



Financial Report 2004

EASTERN

W a s h i n g t o n U n i v e r s i t y



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MESSAGE FROM THE PRESIDENT



A couple years ago, I coined the phrase “It’s a great time to be an Eagle.” That’s not just boosterism, these words reflect the reality of Eastern’s emergence as an educational leader in the state.

Eastern has become a first-choice university for more and more students over the past five years. Fall 2004 produced our 13th consecutive quarter of record enrollments. We have a goal to enroll 12,000 students by 2010, but we must manage and sustain that enrollment while also ensuring quality and affordable access. We now have a strategic planning process in place to address that.

The successes of our students and shared vision and commitment of our faculty, staff and administrators have expanded our presence throughout the state. Businesses, civic organizations and the news media in the Puget Sound region have – for the first time – been inviting Eastern’s leaders and faculty experts to share views, discuss strategies and bring programs to that side of the mountains.

Legislators are lauding Eastern’s innovations. We are taking degree programs onsite in cost-efficient ways to areas where need has been expressed by place-bound populations. An example is the partnership we formed this year with Bellevue Community College, in which we are offering the second

year of a baccalaureate degree, an Eastern degree, in certain disciplines, right on BCC’s campus.

We are the first regional comprehensive university in Washington to receive permission to offer an electrical engineering degree. That program rolls out in fall 2005, the same time our School of Computing and Engineering Sciences is opening the doors of a new \$25 million state-of-the-art facility. This dovetails nicely with our new cyber security offering. Together, the two programs can jump-start the development of new industries throughout the region.

More and more, Eastern is being recognized as an ahead-of-the-curve institution with an eye to tomorrow. We’re producing graduates who are intellectually and technologically prepared for the high-demand jobs of the future. That continues to be our commitment and our pledge.

Allow me to repeat, with pride and with the recognition of the reality in the words, it is, indeed, “A great time to be an Eagle!”

Stephen M. Jordan, Ph.D.

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MISSION STATEMENT

Eastern Washington University is a student-centered, regionally based, comprehensive university. Its campus is located in Cheney, within the Spokane metropolitan area, with additional learning centers in the region and elsewhere in Washington state. Its mission is to prepare broadly educated, technologically proficient, and highly productive citizens to attain meaningful careers, to enjoy enriched lives, and to make contributions to a culturally diverse society. Eastern Washington University will achieve its mission by providing:

- an excellent student-centered learning environment;
- professionally accomplished faculty who are strongly committed to student learning;
- high-quality integrated, interdependent programs that build upon the region's assets and offer a broad range of choices as appropriate to the needs of the university's students and the region; and
- exceptional student support services, resources, and facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial statements and activities of Eastern Washington University ("the University") for the fiscal year ended June 30, 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnote disclosures, which follow this section.

Reporting Entity

Eastern Washington University is one of six state-assisted public institutions of higher education in the state of Washington with approximately 9,500 students. The University was established in 1882 and its primary purpose is to prepare individuals for successful contributions to society throughout their careers and in their leadership role as citizens. We provide top-quality baccalaureate and graduate education.

The University's main campus is located in Cheney, Wash., a community of 9,200 residents. Eastern also offers a variety of upper division and graduate programs at the Riverpoint Higher Education Park and at the EWU Spokane Center in the nearby metropolitan city of Spokane, Wash.

The University is governed by an eight-member Board of Trustees appointed by the governor of the state with the consent of the

state Senate. One of the members is a full-time student of the University. By statute, the Board of Trustees has full control of the University and its property of various kinds, except as otherwise provided by law.

Using the Financial Statements

This report consists of three financial statements: the Statement of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—Management's Discussion and Analysis—For State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements—Management's Discussion and Analysis—For Public Colleges and Universities*.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2004, 2003 and 2002, follows:

FISCAL YEAR 2004 COMPARED TO 2003

Current assets consist primarily of cash, investments, and receivables. Total current assets increased \$5 million in fiscal year 2004 due primarily to an increase in short-term investments and funds deposited with the State of Washington for capital improvement projects of \$6 million and a decrease in accounts receivable of \$1.5 million from the State of Washington for accrual of state appropriation.

The University's largest asset is its investment in capital assets of \$176.4 million and \$166.5 million respectively at June 30, 2004 and 2003, net of accumulated depreciation. Capital assets consist of the University's investments in land, buildings, infrastructure, and equipment.

Total liabilities decreased \$3.5 million, to \$37.1 million, at June 30, 2004, due primarily to a decrease in vendor payables for capital asset improvements.

FISCAL YEAR 2003 COMPARED TO 2002

Total assets at June 30, 2003 increased to \$233.5 million from \$207.9 million in fiscal year 2002. The increase was due primarily to increases in cash equivalents, short term investments and capital assets net of depreciation.

Total liabilities at June 30, 2003 increased to \$40.6 million from \$30.2 million in fiscal year 2002. The increase was due primarily to increases in vendor payables for capital asset improvements and capital leases.

Net assets represent the residual interest in the University's assets after liabilities are deducted. Net assets – the difference between assets and liabilities – is an indicator of the current financial condition of the University, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. The University reports its net assets in four categories:

Invested in capital assets, net of related debt - the invested in capital assets-net of related debt represents the University's equity in property, plant and equipment owned by

STATEMENT OF NET ASSETS

As of June 30 (in thousands)					
	2004	2003	Increase/ (Decrease) 2004-2003	2002	Increase/ (Decrease) 2003-2002
ASSETS					
Current assets	\$45,297	\$40,326	\$4,971	\$29,292	\$11,034
Capital, net	176,456	166,486	9,970	154,930	11,556
Other non-current assets	28,153	26,752	1,401	23,699	3,053
Total assets	249,906	233,564	16,342	207,921	25,643
LIABILITIES					
Current liabilities	18,825	21,635	(2,810)	15,691	5,944
Non-current liabilities	18,307	19,005	(698)	14,532	4,473
Total liabilities	37,132	40,640	(3,508)	30,223	10,417
NET ASSETS	\$212,774	\$192,924	\$19,850	\$177,698	\$15,226

the institution, that is, the depreciated value of the assets less the amount of outstanding debt owed on the assets.

Restricted Non-expendable – the restricted non-expendable net assets consist primarily of the University’s permanent endowments, where the principal is not available for expenditures but for investment purposes only.

Restricted Expendable – the restricted expendable net assets primarily include student loans and capital project funds available for expenditure but subject to externally imposed restrictions governing their use.

Unrestricted – the unrestricted net assets include funds available for the general and educational purposes of the University.

The University’s net assets at June 30, 2004, 2003 and 2002, are summarized as follows:

NET ASSETS					
As of June 30 (in thousands)					
	2004	2003	Increase/ (Decrease) 2004-2003	2002	Increase/ (Decrease) 2003-2002
Invested in capital assets	\$158,540	\$147,274	\$11,266	\$140,429	\$6,845
Restricted					
Non-expendable	5,343	4,734	609	4,563	171
Expendable	13,915	11,571	2,344	11,048	523
Unrestricted	34,976	29,345	5,631	21,658	7,687
Total net assets	\$212,774	\$192,924	\$19,850	\$177,698	\$15,226

The \$11.3 million or 7.6% increase in the net invested in capital assets in 2004 reflect the University’s continuing commitment to replacement of its capital assets.

The University’s unrestricted net assets increased \$5.6 million in 2004 compared to an increase of \$7.7 million in 2003. Though not subject to externally imposed stipulations, the University has designated the unrestricted

net assets for various academic programs and initiatives. More than \$5.5 million of the unrestricted net assets are designated for auxiliary enterprises at June 30, 2004.

