



ANNUAL REPORT

WASHINGTON STATE UNIVERSITY FOUNDATION 2017

A REMARKABLE YEAR



TO WSU'S GENEROUS DONORS

Dear Cougs and generous partners,

On behalf of the students, faculty, and staff of Washington State University, the WSU Foundation wishes to thank all of our generous donors and volunteers for their investment and leadership throughout Fiscal Year (FY) 2017.

During FY2017, which ended June 30, nearly 56,000 alumni, friends, and corporate partners contributed more than \$122 million dollars in private fundraising activity to support academic, research, and service initiatives at WSU's Pullman campus, and at campuses, extension and research centers across the state. From providing scholarships for the charter class of medical students who just began their journey at WSU's Elson S. Floyd College of Medicine this fall, to establishing the first endowed chair on the WSU Vancouver campus, private support is fueling the learning, discovery, and innovation that will benefit communities and industries across our state and beyond.

As we honor the accomplishments of the last fiscal year, we also look boldly forward to an ambitious road ahead on which private support for our students, faculty, research and outreach will be more critical than ever before. WSU is on course to join the ranks of the nation's top 25 public research universities—preeminent in research and discovery, teaching and engagement—by 2030. This ambitious [Drive to 25](#) will be successful, but the degree to which we succeed will depend in large part on the collective generosity and investment of Cougar Nation.

To each loyal Coug who chose to invest in Washington State University during the last fiscal year—and will in the years ahead—thank you for your unwavering support and advocacy to advance the land-grant mission of Washington State University.

Go Cougs!

A handwritten signature in black ink, appearing to read "LEE".

Lewis Lee '88

President, Washington State University Foundation
Chair, Board of Directors

A handwritten signature in black ink, appearing to read "Lisa Calvert".

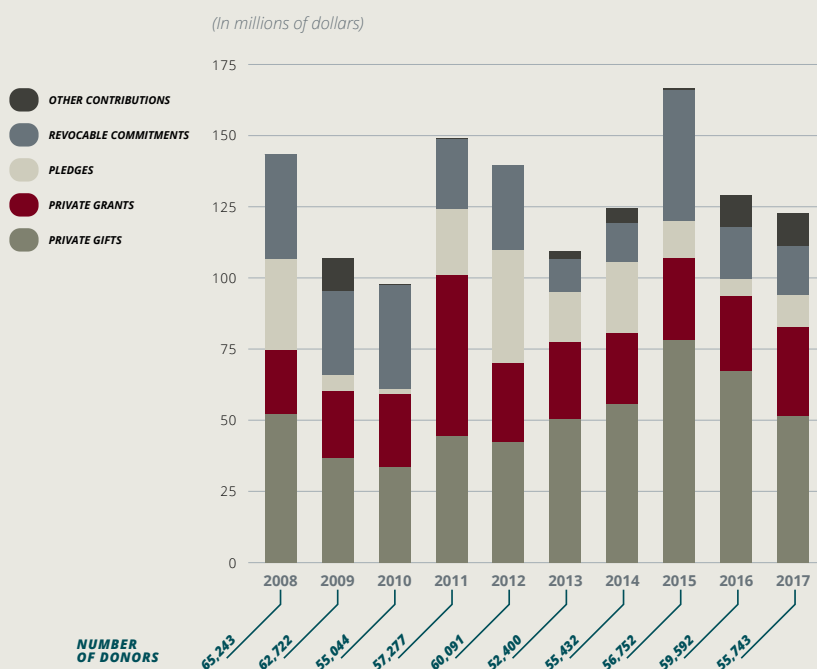
Lisa Calvert

Vice President, University Advancement
Chief Executive Officer, Washington State University Foundation

FISCAL YEAR 2017 OVERVIEW

The Washington State University Foundation received \$93,965,334 in private gifts, grants, and pledges to support Washington State University during FY 2017. An additional \$28,721,018 in revocable commitments and other contributions were recorded by the WSU Foundation during this period, bringing total fund-raising activity during FY2017 to \$122,686,352. The all-alumni gift participation rate was 11.9%.

TOTAL PRIVATE SUPPORT 2008-2017 FOR FISCAL YEARS ENDED JUNE 30

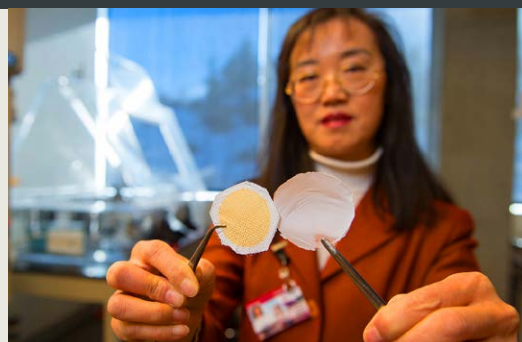


TOTAL PRIVATE SUPPORT BY SOURCE (FY2017)

SOURCE	AMOUNT	
ALUMNI	\$ 31,875,888	26.0%
GRANTING AGENCIES	\$ 31,222,770	25.4%
COMPANIES	\$ 21,419,383	17.5%
FRIENDS	\$ 17,227,749	14.0%
FOUNDATIONS	\$ 11,985,115	9.8%
OTHER ORGANIZATIONS	\$ 8,955,446	7.3%

TOTAL \$ 122,686,352

(As a percentage)



Professor Katie Zhong Uses Soy to Make Safer Batteries

Affordable, lightweight lithium-ion batteries power everything from cell phones to electric cars. Sometimes, however, the batteries can malfunction, leading to smoke, flames, and even explosions. In one case, airlines had to ground the entire fleet of passenger jets after lithium-ion batteries in two planes caught fire. With funding from Washington State's Joint Centre for Aerospace Technology Innovation, Professor Zhong and her research team are using soy-based protein to make batteries safer. The team developed an electrolyte (which helps create electricity) that works like a liquid but is safe like a solid. The electrolyte might be suitable for use in aircrafts. "Commercial battery manufacturers address safety issues with temperature sensors or flame-retardant additives," Zhong said. "But they can't solve the basic safety problem." Zhong holds the Westinghouse Distinguished Professorship in WSU's School of Mechanical and Materials Engineering and is a fellow of the American Association for the Advancement of Science. The Westinghouse Professorship supports scientists like Zhong so they can focus on research and advanced study in their fields. Her soy-based solutions are inexpensive and "green," because soybeans are among the most abundant plants in the world. ■

