

Financial Report 2010



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Financial Report 2010

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.

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.



Regents and Administrative Officers

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Dean of the University College
Elizabeth A. Walker, Dean, University Honors College

LEGAL COUNSEL

Sharyl Kammerzell, Division Chief, WSU Division of the State Office
of the Attorney General

Officer list effective as of December 31, 2010



Message from the President

It is an honor for me to share with you Washington State University's annual report for the 2010 fiscal year. This publication provides in-depth information about the fiscal health and operations of WSU during the period beginning on July 1, 2009, and concluding on June 30, 2010.

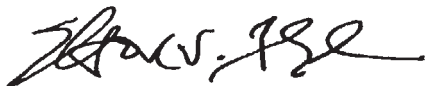
The year provided many indicators of our university's current strength and our focus upon an even brighter future. Some of the highlights include:

- We continue to see impressive demand for a WSU education. This fall, the university's enrollment reached a record of nearly 26,000 students across our four campuses. Enrollment at the Pullman campus surpassed the 20,000 mark for the first time. Contributing to Pullman's overall enrollment growth was a 5.5 percent increase in the number of graduate students. Enrollment growth in Pullman continued despite our decision to limit the number of new freshmen in our incoming class as a result of limited financial resources. Meanwhile, our four-year programs at WSU Vancouver and WSU Tri-Cities also are seeing strong student interest and enrollment growth.
- Despite the prevailing economic environment, the WSU Foundation finished the 2010 fiscal year strongly, surpassing \$97 million in total fundraising activity. This makes last year the third most successful fundraising year in WSU history.
- WSU faculty and researchers have achieved more than a 40 percent increase in the amount of outside research and other grant funding awarded to the university over the past two fiscal years. Our grant awards this year set a record of more than \$218 million.
- We launched a program to upgrade our student information systems, which was absolutely essential to the continued effective operation of our university. Similarly, we have begun an update of the Pullman campus master plan that will help establish the land-use direction for our campus for the next 50 years.
- On our Pullman campus, we broke ground for our new School for Global Animal Health Building, which is funded in part through a grant from the Gates Foundation. We also had a groundbreaking for the Veterinary Medical Research Building. In August 2009, we welcomed students to the Olympia Avenue Student Housing, the first new residence hall built on the Pullman campus in nearly 40 years.

As a university, we have been again called upon to respond to continuing reductions in our state budget allocation. In May 2010, the Legislature approved and the governor signed a supplemental budget that included a \$13.5 million reduction to the university's allocation for the 2011 fiscal year. An additional \$11.2 million temporary reduction was the university's share of the cut to state agencies ordered by Gov. Christine Gregoire in September 2010.

Even in the face of continued budgetary challenges, Washington State University remains dedicated to its mission as a leading land-grant research university to advance knowledge through creative research and scholarship, extend knowledge through innovative education, and apply knowledge through local and global engagement. Through our research and scholarly endeavors, WSU enhances the lives of people around the globe and contributes to the economic and academic vitality of the state, nation, and world.

Sincerely,



Elson S. Floyd, Ph.D.
President
Washington State University

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Washington State University (the University) for the fiscal year ended June 30, 2010, with comparative information for the fiscal year ended June 30, 2009. This overview has been prepared by management and should be read in conjunction with the University's financial statements and accompanying note disclosures.

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. An award-winning online program offers access to the University's degrees statewide and around the world. Enrollment exceeds 26,000 students who are served by over 2,200 faculty and 3,400 staff members. Among the University's faculty are nine members of the National Academy of Sciences, National Academy of Engineering and the Institute of Medicine.

The Carnegie Foundation classifies the University as one of 96 U.S. public and private universities with very high research activity. *U.S. News and World Report* consistently ranks the University among the top 60 public universities.

The University has twelve academic colleges, the Graduate School and the Center for Distance and Professional Education. The colleges include: Agricultural, Human, and Natural Resource Sciences; Business; Communication; Education; Engineering and Architecture; Honors; Liberal Arts; Nursing; Pharmacy; Sciences; University College; and Veterinary Medicine. The University offers more than 200 fields of study including more than 100 majors, 67 master's degree programs and 47 doctoral degree programs. Professional degrees are offered in pharmacy and veterinary medicine. Last year, 5,900 degrees, including bachelor's, master's, professional and doctoral degrees, were conferred.

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.

Using the Financial Statements

The financial statements presented in this report encompass the University and its discretely presented component unit. The University's financial reports include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

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

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

Financial Highlights

The University's financial position at June 30, 2010, reflects improvement over the previous fiscal year. The improvements have been the result of management's decisive efforts to reduce costs in response to the State budget reductions, which were required as a result of the global economic downturn that reduced the State's revenues.

- Assets increased by \$144 million to end the year at \$2.1 billion.
- Liabilities increased by \$105 million to end the year at \$535 million.
- Net assets, which represent the residual of assets after deducting liabilities, increased by \$39 million to end the year at \$1.5 billion.

Other significant changes to operations were as follows:

- Operating revenues totaled \$542 million, an increase of \$46 million over fiscal year 2009.
- Operating expenses totaled \$830 million, an increase of \$8 million over fiscal year 2009.
- Capital assets totaled \$1.2 billion, a decrease of \$5 million from fiscal year 2009.

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 lists 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, prepaid expenses and investments that can easily be converted into cash to meet University expenses. Non-current assets include endowment fund assets, student loans receivable and investments expected to be held more than one year. Capital assets include construction in progress, library materials, furniture and equipment, land, buildings and improvements and are reported net of accumulated depreciation.

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

Net assets are divided into five categories:

- **Invested in capital assets—net of related debt:** represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted—non expendable 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:** funds that have been established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- **Restricted—expendable net assets:** funds that are 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 that are available to the University for any lawful purpose.

Summarized Statements of Net Assets

As of June 30, 2010 and June 30, 2009

	June 30, 2010	June 30, 2009	Change
Assets			
Current assets	\$ 273,900,995	\$ 196,065,095	\$ 77,835,900
Non-current assets	573,507,920	502,206,135	71,301,785
Capital assets, net of depreciation	1,237,461,926	1,242,463,648	(5,001,722)
Total assets	2,084,870,841	1,940,734,878	144,135,963
Liabilities			
Current liabilities	69,620,236	78,075,065	(8,454,829)
Non-current liabilities	465,642,695	352,437,174	113,205,521
Total liabilities	535,262,931	430,512,239	104,750,692
Net assets			
Invested in capital assets, net of debt	940,143,151	954,111,654	(13,968,503)
Restricted nonexpendable, endowments	415,394,171	384,438,746	30,955,425
Restricted, loans	28,050,175	26,936,183	1,113,992
Restricted expendable	84,229,515	72,703,636	11,525,879
Unrestricted	81,790,898	72,032,420	9,758,478
Total net assets	\$ 1,549,607,910	\$ 1,510,222,639	\$ 39,385,271

