2021

Annual Financial Report

FISCAL YEAR ENDED JUNE 30, 2021

AN AGENCY OF THE STATE OF WASHINGTON

WASHINGTON STATE
UNIVERSITY

21 ANNUAL FINANCIAL REPORT

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

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

You may view the financial report at genacct.wsu.edu/finstat.html.

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

Institutional Research
Washington State University
PO Box 641043
Pullman, Washington 99164-1043
509-335-4553

or

Visit the WSU home page at wsu.edu.

Contents

8/22 N5656 pb

FINANCIAL REPORT 2021

INTRODUCTION

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Asif Chaudhry, Vice President for International Programs and Vice Chancellor for International Programs

Patrick Chun, Director of Athletics and Vice Chancellor for Athletics

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Mary Rezac, Dean, Voiland College of Engineering and Architecture

Joseph (Jay) Starratt, Dean, Libraries

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Michael Trevisan, Dean, College of Education

LEGAL COUNSEL

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

Officer list effective 1/2/22

FINANCIAL REPORT 2021

FINANCIAL SECTION

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Regents
Washington State University
Pullman, Washington

Report on the Financial Statements

We have audited the financial statements of the business-type activities of Washington State University (the University), and the discretely presented component unit of the University, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, Washington State University Foundation (the Foundation). Those statements were audited by other auditors whose report has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements for the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinions

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Washington State University and the discretely presented component unit, as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Correction of an Error

As discussed in Note 1 to the financial statements, there were errors noted in prior year financial statements that required a restatement to beginning net position of the University as of June 30, 2020. Accordingly, the net position as of June 30, 2020 has been restated to reflect this correction. Our opinions are not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the University has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which resulted in a restatement of the net position as of July 1, 2020. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As described in Note 1, the financial statements of the University, an agency of the state of Washington, are intended to present the financial position, changes in financial position, and cash flows attributable to the University. They do not purport to, and do not present fairly the financial position of the state of Washington as of June 30, 2021, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Restatement and Reissuance

As discussed in Note 22, subsequent to the issuance of the University's 2021 financial statements and our report thereon dated June 9, 2022, we became aware that those financial statements excluded the lost revenue taken against the Institution's Higher Education Emergency Relief Funds (HEERF) associated with fiscal year 2021. This resulted in the COVID relief grant funding revenue and associated accounts receivable to be understated. In our original report we expressed an unmodified opinion on the 2021 financial statements, and our opinion on the revised statements, as expressed herein, remains unmodified.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of WSU Contributions – PERS 1, PERS 2/3, TRS 1, TRS 2/3, LEOFF, and WSURP Supplemental Retirement Plan, Schedule of WSU's Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3, TRS 1 and TRS 3, Schedule of WSU's Proportionate Share of the Net Pension Asset – LEOFF 2, Schedule of Changes in Total Pension Liability – WSURP Supplemental Retirement Plan, Schedule of Changes in Net Pension Liability – WSURP Supplemental Retirement Plan, Schedule of Changes in Total OPEB Liability, and Notes to Required Supplementary Information, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The introduction is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 9, 2022 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho

June 9 , 2022, except for Note 6 and Note 22, for which the date is August 16, 2022

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Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Washington State University (WSU or the University) for the fiscal year ended June 30, 2021, with comparative information for the fiscal year 2020. This overview has been prepared by management and should be read in conjunction with the University's financial statements and accompanying footnote disclosures.

Using the Financial Statements

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

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

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

Financial Highlights for Fiscal Year 2021

The University's overall net financial position as of June 30, 2021, reflects an increase of $242 million (16%) over the previous year, resulting in a net position of $1.8 billion.

Below are financial highlights from fiscal year 2021:

- Assets and deferred outflows increased by $184 million to end the year at $3.1 billion.
- Liabilities and deferred inflows decreased by $58 million to end the year at $1.4 billion.
- Accounts receivable increased $65 million, a 89% increase.
- Current investments showed an 86% increase from $38 million to $71 million. Endowment investments increased $80 million to $720 million, a 12.5% increase.
- Capital assets, net of depreciation experienced a slight decrease of $8 million, totaling $1.7 billion.
- Prepaid expenses increased $4 million due to the change in accounting systems and recognition of prepaid benefit expenses.
- Unearned revenue, current portion decreased 14.6 % or $2 million to end the year at $12 million.
- Pension and Other Post-employment Benefits (OPEB) liability decreased $85 million, totaling $379 million. Specifically, the decrease was caused by the actuarial discount rate assumption increase from 2.2% to 7.4% for supplemental defined benefit plan component (SRP) of the Washington State University Retirement Plan (WSURP). Also, the College Retirement Equities fund (CREF) return was higher than expected. OPEB increased $8 million because there was a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index from 3.5% to 2.1% which resulted in an increased liability.
- Due to the implementation of GASB No. 84, *Fiduciary Activities,* certain activities were reported within the financial statements eliminating the recognition of Assets held in trust for agencies and Deposits held in custody for others, each stated at $27 million in FY2020.

Significant changes to operations were as follows:

- Operating revenues totaled $757 million, decreasing $46 million from last year. Tuition and fees increased $1 million, grant revenue increased $16 million, sales and service of education departments increased $2 million and other operating revenue increased $29 million due to the implementation of GASB 84-Fiduciary Activities. For FY20 the increase to other operating revenue would have been $27 million due to this accounting change. This was offset by a $95 million decrease in auxiliary revenue due to the impacts of COVID and the international pandemic.
- Operating expenses decreased from the previous year a total of $25 million, ending at $1.1 billion. Expenses that showed increases include salaries and wages of $1 million, and scholarships and fellowships of $30 million. Benefits expense decreased $34 million as the result in decreased pension expenses. Other decreases from the prior year included, utilities of $2 million, payments to suppliers totalling $7 million, purchased services of $11 million, mainly as the result of decreased operations due to COVID. Depreciation also decreased by $3 million as assets were retired.

Condensed Financial Information and Analysis

Financial Position - Statement of Net Position

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

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

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

Net position is divided into five categories:

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

Condensed **Statements of Net Position (in millions)** for the last two fiscal years are as follows: (No changes were made to the June 30, 2020 amounts for prior period adjustments)

	June 30, 2021 As restated	June 30, 2020
Assets		
Current assets	$ 388	$ 250
Non-current assets:		
Long-term investments	213	211
Endowment and other restricted investments	720	640
Other non-current assets	20	48
Capital assets, net of accumulated depreciation	1,697	1,705
Total assets	**3,038**	**2,854**
Deferred outflows of resources	**96**	**96**
Total assets and deferred outflows of resources	**3,134**	**2,950**
Liabilities		
Current liabilities	118	122
Non-current liabilities:		
Accrued leave and deferred compensation	36	34
Unearned revenue	3	7
Long-term liabilities	622	609
Asset retirement obligation	18	17
Pension	78	172
OPEB liabilities	301	293
Other non-current liabilities	-	27
Total liabilities	**1,176**	**1,281**
Deferred inflows of resources	**199**	**152**
Total liabilities and deferred inflows of resources	**1,375**	**1,433**
Net position		
Net investment in capital assets	1,096	1,092
Restricted nonexpendable	659	595
Restricted loans	33	27
Restricted expendable	231	187
Unrestricted	(260)	(384)
Total net position	**$ 1,759**	**$ 1,517**

Significant Changes in the Statements of Net Position from 2020 to 2021

- Cash and investments (current and long-term) increased $70 million or 19% from the previous year, primarily from investment activity and income.
- Inventories increased $1 million, mostly due to the impact of COVID-19. Athletics, Ferdinand's Creamery, Washington Animal Disease Diagnostic Lab (WAADL) and the Veterinary Hospital inventories each contributed to the increase.
- Accounts receivable showed a marked increase of $65 million as the result of the timing of receipt of appropriation funds from the state in the amount of $27 million and the federal government of $21 million due to the enhanced abilities of recognizing receivables as qualifying expenditures when made in the grants. Additionally, $26 million was recognized as a federal grant receivable for COVID relief funding for lost revenue in the fiscal period. The funds were drawn in the subsequent fiscal year.
- Endowment investments increased 12.5%, a total of $80 million to end the year at $720 million. The endowment consists of two major investments: 1) The University contracts with the WSU Foundation to invest and manage endowed funds received prior to the formation of the WSU Foundation. These endowments increased 27% during FY2021, from $60 million to $77 million. 2) The University has two land-grant endowments and two permanent funds created by legislature. The two land-grants endowments include 151,188 acres of timber, agricultural and grazing lands that are managed by the Department of Natural Resources. The income from the land use is distributed to the permanent fund. The earnings from the permanent fund are used to fund capital projects at the University. The fair market value of this portion of the endowment increased by 11% over last year, from $579 million to $642 million.
- Assets held in trust for agencies were impacted by a change in accounting principle and incorporated into the assets and liabilities of the University.
- Current liabilities decreased $4 million from FY2020 to FY2021, a 3.5% change. Unearned revenue, current portion showed a decrease of $2 million as the result of recognizing revenue that was deferred in FY2020 for Housing & Dining CARES funding by students utilizing credit balances during the fall semester. The current portion of long-term liabilities decreased $2 million due to refinancing activities and the payment of debt.
- Non-current liabilities decreased $100 million, a significant change. Pensions and Other Post-Employment Benefits (OPEB) decreased $85 million due to changes in actuarial assumptions, discount rates and experience. Also, a change in accounting principle resulted in no longer including deposits held in custody for others. Other decreases included unearned revenue as deferrals from FY2020 CARES assistance to students were recognized. These were offset in part by an increase to accrued leave of $2 million due to reduced leave usage due to COVID-19 travel restrictions. Long-term liabilities decreased as principal payments were made on bonds and refunding activity.

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

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

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

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

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

Condensed ***Statements of Revenues, Expenses and Changes in Net Position (in millions)*** for the last two fiscal years are as follows: (No changes were made to the June 30, 2020 amounts for prior period adjustments)

	June 30, 2021 As restated	June 30, 2020
Operating revenues (expenses)		
Tuition and fees, net	$ 314	$ 313
Grants and contracts	290	274
Sales and services, net	98	190
Other operating revenues	55	26
Total operating revenues	**757**	**803**
Operating expenses	(1,132)	(1,157)
Operating loss	**(375)**	**(354)**
Non-operating revenues (expenses)		
State and federal appropriations	286	271
Federal financial aid	33	36
Interest on debt	(26)	(28)
Federal interest subsidy on debt	1	1
Gifts and contributions	44	40
Investment income, net	118	65
COVID relief funding	43	19
Other non-operating revenues (expenses)	11	6
Net non-operating revenues (expenses)	**510**	**410**
Income (loss) before other changes	**135**	**56**
Capital additions		
Capital appropriations	47	52
Capital gifts and grants	2	2
Additions to permanent endowments	9	8
Total capital additions	**58**	**62**
Increase (decrease) in net position	**193**	**118**
Net position, beginning of year	1,517	1,399
Change in accounting principle	17	-
Prior period adjustment	32	-
Change in net position	193	118
Net position, end of year	**$ 1,759**	**$ 1,517**

Significant Changes in the Statement of Revenues, Expenses and Changes in Net Position from 2020 to 2021:

Despite the continued impacts of COVID-19 through fiscal year 2021, operating revenue slightly decreased by 6%, resulting in a $46 million decline over fiscal year 2020.

- Total tuition and fees (without waivers) increased from $465 million in FY2020 to $473 million in FY21, a 2% increase. The increase was due to a 2.5% rate increase for undergraduate resident, nonresident, resident Global and nonresident Global and to graduate programs except for nursing Athletic Training. Pharmacy tuition increased 9% for residents and 5.2% for nonresidents. The College of Medicine resident rates increased 3%. The College of Veterinary Medicine did not increase fees. The estimated scholarship allowance decreased by $1 million from $73 million in FY2020 to $72 million in FY2021. Waivers decreased from $80 million in FY2021 to $75 million. This brought net tuition to end fiscal year 2021 at $314 million, $1 million more than the previous year. The overall discount rate was higher in FY2021 than FY2020 and remains of concern for WSU compared to peers and public institution averages.
- Grants and contracts from federal, state and private sources increased $16 million, a 6% increase. Federal research increased $12 million primarily due to increased awards from Health and Human Services and the Small Business Administration as the result of COVID relief funds. Overall, state grant funds and local grant funds increased a combined $4 million.
- Sales and services of educational departments increased $2 million. As anticipated due to COVID, WSU auxiliaries revenue decreased by $94 million primarily due to Housing and Dining related closures and ticket and media revenue in intercollegiate athletics. Service centers decreased $1 million. Others showed a slight increase of $1 million.
- Other operating revenues increased to $55 million from $26 million and increase of $29 million primarily due to the inclusion of former agency funds totaling $35 million and the Students Book Corporation for $4 million. These increases were offset by decreases in other operating revenues in various departments..

Overall operating expenses showed a 2.2% decrease over the previous year totaling a $25 million decrease.

- The fiscal year 2021 salary expense increased by $2 million while benefits expense decreased $34 million as the result of a decrease in pension expenses.
- Fellowships and scholarships increased $30 million. A significant portion was the result of the inclusion of agency funds. The change from FY20 would have been a decrease of $1 million if GASB 84-*Fiduciary Activities*, had been implemented early.
- Utilities decreased $2 million due to limited staff and students on campuses as a result of COVID-19.
- Payment to suppliers decreased $7 million as the result of higher expenditures in FY2020 for the purchases of COVID testing, sanitation supplies, modifications to work spaces to comply with social distancing and personal protection equipment.
- Purchased services decreased $11 million as the result of COVID-19 including construction development and engineering delays, and concern regarding impacts of the pandemic to the University's budgets and funding.
- Depreciation decreased $3 million as the result of retirements of machinery and equipment.

Non-operating revenues (net of expenses) increased $101 million due to the following:

- The state operating appropriation for FY2021 increased $15 million.
- Pell Grants awarded to students decreased $3 million as the result of fewer eligible students and decreased enrollment.
- Interest on capital assets-related debt decreased $3 million as principal decreased due to payment of debt and refunding of debt.
- Gifts and contributions increased $4 million based on the rebounding of the impact of COVID-19 in FY2020.
- Investment income, net of expense increased $53 million from $65 million to $118 million. This increase was primarily due to an increase in investment income on the land grant permanent endowment.
- $43 million in COVID relief funding was awarded to the university, an increase of $24 million from FY2020. GASB guidance requires the funds to be recognized as non-operating.
- Other non-operating revenue increased $5 million from various departments.

Capital additions decreased $4 million as the result of the following:

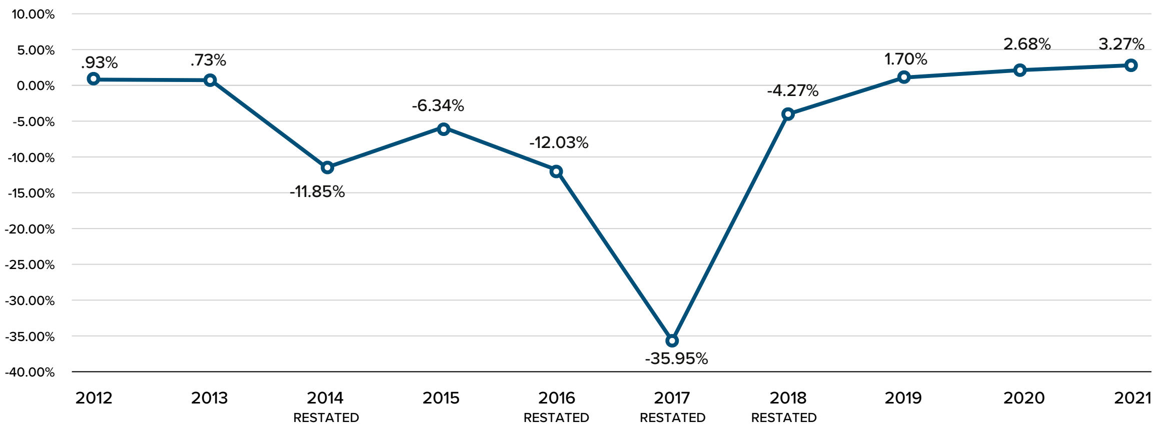
- State Capital Appropriation was $47 million in FY2021, a decrease of $5 million from the previous year. Projects include Global Animal Health Building Phase II, Tri-Cities Academic Building, and the Plant Sciences Building.
- Additions to permanent endowments increased $1 million as the result of increased contributions.

Net position, restated for FY20, increased $49 million;

- As the results of implementing GASB Statement No 84 *Fiduciary Activities*, net position was decreased by $1 million.
- The University's relationship with the Students Book Corporation was reevaluated and determined to be a blended component unit which resulted in the addition of $17 million in net position.
- Prior year accounting adjustments resulted in a $33 million increase. This was the result of a change in accounting for revenue from cash to accrual.

