



EASTERN
WASHINGTON UNIVERSITY

start something **big**

2013 FINANCIAL REPORT

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Mission Statement

Eastern Washington University is a student-centered, regionally based, comprehensive university. Its campus is located in Cheney, within the Spokane metropolitan area, with additional learning centers in the region and elsewhere in Washington state. Its mission is to prepare broadly educated, technologically proficient, and highly productive citizens to attain meaningful careers, to enjoy enriched lives, and to make contributions to a culturally diverse society. Eastern Washington University will achieve its mission by providing: an excellent student-centered learning environment; professionally accomplished faculty who are strongly committed to student learning; high-quality integrated, interdependent programs that build upon the region's assets and offer a broad range of choices as appropriate to the needs of the university's students and the region; and exceptional student support services, resources and facilities.

LETTER FROM THE PRESIDENT



As President of Eastern Washington University, my top priority is to ensure all students have an opportunity to achieve academic success. This involves many different layers of teamwork between our outstanding faculty and staff. It also means we need to be an excellent steward of our finances.

Prudently managing our resources to benefit students is a responsibility the university takes seriously, and it is why I present to you these annual financial statements with great pride.

While many challenges lie ahead, I am pleased to say Eastern is soaring higher than ever as the state of Washington climbs out of the financial crisis that impacted our funding for several years. The prudent budget decisions that we've made at Eastern, coupled with the legislature's willingness to reinvest in higher education has put the university in a solid position.

Even during the fiscal challenges, EWU strategically invested in key academic support programs to help students in the classroom. Additionally, Eastern is in year two of a new strategic planning process that is keeping each campus department focused on putting its resources into student support.

Enrollment at EWU also continues to break records, as we are now at nearly 12,800 students. This means we must continually look for innovative ways to make sure each student has the tools to flourish.

Perhaps the most noticeable sign of how the campus has developed to meet the needs of the 21st-century student is the completion of two crucial capital projects on campus.

Our largest academic building, Patterson Hall, has been renovated and reopened after a nearly four-year construction project. With the latest technology, enhanced classrooms and more space, Patterson will give generations of EWU students a first-class learning environment.

And last fall, we opened a new state-of-the-art residence hall, Snyamncut. Like Patterson, the residence hall has state-of-the-art amenities and a sustainable building design that provides a visual example of how the campus is growing to meet the academic needs of our students.

These are just a few of the developments that reflect Eastern's ongoing mission of providing a quality, affordable education. Eastern will continue to strive to prudently manage its financial resources, and this publication gives you a comprehensive picture of our significant progress.

Sincerely,

A handwritten signature in black ink that reads "Rodolfo Arévalo". The signature is fluid and cursive.

Rodolfo Arévalo, PhD
EWU President



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

January 21, 2014

Board of Trustees
Eastern Washington University
Cheney, Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Eastern Washington University, Spokane County, Washington, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Eastern Washington University Foundation, a discretely presented component unit. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our auditors 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 aggregate discretely presented component units of Eastern Washington University, Washington, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

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, 2013 and 2012, 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. Our opinion is not modified with respect to this matter.

As described in Note 1, during the year ended June 30, 2013, the University has implemented the Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities and Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

The information identified in the table of contents as the Introductory Section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the University. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sincerely,



TROY KELLEY
STATE AUDITOR

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, 2013, with comparative 2012 and 2011 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 footnotes 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 12,000 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 10,800 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 Position, the Statement of Revenues, Expenses and Changes in Net Position 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 and Impact from Changes in Reporting Requirements

Certain reclassifications not affecting total net position have been made to prior year amounts in order to conform to current year presentation. Early implementation of GASB No. 65 brings a change in accounting principles that resulted in an adjustment to beginning net position as of July 1, 2011 (see Footnote 1 for additional information). GASB No. 63, a related pronouncement which took effect in FY13, adds deferred outflows and deferred inflows to the financial statement presentation. Deferred outflows are defined as a consumption of net assets that is applicable to a future reporting period. Deferred inflows are defined as an acquisition of net assets that is applicable to a future period. GASB No. 63 also changes the designation of *net assets* to *net position* and affects titles and reporting categories for the ensuing financial statements.

Statement of Net Position

The Statement of Net Position 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 position as of June 30, 2013, 2012 and 2011, follows.

Condensed Statement of Net Position

As of June 30 (in thousands)

	2013	2012	2011
Assets			
Current assets	\$ 89,580	\$ 85,787	\$ 59,719
Capital assets, net of depreciation	293,312	265,952	255,452
Other non-current assets	60,084	62,012	56,092
Total Assets	442,976	413,751	371,263
Deferred outflows of resources	51	61	-
Liabilities			
Current liabilities	20,821	17,428	16,308
Non-current liabilities	66,427	66,981	42,525
Total Liabilities	87,248	84,409	58,833
Net Position	\$ 355,779	\$ 329,403	\$ 312,430

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, and unspent bond proceeds resulting from debt issued in FY12.

Liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, bond debt, deposits held for others, and unearned 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. Over the last couple years the University has increased its ability to cover operating costs and slightly extended that margin in FY13 (see ratios later in this section). Within the industry, it is generally considered prudent to maintain reserves to cover operating expenses for at least 60 to 90 days. At fiscal yearend the University has significantly better liquidity coverage but that point in time does not take into account future cash needs.

Net position, the difference between assets plus deferred outflows less liabilities and deferred inflows, is a broad indicator of the financial condition of the University. The change in net position measures whether the overall financial condition has improved or worsened during the year. The University reports its net position in four categories:

Net Investment in Capital Assets – 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, 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.

Net position at June 30, 2013, 2012 and 2011 is summarized as follows:

Condensed Net Position

As of June 30 (in thousands)

	2013	2012	2011
Net investment in capital assets	\$ 243,239	\$ 229,880	\$ 220,602
Restricted:			
Non-expendable	5,809	5,599	5,701
Expendable	20,126	16,717	16,339
Unrestricted	86,605	77,207	69,788
Total net position	\$ 355,779	\$ 329,403	\$ 312,430

Factors that contributed to the increase in net position stem from enrollment growth, student fee rate increases, investments in capital assets (educational classrooms and student facilities), and a slowdown in budgeted spending. On February 15, 2010, then Governor Gregoire issued an executive order to curtail spending for all state agencies effective March 17, 2010 through June 30, 2011. Specifically, these 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. A statewide freeze on wage increases continued through June 30, 2013. Six months prior to the governor's executive order, University leadership had instituted a hiring and spending slowdown. These actions better managed the effects of downsizing before the ensuing budget cuts forced far more drastic or sudden reductions. From a revenue perspective, net tuition and other student fees is a large contributor to net position; the size and impact of tuition and fee increases is discussed at length throughout this section.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position provides information about the operating performance of the University. The statement classifies revenues and expenses as either operating or non-operating. Under current 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 sources and focus on the increase (or decrease) in net position. A summarized comparison of the University's operating performance and ending net position follows for the fiscal years ended June 30:

