



ANNUAL REPORT

WASHINGTON STATE UNIVERSITY FOUNDATION

2012

WELCOME

MESSAGE FROM THE CHAIR

Dear WSU supporters,

Time and again, you've proven that Cougs do not back down in the face of a challenge. In fact, I believe Cougs are at their best when challenged. It is what Washington State University's students and faculty do every day in the classroom, in laboratories, and in our communities. It is also what tens of thousands of generous supporters are doing each year during *The Campaign for Washington State University: Because the World Needs Big Ideas*.

Since July 1, 2006, more than 163,000 generous donors have stepped up to the challenge to raise \$1 billion in support of WSU during this historic campaign. To date, we have surpassed \$714 million and continue to charge toward our ambitious goal. That we have taken this challenge on during a time when public funding for our University has been cut by more than 50 percent is particularly meaningful. It sends a powerful message that we believe in and care about the quality of the institutions that are educating our citizens, advancing our lives and economy through ground-breaking research, and impacting our state.

Philanthropy matters at WSU every day. It matters for the first-year student who can proudly say she is the first in her family to pursue a college degree thanks to a donor's scholarship gift.

It matters for the research teams developing more sustainable technologies to help farmers produce higher yields that are healthier for us and our environment. Philanthropic support for WSU also matters for each of us who depend upon an educated workforce to be our teachers, health-care professionals, veterinarians, engineers, farmers, entrepreneurs, scientists, community leaders, and more. The difference WSU makes in all of our lives is powerful.

Thank you for choosing to invest in Washington State University.
Your support for WSU benefits us all.

Go Cougs!



Dan Harmon '80
President, Washington State University Foundation
Chair, WSU Foundation Board of Governors



PHILANTHROPIC IMPACT



GROWING STRONGER

Apple and pear growers statewide made the largest-ever single investment in Washington State University history when they agreed in September 2011 to commit \$27 million toward tree fruit research and extension.

WSU President Elson S. Floyd calls the cooperative effort “truly transformational,” and Dan Bernardo, dean of the WSU College of Agriculture, Human, and Natural Resource Sciences, says the gift is a testimony to three critical factors: the foresight of a progressive industry, the highest quality of WSU research, and the trust and respect at the center of an enduring, century-long alliance.

“The \$7 billion Washington tree fruit industry is a global competitor today in part due to the partnership and close collaboration among growers and scientists at WSU,” says Jim Doornink, orchardist and chair of the Washington Tree Fruit Research Commission. “The results of that relationship can be seen every day in the orchards, the packing houses, and at market.”

Through this vote of confidence, apple and pear growers are making a clear statement about the University’s ability to help Washington fruit growers lead in the global marketplace.

“The Washington tree fruit industry’s investment in WSU has always paid big dividends,” says orchardist Bruce Allen of Yakima. “This investment guarantees that will continue.”

Allied industry members have also contributed more than \$500,000 to support tree fruit research at WSU, including a \$250,000 commitment from Tree Top Inc.—a commitment that CEO Tom Stokes says is “first and foremost about reinforcing the industry’s investment in WSU.”

Efforts will continue throughout the remainder of *The Campaign for WSU* to raise an additional \$10 million to support tree fruit research.

Over the next seven years, funds generated through the historic commitment of the Washington Tree Fruit Research Commission will provide:

- \$11 million for six endowed chairs, securing perpetual support for tree fruit research;
- \$11 million to endow non-tenured positions, accelerating technology and information transfer;
- \$5 million to endow dedicated research orchards in Prosser and Wenatchee, enhancing development of leading technologies and practices.

To discuss the ways you, too, can partner with WSU to impact one of the state’s top economic drivers, contact Ben McLuen at 509-335-4172 or benjamin_mccluen@wsu.edu.

ENSURING EXCELLENCE FOR GENERATIONS TO COME

At some point, everyone benefits from nurses, whether from the care of a bedside nurse or the research of a doctoral nurse scientist. Chris and Susan Marker learned firsthand the importance of having capable nurses on duty when their granddaughter was rushed to a hospital for emergency medical attention in 2010. Many of the caring nurses who attended to young Petra, it turns out, were educated at the WSU College of Nursing.

This makes sense because WSU provides the Northwest with more baccalaureate-prepared nurses than any other institution in the region. The vast majority of these nurses remain in the state, making up the roughly 60 percent of Washington nurses who possess degrees in nursing.

In fact, a focus on regional health care needs is a hallmark of the college. Students engage in community-based learning opportunities at more than 1,000 statewide health clinics and hospitals, work alongside registered nurses, and care for patients at community centers and in medically underserved and rural areas. In response to the expanding need for nurses and nurse practitioners in communities across the Northwest, the college offers several degree options at multiple sites statewide.

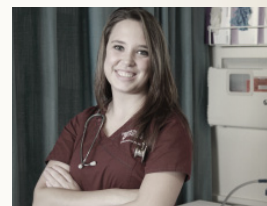
In honor of the WSU-trained nurses who cared for their granddaughter, the Markers established the *Chris and Susan Marker Family Scholarship in Nursing Excellence*, which awarded its first two scholarships in Fiscal Year 2012. These scholarships are making a world of difference for two WSU seniors, Tori Erickson and Brianna Taylor.

Today Petra is happy and healthy, and her family's appreciation of the WSU College of Nursing will live on, ensuring that new generations of deserving nursing students will have the opportunity to impact the lives of many more families.



"Although my parents did not go to college, I knew I needed to so that I could someday help people recover from injuries or fight diseases, or provide comfort to those who might not recover. I want to be a nurse to help and serve people. I want to provide holistic care while considering all of the special factors that make patients unique, such as their cultures and beliefs. I want to advocate for my patients and make at least a little bit of difference in their lives. Receiving scholarship support from generous donors like the Markers is a huge relief. It relieves financial stress and proves that people have confidence in me."

—Tori Erickson



"I don't need to have everything I want; I just don't want to struggle like my mother has as a single parent with only a high school education. Unlike most students who change their majors several times, I decided to be a nurse when I was five and never wavered. My mother taught me the meaning of hard work and gave me the confidence to follow my dream of becoming a nurse. I've learned a lot since I was five—nursing isn't just about making people feel better, it's also about educating and advocating for patients. The most important part of the job is being there for people, and this motivates me every day."

—Brianna Taylor



To make a significant impact on health care in communities throughout the Northwest, consider supporting programs, research, or scholarships at the College of Nursing during *The Campaign for WSU*. Contact Theresa Boyer at 509.324.7202 or theresa.boyer@wsu.edu to learn how your support, no matter the size, can make a difference.

GIVING PURPOSE TO PASSION

"It amazes me that people who had never even met me made such a great investment in my dreams."

—Jacob Brandvold



The impact of scholarships should never be underestimated. For Jacob Brandvold, scholarships enabled a once-in-a-lifetime opportunity that helped him discover how his passion for animals could give a bigger purpose to his life.

Jacob knew he wanted to be a veterinarian since he was a young child. In his youth, he worked toward that dream by reading books and articles about animals and seeking opportunities to work with veterinarians.

"My passion for animals continues to grow, and what I learned about the demands and stress of the profession—things that might seem daunting to others—intrigues me," says Jacob.

So, when the time came for him to decide what to study in college, it was a no-brainer. Being born and raised in Washington and knowing the great reputation of WSU's veterinary medicine program, WSU was the only school that Jacob even considered. And WSU proved to be the right choice.

During his junior year, Jacob was presented with a once-in-a-lifetime opportunity to study exotic animals in Tanzania and Kenya for a full academic semester. He knew he had to take advantage of this opportunity; however, there was one thing standing in his way—finances.

Jacob's story would have turned out very differently had he not received the financial help he needed through scholarships. In fact, he may have turned out to be a very different person. He credits his study abroad experience with revealing a greater purpose for his life. Witnessing a horrific drought that devastated livestock and spread famine throughout the region enabled him to see a need in the world and challenged him to figure out how he can help to address it.

"I discovered who I am and where I am destined to go," says Jacob. "I plan to work in veterinary relief to serve those in developing nations who depend on their animals for survival."

Jacob earned a degree in zoology last May and is now working toward a doctor of veterinary medicine degree at WSU. With a clearly defined goal in mind, Jacob is now well on his way to achieving his dream of making the world a better place. Scholarships, Jacob says, had a remarkable impact in his life.