Financial Health and Flexibility

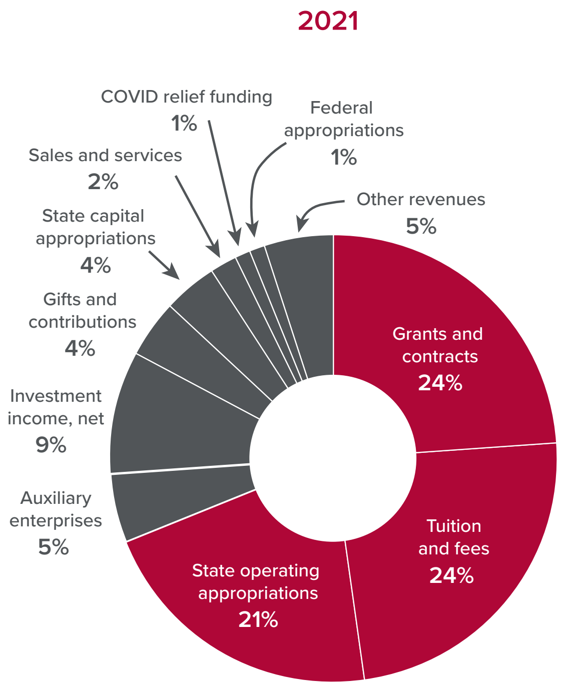
The annual operating margin compares the operating surplus (or deficit) to operating revenues. Moody's definition of operating revenues includes several non-operating revenues in determining margin and an estimated spending rate of the University's investments rather than actual investment income. This ratio indicates the extent to which the University is balancing revenues with expenses and growing its resource base.

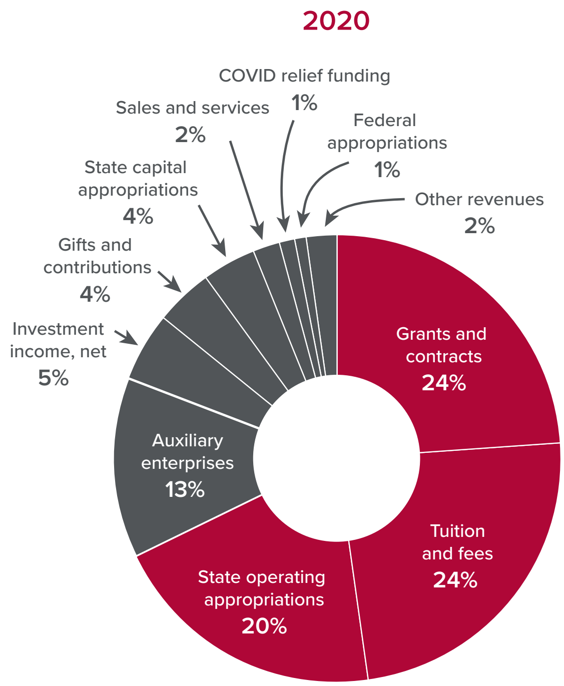


In fiscal years 2014 - 2017 onwards, numerous changes in accounting principles impacted this ratio and others. In fiscal year 2015, GASB 68 *(Pensions)* was implemented which required a restatement of the fiscal year 2014 Statement of Net Position to record the University's share of the State's net pension obligation resulting in operating expenses increasing by $85 million. In fiscal year 2016, additional pension expense of $14 million increased operating expenses. In fiscal year 2016, GASB 73 was implemented, which required a restatement of pension expense of $48 million. In fiscal years 2017 and 2018, GASB 75 (OPEB) resulted in a restatement of $337 million for fiscal year 2017 and an additional benefit expense of $25 million in fiscal year 2018. Fiscal years 2018 – 2021 experienced considerable improvement, increasing from -4.27% to 5.55%, respectively, the best performance in the ten year period.

Revenue from all Sources

For the Years Ended June 30, 2021, and 2020



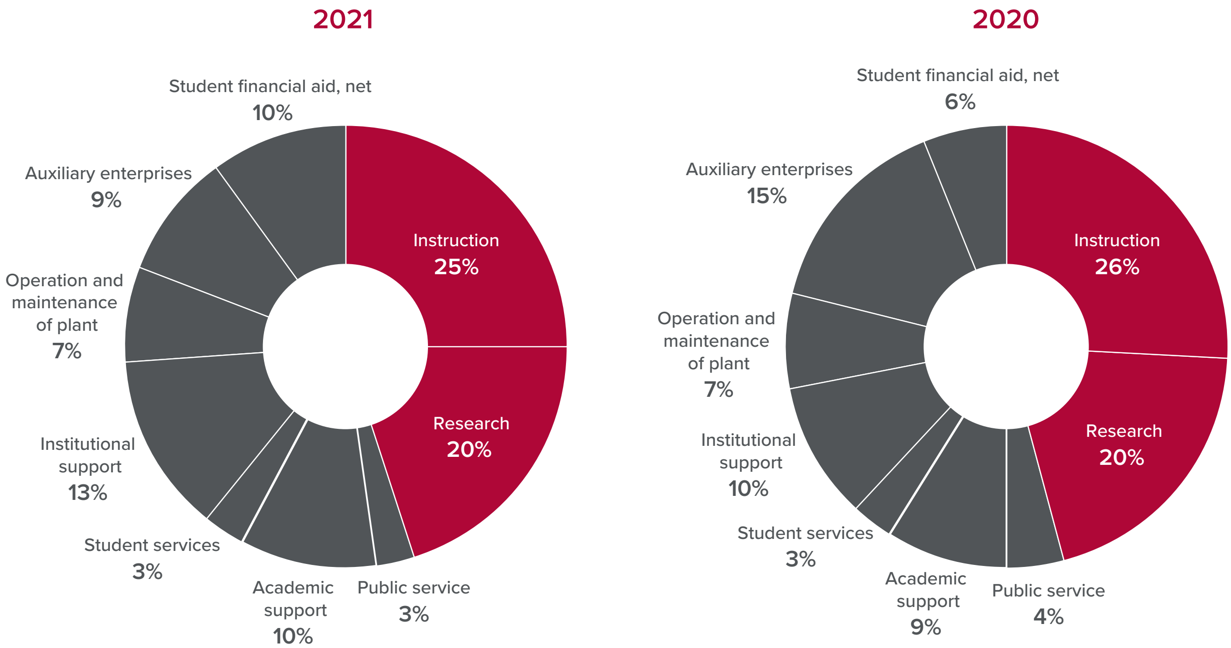


As the above graphs show, the University has a diversified revenue base. No single source of revenue generated more than a quarter of the total fiscal year revenues for fiscal years 2020 and 2021. In fiscal year 2021, tuition and fees total $314 million to account for a significant percentage of 24%. Grants and contracts also generated a significant percent of total revenue, accounting for $323 million or 23% of total all revenue. These funds support the University's research activities, which allow students to work with nationally recognized faculty as part of their educational experience. These are followed by State appropriations at 20%. Investment income, net of expenses increased from 5% to 9% while Auxiliaries decreased from 13% to 5% of the total which is due to COVID-related sales decreases. Gifts and contributions totaled 5%, state capital appropriations totaled 4%, consistent with previous years. Other revenues saw an increase from 2% to 5%.

Operating Expenditures by Functional Classification

For the Years Ended June 30, 2021, and 2020

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



FY2021 saw a shift in percentages of expenditures between University functions. As in the previous fiscal year, the majority of costs were for instruction which comprises 25% of expenditures in FY2021 and 26% in FY2020. Institutional support showed an increase of 3% as the result of increased expenditures for COVID. As anticipated, auxiliary enterprises showed a marked decline due to COVID and reduction in services while financial aid increased to students from 6% to 10% of expenditures.

Capital Assets and Long-Term Liabilities

Capital Assets

In fiscal year 2021, key projects substantially completed and placed in service totaled $196 million and included Global Animal Health Phase II, Plant Science Building, the Tri-Cities Academic Building and infrastructure for the modernization project. Other improvements, machinery and equipment and library resources increased $17 million, net of retirements. Construction in progress decreased by $127 million due to key projects becoming substantially complete and few new capital projects being started. These increases were offset by the total increase in accumulated depreciation of $94 million, net of retirements resulting in a net decrease of $8 million.

See note 8 for more information.

	June 30, 2021	June 30, 2020
Land	$ 33	$ 33
Buildings, net	1,382	1,275
Construction in progress	10	137
Equipment, net	40	43
Library, net	62	62
Other improvements and infrastructure, net	170	155
Total capital assets, net	**$ 1,697**	**$ 1,705**

Long Term-Liabilities

In fiscal year 2021, the long term liabilities of the University totaled $1 billion, a decrease of $75 million. Decreases were due to pension liabilities and lease obligations. Pension and other post-employment benefits continue to fluctuate year after year to accommodate changes in actuarial assumptions and the discount rates. General obligation bonds, capital leases and note payable decreased due to payments on principal. These decreases were partially offset by increases in bonds payable of $21 million due to newly issued debt and refinancing, and an increase in asset retirement obligations.

See note 14 for more information.

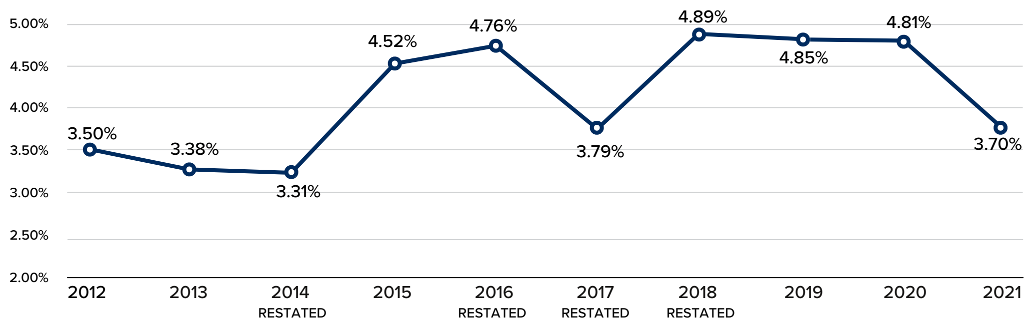
The table below summarizes outstanding liabilities:

	June 30, 2021	June 30, 2020
Revenue and refundings bonds payable	$ 629	$ 608
Note payable	3	4
State of Washington general obligation bonds	10	13
Capital leases	8	10
Pension obligation liability	78	172
Other post-employment benefits	301	298
Asset retirement obligation	18	17
Total long-term liabilities	**$ 1,047**	**$ 1,122**

Debt Ratios

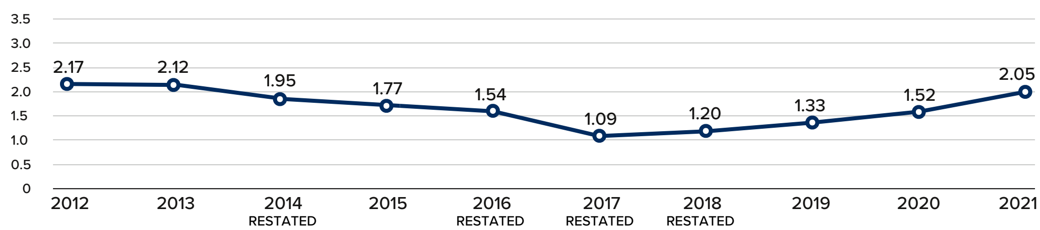
The debt service to operating expense ratio provides an indicator of the University's ability to repay annual principal and interest relative to its overall operating expenses. A lower percentage indicates the greater ability to repay debt service. In fiscal year 2016, the University issued general revenue bonds that increased the amount of principal and interest payments in fiscal year 2017, however, the OPEB restatement increased operating expenses by of $337 million in that same year. As a result the ratio improved to 3.79 % for fiscal year 2017. For fiscal year 2018, total debt service levels remained relatively flat, and operating expenses declined versus fiscal year 2017, resulting in a ratio of 4.89%. During fiscal years 2019 and 2020, additional debt was issued while continuing to refund and pay down bonds. These slight offsets decreased the ratio to 4.85% and 4.81% respectively. In FY2021, the ratio showed a more marked decreased to 3.70%.

Debt Service to Expenses



The financial reserves ratio (as defined by Moody's) measures coverage of debt by financial reserves or funds a university can access in the intermediate term. Beginning in fiscal year 2018, the ratio showed an increases year over year as the result of the University's strong recovery plan. The trend continued into fiscal year 2021 with an increase to 2.05.

Financial Resources to Direct Debt



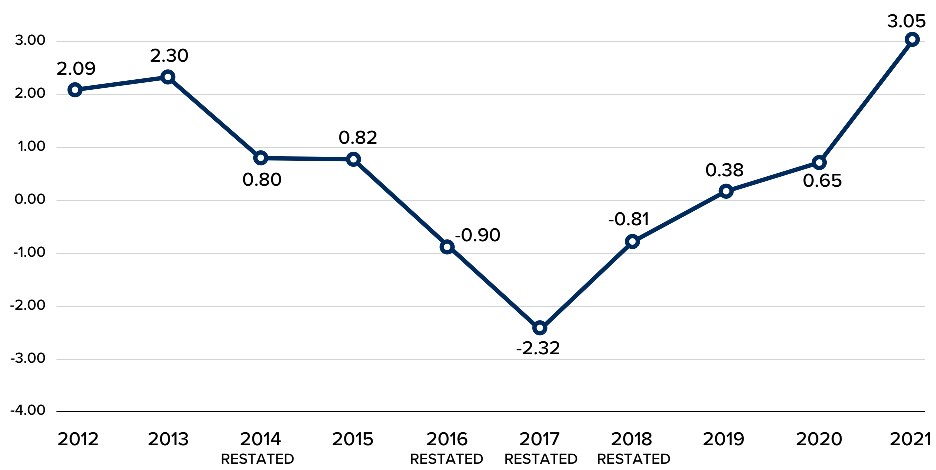
Financial Health and Flexibility

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

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

The graph below shows Washington State University's Composite Financial Index over the past ten years. The ratio was climbing until the global economic downturn reduced operating budgets and investment returns. The University put proactive measures in place to generate greater diversity of revenues and combined that with strategic spending increases. The rate dropped in fiscal year 2014 as a result of recognizing WSU's share of the State's pension liability (GASB 68), decreasing in fiscal year 2016 due to a spending down of reserves and the restatement of the supplemental retirement plan (GASB 73). In fiscal year 2017, we saw a dramatic decrease due to the OPEB restatement (GASB 75) with a slight recovery in fiscal year 2018 to a level just higher than fiscal year 2016. Through its university-wide efforts to improve fiscal health, the receipt of COVID related funds and strong investment and endowment performance, fiscal year 2021 saw a marked improvement.

Composite Financial Index



Economic Outlook

The Washington State Economic and Revenue Forecast Council's November 2021 estimate of state general fund revenues indicated an increase of $1.06 billion for the current 2021-23 biennium and $993 million in the 2023-25 biennium. The increased forecast is attributed to unexpected strength in the economy, and specifically excise tax revenue generated by real estate sales. Despite these positive revenue trends, threats to economic recovery continue to be monitored. These include the possibility of increased COVID-19 virus spread in the winter months, consumer price inflation, and continued interruptions in the global supply chain.

State Agency biennial budget requests for 2021-23 were required to include a 15% appropriation reduction, however, due to an improved state economy, those cuts were not imposed and WSU's appropriations going into fiscal year 2022 were not reduced. The Governor's Office of Financial Management released 2022 supplemental budget instructions in June 2021. Unlike the previous budget request, agencies were not asked to identify budget savings. WSU's highest priority request is $9.3 million for retention and compensation, which if funded will be implemented in fiscal year 2023. The Washington legislature is expected to pass a supplemental budget bill by March 2022.

Other non-state appropriated operating revenues continue to be impacted by lower enrollment. Undergraduate and graduate tuition rates were increased 2.5% for the 2021-22 academic year, but two consecutive years of enrollment declines are expected to offset any increase in net tuition revenue associated with the rate increase. Most other student fees were held flat for the 2021-22 academic year. Federal and non-federal sponsored research continues to experience steady growth, including growth attributable to COVID-19 federal relief funding for direct student aid and institutional support. Auxiliary units hit hardest by the pandemic are showing recovery due to the return to in person instruction in fall of 2021.

The University has addressed the economic challenges by reduction of unit operating budgets for the second consecutive year, proactive expense management, and debt restructuring. These actions combined with utilization of institutional federal relief funding should result in positive impacts to University reserves for fiscal year 2022.

