

Financial Report

2007

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MESSAGE FROM THE PRESIDENT



With another year at Eastern Washington University under my belt, I am glad to report that the University continues to be in a solid financial position.

After a long period of enrollment growth, we saw the state's demographics change, with a flattening of the number of college-age available students, statewide. Eastern felt the effects of that demographic flattening and we anticipate a continuation of this challenge over the next several years.

Despite a small drop in overall student numbers on campus, our enrollment is still hovering around our historical high point of 10,000. Taking into account the revenue change that will accompany fewer students, we are looking closely at how the institution can maximize its student success results in the new challenging environment.

The key component to meeting this challenge is the continuing integration of our Strategic Plan into the budgeting process. Units across campus will see their

budget allocations tied to their success in meeting their Strategic Plan goals. Over the next few years, we will further emphasize the path outlined in our Strategic Plan when our units plan their budgets.

The alignment of our institutional goals and how we invest our resources is crucial.

Out of that alignment, we allocated budget funds to several student success programs, with the goals of enhancing our student retention rates, student graduation rates and becoming more competitive for the shrinking potential-student market.

I feel very confident that our commitment to bring about a synergy between our strategic planning and our budgeting will ensure that Eastern Washington University will continue to remain financially strong and able to adapt and grow even in a more challenging financial environment.

Thank you for taking an interest in our business affairs at EWU, and I look forward to greeting you next year with news that we have achieved what I outlined above.

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

Rodolfo Arévalo, PhD
President

BOARD OF TRUSTEES (AS OF 6/30/07)

Paul Tanaka, Chair
Jo Ann Kauffman, Vice Chair
Gordon Budke
Isaura Gallegos, Student Trustee
Neil McReynolds
Kris Mikkelsen
Bertha Ortega
Ines Zozaya-Geist

ADMINISTRATION (AS OF 6/30/07)

President
Rodolfo Arévalo
Vice President for Academic Affairs and Provost
Ronald H. Dalla (Interim)
Vice President for Business and Finance
Mary Voves
Vice President for Student Affairs
Dorothy Zeisler-Vralsted

UNIVERSITY DEANS (AS OF 6/30/07)

College of Arts and Letters
Philip D. Castille
College of Business and Public Administration
Rex Fuller
College of Education and Human Development
Alan J. Coelho
College of Science, Health and Engineering
Judd Case
College of Social and Behavioral Sciences
Vickie Rutledge Shields
Graduate and Undergraduate Studies
Lawrence J. Briggs (Interim)
Libraries
Patricia M. Kelley
School of Social Work and Human Services
Michael Frumkin

MISSION STATEMENT

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

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

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Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

February 19, 2008

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, 2007 and 2006, 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 report thereon has 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 report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report 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, and 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, 2007 and 2006, 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 audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Eastern Washington University, as of June 30, 2007 and 2006, and the respective changes in financial position and 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 6 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying information listed as supplemental information on page 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole..

Sincerely,

BRIAN SONNTAG, CGFM
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, 2007, with comparative 2006 and 2005 financial information. This MD&A provides the readers an objective and easily readable analysis of the University's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes to the financial statements.

Reporting Entity

Eastern Washington University is one of six state-assisted public institutions of higher education in the state of Washington with over 10,000 students. The University was established in 1882 and its primary purpose is to prepare individuals for successful contributions to society throughout their careers and in their leadership role as citizens. The University provides quality baccalaureate and graduate education.

The University's main campus is located in Cheney, Washington, a community of about 10,000 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 with Bellevue Community College (BCC), our university center at BCC offers upper division courses for four 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.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the last two fiscal years and reports all assets and liabilities of the University. This statement represents the assets available to continue operations of the institution and also identifies how much the institution owes vendors, investors and lending institutions. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2007, 2006 and 2005, follows.

Current assets consist primarily of cash, short term investments, accounts receivables and inventories. After increasing \$10.5 million in 2006, current assets increased an additional \$15.8 million in fiscal year 2007 largely from revenue bond proceeds for construction of the new University Recreation Center (Note 10). This increase in current assets is expected to be short-lived as these bond proceeds are used for construction of the new facility which is expected to be completed in early spring 2008.

The University continues to increase the investment in capital assets which consist of land, buildings, infrastructure and equipment. The growth in capital assets from \$207.6 million in 2006 to \$233.5 million in 2007, an increase of \$25.9 million, is largely due to construction in progress for the new University Recreation Center. Other notable additions were made to infrastructure and capitalized equipment (Note 7).

Other non-current assets are comprised mainly of endowments, long-term investments and receivables. Long-term investments accounted for most of the increase in 2007, up \$6.2 million over 2006, primarily through reallocation from short-term investments (Note 2).

Liabilities include amounts payable to suppliers for goods and services, payroll and related liabilities and debt principal payments. Current liabilities fluctuate between years due mostly to the timing of vendor payables for capital asset

STATEMENT OF NET ASSETS			
	As of June 30 (in thousands)		
	2007	2006	2005
ASSETS			
Current assets	\$67,135	\$51,300	\$40,835
Capital assets, net of deprec.	233,494	207,648	195,225
Other non-current assets	39,424	31,758	37,904
Total Assets	340,053	290,706	273,964
LIABILITIES			
Current liabilities	20,218	16,507	18,953
Non-current liabilities	45,809	17,991	19,065
Total Liabilities	66,027	34,498	38,018
NET ASSETS	\$274,026	\$256,208	\$235,946

improvements. In 2007, current liabilities increased \$3.7 million primarily for accrued expenses associated with major construction projects. In 2006, current liabilities decreased \$2.4 million from 2005 due primarily to a \$1.8 million reduction in accrued construction-related costs.

Non-current liabilities decreased \$1.1 million from 2005 to 2006 reflecting a reduction of debt service payments but increased by \$27.8 million in 2007 as a result of new revenue bond debt issued for construction of the University Recreation Center (Note 8).

Net assets, the difference between assets and liabilities, is one indicator of the financial condition of the University. The change in net assets measures whether the overall financial condition has improved or worsened during the year. The University reports its net assets in four categories:

Invested in Capital Assets, Net of Related Debt – This is the University’s investment in property, plant and equipment, net of accumulated depreciation and the amount of outstanding debt related to those capital assets.

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

Restricted Expendable – This category

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

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

The University’s net assets at June 30, 2007, 2006 and 2005 are summarized as follows:

The \$11.3 million and \$13.9 million increase in the net invested in capital assets in 2007 and 2006, respectively, reflects the University’s continuing commitment to replacement and expansion of its capital assets. While several minor improvement

projects took place during this time, three major projects largely contributed to the increase in capital assets. The new Computing and Engineering Building was placed in service during late fall 2005, Senior Hall underwent major renovations in 2006, and construction is well underway on the new University Recreation Center.

The restricted net assets include mainly permanent endowments, student loan funds and funds available for capital projects. The increase of \$2.4 million for restricted, expendable net assets is partly attributable to growth in endowments but more so to funds available for capital projects (Note 4).

Unrestricted net assets are not subject to externally imposed stipulations; however, the University has designated the unrestricted net assets for various academic programs and university support functions such as auxiliary enterprises and service funds.

