

EASTERN WASHINGTON UNIVERSITY



Financial Report 2005

TABLE OF CONTENTS

INTRODUCTORY SECTION

Message from the President	2
Board of Trustees, Administration, University Deans, and Mission Statement	3

FINANCIAL SECTION

Independent Auditor's Report	5
Management's Discussion and Analysis	6
Statement of Net Assets	12
Statement of Revenue, Expenses and Changes in Net Assets	13
Statement of Cash Flows	14
Balance Sheet – Component Unit (Foundation)	16
Statement of Activities – Component Unit (Foundation)	17
Notes to Financial Statements	18

STATISTICAL SECTION

Five-Year Historical Review	28
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MESSAGE FROM THE INTERIM PRESIDENT



How do you measure the success of a university?

Numbers can tell a compelling story, and at Eastern Washington University, the numbers are positive indeed. Eastern now serves more than 10,000 students at nine locations across the state in addition to our Cheney and Spokane campuses. Record enrollment this academic year included 1,000 more freshmen than only eight years ago.

Financial support for Eastern has never been higher, with external grants of more than \$13.5 million and private gifts on track to set new records in giving. Alumni and friends of Eastern like what they see in our programs and students and they are joining us in supporting the University as never before.

Success is also measured in bricks and mortar. This year, we opened our new Computing and Engineering Building to rave reviews from faculty, staff and students. The state-of-the-art building puts the technology of the future into classrooms today to assure that Eastern graduates are prepared for the jobs that our region and state need. On the drawing board are plans for a new student recreation center and continued classroom renovations that will help to make our Cheney campus even more vibrant and alive at all hours of the day and night.

At Eastern, we know that numbers and buildings are important, but the measures we really pay attention to are those that assure the success of our students. This year, faculty and staff rededicated our efforts to student success – in the classroom, in cocurricular activities and in service to our communities.

The results are everywhere: in the highly popular Student Research and Creative Works Symposium that showcases the scholarship and creativity of Eastern students; in our campuswide theme on Academic Freedom and the First Amendment that fosters dialogue and discussion on critical issues of the day; and on new technologies that are revolutionizing how Eastern students learn.

At the beginning of this academic year, I invited all Eastern faculty and staff to ask themselves one question: “What can I do to help Eastern students succeed?” The answers have been as varied as the people who make up the Eastern family. As the year unfolds, we continue to be united in our goal of putting the success of our students first, in all we do. And that, in my mind, is the best measurement of university excellence.

A handwritten signature in black ink that reads "Brian Levin-Stankevich". The signature is written in a cursive, flowing style.

Brian Levin-Stankevich, Ph.D.

BOARD OF TRUSTEES (AS OF 6/30/05)

Gordon E. Budke, Chair
Ines Zozaya-Geist
Jo Ann Kauffman
Neil McReynolds
Kris Mikkelsen, Vice Chair
Katie Moffitt (student trustee)
Bertha Ortega
Paul Tanaka

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Brian Levin-Stankevich (Interim)
Vice President for Academic Affairs and Provost
Ron Dalla (Interim)
Vice President for Business and Finance
Mary Voves
Vice President for Student Affairs
William Ponder

UNIVERSITY DEANS (AS OF 6/30/05)

College of Arts and Letters
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College of Business and Public Administration
Dolores Tremewan Martin
College of Education and Human Development
Valerie Appleton
College of Science, Mathematics and Technology
Raymond A. Soltero
College of Social and Behavioral Sciences
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Graduate and Undergraduate Studies
Larry Briggs (Interim)
Libraries and Chief Information Officer
Patricia M. Kelley
School of Social Work and Human Services
Michael Frumkin

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.

Financial Section

Independent Auditor's Report	5
Management's Discussion and Analysis	6
Statement of Net Assets	12
Statement of Revenue, Expenses and Changes in Net Assets	13
Statement of Cash Flows	14
Balance Sheet – Component Unit (Foundation)	16
Statement of Activities – Component Unit (Foundation)	17
Notes to Financial Statements	18



Insurance Building,
P.O. Box 40021
Olympia, Washington 98504-0021

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 discretely presented component unit of Eastern Washington University as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Eastern Washington University, as of June 30, 2005 and 2004, 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, 2005, the University implemented the Governmental Accounting Standards Board's Statement 40, Deposit and Investment Risk Disclosures.

The management's discussion and analysis on pages 6 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The five-year trend presented on page 28 is not a required part of the basic financial statement but is supplementary information presented for the purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we express no opinion on it.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position and activities of Eastern Washington University ("the University") for the fiscal year ended June 30, 2005, with comparative 2004 financial information. This MD&A provides the readers an objective and easily readable analysis of the University's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes to the financial statements.

Reporting Entity

Eastern Washington University is one of six state-assisted public institutions of higher education in the state of Washington with over 10,000 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. The University provides quality baccalaureate and graduate education.

The University's main campus is located in Cheney, Wash. a community of 10,000 residents. Eastern also offers a variety of upper division and graduate programs at the Riverpoint Higher Education Park, at the EWU Spokane Center in Spokane, Wash. and at various locations throughout the state of Washington.

The University is governed by an eight-member Board of Trustees appointed by the governor of the state with the consent of the 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—and Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* requires a university to report an organization that raises and holds economic resources for the direct benefit of a government unit. Under this requirement the EWU Foundation is a component unit of the University and their financial statements are incorporated in this financial report.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the last two fiscal years and reports all assets and liabilities of the University. This statement represents the assets available to continue operations of the institution and also identifies how much the institution owes vendors, investors and lending institutions. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2005, 2004 and 2003, follows:

Current assets consist primarily of cash, short-term investments, accounts receivables and inventories. Current assets decreased \$4.5 million in fiscal year 2005 due primarily to a decrease in cash equivalents and short-term investments, after increasing \$5 million from 2003 to 2004 due mainly to an increase in short-term investments.

The University continues to increase the investment in capital assets, which consist of land, buildings, infrastructure and equipment. The growth from \$166.5 million in 2003 to \$195.2 million in 2005, an increase of \$28.7 million, is largely due to the construction of our Computing and Engineering Building.

Non-current assets are comprised mainly of endowments, long-term investments and receivables. Long-term investments increased \$9.8 million in fiscal year 2005, with a nominal increase in non-current assets from 2003 to 2004.

Liabilities include amounts payable to suppliers for goods and services, payroll and related liabilities and debt principal payments. Current liabilities over the past three years have fluctuated slightly between years due mostly to the timing of vendor payables for capital asset improvements. Non-current liabilities decreased from 2004 to 2005 due primarily to a \$1.3 million reduction in long-term debt.