Net assets at June 30, 2003, increased to \$192.9 million from \$177.7 million at June 30, 2002. The increase was primarily in capital assets and in unrestricted net assets designated for auxiliary enterprises.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the detail of the changes in total net assets for the

University. The purpose of the statement is to present the revenues received by the University, both operating and non-operating, and the expenses paid by the University, operating and non-operating, and any other revenues, expenses, gains and losses received

or spent by the University.

A summarized comparison of the University’s Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2004, 2003 and 2002, follows:

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
For the year ended June 30 (in thousands)					
	2004	2003	Increase/ (Decrease) 2004-2003	2002	Increase/ (Decrease) 2003-2002
Operating revenue	\$94,921	\$87,140	\$7,781	\$76,648	\$10,492
Operating expenses	135,421	135,359	62	120,986	14,373
Net operating loss	(40,500)	(48,219)	7,719	(44,338)	(3,881)
Non-operating revenues	45,284	48,016	(2,732)	49,841	(1,825)
Non-operating expenses	920	943	(23)	825	118
Income before other revenues	3,864	(1,146)	5,010	4,678	(5,824)
Other revenues and expenses	15,986	16,372	(386)	6,149	10,223
Increase in net assets	19,850	15,226	4,624	10,827	4,399
Net assets, beginning of year	192,924	177,698	15,226	166,871	10,827
Net assets, end of year	\$212,774	\$192,924	\$19,850	\$177,698	\$15,226

Following is a graphic illustration of revenues by source (both operating and non-operating), which are used to fund the University's programs for the year ended June 30, 2004. Significant recurring sources

of the University's revenues are considered non-operating, as defined by GASB, such as state appropriations. The table contains a comparison of revenues for years ended June 30, 2004, 2003 and 2002.

costs. Revenues from financial aid, grants and contracts increased 7 percent to \$34 million in 2004 compared to a 14 percent increase or \$31.8 million in 2003.

Sales and services of auxiliary enterprises increased 4.3 percent to \$17.5 million compared to 8.5 percent increase or \$16.8 million in 2003. Continuing increases in University enrollments contribute to revenue gains in auxiliary enterprises.

FISCAL YEAR 2003 COMPARISON TO 2002

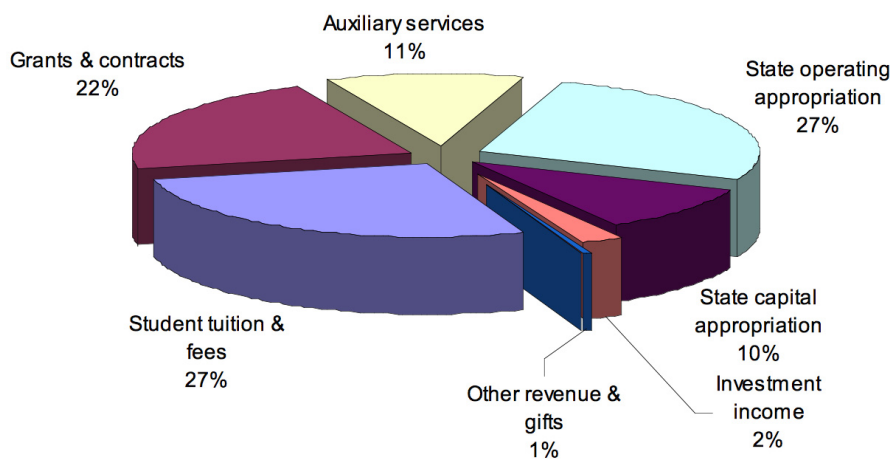
Tuition and fees increased 16 percent to \$37.7 million in 2003. This increase resulted primarily from a 14 percent increase in tuition rate plus growth in annualized headcount to 8,857 in 2003 compared to 8,636 in 2002. State appropriations decreased \$1.7 million in 2003 to \$43.9 million compared to \$45.6 million in 2002.

State legislative appropriations for capital improvements increased \$10.7 million to \$16.3 million due to the culmination of projects which began in the first year of the biennium.

Revenues from financial aid, grants and contracts increased 14 percent to \$31.8 million in 2003 compared to \$27.9 million in 2002.

Sales and services of auxiliary enterprises increased 8.5 percent to \$16.8 million in 2003 compared to \$15.5 million in 2002.

FY 2004 REVENUES BY SOURCE



REVENUES BY SOURCE

	<i>(in thousands)</i>				
	2004	2003	Increase/ (Decrease) 2004-2003	2002	Increase/ (Decrease) 2003-2002
Student tuition & fees	\$42,466	\$37,730	\$4,736	\$32,403	\$5,327
Grants & contracts	34,029	31,796	2,233	27,867	3,929
Auxiliary services	17,547	16,830	717	15,516	1,314
State operating appropriation	41,649	43,906	(2,257)	45,592	(1,686)
State capital appropriation	15,862	16,271	(409)	5,600	10,671
Investment income	3,635	4,110	(475)	4,249	(139)
Other revenue & gifts	1,003	885	118	1,411	(526)
Total	\$156,191	\$151,528	\$4,663	\$132,638	\$18,890

FISCAL YEAR 2004 COMPARISON TO 2003

Tuition and fees and state appropriation are the primary sources of funding for the University's academic programs. Tuition and fee revenues increased 4.5 percent in 2004. This increase resulted primarily from tuition rate increase of 7 percent, as well as a growth in number of students to 9,126 annualized headcount for academic year 2003-2004. Annualized headcount in 2002-2003 was 8,857. State legislative appropriation for operations decreased again in 2004 to

\$41.6 million compared to \$43.9 million in 2003. This is a decrease of 5 percent in 2004 and 3.7 percent in 2003. The increases in tuition and fees significantly offset the decrease in state appropriations, allowing the University to maintain its commitment to fulfilling the mission of educational excellence and service to the community.

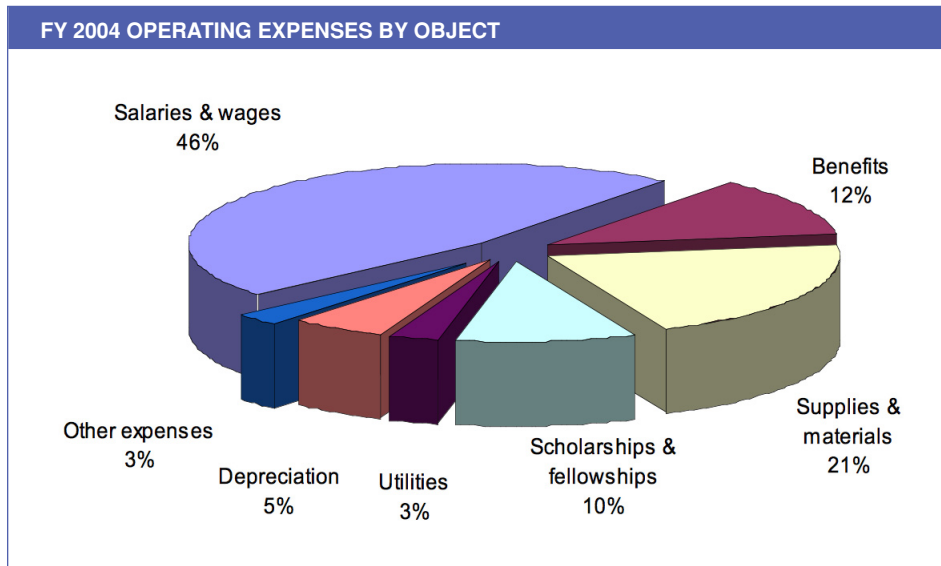
University programming support also consists of revenues received from governmental and private sources in the form of grants and contracts, which normally provide for the recovery of direct and indirect

Following is a graphic illustration of operating expenses by object for the year ended June 30, 2004. The table contains a

comparison of expenses for years ended June 30, 2004, 2003 and 2002.

compared to \$14.6 million in 2002.

