



**EASTERN**  
WASHINGTON UNIVERSITY

start something **big**

# **2011** FINANCIAL REPORT

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# Letter from the President

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The seemingly relentless budget challenges of the last few years have no doubt changed the way we approach our work here at Eastern Washington University. However, during this time of constricted budgets, we have found a way to refine our focus and commit resources to our number one goal of student success.

Buoyed by record enrollment, faculty committed to quality instruction and a new strategic plan that will clearly define the most efficient way to operate, I can truly say Eastern is poised for even greater success. There is still more work to do, but with the economy slowly showing signs of a recovery, EWU has positioned itself well for the road ahead.

I am happy to report to you that Eastern is on solid financial ground thanks to careful planning, healthy enrollments, and fiscal discipline. Despite absorbing reductions to the operating budget, Eastern had the lowest tuition rate increase of any of the state's public universities. The university also continues to put a strong emphasis on raising money for scholarships to help our students succeed. This is critical to our mission, as Eastern must take every step to keep improving student retention and graduation rates.

Validating the fact that more students

and their families are seeing the value of our programs and services, EWU welcomed more than 12,000 students in the fall. The vibrant student presence is not the only activity on campus that reflects our optimism. Renovation work continues on Patterson Hall, the main academic building on campus. And for the first time in 40 years, Eastern will soon break ground on a new residence hall for students. The five-story, 352-bed building should be open by the fall of 2013.

EWU continues to have an impact throughout the region, as our health sciences programs on the Riverpoint Campus in Spokane are a key part of the growing University District. Eastern's impact on the economic vitality and quality of life is invaluable, as a highly educated workforce will be one of the state's biggest assets in the years to come.

This publication will give you a great snapshot of how Eastern Washington University has managed through the financial crisis. While it has been a challenge, this has been an exciting time as well. All of our budget decisions will continue to incorporate ideas from the campus community, students and members of the Board of Trustees to ensure we maintain a high-quality and affordable academic environment.

Sincerely,

A handwritten signature in black ink that reads "Rodolfo Arévalo". The signature is fluid and cursive, written in a professional style.

Rodolfo Arévalo, PhD  
EWU President

## **Board of Trustees** (As of 6/30/11)

Bertha Ortega (Chair)

Neil McReynolds (Vice Chair)

Jo Ann Kauffman

Mark Mays

Kris Mikkelsen

Paul Tanaka

Ines Zozaya-Geist

Amanda Zeller (Student Trustee)

## **Administration** (As of 6/30/11)

President  
Rodolfo Arévalo

Vice President for Academic Affairs  
and Provost  
Rex Fuller

Vice President for  
University Advancement  
Mike Westfall

Vice President for Business and Finance  
Mary Voves

Vice President for Student Affairs  
Stacey Morgan-Foster

## **University Deans** (As of 6/30/11)

College of Arts, Letters and Education  
Lynn Briggs

College of Business and  
Public Administration  
Niel Zimmerman (interim)

College of Science, Health and  
Engineering  
Judd Case

College of Social and Behavioral Sciences  
and Social Work  
Vickie Rutledge Shields

Libraries  
Richard Wilson

## **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.



## Washington State Auditor Brian Sonntag

### INDEPENDENT AUDITOR'S REPORT

January 18, 2012

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, 2011 and 2010, which collectively comprise the University's basic financial statements 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 audits. We did not audit the financial statements of the Eastern Washington University Foundation. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Eastern Washington University Foundation, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 audits and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of Eastern Washington University are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the state of Washington that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2011 and 2010, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits and the reports 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 discretely presented component unit of Eastern Washington University, as of June 30, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 4 through 9 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

# Management's Discussion and Analysis

## Eastern Washington University

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, 2011, with comparative 2010 and 2009 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, one of six state-assisted public institutions of higher education in the state of Washington, provides baccalaureate and graduate educational programs for about 11,000 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's main campus is located in Cheney, Washington, a community of approximately 10,700 residents. Eastern also offers a variety of upper division and graduate programs at the Riverpoint Higher Education Park in Spokane, Washington, and at various locations throughout the state of Washington. For example, through a collaborative agreement, our university center at Bellevue College offers upper division courses for selected bachelor degree programs leading to a four-year degree awarded by Eastern Washington University.

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

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. Under this model, the financial report consists of three statements: the Statement of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

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.

## Reclassifications

Certain reclassifications not affecting total net assets have been made to 2009 and 2010 amounts in order to conform to 2011 presentation.

## 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 lenders. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2011, 2010 and 2009, is shown below.

Current assets consist primarily of cash, short term investments, accounts

receivables and inventories. The change in current and non-current assets is mainly from reallocations between cash and short- and long-term investments.

Liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, bond debt, deposits held for others, and deferred revenues. Current liabilities fluctuate between years due mostly to the timing of vendor payables for capital asset improvements.

Liquidity is an important indicator of financial stability which can be measured by the number of days an institution is able to operate using unrestricted cash and investments that can be liquidated and spent within one year. Between 2009 and 2010 the university increased its ability to cover operating costs from 169 days to 195 days and extended that margin to 201 days in 2011. Within the industry, it is generally considered prudent to maintain reserves to cover operating expenses for at least 60 to 90 days.

Net assets, the difference between assets and liabilities, are a broad 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

## Condensed Statement of Net Assets

As of June 30 (in thousands)

	2011	2010	2009
<b>Assets</b>			
Current assets	\$ 61,448	\$ 63,748	\$ 75,940
Capital assets, net of depreciation	255,452	251,852	250,194
Other non-current assets	56,092	45,674	27,606
<b>Total Assets</b>	<b>372,992</b>	<b>361,274</b>	<b>353,740</b>
<b>Liabilities</b>			
Current liabilities	21,157	20,243	20,055
Non-current liabilities	42,526	43,308	43,303
<b>Total Liabilities</b>	<b>63,683</b>	<b>63,551</b>	<b>63,358</b>
<b>Net Assets</b>	<b>\$ 309,309</b>	<b>\$ 297,723</b>	<b>\$ 290,382</b>

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, capital project funds, and the spendable portion of endowments. Balances fluctuate with the timing of capital project expenditures, contributions to permanent endowments, and other conditions.

**Unrestricted** – These are all other funds available to the University for the general and educational obligations to meet current expenses for any purpose. Unrestricted net assets are not subject to externally imposed stipulations; however, the University has designated the majority of unrestricted net assets for various academic programs

and university support functions such as auxiliary enterprises and service funds.

Total net assets grew by \$7.3 million in 2010 as the University invested in capital assets and reduced costs to help weather the continuing effects of the prolonged economic downturn that began in late 2007. Net assets increased another \$11.6 million in 2011 driven by higher revenues and cost containment measures. Factors that contributed to the 2011 net increase stem from enrollment growth, student fee rate increases, investments in

capital assets (plant), and a slowdown in budgeted spending. On February 15, 2010, Governor Gregoire issued an executive order to curtail spending for all state agencies effective March 17, 2010 through June 30, 2011. Specifically, the restrictions were aimed to cut costs through a statewide hiring freeze, restrictions on travel, additional scrutiny of equipment purchases, and limitations on certain types of contracts with some exceptions within each category. Six months prior to the governor's executive order, University leadership had instituted a hiring and spending slowdown.

### Condensed Net Assets

As of June 30 (in thousands)

	2011	2010	2009
Invested in capital assets, net of related debt	\$ 220,263	\$ 214,784	\$ 211,239
Restricted:			
Non-expendable	5,701	5,524	5,434
Expendable	16,339	16,656	15,582
Unrestricted	67,006	60,759	58,127
<b>Total net assets</b>	<b>\$ 309,309</b>	<b>\$ 297,723</b>	<b>\$ 290,382</b>

### 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 non-operating. Under current GASB reporting guidelines, state appropriations are classified as non-operating revenues though such funding is used to cover operating expenses. To better assess the University's financial health, include

all revenue types/sources and focus on the increase (or decrease) in net assets. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Assets for the fiscal years ended June 30 is shown below.