STATEMENT OF NET ASSETS			
	As of June 30 (in thousands)		
	2005	2004	2003
ASSETS			
Current assets	\$40,835	\$45,297	\$40,326
Capital assets, net	195,225	176,456	166,486
Other non-current assets	37,904	28,153	26,782
Total assets	273,964	249,906	233,564
LIABILITIES			
Current liabilities	18,953	16,602	19,142
Non-current liabilities	19,065	20,530	21,498
Total liabilities	38,018	37,132	40,640
NET ASSETS	\$235,946	\$212,774	\$192,924

Net assets, the difference between assets and liabilities, is one indicator of the financial condition of the University. The change in net assets measures 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 – This is the University’s investment in property, plant and equipment, net of accumulated depreciation and the amount of outstanding debt related to those capital assets.

Restricted-Nonexpendable – This category consists of funds on which the donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. The primary nonexpendable funds for the University are permanent endowments.

Restricted Expendable – This category includes resources which the University is legally or contractually obligated to spend in accordance with the time or purpose restrictions on the use of the asset placed upon them by donors or other external parties. The primary expendable funds for the University are student loans and capital project funds.

Unrestricted – These are all other funds available to the University for the general and educational obligations to meet current expenses for any purpose. Unrestricted funds are often internally designated for specific purposes.

The University’s net assets at June 30, 2005, 2004 and 2003 are summarized as follows:

The \$20.2 million, or 12.7 percent and \$11.3 million, or 7.6 percent increase in the net invested in capital assets in 2005 and 2004, respectively, reflects the University’s continuing commitment to replacement and expansion of its capital assets.

The restricted net assets include mainly permanent endowments, student loan funds

and funds available for capital projects. These assets have increased slightly from \$16.3 million in 2003 to \$19.2 million in 2005.

The University’s unrestricted net assets continue to increase as shown by the \$3 million increase from 2004 to 2005 and by the \$5.6 million increase from 2003 to 2004. The unrestricted net assets are not subject to externally imposed stipulations however; the University has designated the unrestricted net assets for various academic programs and initiatives. Over \$5.9 million of the unrestricted net assets are designated for services provided by auxiliary enterprises at June 30, 2005.

NET ASSETS			
As of June 30 (in thousands)			
	2005	2004	2003
Invested in capital assets	\$178,718	\$158,540	\$147,274
Restricted:			
Non-expendable	5,795	5,343	4,734
Expendable	13,424	13,915	11,571
Unrestricted	38,009	34,976	29,345
Total net assets	\$235,946	\$212,774	\$192,924

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets provides information about the operating performance of the University. The statement classifies

revenues and expenses as either operating or nonoperating. Under GASB reporting principles, state appropriations are classified as non-operating revenues. The University receives state appropriations that offset the loss generated by operating expenses.

A summarized comparison of the University’s Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2005, 2004 and 2003, follows:

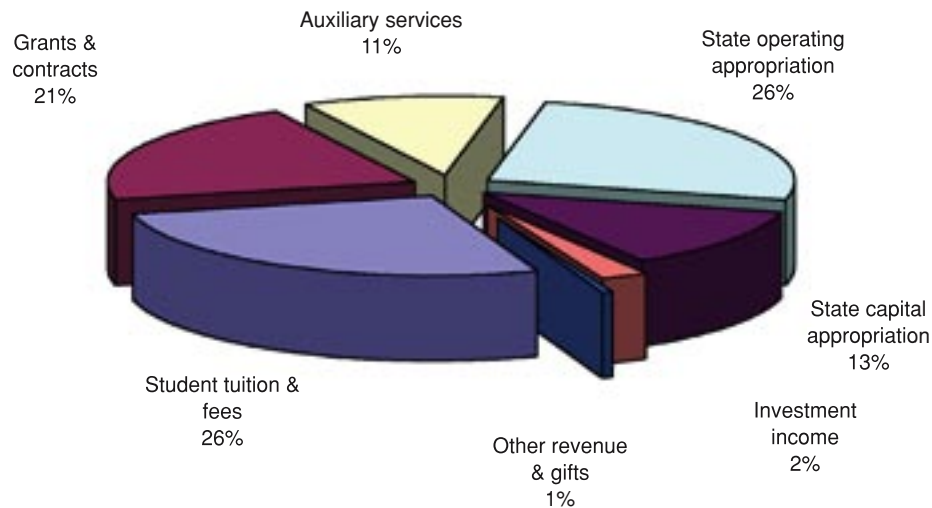
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
For the year ended June 30 (in thousands)			
	2005	2004	2003
Operating revenue	\$98,964	\$94,921	\$87,140
Operating expenses	143,220	135,421	135,359
Net operating loss	(44,256)	(40,500)	(48,219)
Non-operating revenues	47,141	45,284	48,016
Non-operating expenses	853	920	943
Income/(loss) before other revenues	2,032	3,864	(1,146)
Other revenues and expenses	21,140	15,986	16,372
Increase in net assets	23,172	19,850	15,226
Net assets, beginning of year	212,774	192,924	177,698
Net assets, end of year	\$235,946	\$212,774	\$192,924

Operating and Non-operating Revenues

Operating revenues consist of tuition and fees, sponsored program revenue and sales and services revenue generated by auxiliary and other enterprises. Non-operating revenues consist of state appropriations and investment income.

The illustration below shows revenues by source (both operating and non-operating), which were used to fund the University's programs for the year ended June 30, 2005. The ensuing table contains a comparison of revenues for years ended 2005, 2004 and 2003.

FY 2005 REVENUES BY SOURCE



REVENUES BY SOURCE

	<i>(in thousands)</i>		
	2005	2004	2003
Student tuition & fees	\$45,197	\$42,466	\$37,730
Grants & contracts	34,985	34,029	31,796
Auxiliary services	17,898	17,547	16,830
State operating appropriation	43,188	41,649	43,906
State capital appropriation	20,940	15,862	16,271
Investment income	3,943	3,635	4,110
Other revenue & gifts	1,094	1,003	885
Total	\$167,245	\$156,191	\$151,528

Tuition and fees and state appropriations are the primary sources of funding for the University's academic programs. Tuition and fee revenues increased 6 percent in 2005. This increase resulted primarily from tuition rate increase of 7 percent, as well as a growth in number of students to 9,317 annualized headcount for academic year 2004-2005. State legislative appropriations for operations increased \$1.5 million from 2004 to 2005, after decreasing \$2.2 million from 2003 to 2004. Even with the 3.7 percent increase in appropriations in 2005, the change over the last three years is a decrease of

1.6 percent from 2003 to 2005. The tuition and fees revenue continues to make up a greater percentage of revenues available for operating expenses than state appropriations. Over the past three years tuition and fees revenue have increased from 46 percent of tuition and fees and appropriation revenue together in 2003 to 51 percent in 2005.

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 costs. Revenues from financial aid, grants and

contracts increased slightly from 2004 to 2005 compared to a 7 percent increase from 2003 to 2004.