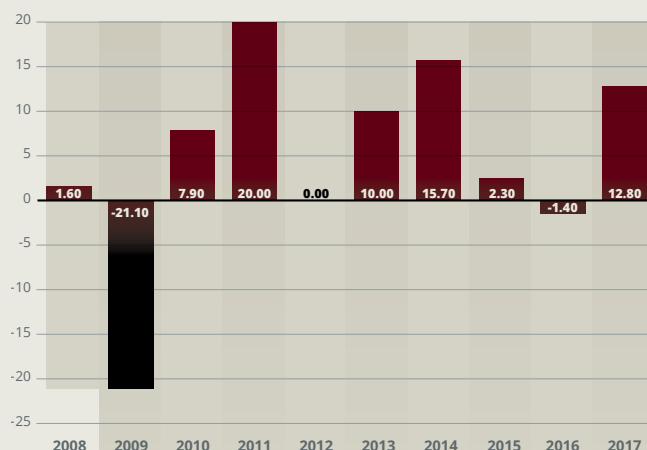
TOTAL PRIVATE SUPPORT BY COLLEGE, CAMPUS, AND UNIT AREA, FY2017

COLLEGE/CAMPUS/UNIT	GIFTS TO DATE	NEW PLEDGES	PRIVATE GRANTS	REVOCABLE COMMITMENTS	OTHER CONTRIBUTIONS	TOTAL COMMITMENTS
CAHNRS/4-H EXTENSION	16,822,661	2,507,727	12,553,339	342,472	1,200	32,227,399
ARTS & SCIENCES	1,820,942	715,067	1,266,789	912,500	0	4,715,297
CARSON COLLEGE OF BUSINESS	1,377,817	703,537	9,410	139,000	1,200	2,230,964
MURROW COLLEGE/ PUBLIC MEDIA	2,795,464	622,576	1,269,292	96,617	0	4,783,949
EDUCATION	612,967	50,096	28,899	2,150,000	0	2,841,961
VOILAND COLLEGE OF ENG. & ARCH.	4,434,417	142,286	8,469,290	15,000	11,720,076	24,781,069
HONORS COLLEGE	220,327	111,411	0	0	0	331,738
FLOYD COLLEGE OF MEDICINE	1,850,521	243,176	1,603,777	2,194,724	56,377	5,948,576
NURSING	297,052	49,898	257,637	975,000	0	1,579,587
PHARMACY	811,979	231,913	591,409	320,000	0	1,955,300
VETERINARY MEDICINE	3,409,878	241,585	3,537,821	6,211,939	0	13,401,223
WSU SPOKANE	91,715	22,255	66,000	0	0	179,970
WSU TRI-CITIES	912,532	5,239	258,561	0	0	1,176,332
WSU VANCOUVER	938,156	2,417,562	632,850	0	0	3,988,568
COUGAR ATHLETICS	7,628,402	2,578,835	0	2,845,338	74,575	13,127,149
GRADUATE SCHOOL	387,430	312,650	0	0	0	700,080
INTERNATIONAL PROGRAMS	13,860	2,091	219,492	15,000	0	250,443
LIBRARIES	204,856	15,391	0	0	0	220,247
MUSEUM OF ART	1,400,285	13,974	0	175,000	0	1,589,259
STUDENT AFFAIRS & ENROLLMENT	2,816,765	157,499	149,242	475,000	0	3,598,506
GENERAL UNIVERSITY SUPPORT	2,540,475	209,297	308,961	0	0	3,058,732
ANNUAL TOTALS	\$51,388,500	\$11,354,063	\$31,222,770	\$16,867,590	\$11,853,428	\$122,686,352

INVESTMENT PERFORMANCE

For the period of July 1, 2016 to June 30, 2017, the Endowment portfolio produced a total return of 12.80%. Additions to the Endowment Fund for this fiscal year totaled \$19,320,863. The Endowment Fund distributed \$18,973,004 in support of programs at Washington State University.

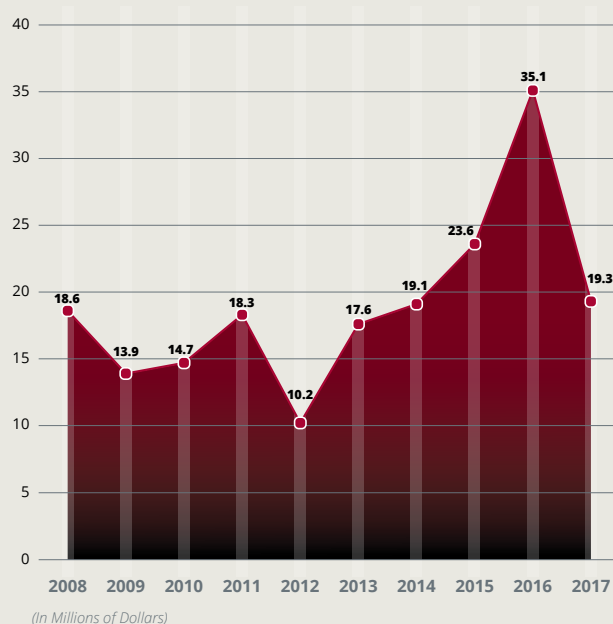
BENCHMARK RETURN COMPARISONS (AS A PERCENTAGE)



WSU FOUNDATION ENDOWMENT RETURNS			
DATE	1-YEAR	5-YEAR	10-YEAR
6/30/2008	1.60	11.60	N/A
6/30/2009	-21.10	3.30	N/A
6/30/2010	7.90	3.10	3.40
6/30/2011	20.00	4.40	5.60
6/30/2012	0.00	0.70	6.10
6/30/2013	10.00	2.40	6.90
6/30/2014	15.70	10.50	6.90
6/30/2015	2.30	9.40	6.20
6/30/2016	-1.40	5.10	4.80
6/30/2017	12.80	7.70	4.20

GIFTS & OTHER ADDITIONS TO ENDOWMENT, FISCAL YEARS 2008-2017

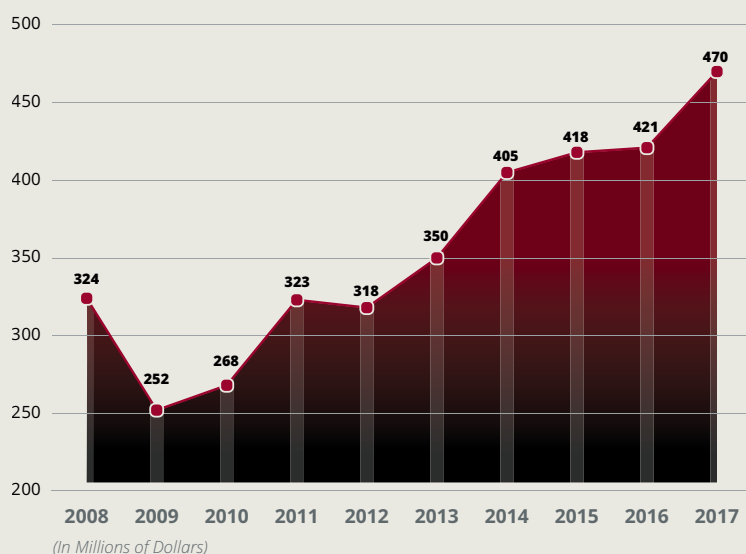
ENDOWMENT ADDITIONS	
YEAR	VALUE
2008	\$18,648,129
2009	\$13,918,140
2010	\$14,728,094
2011	\$18,303,950
2012	\$10,247,807
2013	\$17,611,092
2014	\$19,174,488
2015	\$23,608,102
2016	\$35,134,725
2017	\$19,320,863