Condensed Statement of Revenues, Expenses and Changes in Net Position

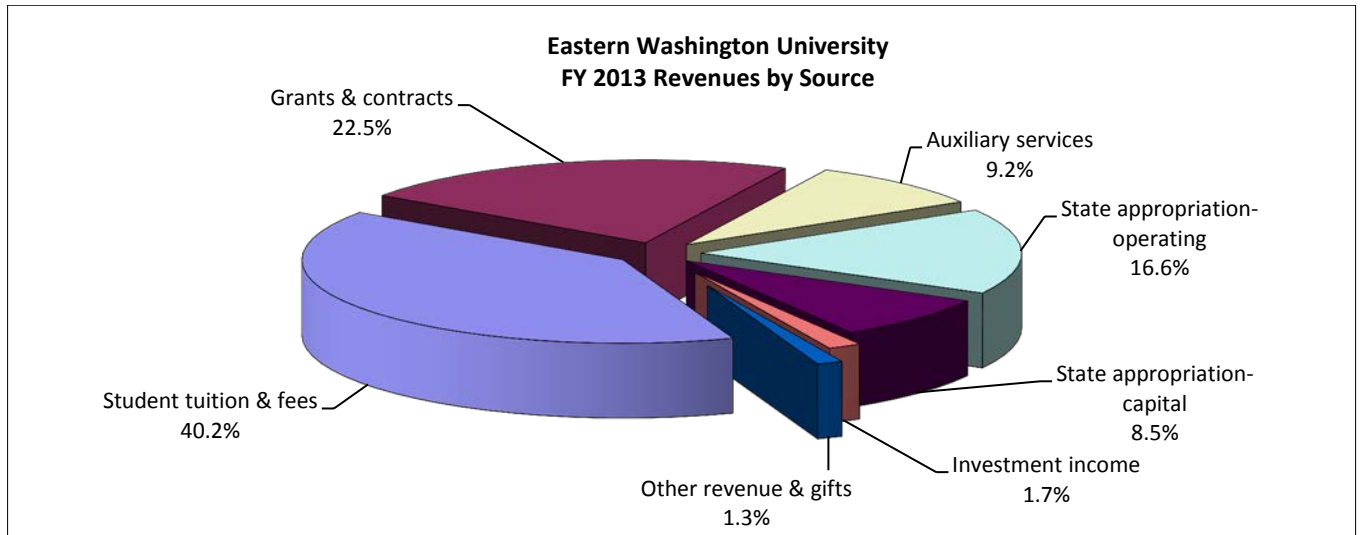
For the year ended June 30 (in thousands)

	2013	2012	2011
Operating revenue	\$ 140,566	\$ 129,990	\$ 122,041
Operating expenses	190,626	181,395	187,194
Net operating loss	(50,060)	(51,405)	(65,153)
Non-operating revenues	60,643	57,314	68,378
Non-operating expenses	1,451	2,215	1,634
Income/(loss) before other revenues	9,132	3,694	1,591
Other revenues and expenses	17,244	13,591	9,995
Increase in net position	26,376	17,285	11,586
Net position, beginning of year	329,403	312,430	300,844
Adjustment for change in accounting principle (GASB 65)	-	(312)	-
Net position, end of year	\$ 355,779	\$ 329,403	\$ 312,430

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, 2013. The ensuing table contains a comparison of revenues for fiscal years ended 2013, 2012 and 2011.



**Revenues by Source (in thousands)
For the year ended June 30**

	2013		2012		2011	
Student tuition & fees	\$ 88,337	40.2%	\$ 81,428	40.5%	\$ 71,714	35.8%
Grants & contracts	49,389	22.5%	46,747	23.3%	47,676	23.8%
Auxiliary services	20,167	9.2%	19,106	9.5%	18,800	9.4%
State appropriation-operating	36,535	16.6%	34,830	17.3%	44,009	22.0%
State appropriation-capital	18,584	8.5%	13,561	6.8%	9,967	5.0%
Investment income	3,683	1.7%	3,435	1.7%	5,581	2.8%
Other revenue & gifts	3,099	1.3%	1,788	0.9%	2,667	1.2%
Total	\$ 219,794	100%	\$ 200,895	100.0%	\$ 200,414	100.0%

Tuition, other student fees, and state operating appropriations are the primary sources of funding for the University’s academic programs. The FY12 decrease in state operating appropriations reflects reduced state funding for higher education which is provided through the legislative process. From the 2007-09 biennium to the 2011-13 biennium, Eastern Washington University’s biennial state appropriations decreased approximately 40 percent. The fluctuation in state revenues for operations is a major concern. The University increasingly looks to tuition and other student fees to help offset reductions of state operating appropriations and to continue growing and transforming the University.

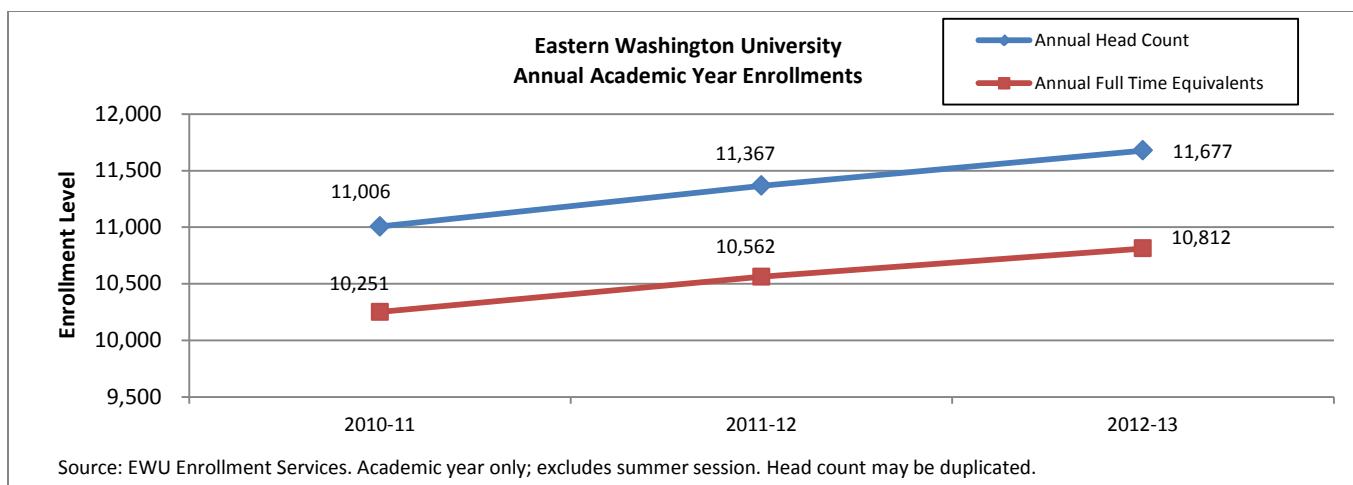
The increase in revenues from student tuition is the result of rate increases, enrollment growth and planned use of scholarship allowances. Tuition increases are controlled largely by legislative authority. Recognizing the fiscal realities resulting from the economic recession and decreased state revenues, the legislature has given measured authority to increase tuition rates for selected categories and some institutional discretion for other categories as needed. Tuition rates were increased for each of the three academic years shown below.

Full-Time Quarterly Tuition and S&A Fee 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
2012-13	2,457	11%	3,233	9%	6,039	11%	7,484	9%
2011-12	2,230	11%	2,977	9%	5,456	11%	6,877	9%
2010-11	2,021	14%	2,740	10%	4,927	5%	6,318	5%

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



With the decrease and continued fluctuations in state support, dependency on tuition and fee revenues grows greater for covering the cost of providing educational and related support services. This funding shift impacts the timing and scale of institutional growth. To assess progress and monitor financial health the University monitors a variety of indicators that focus on enrollment in connection with tuition rates, state funding levels, and the related financial impact on students and their families.