State legislative appropriations for capital improvements increased \$5.1 million, or 32 percent in 2005. The University receives a biennial appropriation for capital improvements and this increase reflects the completion of the Computing and Engineering Building and start up of renovations to Senior Hall.

Operating Expenses

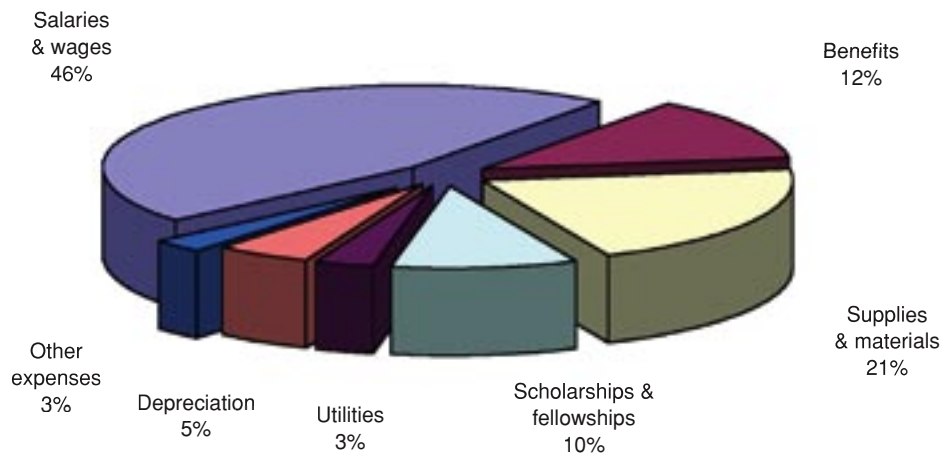
Operating expenses consist mainly of salary and benefit costs, supplies and materials costs and student scholarships and fellowships.

Shown below is an illustration of operating expenses by natural classification (object) for the year ended June 30, 2005. The ensuing table contains a comparison of expenses for years ended June 30, 2005, 2004 and 2003.

Salaries, wages and benefits are the major support cost for the University's programs. Expenses from salaries and wages increased 4.5 percent in 2005 compared to 2.5 percent in 2004 while benefits increased 11.6 percent in 2005 compared to 4 percent in 2004. From 2003 to 2005 the salary and benefit costs increased 8.9 percent.

Supplies and materials expense increased 5.9 percent in 2005 compared to a decrease of 13 percent in 2004. Overall, the operating expenses have increased 5.8 percent from 2003 to 2005.

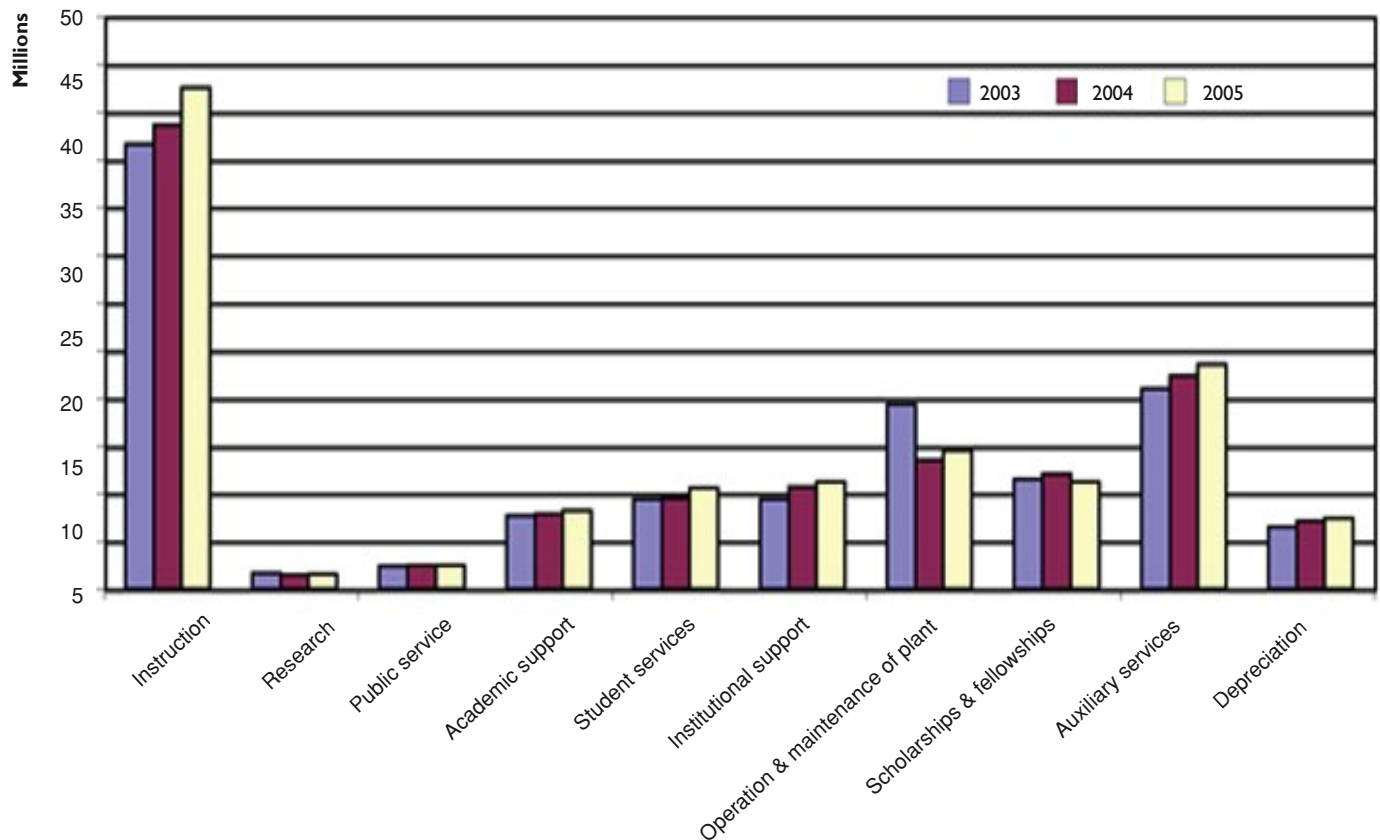
FY 2005 OPERATING EXPENSES BY OBJECT



OPERATING EXPENSES BY OBJECT

	<i>(in thousands)</i>		
	2005	2004	2003
Salaries & wages	\$66,542	\$63,683	\$62,097
Benefits	17,843	15,982	15,371
Supplies & materials	29,460	27,815	32,028
Scholarships & fellowships	13,846	13,609	12,859
Utilities	4,293	3,848	3,469
Depreciation	7,386	7,082	6,446
Other expenses	3,850	3,402	3,089
Total	\$143,220	\$135,421	\$135,359

COMPARISON OF OPERATING EXPENSES BY FUNCTION



An alternative view of operating expenses by natural (object) classification is to view operating expenses by functional classification. The above illustration is of operating expenses by function for the years ended June 30, 2005, 2004 and 2003.

