

2010 FINANCIAL REPORT



Contents

Introductory Section

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

Financial Section

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

Statistical Section

Five-Year Historical Review	28
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Letter from the President



Despite the ongoing budget challenges, I am pleased to say Eastern Washington University has had a productive year and exciting opportunities lie ahead for the university. Record enrollment, streamlined internal processes, and a commitment to quality student instruction are just some of the reasons Eastern continues to thrive despite the poor economy.

I am pleased to report EWU is on solid ground. The university has reduced spending and made significant administrative and staff reductions in response to state budget cuts. Again this year, Eastern experienced record enrollment, and our numbers for fall quarter are at an all-time high of 10,750 students. At the same time, our health sciences and business programs at EWU-Spokane continue to flourish because of the growing relationship between the University District and the downtown area.

At EWU, our main goal has been to continue to provide a quality educational experience even though we are operating during a time when funding has been reduced. We have done this by making sure classes are available in critical, high-demand areas, and we have asked our faculty to take on more students in their classes. Together, as a campus community, we share a commitment to provide an outstanding educational experience for our students—this is our passion.

Still, many challenges lie ahead as the

economy continues to slowly recover. The state is looking at more cuts to higher education, and the university is doing everything possible to ensure our students are not adversely impacted by any of the changes mandated by the state. One of the ways we have done this is to review our internal processes for awarding scholarships. Instead of providing aid during only the first year, we are looking to extend that assistance over a four-year period because we care about the student population we serve and understand their unique needs. At the forefront of our decisions is advocacy for our students as we continue to focus on our institutional goals of enhancing student retention rates and student graduation rates.

Throughout our budget process, Eastern continues its commitment to working with the university community to make critical decisions. We are also following the path of the budget principles outlined by the Board of Trustees, which charges us to put students first, work collaboratively, and look for new efficiencies and revenue enhancing strategies.

Thank you for your interest in the business affairs at Eastern Washington University. I look forward to greeting you next year with the news that we are continuing to grow despite the challenging financial environment.

Truly, it is a great day to be an Eagle!

Sincerely,

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

Rodolfo Arévalo, Ph.D.
President

Board of Trustees (As of 6/30/10)

Jo Ann Kauffman (Chair)
Bertha Ortega (Vice Chair)
Mark Mays
Whitney Fix (Student Trustee)
Neil McReynolds
Kris Mikkelsen
Paul Tanaka
Ines Zozaya-Geist

Administration (As of 6/30/10)

President
Rodolfo Arévalo
Vice President for Academic Affairs
and Provost
John B. Mason
Vice President for
University Advancement
Mike Westfall
Vice President for Business and Finance
Mary Voves
Vice President for Student Affairs
Stacy Morgan-Foster

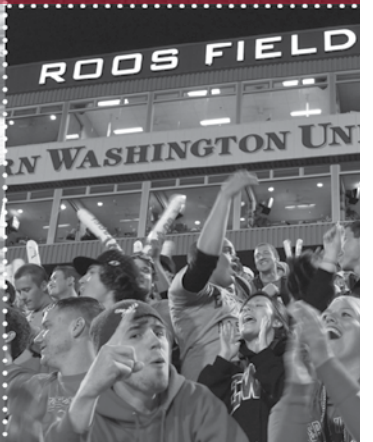
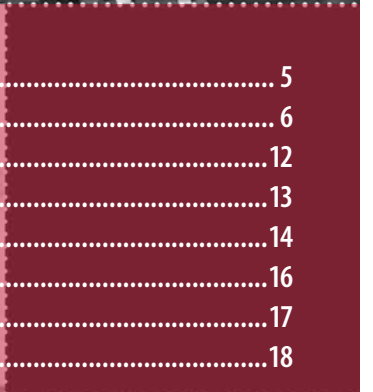
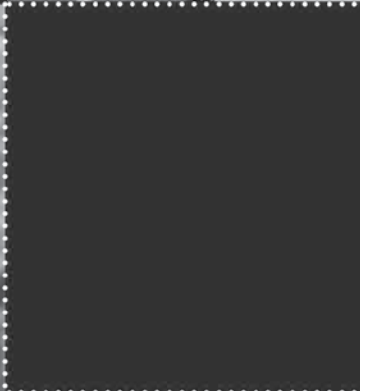
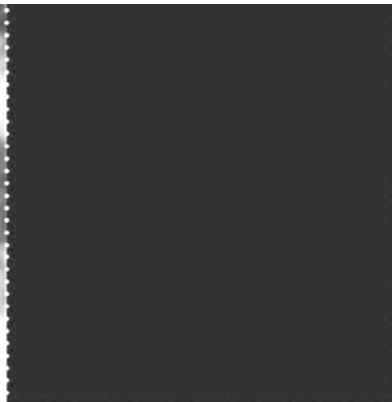
University Deans (As of 6/30/10)

College of Arts and Letters
Lynn Briggs
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
Libraries
Julie L. Miller (Interim)
School of Social Work and
Human Services
S. James Perez (Interim)

Mission Statement

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

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



Financial Section

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



Washington State Auditor Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

January 18, 2011

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, 2010 and 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Eastern Washington University Foundation. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Eastern Washington University Foundation, is based on the reports of the other auditors.

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

As discussed in Note 1, the financial statements of Eastern Washington University are intended to present the financial position, 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, 2010 and 2009, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits and the 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, 2010 and 2009, 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.

The information identified in the table of contents as Introductory and Statistical Sections 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 express no opinion on it.

Sincerely,

A handwritten signature in black ink that reads "Brian Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

Management's Discussion and Analysis

Eastern Washington University

The following discussion and analysis provides an overview of the financial position and activities of Eastern Washington University ("the University") for the fiscal year ended June 30, 2010, with comparative 2009 and 2008 financial information. This MD&A provides the readers an objective and easily readable analysis of the University's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes to the financial statements.

Reporting Entity

Eastern Washington University, one of six state-assisted public institutions of higher education in the state of Washington, provides baccalaureate and graduate educational programs for about 11,000 students. The University was established in 1882 and its primary purpose is to prepare individuals for successful contributions to society throughout their careers and in their leadership role as citizens.

The University's main campus is located in Cheney, Washington, a community of approximately 10,700 residents. Eastern also offers a variety of upper division and graduate programs at the Riverpoint Higher Education Park in Spokane, Washington, and at various locations throughout the state of Washington. For example, through a collaborative agreement, our university center at Bellevue College offers upper division courses for selected bachelor degree programs leading to a four-year degree awarded by Eastern Washington University.