NET ASSETS

	As of June 30 (in thousands)		
	2007	2006	2005
Invested in capital assets, net of related debt	\$203,949	\$192,672	\$178,792
Restricted:			
Non-expendable	4,683	4,533	3,922
Expendable	17,734	15,347	15,297
Unrestricted	47,660	43,656	37,935
Total net assets	\$274,026	\$256,208	\$235,946

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 GASB reporting principles, state appropriations are classified as non-operating revenues. The University receives state appropriations that

offset the loss generated by operating expenses. A summarized comparison of the University’s Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2007, 2006 and 2005, follows:

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

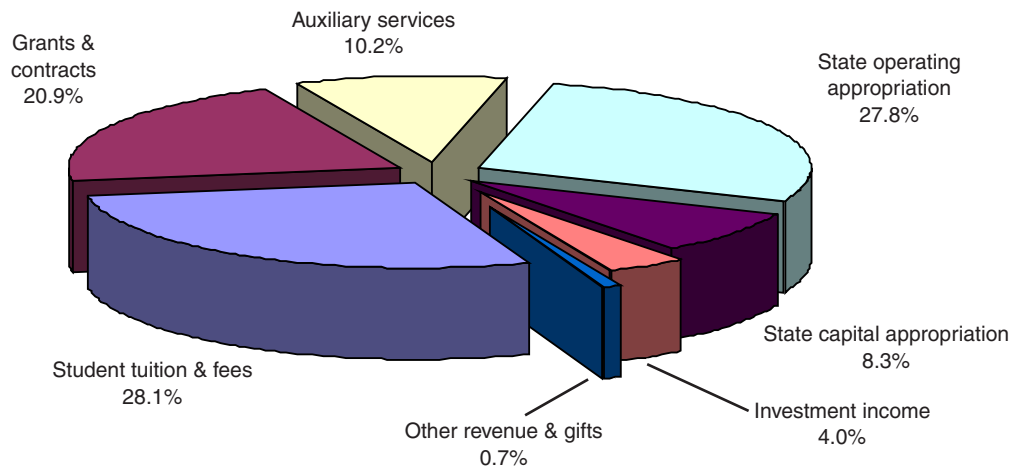
	For the year ended June 30 (in thousands)		
	2007	2006	2005
Operating revenue	\$111,017	\$104,102	\$98,964
Operating expenses	166,478	153,303	143,220
Net operating loss	(55,461)	(49,201)	(44,256)
Non-operating revenues	59,305	53,049	47,141
Non-operating expenses	1,579	796	853
Income (loss) before other revenues	2,265	3,052	2,032
Other revenues and expenses	15,553	17,210	21,140
Increase in net assets	17,818	20,262	23,172
Net assets, beginning of year	256,208	235,946	212,774
Net assets, end of year	\$274,026	\$256,208	\$235,946

Operating and Non-operating Revenues

Operating revenues consist of tuition and fees, sponsored program revenue and sales and services revenue generated by auxiliary and other enterprises. Non-operating revenues consist of state appropriations and investment income. 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), which were used to fund the University's programs for the year ended June 30, 2007. The ensuing table contains a comparison of revenues for years ended 2007, 2006 and 2005.

FY 2007 REVENUES BY SOURCE



REVENUES BY SOURCE

For the year ended June 30 (in thousands)

	2007	2006	2005
Student tuition & fees	\$ 52,178	\$ 49,331	\$ 45,197
Grants & contracts	38,872	35,653	34,985
Auxiliary services	19,026	18,261	17,898
State operating appropriation	51,547	48,424	43,188
State capital appropriation	15,453	16,600	20,940
Investment income	7,493	4,625	3,943
Other revenue & gifts	1,307	1,468	1,094
Total	\$ 185,876	\$ 174,362	\$ 167,245

Tuition and fees and state appropriations are the primary sources of funding for the University's academic programs. Tuition and fee revenues increased nearly 5.8 percent in 2007, less than the 9.1 percent increase in 2006, and more comparable to the 6.4 percent increase in 2005. Like 2006, the increase for 2007 resulted primarily from a tuition and fee rate increase of 6 percent for resident categories. In 2006, the increase was also fueled by new enrollments. The 2005 legislature authorized a maximum tuition increase of 6 percent for resident undergraduate students for each year of the

2005-07 biennium. The legislature granted full authority to the Board of Trustees to set tuition rates for all other fee paying categories.

State legislative appropriations for operations increased \$3.1 million in 2007 after increasing \$5.2 million in 2006 and \$1.5 million in 2005. The increases reverse a trend where state general fund appropriations had decreased in each of the three years prior to 2005.

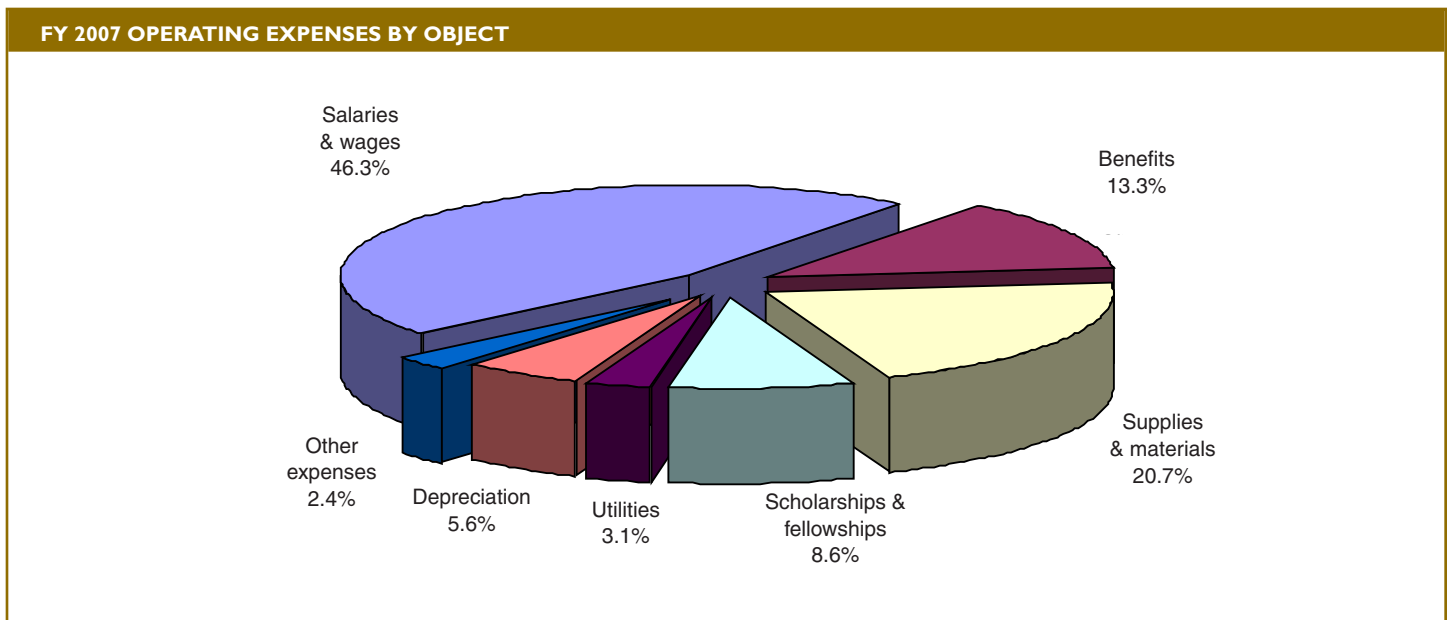
University programming support also consists of revenues received from governmental and private sources in the form of grants and contracts, which normally provide for the

recovery of direct and indirect costs. Revenues from financial aid, grants and contracts increased slightly in each year from 2005 to 2007, primarily from state-funded grants.

State legislative appropriations for capital improvements decreased \$1.1 million in 2007, slightly less than the \$4.3 million decrease in 2006. The University receives a biennial appropriation for capital improvements. Fluctuations in annual capital project revenues reflect cycles in construction and major renovation projects that often span more than one fiscal year.