Capital Asset and Debt Activities

Total long-term debt associated with capital assets decreased, as there were no significant issuances in 2005. Obligations under capital leases amounted to \$5.3 million in 2005 compared to \$5.8 million in 2004. Bonds payable amounted to \$11.4 million in 2005 compared to \$12.4 million in 2004. Total leases and bonds payable decreased 15 percent over the last three years.

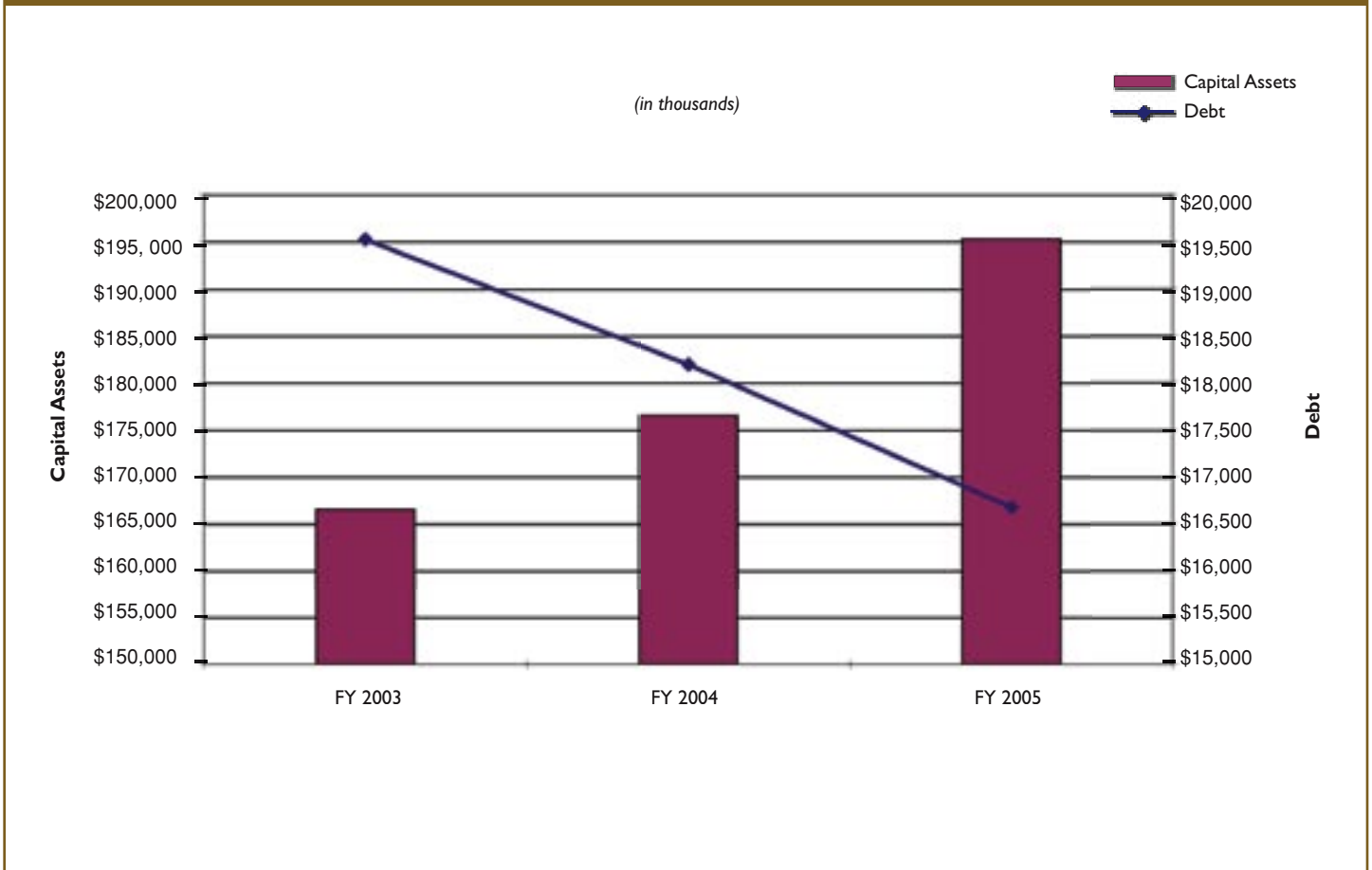
Additions to capital assets, net of depreciation and retirements, amounted to \$18.8 million in 2005 compared to

\$9.9 million in 2004. 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, 2005 totaled \$28.5 million compared to \$12.8 million in 2004. This increase of \$15.6 million is due mainly to the renovation of Senior Hall and the new Computing and Engineering Building which was placed in service during fall 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.

FY 2003-05 COMPARISON OF DEBT TO CAPITAL ASSETS



Economic Factors That Will Affect the Future

Funding for higher education in the state of Washington continues to be under pressure. Although state appropriations increased minimally with the 2005-2007 biennium, the enrollment demand continues to outpace state funding. The 2005 legislature granted greater flexibility in setting certain tuition rates to help universities fund this demand.

The University's recently approved strategic plan addresses ongoing funding issues to ensure sustainability and flexibility in meeting educational opportunities at Eastern Washington University.

STATEMENT OF NET ASSETS

June 30, 2005 and 2004

ASSETS	June 30, 2005	June 30, 2004
Current assets:		
Cash and cash equivalents	\$6,753,210	\$10,839,346
Short-term investments	14,037,800	15,276,657
Deposit with State of Washington	6,565,780	6,781,659
Accounts receivable (net of allowances of \$111,547 and \$164,593, respectively)	10,581,008	10,136,380
Student loans receivable (net of allowances of \$35,656 and \$14,718, respectively)	201,510	279,642
Inventories	1,254,420	1,206,175
Other assets	1,441,289	776,684
Total current assets	<u>40,835,017</u>	<u>45,296,543</u>
Noncurrent assets:		
Endowment investments	5,607,298	5,110,705
Other long-term investments	26,380,608	17,022,050
Student loans receivable (less allowances of \$172,214 and \$174,183, respectively)	5,568,256	5,631,931
Other noncurrent assets	348,129	388,242
Capital assets, net of accumulated depreciation	195,225,064	176,456,536
Total noncurrent assets	<u>233,129,355</u>	<u>204,609,464</u>
Total assets	<u>\$273,964,372</u>	<u>\$249,906,007</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$9,512,286	\$7,198,492
Accrued liabilities	3,861,889	3,530,240
Compensated absences	11,426	55,351
Deposits or funds held for others	1,456,932	1,394,986
Deferred revenue	2,619,683	2,811,387
Long-term liabilities, current portion	1,490,666	1,611,606
Total current liabilities	<u>18,952,882</u>	<u>16,602,062</u>
Noncurrent liabilities:		
Compensated absences	3,808,891	3,949,529
Long-term liabilities	15,256,881	16,579,970
Total noncurrent liabilities	<u>19,065,772</u>	<u>20,529,499</u>
Total liabilities	<u>\$38,018,654</u>	<u>\$37,131,561</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$178,718,345	\$158,539,863
Restricted for:		
Nonexpendable:		
Endowments	5,607,298	5,135,705
Other	187,250	207,250
Expendable:		
Loans	6,581,375	6,699,522
Capital projects	6,565,780	6,781,659
Other	276,737	434,036
Unrestricted	38,008,933	34,976,410
Total net assets	<u>\$235,945,718</u>	<u>\$212,774,445</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, 2005 and 2004