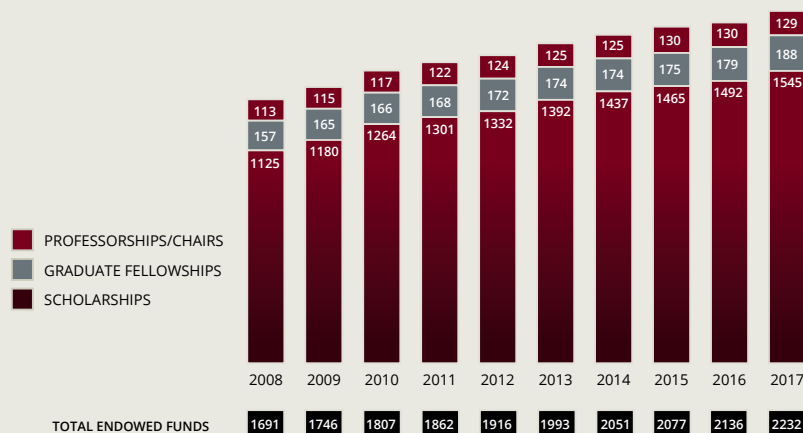
ENDOWMENT GROWTH

The WSU Foundation consolidates all endowed funds available for long-term investment in its Endowment Fund, with the exception of funds restricted by law or by special donor limitations. This fund is the investment pool for approximately 2,232 privately endowed funds supporting a wide variety of education, research, and service programs at WSU. As a result of private giving, investment returns, and institutional fund transfers, the market value of the WSU Foundation Endowment Fund increased from \$324 million in 2008 to just over \$470 million as of June 30, 2017.

WSU FOUNDATION ENDOWMENT FUND 10-YEAR VALUE



ENDOWED SCHOLARSHIPS, FELLOWSHIPS, PROFESSORSHIPS/CHAIRS



McClaskey Foundation Gift Establishes First Endowed Chair at WSU Vancouver

When it comes to Hospitality Business Management (HBM) in the Carson College of Business at WSU Vancouver, the Tod and Maxine McClaskey Foundation not only sustains a legacy, but is the gift that keeps on giving. Since 2008, the McClaskey Foundation has donated more than \$4 million to WSU Vancouver, starting with a \$1.5 million gift for the Child Development Program, then funding much-needed faculty to build the HBM program. Most recently, in 2017, the McClaskey Foundation gave \$2 million to establish the HBM program's first Endowed Chair at WSU Vancouver. The gift honors the late Tod McClaskey and his wife Maxine. Tod made his mark in the hotel business with the Thunderbird-Red Lion hotel chain, the largest privately held hotel chain west of the Mississippi until he sold it in 1984. Jane Cote, Academic Director at the Carson College in Vancouver said, "This gift signals a commitment to building an excellent program that helps our faculty and students engage with the industry." WSU Vancouver offers a bachelor's degree in HBM and is part of the longstanding WSU Pullman's School of HBM, which ranks among the top five percent of such programs nationwide. Cote said, "The McClaskey Foundation has been instrumental in our ability to launch HBM on the Vancouver campus, and now, the future of the hospitality program is secured. Generations of students can continue to develop the professional and technical skills they need for careers in the dynamic hospitality industry." ■

INVESTMENT STRATEGY

The investment objectives of the WSU Foundation Endowment Fund reflect its long-term nature.

It is recognized that the desire to grow endowment gifts and to produce a large, stable, and predictable payout stream involves tradeoffs that must be balanced in establishing the investment and spending policies. Considerations that shape the Fund's objectives are outlined here:

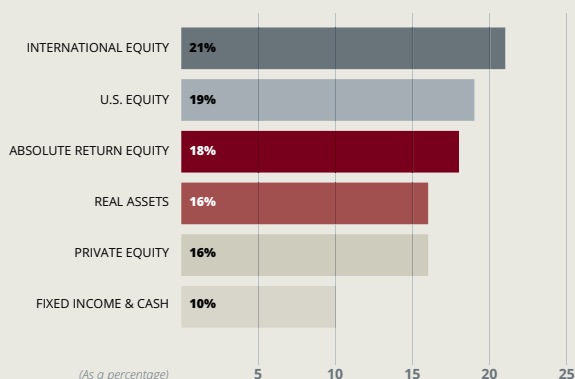
- Produce a relatively predictable and stable payout stream each year.
- Maintain purchasing power of the assets over the investment horizon.
- Balance the support of present and future generations of students and faculty.

In accordance with WSU Foundation bylaws, the WSU Foundation Investment Committee is responsible for investments, reinvestments, and general management of the endowment. The committee establishes policies for investing capital, monitoring and reviewing investment performance, establishing appropriate benchmarks, and managing the investments.

WSU FOUNDATION ENDOWMENT ACTUAL ASSET ALLOCATION

(AS OF JUNE 30, 2017)

As of June 30, 2017, the WSU Foundation Endowment assets totaled \$470,188,368 and were allocated as shown here.



ENDOWMENT MANAGEMENT AND FEES

In accordance with WSU Foundation bylaws, the WSU Foundation Endowment Fund is managed by the Investment Committee, a sub-committee of the WSU Foundation Board of Governors. The Investment Committee is responsible for investments, reinvestments, and general management of the Endowment. The committee establishes policies for investing capital, monitoring and reviewing investment performance, establishing appropriate benchmarks, and managing the investments to maximize the Endowment's financial potential while minimizing risk. Mercer Investment Consulting, Inc. serves as the Foundation's investment consultant.

Each year, the WSU Foundation distributes 4.0 percent of the endowed fund's 36-month rolling average to benefit WSU as designated in the Gift Use Agreement. Additionally, a 1.5 percent management and advancement fee is charged to the distribution fee charged to a thirty-six month average from the endowment. There are other costs associated with the Endowment, such as investment management fees, custodial costs, and consulting expenses. Investment growth beyond the University distribution and the advancement and management fees grows the value of the fund.

For more information about the WSU Foundation Endowment Fund or its distribution fee structure, please call 800-448-2978.



Grad Student Phil Uribe Uses Fish to Study Hearing Loss

As a child, Phil Uribe's hero was world-renowned marine biologist Jacques Cousteau, and that admiration appears to have had an impact on his research. Phil, a Ph.D. candidate in integrative physiology and neuroscience at WSU Vancouver, studies zebrafish hair cells to learn more about hearing loss in humans. Across the globe, 360 million people have disabling hearing loss. And while excessive noise can kill hair cells in the ear and cause permanent hearing loss, by studying the death of the hair cells in fish and humans, Phil is working to discover ways to keep those cells alive. He is a graduate research assistant who collaborates with fellow researchers in Professor Allison Coffin's Lab and mentors undergraduate students—something he really enjoys. Phil's accomplishments are many: he received the Excellence in Research and Robert Ernst Award, the Dr. H.A. "Hal" and Joan Dengerink Endowed Fellowship, and the Poncin Fellowship, which helps ambitious young people who conduct medical research in Washington state. A strong advocate for scientists who hone their communication skills, Phil won the WSU 3-Minute-Thesis contest in 2016. ■

ABOUT THE WSU FOUNDATION

The mission of the Washington State University Foundation is to promote, accept, and maximize private support for programs, initiatives, and properties of Washington State University and all of its campuses. The WSU Foundation also prudently manages, invests, and stewards the assets entrusted to it by WSU and its alumni, friends, and donors.