Supplies and materials expenses increased 10 percent to \$25.1 million in 2003 compared to \$22.9 million in 2002. More significant was the increase in building and infrastructure improvements of \$6.5 million in 2003, reflecting the University's commitment to preservation of its capital assets.



OPERATING EXPENSES BY OBJECT

(in thousands)

	2004	2003	Increase/ (Decrease) 2004-2003	2002	Increase/ (Decrease) 2003-2002
Salaries & wages	\$63,683	\$62,097	\$1,586	\$60,285	\$1,812
Benefits	15,982	15,371	611	14,609	762
Supplies & materials	27,815	32,028	(4,213)	23,279	8,749
Scholarships & fellowships	13,609	12,859	750	11,197	1,662
Utilities	3,848	3,469	379	3,159	310
Depreciation	7,082	6,446	636	5,827	619
Other expenses	3,402	3,089	313	2,630	459
Total	\$135,421	\$135,359	\$62	\$120,986	\$14,373

FISCAL YEAR 2004 COMPARISON TO 2003

Salaries, wages and benefits are the major support cost for the University's programs. Expenses from salaries and wages increased 2.5 percent to \$63.7 million in 2004 compared to \$62.1 million in 2003 while benefits increased 4 percent to \$16 million in 2004 compared to \$15.4 million in 2003. Health benefits increases continue to contribute heavily to the increase in benefits costs.

Supplies and materials expenses increased 4.4 percent to \$26.3 million in 2004 compared to \$25.1 million in 2003. Building and

infrastructure improvements expenses decreased in 2004 to \$1.5 million compared to \$6.9 million in 2003. The University committed more funding to new construction and renovation in 2004, while in 2003 the funding was directed to improvements that are expensed.

FISCAL YEAR 2003 COMPARISON TO 2002

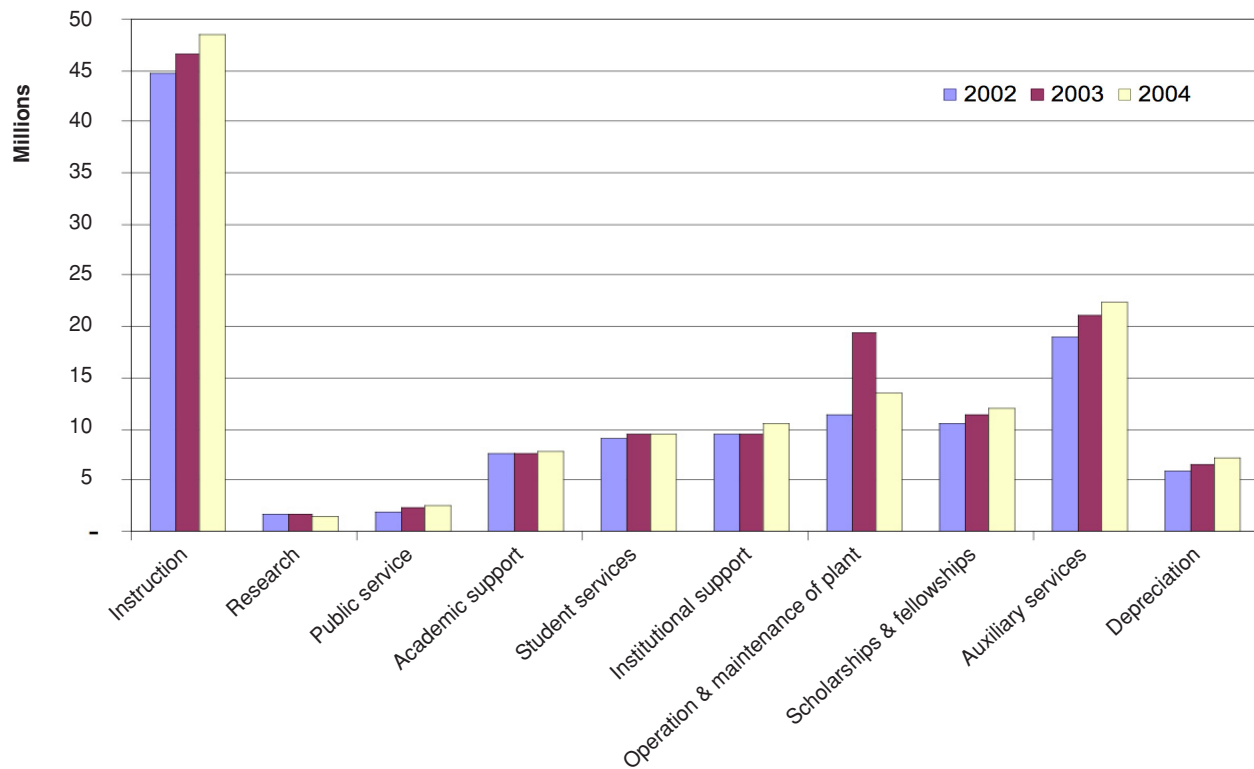
Expenses from salaries and wages increased 3 percent to \$62.1 million in 2003 compared to \$60.3 in 2002 while benefits increased 5 percent to \$15.4 million in 2003

In addition to their natural (object) classification, it is also informative to review

operating expenses by function. Following is a graphic illustration of operating expenses by

function for the years ended June 30, 2004, 2003 and 2002.

COMPARISON OF OPERATING EXPENSES BY FUNCTION



Capital Asset and Debt Activities

Total long-term debt associated with capital assets decreased, as there were no significant issuances in 2004. Obligations under capital leases amounted to \$5.8 million in 2004 compared to \$6.2 million in 2003. Bonds payable amounted to \$12.4 million in 2004 compared to \$13.3 million in 2003. In 2003 the University took advantage of low interest rates to issue \$4.5 million in bonds for refunding of outstanding housing and dining system revenue bonds.

Additions to capital assets, net of depreciation and retirements, amounted to \$9.9 million in 2004 compared to \$11.5 million in 2003. Capital assets are funded mainly by state biennial appropriation.

The University's Comprehensive Master Plan is used to guide the long-range physical development of the campus, focusing on critical areas of need, space utilization and preservation of the infrastructure.

Construction in progress at June 30, 2004, totaled \$12.8 million compared to \$5.4 million in 2003. This increase of \$7.4 million is due mainly to the construction of the new computing and engineering facility, which will be placed in service during the spring/summer of 2005.

Additional information related to capital assets and long-term debt is disclosed in the Notes to the Financial Statements, note 7 and note 8.

Economic Factors That Will Affect the Future

The State of Washington is projecting significant enrollment growth in the next five years. With this enrollment growth, combined with pressures on legislative funding, the University is revisiting its future strategies. A comprehensive strategic planning process is under way; it includes a review of the University's financial resources for sustainability and flexibility, student retention and recruitment strategies, programs and physical and technological capacity.



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Washington State Auditor
Brian Sonntag
INDEPENDENT AUDITOR'S REPORT

(360) 902-0370
FAX (360) 753-0646
TDD Relay 1-800-833-6388
<http://www.sao.wa.gov>

Board of Trustees
Eastern Washington University
Cheney, Washington

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Eastern Washington University, Washington, as of and for the years ended June 30, 2004 and 2003, which collectively comprise the University's basic financial statements as listed on page 1. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Eastern Washington University 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the Eastern Washington University, as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows, where applicable, thereof, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended June 30, 2004, the University has implemented Governmental Accounting Standard's Board Statement 39, *Determining Whether Certain Organizations Are Component Units*.