REVENUES	<u>FY 2005</u>	<u>FY 2004</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$11,452,452 and \$10,814,260, respectively)	\$45,196,510	\$42,466,390
Federal grants and contracts	14,932,943	16,221,846
State and local grants and contracts	14,545,469	12,509,321
Nongovernmental grants and contracts	5,507,338	5,298,268
Sales and services of auxiliary enterprises:		
Housing and dining services (net of scholarship allowances of \$3,420,862 and \$3,050,176, respectively)	8,688,089	8,437,882
Other auxiliary enterprises (net of scholarship allowances of \$689,639 and \$576,457, respectively)	9,209,683	9,109,109
Other operating revenue	883,804	877,725
Total operating revenue	<u>98,963,836</u>	<u>94,920,541</u>
 EXPENSES		
Operating expenses:		
Salaries and wages	66,541,885	63,683,329
Benefits	17,843,371	15,982,275
Scholarships and fellowships	13,846,476	13,608,645
Utilities	4,293,025	3,847,705
Supplies and materials	27,232,011	26,266,972
Non-capitalized facility improvements	2,227,513	1,547,715
Other	3,850,662	3,402,539
Depreciation	7,385,551	7,081,688
Total operating expenses	<u>143,220,494</u>	<u>135,420,868</u>
 Operating loss	 (44,256,658)	 (40,500,327)
 NON-OPERATING REVENUES (EXPENSES)		
State appropriation	43,187,971	41,648,800
Investment income, gains and losses	3,942,678	3,635,359
Interest on capital asset-related debt	(853,169)	(920,438)
Other non-operating revenue	10,627	-
Net non-operating revenues	<u>46,288,107</u>	<u>44,363,721</u>
Gain before other revenues, expenses, gains or losses	<u>2,031,449</u>	<u>3,863,394</u>
 Capital appropriations	 20,939,824	 15,861,581
Gifts to permanent endowments	200,000	125,000
Total other revenue	<u>21,139,824</u>	<u>15,986,581</u>
Increase in net assets	23,171,273	19,849,975
 NET ASSETS		
Net assets, beginning of year	212,774,445	192,924,470
Net assets, end of year	<u>\$235,945,718</u>	<u>\$212,774,445</u>

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

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2005 and 2004

	<u>FY 2005</u>	<u>FY 2004</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Tuition and fees	\$45,337,183	\$42,485,372
Grants and contracts	35,468,632	34,202,443
Payments to vendors	(34,907,780)	(37,208,702)
Payments to employees	(84,164,465)	(79,072,065)
Payments for scholarships and fellowships	(13,846,476)	(13,608,645)
Loans issued to students	(2,020,846)	(2,151,049)
Collection of student loans	2,057,876	2,073,237
Auxiliary enterprise receipts	17,488,830	17,271,258
Other receipts (payments)	474,217	(370,085)
Net cash used by operating activities	<u>(34,112,829)</u>	<u>(36,378,236)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	42,863,100	41,648,800
Endowment gifts	200,000	125,000
Stafford/Plus loans receipts	49,946,145	47,733,621
Stafford/Plus loans disbursements	(50,029,010)	(47,633,881)
Agency fund receipts	42,240,537	37,515,541
Agency fund disbursements	(42,065,965)	(37,845,213)
Net cash provided by noncapital financing activities	<u>43,154,807</u>	<u>41,543,868</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital appropriations	19,820,523	17,392,484
Purchases of capital assets	(25,833,108)	(18,894,081)
Principal paid on capital debt and leases	(1,622,817)	(1,661,966)
Interest paid on capital debt and leases	(819,096)	(886,057)
Net cash used by capital financing activities	<u>(8,454,498)</u>	<u>(4,049,620)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	11,725,583	15,286,222
Interest on investments	3,710,225	3,267,248
Purchase of investments	(20,109,424)	(20,948,491)
Net cash used by investing activities	<u>(4,673,616)</u>	<u>(2,395,021)</u>
Net increase (decrease) in cash	(4,086,136)	(1,279,009)
Cash, beginning of year	10,839,346	12,118,355
Cash, end of year	<u>\$6,753,210</u>	<u>\$10,839,346</u>

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

STATEMENT OF CASH FLOWS *(continued)**For the Years Ended June 30, 2005 and 2004***Reconciliation of net operating revenue (expenses) to net cash provided (used) by operating activities:**

Operating income (loss)	\$(44,256,658)	\$(40,500,327)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	7,385,551	7,081,688
Changes in assets and liabilities:		
Receivables, net	999,544	(612,880)
Inventories	(48,245)	(6,932)
Other assets	(664,615)	(390,882)
Accounts payable	2,651,484	(2,321,408)
Deferred revenue	(191,704)	(126,203)
Deposits held for others	(19,134)	33,794
Compensated absences	(110,858)	471,835
Loans to students	141,806	(6,921)
Net cash used by operating activities	<u>\$(34,112,829)</u>	<u>\$(36,378,236)</u>

NONCASH TRANSACTIONS

Buildings and equipment	105,086	331,959
Capital leases	(105,086)	(331,959)

BALANCE SHEETS — COMPONENT UNIT (FOUNDATION)

	June 30,	
	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents	\$847,451	\$1,097,324
Investments available for expenditure	1,868,574	1,488,424
Promises to give, net	1,952,155	1,681,354
Other assets	592,645	527,275
Contributions receivable from charitable trusts	575,265	560,090
Investments held in charitable trusts	209,667	179,350
Investments restricted for endowments	8,836,518	8,453,818
Beneficial interest in perpetual trusts	1,826,386	1,746,808
	<u>\$16,708,661</u>	<u>\$15,734,443</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$10,777	\$ 40,606
Deferred revenue	15,310	82,056
Annuities payable	165,917	175,522
Notes payable	994,402	169,088
Total liabilities	<u>1,186,406</u>	<u>467,272</u>
NET ASSETS:		
Unrestricted	(176,515)	(190,123)
Temporarily restricted	4,294,209	4,570,108
Permanently restricted	11,404,561	10,887,186
Total net assets	<u>15,522,255</u>	<u>15,267,171</u>
	<u>\$16,708,661</u>	<u>\$15,734,443</u>