Established in 1979, the WSU Foundation was created not as an object of philanthropy itself, rather as the preferred mechanism through which private support is raised and managed for the sole benefit of Washington State University. Private gifts and grants to the WSU Foundation are designated to the WSU college, program, or fund of the donor's choosing. Contributions can be made by contacting the WSU Foundation Office at 800-448-2978 or by [making a gift online](#).

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Pullman, WA 99164-1925

Phone: 509-335-6686,
or 800-GIV-2-WSU (448-2978)

Fax: 509-335-4788

Email: foundation@wsu.edu

WSU FOUNDATION VOLUNTEERS

Established with the creation of the Washington State University Foundation in 1979, the Trustees serve as the Foundation's volunteer membership. By volunteering their time to serve on Foundation committees and to build relationships with prospective donors, the members of the Trustees serve a critical fund-raising role in support of the Foundation and the University. The Board of Directors of the Trustees serves as the governing board for the WSU Foundation. The Board of Directors has fiduciary responsibility for the general business and affairs of the WSU Foundation, including oversight of the Foundation's property, assets, and policies.

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Chief Executive Officer
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Individual Giving Programs
Washington State University Foundation

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WASHINGTON STATE
UNIVERSITY
FOUNDATION



WASHINGTON STATE UNIVERSITY FOUNDATION
(A Nonprofit Corporation)

Consolidated Financial Statements and
Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

WASHINGTON STATE UNIVERSITY FOUNDATION
(A Nonprofit Corporation)

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Washington State University Foundation:

We have audited the accompanying consolidated financial statements of the Washington State University Foundation (a nonprofit corporation) (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Washington State University Foundation as of June 30, 2017 and 2016, and the results of the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(r) to the consolidated financial statements, on July 1, 2016, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, requiring a change in the presentation of net assets and enhanced financial statement disclosures. Our opinion is not modified with respect to this matter.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, presented on pages 31 and 32, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

Seattle, Washington
November 2, 2017

WASHINGTON STATE UNIVERSITY FOUNDATION
(A Nonprofit Corporation)

Consolidated Statements of Financial Position

June 30, 2017 and 2016

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

See accompanying notes to consolidated financial statements.

WASHINGTON STATE UNIVERSITY FOUNDATION
(A Nonprofit Corporation)

Consolidated Statements of Activities

Year ended June 30, 2017

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

See accompanying notes to consolidated financial statements.

WASHINGTON STATE UNIVERSITY FOUNDATION
(A Nonprofit Corporation)

Consolidated Statements of Activities

Year ended June 30, 2016

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

See accompanying notes to consolidated financial statements.

WASHINGTON STATE UNIVERSITY FOUNDATION
(A Nonprofit Corporation)

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

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

See accompanying notes to consolidated financial statements.

WASHINGTON STATE UNIVERSITY FOUNDATION
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Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

Washington State University Foundation (the Foundation) was established on May 24, 1979, as an organization with a purpose of raising funds, administering and investing funds, and providing support and assistance for scientific, literary, and educational pursuits on behalf of Washington State University (the University or WSU), which is located in Pullman, Washington.

The University provides the Foundation with professional and staff services and supplemental funding support for the constituency-based development programs and operations of the Foundation, at levels reflected in the approved operating budget of the Foundation. The University also provides accounting, banking, data processing and general administrative support services, and makes available office machines and supplies to assist the Foundation in fulfilling its duties.

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

(b) Consolidated Statements

Cougar Property Holdings (CPH), a Washington nonprofit corporation, organized during the year ended June 30, 2000, was formed for the purpose of maximizing, promoting, and executing programs and initiatives for the sole benefit of the Foundation. CPH's endeavors include acquiring, developing, and managing real and personal property along with, the formation of strategic partnerships to benefit the Foundation. Because the Foundation is the single member of CPH, its financial statements have been included in the accompanying consolidated statements. All significant inter-entity transactions have been eliminated.

In June 2017, Cougar Property Holdings entered into a joint venture agreement with INTO USA, LLC to create INTO Washington State University, LLC. INTO Washington State University develops academic pathway programs for international students to improve their English language comprehension while preparing them to be successful degree-seeking student at WSU or any other higher education organization. There were no accounting transactions during the year ended June 30, 2017.

(c) Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

(i) Without Donor Restrictions

Net assets without donor restrictions represent resources which are not subject to donor-restrictions and over which the trustees of the Foundation retain control to use the funds in order to achieve the Foundation's purpose.

(ii) With Donor Restrictions

Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that are restricted by the donor for a particular purpose and that will be met by the passage of time or other events specified by the donor.

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Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Other donor-imposed restrictions are to maintain resources in perpetuity. This consists predominantly of endowment funds and charitable trusts. Donor-restricted endowment funds represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. Also included are trust funds that represent donor contributions of irrevocable trusts and other instruments wherein the Foundation has a remainder interest in the trust assets upon the death of the last surviving income beneficiary.

(d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Foundation's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Foundation's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

(e) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Foundation considers short-term cash investments and highly liquid debt instruments, if any, purchased with an original maturity of three months or less, to be cash equivalents.

At various times throughout the year, the cash balance exceeded federally insured limits of the individual financial institution. A possible loss exists for amounts in excess of insured limits.

(f) Pledges Receivable

Unconditional pledges receivable, less an allowance for uncollectible accounts and the discount to present value, are recognized as revenue in the period received. Conditional pledges receivable, if any, are recognized when the conditions on which they depend are substantially met.

(g) Endowment Investment Securities

Investment securities are stated at fair value. External and direct internal investment expenses are classified within the statements of activities net of investment return.

Financial Accounting Standards Board (FASB) guidance requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations. The Foundation has disclosed endowment balances and activity in accordance with this provision. See note 3, Endowment Investment Securities, for the disclosures.

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June 30, 2017 and 2016

(h) Furniture, Fixtures, and Equipment

Purchased furniture, fixtures, and equipment are reported at cost. An asset is capitalized if it has a cost of \$5,000 or more and a useful life when acquired of more than one year. Routine maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Computer hardware and software	5 years
Furniture and fixtures	10 years
Building components	15 years

(i) Land and Real Estate

Land and real estate represent gifts of land and real estate to the Foundation. Land and real estate are recorded at appraised value at the time of the gift. Life estate gifts are recorded at the appraised value at the time of the gift and discounted for the present value of future rental income generated by the property.