The management's discussion and analysis information on pages 4 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 7, 2005

STATEMENT OF NET ASSETS

June 30, 2004 and 2003

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$10,839,346	\$12,118,355
Short-term investments	15,276,657	10,673,468
Deposit with State of Washington	6,781,659	4,607,886
Accounts receivable (net of allowances of \$164,593 and \$148,942, respectively)	10,136,380	11,054,403
Student loans receivable (net of allowances of \$14,718 and \$15,087, respectively)	279,642	286,659
Inventories	1,206,175	1,199,243
Other assets	776,684	385,802
Total current assets	<u>45,296,543</u>	<u>40,325,816</u>
Noncurrent assets:		
Endowment investments	5,110,705	4,483,924
Other long-term investments	17,022,050	16,221,640
Student loans receivable (less allowances of \$174,183 and \$173,752, respectively)	5,631,931	5,617,993
Other noncurrent assets	388,242	428,355
Capital assets, net of accumulated depreciation	176,456,536	166,485,959
Total noncurrent assets	<u>204,609,464</u>	<u>193,237,871</u>
Total assets	<u>\$249,906,007</u>	<u>\$233,563,687</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$7,198,492	\$9,647,340
Accrued liabilities	3,530,240	3,408,536
Compensated absences	2,278,032	2,499,104
Deposits or funds held for others	1,394,986	1,591,125
Deferred revenue	2,811,387	2,937,590
Long-term liabilities, current portion	1,611,606	1,551,280
Total current liabilities	<u>18,824,743</u>	<u>21,634,975</u>
Noncurrent liabilities:		
Compensated absences	1,726,848	1,033,942
Long-term liabilities	16,579,970	17,970,300
Total noncurrent liabilities	<u>18,306,818</u>	<u>19,004,242</u>
Total liabilities	<u>\$37,131,561</u>	<u>\$40,639,217</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$158,539,863	\$147,273,659
Restricted for:		
Nonexpendable:		
Endowments	5,135,705	4,483,924
Other	207,250	250,000
Expendable:		
Loans	6,699,522	6,698,038
Capital projects	6,781,659	4,607,886
Other	434,036	265,077
Unrestricted	34,976,410	29,345,886
Total net assets	<u>\$212,774,445</u>	<u>\$192,924,470</u>

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

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2004 and 2003

REVENUES	FY 2004	FY 2003
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$10,814,260 and \$9,791,846, respectively)	\$42,466,390	\$37,729,693
Federal grants and contracts	16,221,846	15,638,822
State and local grants and contracts	12,509,321	11,534,149
Nongovernmental grants and contracts	5,298,268	4,622,856
Sales and services of auxiliary enterprises:		
Housing and Dining Services (net of scholarship allowances of \$3,050,176 and \$2,761,803, respectively)	8,437,882	8,021,669
Other auxiliary enterprises (net of scholarship allowances of \$576,457 and \$532,775, respectively)	9,109,109	8,807,903
Other operating revenue	877,725	784,488
Total operating revenue	<u>94,920,541</u>	<u>87,139,580</u>
 EXPENSES		
Operating expenses:		
Salaries and wages	\$63,683,329	\$62,096,952
Benefits	15,982,275	15,370,450
Scholarships and fellowships	13,608,645	12,858,787
Utilities	3,847,705	3,469,141
Supplies and materials	26,266,972	25,151,282
Non-capitalized facility improvements	1,547,715	6,877,036
Other	3,402,539	3,089,309
Depreciation	7,081,688	6,445,746
Total operating expenses	<u>135,420,868</u>	<u>135,358,703</u>
Operating loss	(40,500,327)	(48,219,123)
 NON-OPERATING REVENUES (EXPENSES)		
State appropriation	\$41,648,800	\$43,906,379
Investment income, gains and losses	3,635,359	4,109,736
Interest on capital asset-related debt	(920,438)	(942,945)
Net non-operating revenues	<u>44,363,721</u>	<u>47,073,170</u>
Gain (loss) before other revenues, expenses, gains or losses	3,863,394	(1,145,953)
 Capital appropriations	15,861,581	16,271,041
Gifts to permanent endowments	125,000	101,300
Total other revenue	<u>15,986,581</u>	<u>16,372,341</u>
Increase in net assets	19,849,975	15,226,388
 NET ASSETS		
Net assets - beginning of year	192,924,470	177,698,082
Net assets - end of year	<u>\$212,774,445</u>	<u>\$192,924,470</u>

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

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2004 and 2003

	<u>FY 2004</u>	<u>FY 2003</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Tuition and fees	\$42,485,372	\$37,633,912
Grants and contracts	34,202,443	30,103,816
Payments to vendors	(37,208,702)	(32,923,799)
Payments to employees	(79,072,065)	(77,238,609)
Payments for scholarships and fellowships	(13,608,645)	(12,858,787)
Loans issued to students	(2,151,049)	(2,166,428)
Collection of student loans	2,073,237	2,226,883
Auxiliary enterprise receipts	17,271,258	17,166,950
Other receipts (payments)	(370,085)	638,695
Net cash used by operating activities	<u>(36,378,236)</u>	<u>(37,417,367)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	41,648,800	45,920,411
Endowment gifts	125,000	101,300
Stafford/Plus loans receipts	47,733,621	40,667,810
Stafford/Plus loans disbursements	(47,633,881)	(40,874,351)
Agency fund receipts	37,515,541	36,852,666
Agency fund disbursements	<u>(37,845,213)</u>	<u>(36,807,866)</u>
Net cash provided by noncapital financing activities	<u>41,543,868</u>	<u>45,859,970</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bond issuance	-	4,515,000
Capital appropriations	17,392,484	11,850,270
Purchases of capital assets	(18,894,081)	(12,195,574)
Principal paid on capital debt and leases	(1,661,966)	(5,689,257)
Interest paid on capital debt and leases	<u>(886,057)</u>	<u>(1,077,975)</u>
Net cash used by capital financing activities	<u>(4,049,620)</u>	<u>(2,597,536)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	15,286,222	11,308,774
Interest on investments	3,267,248	3,980,239
Purchase of investments	<u>(20,948,491)</u>	<u>(17,389,985)</u>
Net cash used by investing activities	<u>(2,395,021)</u>	<u>(2,100,972)</u>
Net increase (decrease) in cash	(1,279,009)	3,744,095
Cash - beginning of year	<u>12,118,355</u>	<u>8,374,260</u>
Cash - end of year	<u>\$10,839,346</u>	<u>\$12,118,355</u>

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

STATEMENT OF CASH FLOWS *(continued)**For the Years Ended June 30, 2004 and 2003***Reconciliation of net operating revenue (expenses) to net cash provided (used) by operating activities:**

Operating income (loss)	\$(40,500,327)	\$(48,219,123)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	7,081,688	6,445,746
Changes in assets and liabilities:		
Receivables, net	(612,880)	(1,494,933)
Inventories	(6,932)	(92,213)
Other assets	(390,882)	46,366
Accounts payable	(2,321,408)	5,669,905
Deferred revenue	(126,203)	(33,311)
Deposits held for others	33,794	67,419
Compensated absences	471,835	68,031
Loans to students	(6,921)	124,746
Net cash used by operating activities	<u>\$(36,378,236)</u>	<u>\$(37,417,367)</u>
NONCASH TRANSACTIONS		
Buildings and equipment	331,959	6,021,122
Capital leases	\$(331,959)	\$(6,021,122)