The University is governed by an eight-member Board of Trustees appointed by the governor of the state with the consent of the Senate. One of the members is a full time student of the University. By statute the Board of Trustees has full control of the University and its property of various kinds, except as otherwise provided by law.

Using the financial statements

The University reports as a business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements— and Management's Discussion*

and Analysis—for Public Colleges and Universities, as amended. Under this model, the financial report consists of three statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

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

Reclassifications

Certain reclassifications not affecting total net assets have been made to 2008 and 2009 amounts in order to conform to 2010 presentation.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the last two fiscal years and reports all assets and liabilities of the University. This statement represents the assets available to continue operations of the institution and also identifies how much the institution owes vendors, investors and lenders. A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2010, 2009 and 2008, is shown below.

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

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

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

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

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

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

Restricted-Nonexpendable - This category consists of funds on which the donor or external party has imposed the restriction that the corpus or principal

Statement of Net Assets (in thousands)

As of June 30	2010	2009	2008
Assets			
Current assets	\$63,748	\$75,940	\$61,323
Capital assets, net of depreciation	251,852	250,194	246,405
Other non-current assets	45,674	27,606	33,554
Total Assets	361,274	353,740	341,282
Liabilities			
Current liabilities	20,243	20,055	18,289
Non-current liabilities	43,308	43,303	44,093
Total Liabilities	63,551	63,358	62,382
Net Assets	\$297,723	\$290,382	\$278,900

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.

In 2010 total net assets grew by \$7.3 million as the University added capital assets and reduced costs to help weather the continuing effects of the prolonged economic downturn that began in late 2007. Net assets at June 30, 2010, 2009 and 2008 are summarized as shown below:

Condensed Net Assets as of June 30 (in thousands)

	2010	2009	2008
Invested in capital assets, net of related debt	\$214,784	\$211,239	\$205,722
Restricted:			
Non-expendable	5,524	5,434	5,234
Expendable	16,656	15,582	17,450
Unrestricted	60,759	58,127	50,494
Total net assets	\$297,723	\$290,382	\$278,900

Statement of Revenues, Expenses and Changes in Net Assets

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

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

all revenue types/sources and focus on the increase (or decrease) in net assets. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2010, 2009 and 2008 is shown below.

Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30 (in thousands)

	2010	2009	2008
Operating revenue	\$112,602	\$110,441	\$101,523
Operating expenses	179,917	186,325	183,158
Net operating loss	(67,315)	(75,884)	(81,635)
Non-operating revenues	69,640	78,025	79,247
Non-operating expenses	1,717	1,801	1,902
Income/(loss) before other revenues	608	340	(4,290)
Other revenues and expenses	6,733	11,142	9,164
Increase in net assets	7,341	11,482	4,874
Net assets, beginning of year	290,382	278,900	274,026
Net assets, end of year	\$297,723	\$290,382	\$278,900

Management's Discussion and Analysis

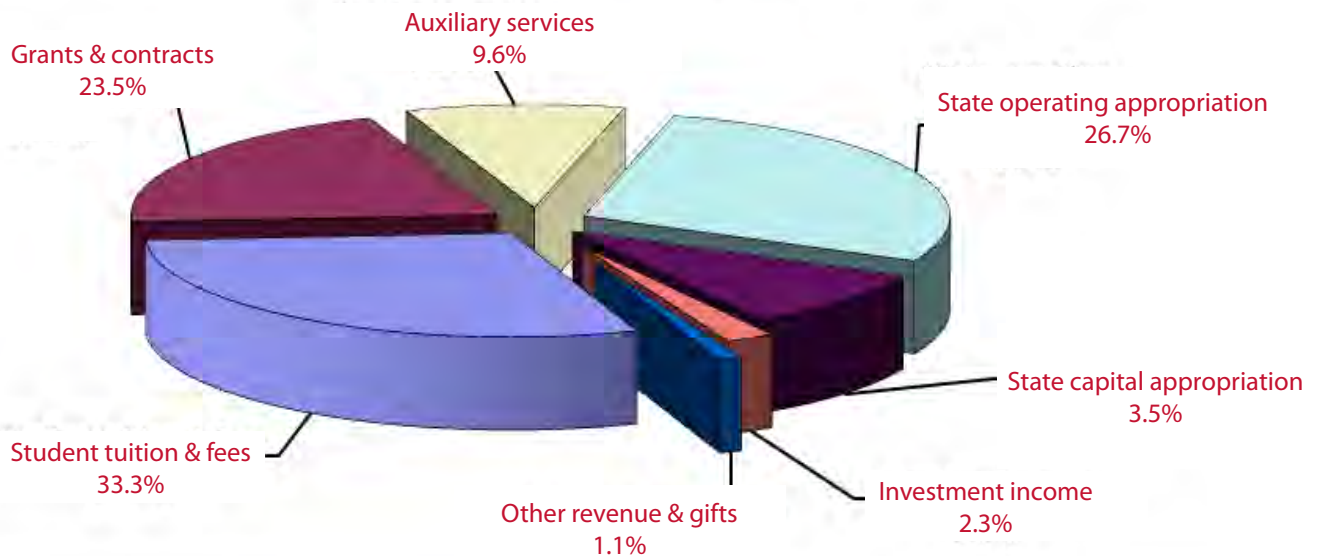
Operating and Non-operating Revenues

Operating revenues consists 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 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) used to fund the University's programs for the year ended June 30, 2010. The ensuing table contains a comparison of revenues for fiscal years ending June 30, 2010, 2009 and 2008.

FY 2010 Revenues by Source



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

	2010		2009		2008	
Student tuition & fees	\$ 62,929	33.3%	\$ 58,785	29.5%	\$ 52,716	27.8%
Grants & contracts	44,471	23.5%	40,658	20.4%	37,559	19.8%
Auxiliary services	18,205	9.6%	19,235	9.6%	18,182	9.6%
State appropriation	50,512	26.7%	63,528	31.8%	65,367	34.4%
State capital appropriation	6,706	3.5%	10,942	5.5%	8,564	4.5%
Investment income	4,279	2.3%	4,268	2.1%	5,035	2.7%
Other revenue & gifts	1,873	1.1%	2,192	1.1%	2,511	1.2%
Total	\$188,975	100.0%	\$199,608	100.0%	\$189,934	100.0%

Tuition and fees and state operating appropriations are the primary sources of funding for the University's academic programs. The decrease in state operating appropriations for 2009 and 2010 reflects reduced state funding for higher education which is provided through the legislative process. Between 2009 and 2010, state funding for operations dropped by more than \$13 million or 20.5 percent as the global economic downturn impacted general fund revenues in the state of Washington. In fiscal year 2010, state operating appropriations were supplanted by \$5.522 million in federal funding from the American Recovery and Reinvestment

Act, so funding from state resources actually fell by more than \$18.5 million or 28 percent from the prior year.