Significant Changes in the Statements of Net Assets

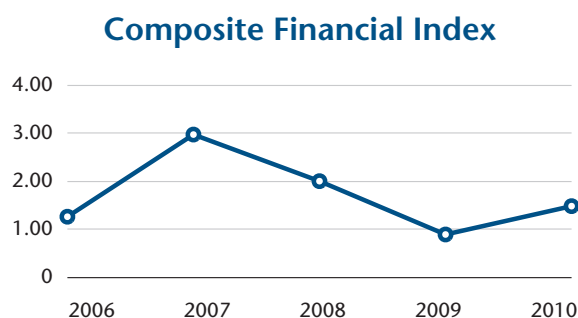
- Total assets increased by \$144 million. The University issued \$111 million in revenue bonds for the construction of several new buildings on campus, the proceeds of which have been primarily invested in a local government investment pool and are classified as a cash equivalent. In addition, the University varied the mix of their investments to increase yield which resulted in a change to longer term investments. As a result of these investment decisions, cash equivalents increased by \$109 million and current investments decreased by \$21 million. Accounts receivable decreased by \$10 million due to decreases in capital appropriations due at year end and an increase in allowance for doubtful accounts. Non-current assets increased by \$40 million due to the change to longer term investments, by a \$3 million increase in student loans receivable and by a \$32 million increase in endowment values as the investment market improved. This was offset by a decrease of \$5 million in capital assets and a decrease of \$4 million in construction retainage, deposits held in escrow.
- Capital assets, net of depreciation, decreased by \$5 million. In response to declining state revenues, the state placed a freeze on purchasing equipment. As a result, equipment increased by only \$4 million. Buildings under construction over the last several years were completed by the end of 2009, and new construction projects were just beginning. New buildings with little or no depreciation in 2009 had a full year charged in 2010. Construction in progress decreased by \$42 million as completed projects were transferred to buildings or infrastructure. Buildings and infrastructure, net of depreciation, increased by \$33 million.
- Current liabilities decreased by \$8 million. This was largely due to budget constraints that reduced spending for travel and equipment. A net reduction in current accounts payable of \$11 million was offset by an increase in the current portion of long term debt of \$3 million.
- Non-current liabilities increased by \$113 million. The long term portion of the new revenue bonds issued was \$99 million. Also, the University entered into a \$4.5 million long term purchase contract with the Students Book Corporation to purchase its land and building. The University's net pension obligation increased by \$5 million as calculated by the State Actuary, based on forecasts of lower earnings on retirement accounts which will increase the supplemental liability. Deposits held in custody for others increased by \$3 million. Accrued leave increased by \$1 million.
- Net assets increased by \$39 million.

Financial Health and Flexibility

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

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

The graph below shows Washington State University's Composite Financial Index over the past five years. The ratio was climbing until the global economic downturn reduced operating budgets and investment returns. However, the University's proactive response to the economic crisis has allowed it to weather the storm and see positive results in the past year.



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

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

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

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

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

Summarized Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended June 30, 2010 and June 30, 2009

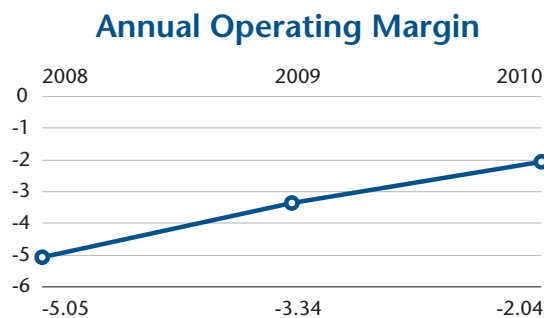
	June 30, 2010	June 30, 2009	Change
Operating revenues/(expenses)			
Operating revenues	\$ 541,882,536	\$ 496,314,915	\$ 45,567,621
Operating expenses	(829,878,090)	(821,657,834)	(8,220,256)
Net operating income (loss)	\$ (287,995,554)	\$ (325,342,919)	\$ 37,347,365
Non-operating revenues/(expenses)			
Non-operating revenues	\$ 317,946,931	\$ 308,605,098	\$ 9,341,833
Non-operating expenses	(13,859,816)	(13,869,984)	10,168
Net non-operating revenues	\$ 304,087,115	\$ 294,735,114	\$ 9,352,001
Income (loss) before other revenues, expenses, gains, losses and transfers	\$ 16,091,561	\$ (30,607,805)	\$ 46,699,366
Other revenues	\$ 23,293,710	\$ 101,737,638	\$ (78,443,928)
Increase in net assets	\$ 39,385,271	\$ 71,129,833	\$ (31,744,562)
Net assets, beginning	\$ 1,510,222,639	\$ 1,439,092,806	
Net assets, end of year	\$ 1,549,607,910	\$ 1,510,222,639	

Significant Changes in the Statement of Revenues, Expenses and Changes in Net Assets

- Operating revenues increased by \$45 million. Planned enrollment increases coupled with a 14% increase in the tuition rate resulted in \$21 million more dollars in Tuition and Fees. Auxiliary enterprises revenue increased by \$6 million due to an increase of 7% in the Housing and Dining rates. Increases in grant revenues as a result of ARRA funding and increases in financial aid were \$22 million. Other operating revenues decreased by \$4 million.
- Operating expenses increased overall by \$8 million. Salaries decreased by \$7 million. Owing to State budget constraints, no salary increases were given and hiring restrictions were put in place. In addition, the University took decisive action to manage salary spending by streamlining and reorganizing. This decrease was more than offset by a \$9 million increase in benefits expense. This was the result of changes in health care eligibility requirements which expanded coverage for employees, an increase in premium costs and an increase in supplemental retirement benefits expenditures. Scholarship and fellowship costs increased by \$6 million, a result of meeting the increased need of students due to tuition increases. Payments for goods and services decreased by \$5 million primarily as a result of a State imposed freeze on travel and equipment purchases. Depreciation increased by \$5 million as new buildings and infrastructure completed last year were charged a full year of expense.
- Net non-operating revenues increased by \$9 million. State operating appropriations were cut as a result of the State's economic crisis by \$40 million. Gifts and contributions were down by \$1 million. Investment income rebounded by \$37 million as the investment market recovered. Also, an increase in timber prices resulted in increased income on the State's timber lands held for the University. Other non-operating revenues increased by \$5 million. Changes in the Federal PELL grant program coupled with increased student need resulted in an \$8 million increase in Federal PELL revenue.
- Other revenues decreased by \$78 million. State capital appropriations decreased by \$75 million partly because the State budget constraints reduced capital dollars allotted for building projects and instead allocated them to operations. Also, this is the first year of the biennium and capital spending is generally lower. Capital grants decreased by \$3 million.