STATEMENT OF ACTIVITIES — COMPONENT UNIT (FOUNDATION)

	Year Ended June 30, 2005				Year Ended June 30, 2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND SUPPORT								
Contributions	\$195,345	\$2,482,645	\$481,627	\$3,159,617	\$180,970	\$2,311,613	\$647,946	\$3,140,529
Contributions from trusts	-	67,807	-	67,807	-	61,652	-	61,652
Investment income	6,342	251,440	14,458	272,240	9,263	129,453	12,625	151,341
Realized gain (loss) on investments	(29)	3	-	(26)	-	27,211	-	27,211
Unrealized gain (loss) on investments	-	450,787	31,117	481,904	(424)	1,205,582	20,825	1,225,983
Change in value of split-interest agreements	-	-	81,600	81,600	-	-	75,339	75,339
Support provided by Eastern Washington University	1,901,796	-	-	1,901,796	1,714,225	-	-	1,714,225
Other	-	364,830	6,005	370,835	-	275,959	10,118	286,077
Net assets released from restrictions	3,990,845	(3,990,845)	-	-	2,498,366	(2,498,366)	-	-
Reclassification of net assets	-	97,433	(97,433)	-	-	76,479	(76,479)	-
Total revenues, gains and support	<u>6,094,299</u>	<u>(275,900)</u>	<u>517,374</u>	<u>6,335,773</u>	<u>4,402,400</u>	<u>1,589,583</u>	<u>690,374</u>	<u>6,682,357</u>
EXPENSES								
Management and general	925,796	-	-	925,796	\$817,345	-	-	\$817,345
Fund raising	1,349,404	-	-	1,349,404	1,240,604	-	-	1,240,604
Support provided to/for Eastern Washington University	3,805,491	-	-	3,805,491	2,311,771	-	-	2,311,771
	<u>6,080,691</u>	<u>-</u>	<u>-</u>	<u>6,080,691</u>	<u>4,369,720</u>	<u>-</u>	<u>-</u>	<u>4,369,720</u>
CHANGE IN NET ASSETS:	13,608	(275,900)	517,374	255,082	32,680	1,589,583	690,374	2,312,637
NET ASSETS (DEFICIT), BEGINNING 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>
NET ASSETS (DEFICIT), END OF YEAR:	<u>\$(176,515)</u>	<u>\$4,294,209</u>	<u>\$11,404,561</u>	<u>\$15,522,255</u>	<u>\$(190,123)</u>	<u>\$4,570,108</u>	<u>\$10,887,186</u>	<u>\$15,267,171</u>

NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2005

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 that are appointed by the governor and confirmed by the state Senate.

The Eastern Washington University Foundation (Foundation) is established as a 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, that 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, 2005, the Foundation distributed \$3,805,491 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 can be obtained from the Foundation's administrative office located at 127 Hargreaves Hall, 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. 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 nonprofit reporting and disclosure standards. In accordance with GASBS No. 39, the Foundation is considered a legally separate component unit of the University beginning with fiscal year 2004; prior periods are not restated.

In fiscal year 2005, the University implemented GASBS No. 40, Deposit and Investment Risk Disclosures, which amends disclosure requirements under GASBS No. 3, Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements.

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.

ACCRUED LEAVE

Beginning in fiscal year 2005, accrued annual and sick leave are categorized as non-current liabilities under the assumption that employees are using most of the leave they are earning. Prior periods are reclassified accordingly. Prior to fiscal year 2005, a portion of accrued annual and sick leave was categorized as a current liability based on expected usage. Compensatory time, which must be used within ninety days following fiscal year-end, is categorized as a current liability.

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, which 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.

RECLASSIFICATIONS

Certain reclassifications not affecting net assets have been made to 2004 amounts in order to conform to 2005 presentation.

Note 2: Deposits and Investments

Deposits are comprised of cash and cash equivalents, which 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). Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

At June 30, 2005, insured/collateralized deposits consist of the following:

	Carrying Value June 30, 2005
Deposits	
Cash and cash equivalents	
Interest bearing	\$6,626,874
Other	126,336
Total deposits	\$6,753,210

Through its investment policies for operating funds, the University manages its exposure to custodial credit risk, credit (quality) risk, interest rate risk, concentration of credit risk, and foreign currency risk. Eligible investments are only those securities and deposits authorized by state statute RCW 39 and 43. At June 30, 2005, investments consist of the following:

INVESTMENT MATURITIES FOR FIXED INCOME SECURITIES (IN MONTHS)					
	<u>Fair Value</u>	<u>0 - 9</u>	<u>10 - 24</u>	<u>25 - 60</u>	<u>61 - 120</u>
Investments – Operating Funds					
U.S. Government agency bonds	\$27,721,490		\$19,778,830	\$7,942,660	
Certificates of deposit	12,696,918	6,043,000	6,653,918		
Investments – Endowment Funds					
Investments unit trusts					
Equity fund	\$3,374,821				
Bond fund	2,232,477				\$2,232,477
Total investments	\$46,025,706	\$6,043,000	\$26,432,748	\$7,942,660	\$2,232,477

The Bond Fund is comprised of many underlying securities including debt instruments with varied maturity dates. As a whole, the fund had a weighted average maturity of 6.67 years at year-end.

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.

At June 30, 2005, the net appreciation on investments of donor-restricted endowments that is available for authorization for expenditure is \$1,872,280 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 percent of the three-year moving average of the fair value of net assets.

Custodial Credit Risk. Investments, where evidenced by specific, identifiable securities, are insured or registered or are held by the University's custodian bank in the University's name. All securities transactions are conducted on a delivery-versus-payment basis. Invested assets of donor-restricted endowments are represented by shares in investment unit trusts (pools) rather than specific, identifiable securities and, as such, are not subject to custodial credit risk. Similarly, cash equivalents held in the Local Government Investment Pool are also

represented by shares in investment unit trusts.

Credit (Quality) Risk. For operating funds, the University limits exposure to credit risk by limiting investments in fixed income securities to obligations of the U.S. government or similar instruments explicitly guaranteed by the U.S. government which are not considered to have credit risk. Unitized investments that hold underlying debt securities had an average rating of AA+ at year-end.

Interest Rate Risk. The University manages its exposure to fair value losses resulting from changes in interest rates by structuring the

total portfolio time horizon. Unless matched to a specific cash flow, the University generally will not directly invest in securities maturing more than five years from the date of purchase. The goal of the overall portfolio for operating funds is to maintain each individual portfolio at a desired target percentage to balance cash flow requirements, safety, liquidity and yield. For endowment funds, the goal is to maintain a ratio of unitized debt and equity investments as noted below.