### Condensed Statement of Revenues, Expenses and Changes in Net Assets

For the year ended June 30 (in thousands)

	2011	2010	2009
Operating revenue	\$ 122,041	\$ 112,602	\$ 110,441
Operating expenses	187,194	179,917	186,325
Net operating loss	(65,153)	(67,315)	(75,884)
Non-operating revenues	68,378	67,996	75,193
Non-operating expenses	1,634	1,717	1,801
Income/(loss) before other revenues	1,591	(1,036)	(2,492)
Other revenues and expenses	9,995	8,377	13,974
Increase in net assets	11,586	7,341	11,482
Net assets, beginning of year	297,723	290,382	278,900
Net assets, end of year	\$ 309,309	\$ 297,723	\$ 290,382

# Management's Discussion and Analysis

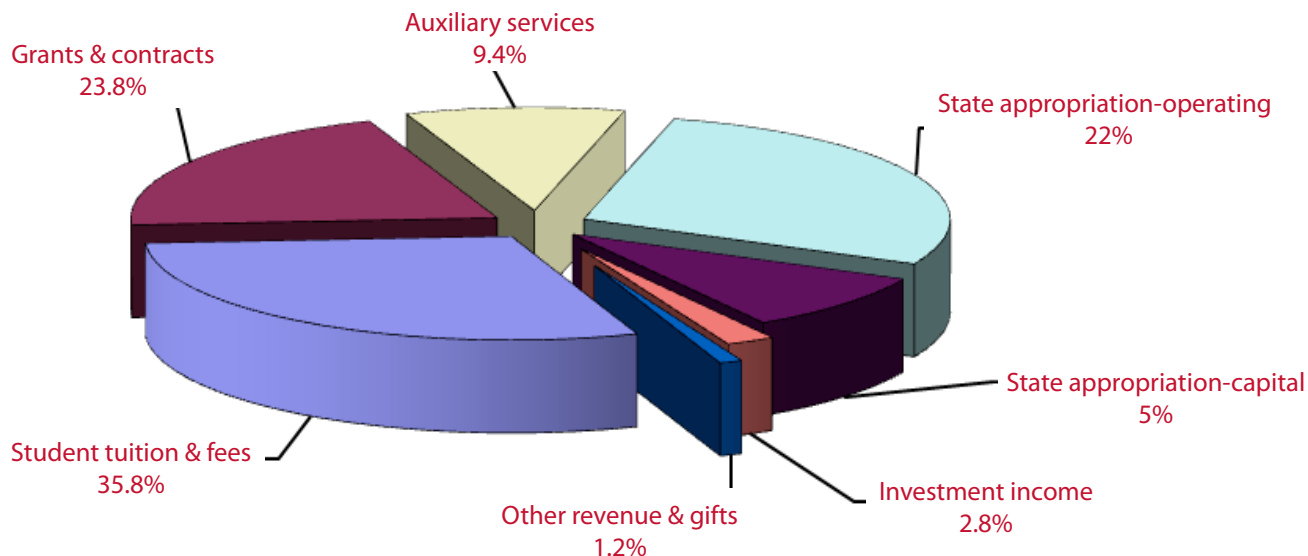
## Operating and Non-operating Revenues

Operating revenues consist primarily of tuition and fees, sponsored program revenue (i.e., grants and contracts), and sales and services revenue generated by auxiliary enterprises and other support operations. Non-operating revenues

consist primarily of state appropriations, investment income and Pell grants for student financial aid. Other revenues and expenses are derived almost entirely from state capital project appropriations with a small portion coming from gifts to permanent endowments.

The illustration below shows revenues by source (both operating and non-operating) used to fund the University's programs for the year ended June 30, 2011. The ensuing table contains a comparison of revenues for fiscal years ended 2011, 2010 and 2009.

### FY 2011 Revenues by Source



### Revenues by Source (in thousands) For the year ending June 30

	2011		2010		2009	
Student tuition & fees	\$ 71,714	35.8%	\$ 62,929	33.3%	\$ 58,785	29.5%
Grants & contracts	47,676	23.8%	44,471	23.5%	40,658	20.4%
Auxiliary services	18,800	9.4%	18,205	9.6%	19,235	9.6%
State appropriation-operating	44,009	22.0%	48,869	25.9%	60,696	30.4%
State appropriation-capital	9,967	5.0%	8,349	4.4%	13,774	6.9%
Investment income	5,581	2.8%	4,279	2.3%	4,268	2.1%
Other revenue & gifts	2,667	1.2%	1,873	1.0%	2,192	1.1%
Total	\$ 200,414	100.0%	\$ 188,975	100.0%	\$ 199,608	100.0%

Tuition and fees and state operating appropriations are the primary sources of funding for the University's academic programs. The decrease in state operating appropriations reflects reduced state funding for higher education which is provided through the legislative process. In fiscal year 2010, state operating appropriations were supplanted by \$5.522 million in one-time federal funding from the American Recovery and Reinvestment Act. The continuing decline in state revenues for operations is a major concern. From the 2007-09 biennium to

the 2011-13 biennium, Eastern Washington University's biennial state appropriations have decreased approximately 40 percent. The University increasingly looks to tuition and other student fees to partially offset the reduction of state operating appropriations and continue growing and transforming the University.

The increase in revenues from student tuition is the result of rate increases, enrollment growth and planned use of scholarship allowances. The amount of tuition increases is controlled largely by legislative authority. The 2007 legislature

authorized a maximum tuition increase of 5 percent for resident undergraduate students in each year of the 2007-09 biennium. The legislature granted full authority to the Board of Trustees to set tuition rates for all other fee paying categories. In 2010 the University was given authority to increase resident undergraduate tuition by 14 percent and other categories as deemed necessary. To help offset the decrease in state operating appropriations, the University raised student tuition rates for selected fee categories.



## Full-Time Quarterly Tuition Rates (10 through 18 credits) with Percentage Increase over Prior Year

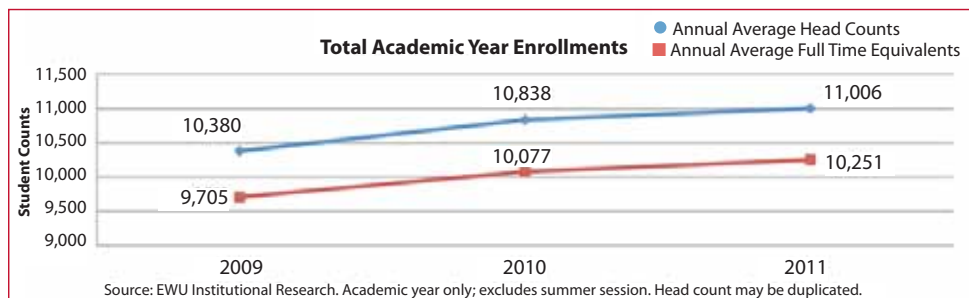
Academic Year	Resident Undergraduate	Increase over Prior Year	Resident Graduate	Increase over Prior Year	Nonresident Undergraduate	Increase over Prior Year	Nonresident Graduate	Increase over Prior Year
2010-11	2,021	14%	2,740	10%	4,927	5%	6,318	5%
2009-10	1,780	14%	2,492	10%	4,686	5%	6,010	5%
2008-09	1,567	5%	2,265	5%	4,456	0%	5,716	0%

In combination with significant reductions in operating costs in 2010, the University also increased self support fees (e.g., summer tuition), special lab and course fees, counseling fees, and administrative fees. With the decrease in state support, dependency on tuition and fee revenues grows greater for covering the cost of providing educational and related support services.

Managing enrollment growth during periods of economic downturn continues to be a challenge for the University. State

operating appropriations are falling while student enrollment has grown. The challenge is to cultivate sustainable growth while continuing to provide

affordable learning opportunities. Maintaining the institution's fiscal health is the cornerstone for meeting this challenge.