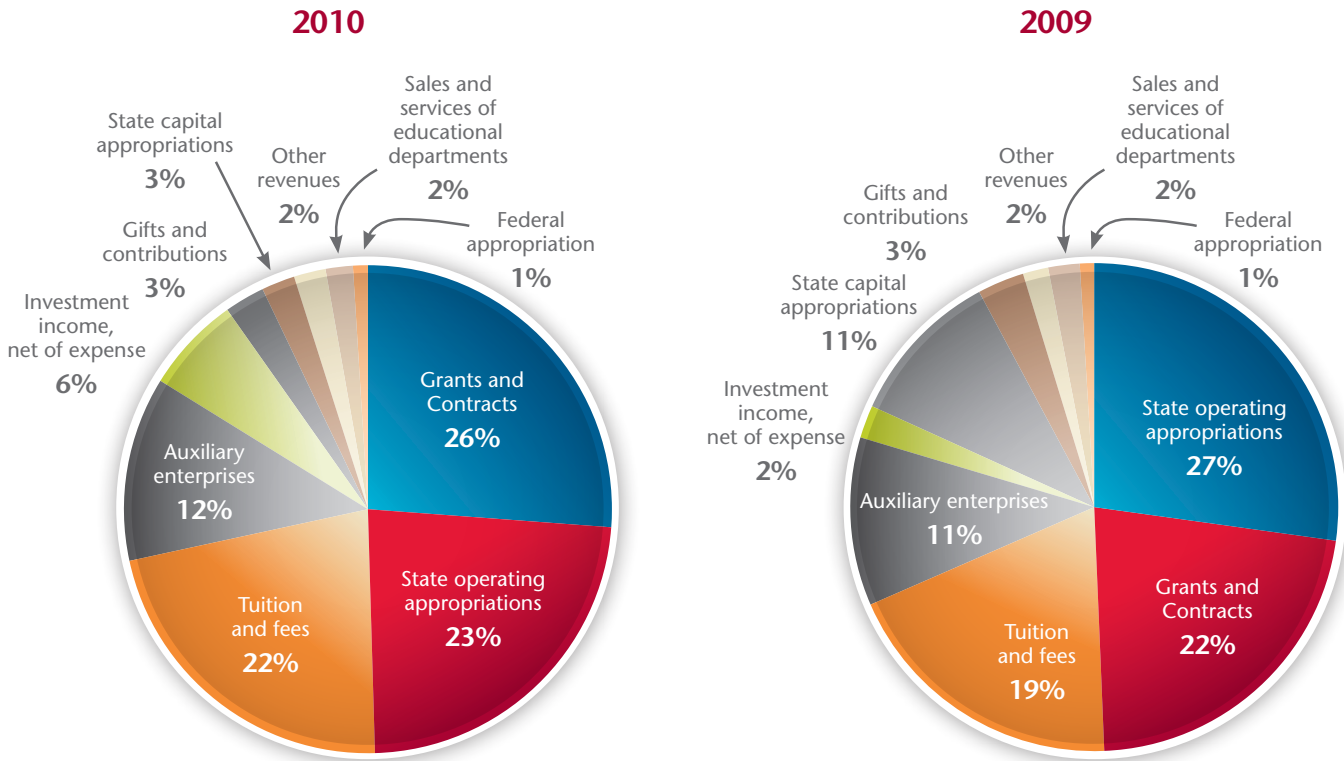
Operating Performance

Rating agencies use a number of ratios to assess operating performance. One of the ratios more commonly used by Moody's is annual operating margin, which compares the operating surplus (or deficit) to operating revenues. Moody's definition of operating revenues includes several non-operating revenues in determining margin and an estimated spending rate of the University's investments rather than actual investment income. This ratio indicates the extent to which the University is balancing revenues with expenses and growing its resource base. In spite of the difficult economic conditions, the University's annual operating margin in 2010 was -2.04 continuing an upward trend from 2009 at -3.34% and 2008 at -5.05%.



Revenues from all Sources

For the Years Ended June 30, 2010 and 2009



As the above graphs show, the University has a diversified revenue base. No single source of revenue generated more than 26% of the total fiscal year revenues for 2010. For the first time, grants and contracts revenues exceeded State operating appropriations to become the largest single revenue source for the University. As a result of multiple budget reductions, State operating appropriations were lower by \$40 million in 2010. The University relies on this state funding which subsidizes its instructional activities allowing for lower tuition rates; however, in 2010, the University had to raise tuition by 14% to help bridge the funding gap. As a result, tuition revenue and State operating revenues were nearly the same this year. Tuition revenue was \$194 million, net, and State operating appropriations were \$206 million, composing 22% and 23% of total revenues respectively.

Grants and contracts generated \$231 million or 26% of total revenue. As a percentage of total income, this was an increase of 4% over 2009. This was a dollar increase of \$22 million. As a result of decreased State appropriations, increased tuition revenue and increased grant revenue, grants and contracts revenue now comprises the largest percentage of total revenues from all sources. These funds support the university's research activities, which allow students to work with nationally recognized faculty as part of their educational experience.

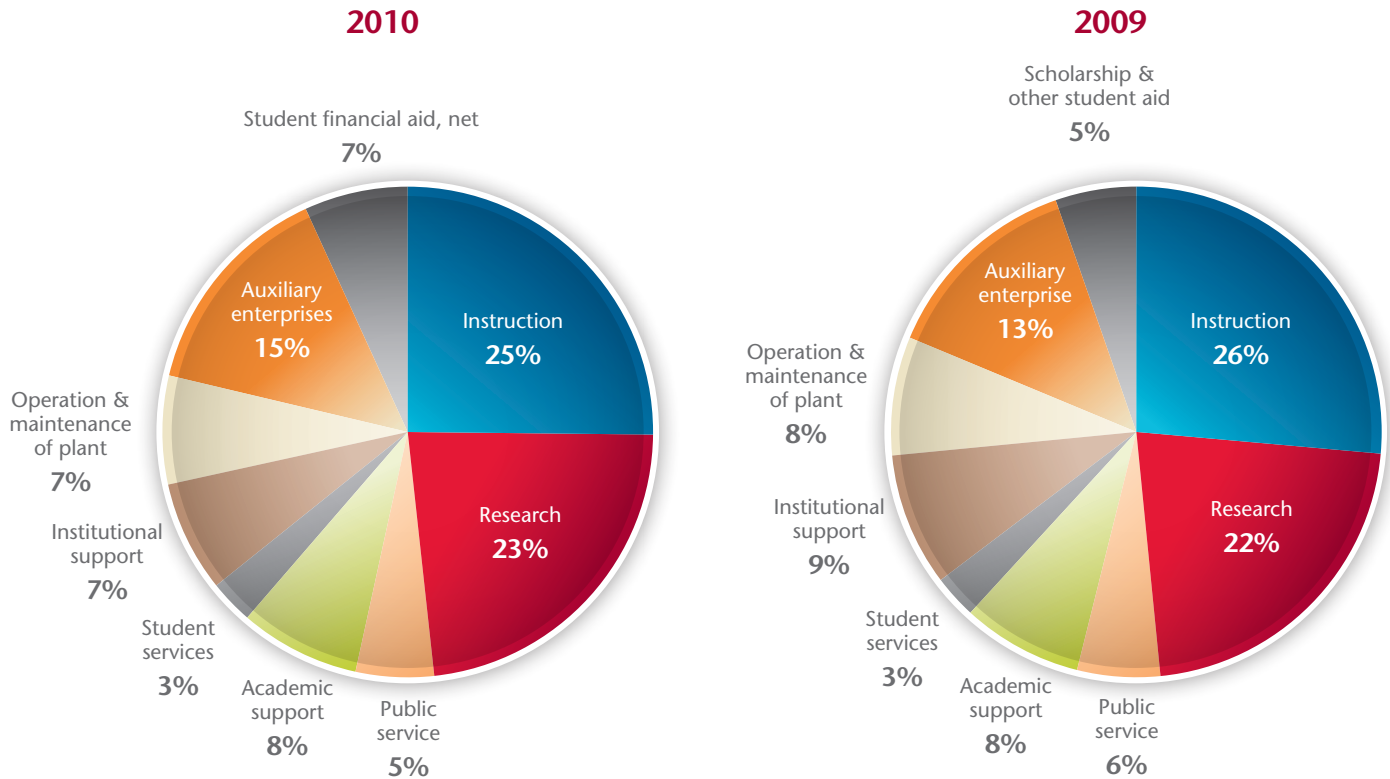
Investment income, net of expenses, rebounded in 2010, increasing to 6% of total revenue over the low of 2% in 2009. Gifts and contributions were lower in 2010. State capital appropriations declined as usual in the first year of a biennium, and also because several large projects were completed in 2009, and the new projects were just in the beginning phases.

Auxiliary enterprises generated \$107 million in revenues representing 12% of the total revenue, an increase of 1% of total revenue. Auxiliary enterprises, such as university residences, intercollegiate athletics and the student union are essential supporting activities.

Operating Expenditures by Functional Classification

For the Years Ended June 30, 2010 and 2009

(Note: for the purposes of these graphs, depreciation has been allocated to the programs.)



The graphs above show that instruction, maintenance and institutional support costs decreased during 2010 as a result of the University's effective cost cutting measures. Research costs increased as a result of increased grant funding, in part from the Federal ARRA programs. Student financial aid increased as more students qualified for aid and the Federal government broadened the PELL grant program.