"It amazes me that people who had never even met me made such a great investment in my dreams," says Jacob.

Whether in support of a need-based student in affording tuition or in honor of a student's high academic merit, scholarships make a difference. Learn more about the impact of scholarships at WSU and how you can make a difference by contacting Risë McGill at 509-335-7456 or ramcgill@wsu.edu.

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Slalom Consulting

Lisa Steele Haberly ('99)
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Raytheon Missile systems

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Bellingham Cold Storage Company

Lisa L. Thompson ('84)

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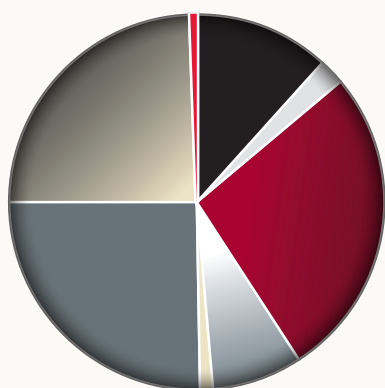
WSU FOUNDATION

BOARD OF TRUSTEES

2012 FINANCIAL REPORT

FISCAL YEAR 2012 OVERVIEW

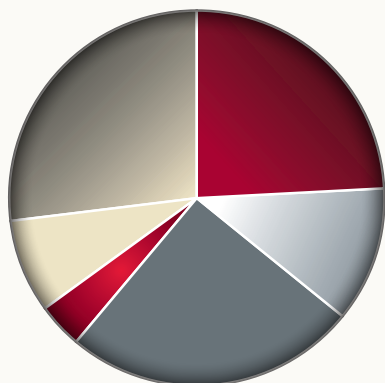
The Washington State University Foundation received \$109,765,282 in private gifts, grants, and pledges to support Washington State University during fiscal year (FY) 2012, which ended June 30, 2012. An additional \$29,933,357 in revocable commitments and other contributions was recorded by the WSU Foundation during this period, bringing total fund-raising activity during FY 2012 to \$139,698,638. During this period, the all-alumni gift participation rate was 18.5 percent, up from 15.9 percent in FY 2011.



GIFTS, GRANTS, AND PLEDGES BY DESIGNATION

| | |
|----------------------|------------|
| Scholarships | 12,860,254 |
| Graduate Fellowships | 2,744,253 |
| Research | 29,542,635 |
| Facilities | 8,401,988 |
| Faculty | 1,250,521 |
| Grants | 27,715,079 |
| Operational Support | 26,645,039 |
| Other | 605,513 |

| | |
|--------------|----------------------|
| Total | \$109,765,282 |
|--------------|----------------------|



GIFTS, GRANTS, AND PLEDGES BY SOURCE

| | |
|--------------------------------------|------------|
| Alumni | 26,777,041 |
| Friends, Parents, Faculty, and Staff | 12,769,301 |
| Private Grants | 27,715,079 |
| Foundations | 4,364,166 |
| Corporations | 8,719,568 |
| All Other Organizations | 29,420,127 |

| | |
|--------------|----------------------|
| Total | \$109,765,282 |
|--------------|----------------------|

PRIVATE SUPPORT BY COLLEGE, CAMPUS, AND PROGRAM FISCAL YEAR 2012

| COLLEGE/CAMPUS/UNIT | PRIVATE GIFTS | PLEDGES | REVOCABLE COMMITMENTS | OTHER CONTRIBUTIONS | PRIVATE GRANTS | TOTAL COMMITMENTS |
|--|---------------|--------------|-----------------------|---------------------|----------------|-------------------|
| Ag., Human, & Nat. Resource Sciences/4-H & Extension | 4,207,531 | 30,421,534 | 5,060,000 | 0 | 13,694,687 | 53,383,752 |
| Arts and Sciences | 3,721,101 | 1,985,899 | 1,245,600 | 0 | 1,294,396 | 8,246,995 |
| Business | 1,992,098 | 128,399 | 2,710,000 | 23,250 | 14,000 | 4,867,747 |
| Edward R. Murrow College of Communication | 233,204 | 10,008 | 127,500 | 56,745 | 1,398,905 | 1,826,361 |
| Education | 919,139 | 90,395 | 1,035,000 | 0 | -36,003 | 2,008,531 |
| Engineering & Architecture | 3,325,083 | 421,085 | 4,095,000 | 11,000 | 3,922,153 | 11,774,320 |
| Honors College | 332,741 | 7,033 | 0 | 0 | 0 | 339,774 |
| Nursing | 560,702 | 28,835 | 188,000 | 0 | 512,725 | 1,290,261 |
| Pharmacy | 784,256 | 7,119 | 0 | 0 | 344,823 | 1,136,198 |
| University College | 82,545 | 1,665 | 0 | 11,800 | 0 | 96,010 |
| Veterinary Medicine | 8,889,433 | 46,196 | 4,267,000 | 11,714 | 3,498,557 | 16,712,899 |
| WSU Spokane | 414,549 | 744,289 | 75,000 | 0 | 294,549 | 1,528,387 |
| WSU Tri-Cities | 843,745 | 451,931 | 1,350,000 | 49,458 | 51,388 | 2,746,523 |
| WSU Vancouver | 1,595,130 | 877,468 | 264,000 | 0 | 349,007 | 3,085,605 |
| Athletics | 8,927,833 | 3,290,754 | 2,774,000 | 14,140 | 0 | 15,006,727 |
| International Programs | 4,834 | 2,901 | 0 | 0 | 41,913 | 49,648 |
| Libraries | 146,032 | 3,937 | 3,210,000 | 0 | 0 | 3,359,969 |
| Museum of Art | 132,419 | 1,000,120 | 0 | 1,000 | 12,000 | 1,145,539 |
| NW Public Radio/TV | 2,001,065 | 21,552 | 263,000 | 0 | 0 | 2,285,617 |
| Research & Graduate School | 598,392 | 0 | 0 | 0 | -677 | 597,715 |
| Scholarships/Student Affairs/Equity & Diversity | 948,257 | 116,498 | 451,149 | 5,000 | 114,058 | 1,634,962 |
| General University Support | 1,731,375 | 177,723 | 2,634,000 | 0 | 2,208,599 | 6,751,697 |
| Annual Totals | \$42,214,863 | \$39,835,340 | \$29,749,249 | \$184,108 | \$27,715,079 | \$139,698,638 |

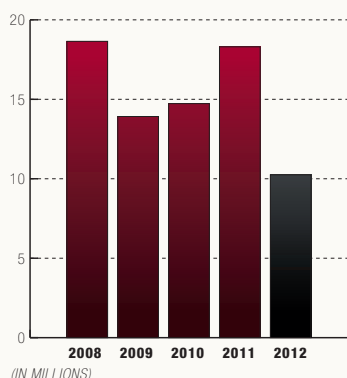
Grand total is correct. It is smaller than column cumulative totals because some gifts and pledges for branch campuses are also reflected in college figures.

2012 ENDOWMENT PERFORMANCE

ENDOWMENT PERFORMANCE

For the period of July 1, 2011 to June 30, 2012, the endowment portfolio produced a total return of 0.0 percent. Gifts and other additions to the endowment fund totaled \$10,997,194 during this period. A total of \$12,343,528 was distributed from the endowment in support of programs at Washington State University. Since 2003, the endowment has grown from \$177.1 million to more than \$318.1 million.