(j) Assets Held in Charitable Trusts, Annuities Payable, and Remainder Interest Payable

The Foundation has entered into various trust agreements to receive assets, which are gifts of future interest to the Foundation and the University. These trusts are separate legal entities. The Foundation is the trustee for trusts where the Foundation is either the sole beneficiary or where the Foundation shares the remainder interest with another organization. When the Foundation shares the remainder interest with another organization, the Foundation also records a liability for the remainder interest. The annuity payable, and remainder interest payable are computed based on actuarial assumptions that include the estimated beneficiaries' life expectancy and current interest rates. These trusts typically have been set up in accordance with federal tax laws to gain certain advantages for the donor. Trust agreements are mainly of four types: unitrusts, pooled income funds, lead trusts, and annuities.

Unitrusts and pooled income funds provide for distribution of annual earnings at a predetermined rate to the donor or designated beneficiary for either a specified term or the life of the donor. At the end of the term or death of the donor, the remaining assets in the unitrust or pooled income fund account are transferred to the without donor restriction fund unless otherwise designated.

Lead trusts provide for distribution of annual earnings at a predetermined rate to the Foundation for a specified term. At the end of the term, the principal amount in the lead trust is distributed back to the donor unless otherwise designated. Revenue is recognized for these irrevocable trusts upon entering into the agreement and receiving the trust assets.

Annuity trusts provide predetermined distributions to the donor. At the end of the term or death of the donor, the remaining assets in the annuity trust account are transferred to the fund designated by the donor. Trust assets are presented at fair market value, and an annuity payable is presented for the remainderman interest.

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(k) Contributions Receivable from Charitable Trusts

Charitable Trusts held outside the Foundation are trusts established and administered by a trustee bank or donor. They function in a manner similar to the ones held by the Foundation with periodic distributions and a remainder interest upon termination to the Foundation. These trusts are donor restricted with all proceeds being used as directed by the donor in the gift agreement. The value of the trusts are adjusted annually for the change in estimated fair value.

(l) Beneficial Interest in Perpetual Trusts

The Foundation is the irrevocable beneficiary of perpetual charitable trusts held by various trustee banks and organizations. The beneficial interest in the trust is reported at fair value, which is the estimated fair value of the underlying trust assets. Distributions of income from the trust assets are restricted for use in accordance with the donors' wishes. The value of the beneficial interest in perpetual trusts is adjusted annually for the change in its estimated value. Those changes are reported as increases in net assets with donor restrictions because the trust assets will never be distributed to the Foundation. The Foundation is not the trustee of these assets.

(m) Assets Held for Washington State University

Assets held for Washington State University result from University-related (501)(c)(3) entities investing endowed gifts and expendable gifts totaling \$100,000 or more within the Foundation's consolidated endowment. The units may withdraw funds acting as endowments in full or in \$50,000 increments upon six months' notice. The related assets are included in endowment investment securities.

The University's endowment funds are not recorded on the Foundation's financial statements as they are not an agent nor a principal in these endowments. During fiscal year 2017, the Foundation amended its Memorandum of Understanding with the University to allow similar treatment for the University and its related 501(c)(3) entities such as, the Alumni Association. With this change, starting in fiscal year 2017, all University endowments and University-related 501(c)(3) entity endowments are not included in endowment investment securities and instead are disclosed in note 3.

(n) Contributions and Revenue Recognition

The Foundation processes and records all private gifts to both the University and the Foundation. This includes all direct and indirect contributions to the University including all colleges, departments, and programs. Contributions, including unconditional promises to give, are recognized when received. Amounts received and unconditional promises that are restricted by the donor are reported as funds with donor restrictions. All other contributions are recorded as without donor restrictions. Conditional promises are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met. Gifts to acquire long lived assets are initially reported as donor-restricted support and are released from restrictions when the asset is acquired and placed into service, if applicable.

The Foundation is the named beneficiary of various estates in probate and trusts administered by other institutions and organizations. The Foundation recognizes income from these bequests and trusts when ownership is legally established and the proceeds are measurable. Recognition of trusts and bequests may be delayed if the Foundation was unaware of the donors' intentions.

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June 30, 2017 and 2016

(o) Valuation of Long-Lived Assets

The Foundation, using its best estimates based on reasonable and supportable assumptions and projections, 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.

(p) Financial Instruments

The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents approximates its fair value.

Endowment investment securities and assets held in charitable trusts – Fair values for endowment and trust investments are based on quoted market prices, if available. The endowment also invests in alternative investments, which are not readily marketable, therefore, net asset value (NAV) per share is used as a practical expedient to estimate fair value. Land held in trust is valued at fair market value at the date of the gift.

Beneficial interest in perpetual trusts – The beneficial interest in perpetual trusts is reported at fair value, which is estimated as the fair value of the underlying assets of the trusts. Because there are no observable market transactions for assets similar to the beneficial interest in the trusts and because the trusts cannot be redeemed, the valuation technique used by the Foundation is a level three fair value measure.

(q) Federal Income Taxes

The Foundation and its wholly owned subsidiary Cougar Property Holdings have been recognized by the Internal Revenue Service as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3) of the Internal Revenue Code. Unrelated business income is considered taxable income. Donations to the Foundation are generally tax deductible. The Foundation and its subsidiary neither have unrecognized tax benefits that would have required an adjustment to net assets, nor unrecognized tax benefits at June 30, 2017 and 2016.

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(r) Implementation of New Accounting Standard

The Foundation has early adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, for its fiscal year ended June 30, 2017. As a result of this ASU, the Foundation now presents two classes of net assets in its financial statements, instead of three: net assets with donor restrictions and net assets without donor restrictions. The new standard also required the presentation of underwater endowment funds to be moved to net assets with donor restrictions. The impact of this change on net assets can be seen in the following table:

	2016	2015
Unrestricted net assets at June 30, as previously reported	\$ (5,283,588)	1,216,818
Underwater endowment funds	9,010,811	1,510,630
Net assets without donor restrictions at June 30, as restated	<u>\$ 3,727,223</u>	<u>2,727,448</u>
Temporarily restricted net assets at June 30, as previously reported	\$ 46,565,795	67,112,929
Permanently restricted net assets at June 30, as previously reported	<u>419,322,687</u>	<u>404,485,820</u>
Total restricted net assets at June 30, as previously reported	465,888,482	471,598,749
Underwater endowment funds	<u>(9,010,811)</u>	<u>(1,510,630)</u>
Net assets with donor restrictions at June 30, as restated	<u>\$ 456,877,671</u>	<u>470,088,119</u>

The ASU also required the following enhanced disclosures that pertain to the Foundation: the composition of net assets with donor restrictions at the end of the period focusing on how and when the resources can be used rather than a bright-line distinction between temporary and permanent restrictions; qualitative information on how the Foundation manages its liquid resources; quantitative and qualitative information on the availability of the Foundation's financial assets at the date of the statement of financial position; amounts of expenses by both their natural classification and functional classification; methods used to allocate costs among program and support functions; policies and expanded information on underwater endowments and net reporting of investment return.