Capital Assets and Long-Term Debt Activities

Capital Assets

At June 30, 2010, the University had \$1,237,461,926 invested in capital assets, net of accumulated depreciation. This represents a decrease of \$5 million from last year, as shown in the table below:

	June 30, 2010	June 30, 2009	Change
Land	\$ 40,085,792	\$ 39,647,948	\$ 437,844
Construction in progress	29,585,482	72,250,029	(42,664,547)
Buildings, net	918,359,702	891,980,115	26,379,587
Other improvements and infrastructure, net	143,360,691	136,418,947	6,941,744
Equipment, net	56,981,462	54,210,625	2,770,837
Library resources	49,088,797	47,955,984	1,132,813
Total capital assets, net	\$ 1,237,461,926	\$ 1,242,463,648	\$ (5,001,722)

The decrease is a result of the State's restrictions on equipment purchases, a decrease in construction in progress as completed projects were transferred to buildings and infrastructure which increased those categories, and an increase in depreciation as the new buildings were charged a full year of expense. New projects underway include the Global Animal Health Building, the Veterinary Medical Research Building, the Applied Technology Classroom Building and renovations of several residence halls, which will result in increases to construction in progress in fiscal year 2011.

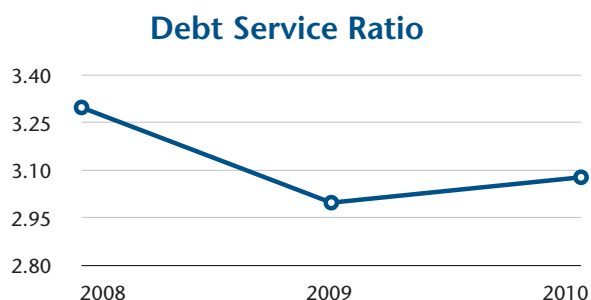
Long-Term Debt

At June 30, 2010, the University had \$397,903,500 in outstanding debt, representing an increase of \$107,330,500 over the prior year. This increase is the result of the University issuing \$111,665,000 in revenue bonds to finance the construction of three new buildings on campus. The State Legislature authorized the issuance of these bonds, which will be repaid from the revenue stream generated by the Agricultural and Scientific trust funds, to pay for these projects that could not be funded through capital appropriations owing to the State's economic crisis.

The table below summarizes outstanding debt:

	June 30, 2010	June 30, 2009	Change
General obligation bonds payable	\$ 43,778,052	\$ 47,125,092	\$ (3,347,040)
Revenue bonds payable, net	337,452,701	231,047,991	106,404,710
Capital leases	16,672,747	12,399,917	4,272,830
Total debt	\$ 397,903,500	\$ 290,573,000	\$ 107,330,500

The debt service to operations ratio provides an indicator of the University's ability to repay annual principal and interest relative to its overall operating expenses. A higher ratio gives a level of comfort that the institution has a net revenue stream available to meet its debt burden. The graph below shows the University's debt service ratio for the past three years.



Economic Outlook

In adopting the 2009-11 biennial budget, the State of Washington sought to address an estimated \$9 billion budget shortfall. For the University, the net effect of the original appropriation budget reductions represented a \$54.2 million or 10.4% reduction of state support for the biennium. During the 2010 Legislative session, the University's state appropriation for fiscal year 2011 was reduced by an additional \$13.5 million.

Looking ahead, the Washington State Economic Revenue Forecast Council observed that the state's economy is expected to outperform the nation in the recovery. Yet, the recovery lost momentum in the summer months as a result of the sharp slowdown in the U.S. economy. As a result, projected state revenues declined by \$770 million for the 2009-11 biennium and \$668.7 million for the 2011-13 biennium (Washington State Economic and Revenue Forecast, September 2010). In response to the September Economic Forecast, the Governor issued Executive Order 10-04 to balance the state general revenue fund. The Executive Order required an across the board, state fund reduction of 6.28% for all state agencies. The impact on WSU was an \$11.2 million temporary operating budget reduction.

While the University has experienced significant budget cuts on state general funds due to the lagging state economy, these funds only represent about 25% of the University's revenues. Other revenue sources are expected to be more stable.

Capital appropriations and bonding authority have been approved for the two-year biennial period at \$230.4 million. Federal appropriations for the University's land grant programs are expected to remain near a \$9 million funding level.

As in prior years, student tuition and fees will be increased for the 2010-2011 academic year with a portion of the incremental revenue used for financial aid. Tuition rates were increased by 14% for resident students and increased between 5% and 10% for other student categories for the 2010-2011 academic year. Enrollment is expected to be 1% higher than 2010, at approximately 24,100 annual average full time equivalents for the four-campus system. Overall, the University expects net tuition and fee revenues to provide \$212.5 million to support operations, a 9% increase over 2010.

Federally sponsored research and other programs are the largest portion of externally funded grant expenditures. 67% of University projects were supported by federal funding and 33% by non-federal funding in 2010. Federally funded project expenditures increased by about 13% between 2009 and 2010; non-federally funded project expenditures increased by almost 7%. Federal and non-federal sponsored programs have continued to grow in recent fiscal years and that trend seems to be continuing in fiscal year 2011 based on the first quarter expenditure growth of nearly 12% over the first quarter of fiscal year 2010. The longer-term outlook is more uncertain due to possible federal funding constraints and deficits and the economic conditions nationwide, which could constrain both federal and non-federal project activities.



Washington State Auditor Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

January 3, 2011

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 year ended June 30, 2010, 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 opinions.

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, 2010, 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.

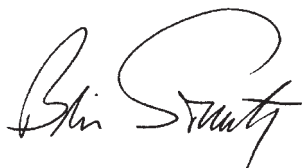
In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Washington State University, as of June 30, 2010, and the respective changes in financial position and, where

applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 4 through 11 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.

The information identified in the table of contents as Enrollment and Degrees Conferred is presented for purposes of additional analysis and is not a required part of the basic financial statements of the University. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

Washington State University
Statement of Net Assets
As of June 30, 2010

Assets	University 2010	Foundation 2010
Current assets		
Cash and cash equivalents	\$ 185,709,387	\$ 1,323,011
Prepaid expenses	212,287	
Inventories	17,005,174	
Accounts receivable, net	46,224,471	118,118
Pledges receivable		14,967,657
Due from Washington State University		589,094
Investments, current portion	24,749,676	
Subtotal current assets	<u>273,900,995</u>	<u>16,997,880</u>
Non-current assets		
Long-term investments	101,058,272	
Endowment investment	428,335,275	240,488,543
Deposits in escrow	1,922,331	
Assets held in trust by WSU Foundation	16,386,458	
Long-term notes receivable from charitable trusts		6,279,602
Assets held in charitable and beneficial trusts		40,100,225
Loans receivable, net	25,805,584	
Capital assets, net of accumulated depreciation	1,237,461,926	2,924,006
Subtotal non-current assets	<u>1,810,969,846</u>	<u>289,792,376</u>
Total assets	<u>\$ 2,084,870,841</u>	<u>\$ 306,790,256</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 44,706,728	\$ 17,088,608
Due to WSU Foundation	589,094	
Due to Washington State University		16,386,458
Deposits	3,742,370	
Assets held for other organizations		503,730
Deferred revenue, current portion	6,937,347	
Long-term debt, current portion	13,644,697	
Subtotal current liabilities	<u>69,620,236</u>	<u>33,978,796</u>
Non-current liabilities		
Accrued leave	38,148,044	
Deferred compensation	1,513,065	
Deposits held in custody for others	19,192,416	
Deferred revenue	8,440,278	
Long-term liabilities	398,348,892	
Subtotal non-current liabilities	<u>465,642,695</u>	
Total liabilities	<u>\$ 535,262,931</u>	<u>\$ 33,978,796</u>
Net Assets		
Invested in capital assets, net of related debt	940,143,151	
Nonexpendable	415,394,171	263,582,374
Loans	28,050,175	
Expendable	84,229,515	7,583,147
Unrestricted	81,790,898	1,645,939
Total net assets	<u>\$ 1,549,607,910</u>	<u>\$ 272,811,460</u>