The increase in revenues from student tuition is the result of rate increases and enrollment growth. The amount of tuition increases is controlled largely by legislative authority. The 2007 legislature authorized a maximum tuition increase of 5 percent for resident undergraduate students in each year of the 2007-09 biennium. The legislature granted full authority to the Board of Trustees to set tuition rates for all other fee paying categories. In 2010 the University was given authority to increase resident undergraduate tuition

by 14 percent and other categories as deemed necessary. To help offset the decrease in state operating appropriations, the University raised student tuition rates for selected fee categories (see Five-Year Historical Review section). In combination with significant reductions in operating costs, the University also increased self support fees (e.g., summer tuition), special lab and course fees, counseling fees, and administrative fees.

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 2010. 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.

Managing enrollment growth during periods of economic downturn continues to be a challenge for the University. State operating appropriations are falling while student enrollment has grown. The challenge is to cultivate sustainable growth while continuing to provide affordable learning opportunities which can indirectly contribute to the state's economy by

producing graduates ready to enter the workforce. Maintaining the institution's fiscal health is the cornerstone for meeting this challenge. To assess progress the University monitors a variety of financial indicators that focus on enrollment in connection with tuition rates, state funding levels, and the related financial impact on students and their families.

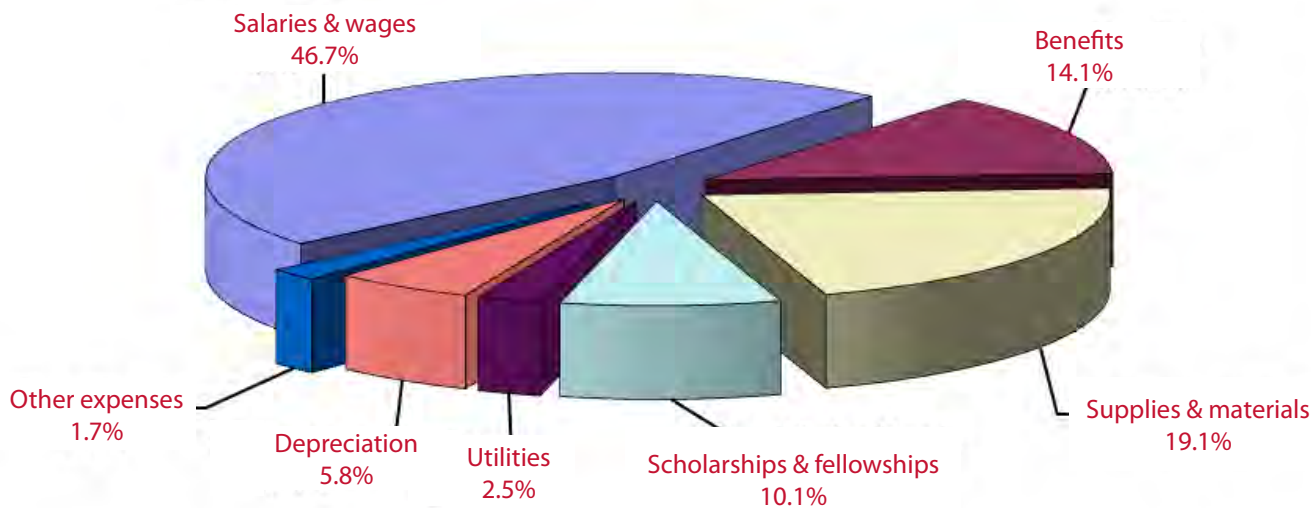
Operating Expenses

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, 2010. The ensuing table contains a comparison of expenses for fiscal years ending June 30, 2010, 2009 and 2008..

FY 2010 Operating Expenses by Type



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

	2010		2009		2008	
Salaries & wages	\$ 83,985	46.7%	\$ 87,555	47.0%	\$ 82,782	45.2%
Benefits	25,353	14.1%	24,367	13.1%	24,208	13.2%
Supplies & materials	34,275	19.1%	39,380	21.1%	42,251	23.1%
Scholarships & fellowships	18,109	10.1%	16,192	8.7%	14,345	7.8%
Utilities	4,439	2.5%	4,716	2.5%	5,232	2.9%
Depreciation	10,434	5.8%	10,374	5.6%	9,636	5.3%
Other expenses	3,322	1.7%	3,741	2.0%	4,704	2.5%
Total	\$ 179,917	100.0%	\$ 186,325	100.0%	\$ 183,158	100.0%