Financial Indicator	Definition	Calculation	FY11	FY12	FY13
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	54.7	61.9	62.6
Unrestricted financial resources-to-operations (x)	Measures coverage of annual operations by the most liquid resources	Unrestricted net assets divided by total adjusted operating expenses	.41	.47	.51
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	196	224	236
Current ratio ¹	Measures liquidity –ability to meet current obligations with liquid assets	Current assets divided by current liabilities	3.66	4.92	4.30

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

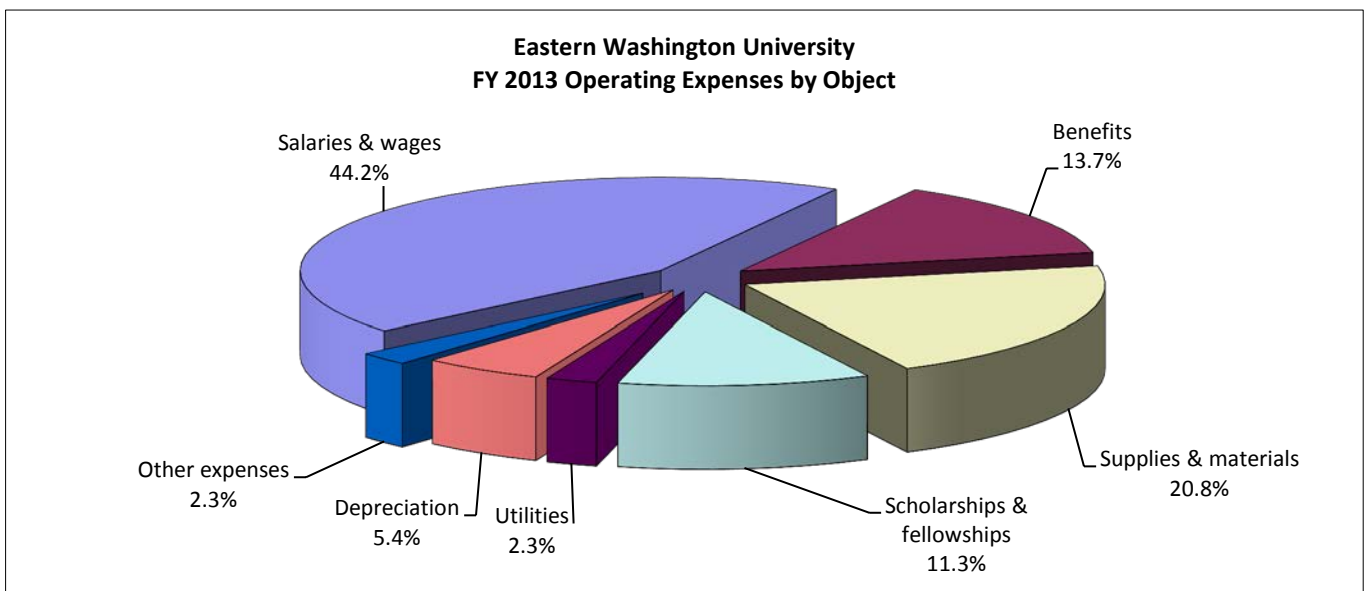
¹ The FY12 current ratio increased primarily due to Series 2012 unspent bond proceeds.

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 2013. 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. This reliance on grants and contracts from governmental and private sources underscores the impact the overall economy can have on the delivery of educational services. A decrease in these funding sources could directly affect staffing levels and educational opportunities.

Operating Expenses

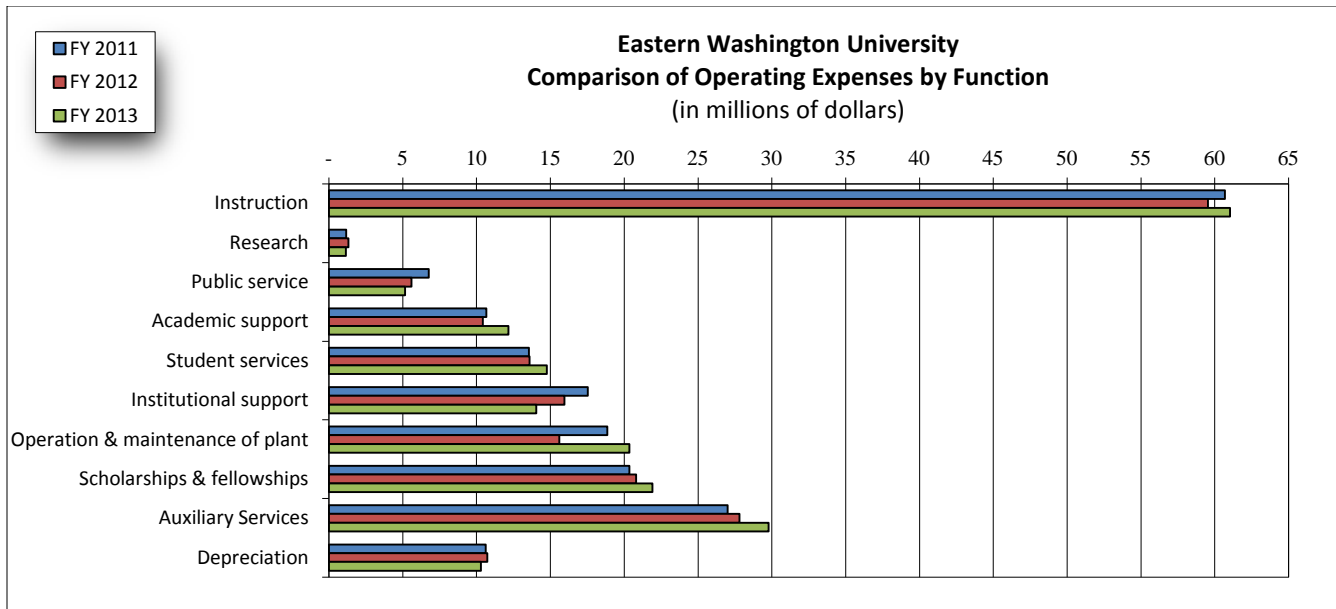
Operating expenses consist mainly of employee compensation, supplies and materials costs, and student scholarships and fellowships. Shown below is an illustration of operating expenses by type (object) for the year ended June 30, 2013. The ensuing table contains a comparison of expenses for fiscal years ending June 30, 2013, 2012 and 2011.



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

	2013		2012		2011	
Salaries & wages	\$ 84,278	44.2%	\$ 82,225	45.3%	\$ 83,567	44.6%
Benefits	26,111	13.7%	26,987	14.9%	26,855	14.3%
Supplies & materials	39,618	20.8%	32,861	18.1%	37,507	20.0%
Scholarships & fellowships	21,520	11.3%	20,493	11.3%	19,834	10.6%
Utilities	4,369	2.3%	4,150	2.3%	4,472	2.4%
Depreciation	10,233	5.4%	10,701	5.9%	10,557	5.6%
Other expenses	4,497	2.3%	3,978	2.2%	4,402	2.5%
Total	\$ 190,626	100%	\$ 181,395	100.0%	\$ 187,194	100.0%