Washington State University

Statement of Net Position as of June 30, 2021

Assets	2021 As restated
Current assets	
Cash and cash equivalents *(Note 2)*	$ 157,051,372
Prepaid expenses	3,978,248
Inventories *(Note 5)*	18,576,100
Accounts receivable, net *(Note 6)*	137,010,786
Investments, current portion *(Note 3)*	71,359,109
Subtotal current assets	**387,975,615**
Non-current assets	
Long-term investments *(Note 3)*	212,737,190
Endowment investment *(Note 3)*	720,372,817
Deposits in escrow	1,388,413
Loans receivable, net *(Note 7)*	16,392,853
Capital assets, net of accumulated depreciation *(Note 8)*	1,696,968,840
Pension assets, net	2,179,543
Subtotal non-current assets	2,650,039,656
Total assets	**3,038,015,271**
Deferred outflows of resources	96,504,463
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities *(Note 9)*	63,715,970
Due to Washington State University Foundation	8,301,124
Deposits	5,446,534
Unearned revenue, current portion *(Note 10)*	12,160,664
Long-term liabilities, current portion *(Note 15)*	28,405,533
Pollution remediation obligation	112,448
Subtotal current liabilities	**118,142,273**
Non-current liabilities	
Accrued leave *(Note 9)*	36,047,283
Unearned revenue *(Note 10)*	2,940,278
Long-term liabilities *(Note 15)*	622,157,577
Asset retirement obligation *(Note 13)*	18,347,874
Pension liability *(Note 16)*	78,395,896
Other post-employment benefits liability *(Note 17)*	300,758,796
Subtotal non-current liabilities	1,058,647,704
Total liabilities	**1,176,789,977**
Deferred inflows of resources *(Note 10)*	198,963,660
Net position	
Net investment in capital assets	1,095,711,379
Restricted nonexpendable	659,431,807
Restricted loans	32,750,201
Restricted expendable	231,064,514
Unrestricted	(260,191,804)
Total net position	**$ 1,758,766,097**

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

Washington State University Foundation (A Nonprofit Corporation)

Consolidated Statement of Financial Position
June 30, 2021

Assets	2021
Cash and cash equivalents	$ 211,433
Due from Washington State University	8,561,010
Bequests and other receivables	1,798,121
Pledges receivable, net	37,950,835
Endowment investment securities	588,014,605
Notes receivable, net	423,685
Notes receivable from joint venture	1,450,000
Furniture, fixtures, and equipment (net of accumulated depreciation of $1,592,412 and $1,586,414, respectively)	5,165
Land and real estate	530,000
Assets held in charitable trusts	30,411,741
Contributions receivable from charitable trusts	6,121,454
Beneficial interest in perpetual trusts	41,854,963
Total assets	717,333,012
Liabilities	
Accounts payable and accrued liabilities	1,607,760
Annuities payable	13,406,176
Remainder interest payable	1,652,356
Notes payable to joint venture	1,500,000
Total liabilities	18,166,292
Net assets	
Without donor restrictions	8,173,568
With donor restrictions	690,993,152
Total net assets	699,166,720
Total liabilities and net assets	**$ 717,333,012**

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

Washington State University

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended June 30, 2021

	2021 As restated
Revenues	
Operating revenues	
Tuition and fee revenue, net	$ 314,051,839
Federal grants and contracts	158,254,610
State grants and contracts	113,516,241
Local grants and contracts	18,099,242
Sales and services of educational departments	28,612,031
Auxiliary enterprises	68,983,886
Other operating revenues	55.107.588
Total operating revenues	756,625,437
Expense	
Operating expenses	
Salaries and wages	540,541,810
Benefits	125,811,842
Scholarships and fellowships	107,251,687
Utilities	25,091,831
Payments to suppliers	155,111,261
Purchased services	83,008,925
Depreciation	95,089,251
Total operating expenses	1,131,906,607
Net operating loss	**(375,281,170)**
Non-operating revenues (expenses)	
State appropriations	275,715,238
Federal appropriations	10,122,271
Federal Pell Grants	33,476,924
Interest on capital assets—related debt	(25,976,340)
Federal bond interest subsidy	849,959
Gifts and contributions	43,875,066
Investment income, net of expense	118,440,689
COVID relief grant funding	43,344,297
Other non-operating revenues (expenses)	10,805,157
Total non-operating revenues (expenses)	510,653,261
Income before capital additions and additions to permanent endowment	**135,372,091**
Capital additions (deductions)	
Capital appropriations	46,607,005
Capital grants and gifts	1,642,504
Additions to permanent endowments	9,613,751
Total capital additions	57,863,260
Increase (decrease) in net position	**193,235,351**
Net position	
Net position, beginning of year	1,516,782,218
Change in accounting principle for the Students Book Corporation	17,402,110
Change in accounting principle as a result of GASB 84	(1,342,627)
Prior period accounting adjustments	32,689,045
Net position, beginning of year, restated	1,565,530,746
Increase (decrease) in net position	193,235,351
Net position, end of year	**$ 1,758,766,097**

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

Washington State University Foundation (A Nonprofit Corporation)

Consolidated Statement of Activities
Year Ended June 30, 2021

	2021		
Revenue and support	**Without donor restrictions**	**With donor restrictions**	**Total**
Contributions of cash and other financial assets	$ 3,026,202	$ 69,197,121	$ 72,223,323
Contributions of nonfinancial assets	—	1,204,696	1,204,696
Investment return, net of expenses	(32,624)	159,188,784	159,156,16
Management and advancement fees	7,907,345	—	7,907,345
Change in value of split-interest agreements	—	(6,541,348)	(6,541,348)
Support provided by Washington State University	4,947,904	—	4,947,904
Other income	313,319	1,491,888	1,805,207
Total revenue and support	16,162,146	224,541,141	240,703,287
Net assets released from restrictions	67,658,596	(67,658,596)	—
Expenses			
Support provided to/for Washington State University			
Restricted distributions	41,927,107	—	41,927,107
Endowment income distributions	18,757,110	—	18,757,110
Endowment administration fees	6,981,133	—	6,981,133
Fundraising	7,578,418	—	7,578,418
General and administrative expenses	7,680,827	—	7,680,827
Total expenses	82,924,595	—	82,924,595
Change in net assets	896,147	156,882,545	157,778,692
Net assets—beginning of year	7,277,421	534,110,607	541,388,028
Net assets—end of year	**$ 8,173,568**	**$ 690,993,152**	**$ 699,166,720**

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

Washington State University

Statement of Cash Flows for the Year Ended June 30, 2021

Cash flows from operating activities	2021
Tuition and fees	$ 329,167,545
Grants and contracts	259,663,457
Payments to suppliers	(152,412,515)
Payments for utilities	(25,091,831)
Purchased services	(83,008,925)
Payments to employees	(541,407,220)
Payments for benefits	(182,649,223)
Payments for scholarships and fellowships	(107,251,687)
Loans issued to students	(977,842)
Collection of loans to students	2,631,349
Auxiliary enterprise receipts	72,461,453
Sales and service of educational departments	28,612,031
Other receipts	55,055,305
Net cash used by operating activities	**(345,208,103)**
Cash flows from noncapital financing activities	
State appropriations	248,214,148
Federal appropriations	10,122,272
Gifts for other than capital purposes	
Private gifts	43,875,066
Additions to permanent endowment	9,613,751
Proceeds of non-capital debt	46,755,000
Change in deposits	(1,126,192)
Federal direct loan receipts	156,222,946
Federal direct loan disbursements	(157,428,546)
Federal Pell Grants	33,476,924
Federal HEERF grants	17,080,729
Other nonoperating income	11,917,110
Net cash provided by noncapital financing activities	**418,723,208**
Cash flows from capital and related financing activities	
Proceeds of capital debt	112,333,316
Capital appropriations	46,607,005
Capital grants and gifts received	1,642,504
Purchases of capital assets	(85,601,037)
Principal paid on capital debt and leases	(140,481,902)
Interest paid on capital debt and leases	(25,759,148)
Net cash used by capital and related financing activities	**(91,259,262)**
Cash flows from investing activities	
Proceeds from sales of investments	649,475,379
Purchases of investments	(885,014,711)
Investment income	241,734,234
Net cash provided by investing activities	**6,194,902**
Net increase/(decrease) in cash and cash equivalents	(11,549,255)
Cash—beginning of year, as restated	168,600,627
Cash—end of year	**$ 157,051,372**

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

	2021
Operating loss	$ (375,281,170)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	95,089,251
Changes in assets, liabilities, and deferred inflows and outflows of resources	
Changes in assets and deferred outflows of resources	
Inventories	(989,651)
Prepaid expenses	(131,986)
Accounts receivable, net	(3,723,817)
Pension asset	321,559
Pension and OPEB related deferred outflows of resources	(1,611,817)
Asset retirement obligation deferred outflows	(130,299)
Changes in liabilities and deferred inflows of resources	
Accounts payable and accrued liabilities	(9,509,812)
Unearned revenue	(6,288,322)
Accrued leave	1,642,194
Pollution remediation	(13,278)
Pension liabilities	(93,277,533)
OPEB liability	2,699,876
ARO liability	1,194,171
Pension and OPEB related deferred inflows of resources	44,802,531
Net cash used by operating activities	**$(345,208,103)**

Significant noncash transactions	
Loss on disposal of capital assets	$ 2,147,150
Amortization expense	$ 3,945,140

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

Washington State University Foundation (A Nonprofit Corporation)

Consolidated Statements of Cash Flows
Year Ended June 30, 2021.

Cash flows from operating activities	**2021**
Change in net assets	$ 157,778,692
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	5,998
Impairment on land	—
Net realized and unrealized (gains) loss on investments	(156,128,220)
Decrease in value of split-interest agreements	6,541,348
Contributions and income restricted for investments in endowments and trusts	(26,343,918)
Changes in operating assets and liabilities:	
Due from Washington State University	(893,007)
Bequests and other receivables	2,155,403
Pledges receivable	(6,309,329)
Contribution receivable from charitable trusts	22,495
Accounts payable and accrued liabilities	14,161
Net cash used in operating activities	(23,156,377)
Cash flows from investing activities	
Purchases of investments	(158,054,461)
Sales of investments	159,474,227
Proceeds from sale of land	685,000
Proceeds of principal payments on notes receivable	244,211
Net cash provided by (used in) investing activities	2,348,977
Cash flows from financing activities	
Contributions and income restricted for investments in endowments and trusts	26,343,918
Net cash provided by financing activities	26,343,918
Net decrease in cash and cash equivalents	5,536,518
Cash and cash equivalents—beginning of year	2,354,432
Cash and cash equivalents—end of year	**$ 7,890,950**

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

Notes to the Financial Statements

June 30, 2021
These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

Washington State University (WSU or the University) is an agency of the State of Washington and is part of the public system of higher education. It is included as an integral part of the State's Annual Comprehensive Financial Report. Washington State University issues separate financial statements which encompass the University and its affiliated operations. These financial statements present only the activities of the University and are not intended to and do not present either the financial position or changes in the financial position of the State of Washington.

The accompanying financial statements include individual colleges and departments of the University and its component units. Component units are organizations which are legally separate, related organizations that the University is financially accountable for and meet the criteria for inclusion in the financial statements as defined by Governmental Accounting Standards Board (GASB) Codification section 2100; *Defining the Financial Reporting E*ntity and section 2600; *Reporting Entity and Component Unit Presentation and Disclosure.* Financial accountability is demonstrated when one of several conditions exist, such as when the University appoints a voting majority of the organization's board, is able to impose its will on the organization, receives specific financial benefit or incurs specific financial burden from the organization or the organization is fiscally dependent on the University. Depending on their relationship to the University, component units are reported as either blended with the amount reported by the University, or they may be disclosed in a separate column.

Change in Reporting Entity

The Students Book Corporation (SBC) previously was reported within the agency funds of the University. The relationship of the SBC to WSU was reevaluated and determined to meet the criteria of a blended component unit. Beginning net position was restated in the amount of $17,402,110 to include the Students Book Corporation.

Discretely Presented Component Unit

The WSU Foundation (the Foundation) is a legally separate, tax-exempt entity, and serves contractual asset management functions in support of the University's mission. Due to its significance, this report presents the Foundation's financial condition and activities as a discretely presented separate component unit in the University's financial statements.

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

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

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

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

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

Blended Component Units

Blended component units are legally separate but are so intertwined with WSU that they are in substance, the same as the University. These component units are reported as part of the University and blended into its financial statements.

The Washington State University Alumni Association (WSUAA) is a 501(c)(3) corporation that is presented as a blended component unit of WSU. Condensed financial information can be found in note 19. The WSUAA's full financial statements can be obtained by contacting the Lewis Alumni Centre on the WSU Pullman campus or calling (509) 335-2586.

The Students Book Corporation (SBC) is a legally separate entity, owned by the students of Washington State University which operates bookstores on each of the WSU's campuses. This report presents SBC's financial condition and activities as a blended component unit in the University's financial statements. Condensed financial information can be found in note 19. The Students Book Corporation issues separate financial statements which may be obtained by contacting the Business Services/Controller's Office at 220 French Administration Bldg., P. O. Box 641025, Pullman, WA 99164-1025 or calling (509) 335-2022.

Basis of Presentation

The financial statements of the University have been prepared in accordance with the standards set by the Governmental Accounting Standards Board (GASB), which constitute Generally Accepted Accounting Principles (GAAP) for governmental entities. The University is considered a special purpose government engaged in business type activities. Accordingly, the University presents, statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net position, revenues, expenses, deferred outflows, deferred inflows, changes in net position, and cash flows.

Basis of Accounting

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

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.

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

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

Change in Accounting Estimate

On July 1, 2020, the state of Washington established a trust for contributions paid by the University for the benefit of the Washington State University Supplemental Retirement Plan (WSUSRP) in accordance with Revised Code of Washington (RCW) 41.50.075. As a result, the guidance governing the accounting for the WSUSRP has changed from GASB codification section P22 "Pension Activities – Reporting for Benefits Not Provided through a Trust That Meet Specific Criteria" to GASB codification section P20 "Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specific Criteria." This event gives rise to a change in the University's estimates of future obligations, deferrals, and pension expense related to the WSUSRP. In addition, the University will now report the plan's net pension liability (total pension liability less the plan's fiduciary net position), related deferrals, and pension expense in accordance with GASB codification section P20. Prior to this change in estimate, the University reported the plan's total pension liability. This resulted in the recognition of $12 million in contributions on the fiscal year 2021 Statement of Revenues, Expenses, and Changes in Net Position that were previously recognized as expense during the prior year. More information can be found in note 16.

New Accounting Standards

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The GASB extended the effective date for the statement for fiscal years beginning after December 15, 2019. As a result, the University evaluated its fiduciary and agency funds to be in compliance with the new standard. This resulted in the inclusion of funds formerly excluded from the financial statements. The University restated beginning net position, June 30, 2020, by a decrease of $1,342,628 as a result of implementation.

GASB issued Statement No. 87, *Lease Accounting* effective for reporting periods beginning after June 15, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement will recognize a lease receivable and a deferred inflow of resources thereby enhancing the relevance and consistency of information about governments leasing activities. The University is evaluating for the fiscal year 2022 financial report.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* which will be effective for the fiscal year ending June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs) defined as agreements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The University is currently assessing the impact of implementation of this Statement on its financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which will be effective for the fiscal year ending June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement defines an SBITA, establishes that an SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of an SBITA), and requires note disclosures regarding an SBITA. The University has begun initial work to identify contracts and agreements that are within the scope of this Statement and the impact of implementation to the financial statements.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, an Amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. Some requirements of this statement related to defined contribution post-employment benefit plans and fiduciary defined benefit post-employment benefit plans are effective immediately. Management has concluded that these requirements have no material impact on the University. The remaining requirements are effective for the fiscal year ending June 30, 2022. This statement provides guidance intended to increase consistency and comparability related to reporting of fiduciary component units in situations where a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform. The Statement also intends to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements. Lastly, the Statement seeks to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan, and for the benefits provided through those plans. While the University continues to assess the impact of implementation of this Statement, it does not currently expect implementation to have a material impact to the financial statements.

Uses of Estimates

The preparation of the financial statements in conformity with U.S. Generally Accepted Accounting Principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and deferred outflows/inflows, 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.

WSU estimates the asset retirement obligation liability (see note 13) by reviewing the current status of known assets and developing estimates for retirement costs. These estimates are subject to change due to improvements in technology and inflation.

Allowances (see notes 6 and 7) are estimates based on the historical experience of the University and current economic circumstances with respect to the collectability of accounts and loans receivable.

The University's share of pension and other post employment benefits plan assets, liabilities, deferrals and expenses are based on actuarial valuation prepared by an external actuary. The results of an actuarial valuation are estimates based on historical data, actuarial assumptions and the demographics of the employee and retiree populations.

Cash, Cash Equivalents and Investments

Cash balances in excess of current requirements are pooled and invested in Treasury securities, time deposits, deposits with the Washington State Local Government Investment Pool (LGIP), federal agency bills and notes. Cash equivalents are short term, highly liquid investments convertible to known amounts of cash without change in value or risk of loss. The University considers investments with a maturity of three months or less when purchased to be cash equivalents. Interest income earned on the investment pool is distributed on a quarterly basis based on daily cash balances in various funds. In accordance with GASB *codification section 150: Investments.* Cash, cash equivalents and investments are stated at fair value.

Accounts Receivable

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

Inventories

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

Capital Assets

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

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

In accordance with GASB *codification section 1400: Reporting Capital Assets*, 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, 2021, no assets have been written down.

Deferred Outflows of Resources

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

Unearned Revenues

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

Deferred Inflows of Resources

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

Compensated Absences

The University employees accrue annual leave at rates based on length of service, and for sick leave at the rate of one day per month. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal compensation rate for any balance that exceeds 480 hours, or for any balance upon retirement or death. Annual leave accrued at June 30, 2021 was $40.2 million. Sick leave accrued at June 30, 2021 was $11.4 million. Both are included in accounts payable and accrued liabilities in the University's Statements of Net Position. See note 9.