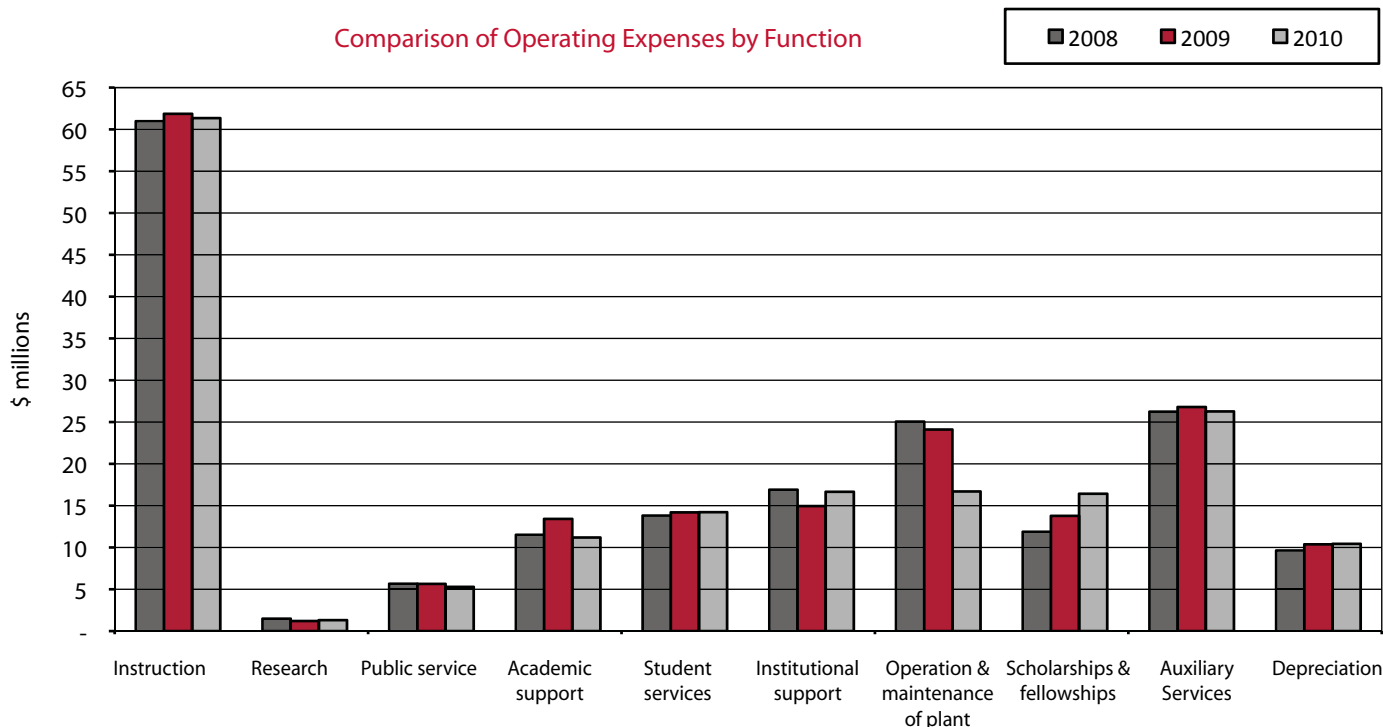
Salaries, wages and benefits are the major support cost for the University's programs. The university reduced its workforce in 2010 saving nearly \$3.6 million. Benefit expenses flattened in 2009 but health care costs rose by more than \$2.3 million in 2010.

An alternative view of operating expenses is by functional classification as shown on the next page for the years ended June 30, 2010, 2009 and 2008. Instructional expenses comprise the majority of operating costs. Fluctuations in expenses for operation and maintenance

of plant are largely impacted by non-capitalized facility improvements associated with project expenses that are not capitalized to an asset. The amount varies by year depending on several factors including the types and timing of projects undertaken.

Management's Discussion and Analysis

Comparison of Operating Expenses by Function



Capital Asset and Debt Activities

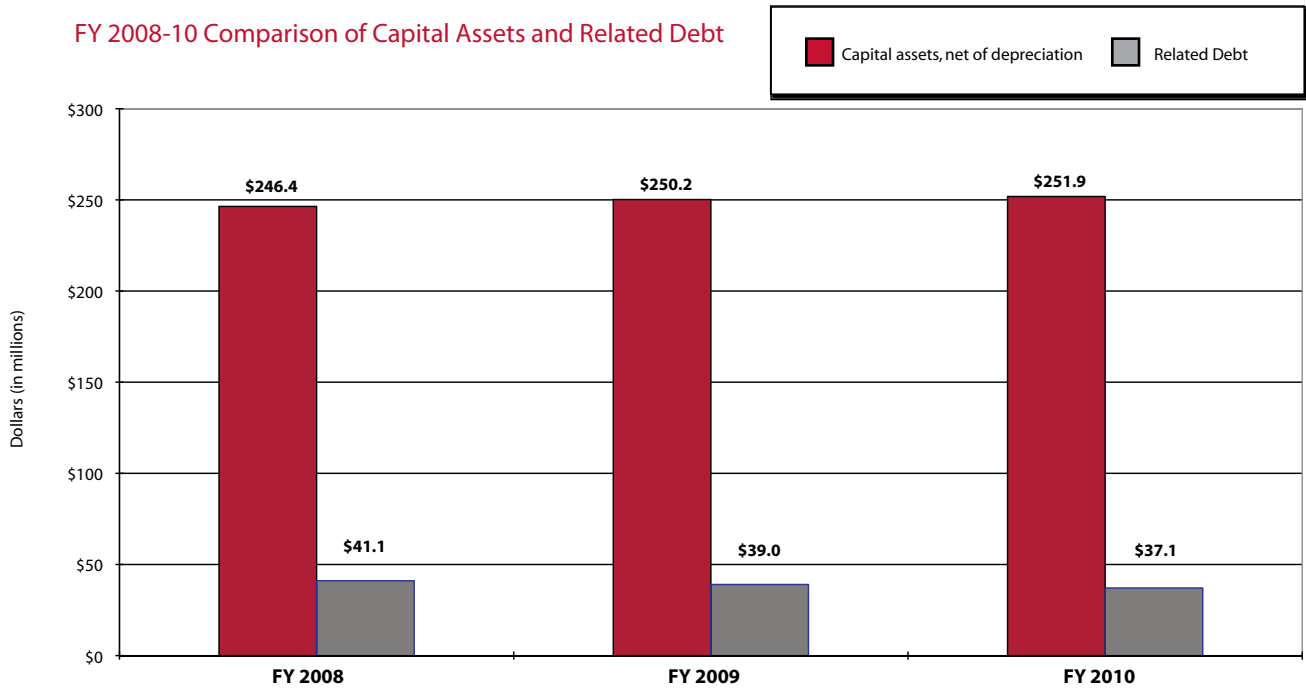
The University continues to increase the investment in capital assets which consist of land, buildings, infrastructure and equipment (Note 7). The University's Comprehensive Master Plan is used to guide the long-range physical development of campus facilities, focusing on critical areas of need, space utilization and preservation of the infrastructure. The next chart 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, three major projects largely contributed to the increase in capital assets. Construction on the \$27.1 million University Recreation Center was finished in May 2008. Another \$13.1 million for major renovations to Hargreaves Hall spanned 2008 and 2009. Work continued on Patterson Hall in 2009 and 2010 with completion expected in summer 2014. Capital assets are reported net of depreciation expense which is approximately \$10 million per year; this explains the modest overall increase in

total capital assets depicted in the chart on the next page.