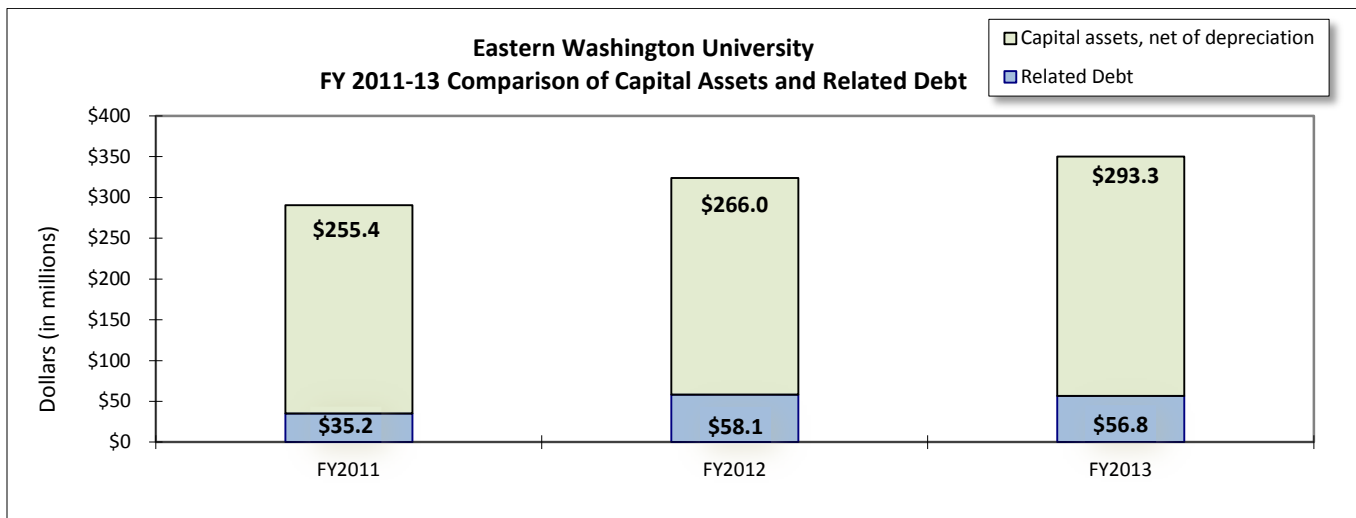
Salaries, wages and benefits are the major support cost for the University’s programs, followed by supplies and materials, scholarships, and other operating expenses. An alternative view of operating expenses is by functional (programmatic) classification as shown below for the years ended June 30, 2013, 2012 and 2011.



Instructional expenses by far comprise the largest single category 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. The rise in auxiliary services costs reflects the greater demand in support services necessary to meet the growing student population.

Capital Asset and Debt Activities

The University continues to increase the investment in capital assets which consist of land, buildings, infrastructure and equipment (see Footnote 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 comprise most of the increase in capital assets. Work continues on the estimated \$60.7 million Patterson Hall renovation and expansion project. Patterson Hall is the University's largest academic building with 40 general use classrooms and two computer labs. Funded by the state capital budget, the project renovates the existing 102,347 square foot building and provides an additional 33,196 square feet of space. Completion is expected in early 2014.

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. As of June 2013, construction is nearly complete for a new 350-bed residence hall on campus land. In April 2012 the University issued \$25.3 million in new revenue bonds to finance this project (see Footnote 10 for additional information).

In March 2012 Moody's Investors Service (a bond rating agency) assigned an A1 rating to the Series 2012 Housing and Dining System Revenue Bonds and affirmed the A1 rating on the outstanding 2006 Services and Activities Fee Revenue Bonds. The outlook is stable and debt service coverage remains healthy as demonstrated by the financial ratios below.

<u>Financial Indicator</u>	<u>Definitions</u>	<u>Calculation</u>	FY 2011	FY 2012	FY 2013
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	2.60	1.71	1.96
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 lease divided by operating and non-operating expenses less depreciation plus principal paid on capital debt and leases	1.95	2.33	1.51
Debt service coverage (x) ⁱ	Measures actual margin of protection for annual debt service payments from annual operations. A higher ratio is considered to be advantageous while a declining ratio may be cause for concern.	Annual operating surplus (deficit) plus interest and depreciation expenses divided by actual principal and interest payments	3.91	3.93	7.50

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

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

In 2013 the University's overall financial position remained stable and improved notably as a whole. Net position increased to \$355.8 million, an increase of \$26.4 million or 8 percent on revenues of \$219.8 million and expenses totaling \$193.4 million. However, funding for higher education continues to be under pressure with fluctuating state funding and increasing enrollment demand. In FY12, the state appropriation for operating costs dropped by \$9.2 million or 21 percent from the prior year but rebounded slightly by \$1.7 million in FY13. Reductions in historical state funding levels have been partially offset by higher tuition and fee rates; however, those rates are controlled through state legislation which could impact the ability to meet future financial goals. While the state and national economic outlook has improved slightly over the past year, financial pressure is expected to continue as the state struggles with sustainable funding for education. Mandated funding for K-12 public education has placed even greater demands on the statewide budget, which magnifies the importance of tuition setting authority in higher education.

Through strategic planning the University's leadership continues to address ongoing funding issues that impact service delivery of educational opportunities at Eastern Washington University. New investments in student residential housing and major renovations to classrooms and other facilities are aimed at attracting, retaining and serving the student population. Together with comprehensive financial management, investments in technology, and a focus on student support services, the strategic plan guides the University toward its goal of serving the region, preparing students for leadership roles, and contributing to a strong workforce while maintaining value and providing assistance for first-generation students, underrepresented groups, and others in financial need.

ⁱ The FY13 debt service coverage ratio increased because principal repayments for the Series 2012 Housing and Dining Revenue Bonds are deferred until FY14. The ratio is expected to decrease slightly in the following year when principal payments begin.

Statements of Net Position

June 30, 2013 and 2012

ASSETS	June 30, 2013	June 30, 2012
Current assets:		
Cash and cash equivalents	\$ 35,580,778	\$ 47,771,095
Short-term investments	29,133,079	18,163,189
Deposit with State of Washington	7,041,613	5,681,074
Accounts receivable (net of allowances of \$314,931 and \$385,750, respectively)	13,746,779	11,307,682
Student loans receivable (net of allowances of \$9,350 and \$7,745, respectively)	125,277	153,377
Inventories	1,299,612	1,398,124
Other assets	2,652,792	1,313,030
Total current assets	89,579,930	85,787,571
Noncurrent assets:		
Endowment investments	8,417,708	7,677,507
Other long-term investments	46,703,677	49,345,784
Student loans receivable (less allowances of \$875,812 and \$793,986, respectively)	4,841,405	4,860,896
Other noncurrent assets	121,588	127,890
Capital assets, net of accumulated depreciation	293,311,309	265,951,678
Total noncurrent assets	353,395,687	327,963,755
Total assets	\$ 442,975,617	\$ 413,751,326
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on bond refunding	\$ 51,193	\$ 60,944
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 9,462,131	\$ 6,483,146
Accrued liabilities	3,168,758	3,025,850
Compensated absences	9,373	751
Deposits or funds held for others	405,107	1,072,190
Unearned revenue	5,905,097	5,479,992
Long-term liabilities, current portion	1,870,389	1,366,255
Total current liabilities	20,820,855	17,428,184
Noncurrent liabilities:		
Compensated absences	5,965,374	5,630,487
Unamortized bond premium	509,345	534,045
Long-term liabilities	59,952,650	60,816,620
Total noncurrent liabilities	66,427,369	66,981,152
Total liabilities	\$ 87,248,224	\$ 84,409,336
NET POSITION		
Net investment in capital assets	\$ 243,238,794	\$ 229,879,996
Restricted for:		
Nonexpendable:		
Endowments	5,333,195	5,331,195
Charitable gift annuities	476,242	267,940
Expendable:		
Loans	8,473,398	8,319,916
Capital projects	7,557,567	5,237,129
Endowments and other	4,094,439	3,160,071
Unrestricted	86,604,951	77,206,688
Total net position	\$ 355,778,586	\$ 329,402,935