Financial Indicator	Definition	Calculation	FY09	FY10	FY11
Tuition dependency ratio (%)	Helps measure sensitivity to changes in enrollment levels	Net tuition and fees plus governmental grants to the institution for student tuition divided by the sum of operating and non-operating revenues	44.3	51.1	54.7
Unrestricted financial resources-to-operations (x)	Measures coverage of annual operations by the most liquid resources	Unrestricted net assets divided by total operating expenses	.34	.37	.40
Annual days cash on hand	Measures the number of days an institution is able to operate (cover its cash operating expenses)	Annual liquidity times 365 divided by total expenses less depreciation and unusually large non-cash expenses	169	195	201
Current ratio <sup>1</sup>	Measures liquidity –ability to meet current obligations with liquid assets	Current assets divided by current liabilities	3.79	3.15	2.90

To assess progress the University monitors a variety of financial indicators that focus on enrollment in connection with tuition rates, state funding levels, and the related financial impact on students and their families.

These financial indicators are useful for institutional trend analysis and become more meaningful when compared to peer institutions (not included here) such as those with the same debt rating, similar student population and degree

offerings, or to industry norms. Within that context, the University appears to be relatively well positioned to weather the current economic environment and make investments for the future. Factors that could affect these financial indicators are student enrollment levels, tuition pricing inelasticity, issuance of new revenue debt, funding levels for state and federal financial aid, state appropriations, and the economy as a whole.

University programming support

also consists of revenues received from governmental and private sources in the form of grants and contracts. The mix between federal, state and private sources fluctuates from year to year but overall funding has remained at roughly 20 percent of total revenues for each of the three years ended 2011. Grants are generally managed on a reimbursement basis in that revenues are drawn to cover expenses incurred and thus have minimal effect on net income other than partial recovery of indirect costs.

(Footnote)

1. The current ratio has decreased between FY2009-11 primarily due to reallocation of the University investment portfolio from short to long term.

# Management's Discussion and Analysis

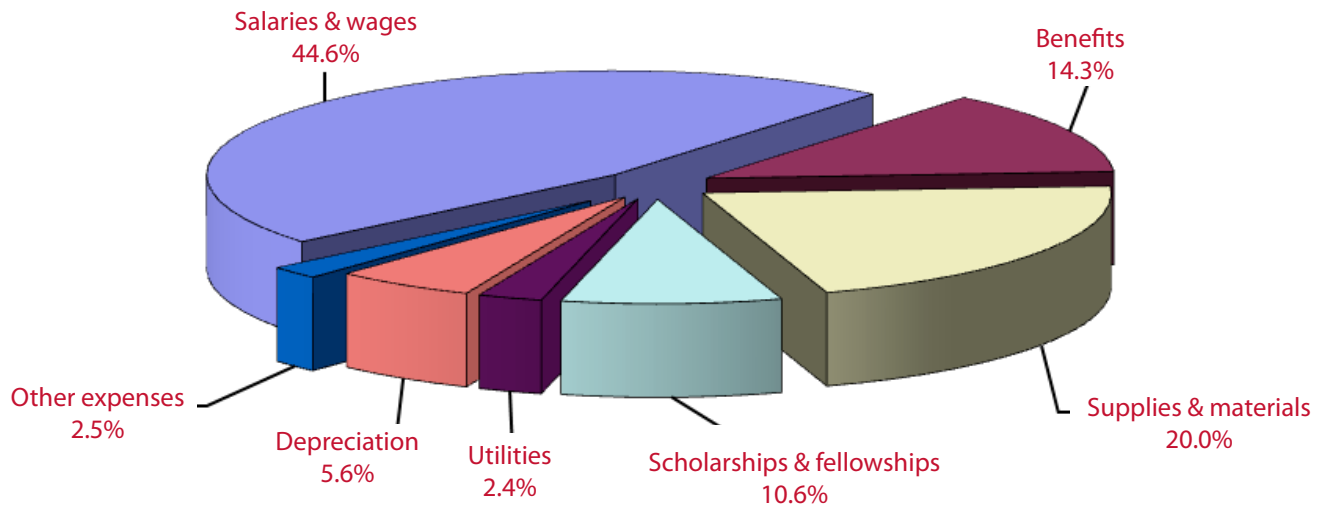
## Operating Expenses

Operating expenses consist mainly of employee compensation, supplies and

materials costs, and student scholarships and fellowships. Shown below is an illustration of operating expenses by type

(object) for the year ended June 30, 2011. The ensuing table contains a comparison of expenses for fiscal years ending June 30, 2011, 2010 and 2009.

**FY 2011 Operating Expenses by Object**



**Operating Expenses by Type (in thousands)**  
For the year ending June 30

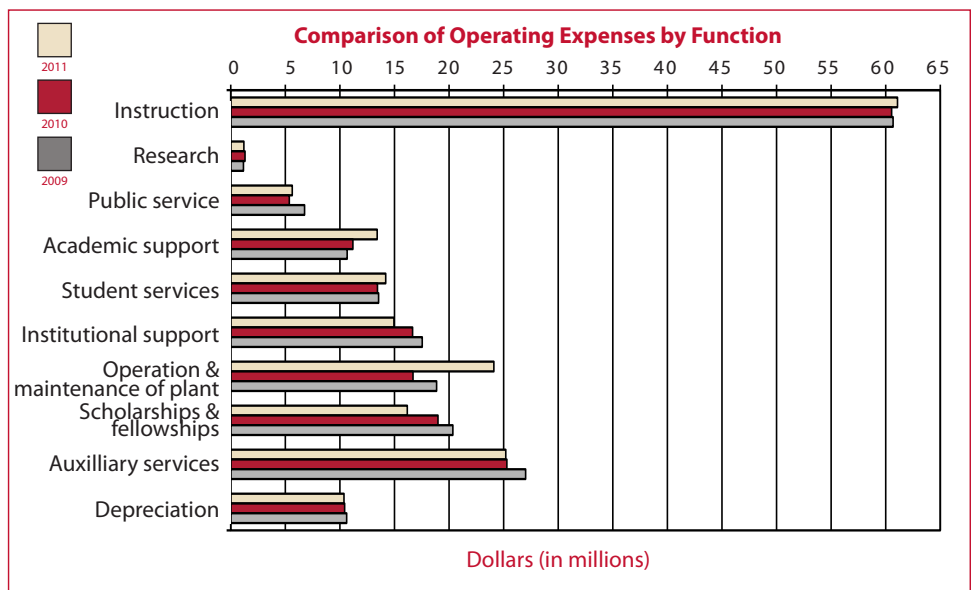
	2011		2010		2009	
Salaries & wages	\$ 83,567	44.6%	\$ 83,985	46.7%	\$ 87,555	47.0%
Benefits	26,855	14.3%	25,353	14.1%	24,367	13.1%
Supplies & materials	37,507	20.0%	34,275	19.1%	39,380	21.1%
Scholarships & fellowships	19,834	10.6%	18,109	10.1%	16,192	8.7%
Utilities	4,472	2.4%	4,439	2.5%	4,716	2.5%
Depreciation	10,557	5.6%	10,434	5.8%	10,374	5.6%
Other expenses	4,402	2.5%	3,322	1.7%	3,741	2.0%
Total	\$ 187,194	100.0%	\$ 179,917	100.0%	\$ 186,325	100.0%

Salaries, wages and benefits are the major support cost for the University's programs. The university reduced its workforce in 2010 saving nearly \$3.6 million in ongoing costs. Benefit expenses flattened in 2009 but health care costs rose by more than \$2.3 million in 2010 and contributed \$1.3 million to the \$1.5 million overall increase for benefits in 2011. An alternative view of operating expenses is by functional (programmatic) classification as shown below for the years ended June 30, 2011, 2010 and 2009.