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 Year Ended June 30, 2010

Revenues	University 2010	Foundation 2010
Operating revenues		
Net tuition and fee revenue	\$ 194,836,110	
Federal grants and contracts	117,239,183	
State grants and contracts	56,177,904	
Local grants and contracts	31,970,873	
Gifts and contributions		\$ 18,882,333
Sales and services of educational departments	18,635,206	
Auxiliary enterprises	107,874,965	
Other operating revenues	15,148,295	
Total operating revenues	541,882,536	18,882,333
Expenses		
Operating expenses		
Salaries and wages	389,495,262	
Benefits	114,148,362	
Scholarships and fellowships	51,651,397	
Utilities	26,634,148	
Payments to suppliers	121,200,104	
Purchased services	53,232,667	
Depreciation	73,516,150	
Total operating expenses	829,878,090	
Net operating loss	(287,995,554)	18,882,333
Non-operating revenues (expenses)		
State appropriations	206,284,455	
Federal appropriations	8,684,896	
Federal Pell Grants	25,811,587	
Interest on capital assets—related debt	(13,859,816)	
Gifts and contributions	19,834,268	
Investment income, net of expense	56,556,280	20,907,850
Support provided to/for Washington State University, net		(25,363,970)
Fund raising		(7,264,134)
General and administrative expenses		(2,716,202)
Other non-operating revenues (expenses)	775,445	1,273,159
Total non-operating revenues (expenses)	304,087,115	(13,163,297)
Income before other revenues, expenses, gains or losses	16,091,561	5,719,036
Other revenues, expenses, gains or losses		
Capital appropriations	19,542,367	
Capital grants and gifts	3,353,937	
Additions to permanent endowments	397,406	10,252,993
Total other revenues	23,293,710	10,252,993
Increase in net assets	39,385,271	15,972,029
Net assets		
Net assets, beginning of year	1,510,222,639	256,839,431
Net assets, end of year	\$ 1,549,607,910	\$ 272,811,460

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

Washington State University
Statement of Cash Flows
For the Year Ended June 30, 2010

2010

Cash flows from operating activities

Tuition and fees	\$ 224,329,229
Grant and contracts	229,010,407
Payments to suppliers	(130,378,527)
Payments for utilities	(26,847,241)
Purchased services	(52,410,115)
Payments to employees	(388,934,443)
Payments for benefits	(108,078,793)
Payments for scholarships and fellowships	(81,827,657)
Loans issued to students	(2,327,340)
Collection of loans to students	3,158,011
Auxiliary enterprise receipts	106,538,763
Sales and service of educational departments	18,820,746
Other receipts	14,752,398
Net cash used by operating activities	(194,194,562)

Cash flows from noncapital financing activities

State appropriations	211,252,267
Federal appropriations	7,557,789
Gifts for other than capital purposes	
Private gifts	19,274,392
Additions to permanent endowment	397,406
Agency fund receipts	160,087,335
Agency fund disbursements	(160,100,233)
Federal direct loan receipts	202,858
Federal direct loan disbursements	(263,335)
Other non-operating revenues	1,887,780
Net cash provided by noncapital financing activities	240,296,259

Cash flows from capital and related financing activities

Proceeds of capital debt	113,826,635
Capital appropriations	30,687,260
Capital grants and gifts received	2,169,123
Purchases of capital assets	(68,641,711)
Principal paid on capital debt and leases	(10,481,420)
Interest paid on capital debt and leases	(13,859,816)
Net cash used by capital and related financing activities	53,700,071

Cash flows from investing activities

Proceeds from sales of investments	232,287,201
Purchases of investments	(246,651,737)
Investment income	23,436,231
Net cash provided by investing activities	9,071,695

Net increase (decrease) in cash and cash equivalents	108,873,463
Cash—beginning of year	76,835,924
Cash—end of year	\$185,709,387

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

	2010
Operating loss	\$ (287,995,554)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	73,516,150
Changes in assets and liabilities	
Changes in assets	
Deposits in Escrow	4,728,357
Prepaid expenses	(478,834)
Inventories	249,090
Accounts receivable, net	9,684,898
Investments	14,295,321
Changes in liabilities	
Accounts payable and accrued liabilities	(11,383,517)
Deferred revenue	(1,251,726)
Due to WSUF	455,053
Deposits	245,937
Long-term debt—current portion	3,479,425
Lease obligations—current portion	260,838
Net cash used by operating activities	<u><u>\$(194,194,562)</u></u>
Significant noncash transactions	
Loss on capital assets	(2,044,808)
Amortization expense	(83,096)
Donated capital assets	1,184,815

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



Notes to the Financial Statements

June 30, 2010

These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Washington State University ("the 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. The University is included in the general-purpose financial statements of the State. The accompanying financial statements present all funds belonging to the University and its component units.

The University was created as a land grant public university by the Washington State Legislature in 1890. Today, Washington State University has campuses in Pullman, Spokane, the Tri-Cities and Vancouver, with extension offices across the state. The award-winning online program offers access to the University's degrees statewide and around the world. Washington State University's 26,101 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.

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

The Foundation reports its financial results in accordance with Financial Accounting Standards Board (FASB) pronouncements and guidance. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation's financial information in the University's financial statements for these differences. The Foundation presents information about its financial position and activities according to the following 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.

For presentation purposes, in the University's financial statements, temporarily restricted net assets have been shown as expendable net assets and permanently restricted net assets have been shown as nonexpendable net assets.

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

WSU Foundation
PO Box 641925
Pullman, WA 99164-1925

Basis of Presentation

The financial statements are presented in accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB). For financial reporting purposes following the provisions of GASB Statement No. 34, 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. Pursuant to GASB Statement 20, the University has elected not to apply any Financial Accounting Standards Board (FASB) pronouncements issued after November 20, 1989.

Basis of Accounting

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

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

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

Bond premiums/discounts, issuance cost and gains or losses on refundings are deferred and amortized over the term of the bonds using the effective interest method. Unamortized balances are presented as reductions of the face amount of bonds payable. Related amortization is included in interest expense in the statements of revenues, expenses and changes in net assets.

Interest is capitalized on assets acquired or constructed with tax-exempt financing. The amount of interest to be capitalized is calculated by offsetting interest expense incurred while activities necessary to get the asset ready for its intended use are in progress, with interest earned on invested proceeds over the same period. The net capitalized interest for fiscal year 2010 was \$1,517,925.

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, Cash Equivalents and Investments

Cash balances in excess of current requirements are pooled and invested in Treasury securities, time deposits, deposits with the Washington State Local Government Investment Pool (LGIP), federal agency bills and notes. Cash equivalents are short term, highly liquid investments convertible to known amounts of cash without change in value or risk of loss. Interest income earned on the investment pool is distributed on a quarterly basis based on daily cash balances in various funds. Cash, cash equivalents and investments are stated at fair value.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff.

This also includes amounts due from the federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's sponsored agreements. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

Inventories 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 to 50 years for buildings and components, 20 to 25 years for infrastructure and land improvements, 20 years for library resources and 5 to 7 years for equipment.

In accordance with GASB Statement 42, the University reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2010, no assets had been written down.

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 inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.
- *Restricted 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 for 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. This includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises and (3) most federal, state and local grants and contracts.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net 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 year ending June 30, 2010 are \$71,565,492.