Operating Expenses

Operating expenses consist mainly of salary and benefit costs, supplies and materials costs, and student scholarships and fellowships. Shown below is an illustration of operating expenses by natural classification (object) for the year ended June 30, 2007. The ensuing table contains a comparison of expenses for years ended June 30, 2007, 2006 and 2005.



OPERATING EXPENSES BY OBJECT

For the year ended June 30 (in thousands)

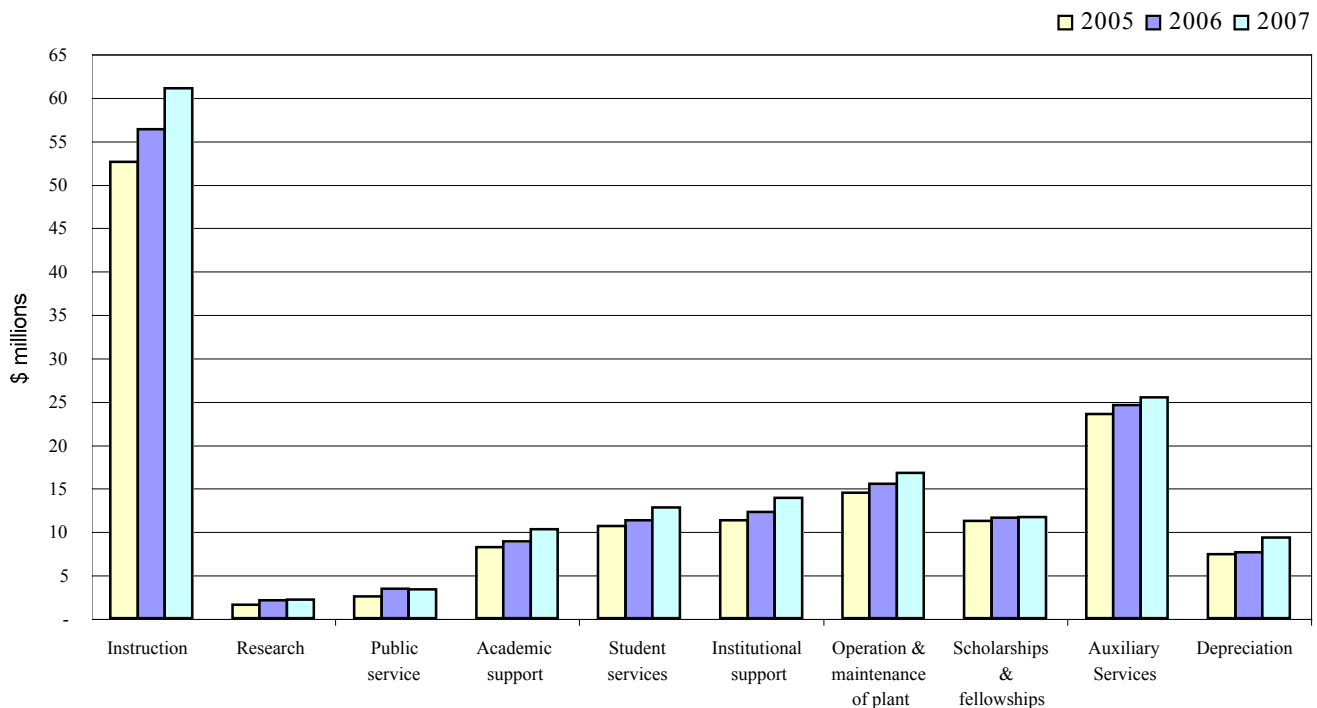
	2007	2006	2005
Salaries & wages	\$ 77,073	\$ 71,425	\$ 66,542
Benefits	22,106	19,990	17,843
Supplies & materials	34,440	30,374	29,460
Scholarships & fellowships	14,277	14,159	13,846
Utilities	5,161	5,137	4,293
Depreciation	9,274	7,623	7,386
Other expenses	4,147	4,595	3,850
Total	\$ 166,478	\$ 153,303	\$ 143,220

Salaries, wages and benefits are the major support cost for the University's programs. Expenses from salaries and wages increased 7.9 percent in 2007 compared to 7.3 percent in 2006 and 4.5 percent in 2005 while benefits increased 10.6 percent in 2007 compared to 12.0 percent in 2006 and 11.6 percent in 2005. Other than fluctuations in staffing levels, these increases can be partly attributed to salary increases provided

to employees and rising health insurance costs. For represented employees, the 2005 legislature authorized a 1.6 percent lump sum payment to be paid on July 1, 2006. The legislature also authorized an average 1.6 percent cost of living increase for non-represented employees effective September 1, 2006. For 2007, the 2005 legislature provided funding to cover a monthly increase of \$81 in health benefit rates for represented employees.

Supplies and materials increased \$4.1 million or 13.4 percent in 2007. Part of the increase is attributable to fluctuations in non-capitalized facility costs which increased nearly \$800,000 in 2007 over 2006. These costs result from capital project expenses that are not capitalized to an asset. The amount varies by year depending on several factors including the types of projects undertaken in the comprehensive capital facilities improvement plan.

COMPARISON OF OPERATING EXPENSES BY FUNCTION



Depreciation expense increased \$1.6 million in 2007, primarily the result of large assets recently brought into service that are now being depreciated in accordance with the state depreciation policy (Note 1). In particular, the new Computing and Engineering Building was placed in service during late fall 2005 and Senior Hall underwent major renovations in 2006; both were large projects and those assets are now being depreciated over their expected useful life.

An alternative view of operating expenses by natural (object) classification is to view operating expenses by functional classification. The illustration above is of operating expenses by function for the years ended June 30, 2007, 2006 and 2005. The chart shows that annual expenses increased in nearly all functional categories from 2005 to 2007 with instructional expenses comprising the majority of operating costs.

Capital Asset and Debt Activities

Capital assets are funded mainly by state biennial appropriation. The University's Comprehensive Master Plan is used to guide the long-range physical development of the campus, focusing on critical areas of need, space utilization and preservation of the infrastructure. Additions to capital assets, net of depreciation and retirements, amounted to \$25.8 million in 2007 compared to \$12.4 million in 2006 and \$18.8 million in 2005.