Instructional expenses comprise the majority of operating costs. Fluctuations in expenses for operation and maintenance of plant are largely impacted by non-capitalized facility improvements associated with project expenses that

are not capitalized to an asset. The amount varies by year depending on

several factors including the types and timing of projects undertaken.



### Capital Asset and Debt Activities

The University continues to increase the investment in capital assets which consist of land, buildings, infrastructure and equipment (Note 7). The University's Comprehensive Facilities Master Plan is used to guide the long-range physical development of campus facilities, focusing on critical areas of need, space utilization, and preservation of the infrastructure of state assets. The chart below shows the progression of increasing investment in capital assets and the associated debt load used to help finance the construction of those assets.

While several minor improvement projects took place during this time,

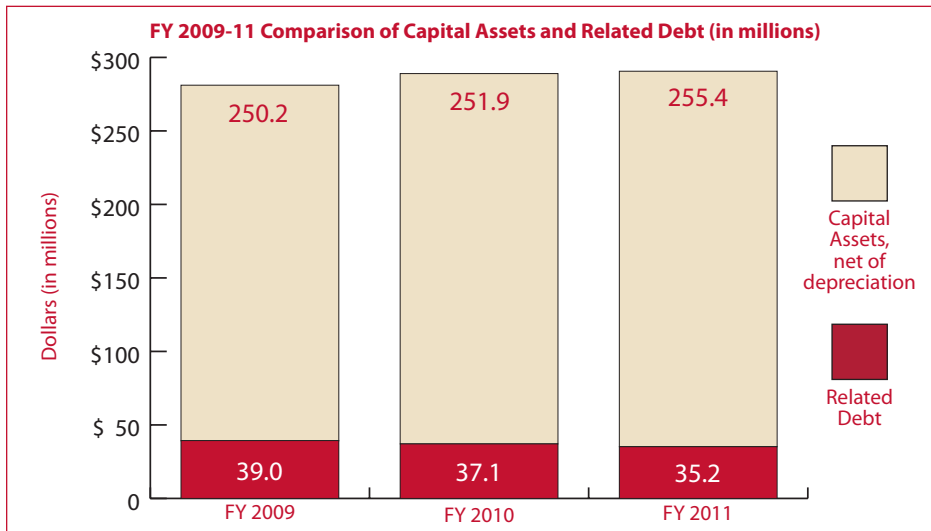
two major projects largely contributed to the increase in capital assets. Major renovations to Hargreaves Hall totaling \$13.1 million spanned 2008 and 2009. Work continues on the estimated \$60.7 million Patterson Hall renovation and expansion project with cumulative expenditures of \$13.6 million through FY11. Patterson Hall is the university's largest academic building with 40 general use classrooms and two computer labs. The project renovates the existing 102,347 square foot building and provides an additional 33,196 square feet of space. Completion is expected in summer 2014. The Patterson Hall renovation is funded by the state capital budget. Capital assets

are reported net of depreciation expense which is approximately \$10 million per year; this explains the modest overall increase in total capital assets depicted in the chart below.

State capital appropriations significantly contribute to the University's ability to build infrastructure in support of academic programs without adding debt. However, not all capital projects are funded by state appropriations. Eastern may also use operating revenue and long-term debt to fund capital assets. In FY 2010, the University initiated a plan to invest in the campus residential facilities. Planning and design is currently underway for a new 350-bed residence hall on campus land at a projected cost of approximately \$25 million. This project is expected to be financed with revenue bonds (see Note 16 for additional information).

In September 2009 Moody's Investors Service (a bond rating agency) reaffirmed the A2 debt rating on the outstanding 2006 Housing and Dining System Revenue Bonds and the 2006 Services and Activities Fee Revenue Bonds and indicated the rating outlook remains stable (A2 ratings were later rescaled to A1 by Moody's Investor Service in May 2010). Debt service coverage remains healthy.

Additional information concerning capital asset and debt activity is provided in the footnotes (see Note 7 through 11).



Financial Indicator	Definition	Calculation	FY 2009	FY 2010	FY 2011
Expendable financial resources to direct debt (x)	Measures coverage of direct debt by financial resources that are ultimately expendable	Expendable financial resources divided by direct debt	1.94	2.18	2.52
Financial debt burden ratio (%)	Examines dependence on borrowed funds as a source of financing the mission and the relative cost of borrowing to overall expenditures	Principal and interest on capital debt and leases divided by operating and non-operating expenses less depreciation plus principal paid on capital debt and leases	2.17	2.15	1.95
Debt service coverage (x)	Measures actual margin of protection for annual debt service payments from annual operations (the industry ceiling is 7.0)	Annual operating surplus (deficit) plus interest and depreciation expenses plus additional, unusually large non-cash expenses, divided by actual principal and interest payments	2.47	2.98	3.91

### Summary of Financial Health and Economic Factors That Will Affect the Future

In 2011 the University's overall financial position held stable as a whole. Net assets increased by \$11.6 million on revenues of \$200.4 million and expenses totaling

\$188.8 million. However, funding for higher education in the state of Washington continues to be under pressure with declining state funding and increasing enrollment demand. The financial pressure is expected to continue as the State of Washington struggles with sustainability of

funding in the near future due to the state, national and global financial situation. The University's strategic planning continues to address ongoing funding issues that impact service delivery of educational opportunities at Eastern Washington University.

# Statements of Net Assets

June 30, 2011 and 2010

<b>ASSETS</b>	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Current assets:		
Cash and cash equivalents	\$ 32,033,659	\$ 25,285,246
Short-term investments	12,897,575	17,057,280
Deposit with State of Washington	4,664,418	6,728,259
Accounts receivable (net of allowances of \$439,056 and \$317,487, respectively)	9,889,243	13,122,489
Student loans receivable (net of allowances of \$6,155 and \$15,929, respectively)	156,344	144,150
Inventories	1,345,449	1,297,427
Other assets	<u>461,471</u>	<u>113,699</u>
Total current assets	<u>61,448,159</u>	<u>63,748,550</u>
Noncurrent assets:		
Endowment investments	7,882,822	6,855,047
Other long-term investments	42,785,545	32,924,420
Student loans receivable (less allowances of \$749,693 and \$718,593, respectively)	5,085,193	5,508,380
Other noncurrent assets	337,993	385,833
Capital assets, net of accumulated depreciation	<u>255,452,284</u>	<u>251,851,784</u>
Total noncurrent assets	<u>311,543,837</u>	<u>297,525,464</u>
Total assets	<u>\$ 372,991,996</u>	<u>\$ 361,274,014</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 8,269,111	\$ 7,376,365
Accrued liabilities	5,106,706	5,480,899
Compensated absences	3,289	5,065
Deposits or funds held for others	921,459	1,417,457
Deferred revenue	4,931,348	4,042,749
Long-term liabilities, current portion	<u>1,925,333</u>	<u>1,920,913</u>
Total current liabilities	<u>21,157,246</u>	<u>20,243,448</u>
Noncurrent liabilities:		
Compensated absences	5,933,552	5,730,261
Long-term liabilities	<u>36,591,923</u>	<u>37,577,524</u>
Total noncurrent liabilities	<u>42,525,475</u>	<u>43,307,785</u>
Total liabilities	<u>\$ 63,682,721</u>	<u>\$ 63,551,233</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 220,262,669	\$ 214,784,118
Restricted for:		
Nonexpendable:		
Endowments	5,301,714	5,274,097
Charitable gift annuities	212,293	62,425
Other	187,250	187,250
Expendable:		
Loans	7,867,373	7,579,500
Capital projects	5,073,208	6,980,964
Endowments and other	3,398,332	2,095,485
Unrestricted	<u>67,006,436</u>	<u>60,758,942</u>
Total net assets	<u>\$ 309,309,275</u>	<u>\$ 297,722,781</u>