Cost-Sharing Pension Plans (WSU Retirement Plan)

The net pension asset or liability is measured as the University's proportionate share of the collective total pension liability, less the fiduciary net position, of the cost-sharing pension plans in which the University participates. The total pension liability is determined by discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. The University's proportionate share is determined based on the relationship of University contributions to total contributions to the plan by all participating employers. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over five years. Contributions made to the plan subsequent to the measurement date and prior to the University's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the net pension asset or liability is June 30 of the prior fiscal year.

Single Employer Pension Plan (WSU Supplemental Retirement Plan).

Legislation signed into law on July 1, 2020, amended the RCW applicable to the WSUSRP to define plan provisions including limits on member eligibility, benefit payments, vesting terms and contribution rates. As a result of these amendments, the University is unable to modify the terms of the plan. Administration of the benefit calculations and payments remain the responsibility of the University until the state's Pension Funding Council determines the trust has sufficient assets, at which time the Department of Retirement Systems will assume those duties in accordance with RCW 41.50.280. Other agencies of the state of Washington perform the duties of a board and hold the substantive powers in relation to the WSUSRP. The University does not perform the duties of a board or hold any of the substantive powers that would make the plan a fiduciary component unit of the University. The total pension liability is determined by discounting projected benefit payments for current participants and retirees, based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. The discount rate used for the total pension liability as of June 30, 2021, reflects the expected rate of return on investments, to the extent that plan assets are available to pay retiree benefits. The WSUSRP liability as of June 30, 2021, represents the total pension liability less the plan's fiduciary net position. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for employees eligible for pension benefits. Differences between expected and actual investment returns are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over five years (fiscal year 2021 only). The measurement date for the WSUSRP liability is the same as the Statements of Net Position date.

Other Post Employment Benefits (OPEB).

The total OPEB liability is measured as the University's proportionate share of the state of Washington total OPEB liability, with the proportionate share determined based on the relationship of the University's healthcare-eligible headcount to the total healthcare-eligible headcount for the state. The total OPEB liability is determined by discounting projected benefit subsidies for current employees and retirees based on the discount rate required by GASB Statement No. 75 for OPEB plans that do not have assets residing in a qualified trust. OPEB expense is recognized for subsidies earned during the period, interest on the total OPEB liability and changes in benefit terms. Differences between expected and actual experience, and changes in assumptions about future economic or demographic factors, are reported as deferred inflows of resources or deferred outflows of resources, and are recognized over the average expected remaining service period for healthcare-eligible employees. Contributions made to the plan subsequent to the measurement date and prior to the University's fiscal year-end are reported as a deferred outflow of resources, and recognized in the subsequent fiscal year. The measurement date for the total OPEB liability is June 30 of the prior 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. However, WSU remains subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption from income taxes. No income tax is recorded for the year ended June 30, 2021 because there is not significant income from unrelated business.

Net Position

The University's net position is classified as follows.

- *Net Investment in Capital Assets*. This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. Unspent bond proceeds for capital assets are excluded from the amount.
- *Restricted—nonexpendable*. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principal.
- *Restricted—loans*. The loan funds are established for the explicit purpose of providing student support as prescribed by statute or granting authority.
- *Restricted—expendable*. These include resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by third parties.
- *Unrestricted*. These represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises.

Restricted/Unrestricted Resources

- The University has no formal policy addressing which resources to use when both restricted and unrestricted net positions are available for the same purpose. University personnel decide which resources to use at the time expenses are incurred. Factors used to determine which resources to use include relative priorities of the University in accordance with the University's strategic initiatives and externally imposed matching requirements of certain restricted funds. Major capital purchases are many times split funded from multiple restricted and unrestricted funding sources.

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, pell grants, state appropriations and investment income. The State of Washington appropriates funds on an annual and biennial basis. Appropriations are recognized as revenue when the related expenses are incurred.

Capital Additions. The State of Washington appropriates capital funds on a biennial basis. Appropriations are recognized as revenue when the related expenses are incurred.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the published charge for goods and services provided by the University and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and an allowance. Discounts and allowances for the year ending June 30, 2021 were $159,123,014.

Restatements, Correction of Prior Periods and Changes in Accounting

With the inclusion of the Students Book Corporation as a blended component unit, the adoption of GASB Statement No. 84, and the correction of a prior period revenue recognition error, net position was restated at July 1, 2020. Below is a reconciliation of net position as previously reported at June 30, 2020, to the restated net position.

Net position at June 30, 2020, as previously reported	$ 1,516,782,218
Students Book Corporation, blended component unit	17,402,110
Adoption of GASB 84	(1,342,627)
Prior year adjustment	32,689,045
Net position at June 30, 2020, as restated	**$ 1,565,530,746**

2. Cash, Cash Equivalents

Cash

Cash includes cash on hand, petty cash and bank deposits. Cash equivalents include treasury securities that are readily convertible to known amounts of cash and present insignificant risk of value changes due to interest rate changes. As of June 30, 2021, the carrying amount of these University's cash funds, were $157,051,372 as represented in the table below.

Table 1: Cash and Cash Equivalents

	2021
Cash	$ 103,943,880
Cash equivalents	53,084,887
Deposits with fiscal agents	22,605
Cash and cash equivalents	**$ 157,051,372**

Custodial Credit Risks—Deposits

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

3. Investments

(A) University Investments

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

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

University invested assets include operating funds, current use gift funds, and proceeds from bond issues dedicated to specific capital projects. As of June 30, 2021, the University had the following investments, maturities, credit ratings and effective durations:

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

	2021						
University investments	**Fair value**	**Less than 1 year**	**1–5 years**	**6–10 years**	**More than 10 years**	**Effective duration**	**Credit rating**
Cash equivalents							
Commercial paper	$ 28,624,877	$ 28,624,877				0.27	A1/P1
Discount notes	-	-					
Other—Bank short term investment funds*	15,264	15,264				0.10	NR
Local Government Investment Pool*	24,444,746	24,444,746				0.10	NR
Total cash equivalents	**53,084,887**						
Current investments							
U.S. Treasury	40,124,340	40,124,340				0.24	AAA
Agency bonds	30,029,900	30,029,900				0.14	AAA
Mortgage-backed securities	1,204,869	1,204,869				0.61	AAA
Total current investments	**71,359,109**						
Non-current, long-term Investments							
U.S. Treasury	63,556,210		$ 63,556,210			1.38	AAA
Agency bonds	59,347,567		59,347,567			2.37	AAA
Mortgage-backed securities	79,440,181		3,225,234	$ 27,213,068	$ 49,001,879	1.31	AAA
Fixed income mutual funds	10,047,042		10,047,042			1.47	N/A
Subtotal non-current operating fund investments	**212,391,000**						
Non-marketable equity/patronage	346,190						
Total non-current, long-term investments	212,737,190						
Total university investments	**$ 337,181,186**						

**Valued at amortized costs as per GASB 79*

Investments in Local Government Investment Pool (LGIP)

The University is a participant in the Local Government Investment Pool that was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statue that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB Codification code section In5: Investment Pools (External) for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Interest Rate Risk—Investments

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

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

Concentration of Credit Risk—Investments

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

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2021, $302,327,944 of the University's operating fund investments, held by Wells Fargo in the bank's name as agent for the University, and $523,898 of endowment assets, held in street name by E*trade for the account of the University, are exposed to custodial credit risk as follows:

Table 2: Investments exposed to custodial credit risk

University investment type	Fair value 2021
Commercial paper	$ 28,624,877
U.S. Treasury	103,680,550
Agency securities	89,377,467
Mortgage-backed securities	80,645,050
Subtotal	302,327,944
Marketable global equities	523,898
Total investments exposed to custodial credit risk	**$ 302,851,842**

Investment Expenses

Under implementation of GASB 35, investment income for the University is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2021, was $739,113.

(B) University Investments Measured By Fair Value Level

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

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

Table 3: Investments by fair value hierarchy

Investments by fair value level	2021	Level 1	Level 2	Level 3
Fixed income				
U.S. Treasury	$ 103,680,550	$ 103,680,550	-	-
Agency bonds	89,377,467	-	$ 89,377,467	-
Mortgage-backed securities	80,645,050	-	80,645,050	-
Fixed income mutual funds	10,047,042	10,047,042	-	-
Commercial paper	28,624,877	-	28,624,877	-
Total fixed income investments	**312,374,986**	**113,727,591**	**198,647,394**	**-**
Equity				
Non-marketable equities	346,190	-	-	$ 346,190
Total equity investments	**346,190**	**-**	**-**	**346,190**
Total fair value by level investments	**312,721,176**			
Cash equivalents at amortized cost	24,460,010			
Total investments	**$ 337,181,186**			

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

(C) Land Grant and Permanent Fund

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

Table 4: Permanent fund

University permanent fund investments	Fair value 2021	Effective duration	Credit rating
Cash and cash equivalents	$ 2,120,998		
Commingled monthly bond fund	373,319,548	6.48	Aa3
Commingled monthly equity fund	267,489,378		
Cash at state treasurer	641,838		
Pending transactions, receivables and payables	(641,838)		
Total permanent fund investments	**$ 642,929,924**		

(D) University Endowments

Total University endowed investments consist of University-held endowments valued at $77,442,893 as of June 30, 2021, (as detailed below the in table 5), and permanent fund endowment of $642,929,924 (as detailed above in table 4). The total of $720,372,817 as of June 30, 2021, is found on the Statement of Net Position.

As of June 30, 2021, the University had the following endowment investments, maturities, credit ratings and effective durations:

Table 5: University endowments by classification

		2021 Maturity					
University endowments	**Fair value**	**Less than 1 year**	**1–5 years**	**6–10 years**	**More than 10 years**	**Effective duration**	**Credit rating**
Fixed income mutual funds	$ 2,856,047			$2,856,047		5.46	A
Marketable global equities	9,934,532						
Marketable liquid real assets	3,725,794						
Non-marketable equities	11,602,481						
Equity funds	10,395,915						
Fixed income funds	4,184,290			4,184,290		4.31	AA-
Hedge funds	11,360,224						
Illiquid real assets	7,070,167						
Private equity funds	15,331,824						
Cash equivalents at amortized cost	981,619						
Total endowment investments	**$ 77,442,893**						

Foreign Currency Risk—Investments

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Washington State University Foundation (Foundation) invests the University's endowed assets. As such the Foundation's investment policy controls foreign currency exposure by limiting foreign equity and fixed income investments to 24%-36% of the total endowment with a current target of 21%. University endowment exposure to foreign currency risk at June 30, 2021, is described in the table below.

Table 6: University foreign currency risk

Foreign currency	**Fair value 2021**
Japan—Yen	$ 2,951,535
Euro	2,533,199
UK—Pound	1,674,852
China—Yuan	1,555,373
Switzerland—Francs	899,676
S. Korea—Won	883,617
Other (less than 5%)	5,289,348
Total foreign currency	**$ 15,787,600**

Consolidated Endowment Investment Pool

The University contracts with the Foundation for the management of the consolidated endowment investment pool. University and Foundation endowment assets are pooled and invested with the objectives of long-term capital appreciation and stable but growing income stream. The total amount of the consolidated endowment pool is $665,457,498. See note 4(A) for information on the Foundations endowment investment securities. In the past the Foundation has held certain endowments in trust for the University. In 2017, the Foundation removed those endowments from the face of their financial report due to a change in the memorandum of understanding between the parties. The University is now reporting these endowments as part of their consolidated endowments. The fair values of the University's equity in the consolidated endowment pool at June 30, 2021, was $77,442,893. See table below:

Table 7: Consolidated endowment pool

	2021	
University endowments	$ 77,442,893	11.64%
Foundation endowments	588,014,605	88.36%
Total pooled endowments	**$ 665,457,498**	**100.00%**

Net appreciation (depreciation) in the fair value of investments includes both realized and unrealized gains and losses on investments. At June 30, 2021, net appreciation of the University's portion of the consolidated endowment pool of $59,568,414 was available to be spent. All of which is restricted to specific purposes and is included in restricted expendable net position.

(E) University Endowments Measured By Fair Value Level

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

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

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

Table 8: Investments by fair value hierarchy

Investments by fair value level	2021	Level 1	Level 2	Level 3
Fixed income				
Fixed income mutual funds	$ 2,856,047	$ 2,856,047	-	-
Total fixed income investments	**2,856,047**	**2,856,047**	**-**	
Equity				
Marketable global equities	9,934,532	9,934,532	-	-
Marketable liquid real assets	3,725,794	3,725,794	-	-
Non-marketable equities	11,602,481	-	$ 11,602,481	-
Total equity investments	**25,262,807**	**13,660,326**	**11,602,481**	**-**
Total fair value by level investments	**28,118,854**			
Investments by NAV				
Equity funds	10,395,915			
Fixed income funds	4,184,290			
Hedge funds	11,360,224			
Illiquid real assets	7,070,167			
Private equity funds	15,331,824			
Total NAV investments	**48,342,420**			
Total investments at fair value	76,461,274			
Cash equivalents at amortized cost	981,619			
Total investments	**$ 77,442,893**			

Fixed income and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Equity securities classified in Level 2 are valued using observable inputs including quoted prices for similar securities and interest rates.

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

The valuation method for investments measured using the NAV for June 30, 2021, is presented below.

Table 9: Investments measured using NAV

2021	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity funds	$ 10,395,915		Daily to semimonthly	5–30 days
Fixed income funds	4,184,290		Monthly	30 days
Hedge funds	11,360,224		Monthly to biennially	30–90 days
Illiquid real assets and private equities funds	22,401,991	$ 8,901,568	Years: 2020–2034	End of agreement
Total NAV investments	**$ 48,342,420**	**$ 8,901,568**		

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

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

Washington State University Foundation

4. Washington State University Foundation Endowments

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

WSU Foundation
PO Box 641925
Pullman, WA 99164-1925

Endowment Investment Securities

The Foundation's endowment consists of approximately 2,547 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 88.36% of that total at June 30, 2021. The remainder of the pool comprises the University's true endowments and the University's funds functioning as endowments (quasi-endowments) which are not recorded in the Foundation's financial statements. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including quasi-funds that function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There are no board designated endowments.

Interpretation of Relevant Law

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

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

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

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

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that either the donor or WA-UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are classified in net assets with donor restrictions. Deficiencies of this nature totaled $482 at June 30, 2021, and are included in the accumulated investment gains (loss) in the tables below.

This deficiency 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, 2021.

	Year ended June 30, 2021			
	Without donor restrictions	**With donor restrictions**		
		Original gift	**Accumulated gains/(losses)**	**Total**
Donor-restricted funds:				
Underwater funds	—	$ 65,343	$ (482)	$ 64,861
Other funds	—	456,051,662	**131,898,082**	587,949,744
Total endowment funds	**—**	**$ 456,117,005**	**$ 131,897,600**	**$ 588,014,605**

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

Endowment Net Asset Composition, by Type of Fund

	Year ended June 30, 2021		
	Without donor restrictions	**With donor restrictions**	**Total**
Donor-restricted endowment funds:			
Original donor-restricted gift amount	—	$ 456,117,005	$ 456,117,005
Accumulated investment gains	—	131,897,600	131,897,600
Total	**—**	**$ 588,014,605**	**$ 588,014,605**

Changes in Endowment Net Assets

	Year ended June 30, 2021		
	Without donor restrictions	**With donor restrictions**	**Total**
Net asset balance—beginning of year	—	$ 443,705,385	$ 443,705,385
Investment return	—	144,641,975	144,641,975
Contributions	—	25,405,488	25,405,488
Distribution of endowment assets to/for WSU	—	(25,738,243)	(25,738,243)
Total	**—**	**$ 588,014,605**	**$ 588,014,605**

Endowments Managed at Fair Value

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

	Year ended June 30, 2021
Jointly managed endowment funds:	
Cash and short-term investments	$ 8,733,218
Accrued interest and dividends	786,238
Managed investments	655,938,042
Endowment investments at fair value	665,457,498
Less University endowment funds	(77,442,893)
Managed endowment funds recorded by the Foundation	**$ 588,014,605**

Endowments Managed at Cost

	Year ended June 30, 2021
Investments at cost	$ 404,935,877
Less University endowment funds, at cost	(47,200,934)
Managed endowment funds recorded by the Foundation, at cost	**$ 357,734,943**

Fair Value Measurements

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

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

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

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

Investments are stated at fair value according to U.S. GAAP (note 4A), which requires that the valuation of investments reported at fair value be made in the context of market conditions as of the valuation date. Whenever available, quotations from organized securities exchanges are used as the basis for fair value. For investments not traded on organized exchanges, fair value estimates are provided by investment managers. For applicable investments, manager-reported net asset value (NAV) is used as a practical expedient to estimate fair value. Valuations provided by fund managers consider variables such as the financial performance and sales of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price. The Foundation reviews valuations and assumptions provided by fund managers for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of the fair value. Investments are stated at fair value, which is determined by using market quotations and other information available at the valuation date.