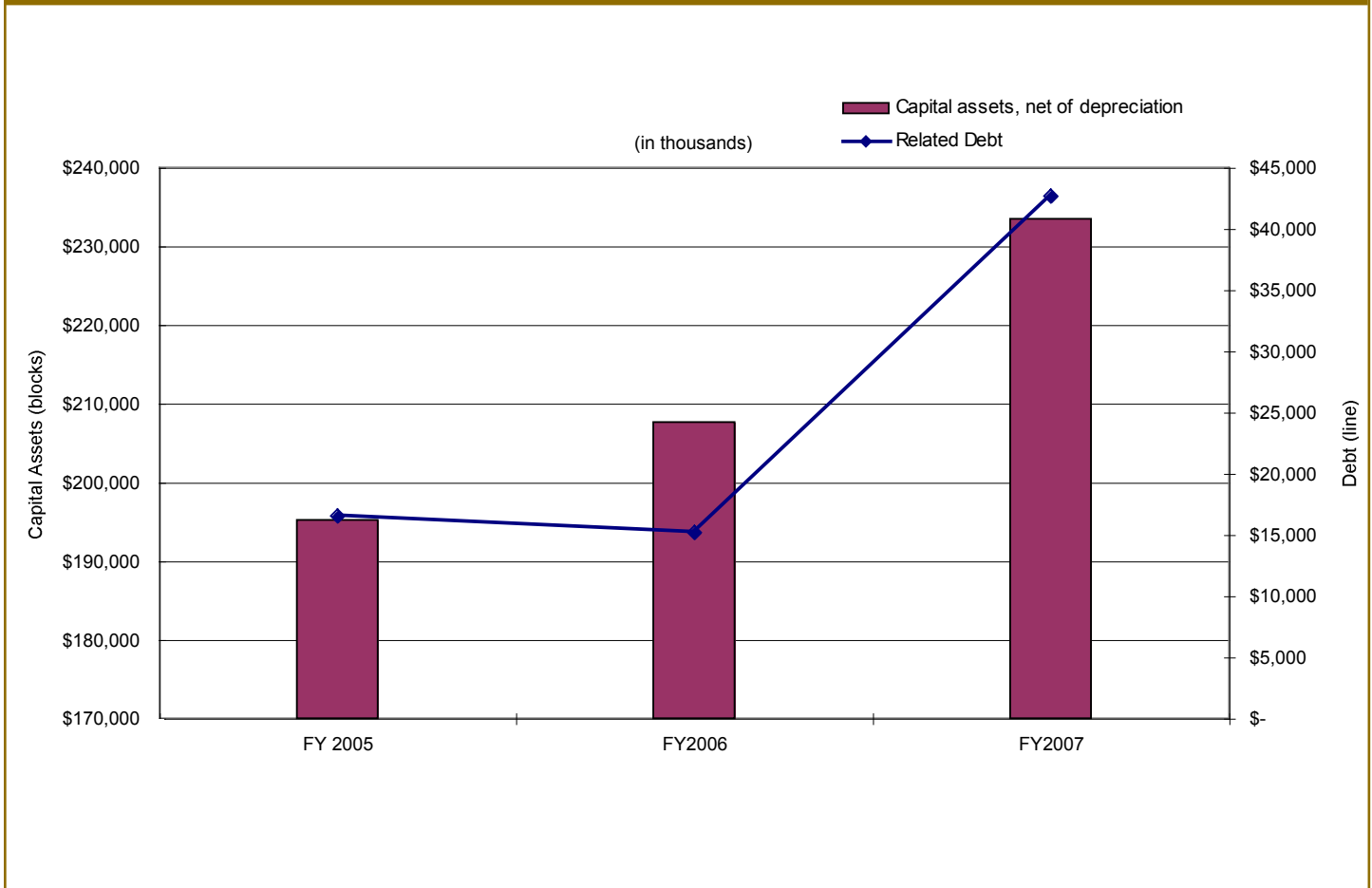
Construction in progress at June 30, 2007 totaled \$22.2 million compared to \$3.3 million in 2006 and \$28.5 million in 2005. The decrease in 2006 is due mainly to the completed renovation of Senior Hall and finalized construction of the Computing and Engineering Building which were placed in service during 2006. The increase in 2007 is primarily related to construction

of the new University Recreation Center, plus relatively smaller portions for the cost of improvements to Cheney Hall and Hargreaves Hall, the latter of which is undergoing a major renovation.

Total long-term debt associated with capital assets increased significantly in 2007 compared to the prior year as there were no new issuances in 2006. Bonds payable amounted to \$37.4 million in 2007 compared to \$10.4 million in 2006 and \$11.4 million in 2005. Obligations under capital leases amounted to \$5.2 million in 2007 compared to \$4.8 million in 2006 and \$5.3 million in 2005 (Note 9).

The chart on the next page shows the progression of increasing investment in capital assets and the associated debt load used to finance the construction of those assets. In 2005 and 2006, funding from state capital appropriations significantly

FY 2005-07 COMPARISON OF CAPITAL ASSETS AND RELATED DEBT



contributed 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. On October 11, 2006 the University issued Series 2006 Services and Activities Fee Revenue and Refunding Bonds totaling \$33,715,000 with interest rates ranging from 4.0 to 5.0 percent. Of this, \$28,090,000 is being used to fund the construction of a new university recreational facility and \$5,625,000 was used for current refunding of the outstanding Series 1993 Service & Activities Fee Revenue Bonds (Notes 7, 8 and 10). Of the \$28.1 million in bond proceeds, \$17.1 million is included in capital assets as construction in progress and \$11.0 million is remaining to be spent on the new facility.

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

During 2007, the University's overall financial position generally improved as a whole. However, funding for higher education in the state of Washington continues to be under pressure with enrollment demand outpacing state funding. While state appropriations increased with the 2005-2007 biennium, the costs to educate our students continue to increase. The 2005 legislature granted greater flexibility in setting certain tuition rates to help universities fund this demand. In addition, the University's strategic planning continues to address ongoing funding issues to help ensure sustainability and flexibility in meeting educational opportunities at Eastern Washington University.

STATEMENT OF NET ASSETS

June 30, 2007 and 2006

ASSETS	June 30, 2007	June 30, 2006
Current assets:		
Cash and cash equivalents	\$35,553,103	\$12,498,442
Short-term investments	10,997,000	22,880,115
Deposit with state of Washington	7,873,864	6,701,458
Accounts receivable (net of allowances of \$137,169 and \$100,587, respectively)	10,910,509	7,386,697
Student loans receivable (net of allowances of \$23,130 and \$19,434, respectively)	78,984	109,582
Inventories	1,374,252	1,364,575
Other assets	347,614	359,317
Total current assets	<u>67,135,326</u>	<u>51,300,186</u>
Noncurrent assets:		
Endowment investments	7,135,324	6,376,731
Other long-term investments	25,961,521	19,726,282
Student loans receivable (less allowances of \$546,877 and \$580,285, respectively)	5,797,407	5,347,039
Other noncurrent assets	529,354	308,016
Capital assets, net of accumulated depreciation	233,493,754	207,648,174
Total noncurrent assets	<u>272,917,360</u>	<u>239,406,242</u>
Total assets	<u>\$340,052,686</u>	<u>\$290,706,428</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$10,132,159	\$6,571,183
Accrued liabilities	4,155,918	4,292,192
Compensated absences	11,956	19,967
Deposits or funds held for others	1,437,378	1,713,191
Deferred revenue	2,886,954	2,577,870
Long-term liabilities, current portion	1,593,762	1,332,410
Total current liabilities	<u>20,218,127</u>	<u>16,506,813</u>
Noncurrent liabilities:		
Compensated absences	4,421,017	4,027,344
Long-term liabilities	41,387,382	13,964,261
Total noncurrent liabilities	<u>45,808,399</u>	<u>17,991,605</u>
Total liabilities	<u>\$66,026,526</u>	<u>\$34,498,418</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$203,948,863	\$192,672,015
Restricted for:		
Nonexpendable:		
Endowments	4,496,242	4,345,370
Other	187,250	187,250
Expendable:		
Loans	6,753,220	6,396,660
Capital projects	7,880,009	6,701,458
Endowments	2,689,081	2,031,360
Other	411,195	217,419
Unrestricted	47,660,300	43,656,478
Total net assets	<u>\$274,026,160</u>	<u>\$256,208,010</u>