GIFTS TO ENDOWMENT, 2008-2012

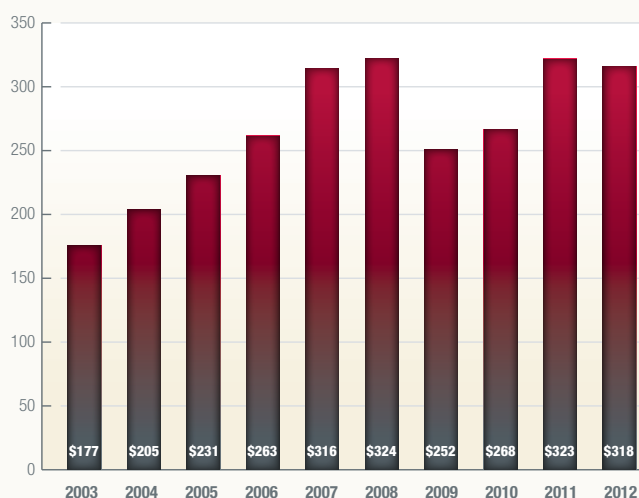


INVESTMENT RETURNS, 2008-2012



ENDOWMENT VALUE 2003-2012 (in millions)

| | |
|------|-------|
| 2012 | \$318 |
| 2011 | \$323 |
| 2010 | \$268 |
| 2009 | \$252 |
| 2008 | \$324 |
| 2007 | \$316 |
| 2006 | \$263 |
| 2005 | \$231 |
| 2004 | \$205 |
| 2003 | \$177 |

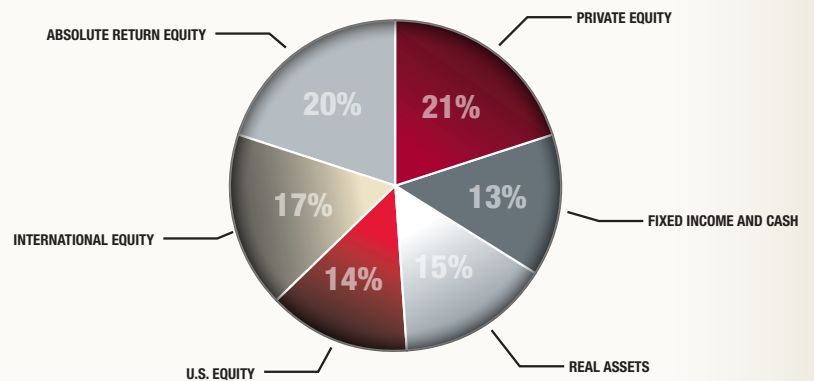


ENDOWMENT INVESTMENT STRATEGY

The investment objectives of the WSU Foundation Endowment Fund reflect its long-term nature. It is recognized that the desire to grow endowment gifts and to produce a large, stable, and predictable payout stream involves tradeoffs that must be balanced in establishing the investment and spending policies. Considerations that shape the Fund's objectives are outlined here:

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

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

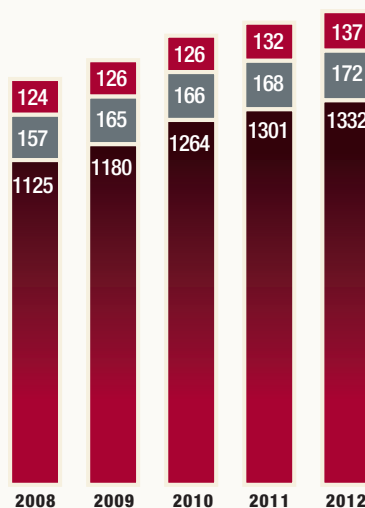


ENDOWMENT NET ASSET MIX

As of June 30, 2012, the WSU Foundation Endowment assets stood at \$318,134,034 and were allocated as shown at right.

ENDOWED SCHOLARSHIPS, FELLOWSHIPS, AND PROFESSORSHIPS/CHAIRS

- PROFESSORSHIPS/CHAIRS
- GRAD FELLOWSHIPS
- SCHOLARSHIPS



CAMPAIGN PROGRESS

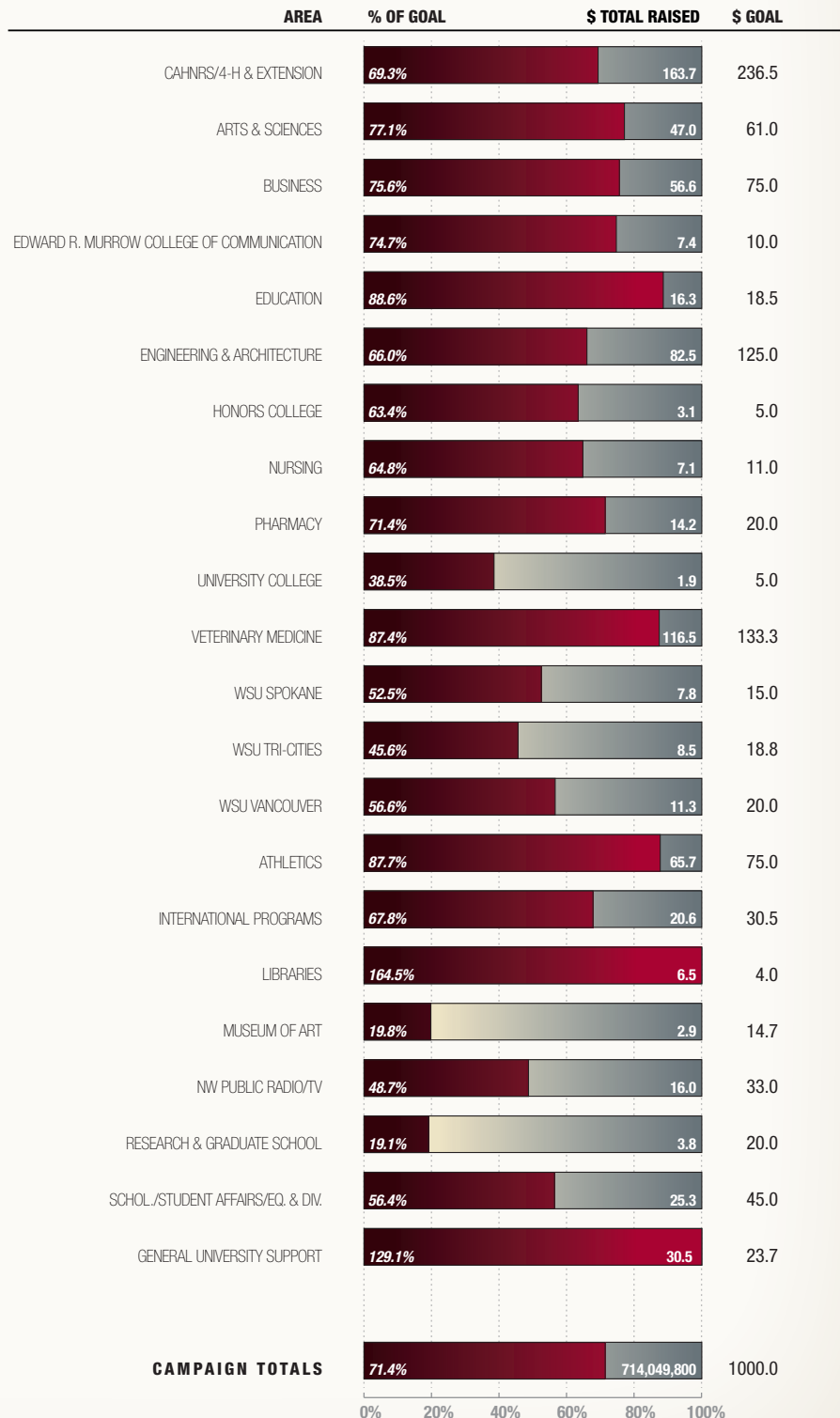
CAMPAIGN BY COLLEGE, CAMPUS, AND PROGRAM

JULY 1, 2006 TO JUNE 30, 2012

(IN MILLIONS)

Begun on July 1, 2006, the \$1 billion *Campaign for Washington State University: Because the World Needs Big Ideas* is the greatest comprehensive fund-raising effort in WSU history.

Thanks to the support of all alumni, friends, organizations, faculty and staff members, and students who generously give, *The Campaign for WSU* is outperforming expectations. The figures provided here reflect total campaign activity from July 1, 2006 through June 30, 2012.