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

The following table discloses by level, within the fair value hierarchy, investment assets measured at fair value on a recurring basis as of June 30, 2021:

	Level 1	Level 2	Level 3	Total
Endowment investments:				
Cash and equivalents	$ 8,535,307			$ 8,535,307
Marketable equities:				
Equities	75,274,430			75,274,430
Fixed income mutual funds	35,195,828			35,195,828
Liquid real assets	28,237,718			28,237,718
Total marketable equities	**138,707,976**	**—**	**—**	**138,707,976**
Nonmarketable equities		**$ 87,934,970**		**87,934,970**
Investments measured at NAV:				
Equity funds				78,790,432
Fixed income funds				18,162,748
Hedge funds				86,098,913
Illiquid real assets				53,584,656
Private equities funds				116,199,603
Total investments measured at NAV				**352,836,352**
Total endowment investments				**588,014,605**
Assets in charitable trusts:				
Cash and equivalents	934,440			934,440
Marketable equities:				
Equities	15,523,975			15,523,975
Fixed income mutual funds	9,427,122			9,427,122
Liquid real assets	4,526,204			4,526,204
Total marketable equities	**29,477,301**	**—**	**—**	**29,477,301**
Total assets in charitable trusts	**$ 30,411,741**	**—**	**—**	**$ 30,411,741**
Other:				
Beneficial interest in perpetual trusts			$ 41,854,963	$ 41,854,963

The following table presents the change in fair value measurements for the Level 3 investments during the year ended June 30, 2021:

	Beneficial interest in perpetual trusts
Other:	
Balance—July 1, 2020	$ 34,588,839
Change in value, net	7,296,124
Balance—June 30, 2021	**$ 41,884,963**

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.

	Net asset value 2021	Redemption schedule	Redemption notice period
Equity funds	$ 78,790,432	Daily to semimonthly	5–30 days
Fixed income funds	18,162,748	Monthly	30 days
Hedge funds	86,098,913	Monthly to biennially	30–90 days
Illiquid real assets and private equities funds	169,784,259	Years: 2019–2034	End of agreement
	$ 352,836,352		

5. Inventories

Inventories as of June 30, 2021, were as follows:

Location	Method	2021
Athletics	FIFO	$ 2,062,426
Bulletin office	FIFO	125,724
Facilities services	FIFO	1,461,301
Ferdinand’s	FIFO	6,659,816
Housing and dining	LIFO	731,838
Telecommunications	FIFO	361,044
University publishing	FIFO	474,954
Veterinary hospital and pharmacy	FIFO	1,801,419
Veterinary microbiology/pathology	FIFO	2,052,575
WADDL	FIFO	996,771
Other inventory	Various	1,848,232
Inventories		**$ 18,576,100**

6. Accounts Receivable

At June 30, 2021, accounts receivable were as follows.

	2021 As restated
Student tuition and fees	$ 37,950,216
Due from the federal government	60,337,237
Due from the office of the state treasurer	42,896,556
Due from other state agencies	15,246,040
Interest and dividends receivable	510,092
Auxiliary enterprises	8,221,989
Due from other governments	2,316,832
Other	381,402
Subtotal accounts receivable	167,860,364
Less allowance for doubtful accounts	(30,849,578)
Accounts receivable, net	**$ 137,010,786**

7. Loans Receivable

Loans receivable consisted of the following at June 30, 2021:

	2021
Federal programs	$ 16,592,336
Institutional loans	305,583
Subtotal	16,897,919
Less allowance for doubtful accounts	(505,066)
Loans receivable, net	**$ 16,392,853**

8. Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2021, is presented as follows:

Capital assets, non-depreciable	Beginning balance (restated)	Additions/ transfers	Retirements	Ending balance
Land	$ 33,407,339	$ 288,905	$ (884,000)	$ 32,812,244
Construction in progress	137,372,956	73,636,903	(201,209,565)	9,800,294
Total capital assets, non-depreciable	**170,780,295**	**73,925,808**	**(202,093,565)**	**42,612,538**
Capital assets, depreciable				
Buildings	2,391,255,513	166,813,721	-	2,558,069,234
Other improvements and infrastructure	368,883,464	27,543,644	-	396,427,108
Machinery and equipment	347,087,475	13,251,481	(2,236,680)	358,102,276
Library resources	186,598,085	6,402,240	(138,523)	192,861,802
Total capital assets, depreciable	**3,293,824,537**	**214,011,086**	**(2,375,203)**	**3,505,460,420**
Less accumulated depreciation				
Buildings	1,114,819,497	61,606,296	-	1,176,425,793
Other improvements and infrastructure	214,354,682	11,138,496	-	225,493,178
Machinery and equipment	304,100,628	16,234,623	(2,008,727)	318,326,524
Library resources	124,887,210	6,109,836	(138,423)	130,858,623
Total accumulated depreciation	**1,758,162,017**	**95,089,251**	**(2,147,150)**	**1,851,104,118**
Total capital assets, depreciable, net	**1,535,662,520**	**118,921,835**	**(228,053)**	**1,654,356,302**
Capital assets, net	**$ 1,706,442,815**	**$ 192,847,643**	**$ (202,321,618)**	**$ 1,696,968,840**

Current year depreciation expense was $95,089,251.

9. Accounts Payable and Accrued Liabilities

At June 30, 2021, accrued liabilities were as follows:

Current accrued liabilities	**2021**
Accounts payable	$ 22,055,115
Contract retainage	1,388,412
Payroll	24,675,849
Accrued Leave, current portion	15,596,594
Subtotal	63,715,970
Non-current accrued liabilities	
Accrued annual leave	26,664,784
Accrued sick leave	9,357,524
Accrued compensatory leave	24,976
Subtotal	36,047,283
Total accrued liabilities	**$ 99,763,253**

10. Unearned Revenue and Deferred Inflows of Resources

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

Current unearned revenue	**2021**
Athletics	$ 3,076,628
ALIVE! program	127,630
Pre-paid Tri-Cities BSEL building rent	500,000
Bookie signing bonus	300,000
Housing and dining services	1,535,993
Summer session	6,404,071
Parking	216,342
Subtotal	12,160,664
Non-current unearned revenue	
Pre-paid Tri-Cities BSEL building rent	2,940,278
Subtotal	2,940,278
Total unearned revenue	**$ 15,100,942**

Deferred inflows of resources include gains on refunding which are the excess of the net carrying amount of the refunded debt over its reacquisition price, pension and OPEB.

Deferred inflows of resources	**2021**
General obligation bond refundings	
R2011A(2002A)	$ 105,332
R2011B(2002A)	12,500
R2015C(R2005A(1997A-HE-WSU))	12,308
R2017C(R2007A(2001A))	566,495
R2020A(R2010B(2001C))	251,904
R2020C(R2011B(2002A))	98,352
R2021B(R-2011A(2002A))	109,503
Subtotal general obligation bonds	1,156,394
General revenue bond refunding	
GRB 2020A	1,946,223
Subtotal general revenue bonds	1,946,223
Certificate of participation refunding	
0381-1	49,054
Subtotal certificate of participation	49,054
Pension	
Pension net difference between projected and actual experience	50,455,227
Pension changes in proportion	1,942,669
Pension net difference between projected and actual investment earnings on pension plan investments	3,805,369
Pension changes in assumption	42,261,603
Subtotal pension	98,464,868
OPEB	
Differences between expected and actual experience	1,422,103
OPEB changes in assumption	70,931,411
OPEB changes in agency proportion	24,993,607
Subtotal OPEB	97,347,121
Total deferred inflows of resources	**$ 198,963,660**

11. Risk Management

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

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

Fiscal years ending	**Claims paid**	**Cash reserves**
June 30, 2021	$ 836,552	$ 4,485,224
June 30, 2020	600,298	4,352,748
June 30, 2019	$ 926,061	$ 5,082,545

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

12. Leases Payable

The University finances some capital asset purchases through the Washington State Treasurer's leasing program. Under this program, the interest rates range from .7% to 5.3% and the lease periods range from 4 to 15 years. As of June 30, 2021, the University had $11,756,322 in machinery, software, and equipment acquired under capital lease. Depreciation for the capital assets associated with capital leases is included in depreciation expense. The University also has leases for office equipment with various vendors. These leases are classified as operating leases. As of June 30, 2021, the minimum lease payments under capital leases and operating leases consisted of the following:

Leases Payable

Fiscal year	Capital leases	Operating leases
2022	$ 2,243,445	$ 4,384,450
2023	1,873,864	3,535,044
2024	1,875,792	2,690,823
2025	1,691,233	1,940,020
2026	1,494,996	1,038,514
2027–2031	106,068	3,436,491
2032–2036	-	655,989
2037-2041	-	121,231
2042-2046	-	121,231
2047-2051	-	121,231
Total minimum lease payments	**9,285,398**	**18,045,024**
Amount representing interest	**(1,017,760)**	**-**
Net present value	**$ 8,267,638**	**$ 18,045,024**

13. Asset Retirement Obligation

The University has identified several legally enforceable liabilities associated with the retirement of tangible capital assets due to requirements included in state laws and contracts. As of June 30, 2021, the University has recorded an asset retirement obligation of $18,347,874. Following is a list of assets identified as having an asset retirement obligation.

Nuclear radiation center -The Nuclear Regulatory Commission and other oversite agencies such as Department of Health in the State of Washington require a decommissioning report valuing the cost of decommissioning the nuclear radiation center. A license was acquired in 2010 along with the decommissioning report and is good for 20 years. The decommissioning cost estimate was provided by the Nuclear and Advanced Technology Division of the Westinghouse Electric Corporation. In 2010, the NRC staff reevaluated the waste disposal cost estimate using methodology described in NUREG 1307 to estimate a more reasonable bracket for decommissioning costs, including an update to the estimated labor costs and the addition of a 25% contingency. The original value of the decommissioning was $14,600,000. Each year the value is reassessed with a current inflation rate based on the consumer price index. For fiscal year 2021, the inflation rate was 5.5% bringing the estimate for decommissioning to $17,643,074. The remaining useful life for the nuclear radiation center is 9 years. This was determined based on the remaining years of the decommissioning report.

Magnetic Resonance Imaging Machine (MRI) – This machine contains heavy metals such as lead, gold, silver or mercury for which state and federal hazardous waste regulations apply. The disposal of these metals is regulated by the Department of Ecology in the State of Washington. The cost of dismantling and disposing of this machine was estimated at $6,300 based on an estimate given at trade in. It has a total useful life of 5 years with 3 years remaining.

Cell Tower Contracts – The University has entered into multiple cell tower contracts that require the removal of equipment once the lease is terminated. The total estimated cost of equipment removal based on the engineer's prior experience is $698,500. The remaining life of these contracts range from 1 to 13 years.

The University has no assets restricted for payment of these obligations. Funds will be requested from the state to fund the decommissioning. No obligation has been recognized for costs that would be incurred in the event that the University removes these assets.

	Balance outstanding 6/30/2020	Additions	Reductions	Balances outstanding 6/30/2021
Nuclear radiation center	$ 16,725,903	$ 917,171	$ -	$ 17,643,074
Magnetic resonance imaging machine (MRI)	6,300	-	-	6,300
Cell tower contracts	421,500	277,000	-	698,500
Total	**$ 17,153,703**	**$ 1,194,171**	**$ -**	**$ 18,347,874**

14. Bonds Payable, Notes Payable and Related Debt

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

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

As of June 30, 2021, Housing and Dining System failed to comply with the debt service requirement convenant of the 2010B bond series. The Housing and Dining System is required to generate net revenue, as defined in the convents, equal to at least 125% of the annual debt service requirements during each fiscal year. As a result of not meeting this requirement, the University is required to engage a financial consulting firm to make recommendations to the Board of Regents as to the operation and revision of schedules for rental rates, fees and charges. Under this provision, Leith Jones, was engaged to conduct the review.

On October 29, 2020, the University issued $8,940,000 in General Revenue Bonds, Series 2020B as approved by the Board of Regents on September 18th, 2020, pursuant to Resolution 200918-630. The bonds were used to improve the general University cash flow. $8,891,225 was issued for the project. The issue costs were $27,505 and the Underwriter's discount was $21,270. Average interest rate is 2.62%. Interest is payable semi-annually on April 1 and October 1, commencing April 1, 2021. Principal payments are due annually on October 1, commencing October 1, 2021.

On June 24 2021, the University issued $37,815,000 in General Revenue Bonds, Series 2021 as approved by the Board of Regents on May 7, 2021, pursuant to Resolution 210507-633. The bonds were used to increase Athletics cash flow. $35,600,000 was issued for the project and $1,916,222 for capitalized interest. The issue costs were $187,019 and the Underwriter's discount was $107,035. The average interest rate is 2.89%. Interest is payable semi-annually on April 1 and October 1, commencing October 1, 2021. Principal payments are due annually on April 1, commencing on April 1, 2022.

Bond Refunding Activity

The scheduled liabilities as of June 30, 2021, do not include revenue bonds that were advance refunded. Government obligations in amounts, maturities and interest rates sufficient to fund retirement of these bonds are held in irrevocable trusts.

On October 29, 2020, the University issued $100,785,000 in General Revenue Bonds to defease $5,125,000 in Series 2010 Housing and Dining Service Bonds, $58,300,000 in Series 2012 Athletics and to defease $29,260,000 in Series 2014B Housing and Dining Services Bonds. The refunding resulted in an aggregate debt service decrease of $11,687,771 and an economic gain of $10,772,522.

Related Debt

The University does not hold any direct borrowings or direct placements as a form of debt. The University also does not hold any line of credit.

As of June 30, 2021, the University was indebted for bonds and notes payable for the purposes shown in the following table.

Purpose	Series	Interest rate/ ranges	Final maturity date	Principal outstanding	Current portion	See table below
Housing and Dining System	2010B	7.1%–7.4%	2041	$ 35,305,000	$ -	
Compton Union Building	2006B	5%–6%	2027	16,685,000	2,345,000	1
Trust and building fee revenue bonds	2019	5%	2034	61,975,000	3,190,000	2
General revenue bonds	2012A & B	2%–5%	2037	20,365,000	910,000	
	2013A & B	3%–5%	2038	38,580,000	2,195,000	
	2014A & B	1.75%–5%	2039	17,400,000	535,000	
	2015	3%–5%	2045	129,905,000	4,410,000	
	2016	3%–5%	2041	78,710,000	3,780,000	
	2018	3%–5%	2040	31,325,000	-	
	2020A	0.505%–5.0%	2039	100,785,000	2,205,000	
	2020B	0.505%–5.0%	2024	8,940,000	4,520,000	
	2021	2.271%–2.999%	2041	37,815,000	-	
General revenue note	2020	1.78%	2026	2,865,000	697,000	
State of Washington general obligation bonds	HE-WSU	3.5%–6.4%	2022	265,000	265,000	
	2001A	5%–5.6%	2025	5,155,000	930,000	
	2001C	5%–5.3%	2026	2,695,000	485,000	
	2002A	4%–6%	2026	1,990,000	290,000	
				590,760,000	**26,757,000**	
Less: unamortized insurance costs				(43,321)		
Plus: unamortized premiums				51,578,794		
Net bonds payable				**$ 642,295,473**		

The University has pledged future revenues, net of specific operating expenses, to repay the principal and interest on revenue bonds. The following is a schedule of pledged revenues and related debt, as of June 30, 2021.

Ref		Total future pledged revenues	Current year revenues, net of expenses	Current year principal and interest
1	Compton Union Building (2006B)	$ 19,907,001	$ 6,456,363	$ 3,274,020
2	Trust and building fee bonds(2019 Green bonds)	$ 86,057,875	$ 42,965,473	$ 6,209,625

Annual Debt Service Requirements

Future debt service requirements at June 30, 2021, are as follows:

	Revenue bond and note obligations			State of Washington general obligation bonds		
Fiscal year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2022	$ 24,787,000	$ 24,569,550	$ 49,356,550	$ 1,970,000	$ 475,375	$ 2,445,375
2023	25,885,000	23,982,612	49,867,612	1,795,000	382,250	2,177,250
2024	26,938,000	22,913,484	49,851,484	1,895,000	291,250	2,186,250
2025	27,380,000	21,770,990	49,150,990	1,985,000	195,375	2,180,375
2026	25,910,000	20,687,846	46,597,846	2,085,000	85,750	2,170,750
2027–2031	152,200,000	84,497,640	236,697,640	375,000	9,375	384,375
2032–2036	166,050,000	48,509,669	214,559,669	-	-	-
2037–2041	131,505,000	13,886,344	145,391,345	-	-	-
Subtotal	**580,655,000**	**260,818,136**	**841,473,136**	**10,105,000**	**1,439,375**	**11,544,375**
Less: unamortized costs	(43,321)	-	(43,321)	-	-	-
Plus: unamortized premiums	51,578,794	-	51,578,794	-	-	-
Total	**$ 632,190,473**	**$ 260,818,136**	**$ 893,008,609**	**$ 10,105,000**	**$ 1,439,375**	**$ 11,544,375**

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

Following are the changes in refunding of debt (representing the difference between the reacquisition price and the net carrying amount of the old debt), bonds payable, notes payable and capital leases for the year ending June 30, 2021.