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

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2007 and 2006

REVENUES	FY 2007	FY 2006
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$12,261,396 and \$11,239,807, respectively)	\$52,177,934	\$49,330,854
Federal grants and contracts	14,777,355	14,478,440
State and local grants and contracts	19,159,382	16,525,617
Nongovernmental grants and contracts	4,935,088	4,648,593
Sales and services of auxiliary enterprises:		
Housing and dining services (net of scholarship allowances of \$4,308,058 and \$3,746,602, respectively)	9,423,845	9,330,603
Other auxiliary enterprises (net of scholarship allowances of \$732,847 and \$749,905, respectively)	9,601,831	8,930,352
Other operating revenue	941,939	857,529
Total operating revenue	<u>111,017,374</u>	<u>104,101,988</u>
 EXPENSES		
Operating expenses:		
Salaries and wages	77,073,365	71,425,315
Benefits	22,105,771	19,990,209
Scholarships and fellowships	14,277,259	14,159,439
Utilities	5,161,245	5,137,126
Supplies and materials	32,129,748	28,862,684
Non-capitalized facility improvements	2,309,830	1,511,541
Other	4,146,893	4,593,396
Depreciation	9,274,506	7,623,486
Total operating expenses	<u>166,478,617</u>	<u>153,303,196</u>
 Operating loss	(55,461,243)	(49,201,208)
 NON-OPERATING REVENUES (EXPENSES)		
State appropriation	51,547,040	48,424,000
Investment income, gains and losses	7,493,133	4,625,479
Interest on capital asset-related debt	(1,579,215)	(796,234)
Other non-operating revenue	265,000	-
Net non-operating revenues	<u>57,725,958</u>	<u>52,253,245</u>
Gain before other revenues, expenses, gains or losses	<u>2,264,715</u>	<u>3,052,037</u>
 Capital appropriations	15,452,563	16,599,903
Gifts to permanent endowments	100,872	610,352
Total other revenues and expenses	<u>15,553,435</u>	<u>17,210,255</u>
Increase in net assets	17,818,150	20,262,292
 NET ASSETS		
Net assets, beginning of year	256,208,010	235,945,718
Net assets, end of year	<u>\$274,026,160</u>	<u>\$256,208,010</u>

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

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2007 and 2006

	FY 2007	FY 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	\$51,485,053	\$48,859,363
Grants and contracts	37,358,165	35,722,493
Payments to vendors	(40,311,437)	(42,377,831)
Payments to employees	(98,728,642)	(90,718,446)
Payments for scholarships and fellowships	(14,277,259)	(14,159,439)
Loans issued to students	(2,320,856)	(2,088,290)
Collection of student loans	1,815,041	2,295,260
Auxiliary enterprise receipts	18,241,687	18,631,979
Other receipts (payments)	1,117,458	1,276,779
Net cash used by operating activities	<u>(45,620,790)</u>	<u>(42,558,132)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	51,548,798	48,747,113
Endowment gifts	100,872	610,352
Stafford/Plus loans receipts	52,876,158	53,628,306
Stafford/Plus loans disbursements	(52,906,770)	(53,494,317)
Agency fund receipts	7,041,098	43,669,494
Agency fund disbursements	(7,432,113)	(43,532,259)
Net cash provided by noncapital financing activities	<u>51,228,043</u>	<u>49,628,689</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bond issuance	33,715,000	-
Capital appropriations	15,145,423	19,441,984
Purchases of capital assets	(35,533,865)	(20,182,274)
Contributions and gifts in-kind	265,000	-
Principal paid on capital debt and leases	(6,990,260)	(1,490,657)
Interest paid on capital debt and leases	(1,536,306)	(762,435)
Net cash provided (used) by capital financing activities	<u>5,064,992</u>	<u>(2,993,382)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	18,932,945	26,913,318
Interest on investments	6,397,014	4,449,776
Purchase of investments	(12,947,543)	(29,695,037)
Net cash provided (used) by investing activities	<u>12,382,416</u>	<u>1,668,057</u>
Net increase (decrease) in cash	22,054,661	5,745,232
Cash, beginning of year	<u>12,498,442</u>	<u>6,753,210</u>
Cash, end of year	<u>\$35,553,103</u>	<u>\$12,498,442</u>

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

STATEMENT OF CASH FLOWS *(continued)*

For the Years Ended June 30, 2007 and 2006

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

	FY 2007	FY 2006
Operating income (loss)	\$(55,461,244)	\$(49,201,207)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	9,274,506	7,623,486
Changes in assets and liabilities:		
Receivables, net	(3,218,431)	29,117
Inventories	(9,677)	(110,155)
Other assets	11,706	1,081,980
Accounts payable	3,160,456	(2,504,497)
Deferred revenue	309,081	(41,812)
Deposits held for others	145,815	(14,965)
Compensated absences	586,768	266,775
Loans to students	(419,770)	313,146
Net cash used by operating activities	<u>\$(45,620,790)</u>	<u>\$(42,558,132)</u>
NONCASH TRANSACTIONS:		
Buildings and equipment	758,627	-
Capital leases	(758,627)	-
Contributions in-kind	265,000	-

BALANCE SHEETS — COMPONENT UNIT (FOUNDATION)

	June 30,	
	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$1,943,590	\$1,577,045
Investments available for expenditure	2,583,994	1,267,905
Promises to give, net	1,322,814	1,572,792
Other assets	700,123	559,036
Contributions receivable from charitable trusts	625,394	570,336
Investments held in charitable trusts	294,217	232,755
Investments restricted for endowments	10,440,818	9,996,117
Beneficial interest in perpetual trusts	1,941,659	1,815,526
	<u>\$19,852,609</u>	<u>\$17,591,512</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$50,362	\$69,068
Deferred revenue	900	21,400
Annuities payable	143,799	155,163
Notes payable	729,404	870,792
Total liabilities	<u>924,465</u>	<u>1,116,423</u>
NET ASSETS:		
Unrestricted	(95,022)	(183,629)
Temporarily restricted	5,742,236	4,076,505
Permanently restricted	13,280,930	12,582,213
Total net assets	<u>18,928,144</u>	<u>16,475,089</u>
	<u>\$19,852,609</u>	<u>\$17,591,512</u>

STATEMENT OF ACTIVITIES — COMPONENT UNIT (FOUNDATION)

	Year Ended June 30, 2007				Year Ended June 30, 2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT								
Contributions	\$431,645	\$1,771,333	\$898,624	\$3,101,602	\$188,973	\$2,012,618	\$1,050,926	\$3,252,517
Contributions from trusts	-	55,016	-	55,016	-	77,033	-	77,033
Investment income	9,996	247,263	16,366	273,625	(9,650)	206,179	15,297	211,826
Realized gain (loss) on investments	-	619,300	-	619,300	(67)	195,822	-	195,755
Unrealized gain on investments	-	817,773	55,236	873,009	-	364,027	22,781	386,808
Change in value of split-interest agreements	-	-	167,450	167,450	-	-	(28,430)	(28,430)
Support provided by Eastern Washington University	1,677,826	-	-	1,677,826	1,816,548	-	-	1,816,548
Other	-	352,663	4,550	357,213	-	368,872	4,230	373,102
Net assets released from restrictions	2,641,126	(2,641,126)	-	-	3,329,407	(3,329,407)	-	-
Reclassification of net assets	-	443,509	(443,509)	-	-	(112,848)	112,848	-
Total revenues, gains and support	<u>4,760,593</u>	<u>1,665,731</u>	<u>698,717</u>	<u>7,125,041</u>	<u>5,325,211</u>	<u>(217,704)</u>	<u>1,177,652</u>	<u>6,285,159</u>
EXPENSES								
Management and general	49,287	-	-	49,287	76,218	-	-	76,218
Fundraising	528,749	-	-	528,749	692,282	-	-	692,282
Support provided to/for Eastern Washington University	4,093,950	-	-	4,093,950	4,563,825	-	-	4,563,825
	<u>4,671,986</u>	<u>-</u>	<u>-</u>	<u>4,671,986</u>	<u>5,332,325</u>	<u>-</u>	<u>-</u>	<u>5,332,325</u>
CHANGE IN NET ASSETS	88,607	1,665,731	698,717	2,453,055	(7,114)	(217,704)	1,177,652	952,834
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(183,629)</u>	<u>4,076,505</u>	<u>12,582,213</u>	<u>16,475,089</u>	<u>(176,515)</u>	<u>4,294,209</u>	<u>11,404,561</u>	<u>15,522,255</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$(95,022)</u>	<u>\$5,742,236</u>	<u>\$13,280,930</u>	<u>\$18,928,144</u>	<u>\$(183,629)</u>	<u>\$4,076,505</u>	<u>\$12,582,213</u>	<u>\$16,475,089</u>

NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2007

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 who 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. During the fiscal year ended June 30, 2007, the Foundation distributed more than \$2.4 million to the University for restricted and unrestricted purposes which includes both student scholarships and program support. 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 Nov. 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 buildings and infrastructure, and \$5,000 or greater for equipment. All purchased land is capitalized regardless of cost. Generally, the useful life of capital assets is 50 years for buildings, five to 50 years for infrastructure and land improvements, 20 years for library books, and four to seven years for equipment. Depreciation of capitalized assets, excluding inexhaustible assets such as land, is provided on a straight-line basis over the estimated useful lives of the respective assets.

ACCRUED LEAVE

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.

NET ASSETS

The University's net assets are classified as follows:

Invested in capital assets, net of related debt:

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

Restricted net assets:

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

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

Unrestricted net assets:

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

Note 2: Deposits and Investments

Deposits are comprised of cash and cash equivalents which include bank demand deposits, an overnight sweep account, petty cash held at the University, and unit shares in the Local Government Investment Pool operated by the Washington State Treasurer. Cash and cash equivalents are stated at cost or amortized cost. Except for petty cash held at the University, all others are covered by the Federal Deposit Insurance

Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

At June 30, 2007, insured/collateralized deposits consist of the following:

DEPOSITS	
	Carrying Value June 30, 2007
Cash and cash equivalents	
Interest bearing	\$35,407,070
Other	146,033
Total deposits	\$35,553,103

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, 2007, investments consist of the following:

INVESTMENT PORTFOLIO					
	Fair Value	Investment Maturities for Fixed Income Securities (<i>in months</i>)			
		0 - 9	10 - 24	25 - 60	61 - 120
Investments – Operating Funds					
U.S. Government agency bonds	\$20,327,420	\$6,952,350	\$ 987,810	\$12,297,260	
Certificates of deposit	16,721,101	4,000,000	9,515,909	3,205,192	
Investments – Endowment Funds					
Investments unit trusts					
Equity fund	\$4,448,686				
Bond fund	2,686,638				\$2,686,638
Total investments	\$44,093,845	\$10,952,350	\$10,503,719	\$15,502,452	\$2,686,638

At June 30, 2007, the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$2,689,081 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 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 7.9 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.

INVESTMENT POLICY BY 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%

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, 2007 and 2006, consist of the following:

ACCOUNTS AND STUDENT LOANS RECEIVABLE		
	June 30, 2007	June 30, 2006
Accounts receivable		
Student tuition and fees	\$3,126,223	\$2,128,857
Auxiliary enterprises (less allowances of \$128,930 and \$69,147, respectively)	1,479,423	1,046,415
Contracts and grants	3,902,858	2,376,845
State reimbursement	1,978,964	1,673,582
Other (less allowances of \$8,239 and \$31,440, respectively)	423,041	160,998
Total accounts receivable	\$10,910,509	\$7,386,697
Student loans receivable		
Federal programs (less allowances of \$546,877 and \$580,285, respectively)	\$5,774,278	\$5,347,039
Institutional loans (less allowances of \$23,130 and \$19,434, respectively)	102,113	109,582
Total student loans receivable	\$5,876,391	\$5,456,621

Note 4: Funds with State Treasurer

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

Note 5: Compensated Absences

Vacation leave liability at June 30, 2007, totals \$3,456,098. This amount represents a liability to the University and is recorded and reported accordingly.

Accumulated sick leave earned and unused at June 30, 2007, calculated at 25 percent of unused balance, totals \$964,919. This amount represents a probable liability to the University and is recorded and reported accordingly. The employee is entitled to either the present value of 25 percent of his/her unused sick leave balance upon retirement or 25 percent of his/her accumulation for the year in which it exceeds 480 hours.

Accrued compensatory time liability at June 30, 2007, totals \$11,956. This amount represents a liability to the University and is recorded and reported accordingly. Earned compensatory time is expected to be used within one year and is therefore classified as a short-term liability.

Note 6: Risk Management

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

The University has elected to become a self-insurer of unemployment compensation. Cash reserves total \$2,289,100 at June 30, 2007.

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2007, is summarized as follows:

CAPITAL ASSETS				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
NON-DEPRECIABLE CAPITAL ASSETS				
Land	\$2,090,954	\$ -	\$ -	\$ 2,090,954
Construction in progress	3,283,621	19,774,831	868,087	22,190,365
Subtotal	5,374,575	19,774,831	868,087	24,281,319
DEPRECIABLE CAPITAL ASSETS				
Land improvements	10,934,573	445,718	-	11,380,291
Infrastructure	26,376,694	2,035,170	-	28,411,864
Buildings	231,811,318	7,963,726	-	239,775,044
Furniture, fixtures and equipment	21,540,049	4,457,867	477,396	25,520,520
Library materials	24,913,660	1,360,636	-	26,274,296
Subtotal	315,576,294	16,263,117	477,396	331,362,015
Total Capital Assets	320,950,869	36,037,948	1,345,483	355,643,334
Less accumulated depreciation:				
Land improvements	3,287,621	310,813	-	3,598,434
Infrastructure	12,693,092	806,072	-	13,499,164
Buildings	68,350,407	4,694,617	-	73,045,024
Furniture, fixtures and equipment	13,967,380	2,611,536	427,620	16,151,296
Library materials	15,004,195	851,467	-	15,855,662
Total accumulated depreciation	113,302,695	9,274,505	427,620	122,149,580
Capital assets, net of depreciation	\$207,648,174	\$26,763,443	\$917,863	\$233,493,754

Note 8: Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, is summarized as follows:

LONG-TERM LIABILITIES					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Leases and bonds payable					
Lease obligations (Note 9)	\$4,809,198	\$758,627	\$329,313	\$5,238,512	\$493,370
General obligation bonds	1,088,987	-	280,947	808,040	295,392
Revenue bonds payable (Note 10)	9,285,000	33,715,000	6,380,000	36,620,000	805,000
Total leases and bonds payable	15,183,185	34,473,627	6,990,260	42,666,552	1,593,762
Other liabilities					
Net pension obligation (Note 11)	113,485	201,107	-	314,592	-
Compensated absences (Note 5)	4,047,312	3,602,336	3,216,675	4,432,973	11,956
Total long-term liabilities	\$19,343,982	\$38,277,070	\$10,206,935	\$47,414,117	\$1,605,718

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 2008 through 2011. Total operating lease expenses in fiscal year 2007 were \$451,707. 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, 2007, are as follows:

ANNUAL LEASE PAYMENTS		
Fiscal Year	Operating	Capital
2008	\$374,189	\$769,315
2009	233,194	756,665
2010	153,569	744,452
2011	73,342	580,343
2012	1,955	544,750
2013-17	-	1,987,079
2018-22	-	1,925,000
2023-27	-	47,627
Obligation under leases	\$836,249	7,355,231
Less: Amount representing interest costs		(2,116,720)
Present value of minimum obligation under capital leases		\$5,238,511

Note 10: Bonds Payable

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

On Oct. 11, 2006, the University issued \$33,715,000 in Services and Activities Fee Revenue and Refunding Bonds, Series 2006. The bonds were sold as one issue and used for construction of the University Recreation Center and refunding of Service

and Activities Fee Revenue bonds, Series 1993. The refunded portion of the Series 2006 bonds with an interest rate of 4 percent are due serially on Oct. 1 in amounts from \$365,000 to \$590,000. The revenue portion of the Series 2006 bonds with interest rates varying from 4 to 5 percent are due serially on Oct. 1 in amounts from \$475,000 to \$1,685,000. The refunding resulted in \$417,209 gross debt service savings over the next seven years and an economic gain of \$329,583.