As a result of these changes, certain amounts in the 2016 financial statements were restated to conform with current year presentation. Investment income and Gain (loss) on investments were combined into one financial statement line item called Investment return, net of expenses, and within this caption \$9,010,811 of underwater endowment funds were moved from without donor restrictions to with donor restrictions. Additionally, Investment return, net of expenses, was decreased by \$46,907, Fundraising was increased by \$91,098, and General and administrative expense was decreased by \$138,005.

WASHINGTON STATE UNIVERSITY FOUNDATION
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June 30, 2017 and 2016

(2) Pledges Receivable

	Year ended June 30	
	2017	2016
Pledges receivable	\$ 42,304,782	38,250,248
Less allowance for uncollectible pledges	(1,692,191)	(1,530,010)
Total	40,612,591	36,720,238
Less present value discount	(2,027,688)	(632,709)
Total	<u>\$ 38,584,903</u>	<u>36,087,529</u>

	Year ended June 30	
	2017	2016
Amount expected in:		
One year or less	\$ 1,147,016	441,209
One to five years	33,373,824	33,360,833
Over five years	7,783,942	4,448,206
Total	<u>\$ 42,304,782</u>	<u>38,250,248</u>

Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those accounts are computed using the five-year and three-year interest rates applicable to the years in which the promises are received. The rate for the year ended June 30, 2017 was 1.77% and prior years ranged from 0.39% to 5.00%. Amortization of the discounts is included in contribution revenue.

Conditional pledges receivable are not recorded until the conditions are substantially met. Conditional pledges receivable were \$4,575,000 as of June 30, 2017, with \$1,575,000 of the promises conditioned on approval of building projects and \$3,000,000 conditioned on meeting program initiatives and milestones. As of June 30, 2016, conditional pledges receivable were \$13,529,413 with \$9,529,413 of the promises conditioned on approval of building projects and \$4,000,000 conditioned on meeting program initiatives and milestones.

Management has calculated the allowance for uncollectible pledges using past experience as a basis for the percentage of pledges that will not be collected.

(3) Endowment Investment Securities

The Foundation's endowment consists of approximately 2,232 individual funds, established for a variety of purposes, which are jointly managed with the University's endowments. Of the total value of the investments managed, the Foundation's endowment funds represent 86.54% and 90.21% of that total at June 30, 2017 and 2016, respectively. The remainder of the pool comprises the University's true endowments and the University's funds functioning as endowments (quasi-endowments) which are not

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recorded in the Foundation's financial statements. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including quasi-funds that function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no board designated endowments.

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

(a) Interpretation of Relevant Law

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

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

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

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

(b) Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that either the donor or WA-UPMIFA requires the Foundation to retain as a

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fund of perpetual duration. Deficiencies of this nature are classified in net assets with donor restrictions. Deficiencies of this nature totaled \$1,613,704 and \$9,010,811 at June 30, 2017 and 2016, respectively, and are included in the accumulated investment gains (loss) in the tables below.

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

Year ended June 30, 2017					
	Without donor restrictions	With donor restrictions			Total funds as of June 30, 2017
		Original gift	Accumulated gains/(losses)	Total	
Donor-restricted funds:					
Underwater funds	\$ —	54,945,146	(1,613,704)	53,331,442	53,331,442
Other funds	—	309,024,419	44,707,117	353,731,536	353,731,536
Total endowment funds	\$ —	363,969,565	43,093,413	407,062,978	407,062,978
Year ended June 30, 2016					
	Without donor restrictions	With donor restrictions			Total funds as of June 30, 2016
		Original gift	Accumulated gains/(losses)	Total	
Donor-restricted funds:					
Underwater funds	\$ —	180,754,888	(9,010,811)	171,744,077	171,744,077
Other funds	—	168,378,719	25,818,008	194,196,727	194,196,727
Assets held in endowment for WSU	—	13,266,961	161,007	13,427,968	13,427,968
Total endowment funds	\$ —	362,400,568	16,968,204	379,368,772	379,368,772

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(c) Return Objectives and Risk Parameters

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

(d) Strategies Employed for Achieving Objectives

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

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

(f) Endowment Net Asset Composition, by Type of Fund

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

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June 30, 2017 and 2016

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

(g) Changes in Endowment Net Assets

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

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

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(h) Endowments Managed at Fair Value

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

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

(i) Endowments Managed at Cost

	Year ended June 30	
	2017	2016
Investments at cost	\$ 363,016,267	337,858,142
Less University endowment funds, at cost	<u>(48,856,269)</u>	<u>(33,079,256)</u>
Managed endowment funds recorded by the Foundation, at cost	<u>\$ 314,159,998</u>	<u>304,778,886</u>

(4) Fair Value Measurements

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

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

Level 1 – Quoted prices are available in active markets for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

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Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 – Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to the endowment's needs.

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

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

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
Endowment investments:				
Cash and equivalents	\$ 4,114,705	—	—	4,114,705
Total cash equivalents	<u>4,114,705</u>	<u>—</u>	<u>—</u>	<u>4,114,705</u>
Marketable equities:				
Equities	73,323,049	—	—	73,323,049
Fixed income mutual funds	18,585,266	—	—	18,585,266
Liquid real assets	23,792,209	—	—	23,792,209
Total marketable equities	<u>115,700,524</u>	<u>—</u>	<u>—</u>	<u>115,700,524</u>
Nonmarketable equities		22,694,074		<u>22,694,074</u>
Investments measured at NAV:				
Equity funds				47,989,543
Fixed income funds				15,298,447
Hedge funds				69,285,535
Illiquid real assets				30,442,598
Private equities funds				<u>73,843,346</u>
Total investments measured at NAV				<u>236,859,469</u>
Total endowment investments				<u>379,368,772</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets in charitable trusts:				
Cash equivalents	\$ 683,835	—	—	683,835
Total cash equivalents	<u>683,835</u>	<u>—</u>	<u>—</u>	<u>683,835</u>
Marketable equities:				
Equities	17,802,486	—	—	17,802,486
Fixed income mutual funds	9,833,237	—	—	9,833,237
Liquid real assets	4,350,071	—	—	4,350,071
Total marketable equities	<u>31,985,794</u>	<u>—</u>	<u>—</u>	<u>31,985,794</u>
Total assets in charitable trusts	<u>\$ 32,669,629</u>	<u>—</u>	<u>—</u>	<u>32,669,629</u>
Other:				
Beneficial interest in perpetual trusts	\$ —	—	30,051,856	30,051,856

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

	<u>Beneficial interest in perpetual trusts</u>
Other:	
Balance – July 1, 2015	\$ 30,410,761
Change in value, net	<u>(358,905)</u>
Balance – June 30, 2016	<u>\$ 30,051,856</u>

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

Equities, Fixed Income, and Hedge Funds

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

Illiquid Real Assets and Private Equities

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

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

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

	NAV		Redemption schedule	Redemption notice period
	2017	2016		
Equity Funds	56,236,109	47,989,543	Daily to semimonthly	5–30 days
Fixed income funds	15,089,815	15,298,447	Monthly	30 days
Hedge funds	72,631,108	69,285,535	Monthly to biennially	30–100 days
Illiquid real assets and private equities funds	106,810,402	104,285,944	Years: 2017–2029	End of agreement
	<u>\$ 250,767,434</u>	<u>236,859,469</u>		