New Accounting Pronouncements

On July 1, 2009, the University adopted GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, effective for the year ending June 30, 2010. This pronouncement establishes standards for accounting and reporting for intangible assets. The University had no reportable intangible assets as of June 30, 2010. For fiscal year 2011, the University is beginning implementation of a new student information system which is being accounted for as an intangible asset.

On July 1, 2009, the University adopted GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, effective for the year ending June 30, 2010. This pronouncement establishes standards for accounting and reporting for derivative instruments. State statute prohibits the University from investing in derivative instruments so no disclosure is required.

Reclassifications

For comparative purposes in the Management's Discussion and Analysis section, certain accounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements.

2. Cash, Cash Equivalents and Investments

Cash

As of June 30, 2010, the carrying amount of the University's change funds, petty cash and bank demand deposit accounts with financial institutions is \$25,128,993 as represented in Table 1.

Table 1: Cash and cash equivalents

	2010
Cash	\$ 25,128,993
Cash equivalents	160,363,461
Deposits with fiscal agents	216,933
Cash and cash equivalents	<u>\$ 185,709,387</u>

Custodial Credit Risks—Deposits

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

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 a stable but growing income stream. The fair market values of the University endowment investments at June 30, 2010 were \$29,676,165.

Land Grant and Permanent Fund

The University has two land grant endowments and two permanent funds established by legislation. The University's two land grant endowments total 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 distributed income is used for capital projects or facility maintenance. The fair value of these funds, after the settlement of all pending transactions, receivables and payables, is shown in Table 2.

Table 2: Permanent Fund

University permanent fund investments	Fair value	Average duration	Credit rating
Money market fund	\$ 637,094	0	N/A
Commingled monthly bond fund	396,860,734	4.06	AA3
Cash at state treasurer	572,832		
Pending trades	588,450		
Total permanent fund investments	<u>\$ 398,659,110</u>		

Endowment investments consist of University-held endowments valued at \$29,676,165 (as noted in the paragraph above and detailed in Table 3), and the permanent fund of \$398,659,110, for a total of \$428,335,275 as of June 30, 2010.

Investments

Investments are classified as cash equivalents, short-term investments or long-term investments, or endowment 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 invested assets includes cash equivalents and permanent fund investments as represented in Table 3.

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		
Cash equivalents							
Certificate of deposit	\$ 8,500,000	\$ 8,500,000				0.08	nr
US Agency obligations—Discount notes	549,808	549,808				0.20	AAA
Other—Bank short term investment fund	20,913,535	20,913,535				0.00	nr
Local Government Investment Pool	130,400,118	130,400,118				0.14	nr
Total cash equivalents	\$ 160,363,461						
Current investments							
US Agency obligations	\$ 24,749,676	24,749,676				0.64	AAA
Total current investments	\$ 24,749,676						
Non-current investments							
Operating funds							
US Agency obligations	45,729,618		\$ 45,729,618			1.78	AAA
Temp Liquidity Guarantee Program	37,801,476		37,801,476			1.11	AAA
Mortgage pass throughs	5,951,110				\$ 5,951,110	0.87	AAA
Fixed income mutual funds	10,624,919		10,624,919			1.89	
Subtotal non-current operating fund investments	100,107,123						AA-
Miscellaneous	951,149						
Total non-current investments	\$ 101,058,272						
University endowments							
US stocks	\$ 832,902						
-US fixed income	3,481,881	385,381	275,369	\$ 2,712,953	108,178	3.97	AA+
-Foreign fixed income	1,505,162				1,505,162	7.92	A
-US equity	3,494,138						
-Foreign equity	5,436,676						
-Private equity	4,814,663						
-Hedge funds	6,141,644						
-Timber	473,223						
-Real estate	1,603,411						
-Oil & gas	1,558,207						
-Commodities	334,258						
Total endowment investments	\$ 29,676,165						
Total university investments	\$ 315,847,574						

Interest Rate Risk—Investments

Through its investment policies, the University manages exposure to fair value losses arising from increasing interest rates by limiting the modified duration of the operating portfolio to 1.1 years and by cash matching the dedicated bond portfolios to the anticipated construction schedules of the underlying projects. Current use gift funds are segmented into short-term, intermediate-term and long-term pools. University policies limit the portfolio average maturity of the short-term pool to one year or less, the portfolio average maturity of the intermediate-term pool to three years or less, and the portfolio average maturity of the long-term pool to ten years or less. 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 15% 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.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2010, \$123,281,688 of the University's operating fund investments, held by Bank of New York Mellon in the bank's name as agent for the University, and \$832,902 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
Certificate on deposit	\$ 8,500,000
US agency discount notes	549,808
US agency obligations	70,479,294
Temporary Liquidity Guarantee Program	37,801,476
Mortgage pass through	5,951,110
Subtotal	123,281,688
US common stock	832,902
Total investments exposed to custodial credit risk	\$124,114,590

Foreign Currency Risk—Investments

University endowment exposure to foreign currency risk at June 30, 2010, is described in Table 5 and is limited by Foundation investment policy.

Table 5: University foreign currency risk

Foreign currency	Fair value
Euro	\$ 797,628
UK - Pound	746,950
Japan - Yen	672,126
Hong Kong - dollar	270,687
Other (less than 5%)	2,451,127
Total foreign currency	\$ 4,938,518

Investment Expenses

Under implementation of GASB 35, investment income for the University is shown net of investment expenses. The investment expenses incurred at June 30, 2010 is \$402,529.

3. Accounts Receivable

At June 30, 2010, accounts receivable are as follows.

Student tuition and fees	\$ 13,672,836
Due from the federal government	11,714,214
Due from the office of the state treasurer	12,780,835
Due from other state agencies	4,838,259
Interest and dividends receivable	497,675
Auxiliary enterprises	5,881,977
Due from other governments	223,324
Other	1,002,324
Subtotal accounts receivable	<u>50,611,444</u>
Less allowance for doubtful accounts	(4,386,973)
Accounts receivable, net	<u>\$46,224,471</u>

4. Loans Receivable

Loans receivable consisted of the following at June 30, 2010.

Federal programs	\$ 21,785,746
Institutional loans	177,227
Agency funds long-term receivable	4,500,000
Subtotal	<u>26,462,973</u>
Less allowance for doubtful accounts	(657,389)
Loans receivable, net	<u>\$25,805,584</u>

The University entered into a long-term loan agreement with the Students Book Corporation, a related entity, to buy their building and land. Total purchase price of \$4,500,000 is payable over 30 years at 3% interest.

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, 2010.

Location	Valuation method	Amount
Athletics	FIFO	\$ 680,068
Bulletin office	FIFO	378,025
Central stores	FIFO	376,871
Facilities operations	Weighted Average	1,420,918
Ferdinand's	FIFO	5,469,509
Housing and dining	LIFO	707,741
Motor pool	FIFO	72,216
University publishing	FIFO	1,807,677
Veterinary hospital and pharmacy	FIFO	1,116,067
Veterinary microbiology/pathology	FIFO	2,076,000
Other inventory	FIFO	2,900,082
Total		<u>\$17,005,174</u>

6. Capital Assets

Following are the changes in capital assets for the year ended June 30, 2010.