<u>Portfolio</u>	<u>Target</u>	<u>Policy Range</u>
Operating funds		
Liquidity pool	25%	20-40%
Intermediate pool	50%	30-60%
Long Term pool	25%	15-40%
Endowment funds		
Bond fund	40%	
Equity fund	60%	

Concentration of Credit Risk. The University's investment policy for operating funds does not limit its exposure to concentration of credit risk. Investments in debt securities of a single organization, other than those issued by or explicitly guaranteed

by the U.S. government, do not exceed more than 5 percent of the total portfolio.

Foreign Currency Risk. A small percentage of underlying securities within unitized investments may be denominated in foreign currency. Any adverse effect on the fair

value of investments resulting from changes to exchange rates is not considered to be significant to the portfolio as a whole.

Note 3: Accounts and Student Loans Receivable

Accounts and student loans receivable at June 30, 2005 and 2004, consist of the following:

ACCOUNTS AND STUDENT LOANS RECEIVABLE		
	June 30, 2005	June 30, 2004
Accounts receivable		
Student tuition and fees	\$1,705,847	\$1,977,569
Auxiliary enterprises (less allowances of \$96,230 and \$146,090, respectively)	1,422,342	1,093,090
Contracts and grants	2,447,043	2,929,926
State reimbursement	4,838,776	3,394,604
Other (less allowances of \$15,317 and \$18,124, respectively)	167,000	741,191
Total accounts receivable	\$10,581,008	\$10,136,380
Student loans receivable		
Federal programs (less allowances of \$172,214 and \$174,183, respectively)	\$5,568,256	\$5,631,931
Institutional loans (less allowances of \$35,656 and \$14,718, respectively)	201,510	279,642
Total student loans receivable	\$5,769,766	\$5,911,573

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, 2005, totals \$2,924,075. This amount represents a liability to the University and is recorded and reported accordingly.

Accumulated sick leave earned and unused at June 30, 2005, calculated at 25 percent of unused balance, totals \$884,816. 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, 2005, totals \$11,426. This amount represents a liability to the University and is recorded and reported accordingly. Earned compensatory time is expected to be used within one year and is therefore classified as a short-term liability.

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, 2005, total \$1,735,176.

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2005, 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	7,605,807	983,710	-	8,589,517
Construction in progress	12,851,340	18,378,096	2,746,616	28,482,820
Subtotal	22,548,101	19,361,806	2,746,616	39,163,291
DEPRECIABLE CAPITAL ASSETS				
Infrastructure	24,073,920	576,532	-	24,650,452
Buildings	190,520,304	3,846,966	-	194,367,270
Furniture, fixtures and equipment	16,214,649	4,029,771	512,369	19,732,051
Library materials	22,591,640	1,138,343	47,970	23,682,076
Subtotal	253,400,513	9,591,612	560,276	262,431,849
Total Capital Assets	275,948,614	28,953,418	3,306,892	301,595,140
Less accumulated depreciation:				
Land improvements	2,797,794	232,618	-	3,030,412
Infrastructure	11,102,704	845,626	-	11,948,330
Buildings	60,631,971	3,924,256	-	64,556,227
Furniture, fixtures and equipment	11,537,928	1,608,309	507,554	12,638,683
Library materials	13,421,681	774,743	-	14,196,424
Total accumulated depreciation	99,492,078	7,385,552	507,554	106,370,076
Capital assets, net of depreciation	\$176,456,536	\$21,567,866	\$2,799,338	\$195,225,064

Note 8: Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, 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)	\$5,799,829	\$105,083	\$597,922	\$5,306,990	\$497,801
General obligation bonds	1,686,747	-	329,895	1,356,852	267,865
Revenue bonds payable (Note 10)	10,705,000	-	695,000	10,010,000	725,000
Total leases and bonds payable	18,191,576	105,083	1,622,817	16,673,842	1,490,666
Other liabilities					
Net pension obligation (Note 11)	-	73,705	-	73,705	-
Compensated absences (Note 5)	4,004,880	2,964,834	3,149,397	3,820,317	11,426
Total long-term liabilities	\$22,196,456	\$3,143,622	\$4,772,214	\$20,567,864	\$1,502,092

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 2006 through 2010. Total operating lease expenses in fiscal year 2005 were \$266,641. 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, 2005, are as follows:

ANNUAL LEASE PAYMENTS		
Fiscal Year	Operating	Capital
2006	\$224,559	\$785,875
2007	174,717	559,462
2008	120,206	542,102
2009	81,660	529,451
2010	20,458	517,239
2011-15	-	2,235,393
2016-20	-	1,925,000
2021-25	-	817,627
Obligation under leases	\$621,600	7,912,149
Less: Amount representing interest costs		(2,605,159)
Present value of minimum obligation under capital leases		\$5,306,990

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 percent to 3.8 percent. 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%	2005-2019	\$8,915,000	\$6,265,000
Housing and Dining System Revenue/Refunding Bonds, Series 2002	2.50% - 3.80%	2005-2013	4,515,000	3,745,000
Total Revenue Bonds			13,430,000	10,010,000
State of Washington General Obligation Bonds				
Refunding Bonds, Series R-93A	3.90% - 5.75%	2005-2011	708,756	391,264
Refunding Bonds, Series R-93B	3.35% - 5.13%	2005-2005	589,985	-
Refunding Bonds, Series R-01A	4.50% - 9.00%	2005-2010	1,561,932	965,588
Total General Obligation Bonds			2,860,673	1,356,852
Total bonds payable			\$16,290,673	\$11,366,852

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
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	855,000	298,975	129,041	7,911	984,041	306,886
2011-2015	3,785,000	948,325	74,318	2,137	3,859,318	950,462
2016-2019	2,290,000	237,000	-	-	2,290,000	237,000
Totals	\$10,010,000	\$2,986,391	\$1,356,852	\$187,082	\$11,366,852	\$3,173,473

Note 11: Pension Plans

The University offers four contributory pension 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, 2005, was \$66,541,885. The payroll for employees covered by PERS was \$18,517,669; payroll for employees covered by TRS was \$246,383; payroll for employees covered by LEOFF was \$349,700; and payroll for employees covered by the Eastern Washington University Retirement Plan was \$38,569,880.

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, 2005 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, 2005		Required Employer Contributions		
	Employee	University	FY 2003	FY 2004	FY 2005
PERS					
Plan I	6.00%	1.38%	\$46,622	\$42,855	\$37,717
Plan II	1.18%	1.38%	178,848	190,368	193,087
Plan III	Varies	1.38% *	14,266	20,363	25,277
TRS					
Plan I	6.00%	1.37%	\$5,263	\$4,922	\$3,381
Plan III	Varies	1.37% *	113	-	-
LEOFF					
Plan II	5.09%	5.28%	\$13,972	\$18,440	\$18,470
* 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 one-time calculation at each employee's retirement date. The University makes direct payments to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with 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, 2005.

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, 2005, total \$3,280,986.