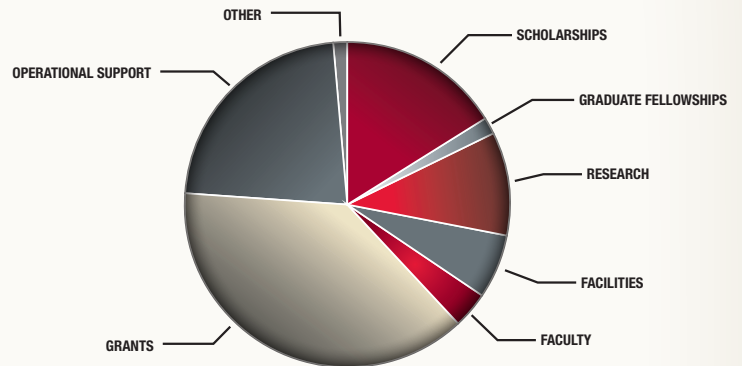


CAMPAIGN PROGRESS BY DESIGNATION, SOURCE, AND GIFT TYPE

JULY 1, 2006 TO JUNE 30, 2012

GIFTS, GRANTS, AND PLEDGES BY DESIGNATION

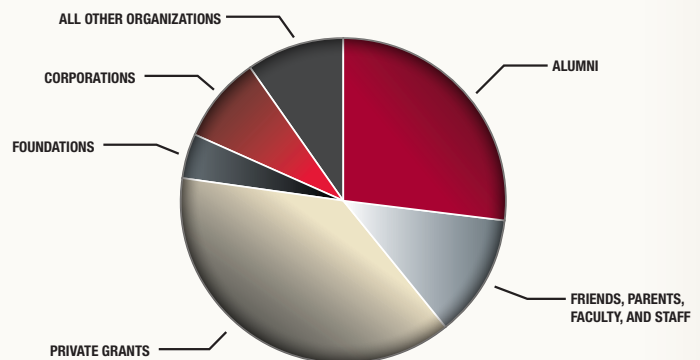
| | |
|----------------------|-------------|
| Scholarships | 87,310,297 |
| Graduate Fellowships | 10,124,973 |
| Research | 55,992,833 |
| Facilities | 34,073,801 |
| Faculty | 20,080,000 |
| Grants | 205,384,090 |
| Operational Support | 122,079,289 |
| Other | 6,894,602 |



Total 541,939,885

GIFTS, GRANTS, AND PLEDGES BY SOURCE

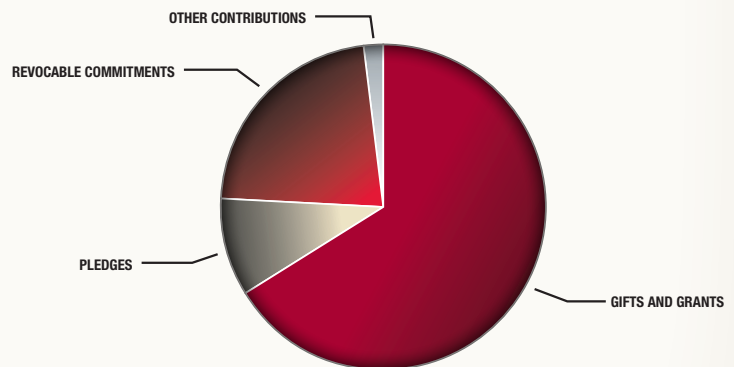
| | |
|--------------------------------------|-------------|
| Alumni | 146,016,395 |
| Friends, Parents, Faculty, and Staff | 67,315,160 |
| Private Grants | 205,384,090 |
| Foundations | 24,742,754 |
| Corporations | 47,013,900 |
| All Other Organizations | 51,467,586 |



Total 541,939,885

CAMPAIGN BY GIFT TYPE

| | |
|-----------------------|-------------|
| Gifts and Grants | 473,729,444 |
| Pledges | 68,210,441 |
| Revocable Commitments | 159,575,049 |
| Other Contributions | 12,534,867 |



Total 714,049,800

DISCLOSURE OF FEES

The WSU Foundation imposes small fees on certain forms of gifts. The purposes of these fees vary and fees are not charged on all types of gifts. Some fees are charged to recoup specific charges by third party vendors per contract for various services. Others are designated to recoup expenses incurred by the WSU Foundation during the ordinary course of business. A portion of these fees also helps to create a revenue stream to cover some WSU Foundation operational expenses. All fees are subject to change without notice.

Annually, a 1.5 percent advancement fee is charged to the WSU Foundation Endowment Fund. This fee is paid out quarterly and is calculated based on the 36-month rolling average of the Endowment's market value. Other costs associated with the Endowment include investment management fees, custodial costs, and consulting expenses. All performance figures of the WSU Foundation Endowment Fund are net expenses.

For more information about fees, visit foundation.wsu.edu/about/management-policies.html or call the WSU Foundation at 800-GIV-2-WSU (448-2978).



WASHINGTON STATE UNIVERSITY FOUNDATION (A NONPROFIT CORPORATION)

COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2012 AND 2011

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
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YEARS ENDED JUNE 30, 2012 AND 2011**

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Governors
Washington State University Foundation
Pullman, Washington

We have audited the accompanying combined statements of financial position of Washington State University Foundation (a nonprofit corporation) (the Foundation) as of June 30, 2012 and 2011, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Washington State University Foundation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Spokane, Washington
December 7, 2012

WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 747,840 | \$ 910,595 |
| Due from Washington State University | 1,251,260 | 757,542 |
| Other Receivables | 151,752 | 126,593 |
| Pledges Receivable | 47,404,282 | 13,944,192 |
| Endowment Investment Securities (Including Assets Held in Endowments for Washington State University of \$17,737,390 and \$18,646,007, Respectively) | 281,759,973 | 286,713,590 |
| Notes Receivable | 239,718 | 259,869 |
| Furniture, Fixtures, and Equipment (Net of Accumulated Depreciation of \$969,579 and \$834,339, Respectively) | 475,267 | 545,163 |
| Land, Cougar Property Holdings | 50,000 | 50,000 |
| Land and Real Estate | 2,137,500 | 2,137,500 |
| Assets Held in Charitable Trusts | 30,515,637 | 33,625,749 |
| Contributions Receivable From Charitable Trusts | 6,743,775 | 7,151,535 |
| Beneficial Interest in Perpetual Trusts | 11,340,441 | 11,699,630 |
| Total Assets | <u>\$ 382,817,445</u> | <u>\$ 357,921,958</u> |
| LIABILITIES | | |
| Accounts Payable and Accrued Liabilities | \$ 361,893 | \$ 425,468 |
| Annuities Payable | 12,832,814 | 14,055,102 |
| Remainder Interest Payable | 2,751,250 | 3,038,630 |
| Assets Held for Other Organizations | 486,476 | 401,590 |
| Assets Held in Endowments for Washington State University | 17,737,390 | 18,646,007 |
| Total Liabilities | <u>34,169,823</u> | <u>36,566,797</u> |
| NET ASSETS | | |
| Unrestricted | 2,214,704 | 1,947,908 |
| Temporarily Restricted | 26,451,926 | 35,827,104 |
| Permanently Restricted | 319,980,992 | 283,580,149 |
| Total Net Assets | <u>348,647,622</u> | <u>321,355,161</u> |
| Total Liabilities and Net Assets | <u>\$ 382,817,445</u> | <u>\$ 357,921,958</u> |

See accompanying Notes to Combined Financial Statements.

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

| | 2012 | | | |
|--|---------------------|---------------------------|---------------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUE AND SUPPORT | | | | |
| Contributions | \$ 11,681 | \$ 37,198,146 | \$ 37,028,507 | \$ 74,238,334 |
| Investment Income | 2,088 | 1,029,324 | 800,265 | 1,831,677 |
| Loss on Investments | (17,684) | (1,868,427) | (589,985) | (2,476,096) |
| Management and Advancement Fee | 4,266,555 | - | - | 4,266,555 |
| Change in Value of Split-Interest Agreements | - | - | (1,612,641) | (1,612,641) |
| Support Provided by Washington State University | 4,658,652 | - | - | 4,658,652 |
| Other Income | - | - | 557,358 | 557,358 |
| Total Revenue and Support | 8,921,292 | 36,359,043 | 36,183,504 | 81,463,839 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 45,516,882 | (45,734,221) | 217,339 | - |
| EXPENSES | | | | |
| Support Provided to/for Washington State University: | | | | |
| Restricted Distributions | 31,166,930 | - | - | 31,166,930 |
| Endowment Income Distributions | 9,950,110 | - | - | 9,950,110 |
| Management and Advancement Fees | 3,711,265 | - | - | 3,711,265 |
| Fundraising | 5,943,252 | - | - | 5,943,252 |
| General and Administrative Expenses | 3,399,821 | - | - | 3,399,821 |
| Total Expenses | 54,171,378 | - | - | 54,171,378 |
| CHANGE IN NET ASSETS | 266,796 | (9,375,178) | 36,400,843 | 27,292,461 |
| Net Assets - Beginning of Year | 1,947,908 | 35,827,104 | 283,580,149 | 321,355,161 |
| NET ASSETS - END OF YEAR | <u>\$ 2,214,704</u> | <u>\$ 26,451,926</u> | <u>\$ 319,980,992</u> | <u>\$ 348,647,622</u> |

See accompanying Notes to Combined Financial Statements.

WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

| | 2011 | | | |
|--|---------------------|---------------------------|---------------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUE AND SUPPORT | | | | |
| Contributions | \$ 15,683 | \$ 31,008,801 | \$ 10,039,492 | \$ 41,063,976 |
| Investment Income | 2,304 | 1,565,717 | 846,209 | 2,414,230 |
| Gain (Loss) on Investments | (7,936) | 41,499,719 | 5,771,749 | 47,263,532 |
| Management and Advancement Fee | 4,112,521 | - | - | 4,112,521 |
| Change in Value of Split-Interest Agreements | - | - | 482,039 | 482,039 |
| Support Provided by Washington State University | 5,034,760 | - | - | 5,034,760 |
| Other Income | - | (416) | 1,540,444 | 1,540,028 |
| Total Revenue and Support | 9,157,332 | 74,073,821 | 18,679,933 | 101,911,086 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 44,512,022 | (45,829,864) | 1,317,842 | - |
| EXPENSES | | | | |
| Support Provided to/for Washington State University: | | | | |
| Restricted Distributions | 32,022,210 | - | - | 32,022,210 |
| Endowment Income Distributions | 8,408,214 | - | - | 8,408,214 |
| Management and Advancement Fees | 3,783,210 | - | - | 3,783,210 |
| Fundraising | 6,529,876 | - | - | 6,529,876 |
| General and Administrative Expenses | 2,623,875 | - | - | 2,623,875 |
| Total Expenses | 53,367,385 | - | - | 53,367,385 |
| CHANGE IN NET ASSETS | 301,969 | 28,243,957 | 19,997,775 | 48,543,701 |
| Net Assets - Beginning of Year | 1,645,939 | 7,583,147 | 263,582,374 | 272,811,460 |
| NET ASSETS - END OF YEAR | <u>\$ 1,947,908</u> | <u>\$ 35,827,104</u> | <u>\$ 283,580,149</u> | <u>\$ 321,355,161</u> |

See accompanying Notes to Combined Financial Statements.

WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 27,292,461 | \$ 48,543,701 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities: | | |
| Depreciation | 135,240 | 138,112 |
| Loss (Gain) on Investments | 2,476,096 | (47,263,532) |
| Distribution of Noncash Donations of Land and Real Estate (WSU) | - | 168,000 |
| Decrease (Increase) in Value of Split-Interest Agreements | 1,612,641 | (482,039) |
| Contributions and Income Restricted for Investments in Endowments and Trusts | (38,390,377) | (12,965,930) |
| Changes in Assets and Liabilities: | | |
| Due from Washington State University | (493,718) | (168,448) |
| Other Receivables | (25,159) | (8,475) |
| Pledges Receivable | (33,460,090) | 1,023,465 |
| Accounts Payable and Accrued Liabilities | (63,575) | (312,377) |
| Assets Held on Behalf of Other Organizations | 84,886 | (102,140) |
| Assets Held in Endowments for Washington State University | (908,617) | 2,259,549 |
| Net Cash Used by Operating Activities | <u>(41,740,212)</u> | <u>(9,170,114)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Investments | (21,901,110) | (36,108,077) |
| Sales of Investments | 25,133,383 | 31,996,154 |
| Purchases of Property and Equipment | (65,344) | (114,769) |
| Proceeds from Principal Payments on Notes Receivable | 20,151 | 18,460 |
| Net Cash Provided (Used) by Investing Activities | <u>3,187,080</u> | <u>(4,208,232)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions and Income Restricted for Investments in Endowments and Trusts | <u>38,390,377</u> | <u>12,965,930</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (162,755) | (412,416) |
| Cash and Cash Equivalents - Beginning of Year | <u>910,595</u> | <u>1,323,011</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 747,840</u> | <u>\$ 910,595</u> |
| NONCASH TRANSACTIONS | | |
| Noncash Contributions | <u>\$ 1,141,838</u> | <u>\$ 1,662,127</u> |

See accompanying Notes to Combined Financial Statements.

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

The University provides the Foundation with office space, accounting and investment services, and access to University services including supplies and equipment. The University also provides financial support for various general operating expenses including salaries for Foundation employees.

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

Combined Statements

These statements include the assets, liabilities, and expenses of Cougar Property Holdings (CPH), a Washington nonprofit corporation organized during the year ended June 30, 2000, which is an affiliated entity of the Foundation. All significant inter-entity transactions have been eliminated.

Net Assets

Unrestricted net assets represent resources over which the trustees of the Foundation retain control to use the funds in order to achieve the Foundation's purpose. Temporarily restricted net assets represent funds restricted by the donor for a particular purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity, consisting predominantly of endowment funds and charitable trusts. Endowment funds represent funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and only the investment income be utilized. It is the Foundation's policy to reinvest all investment income over 5.5 percent as additions to endowment principal. 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.

Use of Estimates

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

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Pledges Receivable

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

Investments

Investment securities are stated at fair value. Investment securities received by gift are recorded at fair value at the date of acquisition. Fair values are based on quoted market prices. Investment manager's fees in the amounts of \$891,007 and \$840,992 were paid in the fiscal years ended June 30, 2012 and 2011, respectively.

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

Land and Real Estate

Land and real estate represent gifts of land and real estate to the Foundation. Land and real estate are recorded at appraised value at the time of the gift.

Assets Held in Charitable Trusts, Contributions Receivable From Charitable Trusts, Annuities Payable, and Remainder Interest Payable

The Foundation has entered into various trust agreements to receive assets which are gifts of future interest to the Foundation and the University. These trusts are separate legal entities for which the Foundation is trustee and remainderman or only the remainderman. They typically have been set up in accordance with federal tax laws to gain certain advantages for the donor. Trust agreements are of four types: unitrusts, pooled income funds, lead trusts, and annuities. Unitrusts and pooled income funds provide for distribution of annual earnings at a predetermined rate to the donor or designated beneficiary for either a specified term or the life of the donor. At the end of the term or death of the donor, the remaining assets in the unitrust or pooled income fund account are transferred to the unrestricted fund unless otherwise designated. Lead trusts provide for distribution of annual earnings at a predetermined rate to the Foundation for a specified term. At the end of the term, the principal amount in the lead trust is distributed back to the donor unless otherwise designated. Revenue is recognized for these irrevocable trusts upon entering into the agreement and receiving the trust assets. Annuity trusts provide predetermined

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Held in Charitable Trusts, Contributions Receivable From Charitable Trusts, Annuities Payable, and Remainder Interest Payable (Continued)

distributions to the donor. At the end of the term or death of the donor, the remaining assets in the annuity trust account are transferred to the fund designated by the donor. Trust assets are presented at fair market value, and an annuity payable is presented for the trusts in which the Foundation is both the trustee and remainderman. A contribution receivable is presented for trusts in which the Foundation is only the remainderman. Some trusts have named another charitable organization to share the remainder interest. The Foundation records a liability for other remainderman interests. The annuity payable, contribution receivable, and remainder interest payable are computed based on actuarial assumptions which include the estimated beneficiaries' life expectancy and current interest rates.

Beneficial Interest in Perpetual Trusts

Such assets are stated at fair value.

Assets Held for Other Organizations

Assets held for other organizations consist of funds the Foundation is holding for University-related entities and activities. The Foundation establishes these project funds as a service to the University and its community. The various organizations can request distribution of their funds at any time.

Assets Held in Endowments for Washington State University

Assets held in endowments for the University result from colleges or departments investing expendable gifts totaling \$100,000 or more within the Foundation's consolidated endowment. The college or department may withdraw funds in full or in \$50,000 increments upon six months' notice. The related assets are included with endowment investment securities.

Credit Risk

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

Equipment

Purchased equipment is carried at cost. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets.