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

BALANCE SHEETS — COMPONENT UNIT (FOUNDATION)

	June 30,	
	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and cash equivalents	\$1,097,324	\$1,071,975
Investments available for expenditure	1,488,424	539,233
Promises to give	1,681,354	898,370
Other assets	527,275	580,719
Contributions receivable from charitable trusts	560,090	506,419
Investments held in charitable trusts	179,350	260,511
Investments restricted for endowments	8,453,818	8,122,368
Beneficial interest in perpetual trusts	1,746,808	1,460,306
	<u>\$15,734,443</u>	<u>\$13,439,901</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 40,606	\$ 30,668
Deferred revenue	82,056	50,762
Annuities payable	175,522	209,827
Notes payable	169,088	194,110
Total liabilities	<u>467,272</u>	<u>485,367</u>
NET ASSETS:		
Unrestricted	(190,123)	(222,803)
Temporarily restricted	4,570,108	2,980,525
Permanently restricted	10,887,186	10,196,812
Total net assets	<u>15,267,171</u>	<u>12,954,534</u>
	<u>\$15,734,443</u>	<u>\$13,439,901</u>

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES — COMPONENT UNIT (FOUNDATION)

	Year Ended June 30, 2004				Year Ended June 30, 2003			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND SUPPORT								
Contributions	\$180,970	\$2,311,613	\$647,946	\$3,140,529	\$157,010	\$1,786,279	\$1,161,131	\$3,104,420
Contributions from trusts	-	61,652	-	61,652	-	81,940	129	82,069
Investment income	2,374	129,453	12,625	144,452	20,916	113,588	9,364	143,868
Realized gain (loss) on investments	-	27,211	-	27,211	-	(4,673)	-	(4,673)
Unrealized gain (loss) on investments	(424)	1,205,582	20,825	1,225,983	21,872	96,186	3,405	121,463
Change in value of split-interest agreements	-	-	75,339	75,339	-	-	(148,312)	(148,312)
Support provided by Eastern Washington University	1,714,225	-	-	1,714,225	1,413,138	-	-	1,413,138
Other	-	275,959	10,118	286,077	39,639	231,423	-	271,062
Net assets released from restrictions	2,498,366	(2,498,366)	-	-	1,445,225	(1,445,225)	-	-
Reclassification of net assets	-	76,479	(76,479)	-	-	(317,437)	317,437	-
Total revenues, gains and support	<u>4,395,511</u>	<u>1,589,583</u>	<u>690,374</u>	<u>6,675,468</u>	<u>3,097,800</u>	<u>542,081</u>	<u>1,343,154</u>	<u>4,983,035</u>
EXPENSES								
Management and general	\$810,456	-	-	\$810,456	\$722,946	-	-	\$722,946
Fund raising	1,240,604	-	-	1,240,604	1,167,741	-	-	1,167,741
Support provided to/for Eastern Washington University	2,311,771	-	-	2,311,771	1,610,534	-	-	1,610,534
	<u>4,362,831</u>	<u>-</u>	<u>-</u>	<u>4,362,831</u>	<u>3,501,221</u>	<u>-</u>	<u>-</u>	<u>3,501,221</u>
CHANGE IN NET ASSETS:	32,680	1,589,583	690,374	2,312,637	(403,421)	542,081	1,343,154	1,481,814
NET ASSETS (DEFICIT), BEGINNING OF YEAR:	<u>(222,803)</u>	<u>2,980,525</u>	<u>10,196,812</u>	<u>12,954,534</u>	<u>180,618</u>	<u>2,438,444</u>	<u>8,853,658</u>	<u>11,472,720</u>
NET ASSETS (DEFICIT), END OF YEAR:	<u>\$(190,123)</u>	<u>\$4,570,108</u>	<u>\$10,887,186</u>	<u>\$15,267,171</u>	<u>\$(222,803)</u>	<u>\$2,980,525</u>	<u>\$10,196,812</u>	<u>\$12,954,534</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2004

Note 1: Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

Eastern Washington University, an agency of the State of Washington, is governed by an eight-member Board of Trustees appointed by the governor and confirmed by the state Senate.

The Eastern Washington University Foundation (foundation) is established as tax exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The foundation's 31-member board consists of graduates and friends of the University. The University has an agreement with the foundation to design and implement such programs and procedures to persuade continuous and philanthropic support for the benefit of the University. In exchange, the University provides the foundation with partial office space, furniture and equipment, supplies and related office expenses, and staff to operate the foundation. Although the University does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, which the foundation holds and invests, are restricted to activities of the University by the donors. Because these restricted resources held by the foundation can only be used by or for the benefit of the University, the foundation is considered a legally separate component unit of the University and is discretely presented in the University's financial statements. During the fiscal year ended June 30, 2004, the foundation distributed \$2,311,771 to the University for restricted and unrestricted purposes. Intra-entity transactions and balances between the University and foundation are not eliminated for financial statement presentation. Complete financial statements for the foundation may be obtained from the foundation's administrative office located at 506 F Street, Cheney, WA 99004.

BASIS OF ACCOUNTING

The financial statements of the University are presented in accordance with accounting principles generally accepted in the United States of America. The University reports

as a business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASBS No. 37 and No. 38. Accordingly, the University's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The flow of economic resources focus considers all of the assets available to the University for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long-term, are recorded and depreciation is recorded as a charge to operations. The accrual basis of accounting recognizes revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable. All significant intra-agency transactions have been eliminated, which includes intra-agency payables and receivables as well as interdepartmental receipts and expenses. The University follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB.

As a non-governmental component unit, the foundation follows applicable private-sector reporting and disclosure standards. In accordance with GASBS No. 39, the foundation is considered a legally separate component unit of the University beginning with the fiscal year ending June 30, 2004; prior periods are not restated.

OPERATING ACTIVITIES

The University's policy for defining operating activities as reported in the Statement of Revenues, Expenses, and Changes in Net Assets is to include those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Primarily, operating activities involve delivery of higher education courses and supporting services such as residential housing and dining, which incur expenses for salaries, benefits, supplies and materials, and scholarships. Payments for these services

include tuition and related fees, plus sales from supporting services. Other revenue sources include federal, state and local grants and contracts. As prescribed by GASBS No. 35, certain significant revenue streams relied upon for operations are recorded as non-operating revenues, including state appropriations, gifts and investment income. Therefore, it is expected that operating expenses will generally exceed operating revenues resulting in a net operating loss.

INVENTORIES

Inventories are carried at cost (generally determined on the first-in, first-out method), which is not in excess of market.

CASH AND CASH EQUIVALENTS

Cash equivalents are considered to be highly liquid investments with an original maturity of 90 days or less. Funds invested through the State Treasurer's Local Government Investment Pool are reported as cash equivalents.

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.

STATE APPROPRIATIONS

The State of Washington appropriates funds to the University on both an annual and biennial basis. Appropriations are recognized as revenue when the related expenses are made.

DEFERRED REVENUES

Deferred revenues occur when amounts will be due or have been collected in advance of the event that results in revenue recognition. Summer quarter tuition is shown as deferred revenue, which represents the majority of the balance shown on the Statement of Net Assets.