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. The actuarial assumptions for the evaluation included an investment rate of return of 7 percent and projected salary increases ranging from 2 percent to 4 percent. The previous evaluation was performed in 1999. 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 July 1, 2004, was \$2,288,000 under the plan's entry age normal method and is amortized over a 19.5 year period. The annual required contribution (ARC) is projected at \$211,000. The net pension obligation is the cumulative excess, if any, of the ARC over the actual benefit payments and is reported as a liability on the University's financial statements. The following table reflects the activity in the net pension obligation for the fiscal years ended June 30, 2004 and 2005, respectively:

	FY 2004	FY 2005
Net pension obligation		
Balance as of July 1	\$ -	\$35,172
Add: Annual required contribution	211,000	211,000
Less: Payments to beneficiaries	175,828	172,467
Balance as of June 30	\$35,172	\$73,705

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, 2005 follows:

CONDENSED STATEMENT OF NET ASSETS		
	Housing and Dining System Revenue Bonds Series 1992	Pence Union Building Revenue Bonds Series 1993
Assets		
Current assets	\$2,327,087	\$1,106,257
Noncurrent assets	24,110,437	11,405,613
Total assets	26,437,524	12,511,870
Liabilities		
Current liabilities	1,642,161	523,870
Noncurrent liabilities	8,302,200	6,005,748
Total liabilities	9,944,361	6,529,618
Net assets		
Invested in capital assets, net of related debt	13,299,549	4,541,614
Restricted	187,250	-
Unrestricted	3,006,364	1,440,638
Total net assets	\$16,493,163	\$5,982,252

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	\$12,689,828	\$2,189,790
Operating expenses	11,692,129	2,085,649
Net operating income	997,699	104,141
Non-operating revenues (expenses)	(352,515)	(282,357)
Transfers	248,939	390,819
Change in net assets	894,123	212,603
Net assets, beginning of year	15,599,040	5,769,649
Net assets, end of year	\$16,493,163	\$5,982,252

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	\$2,076,978	\$444,984
Net cash flows provided by non-capital and related financing activities	(15,593)	90,000
Net cash flows provided (used) by capital and related financing activities	(1,396,514)	(1,186,265)
Net cash flows used by investing activities	(610,207)	578,855
Net increase (decrease) in cash	54,664	(72,426)
Cash, beginning of year	636,336	291,907
Cash, end of year	\$691,000	\$219,481

Note 13: Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2005 and 2004 are summarized as follows:

OPERATING EXPENSES

	FY 2005	FY 2004
Educational and general		
Instruction	\$52,520,776	\$48,582,946
Research	1,580,521	1,434,645
Public service	2,483,660	2,485,799
Academic support	8,195,205	7,817,559
Student services	10,593,186	9,461,573
Institutional support	11,261,269	10,632,234
Operation and maintenance of plant	14,474,142	13,515,496
Scholarships and fellowships	11,194,551	12,044,712
Auxiliary enterprises	23,531,632	22,364,216
Depreciation	7,385,552	7,081,688
Total operating expenses	\$143,220,494	\$135,420,868

Note 14: Other Matters

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

Outstanding purchase orders and other commitments at June 30, 2005, totals \$4,159,287 for various goods and services.

Statistical Section

Five-Year Historical Review

28

FIVE-YEAR HISTORICAL REVIEW – UNAUDITED

Years Ended June 30 (in thousands)	GASBS 35				Pre-GASBS 35
	2005	2004	2003	2002	2001
REVENUES					
Tuition and fees (net of allowance)	\$45,196	\$42,466	\$37,730	\$32,403	\$36,729
Gifts, grants and contracts	34,986	34,029	31,796	27,867	23,911
Auxiliary enterprises (net of allowance)	17,898	17,547	16,830	15,517	17,493
Other sources	884	878	784	861	2,041
Total operating revenues	98,964	94,920	87,140	76,648	80,174
EXPENSES					
Instruction	52,521	48,583	46,634	44,702	42,830
Research	1,580	1,435	1,643	1,616	1,566
Public service	2,484	2,486	2,361	1,908	1,747
Academic support (including libraries)	8,195	7,817	7,661	7,574	8,266
Student services	10,593	9,462	9,405	9,096	8,734
Institutional support	11,261	10,632	9,395	9,403	9,020
Plant operation and maintenance	14,474	13,515	19,338	11,403	9,494
Scholarships and fellowships	11,195	12,045	11,467	10,447	18,793
Auxiliary enterprises	23,531	22,364	21,009	19,010	17,628
Depreciation	7,386	7,082	6,446	5,827	
Total operating expenses	143,220	135,421	135,359	120,986	118,078
Operating loss	(44,256)	(40,501)	(48,219)	(44,338)	(37,904)
NON-OPERATING REVENUES (EXPENSES)					
State appropriations	43,188	41,649	43,906	45,592	43,970
Investment income, gains and losses	3,943	3,635	4,110	4,249	-
Interest on capital asset-related debt	(853)	(920)	(943)	(825)	-
Other non-operating revenue	10	-	-	-	
Total non-operating revenues	46,288	44,364	47,073	49,016	43,970
Income before capital contributions and additions to endowments	2,032	3,863	(1,146)	4,678	
Capital appropriations	20,940	15,862	16,271	5,600	
Additions to permanent endowments	200	125	101	550	
Total other	21,140	15,987	16,372	6,150	
Increase in net assets	\$23,172	\$19,850	\$15,226	\$10,828	
CAPITAL ASSETS (in thousands)					
	2005	2004	2003	2002	2001 (at cost)
Land	\$2,091	\$2,091	\$2,091	\$2,060	\$1,978
Buildings	194,367	190,520	183,552	166,763	162,165
Land improvements/infrastructure	33,240	31,680	31,324	29,730	29,684
Equipment	19,732	16,215	15,771	13,526	13,223
Library resources	23,682	22,592	21,598	20,544	19,451
Construction in progress	28,483	12,851	5,438	9,473	7,422
Accumulated depreciation	(106,370)	(99,492)	(93,289)	(87,167)	
Total capital assets, net	\$195,225	\$176,457	\$166,485	\$154,929	\$233,923
Enrollments (actual)					
	2005	2004	2003	2002	2001
Fall quarter	9,775	9,506	9,178	8,932	8,597
Academic year average	9,317	9,126	8,857	8,636	8,289
TUITION AND FEES PER ACADEMIC YEAR					
	2005	2004	2003	2002	2001
Undergraduate - resident	\$3,822	\$3,582	\$3,357	\$2,964	\$2,790
Undergraduate - nonresident	13,299	12,438	11,634	10,224	9,594
Graduate - resident	5,772	5,772	5,403	4,758	4,470
Graduate - nonresident	17,085	17,085	15,975	14,031	13,161

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Eastern Washington University
Office of Controller
319 Showalter Hall
Cheney, WA 99004
(509) 359-6614

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