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

# Statements of Revenue, Expenses and Changes in Net Assets

*For the Years Ended June 30, 2011 and 2010*

<b>REVENUES</b>	<b>FY 2011</b>	<b>FY 2010</b>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$20,656,832 and \$17,891,475, respectively)	\$ 71,713,690	\$ 62,929,127
Federal grants and contracts	6,913,458	7,079,584
State and local grants and contracts	19,885,110	19,981,016
Nongovernmental grants and contracts	2,889,378	2,561,360
Sales and services of auxiliary enterprises Housing and dining services (net of scholarship allowances of \$4,927,552 and \$4,472,869, respectively)	9,956,047	9,930,681
Other auxiliary enterprises (net of scholarship allowances of \$1,121,852 and \$996,864, respectively)	8,843,584	8,274,418
Other operating revenue	<u>1,840,135</u>	<u>1,845,625</u>
Total operating revenue	<u>122,041,402</u>	<u>112,601,811</u>
 <b>EXPENSES</b>		
Operating expenses:		
Salaries and wages	83,567,192	83,985,160
Benefits	26,855,198	25,353,218
Scholarships and fellowships	19,833,395	18,109,090
Utilities	4,472,062	4,439,337
Supplies and materials	35,501,253	33,128,556
Non-capitalized facility improvements (NCFI)	2,005,796	1,146,497
Other	4,401,857	3,321,349
Depreciation	<u>10,557,081</u>	<u>10,434,089</u>
Total operating expenses	<u>187,193,834</u>	<u>179,917,296</u>
 Operating loss	 (65,152,432)	 (67,315,485)
 <b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	44,008,542	48,868,359
Investment income, gains and losses	5,581,226	4,278,984
Interest on capital asset-related debt	(1,633,882)	(1,716,857)
Gifts	799,431	-
Pell grant revenue	<u>17,988,318</u>	<u>14,849,161</u>
Net non-operating revenues	<u>66,743,635</u>	<u>66,279,647</u>
Gain before other revenues, expenses, gains or losses	<u>1,591,203</u>	<u>(1,035,838)</u>
 State appropriations - capital	 9,967,674	 8,349,185
Gifts to permanent endowments	<u>27,617</u>	<u>27,547</u>
Total other revenues and expenses	<u>9,995,291</u>	<u>8,376,732</u>
Increase in net assets	<u>11,586,494</u>	<u>7,340,894</u>
 <b>NET ASSETS</b>		
Net assets, beginning of year	<u>297,722,781</u>	<u>290,381,887</u>
Net assets, end of year	<u>\$ 309,309,275</u>	<u>\$ 297,722,781</u>

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

# Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	<u>FY 2011</u>	<u>FY 2010</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Tuition and fees	\$ 71,972,005	\$ 63,336,329
Grants and contracts	30,501,380	30,102,224
Payments to vendors	(45,270,946)	(41,169,919)
Payments to employees	(109,664,068)	(107,758,915)
Payments for scholarships and fellowships	(19,833,395)	(18,109,090)
Loans issued to students	2,442,764	(689,390)
Collection of student loans	(2,127,102)	639,833
Auxiliary enterprise receipts	18,712,726	18,948,048
Other receipts (payments)	2,662,205	(303,569)
Net cash used by operating activities	<u>(50,604,431)</u>	<u>(55,004,449)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	44,008,542	48,986,286
Pell grant	17,988,318	14,849,161
Endowment gifts	27,617	27,547
Stafford/Plus/Direct loans receipts	62,142,233	59,685,833
Stafford/Plus/Direct loans disbursements	(62,233,764)	(59,934,152)
Agency fund receipts	5,687,574	3,856,547
Agency fund disbursements	(5,810,810)	(3,946,389)
Net cash provided by noncapital financing activities	<u>61,809,710</u>	<u>63,524,833</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital appropriations	11,497,345	10,407,397
Purchases of capital assets	(12,093,740)	(11,902,424)
Contributions and gifts in-kind	799,431	-
Principal paid on capital debt and leases	(1,912,181)	(2,040,128)
Interest paid on capital debt and leases	(1,599,752)	(1,681,954)
Net cash provided (used) by capital financing activities	<u>(3,308,897)</u>	<u>(5,217,109)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	23,567,970	15,332,187
Interest on investments	4,250,717	3,424,129
Purchase of investments	(28,966,656)	(36,871,730)
Net cash provided (used) by investing activities	<u>(1,147,969)</u>	<u>(18,115,414)</u>
Net increase (decrease) in cash	6,748,413	(14,812,139)
Cash, beginning of year	25,285,246	40,097,385
Cash, end of year	<u>\$ 32,033,659</u>	<u>\$ 25,285,246</u>

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

# Statements of Cash Flows *(continued)* .....

*For the Years Ended June 30, 2011 and 2010*

**Reconciliation of net operating revenue (expenses) to net cash provided (used) by operating activities:**

	<u>FY 2011</u>	<u>FY 2010</u>
Operating income (loss)	\$ (65,152,432)	\$ (67,315,485)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	10,557,081	10,434,089
Changes in assets and liabilities:		
Receivables, net	1,703,575	(1,060,312)
Inventories	(48,022)	236,412
Other assets	(347,771)	230,237
Accounts payable	532,262	310,222
Deferred revenue	888,599	878,209
Deposits held for others	(281,231)	(540,911)
Compensated absences	1,132,515	1,819,302
Loans to students	410,993	3,788
Net cash used by operating activities	<u>\$ (50,604,431)</u>	<u>\$ (55,004,449)</u>

**NONCASH TRANSACTIONS**

Buildings and/or equipment	-	117,927
Capital leases	-	(117,927)

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

# Statements of Financial Position— Component Unit (Foundation)

June 30, 2011 and 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,864,690	\$ 3,534,813
Promises to give, net of allowances and discounts	824,904	1,053,769
Other assets	428,664	437,698
Contributions receivable from charitable trusts	316,836	266,173
Investments held in charitable trusts	176,681	137,540
Investments	13,507,215	11,057,569
Beneficial interest in perpetual trusts	2,479,666	2,204,440
	<u>\$ 21,598,656</u>	<u>\$ 18,692,002</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 81,752	\$ 178,564
Annuities payable	148,492	144,531
Notes payable	674,530	17,877
Total liabilities	904,774	340,972
<b>NET ASSETS</b>		
Unrestricted (deficit)	(330,160)	(1,328,042)
Temporarily restricted	5,511,381	4,783,404
Permanently restricted	15,512,661	14,895,668
Total net assets	<u>20,693,882</u>	<u>18,351,030</u>
Total liabilities and net assets	<u>\$ 21,598,656</u>	<u>\$ 18,692,002</u>

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



# Statements of Activities – Component Unit (Foundation)

For the Years Ended June 30, 2011 and 2010

	FY 2011				FY 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND SUPPORT</b>								
Contributions	\$ 81,926	\$ 1,802,741	\$ 240,481	\$ 2,125,148	\$ 139,677	\$ 2,135,152	\$ 220,602	\$ 2,495,431
Contributions from trusts	-	122,852	-	122,852	-	42,246	-	42,246
Investment Income, net of fees of \$90,567 and \$90,178, respectively	7,505	305,711	1,037	314,253	7,766	242,076	-	249,842
Realized gain (loss) on investments	(193)	115,681	-	115,488	-	408,619	-	408,619
Unrealized gain on investments	1,167,192	883,822	-	2,051,014	-	328,040	-	328,040
Change in value of split-interest agreements	-	-	350,607	350,607	-	-	142,117	142,117
Support provided by Eastern Washington University	1,087,472	-	-	1,087,472	1,174,791	-	-	1,174,791
Other	630	290,107	25,094	315,831	757	377,569	6,688	385,014
Net assets released from restrictions and other transfers	2,793,163	(2,792,937)	(226)	-	123,846	(386,020)	262,174	-
<b>Total revenues, gains, and support</b>	<u>5,137,695</u>	<u>727,977</u>	<u>616,993</u>	<u>6,482,665</u>	<u>1,446,837</u>	<u>3,147,682</u>	<u>631,581</u>	<u>5,226,100</u>
<b>EXPENSES</b>								
Management and general	834,414	-	-	834,414	805,055	-	-	805,055
Fundraising	652,791	-	-	652,791	694,988	-	-	694,988
Support provided to/for Eastern Washington University	2,652,608	-	-	2,652,608	1,577,641	-	-	1,577,641
<b>Total Expenses</b>	<u>4,139,813</u>	<u>-</u>	<u>-</u>	<u>4,139,813</u>	<u>3,077,684</u>	<u>-</u>	<u>-</u>	<u>3,077,684</u>
<b>CHANGE IN NET ASSETS</b>	997,882	727,977	616,993	2,342,852	(1,630,847)	3,147,682	631,581	2,148,416
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<u>(1,328,042)</u>	<u>4,783,404</u>	<u>14,895,668</u>	<u>18,351,030</u>	<u>302,805</u>	<u>1,635,722</u>	<u>14,264,087</u>	<u>16,202,614</u>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<u>\$ (330,160)</u>	<u>\$ 5,511,381</u>	<u>\$ 15,512,661</u>	<u>\$ 20,693,882</u>	<u>\$ (1,328,042)</u>	<u>\$ 4,783,404</u>	<u>\$ 14,895,668</u>	<u>\$ 18,351,030</u>