	Beginning balance	Additions/ transfers	Retirements	Ending balance
Nondepreciable capital assets				
Land	\$ 39,647,948	\$ 1,297,893	\$ (860,050)	\$ 40,085,791
Construction in progress	72,250,029	(42,638,323)	(26,224)	29,585,482
Total nondepreciable capital assets	111,897,977	(41,340,430)	(886,274)	69,671,273
Depreciable capital assets				
Buildings	1,432,788,744	68,706,851	(723,011)	1,500,772,584
Other improvements and infrastructure	231,126,560	16,450,858	(77,388)	247,500,030
Equipment	204,611,077	21,916,531	(9,989,630)	216,537,978
Library resources	117,993,705	5,685,474	(99,378)	123,579,801
Subtotal	1,986,520,086	112,759,714	(10,889,407)	2,088,390,393
Less accumulated depreciation				
Buildings	540,808,629	42,017,210	(412,956)	582,412,883
Other improvements and infrastructure	94,707,613	9,447,204	(15,478)	104,139,339
Equipment	150,400,452	17,499,075	(8,343,013)	159,556,514
Library resources	70,037,721	4,552,661	(99,378)	74,491,004
Total accumulated depreciation	855,954,415	73,516,150	(8,870,825)	920,599,740
Total depreciable capital assets	1,130,565,671	39,243,564	(2,018,582)	1,167,790,653
Total capital assets	\$ 1,242,463,648	\$ (2,096,866)	\$ (2,904,856)	\$ 1,237,461,926

The current year depreciation expense was \$73,516,150.

7. Accounts Payable and Accrued Liabilities

At June 30, 2010, accrued liabilities are the following.

Accounts payable	\$ 23,540,432
Contract retainage	1,948,550
Payroll	19,217,746
Total	\$ 44,706,728

8. Deferred Revenue

Deferred Revenue is comprised of receipts which have not yet met revenue recognition criteria. The balances as of June 30, 2010 are the following.

Current deferred revenue	
Athletics	\$ 1,552,164
ALIVE! program	392,622
Executive MBA program	19,500
Pre-paid Tri-Cities BSEL building rent	500,000
Housing and dining services	1,459,378
Summer session	2,779,307
Parking	234,376
Subtotal	6,937,347
Non-current deferred revenue	
Pre-paid Tri-Cities BSEL building rent	8,440,278
Total deferred revenue	<u><u>\$ 15,377,625</u></u>

9. 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, 2009 through June 30, 2010, were \$1,158,516. Cash reserves for unemployment compensation for all employees at June 30, 2010, were \$2,370,811.

The University purchases commercial insurance property 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. Liability exposures are insured through the State of Washington self-insurance liability pool.

10. Compensated Absences

The accrued leave liability balance as of June 30, 2010 is \$38,148,044. The components of this liability include vacation leave earned and unused for exempt professionals, civil service employees and faculty on annual appointments; sick leave earned and unused limited to an estimate of fifteen times the prior three-year average of the amount paid at the time of separation; and earned and unused compensated leave for civil service employees.

University employees accrue annual leave at rates based on length of service and sick leave at the rate of one day per month for full time employees.

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.

Accrued annual leave	\$ 28,027,846
Accrued sick leave	9,840,814
Accrued compensatory leave	279,384
Total accrued leave liability	<u><u>\$ 38,148,044</u></u>

11. Deferred Compensation

The University administers a limited number of contractual deferred agreements. The deferred compensation obligation for these agreements as of June 30, 2010 was \$1,513,065.

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. The state of Washington administers these plans on behalf of the University's employees; the University does not have legal access to these funds.

12. Bonds Payable

Bonds payable consist of revenue bonds issued by the University for construction and renovation of University buildings, for Housing and Dining System Facilities, the Student Recreation Center, Parking Services, Compton Union Building and Athletics. Bonds payable also consist of the University's share of Washington State General Obligation bonds issued for construction of academic buildings. Their obligations have fixed interest rates ranging from 2.60% to 6.41%.

During fiscal year 2010, the State legislature authorized the issuance of the revenue bonds by the University to be issued in compliance with the provisions of Sections 28B.30.700 through 28B.30.780 of the Revised Code of Washington as part of the State's 2009-2011 biennial capital budget authorization. The bonds are special fund revenue obligations of the University payable solely from the earnings on the investments from State trust lands held for the University and by the building fee revenue of the University.

On October 9, 2009, the University's Board of Regents approved the Series Resolution authorizing the issuance of the Trust and Building Fees Revenue Bonds 2009A and 2009B. Series 2009A are tax exempt revenue bonds and Series 2009B are taxable Build America bonds. On December 1, 2009, the University issued \$111,665,000 in revenue bonds, with interest rates of 3% to 6.414%, pursuant to the approve Series Resolution. The bonds were issued at a premium of \$1,207,329 with issuance costs of \$892,329. The University receives a 35% interest subsidy from the Federal government annually on the taxable Build America bonds. Interest on the bonds is payable semiannually on April 1 and October 1 of each year, beginning April 1, 2010. Principal of the bonds is payable on October 1.

The proceeds will be used to finance the costs of constructing a Veterinary Medical Research Building, and a portion of the costs of constructing Applied Technology Classrooms and a Global Animal Health research building.

Advance Refundings

On October 28, 2009 the University issued \$38,425,000 in Student Recreation Center Refunding Revenue Bonds Series 2009 to defease \$40,540,000 in Student Recreation Center Revenue Bonds Series 1998. 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 22 years of \$5,780,036 and an economic gain of \$3,908,732. The principal outstanding on the refunded bonds on June 30, 2010 is \$39,560,000.

On June 29, 2010 the University issued \$15,045,000 in Housing and Dining Refunding Revenue Bonds Series 2010 to defease \$15,755,000 in Housing and Dining Revenue Bonds Series 2001. 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 14 years of \$2,133,180 and an economic gain of \$1,691,054. The principal outstanding on the refunded bonds on June 30, 2010 is \$15,755,000.

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. There is no principal outstanding on the refunded bonds.

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. There is no principal outstanding on the refunded bonds.

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

Annual Debt Service Requirements

Future debt service requirements at June 30, 2010 are as follows.

Schedule of Debt Service Bonds Payable

Fiscal year	Revenue bond obligations			State of Washington general obligation bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 8,575,000	\$ 14,893,750	\$ 23,468,750	\$ 2,913,052	\$ 2,149,145	\$ 5,062,197
2012	8,970,000	14,723,632	23,693,632	2,635,000	2,022,990	4,657,990
2013	9,330,000	14,363,823	23,693,632	2,695,000	1,895,220	4,590,220
2014	9,720,000	13,965,586	23,685,586	2,905,000	1,762,190	4,667,190
2015	10,155,000	13,525,689	23,680,689	3,020,000	1,619,625	4,639,625
2016-2020	57,295,000	61,083,549	118,378,549	15,500,000	5,769,620	21,269,620
2021-2025	70,335,000	47,228,551	117,563,551	11,270,000	2,312,350	13,582,350
2026-2030	70,025,000	30,916,416	100,941,416	2,840,000	142,625	2,982,625
2031-2035	67,465,000	14,511,595	81,976,595			
2036-2040	27,530,000	2,870,856	30,400,856			
Sub total	339,400,000	228,083,447	567,483,447	43,778,052	17,673,765	61,451,817
Less other adjustments						
Bond Discounts and Issue Costs	(4,081,060)		(4,081,060)			
Bond Premiums	6,263,170		6,263,170			
Deferred Costs of Refundings	(4,129,409)		(4,129,409)			
Total	\$ 337,452,701	\$ 228,083,447	\$ 565,536,148	\$ 43,778,052	\$ 17,673,765	\$ 61,451,817

13. Leases Payable

The University finances some capital 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, 2010 the minimum lease payments under capital leases and operating leases consist of the following.