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. In October 2006, the University issued Series 2006 Services and Activities Fee Revenue and Refunding Bonds totaling \$33,715,000 to fund the construction of the new university recreational facility and for current refunding of the outstanding Series 1993 Service & Activities Fee Revenue

FY 2008-10 Comparison of Capital Assets and Related Debt



Bonds. These bond issues, coupled with other revenue-backed financing (see Note 8), explain the ratio of debt relative to capital assets.

Issuance of new debt is subject to the University's overall debt capacity and capital plans as approved by the Board of Trustees. In September 2009 Moody's Investors Service (a bond rating agency) reaffirmed the A2 debt rating on the outstanding 2006 Housing and Dining System Revenue Bonds and the 2006 Services and Activities Fee Revenue Bonds and indicated the rating outlook remains

stable (A2 ratings were later rescaled to A1 by Moody's Investor Service in May 2010). Debt service coverage remains healthy. Additional information concerning capital asset and debt activity is provided in the footnotes (see Note 7 through 11).

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

In 2010 the University's overall financial position generally improved as a whole. That is, net assets increased by \$7.3 million on revenues of \$188.9 million after

expenses totaling \$181.6 million.

Funding for higher education in the state of Washington continues to be under pressure with enrollment demand outpacing state funding. The financial pressure is expected to continue as the state of Washington struggles with sustainability of funding in the near future due to the state, national and global financial situation. The University's strategic planning continues to address ongoing funding issues that impact service delivery of educational opportunities at Eastern Washington University.

Statement of Net Assets

June 30, 2010 and 2009

ASSETS	June 30, 2010	June 30, 2009
Current assets:		
Cash and cash equivalents	\$25,285,246	\$40,097,385
Short-term investments	17,057,280	12,807,087
Deposit with State of Washington	6,728,259	6,799,666
Accounts receivable (net of allowances of \$317,487 and \$370,193, respectively)	13,122,489	14,238,315
Student loans receivable (net of allowances of \$15,929 and \$9,915, respectively)	144,150	119,993
Inventories	1,297,427	1,533,839
Other assets	113,699	343,936
Total current assets	<u>63,748,550</u>	<u>75,940,221</u>
Noncurrent assets:		
Endowment investments	6,855,047	6,133,669
Other long-term investments	32,924,420	15,501,593
Student loans receivable (less allowances of \$718,593 and \$803,220, respectively)	5,508,380	5,536,325
Other noncurrent assets	385,833	433,674
Capital assets, net of accumulated depreciation	251,851,784	250,194,113
Total noncurrent assets	<u>297,525,464</u>	<u>277,799,374</u>
Total assets	<u>\$361,274,014</u>	<u>\$353,739,595</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$7,376,365	\$6,839,240
Accrued liabilities	5,480,899	5,720,738
Compensated absences	5,065	4,268
Deposits or funds held for others	1,417,457	2,296,529
Deferred revenue	4,042,749	3,164,540
Long-term liabilities, current portion	1,920,913	2,029,188
Total current liabilities	<u>20,243,448</u>	<u>20,054,503</u>
Noncurrent liabilities:		
Compensated absences	5,730,261	4,865,547
Long-term liabilities	37,577,524	38,437,658
Total noncurrent liabilities	<u>43,307,785</u>	<u>43,303,205</u>
Total liabilities	<u>\$63,551,233</u>	<u>\$63,357,708</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$214,784,118	\$211,239,151
Restricted for:		
Nonexpendable:		
Endowments	5,274,097	5,246,550
Charitable gift annuities	62,425	-
Other	187,250	187,250
Expendable:		
Loans	7,579,500	7,180,870
Capital projects	6,980,964	7,028,309
Endowments and other	2,095,485	1,372,930
Unrestricted	60,758,942	58,126,827
Total net assets	<u>\$297,722,781</u>	<u>\$290,381,887</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, 2010 and 2009

REVENUES	FY 2010	FY 2009
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$17,891,475 and \$13,756,167, respectively)	\$62,929,127	\$58,785,256
Federal grants and contracts	7,079,584	6,139,942
State and local grants and contracts	19,981,016	21,023,002
Nongovernmental grants and contracts	2,561,360	3,265,903
Sales and services of auxiliary enterprises		
Housing and dining services (net of scholarship allowances of \$4,472,869 and \$4,108,985, respectively)	9,930,681	10,046,153
Other auxiliary enterprises (net of scholarship allowances of \$996,864 and \$871,333, respectively)	8,274,418	9,189,124
Other operating revenue	1,845,625	1,991,873
Total operating revenue	<u>112,601,811</u>	<u>110,441,253</u>
EXPENSES		
Operating expenses:		
Salaries and wages	83,985,160	87,555,300
Benefits	25,353,218	24,367,365
Scholarships and fellowships	18,109,090	16,191,638
Utilities	4,439,337	4,715,725
Supplies and materials	32,020,056	32,048,678
Non-capitalized facility improvements (NCFI)	2,254,997	7,331,611
Other	3,321,349	3,740,556
Depreciation	10,434,089	10,373,914
Total operating expenses	<u>179,917,296</u>	<u>186,324,787</u>
Operating loss	(67,315,485)	(75,883,534)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	50,511,997	63,527,611
Investment income, gains and losses	4,278,984	4,267,560
Interest on capital asset-related debt	(1,716,857)	(1,801,226)
Other non-operating revenue - Pell grant	14,849,161	10,229,557
Net non-operating revenues	<u>67,923,285</u>	<u>76,223,502</u>
Gain before other revenues, expenses, gains or losses	<u>607,800</u>	<u>339,968</u>
State appropriations - capital	6,705,547	10,941,851
Gifts to permanent endowments	27,547	200,308
Total other revenues and expenses	<u>6,733,094</u>	<u>11,142,159</u>
Increase in net assets	7,340,894	11,482,127
NET ASSETS		
Net assets, beginning of year	290,381,887	278,899,760
Net assets, end of year	<u>\$297,722,781</u>	<u>\$290,381,887</u>