	2021					
Deferred outflows of resources	**Total amount issued**	**Balances outstanding 6/30/2020**	**Additions**	**Reductions**	**Balance outstanding 6/30/2021**	**Current portion**
Revenue bonds						
Student Recreation Series 2009		$ 877,676		$ (73,729)	$ 803,947	
Student fee 2006A refunding (CUB)		1,623,074		(86,815)	1,536,259	
General revenue bonds Athletics 2007 refunding		694,608		(58,350)	636,258	
Parking series 2005		26,054		(7,049)	19,005	
General revenue bonds series 2 013 refunding		292,240		(61,524)	230,716	
Housing and Dining Services (HDS) series 2005		101,691		(10,488)	91,203	
Housing and Dining Services (HDS) series 2010		384,821		(384,821)	-	
General revenue bond 2016 HDS 2008 refunding		1,436,472		(75,988)	1,360,484	
Trust and building 2019B refunding FY20		1,050,187		(74,794)	975,393	
Total revenue bonds		**$ 6,486,823**	**-**	**$ (833,558)**	**$ 5,653,265**	
Schedule of long-term liabilities						
Revenue and refunding bonds, net	$ 653,350,000	$ 608,144,580	$ 147,540,000	$ (126,359,108)	$ 629,325,472	$ 24,090,000
Note payable	3,544,000	3,544,000	-	(679,000)	2,865,000	697,000
State of Washington general obligation bonds, net	-	12,515,000	1,990,000	(4,400,000)	10,105,000	1,970,000
Capital leases	-	10,219,517	7,091,915	(9,043,794)	8,267,638	1,648,533
Total	**$ 656,894,000**	**$ 634,423,097**	**$ 156,621,915**	**$ (140,481,902)**	**$ 650,563,110**	**$ 28,405,533**

16. Pension Plans

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

Legislation signed into law on July 1, 2020, amended the RCW relevant to WSURP, disabling the University from modifying terms to the plan. The legislation defined plan provisions including limits on member eligibility, benefit payments, contribution rates, and vesting terms. The University remains responsible for administering benefit calculations and payments until the Pension Funding Council determines there are sufficient assets in the trust, at which time DRS will assume those duties in accordance with RCW 41.50.280.

As of June 30, 2021, the University's aggregate share of the unfunded liabilities associated with the defined benefit pension plans administered by DRS was $54,939,896. The liability associated with WSURP was $23,456,000. For the year ended June 30, 2021, total pension expense offset for the University and DRS plans was $(4,351,657).

Plans Administered By DRS

The state of Washington, through the Department of Retirement Systems, administers the PERS, TRS, and LEOFF plans. Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed, investment gains and losses are recognized as incurred, and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all plans, and additions to/deductions from all plan fiduciary net positions have been determined in all material respects on the same basis as they are reported by the plans.

The authority to establish and amend benefit provisions resides with the legislature. Effective July 1, 2003, LEOFF Plan 2 Retirement Board was established to provide governance. The Board can adopt contribution rates and recommend policy changes to the legislature. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW, TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and LEOFF retirement benefits provisions are established in chapter 41.26 RCW. DRS issues a publicly available financial report that includes financial statements and required supplementary information for PERS, TRS, and LEOFF. The report is available at https://www.drs.wa.gov/administration/annual-report/.

Plan Descriptions and Benefits Provided

PERS provides retirement, disability, and death benefits to eligible nonacademic employees not enrolled in other higher education retirement plans. PERS is a cost sharing, multiple employer retirement system comprised of three separate plans. Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. For reporting purposes, Plan 2/3 is considered a single defined benefit plan. Plan 1 is closed to new entrants. Members are vested after five years of eligible service. The monthly benefit is calculated as two percent of average final compensation, (AFC) the average of the member's 24 highest consecutive service months, per year of service up to 60 percent. Members are eligible for retirement after 30 years of service, at age 60 with five years of service, or at age 55 with 25 years of service. Members retiring prior to age 65 may receive actuarially reduced benefits. Members may elect to receive an optional cost of living adjustment (COLA) based on the consumer price index. Plan 2 members are vested after five years of eligible service and eligible for retirement at age 65. The monthly benefit is two percent of the AFC per year of service with no cap on years of service credit and a COLA based on the consumer price index capped at three percent annually. For Plan 2 the AFC is the average of the member's 60 highest paid consecutive months. Members are eligible to retire early with reduced benefits. Plan 3 members are vested in the defined benefit portion after 10 years of service, or after 5 years of service if 12 months of that service are earned after age 44. The monthly benefit is 1 percent of the AFC per year of service with no cap on service years. The AFC and COLA are the same as Plan 2.

TRS provides retirement, disability, and death benefits to certified public school employees working in an instructional, administrative, or supervisory capacity. Similar to PERS, TRS Plan 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. For reporting purposes Plan 2/3 is considered a single defined benefit plan. Plan 1 is closed to new entrants. Members are vested after five years of eligible service and can retire at any age after 30 years of service, at age 60 after 5 years of service, or age 55 with 25 years of service. The monthly benefit is calculated as two percent of the AFC (total earnable compensation for two consecutive highest paid fiscal years divided by two) for year of service up to 60 percent. Plan 1 members may elect to receive an optional COLA amount based on the consumer price index capped at 3 percent annually, reducing the benefit. Plan 2 members are vested after 5 years of eligible service. Members are eligible for retirement at age 65 with 5 years of service. The monthly benefit is 2 percent of the AFC, the average of the member's 60 highest paid consecutive months, per year of service. A COLA is granted based on the consumer price index capped at 3 percent annually. Members can retire early with reduced benefits. Plan 3 members are vested after 10 years of service or after 5 years of service if 12 months of that service is earned after age 44. The defined benefit portion provides members a monthly benefit of 1 percent of the AFC per year of service, with the same AFC as Plan 2. The same COLA is used as Plan 2 and members can retire early with reduced benefits.

LEOFF 2 provides retirement disability, and death benefits to full time, fully compensated local law enforcement commissioned officers, fire fighters, and as of July 24, 2005, emergency medical technicians. Plan 2 members are vested after 5 years of eligible service. Members are eligible for retirement at age 53 with five years of service or age 50 with 20 years of service. The monthly benefit is 2 percent of the FAS (final average salary), based on the highest consecutive 60 months, per year of service. A COLA is granted based on the consumer price index capped at 3 percent annually. Members can retire early with reduced benefits.

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

Contributions for DRS Plans The University's contribution rates and required contributions for the above retirement plans for the year ending June 30, 2021, are as follows:

	Contribution rates	
	University	FY2021
PERS		
Plan 1	12.86%	$ 7,075,580
Plan 2	12.86%	6,598,391
Plan 3	12.86%	4,745,237
TRS		
Plan 1	15.51%	1,095,510
Plan 2	15.51%	-
Plan 3	15.51%	1,202,540
LEOFF		
Plan 2	8.77%	$ 200,190

Actuarial Assumptions The total State pension liability was determined by an actuarial valuation performed by the Washington State Office of the State Actuary (OSA) as of June 30, 2019, with the results rolled forward to the June 30, 2020, measurement date using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%
Discount rate	7.40%

Mortality rates were based on the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status, as the base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of OSA's 2013-2018 Demographic Experience Study. Additional assumptions are current for subsequent events and law changes as of the date of the actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the WSIB. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of the measurement date of June 30, 2020, are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Fixed income	20.0%	2.2%
Tangible assets	7.0%	5.1%
Real estate	18.0%	5.8%
Global equity	32.0%	6.3%
Private equity	23.0%	9.3%
Total	**100%**	

Discount Rate. The discount rate used to measure the total state pension liability was 7.4 percent, the same as the previous measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.4 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long- term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plans 2 and 3 and TRS Plans 2 and 3 whose rates include a component for the PERS/TRS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent on pension plan investments was applied to determine the total pension liability.

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate. The following presents the net pension liability/asset of the University as an employer, calculated using the discount rate of 7.4 percent as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the rate.

Discount rate sensitivity on net pension liability/asset 2021

Plan	1% decrease	Current discount rate	1% increase
PERS 1	$ 40,754,748	$ 32,537,244	$ 25,370,736
PERS 2/3	93,197,738	14,978,098	(49,435,817)
TRS 1	5,733,045	4,524,929	3,470,641
TRS 2/3	8,545,400	2,899,625	(1,705,897)
LEOFF 2	$ (43,148)	$ (2,179,543)	$ (3,928,824)

Proportionate Share. The state net pension liability was calculated as of the valuation date of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The basis for determining the proportionate share was the amount of employer contributions processed by DRS during the fiscal year ended June 30, 2020. The University's proportionate share by plan for the year ended June 30, 2021, is in the following table.

	Plan	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
2021	Proportionate share	.92%	1.17%	.19%	.19%	.11%
2020	Proportionate share	.93%	1.17%	.19%	.19%	.11%

The following table represents the aggregate pension amounts for each plan subject to the requirements of GASB Statement No. 68 for the University as an employer for the fiscal year ended June 30, 2021.

	2021					
	PERS 1	**PERS 2/3**	**TRS 1**	**TRS 2/3**	**LEOFF 2**	**Total**
Pension liability	$ 32,537,244	$14,978,098	$4,524,929	$2,899,625		$ 54,939,896
Pension asset					$ 2,179,543	2,179,543
Pension expense	$ 1,379,698	$ 1,148,964	$ 571,866	$ 1,053,256	$ 73,559	$ 4,227,343

Deferred Outflows and Deferred Inflows of Resources

The below tables detail the University's deferred outflows and deferred inflows of resources as well as the schedule of future impacts to pension expense from the deferred amounts amortization. The $21,181,464 reported as deferred outflows of resources related to state pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ending June 30, 2022.

Deferred outflows of resources 2021

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	Total
Differences between expected and actual experience		$ 5,361,942		$ 1,832,542	$ 301,576	$ 7,496,060
Changes in assumption		213,330		373,997	3,158	590,485
Changes in proportion		46,845		165,038	58,197	270,080
Contributions subsequent to the measurement date	$ 7,077,499	11,601,439	$ 1,095,602	1,202,540	204,384	21,181,464
Total	**$ 7,077,499**	**$ 17,223,556**	**$ 1,095,602**	**$ 3,574,117**	**$ 567,315**	**$ 29,538,089**

Deferred inflows of resources 2021

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	Total
Differences between expected and actual experience		$ 1,877,113		$ 10,457	$ 38,656	$ 1,926,226
Changes in assumption		10,231,337		317,776	337,490	10,886,603
Net difference between projected and actual earnings on investments	$ 181,156	760,670	$ 29,100	28,150	24,293	1,023,369
Changes in proportion		1,736,091		57,454	149,124	1,942,669
Total	**$ 181,156**	**$ 14,605,211**	**$ 29,100**	**$ 413,837**	**$ 549,563**	**$ 15,778,867**

Deferred inflows and outflows will be recognized in pension expense/expense offset with the exception of contributions made after the measurement date as follows:

Year	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2	Total
2022	$ (822,085)	$ (6,643,807)	$ (127,894)	$ (20,832)	$ (176,460)	$ (7,791,078)
2023	(25,857)	(1,914,396)	(3,742)	227,742	(32,999)	(1,749,252)
2024	250,842	(162,580)	38,945	328,885	20,824	476,916
2025	415,946	1,046,545	63,591	411,685	61,490	1,999,256
2026		(639,811)		237,833	(26,084)	(428,062)
Thereafter		(669,045)		772,427	(33,403)	69,978
Total	**$ (181,156)**	**$ (8,983,094)**	**$ (29,100)**	**$ 1,957,740**	**$ (186,632)**	**$ (7,422,242)**

Plans Administered by Washington State University

Washington State University Retirement Plan (WSURP)

Plan Description

WSURP, a single-employer 403(b) defined-contribution plan, is administered by the University. Faculty, librarians and other professional staff, are eligible to participate in the 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.

Funding Policy

Employee contribution rates are based on age and are 5%, 7.5%, or 10% of salary. The University matches 100% of employee contributions. The University's Board of Regents are authorized to amend benefit provisions under RCW 28B.10.400.

Supplemental Retirement Plan (SRP)

SRP, a single-employer 401(a) defined-benefit retirement plan administered by the University, operates along with the 403(b) plan to supplement the defined-contribution savings accumulated under SRP.

The June 30, 2021, measurements have been determined on the same basis as they are reported in the state of Washington's Annual Comprehensive Financial Report (ACFR). The ACFR is available at https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report.

In 2011, the plan was amended to eliminate the supplemental benefit provision for all employees hired after June 30, 2011. Members are eligible for a non-reduced supplemental payment after the age of 62 with ten years of full-time service. The SRP has a payment component that guarantees a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date when a member's goal income is greater than their assumed income. Assumed income must be calculated by an independent actuary. 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.

Benefit payments made during the fiscal year ended June 30, 2021, were $2,827,000.

Employer Contributions State legislation which became effective on July 1, 2020, created an employer contribution rate for the SRP. OSA determines the rate in accordance with RCW 41.45 which provides authority to the Pension Funding Council to adopt changes to economic assumptions and contribution rates. For the fiscal year ended June 30, 2021, the SRP contribution rate was 0.30% of covered salaries per RCW 28B.10.423. Contributions made in the fiscal year ended June 30, 2021, were $919,000. Prior to fiscal year 2021 contributions were not required.

Plan Investments The WSIB has been authorized by statute as having investment management responsibility for the SRP funds. The WSIB manages retirement fund assets to maximize return with limited risks.

Footnote 3.B of the Washington ACFR contains information regarding the investment of SRP funds by WSIB including the valuation, concentration, classifications, and maturities.

Actuarial Assumptions Material assumption changes during the measurement period included an increase in the discount rate from 2.21 percent to 7.40 percent. The source for the discount rate changed from the bond rate required of plans with no assets to the investment return for plans with assets due to the change in plan on July 1, 2020.

The long term expected rate of return on pension plan investments was determined by the WSIB using a building block method in which a best estimate of expected future rates of return are developed for each major asset class.

The following table shows significant assumptions used to measure the net pension liability as of June 30, 2021.

Inflation	2.75%
Discount rate	7.40%
Source of mortality assumptions	Pub.H-2010 tables with the MP-2017 mortality improvement scale
Date of experience study	August 2021
Salary changes	3.50%
Source of discount rate	2019 report on financial condition and economic experience study

The following table presents the net pension liability using a discount rate of 7.40 percent as well as what the pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

Total pension liability 2021

1% decrease	Current discount rate	1% increase
$ 27,303,000	$ 23,456,000	$ 20,120,000

Net Pension Liability. The net pension liability is based on an actuarial valuation performed as of June 30, 2020 using the entry age normal cost method and rolled forward with update procedures by the Office of the State Actuary to the measurement date of June 30, 2021.

As of July 1, 2020, legislation was signed into law creating a trust arrangement for assets dedicated to paying SRP benefits to members. Contributions previously paid to DRS were transferred into the trust. As a result, the University is now applying accounting guidance for single employer plans that have trusted assets and reports the net pension liability net of plan assets as of June 30, 2021.

Schedule of changes in net pension liability 2021

	Total pension liability	Plan fiduciary net position	Net pension liability
Beginning balance	$ 118,941,904	$ 12,305,000	$106,636,904
Service cost	3,114,000	-	3,114,000
Interest on TPL	2,666,000	-	2,666,000
Differences between expected and actual experience in the measurement of TPL	(47,565,000)	-	(47,565,000)
Change of assumptions	(33,228,000)	-	(33,228,000)
Benefit payments	(2,827,000)	-	(2,827,000)
Employer contributions	-	919,000	(919,000)
Investment income	-	4,422,000	(4,422,000)
Other	96	-	96
Ending balance	**$ 41,102,000**	**$ 17,646,000**	**$ 23,456,000**

Pension expense offset for SRP for the year ended June 30, 2021, was $(8,579,000).

Deferred Inflows and Outflows of Resources

The following tables detail the deferred inflows and outflows of resources and the amortization of those deferred amounts on pension expense in future periods.

	2021	
	Deferred outflows	Deferred inflows
Differences between expected and actual experience	$ 3,831,000	$ 48,529,000
Changes in assumption	16,970,000	31,375,000
Differences between projected and actual earnings on plan investments	-	2,782,000
Total	**$ 20,801,000**	**$ 82,686,000**

Amortization of deferred inflows and outflows of resources

Year	
2022	$ (13,416,000)
2023	(12,741,000)
2024	(10,039,000)
2025	(9,344,000)
2026	(10,131,000)
Thereafter	(6,214,000)
Total	**$ (61,885,000)**

17. Other Post-Employment Benefits (OPEB)

Plan Description

The University is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a single employer defined benefit plan administered by the Washington State Health Care Authority (HCA). The PEBB is authorized to design benefits and determine terms and conditions of employee and retired employee participation and coverage per RCW 41.05.065. The OPEB plan provides medical, dental, prescription drug, vision, life insurance, disability, and long-term care insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis.

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

The OPEB plan provides benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. This set dollar amount is recommended by PEBB and approved by the state Legislature annually and was set at $183 per member per month for fiscal year 2021. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

For information on the actuarial valuation of the employer provided subsidies, refer to the Office of the State Actuary's website: http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx.

