
<b>Net assets, end of year</b>	<b>\$ 2,576,447</b>	<b>\$ 26,108,961</b>	<b>\$ 7,415,497</b>	<b>\$ (126,949)</b>
<b>Condensed statement of cash flows</b>				
Net cash flows provided by operating activities	\$ 530,209	\$ 3,753,086	\$ 1,152,012	\$ 3,076,032
Net cash flows provided by non-capital financing activities				7,235
Net cash flows used by capital and related financing activities	82,216,836	(5,657,889)	(1,569,025)	(3,141,062)
Net cash flows provided by investing activities	(82,173,575)	1,867,485	77,029	157,347
Net increase (decrease) in cash and cash equivalents	573,470	(37,318)	(339,984)	99,552
Cash and cash equivalents, beginning of year	445,149	1,819,869	2,282,118	1,068,032
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,018,619</b>	<b>\$ 1,782,551</b>	<b>\$ 1,942,134</b>	<b>\$ 1,167,584</b>

## Enrollment and Degrees Conferred

	2006	2005	2004	2003	2002
<b>Fall enrollment (headcount)</b>					
Undergraduate	19,585	19,281	18,746	18,024	17,476
Graduate	3,219	3,228	3,239	3,177	2,921
Professional	740	732	727	679	676
Total headcount	<b>23,544</b>	<b>23,241</b>	<b>22,712</b>	<b>21,880</b>	<b>21,073</b>

	2006	2005	2004	2003	2002
<b>Fall enrollment (full-time equivalent)</b>					
Undergraduate	17,352	17,130	16,634	16,533	16,309
Graduate	3,414	3,500	3,585	3,566	3,307
Professional	1,219	1,154	1,017	893	1,003
Full-time equivalent	<b>21,985</b>	<b>21,784</b>	<b>21,236</b>	<b>20,992</b>	<b>20,619</b>

<b>Freshman admission information</b>					
Applications	9,193	9,508	9,182	8,989	7,968
Acceptances	6,793	7,148	7,206	6,904	6,484
Matriculates	2,890	3,123	3,042	2,803	2,623

<b>Degrees conferred</b>					
Baccalaureate	4,508	4,133	4,223	4,143	3,817
Masters	741	730	752	760	702
Doctoral	170	180	167	126	161
Professional	169	174	160	180	152

Source: Washington State University Institutional Research

## Tuition & Fees, Undergraduate

Academic Year	Resident	Non-Resident	Room & Board <sup>1</sup>
2006-07	\$5,887	\$15,527	\$6,590
2005-06	\$5,506	\$14,514	\$6,280
2004-05	\$5,154	\$13,572	\$6,034
2003-04	\$4,836	\$12,938	\$5,756
2002-03	\$4,520	\$12,270	\$5,540

1) Standard room including double occupancy plus level 2 meal plan

Source: Washington State University Institutional Research

# STATEWIDE PRESENCE



WSU Pullman



WSU Spokane



WSU Tri-Cities



WSU Vancouver

We would like to acknowledge the following staff who are responsible for the content of this report:

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