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2013 and 2012

REVENUES	FY 2013	FY 2012
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$26,170,505 and \$22,953,100, respectively)	\$ 88,337,483	\$ 81,427,807
Federal grants and contracts	4,772,494	5,474,488
State and local grants and contracts	21,799,934	19,534,889
Nongovernmental grants and contracts	3,391,483	2,688,546
Sales and services of auxiliary enterprises		
Housing and dining services (net of scholarship allowances of \$6,702,884 and \$5,127,521, respectively)	10,890,432	10,249,340
Other auxiliary enterprises (net of scholarship allowances of \$1,381,261 and \$1,204,441, respectively)	9,276,647	8,856,252
Other operating revenue	2,097,073	1,758,276
Total operating revenue	140,565,546	129,989,598
 EXPENSES		
Operating expenses:		
Salaries and wages	84,277,584	82,224,769
Benefits	26,110,666	26,986,764
Scholarships and fellowships	21,520,206	20,493,131
Utilities	4,369,073	4,150,414
Supplies and materials	35,963,203	32,149,624
Non-capitalized facility improvements (NCFI)	3,655,175	710,925
Other	4,497,152	3,978,616
Depreciation	10,232,989	10,700,989
Total operating expenses	190,626,048	181,395,232
 Operating loss	(50,060,502)	(51,405,634)
 NON-OPERATING REVENUES (EXPENSES)		
State appropriations	36,534,907	34,830,415
Investment income, gains and losses	3,683,279	3,435,075
Interest on capital asset-related debt	(1,450,923)	(2,214,887)
Gifts	999,694	-
Pell grant revenue	19,425,030	19,048,947
Net non-operating revenues	59,191,987	55,099,550
Gain before other revenues, expenses, gains or losses	9,131,485	3,693,916
 State appropriations - capital	18,584,148	13,561,153
Gifts to permanent endowments	2,050	29,481
Special items - loss on sale of capital asset (Note 7)	(1,342,032)	-
Total other revenues and expenses	17,244,166	13,590,634
Increase in net position	26,375,651	17,284,550
 NET POSITION		
Net position, beginning of year	329,402,935	312,118,385
Net position, end of year	\$ 355,778,586	\$ 329,402,935

Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012

	FY 2013	FY 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 88,643,301	\$ 81,798,511
Grants and contracts	29,872,812	28,510,484
Payments to vendors	(45,232,364)	(39,647,239)
Payments to employees	(108,927,586)	(109,105,332)
Payments for scholarships and fellowships	(21,520,206)	(20,493,131)
Loans issued to students	(877,027)	(712,734)
Collection of student loans	921,193	847,177
Auxiliary enterprise receipts	19,845,579	19,056,602
Other receipts (payments)	941,547	1,093,126
Net cash used by operating activities	<u>(36,332,751)</u>	<u>(38,652,536)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	36,534,907	34,830,415
Pell grant	19,425,030	19,048,947
Endowment gifts	2,050	29,481
Stafford/Plus/Direct loans receipts	68,573,841	69,022,706
Stafford/Plus/Direct loans disbursements	(68,573,841)	(69,022,706)
Agency fund receipts	7,148,483	6,555,194
Agency fund disbursements	(7,337,664)	(6,773,170)
Net cash provided by noncapital financing activities	<u>55,772,806</u>	<u>53,690,867</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bond issuance	-	25,330,000
Capital appropriations	15,822,728	11,577,821
Purchases of capital assets	(40,295,192)	(22,217,038)
Contributions and gifts in-kind	999,694	-
Principal paid on capital debt and leases	(1,334,083)	(2,428,161)
Interest paid on capital debt and leases	(1,438,816)	(1,649,172)
Net cash provided (used) by capital financing activities	<u>(26,245,669)</u>	<u>10,613,450</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	18,536,061	13,245,980
Interest on investments	3,556,561	3,244,861
Purchase of investments	(27,477,325)	(24,676,303)
Net cash provided (used) by investing activities	<u>(5,384,703)</u>	<u>(8,185,462)</u>
Net increase (decrease) in cash	(12,190,317)	17,466,319
Cash, beginning of year	47,771,095	30,304,776
Cash, end of year	<u>\$ 35,580,778</u>	<u>\$ 47,771,095</u>

Statements of Cash Flows *(Continued)*

For the Years Ended June 30, 2013 and 2012

	<u>FY 2013</u>	<u>FY 2012</u>
Reconciliation of net operating revenue (expenses) to net cash provided (used) by operating activities		
Operating income (loss)	\$ (50,060,502)	\$ (51,405,634)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	10,232,989	10,700,989
Changes in assets and liabilities:		
Receivables, net	322,323	564,893
Inventories	98,511	(52,675)
Other assets	(1,339,761)	(482,169)
Accounts payable	3,101,138	788,660
Deferred and unearned revenue	425,105	548,644
Deposits held for others	(477,901)	(684)
Compensated absences and other	1,317,757	458,175
Loans to students	47,590	227,265
Net cash used by operating activities	<u>\$ (36,332,751)</u>	<u>\$ (38,652,536)</u>

Statements of Financial Position - Component Unit (Foundation)

June 30, 2013 and 2012

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
ASSETS		
Cash and cash equivalents	\$ 2,257,413	\$ 3,487,126
Promises to give, net of allowances and discounts	872,245	1,078,146
Other assets	423,711	696,696
Contributions receivable from charitable trusts	340,466	310,930
Investments held in charitable trusts	182,466	159,564
Investments	15,188,324	13,750,238
Beneficial interest in perpetual trusts	<u>2,331,436</u>	<u>2,469,355</u>
Total assets	<u>\$ 21,596,061</u>	<u>\$ 21,952,055</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 92,259	\$ 83,517
Annuities payable	125,693	125,534
Notes payable	<u>353,338</u>	<u>517,887</u>
Total liabilities	571,290	726,938
COMMITMENTS		
	-	-
NET ASSETS		
Unrestricted (deficit)	(16,506)	(563,234)
Temporarily restricted	4,697,134	5,888,413
Permanently restricted	<u>16,344,143</u>	<u>15,899,938</u>
Total net assets	<u>21,024,771</u>	<u>21,225,117</u>
Total liabilities and net assets	<u>\$ 21,596,061</u>	<u>\$ 21,952,055</u>

Statements of Activities – Component Unit (Foundation)

For the Years Ended June 30, 2013 and 2012

	FY 2013				FY 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT								
Contributions	\$ 42,555	\$ 1,447,705	\$ 408,712	\$ 1,898,972	\$ 65,154	\$ 2,027,600	\$ 417,365	\$ 2,510,119
Contributions from trusts	-	80,144	-	80,144	-	80,820	-	80,820
Investment Income, net of fees of \$87,963 and \$69,874, respectively	30,204	276,983	2,675	309,862	8,650	214,249	(8)	222,891
Realized gain (loss) on investments	(642)	357,648	-	357,006	192	829,939	-	830,131
Unrealized gain (loss) on investments	-	1,084,245	-	1,084,245	(221,813)	(541,869)	-	(763,682)
Change in value of split-interest agreements	-	-	(96,838)	(96,838)	-	-	(21,198)	(21,198)
Support provided by Eastern Washington University	941,359	-	-	941,359	1,071,707	-	-	1,071,707
Other	72	778,106	4,831	783,009	-	332,180	25,933	358,113
Total revenues, gains, and support	1,013,548	4,024,831	319,380	5,357,759	923,890	2,942,919	422,092	4,288,901
Net assets released from restrictions and other transfers	5,091,285	(5,216,110)	124,825	-	2,600,702	(2,565,887)	(34,815)	-
EXPENSES								
Management and general	951,040	-	-	951,040	755,032	-	-	755,032
Fundraising	573,298	-	-	573,298	632,851	-	-	632,851
Support provided to/for Eastern Washington University	4,033,767	-	-	4,033,767	2,369,783	-	-	2,369,783
Total expenses	5,558,105	-	-	5,558,105	3,757,666	-	-	3,757,666
CHANGE IN NET ASSETS	546,728	(1,191,279)	444,205	(200,346)	(233,074)	377,032	387,277	531,235
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(563,234)	5,888,413	15,899,938	21,225,117	(330,160)	5,511,381	15,512,661	20,693,882
NET ASSETS (DEFICIT), END OF YEAR	\$ (16,506)	\$ 4,697,134	\$ 16,344,143	\$ 21,024,771	\$ (563,234)	\$ 5,888,413	\$ 15,899,938	\$ 21,225,117

Notes to Financial Statements

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 is 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, 2013 and 2012, the net distribution from the Foundation to the University for restricted and unrestricted purposes which includes both student scholarships and program support follows:

<u>Fiscal Year</u>	<u>Net Distribution</u>
2013	\$3,092,408
2012	\$1,298,076

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.