Employees covered by benefit terms- The table below shows the University's PEBB membership as of June 30, 2021:

	2021
Active employees	6,418
Inactive employees or beneficiaries currently receiving benefits	1,780
Inactive employees entitled to but not yet receiving benefits	298

Funding Status and Actuarial Methods and Assumptions:

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

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

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

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

Inflation rate	2.75%
Health care trend rate	2.00–11.00% initial rate, 4.3% ultimate rate in 2075
Projected salary increases	3.50% plus service-based salary increases
Discount rate	2.21%
Source of mortality assumptions	Society of Actuaries' Pub.H-2010 mortality rates, with application of the long-term MP-2017 generational improvement scale and updated based on results of the 2013–2018 demographic experience study report and the 2019 report on financial condition and economic experience study
Date of experience study	2013–2018 experience study report
Source of discount rate	Bond buyer general obligation 20-bond municipal bond index as of June 30, 2020

Material assumption changes for the measurement period were updating the discount rate from 3.50 to 2.21, updating the mortality assumptions, and updating the forecasts of healthcare cost trend rate.

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

The following presents the total OPEB liability calculated using the current healthcare cost trend rate, as well as what the OPEB liability would be if it were calculated using a rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

Healthcare cost trend rate sensitivity on OPEB liability 2021

	1% decrease	Current healthcare cost trend rate	1% increase
Total OPEB liability	$245,086,470	$ 300,758,796	$375,397,722

The following presents the total OPEB liability calculated using the discount rate of 2.21 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

Discount rate sensitivity on OPEB liability 2021

	1% decrease	Current discount rate	1% increase
Total OPEB liability	$ 364,144,733	$ 300,758,796	$ 251,403,811

Total OPEB Liability (TOL)

The TOL for the state of Washington was determined by an actuarial valuation, conducted by the Office of the State Actuary, using data as of June 30, 2020. The TOL reported at June 30, 2021, was calculated as of the valuation date. OPEB implicit and explicit subsidies are funded by required contributions made by participating employers, such as the University. These contributions are made on behalf of all active, healthcare-eligible employees regardless of enrollment status. As such, the allocation method used to determine the University's proportionate share of the statewide TOL is based on the proportionate share of the state's total active health care eligible employee head count.

Changes in the total OPEB liability

The following is a schedule of the changes in the total OPEB liability for fiscal year 2021.

Washington State University	**2021**
Total OPEB liability at 7/1/2020	$ 298,058,920
Service cost	12,480,593
Interest	10,440,211
Changes of assumptions	6,767,586
Benefit payments	(4,970,743)
Changes in proportionate share	(9,783,783)
Differences between expected and actual experience	(1,599,865)
Other	(10,634,123)
Total OPEB liability at 6/30/2021	**$ 300,758,796**

OPEB Costs WSU reported a liability of $300,758,796 for its proportionate share of the state's OPEB liability for the year ended June 30, 2021. For fiscal year 2021, the OPEB values were measured as of June 30, 2020, by an actuarial valuation. WSU's share of the liability was 4.97% as of June 30, 2021 compared to 5.14% as of June 30, 2020. For the year ended June 30, 2021, the University's proportionate share of OPEB expense offset was $(333,195).

For fiscal year 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ 6,598,164	$ 1,422,103
Changes of assumptions	20,681,188	70,931,411
Changes in proportion		24,993,607
Payments subsequent to the measurement date	5,290,134	
Total	**$ 32,569,486**	**$ 97,347,121**

Deferred outflows of resources of $5,290,134 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense/expense offset as follows:

Years ended June 30:	
2022	$ (12,619,876)
2023	(12,619,876)
2024	(12,619,876)
2025	(12,619,876)
2026	(12,619,875)
Thereafter	(6,968,390)
Total	**$ (70,067,769)**

18. Operating Expenses by Function

	2021				
	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 235,130,121	$ 24,701,337	-	-	$ 259,831,458
Research	141,712,072	67,215,663	-	-	208,927,735
Public service	19,314,732	8,437,744	-	-	27,752,476
Academic support	76,445,312	23,279,994	-	-	99,725,306
Student services	23,489,362	3,666,606	-		27,155,968
Institutional support	71,468,517	62,575,960			134,044,477
Operation and maintenance of plant	28,791,530	45,912,568			74,704,098
Auxiliary enterprises	70,002,007	27,422,144			97,424,151
Student financial aid			$ 107,251,687		107,251,687
Depreciation				$ 95,089,251	95,089,251
Total operating expenses	**$ 666,353,653**	**$ 263,212,016**	**$ 107,251,687**	**$ 95,089,251**	**$ 1,131,906,607**

19. Blended Component Unit

Below are the condensed financial statements for the Alumni Association and for the Students Book Corporation.

Alumni Association

Statement of net position	2021
Assets	
Current assets	
Cash	$ 1,935,589
Receivables	325,117
Prepaid Expenses	38,976
Inventory	81,428
Subtotal current assets	2,381,110
Non-current assets	
Pooled endowment investment securities	13,601,878
Subtotal non current assets	13,601,878
Total assets	**15,982,988**
Liabilities	
Current liabilities	
Accounts payable	11,898
Accrued Expense	151,507
Sub total current liabilities	163,405
Non-current liabilities	
Deferred revenue	76,209
Sub total non-current liabilities	76,209
Total Liabilities	**239,614**
Net position	
Unrestricted	13,294,275
Restricted expendable	2,449,099
Total net position	**$ 15,743,374**

Statement of Revenues, Expense, and Changes in Net Position	
Revenue	
Operating revenue	
University support	$ 841,075
Fundraising	1,019,228
Grant income	10,295
Special events	36,249
Total operating revenue	1,906,847
Operating Expense	
Program services	930,532
Support services	1,931,480
Total operating expense	2,862,012
Net operating loss	**(955,165)**
Non operating revenues (expenses)	
Income from assets held by WSU Foundation	3,882,615
Increase in net position	**2,927,450**
Net Position	
Net position, beginning of year	12,881,005
Change in Accounting principal	(65,081)
Net position beginning of year, as restated	12,815,924
Increase in net position	2,927,450
Net position, end of year	**$ 15,743,374**

Students Book Corporation

Statement of net position	2021
Assets	
Current Assets	
Cash and cash equivalents	$ 12,503,976
Accounts receivables	191,223
Inventory	216,899
Prepaid rent	133,510
Subtotal current assets	13,045,608
Non-current assets	
Prepaid rent	3,178,184
Capital assets, net of accumulated depreciation	1,334,185
Subtotal non-current assets	4,512,369
Total assets	**17,557,977**
Liabilities	
Current liabilities	
Accounts payable	10,984
Unearned revenue, current portion	100,000
Subtotal current liabilities	110,984
Non-current liabilities	
Unearned revenue	200,000
Subtotal non-current labilities	200,000
Total liabilities	**310,984**
Net position	
Net investment in capital assets	1,334,185
Unrestricted	15,912,808
Total net position	**$ 17,246,993**

Statement of revenues, expenses and changes in net position	
Revenue	
Operating revenue	
Contract revenue	$ 721,471
Sales and services	2,710,237
Total operating revenue	3,431,708
Operating expense	
General and administrative expense	3,795,226
Depreciation	74,188
Support	289,747
Scholarships	13,000
Total operating expense	4,172,161
Net operating loss	**(740,453)**
Non-operating revenue (expense)	
Interest income	40,242
Decrease in net position	**(700,211)**
Net position	
Net position, beginning of year	17,947,204
Decrease in net position	(700,211)
Net position end of year	**$ 17,246,993**

20. Commitments and Contingencies

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

The University has commitments of $5,093,242 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

21. Subsequent Event

The University will refund General Revenue Bond 2012B. This will result in a zero cash exchange, but will have a present value savings on future cash flow of $3,456,596.

22. Reissuance of WSU Financial Report for FY2021

The University determined to use of a portion of the institution's Higher Education Emergency Relief Funds (HEERF) for lost revenue in FY2021 due to the impact of the COVID pandemic. Because these funds were drawn subsequent to the close of the fiscal year, an accrual entry was not made in the initial FY2021 financial statements. In accordance with revenue recognition accounting principles, revenue and related accounts receivable needed to be recognized in FY2021 for $26,263,568. This impacted the Statements of Net Position, Revenues, Expense, and Changes in Net Position, and Notes to the financial report as detailed below.

Statement of Net Position

Assets	**Prior reissuance**	**After reissuance**
Accounts receivable, net	$ 110,747,218	$ 137,010,786
Subtotal current assets	361,712,047	387,975,615
Total assets	**3,011,751,703**	**3,038,015,271**
Net position		
Unrestricted	(286,455,372)	(260,191,804)
Total net position	**1,732,502,529**	**1,758,766,097**

Statement of Revenues, Expense, and Changes in Net Position

Non-operating revenues (expenses)	**Prior reissuance**	**After reissuance**
COVID relief grant funding	17,080,729	43,344,297
Total non-operating revenues (expenses)	**484,389,693**	**510,653,261**
Income before capital additions and additions to permanent endowment	109,108,523	135,372,091
Increase (decrease) in net position	**166,971,783**	**193,235,351**
Net position, end of year	**1,732,502,529**	**1,758,766,097**

Notes to the Financial Statements

	Prior reissuance	**After reissuance**
Note 6. Accounts Receivable		
Due from the federal government	34,073,699	60,337,237
Subtotal accounts receivable	141,596,796	167,860,364
Accounts receivable, net	**$ 110,747,218**	**$ 137,010,786**

FINANCIAL REPORT 2021

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of WSU Contributions

Public Employees' Retirement System Plan 1 Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	$ 7,075,580	$ 6,679,211	$ 6,645,224	$ 6,354,037	$ 5,873,872	$ 5,739,650	$ 4,445,539	$ 4,108,597
Contributions in relation to the contractually required contribution	(7,075,580)	(6,679,211)	(6,645,224)	(6,354,037)	(5,873,872)	(5,739,650)	(4,445,539	(4,108,597)
Contribution deficiency (excess)	–	–	–	–	–	–	–	–
Covered payroll	$144,295,033	$137,784,157	$128,281,013	$ 124,750,748	$ 120,938,855	$ 120,186,698	$ 107,767,738	$ 99,541,744
Contributions as a percentage of covered payroll	4.90%	4.85%	5.18%	5.09%	4.86%	4.78%	4.13%	4.13%

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

Schedule of WSU Contributions

Public Employees' Retirement System (PERS) Plan 2/3 Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	$ 11,343,628	$ 10,788,830	$ 9,548,591	$ 9,135,929	$ 7,429,172	$ 7,202,615	$ 5,285,672	$ 4,742,786
Contributions in relation to the contractually required contribution	(11,343,628)	(10,788,830)	(9,548,591)	(9,135,929)	(7,429,172)	(7,202,615)	(5,285,672)	(4,742,786)
Contribution deficiency (excess)	–	–	–	–	–	–	–	–
Covered payroll	$143,228,492	$136,667,675	$127,047,653	$123,376,553	$119,248,641	$118,023,229	$105,292,307	$ 96,729,193
Contributions as a percentage of covered payroll	7.92%	7.89%	7.52%	7.40%	6.23%	6.10%	5.02%	4.90%

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

Schedule of WSU Contributions

Teachers' Retirement System (TRS) Plan 1 Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	$ 1,095,510	$ 986,500	$ 925,684	$ 806,421	$ 659,336	$ 402,431	$ 292,813	$ 164,453
Contributions in relation to the contractually required contribution	(1,095,510)	(986,500)	(925,684)	(806,421)	(659,336)	(402,431)	(292,813)	(164,453)
Contribution deficiency (excess)	–	–	–	–	–	–	–	–-
Covered payroll	$14,806,809	$13,614,880	$12,505,211	$11,393,621	$10,512,086	$8,871,010	$6,390,188	$3,741,023
Contributions as a percentage of covered payroll	7.40%	7.25%	7.40%	7.08%	6.27%	4.54%	4.58%	4.40%

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

Schedule of WSU Contributions

Teachers' Retirement System (TRS) Plan 2/3 Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	$ 1,202,540	$ 1,098,399	$ 974,731	$ 868,149	$ 701,980	$ 712,476	$ 359,625	$ 207,092
Contributions in relation to the contractually required contribution	(1,202,540)	(1,098,399)	(974,731)	(868,149)	(701,980)	(712,476)	(359,625)	(207,092)
Contribution deficiency (excess)	–	–	–	–	–	–	–	–
Covered payroll	$ 14,755,937	$ 13,564,384	$12,448,690	$11,338,800	$10,446,117	$ 8,802,686	$6,327,223	$ 3,642,005
Contributions as a percentage of covered payroll	8.15%	8.10%	7.83%	7.66%	6.72%	8.09%	5.68%	5.69%

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

Schedule of WSU Contributions

Law Enforcement Officers' Retirement System Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	$ 200,190	$ 209,016	$ 199,047	$ 189,919	$ 143,426	$ 145,308	$ 136,419	$ 122,092
Contributions in relation to the contractually required contribution	(200,190)	(209,016)	(199,047)	(189,919)	(143,426)	(145,308)	(136,419)	(122,092)
Contribution deficiency (excess)	–	–	–	–	–	–	–	–
Covered payroll	$ 2,330,470	$ 2,429,109	$ 2,274,829	$ 2,177,248	$ 1,705,430	$ 1,691,590	$ 1,638,448	$ 1,461,750
Contributions as a percentage of covered payroll	8.59%	8.60%	8.75%	8.72%	8.41%	8.59%	8.33%	8.35%

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

Schedule of WSU Contributions

WSURP Supplemental Retirement Plan as of June 30*

	2021	2020	2019	2018	2017
Contractually required contributions	$ 481,599	$ 25,986,853	$ 25,478,226	$ 25,552,852	$ 25,429,397
Contributions in relation to the contractually required contribution	(919,000)	(25,986,853)	(25,478,226)	(25,552,852)	(25,429,397)
Contribution deficiency (excess)	(437,401)	–	–	–	–
Covered payroll	$ 160,533,073	$ 160,533,073	$ 171,012,253	$ 186,365,000	$ 196,596,000
Contributions as a percentage of covered payroll	0.57%	16.19%	14.90%	13.71%	12.93%

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

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

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

	2020	2019	2018	2017	2016	2015	2014
PERS 1 employers' proportion of the net pension liability	0.92%	0.93%	0.95%	0.98%	1.01%	0.97%	0.93%
PERS 1 employers' proportionate share of the net pension liability	$ 32,537,245	$ 35,637,058	$ 42,454,119	$ 46,335,497	$ 54,355,128	$ 50,597,060	$ 46,759,620
PERS 1 employers' covered payroll	$ 137,784,157	$ 128,281,013	$ 124,750,748	$ 120,938,855	$ 120,186,698	$ 107,767,738	$ 99,541,744
PERS 1 employers' proportionate share of the net pension liability as a percentage of its covered payroll	23.61%	27.78%	34.03%	38.31%	46.68%	46.77%	47.34%
Plan fiduciary net position as a percentage of the total pension liability	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

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

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

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

	2020	2019	2018	2017	2016	2015	2014
PERS 2 employers' proportion of the net pension liability	1.17%	1.17%	1.18%	1.22%	1.25%	1.19%	1.12%
PERS 2 employers' proportionate share of the net pension liability	$ 14,978,098	$ 11,356,082	$ 20,215,832	$ 42,261,445	$ 62,818,595	$ 42,397,358	$ 22,694,083
PERS 2 employers' covered payroll	$ 136,667,675	$ 127,047,653	$ 123,376,553	$ 119,248,641	$ 118,023,229	$ 105,292,307	$ 96,729,193
PERS 2 employers' proportionate share of the net pension liability as a percentage of its covered payroll	10.96%	8.94%	16.39%	35.44%	54.92%	40.09%	23.67%
Plan fiduciary net position as a percentage of the total pension liability	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

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

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

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

	2020	2019	2018	2017	2016	2015	2014
TRS 1 employers' proportion of the net pension liability	0.19%	0.19%	0.19%	0.19%	0.18%	0.13%	0.08%
TRS 1 employers' proportionate share of the net pension liability	$ 4,524,929	$ 4,614,748	$ 5,663,057	$ 5,696,321	$ 6,014,486	$ 4,144,932	$ 2,452,825
TRS 1 employers' covered payroll	$ 13,614,880	$ 12,505,211	$ 11,393,621	$ 10,512,086	$ 8,881,010	$ 6,390,188	$ 3,741,023
TRS 1 employers' proportionate share of the net pension liability as a percentage of its covered payroll	33.24%	36.90%	49.70%	54.19%	70.83%	64.23%	64.49%
Plan fiduciary net position as a percentage of the total pension liability	70.55%	70.37%	66.52%	65.58%	62.07%	65.70%	68.77%

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

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

Teachers' Retirement System (TRS) Plan 2/3
Measurement Date of June 30*

	2020	2019	2018	2017	2016	2015	2014
TRS 3 employers' proportion of the net pension liability	0.19%	0.19%	0.20%	0.19%	0.18%	0.14%	0.08%
TRS 3 employers' proportionate share of the net pension liability	$ 2,899,625	$ 1,123,636	$ 878,956	$ 1,758,409	$ 2,438,303	$ 1,141,883	$ 272,606
TRS 3 employers' covered payroll	$ 13,564,384	$ 12,448,690	$ 11,338,800	$ 10,446,117	$ 8,802,686	$ 6,237,223	$ 3,642,005
TRS 3 employers' proportionate share of the net pension liability as a percentage of its covered payroll	21.38%	9.03%	7.75%	16.83%	28.94%	17.87%	7.37%
Plan fiduciary net position as a percentage of the total pension liability	91.72%	96.36%	96.88%	93.14%	88.72%	92.48%	96.81%

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

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

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

	2020	2019	2018	2017	2016	2015	2014
LEOFF 2 employers' proportion of the net pension asset	0.11%	0.11%	0.11%	0.09%	0.09%	0.09%	0.09%
LEOFF 2 employers' proportionate share of the net pension asset	$ 2,179,543	$ 2,501,102	$ 2,223,495	$ 1,259,899	$ 552,438	$ 956,615	$ 1,152,604
LEOFF 2 employers' covered payroll	$ 2,429,109	$ 2,274,829	$ 2,177,248	$ 1,705,430	$ 1,694,590	$ 1,638,448	$ 1,461,750
LEOFF 2 employers' proportionate share of the net pension asset as a percentage of its covered payroll	89.73%	109.95%	102.12%	73.88%	32.60%	58.39%	78.85%
Plan fiduciary net position as a percentage of the total pension asset	115.83%	119.43%	118.50%	113.36%	106.04%	111.67%	116.75%

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

Schedule of Changes in Total Pension Liability

WSURP Supplemental Retirement Plan
Measurement Date of June 30*

	2020	2019	2018	2017
Total pension liability				
Service costs	$ 2,282,208	$ 2,111,920	$ 2,763,000	$ 3,803,000
Interest	3,281,815	3,240,556	3,261,000	3,140,000
Changes of benefit terms	–	–	–	–
Differences between expected and actual experience	5,496,235	(1,022,479)	(7,171,000)	(16,390,000)
Changes in assumptions	17,655,000	7,997,446	(3,255,000)	(6,574,000)
Benefit payments	(2,493,145)	(2,438,920)	(2,181,000)	(1,890,000)
Other	–	–	1,268	–
Net change in total pension liability	**26,222,113**	**9,888,523**	**(6,581,732)**	**(17,911,000)**
Total pension liability—beginning	**92,719,791**	**82,831,268**	**89,413,000**	**107,324,000**
Total pension liability—ending	**118,941,904**	**92,719,791**	**82,831,268**	**89,413,000**
Covered payroll	**$ 160,533,073**	**$171,012,253**	**$ 186,365,000**	**$ 196,596,000**
Total pension liability as a percentage of covered payroll	74.09%	54.22%	44.45%	45.48%

– indicates data not available.