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

# Notes to Financial Statements – June 30, 2011

## 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 University's financial activity is included in the general purpose financial statements of the State of Washington.

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 35-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 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. The Foundation's financial statements include assets and earnings of other unrelated entities; these amounts are not material to the Foundation's financial position taken as a whole. For the fiscal years ended June 30, 2011 and 2010, the net distribution from the Foundation to the University for restricted and unrestricted purposes

which includes both student scholarships and program support follows:

Fiscal Year	Net Distribution
2011	\$1,565,136
2010	\$ 402,850

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 special purpose government engaged in 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.

In accordance with GASBS No. 39, the Foundation is considered a legally separate component unit of the University. As a non-governmental component unit,

the Foundation follows applicable non-profit reporting and disclosure standards. Revenue recognition principles for these financial accounting standards may differ from those which apply to the University; results have not been 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 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 incurred.

## 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 infrastructure, buildings and building improvements and \$5,000 or greater for all other capital assets such as 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

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. Compensatory time, which must be used within ninety days following fiscal year end, is categorized as a current liability.

## Charitable Gift Annuities

Under RCW 28B.10.485 the University may issue charitable gift annuity contracts in return for a gift of assets to the institution. In turn, the University agrees to pay a fixed amount of money to one or two beneficiaries for their lifetime. The assets received are recognized at fair value. The annuity payable is based upon the present value of the expected payments to the named recipients under the agreements using actuarial tables for life expectancies.

## Use of Estimates

Allowances for uncollectible accounts (Note 3) are estimates based on aging and historical collection of student loans and accounts receivable. Actual results could differ from those estimates; however, the University believes these allowances are adequate. Prior to 2011, bad debt expenses for uncollectible student tuition and fees receivable were recorded as a direct charge to revenues.

## 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 endowments and charitable gift annuity 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 total net assets have been made to 2010 amounts in order to conform to 2011 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 fiscal yearend, insured/collateralized deposits consist of the following:*

	Carrying Value June 30, 2011	Carrying Value June 30, 2010
Deposits		
Cash and cash equivalents		
Interest bearing	\$ 31,899,367	\$ 25,143,002
Other	134,292	142,244
Total deposits	\$ 32,033,659	\$ 25,285,246

# Notes to Financial Statements – June 30, 2011

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, 2011, investment maturities are as follows:

	Fair value June 30, 2011	Investment maturities for fixed income securities (in months)			
		0 – 9	10 – 24	25 – 60	61 – 120
<b>Investments – Operating Funds</b>					
U.S. Government agency bonds	\$ 43,040,314	\$ 6,870,428	\$ 15,214,950	\$ 20,954,935	
U.S. Government treasury notes	12,194,080	2,009,220	7,101,430	3,083,430	
Certificates of deposit					
Other deposits					
<b>Investments – Charitable Gift Annuities</b>					
<b>Investment unit trusts</b>					
Equity fund	267,388				
Bond fund	181,338				\$181,338
<b>Investments – Endowment Funds</b>					
<b>Investment unit trusts</b>					
Equity fund	4,870,125				
Bond fund	3,012,697				3,012,697
<b>Total investments</b>	<b>\$ 63,565,942</b>	<b>\$ 8,879,648</b>	<b>\$ 22,316,380</b>	<b>\$ 24,038,365</b>	<b>\$ 3,194,035</b>

## At June 30, 2010, investment maturities are as follows:

	Fair value June 30, 2010	Investment maturities for fixed income securities (in months)			
		0 – 9	10 – 24	25 – 60	61 – 120
<b>Investments – Operating Funds</b>					
U.S. Government agency bonds	\$ 31,788,266	\$ 5,039,070	\$ 15,946,376	\$ 10,802,820	
U.S. Government treasury notes	14,169,330	1,998,080	6,117,820	6,053,430	
Certificates of deposit	4,000,000	4,000,000			
Other deposits	24,104				
<b>Investments – Endowment Funds</b>					
<b>Investment unit trusts</b>					
Equity fund	4,002,256				
Bond fund	2,852,791				\$ 2,852,791
<b>Total investments</b>	<b>\$ 56,836,747</b>	<b>\$ 11,037,150</b>	<b>\$ 22,064,196</b>	<b>\$ 16,856,250</b>	<b>\$ 2,852,791</b>

At June 30, 2011 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$2,581,109 which is reported as restricted, expendable 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 five percent 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.

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 7.2 years at year end.

**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 directly 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. Underlying debt securities in unitized investments 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 operating funds 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 debt and equity investments which recognizes the inherent growth potential of equities and bonds for an endowment that will exist in perpetuity.

Portfolio	Target	Policy Range
Operating funds		
Liquidity pool	25%	20-40%
Intermediate pool	50%	30-60%
Long Term pool	25%	15-40%
Endowment funds		
Domestic equity	60%	50-70%
Fixed income	30%	20-40%
Foreign equity	5%	0-10%
Cash	5%	0-5%

guaranteed by the U.S. government or those covered by the FDIC or by collateral held in a multiple financial institution collateral pool.

**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.

**Concentration of Credit Risk.** The University's investment policy for operating funds does not limit its

exposure to concentration of credit risk. However, operating funds are invested only in securities issued by or explicitly

### Note 3: Accounts and Student Loans Receivable

Accounts and student loans receivable at June 30, 2011 and 2010 consist of the following:

	June 30, 2011	June 30, 2010
Accounts receivable		
Student tuition and fees (less allowance of \$103,102 and \$0, respectively)	\$ 5,560,789	\$ 5,018,720
Auxiliary enterprises (less allowances of \$251,871 and \$238,742, respectively)	784,738	727,606
Contracts and grants	1,899,486	2,618,674
State reimbursement	1,001,479	2,531,150
Other (less allowances of \$84,083 and \$78,745, respectively)	642,751	2,226,339
Total accounts receivable	\$ 9,889,243	\$ 13,122,489
Student loans receivable		
Federal programs (less allowances of \$749,693 and \$718,593, respectively)	\$ 5,085,193	\$ 5,508,380
Institutional loans (less allowances of \$6,155 and \$15,929, respectively)	156,344	144,150
Total student loans receivable	\$ 5,241,537	\$ 5,652,530

### 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 represents a liability to the University and is recorded and reported accordingly. Accumulated sick leave

Compensated Absences		
Leave Type	June 30, 2011	June 30, 2010
Vacation	\$ 4,725,668	\$ 4,601,260
Sick	\$ 1,207,884	\$ 1,129,001
Compensatory	\$ 3,289	\$ 5,065

earned and unused, calculated at 25 percent of unused balance, 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 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 total \$3,131,293 and \$2,970,218 at June 30, 2011 and 2010, respectively.