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

Statement of Cash Flows

For the Years Ended June 30, 2010 and 2009

	FY 2010	FY 2009
CASH FLOW FROM OPERATING ACTIVITIES:		
Tuition and fees	\$63,336,329	\$57,407,059
Grants and contracts	30,102,224	31,205,889
Payments to vendors	(41,169,919)	(48,438,346)
Payments to employees	(107,758,915)	(108,648,230)
Payments for scholarships and fellowships	(18,109,090)	(16,191,638)
Loans issued to students	(689,390)	(622,841)
Collection of student loans	639,833	833,441
Auxiliary enterprise receipts	18,948,048	19,298,113
Other receipts (payments)	(303,569)	1,904,406
Net cash used by operating activities	<u>(55,004,449)</u>	<u>(63,252,147)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	50,629,925	63,409,684
Pell grant	14,849,161	10,229,557
Endowment gifts	27,547	200,308
Stafford/Plus loans receipts	59,685,833	57,769,318
Stafford/Plus loans disbursements	(59,934,152)	(57,606,497)
Agency fund receipts	3,856,547	4,748,106
Agency fund disbursements	(3,946,389)	(5,110,584)
Net cash provided by noncapital financing activities	<u>65,168,472</u>	<u>73,639,892</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital appropriations	8,763,758	9,093,287
Purchases of capital assets	(11,902,424)	(13,377,351)
Principal paid on capital debt and leases	(2,040,128)	(2,132,391)
Interest paid on capital debt and leases	(1,681,954)	(1,765,462)
Net cash provided (used) by capital financing activities	<u>(6,860,748)</u>	<u>(8,181,917)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	15,332,187	22,544,009
Interest on investments	3,424,129	5,515,532
Purchase of investments	(36,871,730)	(14,222,145)
Net cash provided (used) by investing activities	<u>(18,115,414)</u>	<u>13,837,396</u>
Net increase (decrease) in cash	(14,812,139)	16,043,224
Cash, beginning of year	40,097,385	24,054,161
Cash, end of year	<u>\$25,285,246</u>	<u>\$40,097,385</u>

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

Statement of Cash Flows *(continued)*

For the Years Ended June 30, 2010 and 2009

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

	<u>FY 2010</u>	<u>FY 2009</u>
Operating income (loss)	\$(67,315,485)	\$(75,883,534)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	10,434,089	10,373,914
Changes in assets and liabilities:		
Receivables, net	(1,060,312)	(1,085,128)
Inventories	236,412	(74,737)
Other assets	230,237	(120,063)
Accounts payable	310,222	1,210,123
Deferred revenue	878,209	121,895
Deposits held for others	(540,911)	737,806
Compensated absences	1,819,302	1,168,051
Loans to students	3,788	299,526
Net cash used by operating activities	<u>\$(55,004,449)</u>	<u>\$(63,252,147)</u>
NONCASH TRANSACTIONS:		
Buildings and/or equipment	117,927	81,786
Capital leases	(117,927)	(81,786)

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

Balance Sheets – Component Unit (Foundation)

June 30, 2010 and 2009

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
ASSETS		
Cash and cash equivalents	\$ 3,534,813	\$ 3,101,801
Promises to give, net of allowances and discounts	1,053,769	632,863
Other assets	437,698	740,943
Contributions receivable from charitable trusts	266,173	262,086
Investments held in charitable trusts	137,540	119,467
Investments	11,057,569	9,992,180
Beneficial interest in perpetual trusts	2,204,440	2,076,621
	<u>\$18,692,002</u>	<u>\$16,925,961</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 178,564	\$ 526,391
Annuities payable	144,531	143,446
Notes payable	17,877	53,510
Total liabilities	<u>\$ 340,972</u>	<u>\$ 723,347</u>
NET ASSETS:		
Unrestricted	\$(1,328,042)	\$ 302,805
Temporarily restricted	4,783,404	1,635,722
Permanently restricted	14,895,668	14,264,087
Total net assets	<u>18,351,030</u>	<u>16,202,614</u>
	<u>\$18,692,002</u>	<u>\$16,925,961</u>

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

Statement of Activities – Component Unit (Foundation)

For the Years Ended June 30, 2010 and 2009

	FY 2010				FY 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT								
Contributions	\$ 139,677	\$ 2,135,152	\$ 220,602	\$ 2,495,431	\$ 119,336	\$ 1,376,555	\$ 308,949	\$ 1,804,840
Contributions from trusts	-	42,246	-	42,246	-	105,543	-	105,543
Investment income, net of fees of \$90,178 and \$70,841, respectively	7,766	242,076	-	249,842	25,686	329,566	-	355,252
Realized gain (loss) on investments	-	408,619	-	408,619	66	(297,113)	-	(297,047)
Unrealized gain (loss) on investments	-	328,040	-	328,040	-	(2,215,169)	-	(2,215,169)
Change in value of split-interest agreements	-	-	142,117	142,117	-	2,138	(186,904)	(184,766)
Support provided by Eastern Washington University	1,174,791	-	-	1,174,791	1,429,873	-	-	1,429,873
Other	757	377,569	6,688	385,014	150	281,730	6,971	288,851
Net assets released from restrictions and other transfers	123,846	(386,020)	262,174	-	2,021,425	(2,166,322)	144,897	-
Total revenues, gains, and support	1,446,837	3,147,682	631,581	5,226,100	3,596,536	(2,583,072)	273,913	1,287,377
EXPENSES								
Management and general	805,055	-	-	805,055	935,971	-	-	935,971
Fundraising	694,988	-	-	694,988	842,816	-	-	842,816
Support provided to/for Eastern Washington University	1,577,641	-	-	1,577,641	1,465,019	-	-	1,465,019
	<u>3,077,684</u>	<u>-</u>	<u>-</u>	<u>3,077,684</u>	<u>3,243,806</u>	<u>-</u>	<u>-</u>	<u>3,243,806</u>
CHANGE IN NET ASSETS	(1,630,847)	3,147,682	631,581	2,148,416	352,730	(2,583,072)	273,913	(1,956,429)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	302,805	1,635,722	14,264,087	16,202,614	(49,925)	4,218,794	13,990,174	18,159,043
NET ASSETS (DEFICIT), END OF YEAR	\$ (1,328,042)	\$ 4,783,404	\$ 14,895,668	\$ 18,351,030	\$ 302,805	\$ 1,635,722	\$ 14,264,087	\$ 16,202,614

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

Notes to Financial Statements – June 30, 2010

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

Eastern Washington University, an agency of the State of Washington, is governed by an eight-member Board of Trustees that are appointed by the Governor and confirmed by the state senate. The University's financial activity is included in the general purpose financial statements of the State of Washington.