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

** As of June 30, 2021; WSURP Supplemental Retirement Plan has had a change in accounting principle therefore it will be reported in a new table below*

Note: Figures may not total due to rounding.

Source: Washington State Office of the State Actuary

Schedule of Changes in Net Pension Liability

WSURP Supplemental Retirement Plan
As of June 30*

	2021
Total pension liability—beginning	**$ 118,942,000**
Service costs	3,114,000
Interest on TPL	2,666,000
Differences between expected and actual experience	(47,565,000)
Changes in assumptions	(33,228,000)
Benefit payments	(2,827,000)
Other	-
Net change in total pension liability	(77,840,000)
Total pension liability—ending (a)	**41,102,000**
Plan fiduciary net position—beginning	**12,305,000**
Employer contributions	919,000
Net investment income	4,422,000
Net change in plan fiduciary net position	**5,341,000**
Plan fiduciary net position—ending (b)	**17,646,000**
WSURP net pension liability (a) minus (b)	**$ 23,456,000**

**Accounting principle change to WSURP supplemental retirement plan as of June 30, 2021.*

Schedule of Changes in Total OPEB Liability

Measurement Date of June 30*

	2021	2020	2019	2018
Total OPEB liability				
Service cost	$ 12,480,593	$ 12,068,578	$ 16,577,178	$ 21,249,263
Interest cost	10,440,211	10,468,799	11,396,717	9,953,285
Differences between expected and actual experience	(1,599,865)	19,495,659	(72,572,455)	(48,552,300)
Changes in assumption	6,767,586	–	–	–
Changes of benefit terms	–	–	10,402,988	–
Benefits payments	(4,970,743)	(4,788,847)	(4,813,404)	(5,072,353)
Changes in proportionate share	(9,783,783)	(4,328,719)	(9,286,729)	(5,931,607)
Other	(10,634,123)	–	–	–
Net changes in total OPEB liability	2,699,876	**32,915,470**	**(48,295,705)**	**(28,353,712)**
Total OPEB liability—beginning	**298,058,920**	**265,143,450**	**313,439,155**	**341,792,867**
Total OPEB liability—ending	**300,758,796**	**298,058,920**	**265,143,450**	**313,439,155**
Covered payroll	**$ 76,727,011**	**$ 73,288,660**	**$ 70,794,306**	**$ 70,792,643**
Total OPEB liability as a percentage of covered payroll	392%	407%	375%	443%

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

Notes to Required Supplementary Information for the Year Ended June 30, 2021

DRS Administered Plans

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

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

University Administered Plans

Effective July 1, 2020, Washington State's House Bill 1661 created a trust arrangement for the WSUSRP. All funds previously contributed by the University were transferred to the trust to pay benefits to the plan's beneficiaries. This arrangement significantly changed the accounting for the plan.

Covered payroll for fiscal year 2021 is based on the payroll of participants in the University's 403(b) defined contribution plan, whereas the covered payroll for fiscal year 2020 and preceding years was based on the payroll of the participants of the WSURP.

Material assumption changes during fiscal year 2021 include updating the discount rate from 2.21% to 7.4%. Also, CREF investment experience during fiscal year 2021 was significantly higher than expected.

Health Care Authority Administered OPEB Plan

The OPEB plan has no assets accumulated in a trust meeting the criteria of GASB 75 to pay related benefits.

Material assumption changes in fiscal year 2021 include a decrease in the Bond Buyer General Obligation 20-Bond Municipal Bond Index, from 3.5% to 2.21% resulting in an increase to the total OPEB liability.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Regents
Washington State University
Pullman, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Washington State University (the University), as of and for the year then ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated June 9, 2022.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 through 2021-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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The University's Response to Findings

Washington State University's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The University's responses are not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho

June 9, 2022

Schedule of Findings and Responses

2021-001 Year-End Closing and Reconciliation

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria:

A good system of internal control and good business practices requires management to have policies and procedures in place to allow for the timely close of the fiscal year-end which includes reconciliation of balance sheet accounts to underlying subsidiary ledgers and 3rd party documents, assessment of operations for reasonableness and accuracy based on current year conditions and activity, and review of all manual adjusting entries, closing entries, reconciliations and financial information.

Condition:

For fiscal year 2021, the year-end procedures were not performed timely and there was not a sufficient level of review by an appropriate level of management over those year-end procedures. During our audit, we noted the following issues:

Many balance sheet accounts had not been reconciled to underlying subsidiary ledgers or 3rd party documents;

There was no evidence of review over the balance sheet accounts for reasonableness or appropriateness of the ending balance;

The impact of the beginning balance, conversion and inception-to-date adjustments recorded at conversion to Workday were not reviewed for accuracy or appropriateness in regard to the impact on year-end balances;

The final trial balance was not completed until April 2022.

Cause:

There was a mid-year (January 1, 2021) conversion of the ERP platform that was the cause of these conditions. The conversion from a cash system to a full accrual system midway through a fiscal year created a significant amount of issues that management was unable to address and resolve before year-end. These issues presented themselves throughout the course of our audit as they had not been addressed before the audit began.

Effect:

Due to the issues created by the midyear conversion to Workday, the start of audit fieldwork was delayed. The first trial balance was not received until the end of November 2021. The final trial balance was not received until April 2022, with many iterations in between due to changes made as a result of audit procedures. All of this resulted in the delay of completion of the audit and issuance of the audited financial statements until May of 2022.

During the audit, we identified issues with balance sheet accounts that did not agree to the support, had ending balances that were outside expectation (i.e., debit balances in liability accounts), and had adjusting entries related to the conversion that were posted incorrectly or did not correctly clear out of the accounts as expected. The offset to many of the issues identified during the audit was the revenue accounts which caused many of those accounts to be misstated in the trial balances received by management to audit. There were also material reclassifications in the various revenue categories on the statement of activities as a result of audit procedures.

In addition to multiple entries and corrections made by management because of audit procedures, there were several audit adjustments identified that were not made by management that resulted in a net overstatement of revenue of $6.8 million, most of which will have an impact on the fiscal year 2022 revenue.

Recommendation:

Many of the issues identified during the audit could have been detected and corrected before the start of the audit had an appropriate level of review been performed over the balance sheet and revenue accounts taken place prior to the audit beginning. This appropriate level of review was impacted by the delay of the year-end closing procedures and reconciliations.

As management closes out fiscal year 2022, they should create new year-end closing procedures that mirrors Workday's new account structure and recording of transactions that transpired during a full year under Workday. These closing procedures should include a review and reconciliation of all balance sheet accounts to make sure the impact of all beginning balance, conversion and inception-to-date adjusting entries have been removed from the ending balance. Management should also closely review the revenue and expenditures account balances to ensure they appear reasonable and are properly supported based upon current year activity. Closing procedures should also include the reconciliation of balance sheet accounts to the underlying support and 3rd party documents. Management should gain a full understanding of the functionality of the accounts that are new under Workday to ensure that they are functioning correctly and the “ins and outs” during the year are valid and accurate and that the ending balance is valid and accurate at year-end. An appropriate level of review over all year-end closing procedures and reconciliations should be performed before the start of the 2022 audit.

Views of Responsible Officials:

Management agrees with the recommendations that processes and reviews be implemented for the close of fiscal year 2022 that support Workday’s account structure and recording of transactions. We also concur that these closing procedures include review and reconciliation of all balance sheet accounts to substantiate ending balance. Closing procedures will include the reconciliation of balance sheet accounts to the underlying support and 3rd party documents. Management also agrees that revenue and expenditures account balances should be reviewed for reasonableness and proper document to support current year activity.

In preparation for the closing of FY2021, staff members of the Controller’s Office were aware that due to the implementation of Workday with a mid-year conversion, the integration of myWSU to Workday, turnover in key staff and the conversion to full accrual accounting that many balance sheet accounts had not been fully reconciled to underlying subsidiary ledgers or 3rd party documents and the system and integrations that impacted these accounts.

Since the closing of FY2021, management has gained a better understanding of the functionality of the accounts and resulting transactions that are new under Workday. Review is underway to ensure they are functioning correctly during the year resulting in correct and valid ending balances.

With the addition of a senior level accounting and financial management position within the Controller’s Office, we will be in a better position to complete appropriate levels of review over all year-end closing procedures and reconciliations prior to the start of the 2022 audit.

2021-002 Bank Reconciliations

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria:

A good system of internal control and good business practices requires management to have policies and procedures over the timely and accurate reconciliation of all depository bank accounts. The bank reconciliation procedures should include the identification of outstanding checks and deposits, and verification that these outstanding items appear reasonable and clear the bank in the following months. The bank reconciliation procedures should also be sufficient to identify transactions that cleared the bank in that month, are not yet posted to the general ledger, and then get those transactions posted to the general ledger that same month. Items that clear the bank should not be carried forward as reconciling items but should be posted to the general ledger.

Condition:

Management was unable to reconcile the bank accounts starting in January 2021 and continues to struggle with the process. As of June 30, 2021, there were material amounts of transactions that cleared the bank that could not be matched with the transactions in Workday, and a material amount of transaction in Workday that could not be matched with transactions clearing the bank. As management was unable to match these transactions, an adjustment was made as of June 30, 2021 to bring the trial balance into relative agreement with the bank statements, excluding the known reconciling items.

After these adjustments, there remained approximately $1.86 million in unidentified reconciling items, and $6 million in deposits that had cleared the bank but had not been recorded to the general ledger.

In addition, there is an account on the trial balance for $7 million for undeposited payments that was not reviewed by management or reconciled to the underlying transactions to determine if individual transactions remaining in that account at year-end were appropriately classified as “undeposited” and were recorded and treated appropriately.

In addition to the issues noted with the reconciliation at June 30, 2021, management did not have sufficient controls in place to ensure that transactions clearing the bank were properly identified and posted to the general ledger in that same month, and instead they carried forward these unreconciled transactions from year to year until the unidentified deposits grew to a material amount.

Cause:

The inability of management to reconcile the bank accounts since January 2021 is the direct result of the conversion to Workday. The setup of the account structures within Workday did not create an environment conducive to matching transactions clearing the bank with transaction posting to the general ledger. Management has not been able to figure out a solution to this issue.

The condition related to the unidentified deposits clearing the bank but not being posted to the general ledger is the result of limitations of the legacy software and the volume of checks and deposits that are received by the University every month, sometimes with insufficient support and evidence to what it is related.

Effect:

Management was unable to reconcile the bank accounts at June 30, 2021, was unable to identify the reconciling items, was unable to match bank transactions with general ledger transactions, and as a result of all this, was forced to make adjusting entries to bring the trial balance into reconciliation with the bank accounts. This creates the potential of a material transaction not being posted correctly, not being posted at all, or a material misstatement of the financial statements going unidentified.

The accumulated impact of the practice of not identifying and posting deposits that cleared the bank in a timely manner resulted in a prior period adjustment of $37 million to the net position as of June 30, 2020.

Recommendation:

Management should continue to work with IT and the outside consultants to figure out how to move Workday setup in the direction of allowing for accurate and timely reconciliation of the bank accounts. Management should continue to monitor reconciling items and unidentified differences noted in months subsequent to June 30, 2021, to ensure that nothing indicates a material transaction that should have been posted in fiscal year 2021, requiring a prior period adjustment. Management should review all the unidentified differences at June 30, 2021, to make sure they are adequately resolved before closing fiscal year 2022. Management should also get a working understanding of the Workday account for undeposited payments and ensure it is legitimate and accurate at June 30, 2022.

Management should have procedures in place to ensure the timely identification and recording of deposits that clear the bank. If management is not able to identify and record the transaction in the same month it clears the bank, their procedures should ensure it is resolved within a month or two of clearing the bank. Unidentified deposits at year-end should be posted back into the correct fiscal year and should not be carried into the next fiscal year unless clearly immaterial.

Views of Responsible Officials:

Management concurs with this recommendation and will develop procedures to ensure the timely identification and recording of deposits that clear the bank and that unidentified deposits at year-end are posted to the correct fiscal year rather than carried into the next fiscal year unless clearly immaterial. A senior level accountant was recently hired to assist in ensuring that bank accounts are properly reconciled, and that appropriate processes and procedures are put into place.

Management agrees that it was unable to reconcile the major bank accounts of WSU due to the conversion to Workday, the transition to full accrual accounting and the turnover of key staff assigned bank reconciliations. Additionally, Workday provided in-system automated bank reconciliations, a functionality new to WSU personnel. As a result, WSU has engaged consultants to better understand system capabilities to move Workday configuration and processes forward to allow for accurate and timely reconciliation of the bank accounts.

Management will continue to monitor reconciling items and unidentified differences noted in months subsequent to June 30, 2021, to ensure that material transactions are identified and properly recorded in correct fiscal year. Management will review the undeposited payments ledger and ensure it is legitimate and accurate at June 30, 2022.

2021-003 Students Book Corporation (SBC)

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria:

Generally Accepted Accounting Principles (GAAP) established by the Governmental Accounting Standards Board (GASB) required that a governmental entity accurately report the reporting entity in their GAAP financial statements. The reporting entity is defined as the primary government and its component units, both blended and discretely presented. The GASB has defined a component unit and the parameters around when a component unit is blended and when it is discretely presented.

According to GASB code section 2100: *Defining the Financial Reporting Entity*, a separate legal entity is a component unit when the primary government has financial accountability over the entity. Financial accountability is defined as appointment of a voting majority of the government board, imposition of will, financial benefit to or burden on, and/or fiscal dependency. A component unit should be blended if the component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.

Condition:

During our audit, we noted the relationship between the University and the Students Book Corporation (SBC) was not accounted for properly in prior years. The 2020 financial statements reported SBC as an affiliated organization and as a 501(c)(3) approved by the Internal Revenue Service. Through our examination of the legal documents of SBC, we noted the University through the Board of Regents has financial accountability over SBC making SBC a component unit. We also noted that SBC provides services exclusively to the students attending the University, making it a blended component unit. We also noted through inquiry of management that SBC has never applied for nor been granted status as a 501(c)(3) tax-exempt organization.

Cause:

SBC and the University have existed for a long time, and their relationship has evolved over the years. This relationship was not reevaluated throughout the years as the standards surrounding primary governments and the entities that serve them have changed over the years.

Effect:

The activity, assets and liabilities of SBC were not reported as part of the University in the prior year. It was also inaccurately reported as an affiliated entity and a 501(c)(3) tax-exempt organization. This resulted in a $17 million adjustment to beginning net position in the 2021 financial statements of the University.

Recommendation:

Management should implement policies and procedures to ensure timely review and analysis of the University's relationship with other entities as those relations change and evolve, as new entities are formed and created, or as new standards emerge regarding the reporting entity and component units.

Views of Responsible Officials:

Management agrees with this recommendation and will implement policies and procedures to routinely evaluate relationships with other entities to ensure timely review and analysis so that appropriate changes can be made as necessary

2021 Annual Financial Report

Fiscal year ended June 30, 2021

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We would like to acknowledge the following staff responsible
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