# Notes to Financial Statements – June 30, 2011

## Note 7: Capital Assets

Capital asset activity for the two-year period ended June 30, 2011 is summarized as follows:

	June 30, 2009	Additions	Retirements	June 30, 2010	Additions	Retirements	June 30, 2011
<b>Non-depreciable Capital Assets</b>							
Land	\$ 2,090,954	\$ 30,000	-	\$ 2,120,954	-	-	\$ 2,120,954
Construction in progress	6,748,840	8,636,703	\$ 7,968,659	7,416,884	\$ 10,779,932	\$ 3,632,709	14,564,107
Subtotal	8,839,794	8,666,703	7,968,659	9,537,838	10,779,932	3,632,709	16,685,061
<b>Depreciable Capital Assets</b>							
Land improvements	13,526,245	1,148,653	-	14,674,898	893,907	-	15,568,805
Infrastructure	28,658,227	-	-	28,658,227	1,938,510	-	30,596,737
Buildings	282,897,640	7,526,019	30,000	290,393,659	1,694,199	51,020	292,036,838
Furniture, fixtures and equipment	29,362,160	1,314,583	1,087,922	29,588,821	1,215,116	1,533,383	29,270,554
Library materials	29,070,035	1,434,459	1,574,872	28,929,622	1,331,200	1,077,185	29,183,637
Subtotal	383,514,307	11,423,714	2,692,794	392,245,227	7,072,932	2,661,588	396,656,571
Total Capital Assets	392,354,101	20,090,417	10,661,453	401,783,065	17,852,864	6,294,297	413,341,632
Less accumulated depreciation:							
Land improvements	4,232,189	403,893	-	4,636,082	462,730	-	5,098,812
Infrastructure	15,259,176	885,652	-	16,144,828	911,989	-	17,056,817
Buildings	83,384,013	5,733,182	-	89,117,195	5,806,832	25,592	94,898,435
Furniture, fixtures and equipment	21,539,019	2,474,647	1,087,923	22,925,743	2,352,052	1,496,237	23,781,558
Library materials	17,745,591	936,715	1,574,873	17,107,433	1,023,478	1,077,185	17,053,726
Total accumulated depreciation	142,159,988	10,434,089	2,662,796	149,931,281	10,557,081	2,599,014	157,889,348
Capital assets, net of depreciation	\$ 250,194,113	\$ 9,656,328	\$ 7,998,657	\$ 251,851,784	\$ 7,295,783	\$ 3,695,283	\$ 255,452,284

The Spokane Higher Education Center, a four-story building located at 705 W. 1st Ave in downtown Spokane, is currently vacant (idle) and is being marketed for sale. The University no longer intends to use the property, instead focusing on providing educational programs and services in the nearby University District. The property is reported on the Statement of Net Assets at carrying value which is lower than the estimated fair value of the asset.

	June 30, 2011	June 30, 2010
Historical cost (excluding land)	\$ 4,504,995	\$ 4,504,995
Less: Accumulated depreciation	2,125,819	2,035,711
Carrying value	\$ 2,379,176	\$ 2,469,284

## Note 8: Long-term Liabilities

Long-term liability activity for the two-year period ended June 30, 2011 is summarized as follows:

	June 30, 2009	Additions	Reductions	June 30, 2010	Current Portion 2010
<b>Leases and bonds payable:</b>					
Lease obligations (Note 9)	\$ 4,313,826	\$ 117,927	\$ 546,087	\$ 3,885,666	\$ 417,862
General obligation bonds	203,359	-	129,040	74,319	74,319
Revenue bonds payable (Note 10)	34,505,000	-	1,365,000	33,140,000	1,420,000
Total leases and bonds payable	39,022,185	117,927	2,040,127	37,099,985	1,912,181
<b>Other liabilities:</b>					
Charitable gift annuities (Note 1)	-	66,699	9,820	56,879	8,732
Net pension obligation (Note 12)	1,444,661	1,055,000	158,088	2,341,573	-
Compensated absences (Note 5)	4,869,815	4,057,969	3,192,458	5,735,326	5,065
Total long-term liabilities	\$ 45,336,661	\$ 5,297,595	\$ 5,400,493	\$ 45,233,763	\$ 1,925,978
<i>Continued from above:</i>					
	June 30, 2010	Additions	Reductions	June 30, 2011	Current Portion 2011
<b>Leases and bonds payable:</b>					
Lease obligations (Note 9)	\$ 3,885,666	-	\$ 417,862	\$ 3,467,804	\$ 403,161
General obligation bonds	74,319	-	74,319	-	-
Revenue bonds payable (Note 10)	33,140,000	-	1,420,000	31,720,000	1,490,000
Total leases and bonds payable	37,099,985	-	1,912,181	35,187,804	1,893,161
<b>Other liabilities:</b>					
Charitable gift annuities (Note 1)	56,879	\$ 178,955	36,663	199,171	32,172
Net pension obligation (Note 12)	2,341,573	986,000	197,292	3,130,281	-
Compensated absences (Note 5)	5,735,326	3,841,818	3,640,303	5,936,841	3,289
Total long-term liabilities	\$ 45,233,763	\$ 5,006,773	\$ 5,786,439	\$ 44,454,097	\$ 1,928,622

### 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 2012 through 2016. Total operating lease expenses in fiscal year 2011 were \$735,628.

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, 2011, are as follows:

Fiscal Year Annual Payment	Operating	Capital
2012	\$ 376,567	\$ 592,640
2013	289,661	483,775
2014	223,260	410,503
2015	151,245	397,751
2016	2,389	385,000
2017-21	-	1,925,000
2022-26	-	432,627
Obligation under leases	\$ 1,043,122	4,627,296
Less: Amount representing interest costs		(1,159,492)
Present value of minimum obligation under capital leases		\$ 3,467,804

### 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.

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.

	Interest Rate	Maturity Date	Original Balance	Balance Outstanding
Eastern Washington University				
Housing and Dining System Revenue/Refunding Bonds, Series 2002	2.50% - 3.80%	2011-2013	\$ 4,515,000	\$ 1,045,000
Service and Activities Revenue Bonds, Series 2006	4.00% - 5.00%	2011-2038	28,090,000	26,600,000
Service and Activities Refunding Bonds, Series 2006	4.00% - 4.00%	2011-2019	5,625,000	4,075,000
Total Revenue Bonds payable			\$ 38,230,000	\$ 31,720,000

Eastern Washington University debt service requirements for the next five years and thereafter are as follows:

Fiscal Year	Principal	Interest
2012	\$ 1,490,000	\$ 1,330,183
2013	1,555,000	1,270,582
2014	1,065,000	1,218,718
2015	1,110,000	1,175,217
2016	1,155,000	1,129,918
2017-2021	5,305,000	4,948,987
2022-2026	4,415,000	4,041,863
2027-2031	5,445,000	3,020,581
2032-2036	6,890,000	1,683,874
2037-2038	3,290,000	166,500
Totals	\$ 31,720,000	\$ 19,986,423

# Notes to Financial Statements – June 30, 2011

## Note 11: Pledged Revenues

The University has pledged specific revenues, net of certain operating expenses, to repay the principal and interest of revenue and refunding bonds as follows:

Source of Revenue Pledged	Current Year Revenues Pledged (net)	Current Year Debt Service	Total Future Revenues Pledged	Description of Debt	Purpose of Debt	Term of Commitment
Housing & Dining revenues, net of operating expense	2,677,297	538,020	1,084,930	H&D Revenue & Refunding Bonds – Series 2002	Refund outstanding debt on H&D Bonds of 1992	2013
S&A fee revenue and earnings on invested fees	654,769	581,200	4,764,500	Service & Activities Fee Refunding Bonds – Series 2006	Refund outstanding debt on S&A Revenue Bonds of 1993	2019
S&A fee revenue and earnings on invested fees	2,086,458	1,687,418	45,856,993	Service & Activities Fee Revenue Bonds – Series 2006	Construction of a new student recreation center	2038

## Note 12: 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, 2011, was \$83,567,192. The payroll for employees covered by PERS was \$24,002,609; payroll for employees covered by TRS was \$100,912; payroll for employees covered by LEOFF was \$517,722; and payroll for employees covered by the Eastern Washington University Retirement Plan was \$46,148,474.