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 Position 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 AND UNEARNED REVENUES

The balance in deferred revenue represents the amounts where the asset recognition criteria have been met, but for which the availability criteria have not been met. The balance of unearned revenue represents amounts for which the asset recognition criteria have been met, but for which the earnings process is not complete. Summer quarter tuition is shown as unearned revenue which represents the majority of the balance shown on the Statement of Net Position.

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 improvements other than buildings, 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.

NET POSITION

The University's net position is classified as follows:

Net investment in capital assets: The University's investments in capital assets, less accumulated depreciation, net of outstanding debt obligations that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position:

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those 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 position: Net assets not subject to externally imposed restrictions, but which may be designated for specific purposes by management, or the Board of Trustees. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

RECLASSIFICATIONS, RESTATEMENTS, AND CHANGES IN ACCOUNTING PRINCIPLES

Certain reclassifications not affecting total net position have been made to 2012 amounts in order to conform to 2013 presentation. In addition, early implementation of GASB No. 65 in conjunction with GASB No. 63 resulted in an adjustment to beginning fund balance as of July 1, 2011. Under the change in accounting principle prescribed by GASB No. 65, bond issuance cost is expensed in the period incurred; it is no longer amortized over the life of the related debt. Following is a reconciliation of the July 1, 2011 beginning net position, as previously reported, to the restated net position for the same period:

Total net position, as previously reported, July 1, 2011	\$ 312,429,958
Less: previously unamortized bond issuance costs	
Series 2002 Housing and Dining Revenue and Refunding Bonds	15,883
Series 2006 Service and Activities Fee Refunding Bonds	30,258
Series 2006 Service and Activities Fee Revenue Bonds	<u>265,432</u>
Beginning net position, as restated, July 1, 2011	<u>\$ 312,118,385</u>

Note 2: Deposits and Investments

Deposits are comprised of cash and cash equivalents which include bank demand deposits, 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, 2013	Carrying Value June 30, 2012
<u>Deposits</u>		
Cash and cash equivalents		
Interest bearing	\$ 35,450,236	\$ 47,635,503
Other	<u>130,542</u>	<u>135,592</u>
Total deposits	<u>\$ 35,580,778</u>	<u>\$ 47,771,095</u>

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, 2013, investment maturities are as follows:

	Fair value June 30, 2013	Investment maturities for fixed income securities (in months)			
		0 – 9	10 – 24	25 – 60	61 – 120
<u>Investments – Operating Funds</u>					
U.S. Government agency bonds	\$ 72,120,650	\$ 16,581,270	\$ 30,443,430	\$ 25,095,950	
U.S. Government treasury bonds	3,035,520	3,035,520			
Other deposits	33,005				
<u>Investments – Charitable Gift Annuities</u>					
Investment unit trusts					
Equity fund	402,161				
Bond fund	245,420				\$ 245,420
<u>Investments – Endowment Funds</u>					
Investment unit trusts					
Equity fund	5,302,915				
Bond fund	<u>3,114,793</u>				<u>3,114,793</u>
Total investments	<u>\$ 84,254,464</u>	<u>\$ 19,616,790</u>	<u>\$ 30,443,430</u>	<u>\$ 25,095,950</u>	<u>\$ 3,360,213</u>

At June 30, 2012, investment maturities are as follows:

	Fair value June 30, 2012	Investment maturities for fixed income securities (in months)			
		0 – 9	10 – 24	25 – 60	61 – 120
<u>Investments – Operating Funds</u>					
U.S. Government agency bonds	\$ 60,985,410	\$ 12,058,290	\$ 29,112,780	\$ 19,814,340	
U.S. Government treasury bonds	6,098,910		6,098,910		
<u>Investments – Charitable Gift Annuities</u>					
Investment unit trusts					
Equity fund	253,760				
Bond fund	170,893				\$ 170,893
<u>Investments – Endowment Funds</u>					
Investment unit trusts					
Equity fund	4,601,154				
Bond fund	<u>3,076,353</u>				<u>3,076,353</u>
Total investments	<u>\$ 75,186,480</u>	<u>\$ 12,058,290</u>	<u>\$ 35,211,690</u>	<u>\$ 19,814,340</u>	<u>\$ 3,247,246</u>

At June 30, 2013 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$3,084,513 which is reported as restricted, expendable on the Statement of Net Position. 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.

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 7.0 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 A+ 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.

<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		
Domestic equity	60%	50-70%
Fixed income	30%	20-40%
Foreign equity	5%	0-10%
Cash	5%	0-5%

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 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.

Note 3: Accounts and Student Loans Receivable

Accounts and student loans receivable at June 30, 2013 and 2012 consist of the following:

	June 30, 2013	June 30, 2012
Accounts receivable		
Student tuition and fees (less allowances of \$81,818 and \$90,254, respectively)	\$ 5,538,626	\$ 5,744,286
Auxiliary enterprises (less allowances of \$223,170 and \$244,804, respectively)	972,424	952,283
Contracts and grants	1,322,133	1,013,129
State reimbursement	5,746,231	2,984,811
Other (less allowances of \$9,943 and \$50,692, respectively)	<u>167,365</u>	<u>613,173</u>
Total accounts receivable	<u>\$ 13,746,779</u>	<u>\$ 11,307,682</u>
Student loans receivable		
Federal programs (less allowances of \$875,812 and \$793,986, respectively)	\$ 4,841,405	\$ 4,860,896
Institutional loans (less allowances of \$9,350 and \$7,745, respectively)	<u>125,277</u>	<u>153,377</u>
Total student loans receivable	<u>\$ 4,966,682</u>	<u>\$ 5,014,273</u>

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 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.

<u>Leave Type</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Vacation	\$4,617,837	\$4,426,105
Sick	\$1,347,537	\$1,204,382
Compensatory	\$9,373	\$751

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 \$3,375,055 and \$3,169,768 at June 30, 2013 and 2012, respectively.