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

BONDS PAYABLE				
	Interest Rate	Maturity Date	Original Balance	Balance Outstanding
Eastern Washington University				
Housing and Dining System Revenue/Refunding Bonds, Series 2002	2.50% - 3.80%	2007-2013	\$ 4,515,000	\$ 2,905,000
Service and Activities Revenue Bonds, Series 2006	4.00% - 5.00%	2007-2038	28,090,000	28,090,000
Service and Activities Refunding Bonds, Series 2006	4.00% - 4.00%	2007-2019	5,625,000	5,625,000
Total Revenue Bonds			38,230,000	36,620,000
State of Washington General Obligation Bonds				
Refunding Bonds, Series R-93A	3.90% - 5.75%	2007-2011	708,756	275,415
Refunding Bonds, Series R-01A	4.50% - 9.00%	2007-2010	1,561,932	532,625
Total General Obligation Bonds			2,270,688	808,040
Total bonds payable			\$40,500,688	\$37,428,040

The Eastern Washington University debt service requirements and the University's debt service requirements for the general obligation bonds of the State of Washington for the next five years and thereafter are as follows:

DEBT SERVICE REQUIREMENTS						
Fiscal Year	Eastern Washington University		State General Obligation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	805,000	1,527,572	295,391	36,928	1,100,391	1,564,500
2009	1,310,000	1,489,960	309,290	20,137	1,619,290	1,510,097
2010	1,365,000	1,439,933	129,041	7,911	1,494,041	1,447,844
2011	1,420,000	1,386,637	74,318	2,137	1,494,318	1,388,774
2012	1,490,000	1,330,183	-	-	1,490,000	1,330,183
2013-2017	6,090,000	5,877,152	-	-	6,090,000	5,877,152
2018-2022	4,915,000	4,744,587	-	-	4,915,000	4,744,587
2023-2027	4,600,000	3,857,708	-	-	4,600,000	3,857,708
2028-2032	5,680,000	2,784,028	-	-	5,680,000	2,784,028
2033-2037	7,260,000	1,350,641	-	-	7,260,000	1,350,641
2038	1,685,000	42,125	-	-	1,685,000	42,125
Totals	\$ 36,620,000	\$ 25,830,526	\$ 808,040	\$ 67,113	\$ 37,428,040	\$ 25,897,639

Note 11: Pension Plans

The University offers four contributory pension plans. The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) are cost-sharing, multi-employer defined benefit plans; PERS and TRS also have a defined contribution component. The Eastern Washington University Retirement Plan is a defined contribution plan with supplemental payment, when required. The University's total payroll for the year ended June 30, 2007, was \$77,073,365. The payroll for employees covered by PERS was \$20,960,292; payroll for employees covered by TRS was \$297,960; payroll for employees covered by LEOFF was \$483,654; and payroll for employees covered by the Eastern Washington University Retirement Plan was \$44,428,030.

PERS, TRS, and LEOFF

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

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

Funding Policies. Each biennium, the State Pension Funding Council adopts

employee and/or employer contribution rates for PERS and TRS plans, except where employee contribution rates are set by statute. Under LEOFF, employer and employee contribution rates for Plan II are developed by the Office of the State Actuary to fully fund the plan. All employers are required to contribute at the level established by state law.

The required contribution rates expressed as a percentage of current year covered payroll at June 30, 2007 are shown below. The University and the employees made the required contributions. The University's required contributions for the years ending June 30 are as follows:

CONTRIBUTION RATES AND REQUIRED CONTRIBUTIONS					
	Contribution Rates at June 30, 2007		Required Employer Contributions		
	Employee	University	FY 2005	FY 2006	FY 2007
PERS					
Plan I	6.00%	5.46%	\$37,717	\$60,947	\$99,274
Plan II	3.50%	5.46%	193,087	380,712	734,825
Plan III	Varies	5.46% *	25,277	57,302	123,872
TRS					
Plan I	6.00%	4.74%	\$3,381	\$7,108	\$8,873
Plan II	3.01%	4.74%	-	-	4,686
LEOFF					
Plan II	7.79%	7.98%	\$18,470	\$29,334	\$38,803

* Defined benefit portion only.

EASTERN WASHINGTON UNIVERSITY
RETIREMENT SYSTEM

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

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

The supplemental payment plan determines a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The University makes direct payments to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with 10 years of full-time service. The benefit goal is 2 percent of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10 percent TIAA-CREF contribution after age 50, the benefit goal is 1.5 percent for each year of full-time service for the years in which the lower contribution rate was selected. No significant changes were made in the faculty benefit provision for the year ended June 30, 2007.

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, 2007, total \$3,749,176.

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, 2007. The actuarial assumptions for the evaluation included an investment rate of return of 5 percent and projected salary increases ranging from 2 to 4 percent. The previous evaluation was performed in 2004. Based on assumptions made regarding expected benefit payments, the actuary presents a cash flow projection rather than

an actuarial funding plan to liquidate any unfunded liabilities. The University uses this cash flow projection to budget annual amounts to provide funds for these benefits. The unfunded actuarial accrued liability calculated at July 1, 2007 was \$2,854,000 under the plan's entry age normal method and is amortized over a 16.5 year period. The annual required contribution (ARC) is projected at \$365,000. The net pension obligation is the cumulative excess, if any, of the ARC over the actual benefit payments and is reported as a liability on the University's financial statements. The following table reflects the activity in the net pension obligation for the fiscal years ended June 30, 2006 and 2007, respectively:

NET PENSION OBLIGATION		
	FY 2006	FY 2007
Balance as of July 1	\$ 73,705	\$ 113,485
Add: Annual required contribution	211,000	365,000
Less: Payments to beneficiaries	171,220	163,893
Balance as of June 30	\$113,485	\$314,592

Note 12: Segment Information

The following financial information represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding, and where expenses, gains and losses, assets and liabilities are identifiable. These bonds provide funding for residential housing and student activity facilities. For more information, separately issued financial statements are available from the Office of Controller, Eastern Washington University, 319 Showalter Hall, Cheney, WA 99004. Summarized activity as of and for the years ended June 30, 2007 and 2006 follows:

CONDENSED STATEMENT OF NET ASSETS				
	Housing and Dining System Revenue Bonds Series 2002		Associated Student Activities Revenue and Refunding Bonds Series 2006 and 1993	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Assets				
Current assets	\$3,873,834	\$3,650,223	\$14,178,811	\$1,365,214
Non-current assets	24,247,243	23,373,928	28,497,232	10,919,880
Total assets	28,121,077	27,024,151	42,676,043	12,285,094
Liabilities				
Current liabilities	1,655,370	1,671,120	2,710,082	469,248
Non-current liabilities	7,157,623	7,639,149	33,539,565	5,679,696
Total liabilities	8,812,993	9,310,269	36,249,647	6,148,944
Net assets				
Invested in capital assets, net of related debt	14,561,252	13,734,706	(6,443,570)	4,582,601
Restricted	187,250	187,250	11,002,037	-
Unrestricted	4,559,582	3,791,926	1,867,929	1,553,549
Total net assets	\$19,308,084	\$17,713,882	\$6,426,396	\$6,136,150