CAPITAL ASSETS

Capital assets are stated at cost, or if acquired by gift, at estimated fair value at the date of the gift, less depreciation. The capitalization threshold is \$100,000 or greater for buildings and infrastructure, and \$5,000 or greater for equipment. All purchased land is capitalized regardless of cost. Generally, the useful life of capital assets is 50 years for buildings, five to 50 years for infrastructure and land improvements, 20 years for library books, and four to seven years for equipment. Depreciation of capitalized assets, excluding inexhaustible assets such as land, is provided on a straight-line basis over the estimated useful lives of the respective assets.

NET ASSETS

The University's net assets are classified as follows:

Invested in capital assets, net of related debt:

The University's investments in capital assets, less accumulated depreciation, net of outstanding debt obligations related to capital assets.

Restricted net assets:

Non-expendable: Net assets subject to externally-imposed requirements that they be maintained permanently by the University, including permanent endowment funds.

Expendable: Net assets that the University is obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted net assets:

Net assets not subject to externally imposed restrictions, but which may be designated for specific purposes by management, or the Board of Trustees.

Investments are categorized to indicate the level of risk assumed by the University. Category 1 consists of investments that are insured or registered or are held by the University or its agents in the University's name. Category 2 consists of uninsured and unregistered investments held by the broker's or dealer's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments held by the broker or dealer or by its trust department or agent but not in the University's name. Invested assets of donor-restricted endowments are represented by shares in investment units trusts (pools) rather than specific, identifiable securities and, as such, cannot be categorized into one of the three categories of custodial credit risk. Similarly, cash equivalents held in the Local Government

Investment Pool are also represented by shares in investment units trusts.

At June 30, 2004, the net appreciation on investments of donor-restricted endowments that is available for authorization for expenditure is \$2,079,382 which is included in the amount reported as nonexpendable endowments on the Statement of Net Assets. RCW 24.44.050 of the Washington State Code allows for the spending of net appreciation on investments of donor-restricted endowments. Accordingly, the income distribution policy is 5% of the three year moving average of the fair value of net assets.

Fair value of the investment unit trust was determined using the fund's current share price. Fair values of all other investments were provided by major investment brokers or banks. Cash, cash equivalents and investments at June 30, 2004, consist of the following:

CASH, CASH EQUIVALENTS AND INVESTMENTS		
	Carrying Amount	Category
INVESTMENTS		
U.S. Government agency bonds	\$16,411,881	1
Certificates of Deposit	15,751,657	1
Other deposits	135,168	1
Investment Unit Trust		
Equity Fund	3,175,887	
Bond Fund	1,934,818	
Total investments	\$37,409,411	
CASH AND CASH EQUIVALENTS		
Interest bearing	\$10,713,335	
Certificates of Deposit	126,011	
Other deposits	\$10,839,346	

Note 2: Cash and Investments

Cash and cash equivalents include bank demand deposits, an overnight sweep account, petty cash held at the University, and unit shares in the Local Government Investment Pool operated by the Washington State Treasurer. Cash and cash equivalents are stated at cost or amortized cost. Except for petty cash held at the University, all others are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Note 3: Accounts and Student Loans Receivable

Accounts and student loans receivable at June 30, 2004 and 2003, consist of the following:

ACCOUNTS AND STUDENT LOANS RECEIVABLE		
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Accounts receivable		
Student tuition and fees	\$1,977,569	\$2,137,307
Auxiliary enterprises (less allowances of \$146,090 and \$133,247, respectively)	1,093,090	775,889
Contracts and grants	2,929,926	3,102,944
State reimbursement	3,394,604	4,925,507
Other (less allowances of \$18,124 and \$15,695, respectively)	741,191	112,756
Total accounts receivable	\$10,136,380	\$11,054,403
Student loans receivable		
Federal programs (less allowances of \$174,183 and \$173,752, respectively)	\$5,631,931	\$5,617,993
Institutional loans (less allowances of \$14,718 and \$15,087, respectively)	279,642	286,659
Total student loans receivable	\$5,911,573	\$5,904,652

Note 4: Funds with State Treasurer

The Normal School Permanent Fund, established under RCW 43.79.160, is a permanent endowment fund that derives its corpus from the sale of state lands/timber. The investing activities are handled by the Washington State Treasurer's Office, while the sale of land/timber is handled by the State Department of Natural Resources. Interest earned from the investments are either reinvested or used exclusively for the benefit of Eastern Washington University, Central Washington University, Western Washington University and The Evergreen State College. The balance of the fund represents the University's share of the net earnings and tuition distributions, reduced by expenses for capital projects and debt service incurred over the years.

Note 5: Compensated Absences

Vacation leave liability at June 30, 2004, totals \$2,954,610. This amount represents a liability to the University and is recorded and reported accordingly.

Accumulated sick leave earned and unused at June 30, 2004, calculated at 25 percent of unused balance, totals \$994,919. This amount represents a probable liability to the University and is recorded and reported accordingly. The employee is entitled to either the present value of 25 percent of his/her unused sick leave balance upon retirement or 25 percent of his/her accumulation for the year in which it exceeds 480 hours.

Accrued compensatory time liability at June 30, 2004, totals \$55,351. This amount represents a liability to the University and is recorded and reported accordingly.

Note 6: Risk Management

The University participates in a State of Washington risk management self-insurance program. Premiums are based on actuarially-determined projections and include allowances for payments of both outstanding and current liabilities. The University assumes its potential liability and property losses for all properties except for auxiliary enterprise buildings and contents. The auxiliary enterprise buildings were acquired with

the proceeds of bond issues where the bond agreement requires the University to carry insurance on property.

The University has elected to become a self-insurer of unemployment compensation. Cash reserves at June 30, 2004, total \$1,495,858.

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2004, is summarized as follows:

CAPITAL ASSETS				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
NON-DEPRECIABLE CAPITAL ASSETS				
Land	\$2,090,954	-	-	\$2,090,954
Land improvements	7,385,408	220,399	-	7,605,807
Construction in progress	5,438,345	12,769,847	5,356,852	12,851,340
Subtotal	14,914,707	12,990,246	5,356,852	22,548,101
DEPRECIABLE CAPITAL ASSETS				
Infrastructure	23,938,755	135,165	-	24,073,920
Buildings	183,552,264	7,091,045	123,005	190,520,304
Furniture, fixtures and equipment	15,771,170	1,357,316	913,837	16,214,649
Library materials	21,598,364	1,074,751	81,475	22,591,640
Subtotal	244,860,553	9,658,277	1,118,317	253,400,513
Total Capital Assets	259,775,260	22,648,523	6,475,169	275,948,614
Less accumulated depreciation:				
Land improvements	2,573,930	223,864	-	2,797,794
Infrastructure	10,290,516	812,188	-	11,102,704
Buildings	56,723,418	3,910,800	2,247	60,631,971
Furniture, fixtures and equipment	11,025,220	1,389,373	876,665	11,537,928
Library materials	12,676,217	745,464	-	13,421,681
Total accumulated depreciation	93,289,301	7,081,689	878,912	99,492,078
Capital assets, net of depreciation	\$166,485,959	\$15,566,834	\$5,596,257	\$176,456,536

Note 8: Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004 is summarized as follows:

LONG-TERM LIABILITIES					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Leases and bonds payable					
Lease obligations (Note 9)	\$6,162,079	\$331,959	\$694,209	\$5,799,829	\$586,707
General obligation bonds	1,999,501	-	312,754	1,686,747	329,895
Revenue bonds payable (Note 10)	11,360,000	-	655,000	10,705,000	695,000
Total leases and bonds payable	19,521,580	331,959	1,661,963	18,191,576	1,611,602
Other liabilities					
Compensated absences (Note 5)	3,533,046	2,873,553	2,401,719	4,004,880	2,278,032
Total long-term liabilities	\$23,054,626	\$3,205,512	\$4,063,682	\$22,196,456	\$3,889,634