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Revenue Recognition

The Foundation processes all private gifts to both the University and the Foundation. This includes all direct and indirect contributions to the University including all colleges, departments, and programs. Matching gift contribution pledges regarding nonagency contributions are recorded as receivables in the year that the pledge is made. The Foundation is the named beneficiary of various estates in probate and trusts administered by other institutions and organizations. The Foundation recognizes income from these bequests and trusts when assets are received by the Foundation. The Foundation recognizes income for trusts on which they are only the remainderman when they become aware of the trust.

Valuation of Long-Lived Assets

The Foundation, using its best estimates based on reasonable and supportable assumptions and projections, reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2012 and 2011, no assets had been written down.

Financial Instruments

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

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

Endowment investment securities, assets held in charitable trusts, and beneficial interest in perpetual trusts – Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Land held in trust is valued at fair market value at the date of the gift.

Notes receivable – The carrying amount reported in the combined statements of financial position for the notes receivable approximates its fair value.

Contributions receivable from trusts, annuities payable, and remainder interests payable – Fair values are based on actuarial assumptions which include the estimated life expectancy of beneficiaries and current interest rates.

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uncertain Tax Positions

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of FASB guidance on this subject. With few exceptions, the Foundation is no longer subject to income tax examinations by tax authorities before 2009.

Implementation of Accounting Standards

During 2010, FASB released ASU 2010-06 *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This guidance changes the requirements to reflect Level 3 changes (purchases, sales, issuances, and settlements) from a net basis to require separate disclosure for each type and is effective for fiscal years ending after December 15, 2011. This guidance does not require the change to be retrospectively applied to prior periods presented. The Foundation adopted this guidance effective for the fiscal year ending June 30, 2012.

Subsequent Events

Subsequent events have been evaluated through December 7, 2012, which is the date the financial statements were available to be issued.

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 2 PLEDGES RECEIVABLE

| | Years Ended June 30, | |
|---|-------------------------|----------------------|
| | 2012 | 2011 |
| Pledges Receivable | \$ 49,348,247 | \$ 14,919,352 |
| Less: Allowance for Uncollectible Pledges | (986,965) | (298,387) |
| Total | 48,361,282 | 14,620,965 |
| Less: Present Value Discount | (957,000) | (676,773) |
| Total | <u>\$ 47,404,282</u> | <u>\$ 13,944,192</u> |

| | Years Ended June 30, | |
|----------------------|-------------------------|----------------------|
| | 2012 | 2011 |
| Amounts Expected in: | | |
| One Year or Less | \$ 7,395,471 | \$ 6,345,498 |
| One to Five Years | 31,252,973 | 7,655,017 |
| Over Five Years | 10,699,803 | 918,837 |
| Total | <u>\$ 49,348,247</u> | <u>\$ 14,919,352</u> |

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those accounts are computed using the three-year U.S. Treasury risk-free interest rates applicable to the years in which the promises are received. The rate for the year ended June 30, 2012, was 0.39 percent and prior years ranged from 0.71 percent to 5.09 percent. Amortization of the discounts is included in contribution revenue.

Conditional pledges receivable are not included as support until the conditions are substantially met. Conditional pledges receivable were \$15,349,400 and \$20,554,600 as of June 30, 2012 and 2011, respectively.

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

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 ENDOWMENT INVESTMENT SECURITIES

The Foundation's endowment consists of approximately 1,900 individual funds, established for a variety of purposes, which are invested in an endowment pool consisting of funds for both the Foundation and the University. The Foundation's endowment funds represent an 88.9 percent and 88.6 percent undivided interest in the consolidated investment pool for all endowments at June 30, 2012 and 2011, respectively. The endowment includes both donor-restricted and quasi-endowment funds, which are classified as "Assets Held in Endowments for Washington State University," on the combined statements of financial position which function as endowments. 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.

Interpretation of Relevant Law

The Board of Governors of the Foundation, on the advice of legal counsel and the Foundation's Investment Committee, has interpreted Washington State's Unified Prudent Management of Institutional Funds Act (WA-UPMIFA) as requiring the prudent management of the corpus of permanently 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 permanently restricted net assets in the accompanying combined financial statements:

- the fair value of the gifts donated to the permanent endowment at the end of the fiscal year
- accumulations to the permanent 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 classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are transferred to WSU for appropriation in a manner consistent with the donors' stipulations.

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 ENDOWMENT INVESTMENT SECURITIES (CONTINUED)

Interpretation of Relevant Law (Continued)

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

Funds With Deficiencies

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 that are reported in temporarily restricted net assets are \$12,059,713 and \$5,877,865 at June 30, 2012 and 2011, respectively.

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently 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 Governors' interpretation of WA-UPMIFA.

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 (Assets Held in Endowments for Washington State University). 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.

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 ENDOWMENT INVESTMENT SECURITIES (CONTINUED)

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 percent per year (4 percent for individual accounts and 1.5 percent for the Management and Advancement Fee) computed quarterly based on the average market value for the 36 months preceding and including the quarter ended prior to the distribution date, adjusted for new gifts on the first day of the distribution quarter.

In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return. Distribution to colleges or departments from quasi-endowments (Assets Held in Endowments for Washington State University) 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, 2012 | | | |
|----------------------------------|---------------------------|---------------------------|-----------------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Donor-Restricted Endowment Funds | \$ 7,791,219 | \$ 256,231,364 | \$ 264,022,583 |
| Assets Held in Endowment for WSU | 17,737,390 | - | 17,737,390 |
| Total | <u>\$ 25,528,609</u> | <u>\$ 256,231,364</u> | <u>\$ 281,759,973</u> |

| Year Ended June 30, 2011 | | | |
|----------------------------------|---------------------------|---------------------------|-----------------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Donor-Restricted Endowment Funds | \$ 22,221,701 | \$ 245,845,882 | \$ 268,067,583 |
| Assets Held in Endowment for WSU | 18,646,007 | - | 18,646,007 |
| Total | <u>\$ 40,867,708</u> | <u>\$ 245,845,882</u> | <u>\$ 286,713,590</u> |

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 ENDOWMENT INVESTMENT SECURITIES (CONTINUED)

Changes in Endowment Net Assets

| | Year Ended June 30, 2012 | | |
|---|---------------------------|---------------------------|-----------------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Net Assets - Beginning of Year | \$ 40,867,708 | \$ 245,845,882 | \$ 286,713,590 |
| Investment Return: | | | |
| Net Investment Income | 1,085,123 | - | 1,085,123 |
| Net Realized and Unrealized Depreciation | (1,990,801) | - | (1,990,801) |
| Contributions | 149,203 | 10,603,242 | 10,752,445 |
| Distributions of Endowment Assets to/for Support of WSU | (14,582,624) | (217,760) | (14,800,384) |
| Total | <u>\$ 25,528,609</u> | <u>\$ 256,231,364</u> | <u>\$ 281,759,973</u> |

| | Year Ended June 30, 2011 | | |
|---|---------------------------|---------------------------|-----------------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Net Assets - Beginning of Year | \$ 9,413,320 | \$ 231,075,223 | \$ 240,488,543 |
| Investment Return: | | | |
| Net Investment Income | 1,660,567 | - | 1,660,567 |
| Net Realized and Unrealized Appreciation | 44,478,541 | - | 44,478,541 |
| Contributions | 169,246 | 15,497,437 | 15,666,683 |
| Distributions of Endowment Assets to/for Support of WSU | (14,853,966) | (726,778) | (15,580,744) |
| Total | <u>\$ 40,867,708</u> | <u>\$ 245,845,882</u> | <u>\$ 286,713,590</u> |

Consolidated Endowments, Recorded at Fair Market Value

| | Years Ended June 30, | |
|--|-------------------------|-----------------------|
| | 2012 | 2011 |
| University Pooled Endowment Funds: | | |
| Cash and Short-Term Investments | \$ 3,536,802 | \$ 3,477,991 |
| Accrued Interest and Dividends | 511 | 4,568 |
| Managed Investments | <u>313,345,609</u> | <u>320,075,646</u> |
| Endowment Investments at Fair Market Value | 316,882,922 | 323,558,205 |
| Less: University Endowment Funds | <u>(35,122,949)</u> | <u>(36,844,615)</u> |
| Foundation Endowment | <u>\$ 281,759,973</u> | <u>\$ 286,713,590</u> |