Note 7: Capital Assets

Capital asset activity for the two-year period ended June 30, 2013 is summarized as follows:

	June 30, 2011	Additions	Retirements	June 30, 2012	Additions	Retirements	June 30, 2013
<u>Non-depreciable Capital Assets</u>							
Land	\$ 2,120,954	\$ -	\$ -	\$ 2,120,954	\$ -	\$ 596,120	\$ 1,524,834
Construction in progress	<u>14,564,107</u>	<u>17,028,217</u>	-	<u>31,592,324</u>	<u>34,898,214</u>	<u>2,646,116</u>	<u>63,844,422</u>
Subtotal	16,685,061	17,028,217	-	33,713,278	34,898,214	3,242,236	65,369,256
<u>Depreciable Capital Assets</u>							
Buildings	292,036,838	1,331,974	-	293,368,812	2,646,116	4,504,993	291,509,935
Improvements other than buildings	15,568,805	-	-	15,568,805	-	-	15,568,805
Infrastructure	30,596,737	103,062	-	30,699,799	-	-	30,699,799
Furniture, fixtures and equipment	29,270,554	1,431,923	733,223	29,969,254	3,642,856	454,767	33,157,343
Library materials	<u>29,183,637</u>	<u>1,342,537</u>	<u>7,389,411</u>	<u>23,136,763</u>	<u>1,587,299</u>	<u>774,372</u>	<u>23,949,690</u>
Subtotal	<u>396,656,571</u>	<u>4,209,496</u>	<u>8,122,634</u>	<u>392,743,433</u>	<u>7,876,271</u>	<u>5,734,132</u>	<u>394,885,572</u>
Total capital assets	413,341,632	21,237,713	8,122,634	426,456,711	42,774,485	8,976,368	460,254,828
Less accumulated depreciation:							
Buildings	94,898,435	6,191,425	-	101,089,860	5,747,711	2,620,653	104,216,918
Improvements other than buildings	5,098,812	476,137	-	5,574,949	476,137	-	6,051,086
Infrastructure	17,056,817	936,184	-	17,993,001	936,153	-	18,929,154
Furniture, fixtures and equipment	23,781,558	2,048,023	695,892	25,133,689	1,920,354	399,478	26,654,565
Library materials	<u>17,053,726</u>	<u>1,049,220</u>	<u>7,389,412</u>	<u>10,713,534</u>	<u>1,152,634</u>	<u>774,372</u>	<u>11,091,796</u>
Total accumulated depreciation	<u>157,889,348</u>	<u>10,700,989</u>	<u>8,085,304</u>	<u>160,505,033</u>	<u>10,232,989</u>	<u>3,794,503</u>	<u>166,943,519</u>
Capital assets, net of depreciation	<u>\$ 255,452,284</u>	<u>\$ 10,536,724</u>	<u>\$ 37,330</u>	<u>\$ 265,951,678</u>	<u>\$ 32,541,496</u>	<u>\$ 5,181,865</u>	<u>\$ 293,311,309</u>

The Spokane Higher Education Center, a four-story building located at 705 W. 1st Ave in downtown Spokane, sat vacant (idle) during FY 2012. The University no longer intended to use the property, instead focusing on providing educational programs and services in the nearby University District. For the fiscal year ended June 30, 2012, the impairment loss was \$376,118 which is included with depreciation expense and the adjusted carrying value was \$1,912,950 which is included on the Statement of Net Position. The property was sold in FY 2013.

Note 8: Long-term Liabilities

Long-term liability activity for the two-year period ended June 30, 2013 is summarized as follows:

	June 30, 2011	Additions	Reductions	June 30, 2012	Current Portion 2012
Leases and bonds payable:					
Lease obligations (Note 9)	\$ 3,467,804	\$ -	\$ 403,161	\$ 3,064,643	\$ 314,083
Revenue bonds payable (Note 10)	<u>31,720,000</u>	<u>25,330,000</u>	<u>2,025,000</u>	<u>55,025,000</u>	<u>1,020,000</u>
Total leases and bonds payable	35,187,804	25,330,000	2,428,161	58,089,643	1,334,083
Other liabilities:					
Charitable gift annuities (Note 1)	199,171	8,454	60,971	146,654	32,172
Net pension obligation (Note 12)	3,130,281	986,000	169,703	3,946,578	-
Compensated absences (Note 5)	<u>5,936,841</u>	<u>3,955,545</u>	<u>4,261,148</u>	<u>5,631,238</u>	<u>751</u>
Total long-term liabilities	<u>\$ 44,454,097</u>	<u>\$ 30,279,999</u>	<u>\$ 6,919,983</u>	<u>\$ 67,814,113</u>	<u>\$ 1,367,006</u>
	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion 2013
Leases and bonds payable:					
Lease obligations (Note 9)	\$ 3,064,643	\$ -	\$ 314,083	\$ 2,750,560	\$ 256,217
Revenue bonds payable (Note 10)	<u>55,025,000</u>	<u>-</u>	<u>1,020,000</u>	<u>54,005,000</u>	<u>1,570,000</u>
Total leases and bonds payable	58,089,643	-	1,334,083	56,755,560	1,826,217
Other liabilities:					
Charitable gift annuities (Note 1)	146,654	88,823	64,138	171,339	44,172
Net pension obligation (Note 12)	3,946,578	1,114,000	164,438	4,896,140	-
Compensated absences (Note 5)	<u>5,631,238</u>	<u>3,905,996</u>	<u>3,562,487</u>	<u>5,974,747</u>	<u>9,373</u>
Total long-term liabilities	<u>\$ 67,814,113</u>	<u>\$ 5,108,819</u>	<u>\$ 5,125,146</u>	<u>\$ 67,797,786</u>	<u>\$ 1,879,762</u>

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 2014 through 2022. Total operating lease expenses in fiscal year 2013 were \$859,572.

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, 2013, are as follows:

Fiscal Year Annual Payment	Operating	Capital
2014	\$ 561,092	\$ 410,502
2015	466,563	397,751
2016	295,675	385,000
2017	201,708	385,000
2018	74,826	385,000
2019-23	<u>191,350</u>	<u>1,587,626</u>
Obligation under leases	<u>\$ 1,791,214</u>	3,550,879
Less: Amount representing interest costs		<u>(800,319)</u>
Present value of minimum obligation under capital leases		<u>\$ 2,750,560</u>

Note 10: Bonds Payable

Bonds payable consist of revenue bonds issued by University auxiliary enterprises for capital construction projects 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. The Series 2012 Housing and Dining System Revenue Bonds is tax-exempt debt with external restrictions as outlined in the bond covenants. Under GASB 62, interest costs for such bonds are capitalized net of investment earnings on unspent proceeds until the related capital asset is substantially complete and ready

for operation. Net capitalized interest, which represents the amount of expense that could have been avoided had the asset not been acquired, totals \$943,264 and \$213,685 for the fiscal years ending June 30, 2013 and 2012, respectively.

	Interest Rate	Maturity Date	Original Balance	Balance Outstanding
Eastern Washington University				
Service and Activities Revenue Bonds, Series 2006	4.00% - 5.00%	2013-2038	\$ 28,090,000	\$ 25,490,000
Service and Activities Refunding Bonds, Series 2006	4.00% - 4.00%	2013-2019	5,625,000	3,185,000
Housing and Dining System Revenue Bonds, Series 2012	2.00% - 4.125%	2013-2042	<u>25,330,000</u>	<u>25,330,000</u>
Total Revenue Bonds payable			<u>\$ 59,045,000</u>	<u>\$ 54,005,000</u>

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

Fiscal Year	Eastern Washington University	
	Principal	Interest
2014	\$ 1,570,000	\$ 2,197,268
2015	1,625,000	2,143,667
2016	1,685,000	2,082,918
2017	1,760,000	2,014,517
2018	1,840,000	1,942,918
2019-2023	7,705,000	8,760,437
2024-2028	8,605,000	7,285,552
2029-2033	10,565,000	5,338,939
2034-2038	13,275,000	2,792,401
2039-2042	<u>5,375,000</u>	<u>565,331</u>
Totals	<u>\$ 54,005,000</u>	<u>\$ 35,123,948</u>

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
Service & activity fee revenue	\$8,315,392	\$2,280,417	\$46,060,658	Service & Activities Fee Revenue and Refunding Bonds – Series 2006	Refund outstanding debt on S&A Revenue Bonds of 1993 and construction of a new student recreation center	2019 (Refunding) 2038 (Revenue)
Housing and Dining revenues net of operating expenses	\$4,251,329	\$951,368	\$43,068,290	Housing and Dining System Revenue Bonds – Series 2012	Design and construction of a new residence hall	2042

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, 2013, was \$84,277,584. The payroll for employees covered by PERS was \$23,882,443; payroll for employees covered by TRS was \$352,577; payroll for employees covered by LEOFF was \$592,496; and payroll for employees covered by the Eastern Washington University Retirement Plan was \$45,789,890.