Note 9: Leases

The University leases facilities and furnishings for student dormitory residences, office and computer equipment, and other assets under a variety of agreements. The University's non-cancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2005 through 2009. Total operating lease expenses in fiscal year 2004 were \$197,360. The University also entered into certain agreements that are classified as capital leases; the related assets and liabilities are recorded in the financial records at the inception of the lease. Minimum lease payments under leases together with the present value of the net minimum capital lease payments as of June 30, 2004, are as follows:

ANNUAL LEASE PAYMENTS		
Fiscal Year	Operating	Capital
2005	\$142,271	\$882,286
2006	93,522	761,453
2007	57,080	535,037
2008	12,517	517,677
2009	1,073	509,157
2010-14	-	2,359,551
2015-19	-	1,925,000
2020-24	-	1,202,627
Obligation under leases	\$306,463	8,692,785
Less: Amount representing interest costs		(2,892,959)
Present value of minimum obligation under capital leases		\$5,799,829

Note 10: Bonds Payable

Bonds payable consist of revenue bonds for auxiliary enterprises issued by the University, and the University's portion of the State of Washington General Obligation bonds issued for capital projects construction as shown below.

On August 6, 2002, the University issued \$4,515,000 in Housing and Dining System Refunding Revenue Bonds dated October 1, 2002, with interest rates ranging from 2.5% to 3.8%. Proceeds of the bond issuance were used to refund the outstanding

Housing and Dining System Revenue and Refunding Bonds, Series 1992. The purpose of the refunding was to accomplish an interest savings to the University of \$604,048 with a net present value of \$515,098 as represented by the difference between debt service on the Series 2002 bonds and debt service on the prior issue discounted to the issue date using the yield on the Series 2002 bonds as the discount rate. The 1992 Series bonds were due serially November 1 in amounts from \$310,000 to \$565,000 plus interest. The 2002 Series bonds are due serially

October 1, 2003 to 2012, in amounts from \$370,000 to \$535,000. Interest is payable semiannually on April 1 and October 1.

The Housing and Dining System net revenues and student and activities fees paid by each student enrolled are pledged for debt service on the bonds of Eastern Washington University. State law requires that the University reimburse the State for debt service payments relating to the State of Washington General Obligation and Refunding Bonds from tuition revenue and earnings on investments held by the State Treasurer.

BONDS PAYABLE				
	Interest Rate	Maturity Date	Original Balance	Balance Outstanding
Eastern Washington University:				
Service and Activities Fee Revenue Bond, Series 1993	4.80% - 5.00%	2004-2019	\$8,915,000	\$6,560,000
Housing and Dining System Revenue/Refunding Bonds, Series 2002	2.50% - 3.80%	2004-2013	4,515,000	4,145,000
Total Revenue Bonds			13,430,000	10,705,000
State of Washington General Obligation Bonds:				
Refunding Bonds, Series R-93A	3.90% - 5.75%	2004-2011	708,756	444,271
Refunding Bonds, Series R-93B	3.35% - 5.13%	2004-2005	589,985	73,478
Refunding Bonds, Series R-01A	4.50% - 9.00%	2004-2010	1,561,932	1,168,998
Total General Obligation Bonds			2,860,673	1,686,747
Total bonds payable			\$16,290,673	\$12,391,747

The Eastern Washington University debt service requirements and the University's

debt service requirements for the general obligation bonds of the State of Washington

for the next five years and thereafter are as follows:

DEBT SERVICE REQUIREMENTS						
Fiscal Year	Eastern Washington University		State General Obligation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$695,000	\$441,291	\$329,895	\$83,159	\$1,024,895	\$524,450
2006	725,000	416,584	267,865	67,315	992,865	483,899
2007	755,000	390,600	280,947	52,654	1,035,947	443,254
2008	785,000	362,674	295,391	36,928	1,080,391	399,602
2009	815,000	332,233	309,290	20,137	1,124,290	352,370
2010-2014	4,140,000	1,120,550	203,359	10,048	4,343,359	1,130,598
2015-2019	2,790,000	363,750	-	-	2,790,000	363,750
Totals	\$10,705,000	\$3,427,682	\$1,686,747	\$270,241	\$12,391,747	\$3,697,923

Note 11: Pension Plans

The University offers four contributory plans. The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) are cost-sharing, multi-employer defined benefit plans; PERS and TRS also have a defined contribution component. The Eastern Washington University Retirement Plan is a defined contribution plan with supplemental payment, when required. The University's total payroll for the year ended June 30, 2004, was \$63,683,329. The payroll for employees covered by PERS was \$18,043,881; payroll for employees covered by TRS was \$356,991; payroll for employees covered by LEOFF was \$349,433; and payroll for employees covered by the Eastern Washington University Retirement Plan was \$35,745,499.

PERS, TRS, AND LEOFF

Plan Descriptions. The Washington State Department of Retirement Systems administers the PERS, TRS and LEOFF plans. The Washington State Legislature establishes or amends benefit provisions. Retirement benefits vary by plan according to years of service credit, participation dates, age upon retirement, and average compensation periods as prescribed by state statute. Certain plans also contain disability provisions. The PERS and TRS defined contribution portion can

be distributed according to various member-selected options, either as a lump sum or through installments. Vesting periods vary by plan and employee service date. Additional information concerning plan descriptions and benefit provisions is included in a Comprehensive Annual Financial Report publicly available from the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, WA 98504.

Funding Policies. Each biennium, the State Pension Funding Council adopts employee and/or employer contribution rates for PERS and TRS plans, except where

employee contribution rates are set by statute. Under LEOFF, employer and employee contribution rates for Plan II 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.

The required contribution rates expressed as a percentage of current-year covered payroll at June 30, 2004, are shown below. The University and the employees made the required contributions. The University's required contributions for the years ending June 30 are as follows:

CONTRIBUTION RATES AND REQUIRED CONTRIBUTIONS					
	Contribution Rates at June 30, 2004		Required Contributions		
	Employee	University	FY 2002	FY 2003	FY 2004
PERS					
Plan I	6.00%	1.40%	\$62,972	\$46,622	\$42,855
Plan II	1.18%	1.40%	231,852	178,848	190,368
Plan III	Varies	1.40% *	465	14,266	20,363
TRS					
Plan I	6.00%	1.39%	\$11,620	\$5,263	\$4,922
Plan II	1.63%	1.39%	-	-	-
Plan III	Varies	1.39% *	1,712	113	-
LEOFF					
Plan II	5.07%	5.29%	\$9,881	\$13,972	\$18,440

* Defined benefit portion only.

EASTERN WASHINGTON UNIVERSITY
RETIREMENT SYSTEM

Plan Description. Faculty and certain other employees are eligible to participate in the Eastern Washington University Retirement System, a multi-employer, defined contribution plan with certain provisions for supplemental payments. RCW 28.B.10.400 authorizes the University's Board of Trustees to establish and amend benefit provisions.

The Teachers' Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) are the companion organizations through which individual retirement annuities are purchased that have immediate vesting by the employee. TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution that participates in TIAA-CREF. Benefits are determined as follows: TIAA-fixed guaranteed annuities payable for life with an additional dividend payment each year depending on investment performance; CREF-variable annuities which are not guaranteed but rise and fall with the value of equity investments.

The supplemental payment plan determines a minimum retirement benefit goal based upon a onetime calculation at each employee's retirement date. The University makes direct payments to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with 10 years of full-time service. The benefit goal is 2 percent 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 percent TIAA-CREF contribution after age 50, the benefit goal is 1.5 percent for each year of full-time service for the years in which the lower contribution rate was selected. No significant changes were made in the faculty benefit provision for the year ended June 30, 2004.