The Eastern Washington University Foundation (Foundation) is established as a tax exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation's 35-member board consists of graduates and friends of the University. The University has an agreement with the Foundation to design and implement such programs and procedures to persuade continuous and philanthropic support for the benefit of the University. In exchange, the University provides the Foundation with partial office space, furniture and equipment, supplies, and staff to operate the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by or for the benefit of the University, the Foundation is considered a legally separate component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements include assets and earnings of other unrelated entities; these amounts are not material to the Foundation's financial position taken as a whole. During the fiscal year ended June 30, 2010, the Foundation distributed \$402,850 to the University for restricted and unrestricted purposes which includes both student scholarships and pro-

gram 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 November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. In accordance with GASBS No. 39, the Foundation is considered a legally separate component unit of the University. As a non-governmental component unit, the Foundation follows applicable nonprofit reporting and disclosure standards. Revenue recognition principles for these financial accounting standards may differ from those which apply to the University; results have not been restated.

Operating Activities

The University's policy for defining operating activities as reported in the Statement of Revenues, Expenses, and Changes in Net Assets is to include those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Primarily, operating activities involve delivery of higher education courses and supporting services such as residential housing and dining which incur expenses for salaries, benefits, supplies and materials, and scholarships. Payments for these services include tuition and related fees, plus sales from supporting services. Other revenue sources include federal, state and local grants and contracts. As prescribed by GASBS No. 35, certain significant revenue streams relied upon for operations are recorded as non-operating revenues, including state appropriations, gifts and investment income. Therefore, it is expected that operating expenses will generally exceed operating revenues resulting in a net operating loss.

Inventories

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

Cash Equivalents

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

Tax Exemption

The University is a tax-exempt organization under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from federal income taxes on related income.

State Appropriations

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

Deferred Revenues

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

Capital Assets

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

Accrued Leave

Accrued annual and sick leave are categorized as non-current liabilities under the assumption that employees are using most of the leave they are earning. Compensatory time, which must be used within ninety days following fiscal year end, is categorized as a current liability.

Charitable Gift Annuities

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

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt:
The University's investments in capital

assets, less accumulated depreciation, net of outstanding debt obligations related to capital assets.

Restricted net assets:

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

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

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

RECLASSIFICATIONS

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

Note 2: Deposits and Investments

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

At June 30, 2010 and 2009, insured/collateralized deposits consist of the following:

	Carrying Value June 30, 2010	Carrying Value June 30, 2009
Deposits		
Cash and cash equivalents		
Interest bearing	\$ 25,143,002	\$ 39,960,294
Other	142,244	137,091
Total deposits	\$ 25,285,246	\$ 40,097,385

Notes to Financial Statements – June 30, 2010

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, 2010, investment maturities are as follows:

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

At June 30, 2009, investment maturities are as follows:

	Fair value June 30, 2009	Investment maturities for fixed income securities (in months)			
		0 – 9	10 – 24	25 – 60	61 – 120
Investments – Operating Funds					
U.S. Government agency bonds	\$ 11,443,115		\$ 8,040,930	\$ 3,402,185	
U.S. Government treasury notes	4,029,080			4,029,080	
Certificates of deposit	12,807,087	\$ 9,807,087	3,000,000		
Other deposits	29,398				
Investments – Endowment Funds					
Investment unit trusts					
Equity fund	3,567,037				
Bond fund	2,566,632				\$ 2,566,632
Total investments	\$ 34,442,349	\$ 9,807,087	\$ 11,040,930	\$ 7,431,265	\$ 2,566,632

At June 30, 2010 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$1,580,950 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 6.6 years at year end.

Custodial Credit Risk. Investments, where evidenced by specific, identifiable securities, are insured or registered or are held by the University's custodian bank in the University's name. All securities transactions

are conducted on a delivery-versus-payment basis. Invested assets of donor-restricted endowments are represented by shares in investment unit trusts (pools) rather than specific, identifiable securities and, as such, are not directly subject to custodial credit risk. Similarly, cash equivalents held in the Local Government Investment Pool are also represented by shares in investment unit trusts.

Credit (Quality) Risk. For operating funds, the University limits exposure to credit risk by limiting investments in fixed income securities to obligations of the U.S. government or similar instruments explicitly guaranteed by the U.S. government which are not considered to have credit risk. Underlying debt securities in unitized investments had

an average rating of AA at year end.

Interest Rate Risk. The University manages its exposure to fair value losses resulting from changes in interest rates by structuring the total portfolio time horizon. Unless matched to a specific cash flow, the University generally will not directly invest operating funds in securities maturing more than five years from the date of purchase. The goal of the overall portfolio for operating funds is to maintain each individual portfolio at a desired target percentage to balance cash flow requirements, safety, liquidity and yield. For endowment funds, the goal is to maintain a ratio of debt and equity investments which recognizes the inherent growth potential of equities and bonds for an endowment that will exist in perpetuity.

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

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, 2010 and 2009 consist of the following:

	June 30, 2010	June 30, 2009
Accounts receivable		
Student tuition and fees	\$ 5,018,720	\$ 4,508,118
Auxiliary enterprises (less allowances of \$238,742 and \$264,415, respectively)	727,606	1,500,053
Contracts and grants	2,618,674	3,098,939
State reimbursement	2,531,150	4,707,287
Other (less allowances of \$78,745 and \$105,778, respectively)	2,226,339	423,918
Total accounts receivable	\$ 13,122,489	\$ 14,238,315
Student loans receivable		
Federal programs (less allowances of \$718,593 and \$803,220, respectively)	\$ 5,508,380	\$ 5,536,325
Institutional loans (less allowances of \$15,929 and \$9,915, respectively)	144,150	119,993
Total student loans receivable	\$ 5,652,530	\$ 5,656,318

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, 2010, totals \$4,601,260. This amount represents a liability to the University and is recorded and reported accordingly.

Accumulated sick leave earned and unused at June 30, 2010, calculated at 25 percent of unused balance, totals \$1,129,001. 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, 2010, totals \$5,065. 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 \$2,970,218 at June 30, 2010.