### 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 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 at June 30, 2011		Required Employer Contributions		
	Employee	University	FY 2009	FY 2010	FY 2011
<b>PERS</b>					
Plan I	6.00%	5.31%	\$ 146,543	\$ 75,715	\$ 58,541
Plan II	3.90%	5.31%	1,709,532	1,036,222	1,024,555
Plan III	Varies	5.31%*	300,498	189,222	191,201
<b>TRS</b>					
Plan I	6.00%	6.14%	\$ 6,349	\$ 3,341	\$ 2,827
Plan II	3.36%	6.14%	8,231	4,529	3,369
Plan III	Varies	6.14%*	-	-	-
<b>LEOFF</b>					
Plan II	8.46%	8.62%	\$ 49,604	\$ 48,010	\$ 44,628

\*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 two 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. On June 8, 2011, the supplemental benefit payment was discontinued for new employees hired after July 1, 2011. This action caps and will eventually eliminate net pension obligations. No other significant changes were made in the benefit provision for the year ended June 30, 2011.

**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, 2011, total \$3,966,378.

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, 2011. The actuarial assumptions for the evaluation included an investment rate of return of 4.25 percent per annum and projected salary increases of two percent (2%) for two years and four percent (4%) thereafter. The previous evaluation was performed in 2009. 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, 2011 was \$5,505,000 under the plan's entry age normal method and is amortized over a 13 year period. The annual required contribution (ARC) is projected at \$986,000. 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 table below reflects net pension obligation activity for the fiscal years ended June 30:

Net Pension Obligation	FY 2011	FY 2010	FY 2009
Balance as of July 1	\$ 2,341,573	\$ 1,444,661	\$ 528,365
Add: Annual Required Contribution	986,000	1,055,000	1,055,000
Less: Payments to beneficiaries	197,292	158,088	138,704
Balance as of June 30	\$ 3,130,281	\$ 2,341,573	\$ 1,444,661

### Note 13: Other Post-Employment Benefits

Effective for fiscal year 2008, the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. Other post-employment benefits (OPEB) are those provided to retired employees beyond those provided by their pension plans. Statement No. 45 requires systematic, accrual-basis measurement and recognition of OPEB expense in the year in which such benefits are earned by the member. Disclosure information, as required under GASB 45, does not exist at department levels and, as a result, the net OPEB obligation is recorded in the State of Washington comprehensive annual financial report which is available from the Office of Financial Management, Insurance Building, PO Box 43113, Olympia, Washington 98504-3113.

The University funds OPEB obligations on a pay-as-you-go basis. Funding status through the fiscal years ended June 30 follows:

Net OPEB Obligation	FY 2011	FY 2010	FY 2009
Balance as of July 1	\$ 9,572,000	\$ 6,154,000	\$ 3,064,000
Add: Estimated annual OPEB expenses	3,613,000	3,928,000	3,637,000
Less: Estimated contributions	605,000	510,000	547,000
Balance as of June 30	\$ 12,580,000	\$ 9,572,000	\$ 6,154,000

### Note 14: 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 years ended June 30 follows:

	Housing and Dining System Refunding Revenue Bonds Series 2002		Associated Student Activities Revenue and Refunding Bonds Series 2006	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Assets</b>				
Current assets	\$ 4,267,220	\$ 4,984,396	\$ 2,578,113	\$ 2,159,412
Non-current assets	22,055,490	22,149,262	37,644,301	37,881,693
Total assets	26,322,710	27,133,658	40,222,414	40,041,105
<b>Liabilities</b>				
Current liabilities	1,944,970	1,902,877	1,421,438	1,375,834
Non-current liabilities	3,888,718	4,745,795	29,964,625	30,988,108
Total liabilities	5,833,688	6,648,672	31,386,063	32,363,942
<b>Net assets</b>				
Invested in capital assets, net of related debt	14,191,382	13,885,283	4,303,531	4,214,904
Restricted	187,250	187,250	-	-
Unrestricted	6,110,390	6,412,453	4,532,820	3,462,259
Total net assets	\$ 20,489,022	\$ 20,484,986	\$ 8,836,351	\$ 7,677,163

# Notes to Financial Statements – June 30, 2011

## Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Housing and Dining System Refunding Revenue Bonds Series 2002		Associated Student Activities Revenue and Refunding Bonds Series 2006	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Operating revenues	\$ 15,513,229	\$ 15,024,961	\$ 5,781,415	\$ 5,111,682
Operating expenses	15,306,099	14,096,840	3,460,995	3,444,460
Net operating income	207,130	928,121	2,320,420	1,667,222
Non-operating revenues (expenses)	(203,094)	(225,021)	(1,307,632)	(1,348,759)
Transfers	-	-	146,400	146,400
Change in net assets	4,036	703,100	1,159,188	464,863
Net assets, beginning of year	20,484,986	19,781,886	7,677,163	7,212,300
Net assets, end of year	\$ 20,489,022	\$ 20,484,986	\$ 8,836,351	\$ 7,677,163

## Condensed Statement of Cash Flows

Net cash flows provided by				
operating activities	\$ 1,397,967	\$ 2,286,444	\$ 3,218,868	\$ 2,668,058
Net cash flows provided (used) by				
non-capital and related financing activities	-	-	90,000	90,000
Net cash flows used by capital				
and related financing activities	(1,669,597)	(1,147,801)	(2,289,014)	(2,343,046)
Net cash flows provided				
by investing activities	536,167	(2,330,325)	(631,303)	(1,060,080)
Net increase (decrease) in cash	264,537	(1,191,682)	388,551	(645,068)
Cash—beginning of year	2,369,347	3,561,029	1,122,248	1,767,316
Cash—end of year	\$ 2,633,884	\$ 2,369,347	\$ 1,510,799	\$ 1,122,248

## Note 15: Operating Expenses by Function

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

Operating Expenses	FY 2011	FY 2010
Educational and general		
Instruction	\$ 60,675,599	\$ 60,543,209
Research	1,164,227	1,307,582
Public service	6,762,792	5,365,294
Academic support	10,665,057	11,190,098
Student services	13,543,619	13,441,537
Institutional support	17,542,236	16,657,918
Operation and maintenance of plant	18,858,608	16,696,491
Scholarships and fellowships	20,347,804	18,984,890
Auxiliary enterprises	27,014,237	25,296,188
Depreciation	10,619,655	10,434,089
Total operating expenses	\$ 187,193,834	\$ 179,917,296

## Note 16: 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. An exception may be Moore v. Health Care Authority. This is a class action lawsuit brought on behalf of state employees who allege they were improperly denied health care benefits. The plaintiffs and class requested an undetermined amount plus double damages, which means the potential for damages may be substantial. Discovery related to damages remains ongoing. A hearing has been scheduled for Dec. 16, 2011, to determine whether to certify a class on damages for the time period June 1, 2003 through Dec. 31, 2009. Due to the current status of the case, it is difficult to assess potential damages.

On Jan. 1, 2011 the EWU Board of Trustees approved Phase 1 of the Long Term Housing & Dining System Improvement Plan which includes the construction of a new 350-bed residence hall at the cost of \$25 million plus financing costs and issuance of Housing and Dining system bonds to fund the project. Design work is underway for the new residence hall which is financed with existing university resources. The anticipated bond issuance date is spring 2012. While information is being gathered for the preliminary official statement, there is not currently any requirement that the University move forward with bond issuance and there is no contractual commitment at this time.

Outstanding purchase orders and other commitments at June 30, 2011 totals \$3,954,904 for various goods and services.





The Office of Controller is responsible for preparing this report. Additional copies of this publication are available from:

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