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(5) Notes Receivable

	Year ended June 30	
	2017	2016
Note receivable, annual payments of \$13,181, including interest at 6%, due January 1, 2025; secured by a deed of trust	\$ 82,016	89,809
Note receivable, annual payments of \$24,000, including imputed interest at 4.28%, due April 2034; secured by a deed of trust on a private residence	279,219	290,290
Note receivable, annual payments of \$20,933, including interest at 5%, due September 2030; secured by a deed of trust on a farm	203,520	213,687
Total	<u>\$ 564,755</u>	<u>593,786</u>

	Year ended June 30	
	2017	2016
Amounts expected in:		
One year or less	\$ 58,115	58,038
One to five years	232,457	232,152
Over five years	503,840	562,335
Total	794,412	852,525
Less present value discount	(221,021)	(249,761)
Less allowance for doubtful accounts	(8,636)	(8,978)
Total	<u>\$ 564,755</u>	<u>593,786</u>

(6) Assets Held in Charitable Trusts

Assets held in charitable trusts consisted of the following types of investments at June 30:

	2017	2016
Cash equivalents	\$ 794,821	683,835
Fixed income mutual funds	9,455,203	9,833,237
Equities	17,706,607	17,802,486
Liquid real assets	4,172,679	4,350,071
Assets, at fair market value	<u>\$ 32,129,310</u>	<u>32,669,629</u>
Assets, at cost	\$ 27,726,545	29,825,530

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Assets held in charitable trusts consisted of the following types of trusts at June 30:

	<u>2017</u>	<u>2016</u>
Charitable remainder unitrusts	\$ 20,679,914	19,654,519
Charitable remainder annuity trusts	2,763,785	2,709,808
Gift annuities	8,296,427	9,949,855
Lead and other trusts	<u>389,184</u>	<u>355,447</u>
Total	<u>\$ 32,129,310</u>	<u>32,669,629</u>

The State of Washington under RCW 48.38.010 mandates that charities obtain a certificate of exemption to issue charitable gift annuities. Sections 38.010 and 38.020 of the code, respectively, require the charity to 1) have at least \$500,000 in net assets without donor restrictions and 2) maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. The reserve fund amount is calculated at the end of the fiscal year and must be performed by an independent third party. The reserve fund requirement as determined by the actuary was \$2,739,467 and \$3,673,349 at June 30, 2017 and 2016, respectively, and the charitable gift annuities payable at June 30, 2017 and 2016 was \$3,654,295 and \$4,627,273, respectively.

(7) Operating Lease

The Foundation has a 20-year operating lease, which terminates in March 2023, for office space in downtown Pullman that allows for periodic rate increases. The total rent expense under the terms of the lease was \$291,445 and \$282,625 at June 30, 2017 and 2016, respectively.

Future minimum lease payments under this operating lease as of June 30, 2017 are as follows:

Year ending June 30:	
2018	\$ 295,055
2019	302,472
2020	310,057
2021	317,809
2022	325,771
Thereafter	<u>248,949</u>
Total	<u>\$ 1,800,113</u>

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(8) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30:

	<u>2017</u>	<u>2016</u>
Donor-restricted endowments subject to spending policy and appropriation, to support the following purposes (including net accumulated earnings):		
Endowed Faculty	\$ 88,900,865	86,269,956
Facilities	1,435,295	1,325,656
Instruction	8,628,604	7,911,468
Libraries	2,237,343	2,026,137
Operational Support	86,019,299	72,998,971
Research	23,334,267	21,651,191
Scholarships and Fellowships	196,507,305	173,757,425
	<u>407,062,978</u>	<u>365,940,804</u>
Perpetual trusts and split interest agreements available to support the following purposes:		
Endowed Faculty	1,041,974	973,482
Facilities	4,824	4,027
Instruction	700,392	816,736
Libraries	198,040	172,054
Operational Support	31,468,528	29,863,092
Research	1,019,183	981,809
Scholarships and Fellowships	21,200,606	19,710,001
	<u>55,633,547</u>	<u>52,521,201</u>
Subject to passage of time:		
Endowed Faculty	1,132,814	1,034,792
Facilities	8,397,253	9,184,632
Instruction	16,901	32,391
Libraries	12,672	8,279
Operational Support	28,310,680	26,274,420
Research	126,840	131,588
Scholarships and Fellowships	4,869,137	1,749,564
	<u>42,866,297</u>	<u>38,415,666</u>
Total net assets with donor restrictions	<u>\$ 505,562,822</u>	<u>456,877,671</u>

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(9) Functional Classification of Expenses

The costs of program and supporting services activities have been summarized in the statements of activities. The expense analysis in the table below presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or support function. The expenses that are allocated include salaries, wages and employee benefits, which are allocated on the basis of actual time spent on fundraising or general and administrative tasks. Occupancy and depreciation are allocated based on the full-time employee (FTE) count for fundraising and general and administrative staff. Other costs are classified in each functional category based on the underlying purpose of each transaction.

Year ended June 30, 2017				
	<u>Program services</u> <u>Support provided</u> <u>to Washington</u> <u>State University</u>	<u>Fundraising</u>	<u>General and</u> <u>administrative</u> <u>expenses</u>	<u>Total</u>
Advertising	\$ —	3,576	29,882	33,458
Campaign and marketing	—	74,801	—	74,801
Conferences, conventions, and meetings	—	24,045	213,922	237,967
Consulting services	—	538,141	97,902	636,043
Depreciation	—	43,937	46,772	90,709
Development services – University staff	—	1,649,573	—	1,649,573
Donor cultivation	—	644,829	—	644,829
Employee benefits	—	888,791	754,139	1,642,930
Endowment administration fees	—	—	5,405,309	5,405,309
Endowment distributions	15,713,238	—	—	15,713,238
Information technology	—	25,525	474,662	500,187
Miscellaneous	—	41,243	45,906	87,149
Occupancy	—	187,964	200,091	388,055
Office expense	—	112,663	70,741	183,404
Professional fees	—	28,305	86,675	114,980
Restricted distributions	37,418,751	—	—	37,418,751
Salaries and wages	—	2,546,193	2,161,749	4,707,942
Travel	—	258,519	61,449	319,968
Uncollectible accounts	—	—	161,839	161,839
	<u>\$ 53,131,989</u>	<u>7,068,105</u>	<u>9,811,038</u>	<u>70,011,132</u>