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 ENDOWMENT INVESTMENT SECURITIES (CONTINUED)

Consolidated Endowments, Recorded at Cost

| | Years Ended June 30, | |
|---|-------------------------|-----------------------|
| | 2012 | 2011 |
| Investments at Cost | \$ 290,387,229 | \$ 287,150,705 |
| Less: University Endowment Funds, at Cost | (32,188,036) | (32,700,571) |
| Foundation Endowment, at Cost | <u>\$ 258,199,193</u> | <u>\$ 254,450,134</u> |

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)

| | Years Ended June 30, | |
|---|-------------------------|-----------------------|
| | 2012 | 2011 |
| Permanently Restricted Net Assets: | | |
| Portion of the Perpetual Endowment Funds That is Required to be Retained Permanently Either by Explicit Donor Stipulation or by WA-UPMIFA | \$ 256,231,364 | \$ 245,845,882 |
| Temporarily Restricted Net Assets: | | |
| Portion of the Perpetual Endowment Funds Representing Realized and Unrealized Investment Returns and Contributions to WSU's Quasi-Endowment | 25,528,609 | 40,867,708 |
| Total | <u>\$ 281,759,973</u> | <u>\$ 286,713,590</u> |

NOTE 4 FAIR VALUE MEASUREMENTS

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

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

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

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 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.

WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2012:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------------------|-----------------------|----------------------|-----------------------|
| Endowment Investments: | | | | |
| Cash | \$ 434,101 | \$ - | \$ - | \$ 434,101 |
| U.S. Government Securities | - | 2,711,118 | - | 2,711,118 |
| Common Stock | 15,585,450 | 5,240,063 | - | 20,825,513 |
| Limited Partnerships | - | 30,475,554 | 38,586,912 | 69,062,466 |
| Mutual Funds | 39,416,720 | 141,658,219 | 1,802,754 | 182,877,693 |
| Real Estate Investment Trusts | - | - | 5,849,082 | 5,849,082 |
| Total | <u>\$ 55,436,271</u> | <u>\$ 180,084,954</u> | <u>\$ 46,238,748</u> | <u>\$ 281,759,973</u> |
| Assets in Charitable Trusts: | | | | |
| Cash Equivalents | \$ 1,166,219 | \$ - | \$ - | \$ 1,166,219 |
| Mutual Funds | 25,312,691 | - | - | 25,312,691 |
| Real Estate Investment Trusts | 4,036,727 | - | - | 4,036,727 |
| Total | <u>\$ 30,515,637</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 30,515,637</u> |

The table below presents the change in fair value measurements for the Level 3 investments during the year ended June 30, 2012:

| | Limited Partnerships | Mutual Funds | Real Estate Investment Trusts | Total |
|----------------------------------|----------------------|---------------------|-------------------------------|----------------------|
| Balance - July 1, 2011 | \$ 24,179,502 | \$ 1,763,948 | \$ 6,555,289 | \$ 32,498,739 |
| Purchases | 19,103,494 | - | 35,566 | 19,139,060 |
| Sales | (6,878,406) | - | (119,531) | (6,997,937) |
| Realized Gain | 833,011 | - | - | 833,011 |
| Change in Unrealized Gain (Loss) | 1,349,311 | 38,806 | (622,242) | 765,875 |
| Balance - June 30, 2012 | <u>\$ 38,586,912</u> | <u>\$ 1,802,754</u> | <u>\$ 5,849,082</u> | <u>\$ 46,238,748</u> |

Investment gains and losses (realized and unrealized) are included in the combined statement of activities. The unrealized portion of gains (losses) in Level 3, reported above, related to assets held at June 30, 2012, was (\$609,806). There were no significant transfers between Level 1 and Level 2 for the year ended June 30, 2012.

WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2011:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------------------|-----------------------|----------------------|-----------------------|
| Endowment Investments: | | | | |
| Cash | \$ 544,641 | \$ - | \$ - | \$ 544,641 |
| U.S. Government Securities | - | 2,491,093 | - | 2,491,093 |
| Common Stock | 10,111,683 | 5,002,865 | - | 15,114,548 |
| Limited Partnerships | - | 30,181,794 | 24,179,502 | 54,361,296 |
| Mutual Funds | 63,104,348 | 142,778,427 | 1,763,948 | 207,646,723 |
| Real Estate Investment Trusts | - | - | 6,555,289 | 6,555,289 |
| Total | <u>\$ 73,760,672</u> | <u>\$ 180,454,179</u> | <u>\$ 32,498,739</u> | <u>\$ 286,713,590</u> |
| Assets in Charitable Trusts: | | | | |
| Cash Equivalents | \$ 1,025,056 | \$ - | \$ - | \$ 1,025,056 |
| Mutual Funds | 28,369,532 | - | - | 28,369,532 |
| Real Estate Investment Trusts | 4,231,161 | - | - | 4,231,161 |
| Total | <u>\$ 33,625,749</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 33,625,749</u> |

The table below presents the change in fair value measurements for the Level 3 investments during the year ended June 30, 2011:

| | Limited Partnerships | Mutual Funds | Real Estate Investment Trusts | Total |
|----------------------------------|----------------------|---------------------|-------------------------------|----------------------|
| Balance - July 1, 2010 | \$ 15,756,908 | \$ 2,236,573 | \$ 5,901,198 | \$ 23,894,679 |
| Purchases | 9,285,413 | - | 150,597 | 9,436,010 |
| Sales | (2,812,289) | - | (25,741) | (2,838,030) |
| Realized Gain | 497,747 | - | - | 497,747 |
| Change in Unrealized Gain (Loss) | 1,451,723 | (472,625) | 529,235 | 1,508,333 |
| Balance - June 30, 2011 | <u>\$ 24,179,502</u> | <u>\$ 1,763,948</u> | <u>\$ 6,555,289</u> | <u>\$ 32,498,739</u> |

The unrealized portion of gains (losses) in Level 3, reported above, that are related to assets held at June 30, 2011, is (\$1,421,969). There were no significant transfers between Level 1 and Level 2 for the year ended June 30, 2011.

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

Common Stock and Mutual 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.

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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

Limited Partnerships

Multiple partnerships' interests that invest in securities and real estate. Risk strategies range from moderate to aggressive with growth of capital being the primary objectives.

Real Estate Investment Trusts

Multiple trusts which invest in securities designed for generating current income and/or long-term growth using conservative, moderate, and aggressive risk strategies.

NOTE 5 NOTES RECEIVABLE

Notes receivable consisted of the following at June 30:

| | 2012 | 2011 |
|---|-------------------|-------------------|
| Note Receivable, Annual Payments of \$13,181, Including Interest at 6%, Due January 1, 2025; Secured by a Deed of Trust | \$ 116,810 | \$ 122,633 |
| Note Receivable, Annual Payments of \$28,735, Including Interest at 10.5%, Due November 1, 2018; Secured by a Deed of Trust | 122,908 | 137,236 |
| Total | <u>\$ 239,718</u> | <u>\$ 259,869</u> |

NOTE 6 ASSETS HELD IN CHARITABLE TRUSTS

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

| | 2012 | 2011 |
|-------------------------------|----------------------|----------------------|
| Cash | \$ 1,166,219 | \$ 1,025,056 |
| Bonds | 9,640,893 | 10,853,499 |
| Equities | 15,671,798 | 17,516,033 |
| Real Estate Investment Trusts | 4,036,727 | 4,231,161 |
| Assets, at Fair Market Value | <u>\$ 30,515,637</u> | <u>\$ 33,625,749</u> |
| Assets, at Cost | <u>\$ 28,050,545</u> | <u>\$ 30,116,475</u> |

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 6 ASSETS HELD IN CHARITABLE TRUSTS (CONTINUED)

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

| | 2012 | 2011 |
|-------------------------------------|----------------------|----------------------|
| Charitable Remainder Unitrust | \$ 19,613,169 | \$ 19,863,879 |
| Charitable Remainder Annuity Trusts | 1,331,802 | 1,912,621 |
| Gift Annuities | 7,604,445 | 9,649,311 |
| Lead Trusts | 1,966,221 | 2,199,938 |
| Total | <u>\$ 30,515,637</u> | <u>\$ 33,625,749</u> |

The state of Washington under RCW 48.38.010 mandates that charities obtain a certificate of exemption to issue charitable gift annuities. Sections 38.010 and 38.020 of the code, respectively, require the charity to 1) have at least \$500,000 in unrestricted net assets and 2) maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. The reserve fund amount is calculated at the end of the fiscal year and must be performed by an independent third party. The reserve fund requirement as determined by the actuary was \$3,868,039 and \$3,800,817 for the years ended June 30, 2012 and 2011, respectively, and the charitable gift annuities payable at June 30, 2012 and 2011, was \$3,594,186 and \$4,152,929, respectively.