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Housing and Dining System Revenue Bonds Series 2002		Associated Student Activities Revenue and Refunding Bonds Series 2006 and 1993	
	FY 2007	FY 2006	FY 2007	FY 2006
Operating revenues	\$14,324,782	\$13,672,021	\$2,437,146	\$2,296,013
Operating expenses	13,467,202	12,636,338	2,115,508	2,140,665
Net operating income	857,580	1,035,683	321,638	155,348
Non-operating revenues (expenses)	(177,728)	(222,267)	(277,366)	(245,001)
Transfers	914,350	407,303	245,974	243,551
Change in net assets	1,594,202	1,220,719	290,246	153,898
Net assets, beginning of year	17,713,882	16,493,163	6,136,150	5,982,252
Net assets, end of year	\$19,308,084	\$17,713,882	\$6,426,396	\$6,136,150

CONDENSED STATEMENT OF CASH FLOWS

	Housing and Dining System Revenue Bonds Series 2002		Associated Student Activities Revenue and Refunding Bonds Series 2006 and 1993	
	FY 2007	FY 2006	FY 2007	FY 2006
Net cash flows provided by operating activities	\$1,567,403	\$2,010,403	\$564,476	\$434,045
Net cash flows provided (used) by non-capital and related financing activities	(50,000)	(50,000)	140,000	140,000
Net cash flows provided (used) by capital and related financing activities	(1,278,211)	(1,351,049)	11,651,998	(560,207)
Net cash flows provided (used) by investing activities	763,662	(158,754)	1,094,827	66,197
Net increase in cash	1,002,854	450,600	13,451,301	80,035
Cash—beginning of year	1,141,601	691,001	299,518	219,483
Cash—end of year	\$2,144,455	\$1,141,601	\$13,750,819	\$299,518

Note 13: Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2007 and 2006 are summarized as follows:

OPERATING EXPENSES		
	FY 2007	FY 2006
Educational and general		
Instruction	\$61,052,434	\$56,285,131
Research	2,133,528	2,044,396
Public service	3,321,828	3,389,915
Academic support	10,253,186	8,863,677
Student services	12,759,642	11,254,251
Institutional support	13,849,929	12,237,546
Operation and maintenance of plant	16,715,217	15,466,922
Scholarships and fellowships	11,673,303	11,596,986
Auxiliary enterprises	25,445,044	24,540,886
Depreciation	9,274,506	7,623,486
Total operating expenses	\$166,478,617	\$153,303,196

Note 14: Other Matters

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

Beginning in fiscal year 2008, a new reporting standard, GASBS 45, will require employers to report accrued liabilities for other post employment benefits (OPEB). The liability arises when employee benefits not related to pension plans are earned in the current reporting period but paid in subsequent years. These benefits and related liabilities may also result from implied subsidies such as providing retiree health insurance premiums at the same rates that apply to active employees. As of January 2007, the University's estimated OPEB liability is \$37.8 million with annual required contributions of \$3.6 million to fully fund the liability over the amortization period. Actual annual contributions are estimated at \$492,000 leaving a net OPEB obligation of approximately \$3.1 million which must be accrued and presented in the University's 2008 financial statements.

Outstanding purchase orders and other commitments at June 30, 2007 totals \$14,472,210 for various goods and services.



Statistical Section
Five-Year Historical Review

FIVE-YEAR HISTORICAL REVIEW – UNAUDITED

Years Ended June 30 (in thousands)

	2007	2006	2005	2004	2003
REVENUES					
Tuition and fees (net of allowance)	\$52,178	\$49,331	\$45,196	\$42,466	\$37,730
Gifts, grants and contracts	38,872	35,653	34,986	34,029	31,796
Auxiliary enterprises (net of allowance)	19,026	18,261	17,898	17,547	16,830
Other sources	942	857	884	878	784
Total operating revenues	<u>111,018</u>	<u>104,102</u>	<u>98,964</u>	<u>94,920</u>	<u>87,140</u>
EXPENSES					
Instruction	61,052	56,285	52,521	48,583	46,634
Research	2,134	2,044	1,580	1,435	1,643
Public service	3,322	3,390	2,484	2,486	2,361
Academic support (including libraries)	10,253	8,864	8,195	7,817	7,661
Student services	12,760	11,254	10,593	9,462	9,405
Institutional support	13,850	12,238	11,261	10,632	9,395
Plant operation and maintenance	16,715	15,467	14,474	13,515	19,338
Scholarships and fellowships	11,673	11,597	11,195	12,045	11,467
Auxiliary enterprises	25,445	24,541	23,531	22,364	21,009
Depreciation	9,275	7,623	7,386	7,082	6,446
Total operating expenses	<u>166,479</u>	<u>153,303</u>	<u>143,220</u>	<u>135,421</u>	<u>135,359</u>
Operating loss	(55,461)	(49,201)	(44,256)	(40,501)	(48,219)
NON-OPERATING REVENUES (EXPENSES)					
State appropriations	51,547	48,424	43,188	41,649	43,906
Investment Income, gains and losses	7,493	4,625	3,943	3,635	4,110
Interest on capital asset-related debt	(1,579)	(796)	(853)	(920)	(943)
Other non-operating revenue	265	-	10	-	-
Total non-operating revenues	<u>57,726</u>	<u>52,253</u>	<u>46,288</u>	<u>44,364</u>	<u>47,073</u>
Income before capital contributions and additions to endowments	2,265	3,052	2,032	3,863	(1,146)
Capital appropriations	15,453	16,600	20,940	15,862	16,271
Additions to permanent endowments	101	610	200	125	101
Total other	<u>15,554</u>	<u>17,210</u>	<u>21,140</u>	<u>15,987</u>	<u>16,372</u>
Increase in net assets	\$17,819	\$20,262	\$23,172	\$19,850	\$15,226
CAPITAL ASSETS (in thousands)					
Land	\$2,091	\$2,091	\$2,091	\$2,091	\$2,091
Buildings	239,775	231,811	194,367	190,520	183,552
Land improvements/infrastructure	39,792	37,311	33,240	31,680	31,324
Equipment	25,521	21,540	19,732	16,215	15,771
Library resources	26,274	24,914	23,682	22,592	21,598
Construction in progress	22,190	3,284	28,483	12,851	5,438
Accumulated depreciation	<u>(122,150)</u>	<u>(113,303)</u>	<u>(106,370)</u>	<u>(99,492)</u>	<u>(93,289)</u>
Total capital assets, net	\$233,493	\$207,648	\$195,225	\$176,457	\$166,485
ENROLLMENTS (headcount, state-funded only)					
Fall quarter	10,005	9,868	9,775	9,506	9,178
Academic year average	9,531	9,479	9,317	9,126	8,857
TUITION AND FEES (per academic year)					
Undergraduate - resident	\$4,278	\$4,044	\$3,822	\$3,582	\$3,357
Undergraduate - nonresident	13,335	13,317	13,299	12,438	11,634
Graduate - resident	6,465	6,108	5,772	5,772	5,403
Graduate - nonresident	17,118	17,100	17,085	17,085	15,975



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