Contribution. Employee contribution rates, which are based on age, are 5 percent, 7.5 percent and 10 percent. The University matches the employee contributions. The University contributions during the year ended June 30, 2004, total \$3,044,305.

The University supplemental pension benefits are unfunded and charged to operations in the years in which they are

paid. The University makes no contributions other than benefit payments and there are no plan assets. An actuarial study of the supplemental pension benefits was performed as of July 1, 2004. Based on assumptions made regarding expected benefit payments, the actuary presents a cash flow projection rather than an actuarial funding plan to liquidate any unfunded liabilities. The University uses this cash flow projection to budget annual amounts to provide funds for these benefits. The unfunded actuarial accrued liability calculated at June 30, 2004, was \$2,288,000 and is amortized over a 19.5 year period. The annual required contribution is projected at \$211,000. For the year ended June 30, 2004, actual benefits amounted to \$175,828.

Note 12: Segment Information

The following financial information represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding, and where expenses, gains and losses, assets, and liabilities are identifiable. These bonds provide funding for residential housing and student activity facilities. For more information, separately issued financial statements are available from the Office of Controller, Eastern Washington University, 319 Showalter Hall, Cheney, WA 99004. Summarized activity as of and for the year ended June 30, 2004 follows:

CONDENSED STATEMENT OF NET ASSETS		
	Housing and Dining System Revenue Bonds Series 1992	Pence Union Building Revenue Bonds Series 1993
Assets		
Current assets	\$2,437,811	\$1,705,391
Noncurrent assets	24,033,237	10,815,807
Total assets	26,471,048	12,521,198
Liabilities		
Current liabilities	1,864,543	466,062
Noncurrent liabilities	9,007,465	6,285,485
Total liabilities	10,872,008	6,751,547
Net assets		
Invested in capital assets, net of related debt	13,059,621	3,673,666
Restricted	250,000	-
Unrestricted	2,289,419	2,095,985
Total net assets	\$15,599,040	\$5,769,651

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
	Housing and Dining System Revenue Bonds Series 1992	Pence Union Building Revenue Bonds Series 1993
Operating revenues	\$12,064,211	\$2,044,089
Operating expenses	11,391,125	1,841,368
Net operating income	673,086	202,721
Nonoperating revenues (expenses)		
Transfers	1,606,560	724,892
Change in net assets	1,824,971	607,926
Net assets – beginning of year	13,774,069	5,161,725
Net assets – end of year	\$15,599,040	\$5,769,651

CONDENSED STATEMENT CASH FLOWS		
	Housing and Dining System Revenue Bonds Series 1992	Pence Union Building Revenue Bonds Series 1993
Net cash flows provided by operating activities	\$1,428,045	\$510,010
Net cash flows provided by noncapital and related financing activities	(30,693)	90,000
Net cash flows provided by capital and related financing activities	(1,616,067)	(271,258)
Net cash flows used by investing activities	1,931	(385,540)
Net decrease in cash	(216,784)	(56,788)
Cash – beginning of year	853,120	348,696
Cash – end of year	\$636,336	\$291,908

Note 13: Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2004 and 2003 are summarized as follows:

OPERATING EXPENSES		
	FY 2004	FY 2003
Educational and general		
Instruction	\$48,582,946	\$46,633,833
Research	1,434,645	1,642,619
Public service	2,485,799	2,360,809
Academic support	7,817,559	7,661,165
Student services	9,461,573	9,405,106
Institutional support	10,632,234	9,394,906
Operation and maintenance of plant	13,515,496	19,338,251
Scholarships and fellowships	12,044,712	11,467,229
Auxiliary enterprises	22,364,216	21,009,039
Depreciation	7,081,688	6,445,746
Total operating expenses	\$135,420,868	\$135,358,703

Note 14: Other Matters

The University is contingently liable in connection with claims arising in the normal course of its activities. University management believes that the outcome of such matters will not have a material effect on the financial statements.

Outstanding purchase orders and other commitments at June 30, 2004, total \$9,535,560 for various goods and services.

FIVE-YEAR HISTORICAL REVIEW — UNAUDITED

Years Ended June 30 <i>(in thousands)</i>	GASBS 35			Pre-GASBS 35	
	2004	2003	2002	2001	2000
REVENUES					
Tuition and fees (net of allowance)	\$42,466	\$37,730	\$32,403	\$36,729	\$33,403
Gifts, grants and contracts	34,029	31,796	27,867	23,911	21,732
Auxiliary enterprises (net of allowance)	17,547	16,830	15,517	17,493	15,937
Other sources	878	784	861	2,041	845
Total operating revenues	94,920	87,140	76,648	80,174	71,917
EXPENSES					
Instruction	48,583	46,634	44,702	42,830	40,595
Research	1,435	1,643	1,616	1,566	1,590
Public service	2,486	2,361	1,908	1,747	2,031
Academic support (including libraries)	7,817	7,661	7,574	8,266	7,601
Student services	9,462	9,405	9,096	8,734	7,719
Institutional support	10,632	9,395	9,403	9,020	9,267
Plant operation and maintenance	13,515	19,338	11,403	9,494	8,070
Scholarships and fellowships	12,045	11,467	10,447	18,793	15,738
Auxiliary enterprises	22,364	21,009	19,010	17,628	16,167
Depreciation	7,082	6,446	5,827	-	-
Total operating expenses	135,421	135,359	120,986	118,078	108,778
Operating loss	(40,501)	(48,219)	(44,338)	(37,904)	(36,861)
NON-OPERATING REVENUES (EXPENSES)					
State appropriations	41,649	43,906	45,592	43,970	41,668
Investment income, gains and losses	3,635	4,110	4,249	-	-
Interest on capital asset-related debt	(920)	(943)	(825)	-	-
Total non-operating revenues	44,364	47,073	49,016	43,970	41,668
Income before capital contributions and additions to endowments	3,863	(1,146)	4,678		
Capital appropriations	15,862	16,271	5,600		
Additions to permanent endowments	125	101	550		
Total Other	15,987	16,372	6,150		
Increase in net assets	\$19,850	\$15,226	\$10,828		
CAPITAL ASSETS <i>(in thousands)</i>					
Land	\$2,091	\$2,091	\$2,060	\$1,978	\$1,903
Buildings	190,520	183,552	166,763	162,165	148,466
Land improvements/infrastructure	31,680	31,324	29,730	29,684	23,357
Equipment	16,215	15,771	13,526	13,223	12,822
Library resources	22,592	21,598	20,544	19,451	18,439
Construction in progress	12,851	5,438	9,473	7,422	9,895
Depreciation	(7,082)	(6,446)	(5,827)	-	-
Total capital assets	\$268,867	\$253,328	\$236,269	\$233,923	\$214,882
ENROLLMENTS <i>(actual)</i>					
Fall quarter	9,506	9,178	8,932	8,597	8,261
Academic year average	9,126	8,857	8,636	8,289	7,961
TUITION AND FEES PER ACADEMIC YEAR <i>(actual)</i>					
Undergraduate - Resident	\$3,582	\$3,357	\$2,964	\$2,790	\$2,700
Undergraduate - Nonresident	12,438	11,634	10,224	9,594	9,594
Graduate - Resident	5,772	5,403	4,758	4,470	4,326
Graduate - Nonresident	17,085	15,975	14,031	13,161	13,161



**EASTERN
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UNIVERSITY**

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