NOTE 7 OPERATING LEASE

On March 1, 2003, the Foundation entered into an agreement to lease office space in downtown Pullman. The lease has a term of 15 years and an annual lease payment of \$266,057 in years 1 through 10 and \$300,995 in years 11 through 15. The lease terminates on March 1, 2018.

Future minimum lease payments under this operating lease as of June 30, 2012, are as follows:

| Year Ending June 30, | Amount |
|----------------------|---------------------|
| 2013 | \$ 277,703 |
| 2014 | 300,995 |
| 2015 | 300,995 |
| 2016 | 300,995 |
| 2017 | 300,995 |
| Thereafter | 200,663 |
| Total | <u>\$ 1,682,346</u> |

**WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 8 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted and permanently restricted net assets, by purpose, are as follows at June 30:

| | 2012 | | 2011 | |
|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Temporarily Restricted | Permanently Restricted | Temporarily Restricted | Permanently Restricted |
| Scholarships | \$ 10,178,724 | \$ 123,128,960 | \$ 13,681,047 | \$ 108,288,781 |
| Graduate Fellowship | 1,206,980 | 14,600,474 | 1,846,832 | 14,618,118 |
| Chairs | 3,531,765 | 42,722,696 | 5,342,756 | 42,289,200 |
| Distinguished Professorships | 3,127,121 | 37,827,839 | 5,118,606 | 40,515,001 |
| Research | 1,718,753 | 20,791,239 | 2,357,987 | 18,664,031 |
| Instructions | 314,618 | 3,805,843 | 466,698 | 3,694,024 |
| Libraries | 157,600 | 1,906,434 | 217,967 | 1,725,261 |
| Operational Support | 5,361,811 | 64,860,217 | 5,980,267 | 47,335,255 |
| Facilities | 198,060 | 2,395,867 | 136,453 | 1,080,059 |
| Other | 656,494 | 7,941,423 | 678,491 | 5,370,419 |
| Total | <u>\$ 26,451,926</u> | <u>\$ 319,980,992</u> | <u>\$ 35,827,104</u> | <u>\$ 283,580,149</u> |

NOTE 9 RELATED-PARTY TRANSACTIONS

The Foundation is named as an owner/member in the Ruckelshaus Center Foundation. The Foundation raises money on behalf of the Ruckelshaus Center Foundation as a pass-through agency transaction. As such, no contribution revenue is recognized by the Foundation. The pass-through agency transactions are \$204,413 and \$300,989 at June 30, 2012 and 2011, respectively.

During the year ended June 30, 2012, the President of Town Centre LLC, the lessor referred to in Note 7, became a member of the Foundation Board of Governors.

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

Board of Governors
Washington State University Foundation
Pullman, Washington

We have audited the combined financial statements of Washington State University Foundation as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012, which contained an unqualified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The combining statement of financial position and the combining statement of activities are presented for the purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.



CliftonLarsonAllen LLP

Spokane, Washington
December 7, 2012

WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

| | WSU Foundation | Cougar Property Holdings | Combined |
|---|---------------------------|--------------------------------|---------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 423,254 | \$ 324,586 | \$ 747,840 |
| Due from Washington State University | 1,251,260 | - | 1,251,260 |
| Other Receivables | 151,752 | - | 151,752 |
| Pledges Receivable | 47,404,282 | - | 47,404,282 |
| Endowment Investment Securities (Including Assets Held in Endowments for Washington State University of \$17,737,390) | 281,759,973 | - | 281,759,973 |
| Notes Receivable | 239,718 | - | 239,718 |
| Furniture, Fixtures, and Equipment (Net of Accumulated Depreciation of \$969,579) | 475,267 | - | 475,267 |
| Land, Cougar Property Holdings | - | 50,000 | 50,000 |
| Land and Real Estate | 2,137,500 | - | 2,137,500 |
| Assets Held in Charitable Trusts | 30,515,637 | - | 30,515,637 |
| Contributions Receivable From Charitable Trusts | 6,743,775 | - | 6,743,775 |
| Beneficial Interest in Perpetual Trusts | 11,340,441 | - | 11,340,441 |
| Total Assets | <u>\$ 382,442,859</u> | <u>\$ 374,586</u> | <u>\$ 382,817,445</u> |
| LIABILITIES | | | |
| Accounts Payable and Accrued Liabilities | \$ 361,893 | \$ - | \$ 361,893 |
| Annuities Payable | 12,832,814 | - | 12,832,814 |
| Remainder Interest Payable | 2,751,250 | - | 2,751,250 |
| Assets Held for Other Organizations | 486,476 | - | 486,476 |
| Assets Held in Endowments for Washington State University | 17,737,390 | - | 17,737,390 |
| Total Liabilities | 34,169,823 | - | 34,169,823 |
| NET ASSETS | | | |
| Unrestricted | 1,840,118 | 374,586 | 2,214,704 |
| Temporarily Restricted | 26,451,926 | - | 26,451,926 |
| Permanently Restricted | 319,980,992 | - | 319,980,992 |
| Total Net Assets | <u>348,273,036</u> | <u>374,586</u> | <u>348,647,622</u> |
| Total Liabilities and Net Assets | <u>\$ 382,442,859</u> | <u>\$ 374,586</u> | <u>\$ 382,817,445</u> |

WASHINGTON STATE UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

| | WSU Foundation | | | Cougar Property Holdings | Combined |
|--|---------------------|---------------------------|---------------------------|--------------------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| REVENUE AND SUPPORT | | | | | |
| Contributions | \$ 11,681 | \$ 37,198,146 | \$ 37,028,507 | \$ - | \$ 74,238,334 |
| Investment Income | 1,136 | 1,029,324 | 800,265 | 952 | 1,831,677 |
| Loss on Investments | (17,684) | (1,868,427) | (589,985) | - | (2,476,096) |
| Management and Advancement Fee | 4,266,555 | - | - | - | 4,266,555 |
| Change in Value of Split-Interest Agreements | - | - | (1,612,641) | - | (1,612,641) |
| Support Provided by Washington State University | 4,658,652 | - | - | - | 4,658,652 |
| Other Income | - | - | 557,358 | - | 557,358 |
| Total Revenue and Support | 8,920,340 | 36,359,043 | 36,183,504 | 952 | 81,463,839 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 45,516,882 | (45,734,221) | 217,339 | - | - |
| EXPENSES | | | | | |
| Support Provided to/for Washington State University: | | | | | |
| Restricted Distributions | 31,166,930 | - | - | - | 31,166,930 |
| Endowment Income Distributions | 9,950,110 | - | - | - | 9,950,110 |
| Management and Advancement Fees | 3,711,265 | - | - | - | 3,711,265 |
| Fundraising | 5,943,252 | - | - | - | 5,943,252 |
| General and Administrative Expenses | 3,398,969 | - | - | 852 | 3,399,821 |
| Total Expenses | 54,170,526 | - | - | 852 | 54,171,378 |
| CHANGE IN NET ASSETS | 266,696 | (9,375,178) | 36,400,843 | 100 | 27,292,461 |
| Net Assets - Beginning of Year | 1,573,422 | 35,827,104 | 283,580,149 | 374,486 | 321,355,161 |
| NET ASSETS - END OF YEAR | <u>\$ 1,840,118</u> | <u>\$ 26,451,926</u> | <u>\$ 319,980,992</u> | <u>\$ 374,586</u> | <u>\$ 348,647,622</u> |



the CAMPAIGN *for*
WASHINGTON STATE
UNIVERSITY

BECAUSE THE WORLD NEEDS BIG IDEAS