Leases Payable

Fiscal year	Capital leases	Operating leases
2011	\$ 2,760,226	\$ 2,122,902
2012	2,772,444	1,938,114
2013	2,503,588	1,136,452
2014	2,322,009	643,673
2015	1,759,918	403,717
2016-2020	4,029,904	622,947
2021-2025	1,142,704	22,050
2026-2030	1,142,704	
2031-2035	1,142,704	
2036-2040	1,142,704	
2041-2045	114,270	
Total minimum lease payments	20,833,175	6,889,855
Amount representing interest	(4,160,428)	
Net present value	\$ 16,672,747	\$ 6,889,855

14. Schedule of Long-Term Debt

Schedule of Long-Term Debt

	Total amount issued	Balance outstanding 6/30/09	Additions	Reductions	Balance outstanding 6/30/10	Current portion
Revenue and refunding bonds payable	\$ 283,645,000	\$ 231,047,991	\$ 165,964,267	\$ (59,559,557)	\$ 337,452,701	\$ 8,572,808
State of Washington general obligation bonds payable	83,385,878	47,125,092	7,865,000	(11,212,040)	43,778,052	2,913,052
Capital leases		12,399,917	6,194,443	(1,921,613)	16,672,747	2,158,837
Net Pension obligation		9,273,035	5,816,000	(998,946)	14,090,089	
Total	\$ 367,030,878	\$ 299,846,035	\$ 185,839,710	\$ (73,692,156)	\$ 411,993,589	\$ 13,644,697

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 5,686 full-time employees eligible for participation in one of the two retirement plans.

The payroll for employees covered by PERS was \$94,520,827 and the payroll for employees covered by the Washington State University Retirement Plan was \$228,574,767.

Public Employees Retirement System

Plan Description. PERS is a multi-employer mandatory retirement plan for all eligible civil service 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, 2010 was 3.90%. The contribution rate for the University at June 30, 2010 for all PERS plans was 5.31%.

The summary of rates for the year are as follows:

	Employee	University
Plan 1	6.00%	5.31%
Plan 2	3.90%	5.31%
Plan 3	5% to 15%	5.31%

Employee and employer contributions for the year ended June 30, 2010, were \$4,388,668 and \$5,019,056 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 2007 for PERS as a whole, determined through an actuarial valuation performed as of that date, was \$26,124,000,000. The PERS net assets available for benefits on that date (valued at market) were \$29,080,000,000. 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, 2009, 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 which 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 49, 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, 2010 were each \$19,121,075.

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, 2010 were \$998,946.

At the latest valuation July 1, 2009, the total unfunded Actuarial Accrued Liability (UAL) benefit obligation under the Washington State University Retirement Plan (supplemental payment plan) was \$40 million. The annual Required Contribution (ARC) by the University is \$9 million.

Other Post-Employment Benefits

During the 2008 fiscal year, WSU adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expenditures and related liabilities (assets), note disclosures and required supplementary information in the financial reports of the state and local governmental employers. GASB Statement No. 45 requires systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service. GASB Statement No. 45 also provides information about actuarial accrued liabilities (AAL) associated with OPEB and whether and to what extent progress is being made in funding the plan.

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

Federal Retirement Plans

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

Civil Service Retirement System

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

Employee and employer contributions for the 24 enrolled employees on June 30, 2010, were \$140,185 and \$140,185 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 18 enrolled employees on June 30, 2010, were \$11,060 and \$154,842 respectively.

The rates at June 30, 2010, are as follows:

	<u>Employee</u>	<u>University</u>
CSRS	7.00%	7.00%
FERS	0.80%	11.2%

16. Pledged Revenues

The University has pledged specific revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt.

For Year Ending June 30, 2010

Source of revenue pledged	Current year revenues pledged (net) ¹	Current year debt service	Total future revenues pledged ²	Description of debt	Term of commitment ³
Student Fees and earnings on invested fees	\$ 5,977,400	\$5,944,453	\$ 172,409,919	Student fee revenue bonds issued for the renovation of the Compton Union Building	2038
Student Fees and earnings on invested fees	3,914,399	1,587,644	34,898,741	Athletics revenue bonds issued for the renovation and expansion of Martin Stadium	2031
Student Fees and earnings on invested fees	3,575,517	2,896,864	60,505,925	Recreation center revenue bonds issued for the construction of the Student Recreation Center	2032
Parking System revenues, net of operating expenses	1,313,622	772,726	10,860,829	Parking System revenue bonds issued for construction of the parking garage	2024
Housing and Dining revenues, net of operating expenses	15,437,049	5,713,766	112,282,171	Housing and Dining revenue bonds issued for the construction and renovation of various student housing projects	2038
Trust and Building Fee revenues, net of operating expenses	24,585,457	1,455,151	176,525,862	Building fee bonds issued for the construction of the Veterinary Medical Research Building, Applied Technology Classrooms, and a Global Animal Health research building	2034

¹Operating revenue net of operating expenses ²Total future principal and interest payments on the debt ³Ending year of commitment

17. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Assets, Operating Expenses are displayed by natural classification, such as salaries, benefits and good and services. The table below summarizes Operating Expenses by Program, or function such as instruction, research and academic support. The following table lists operating expenses by program for the year ending June 30, 2010.

Instruction	\$ 190,349,131
Research	110,201,850
Public service	103,485,386
Academic support	59,978,781
Student services	21,872,046
Institutional support	55,366,692
Operation and maintenance of plant	54,048,805
Auxiliary enterprises	109,407,852
Student financial aid net, i.e. scholarships included	51,651,397
Depreciation	73,516,150
Total operating expenses	\$ 829,878,090

18. Contingent Liabilities

There is a class action filed against the state of Washington on behalf of certain employees alleging improper denial of healthcare benefits. Although WSU has not been named as a defendant in the lawsuit, some of the class members are current or former employees of WSU. Potentially, the state could assess the University with a material share of any amount paid in the event of a settlement or judgment. Due to the status of the lawsuit, the impact upon WSU cannot be assessed with reasonable certainty at present.

Additionally, 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 affect on the financial statement.

19. Subsequent Events

In December 2010, the University's Housing and Dining System (System) is planning to issue \$38,750,000 in Build America revenue bonds, secured by a lien on the net revenue of the System. The bond proceeds will be used for the construction and renovation of residence halls on the Pullman campus.

Supplementary Information Enrollment and Degrees Conferred

	Academic year				
	2010	2009	2008	2007	2006
Fall enrollment (headcount)					
Undergraduate headcount	21,726	21,149	20,282	19,554	19,585
Graduate headcount	3,573	3,396	3,330	3,320	3,219
Professional headcount	802	807	784	781	740
Total headcount	26,101	25,352	24,396	23,655	23,544

Fall enrollment (full-time equivalent)					
Undergraduate FTE	19,545	18,904	17,898	17,277	17,425
Graduate FTE	5,215	5,193	5,086	4,728	4,560
Full-time equivalent	24,760	24,097	22,984	22,005	21,985

Freshman admission information					
Applications	12,478	11,983	10,853	9,314	9,193
Acceptances	9,489	8,677	8,240	7,177	6,793
Matriculants	3,668	3,714	3,477	2,861	2,890

Degrees conferred					
Baccalaureate	4,779	4,907	4,818	4,797	4,508
Masters	748	711	724	702	741
Doctoral	185	195	189	175	170
Professional	188	191	188	219	169

Source: Washington State University Institutional Research

Tuition and Fees, Undergraduate

Academic year	Resident ¹	Non-resident ¹	Room and board ²
2010-11	\$8,592	\$19,634	\$9,644
2009-10	\$7,600	\$18,676	\$8,886
2008-09	\$6,720	\$17,756	\$8,054
2007-08	\$6,290	\$16,604	\$7,316
2006-07	\$5,887	\$15,527	\$6,590

¹WSU Pullman has additional mandatory fees (health, student recreation, CUB, stadium, transit) not included in these institution-wide figures

²Standard room including double occupancy plus level 3 meal plan (level 2 until FY 2009 restructuring of rates)

Source: Washington State University Institutional Research



WSU Spokane



WSU Tri-Cities

Statewide Presence

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

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WSU Vancouver



WSU Pullman