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, 2013		Required Employer Contributions		
	Employee	University	FY 2011	FY 2012	FY 2013
PERS					
Plan I	6.00%	7.21%	\$ 58,541	\$ 70,416	\$ 64,720
Plan II	4.64%	7.21%	1,024,555	1,379,794	1,402,930
Plan III	Varies	7.21% *	191,201	248,399	254,239
TRS					
Plan I	6.00%	8.05%	\$ 2,827	\$ 2,980	\$ 3,125
Plan II	4.69%	8.05%	3,369	4,395	5,373
Plan III	Varies	8.05%	-	12,715	19,882
LEOFF					
Plan II	8.46%	8.62%	\$ 44,628	\$ 50,549	\$ 51,073

* 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, less the annuity benefit offset and any WAPERS benefits (Washington State Retirement System). 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 for the supplemental plan. No other significant changes were made in the benefit provision for the year ended June 30, 2013.

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, 2013, total \$3,943,817.

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. The difference between benefits earned and paid represents an accrued liability; the amount is determined by an actuarial study.

An actuarial study of the supplemental pension benefits was last performed as of July 1, 2013. The previous evaluation was performed in 2011. The actuarial assumptions for the most recent valuation included an investment rate of return of 4.25 percent compounded annually and projected salary increases of three percent (3%) per year. 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 (UAL) calculated at July 1, 2013 was \$6,747,000 under the plan’s entry age normal method and is amortized over an 11 year period. The UAL is amortized as a level percent of future pay; the plan was closed to new participants effective July 1, 2011. The annual required contribution (ARC) is projected at \$1,114,000. There is no inflationary factor included in the UAL valuation. 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 Statement of Net Position. The following table reflects net pension obligation activity for the fiscal years ended June 30 follows:

Net Pension Obligation	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>
Balance as of July 1	\$ 3,946,578	\$ 3,130,281	\$ 2,341,573
Add: Annual Required Contribution	1,114,000	986,000	986,000
Less: Payments to beneficiaries	164,438	169,703	197,292
Balance as of June 30	\$ 4,896,140	\$ 3,946,578	\$ 3,130,281

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	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>
Balance as of July 1	\$ 16,052,000	\$ 12,580,000	\$ 9,572,000
Add: Annual OPEB costs	3,926,000	4,244,000	3,613,000
Less: Estimated contributions	529,000	772,000	605,000
Balance as of June 30	\$ 19,449,000	\$ 16,052,000	\$ 12,580,000

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:

CONDENSED STATEMENTS OF NET POSITION	Housing and Dining System Revenue Bonds Series 2012		Associated Student Activities Revenue and Refunding Bonds Series 2006	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Assets				
Current assets	\$ 13,708,205	\$ 26,615,232	\$ 3,811,792	\$ 2,955,136
Non-current assets	<u>41,663,321</u>	<u>26,126,366</u>	<u>36,288,317</u>	<u>37,257,133</u>
Total assets	55,371,526	52,741,598	40,100,109	40,212,269
Deferred outflows of resources				
Unamortized loss on bond refunding	\$ -	\$ -	\$ 51,193	\$ 60,944

CONDENSED STATEMENTS OF NET POSITION – <i>Continued</i>	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Liabilities				
Current liabilities	\$ 2,832,170	\$ 2,495,487	\$ 1,484,908	\$ 1,465,105
Non-current liabilities	<u>28,026,232</u>	<u>28,736,468</u>	<u>27,895,278</u>	<u>28,987,256</u>
Total liabilities	30,858,402	31,231,955	29,380,186	30,452,361
Net position				
Net investment in capital assets	15,773,578	14,362,617	4,898,549	4,762,128
Restricted expendable	39,056	8,164	-	-
Unrestricted	<u>8,700,490</u>	<u>7,138,862</u>	<u>5,872,567</u>	<u>5,058,724</u>
Total net position	<u>\$ 24,513,124</u>	<u>\$ 21,509,643</u>	<u>\$ 10,771,116</u>	<u>\$ 9,820,852</u>

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating revenues	\$ 18,257,548	\$ 16,026,501	\$ 8,596,090	\$ 8,351,045
Operating expenses	<u>16,077,371</u>	<u>14,930,604</u>	<u>4,236,531</u>	<u>3,822,284</u>
Net operating income	2,180,177	1,095,897	4,359,559	4,528,761
Non-operating revenues (expenses)				
Transfers	<u>(210,121)</u>	<u>(817,746)</u>	<u>(1,274,823)</u>	<u>(1,245,561)</u>
	<u>1,033,425</u>	<u>758,353</u>	<u>(2,134,472)</u>	<u>(2,003,008)</u>
Change in net position	3,003,481	1,036,504	950,264	1,280,192
Net position, beginning of year	<u>21,509,643</u>	<u>20,473,139</u>	<u>9,820,852</u>	<u>8,540,660</u>
Net position, end of year	<u>\$ 24,513,124</u>	<u>\$ 21,509,643</u>	<u>\$ 10,771,116</u>	<u>\$ 9,820,852</u>

CONDENSED STATEMENTS OF CASH FLOWS

Net cash flows provided by operating activities	\$ 2,890,099	\$ 1,934,792	\$ 5,369,758	\$ 5,497,599
Net cash flows provided (used) by non-capital and related financing activities	-	-	(2,190,872)	(2,059,408)
Net cash flows used by capital and related financing activities	(15,843,115)	21,317,288	(2,356,518)	(2,632,602)
Net cash flows provided by investing activities	<u>(1,483,243)</u>	<u>(1,028,668)</u>	<u>(957,152)</u>	<u>(892,466)</u>
Net increase (decrease) in cash	(14,436,259)	22,223,412	(134,784)	(86,877)
Cash—beginning of year	<u>24,857,297</u>	<u>2,633,885</u>	<u>1,423,922</u>	<u>1,510,799</u>
Cash—end of year	<u>\$ 10,421,038</u>	<u>\$ 24,857,297</u>	<u>\$ 1,289,138</u>	<u>\$ 1,423,922</u>

Note 15: Operating Expenses by Function

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

Operating Expenses	FY 2013	FY 2012
Educational and general		
Instruction	\$ 61,021,713	\$ 59,537,145
Research	1,155,556	1,333,324
Public service	5,169,193	5,597,372
Academic support	12,149,774	10,433,962
Student services	14,756,565	13,581,603
Institutional support	14,043,510	15,953,066
Operation and maintenance of plant	20,361,034	15,594,656
Scholarships and fellowships	21,911,848	20,816,647
Auxiliary enterprises	29,768,578	27,808,207
Depreciation	<u>10,288,277</u>	<u>10,739,250</u>
Total operating expenses	<u>\$ 190,626,048</u>	<u>\$ 181,395,232</u>

Note 16: Other Matters

The University may be 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. On December 16, 2011, a hearing was held to determine whether to certify a class on damages for the time period June 1, 2003 through December 31, 2009. Due to the current status of the case, it is difficult to assess potential damages.

Outstanding purchase orders and other commitments at June 30, 2013 total \$13,256,810 for various goods and services mostly from public works contracts associated with construction of the new residence hall and renovations to Patterson Hall.



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

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