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Year ended June 30, 2016				
	<u>Program services</u> <u>Support provided</u> <u>to Washington</u> <u>State University</u>	<u>Fundraising</u>	<u>General and</u> <u>administrative</u> <u>expenses</u>	<u>Total</u>
Advertising	\$ —	67,033	10,868	77,901
Campaign and marketing	—	653,619	—	653,619
Conferences, conventions, and meetings	—	27,944	83,125	111,069
Consulting services	—	535,851	36,136	571,987
Depreciation	—	48,819	44,095	92,914
Development services – University staff	—	1,580,838	—	1,580,838
Donor cultivation	—	430,188	—	430,188
Employee benefits	—	652,135	532,145	1,184,280
Endowment administration	—	—	5,074,825	5,074,825
Endowment distributions	15,576,023	—	—	15,576,023
Information technology	—	19,538	335,502	355,040
Miscellaneous	—	28,459	66,352	94,811
Occupancy	—	192,436	173,813	366,249
Office expense	—	88,332	73,230	161,562
Professional fees	—	36,710	50,690	87,400
Restricted distributions	38,375,513	—	—	38,375,513
Salaries and wages	—	2,281,467	1,989,043	4,270,510
Travel	—	275,083	60,283	335,366
Uncollectible accounts	—	—	124,118	124,118
	<u>\$ 53,951,536</u>	<u>6,918,452</u>	<u>8,654,225</u>	<u>69,524,213</u>

(10) Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its operating needs, liabilities, and other obligations as they become due. The Foundation is substantially supported by management and advancement fees assessed on distributions from the endowment and support provided by the University. As the Foundation exists to benefit the University, the majority of the financial assets recorded by the Foundation are not available to support the Foundation's operating needs.

In addition to financial assets available to meet general expenditures over the next twelve months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by the support provided by the University. This includes obtaining additional support from the University, as needed.

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As of June 30, 2017, the Foundation has cash and cash equivalents and Due from WSU to cover approximately 98 days of operating expenses. The Foundation's budget for fiscal year 2018 includes \$4,520,680 in University support, and \$8,100,000 in assessed management and advancement fees (both are not included in the following table). These amounts are available to be used for general expenditures. The following assets could readily be made available within one year of the date of the statement of financial position to meet general expenditures:

	<u>Year ended June 30, 2017</u>
Financial assets:	
Cash and cash equivalents	\$ 314,068
Due from Washington State University	3,548,668
Other receivables	3,096,916
Pledges receivable, net	38,584,903
Endowment investment securities	407,062,978
Notes receivable, net	564,755
Assets held in charitable trusts	32,129,310
Contributions receivable from charitable trusts	7,154,472
Beneficial interest in perpetual trusts	<u>31,806,751</u>
	524,262,821
Less those unavailable for general expenditure within one year:	
Receivables expected to be collected and remitted directly to Washington State University	(49,216,707)
Endowment assets and accumulated earnings subject to appropriation to Washington State University	(406,852,649)
Charitable trusts and perpetual trusts held by others	(63,936,061)
Washington state required reserves for funds without donor restrictions	<u>(500,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,757,404</u>

(11) Related-Party Transactions

The Foundation is named as an owner/member in the Ruckelshaus Center Foundation. The Foundation raises money on behalf of the Ruckelshaus Center Foundation as a pass-through agency transaction. As such, no contribution revenue is recognized by the Foundation relating to these funds. The pass-through agency transactions are \$437,037 and \$898,398 for the years ended June 30, 2017 and 2016, respectively.

During fiscal year 2013, the President of Town Centre LLC, the lessor referred to in note 7, became a member of the Foundation's Board of Directors.

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During fiscal year 2017, the legal counsel for the Foundation began serving a two-year term as Chair of the Board of Directors of the Foundation.

(12) Subsequent Events

Subsequent events have been evaluated through November 2, 2017, which is the date the financial statements were available to be issued. The following subsequent events were identified:

Effective July 1, 2017, the Foundation implemented a 5% advancement fee on all gifts and promises to give up to \$5 million. The assessments are unrestricted funding for the operations of the Foundation.

Cougar Property Holdings obtained a \$550,000 loan from INTO, USA in July of 2017. All proceeds were then loaned to INTO, Washington State University, to start operations.

WASHINGTON STATE UNIVERSITY FOUNDATION
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Consolidating Statement of Financial Position

June 30, 2017

Assets	WSU Foundation	Cougar Property Holdings	Consolidated
Cash and cash equivalents	\$ 32,131	281,937	314,068
Due from Washington State University	3,548,668	—	3,548,668
Other receivables	3,096,648	268	3,096,916
Pledges receivable, net	38,584,903	—	38,584,903
Endowment investment securities	407,062,978	—	407,062,978
Notes receivable, net	564,755	—	564,755
Furniture, fixtures, and equipment (net of accumulated depreciation of \$1,592,814)	151,318	—	151,318
Land, Cougar Property Holdings	—	35,000	35,000
Land and real estate	1,502,500	—	1,502,500
Assets held in charitable trusts	32,129,310	—	32,129,310
Contributions receivable from charitable trusts	7,154,472	—	7,154,472
Beneficial interest in perpetual trusts	31,806,751	—	31,806,751
Total assets	<u>525,634,434</u>	<u>317,205</u>	<u>525,951,639</u>
Liabilities			
Accounts payable and accrued liabilities	\$ 1,297,991	748	1,298,739
Annuities payable	13,747,985	—	13,747,985
Remainder interest payable	1,819,704	—	1,819,704
Total liabilities	<u>16,865,680</u>	<u>748</u>	<u>16,866,428</u>
Net Assets			
Without donor restrictions	3,205,932	316,457	3,522,389
With donor restrictions	505,562,822	—	505,562,822
Total net assets	<u>508,768,754</u>	<u>316,457</u>	<u>509,085,211</u>
Total liabilities and net assets	<u>\$ 525,634,434</u>	<u>317,205</u>	<u>525,951,639</u>

See accompanying independent auditors' report.

WASHINGTON STATE UNIVERSITY FOUNDATION
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Consolidating Statement of Activities

Year ended June 30, 2017

	WSU Foundation		Cougar Property Holdings	Consolidated
	Without donor restrictions	With donor restrictions		
Revenue and support:				
Contributions	\$ 490	57,838,525	—	57,839,015
Investment return, net of expenses	(49,666)	52,548,747	533	52,499,614
Management and advancement fees	6,363,221	—	—	6,363,221
Change in value of split-interest agreements	—	(3,520,807)	—	(3,520,807)
Support provided by Washington State University	4,520,680	—	—	4,520,680
Other income	241,822	547,904	—	789,726
Total revenue and support	11,076,547	107,414,369	533	118,491,449
Net assets released from restrictions	58,729,218	(58,729,218)	—	—
Expenses:				
Support provided to/for Washington State University:				
Restricted distributions	37,418,751	—	—	37,418,751
Endowment income distributions	15,713,238	—	—	15,713,238
Endowment administration fees	5,405,309	—	—	5,405,309
Fundraising	7,068,105	—	—	7,068,105
General and administrative expenses	4,361,221	—	44,508	4,405,729
Total expenses	69,966,624	—	44,508	70,011,132
Change in net assets	(160,859)	48,685,151	(43,975)	48,480,317
Net assets – beginning of year	3,366,791	456,877,671	360,432	460,604,894
Net assets – end of year	\$ <u>3,205,932</u>	<u>505,562,822</u>	<u>316,457</u>	<u>509,085,211</u>

See accompanying independent auditors' report.