Notes to Financial Statements – June 30, 2010

Note 7: Capital Assets

Capital asset activity for the two-year period ended June 30, 2010 is summarized as follows:

	Balance at June 30, 2008			Balance at June 30, 2009			Balance at June 30, 2010
		Additions	Retirements		Additions	Retirements	
Non-depreciable Capital Assets							
Land	\$ 2,090,954	\$ -	\$ -	\$2,090,954	\$ 30,000	\$ -	\$ 2,120,954
Construction in progress	9,906,513	11,408,117	14,565,790	6,748,840	8,636,703	7,968,659	7,416,884
Subtotal	11,997,467	11,408,117	14,565,790	8,839,794	8,666,703	7,968,659	9,537,838
Depreciable Capital Assets							
Land improvements	11,721,528	1,804,717	-	13,526,245	1,148,653	-	14,674,898
Infrastructure	28,658,227	-	-	28,658,227	-	-	28,658,227
Buildings	269,339,005	13,558,635	-	282,897,640	7,526,019	30,000	290,393,659
Furniture, fixtures and equipment	28,811,759	550,401	-	29,362,160	1,314,583	1,087,922	29,588,821
Library materials	27,662,854	1,407,181	-	29,070,035	1,434,459	1,574,872	28,929,622
Subtotal	366,193,373	17,320,934	-	383,514,307	11,423,714	2,692,794	392,245,227
Total Capital Assets	378,190,840	28,729,051	14,565,790	392,354,101	20,090,417	10,661,453	401,783,065
Less accumulated depreciation:							
Land improvements	3,909,524	322,665	-	4,232,189	403,893	-	4,636,082
Infrastructure	14,373,523	885,653	-	15,259,176	885,652	-	16,144,828
Buildings	77,977,864	5,406,149	-	83,384,013	5,733,182	-	89,117,195
Furniture, fixtures and equipment	18,749,347	2,789,672	-	21,539,019	2,474,647	1,087,923	22,925,743
Library materials	16,775,816	969,775	-	17,745,591	936,715	1,574,873	17,107,433
Total accumulated depreciation	131,786,074	10,373,914	-	142,159,988	10,434,089	2,662,796	149,931,281
Capital assets, net of depreciation	\$ 246,404,766	\$ 18,355,137	\$ 14,565,790	\$250,194,113	\$9,656,328	\$7,998,657	\$251,851,784

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

Historical cost (excluding land)	\$4,504,995
Less: Accumulated depreciation	<u>2,035,711</u>
Carrying value	\$2,469,284

Note 8: Long-term Liabilities

Long-term liability activity for the two-year period ended June 30, 2010 is summarized as follows:

	Balance at June 30, 2008			Balance at June 30, 2009		Current Portion 2009
		Additions	Reductions			
Leases and bonds payable:						
Lease obligations (Note 9)	\$ 4,745,141	\$ 81,786	\$ 513,101	\$ 4,313,826	\$ 535,148	
General obligation bonds	512,649	-	309,290	203,359	129,040	
Revenue bonds payable (Note 10)	35,815,000	-	1,310,000	34,505,000	1,365,000	
Total leases and bonds payable	41,072,790	81,786	2,132,391	39,022,185	2,029,188	
Other liabilities:						
Net pension obligation (Note 12)	528,365	916,296	-	1,444,661	-	
Compensated absences (Note 5)	4,618,060	4,704,357	4,452,602	4,869,815	4,268	
Total long-term liabilities	\$ 46,219,215	\$ 5,702,439	\$ 6,584,993	\$ 45,336,661	\$ 2,033,456	
<i>Continued from above:</i>						
	June 30, 2009			June 30, 2010		Current Portion 2010
		Additions	Reductions			
Leases and bonds payable:						
Lease obligations (Note 9)	\$ 4,313,826	\$ 117,927	\$ 546,087	\$ 3,885,666	\$ 417,862	
General obligation bonds	203,359	-	129,040	74,319	74,319	
Revenue bonds payable (Note 10)	34,505,000	-	1,365,000	33,140,000	1,420,000	
Total leases and bonds payable	39,022,185	117,927	2,040,127	37,099,985	1,912,181	
Other liabilities:						
Charitable gift annuities (Note 1)	-	66,699	9,820	56,879	8,732	
Net pension obligation (Note 12)	1,444,661	896,912	-	2,341,573	-	
Compensated absences (Note 5)	4,869,815	4,057,969	3,192,458	5,735,326	5,065	
Total long-term liabilities	\$ 45,336,661	\$ 5,139,507	\$ 5,242,405	\$ 45,233,763	\$ 1,925,978	

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 2011 through 2015. Total operating lease expenses in fiscal year 2010 were \$824,266.

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, 2010, are as follows:

Fiscal Year	Annual Payment	Operating	Capital
2011		\$434,236	\$628,233
2012		340,082	592,640
2013		210,405	483,775
2014		136,291	410,503
2015		93,847	397,751
2016-20		-	1,925,000
2021-26		-	817,627
Obligation under leases		\$1,214,861	5,255,529
Less: Amount representing interest costs			(1,369,863)
Present value of minimum obligation under capital leases			\$3,885,666

Note 10: Bonds Payable

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

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

	Interest Rate	Maturity Date	Original Balance	Balance Outstanding
Eastern Washington University				
Housing and Dining System Revenue/Refunding Bonds, Series 2002	2.50% - 3.80%	2010-2013	\$ 4,515,000	\$ 1,535,000
Service and Activities Revenue Bonds, Series 2006	4.00% - 5.00%	2010-2038	28,090,000	27,120,000
Service and Activities Refunding Bonds, Series 2006	4.00% - 4.00%	2010-2019	5,625,000	4,485,000
Total Revenue Bonds			38,230,000	33,140,000
State of Washington General Obligation Bonds				
Refunding Bonds, Series R-93A	3.90% - 5.75%	2010-2011	708,756	74,319
Total bonds payable			\$ 38,938,756	\$ 33,214,319

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:

Fiscal Year	Eastern Washington University		State General Obligation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	1,420,000	1,386,637	74,319	2,137	1,494,319	1,388,774
2012	1,490,000	1,330,183	-	-	1,490,000	1,330,183
2013	1,555,000	1,270,582	-	-	1,555,000	1,270,582
2014	1,065,000	1,218,718	-	-	1,065,000	1,218,718
2015	1,110,000	1,175,217	-	-	1,110,000	1,175,217
2016-2020	5,680,000	5,168,688	-	-	5,680,000	5,168,688
2021-2025	4,235,000	4,217,492	-	-	4,235,000	4,217,492
2026-2030	5,220,000	3,245,363	-	-	5,220,000	3,245,363
2031-2035	6,545,000	1,990,931	-	-	6,545,000	1,990,931
2036-2038	4,820,000	369,250	-	-	4,820,000	369,250
Totals	\$ 33,140,000	\$ 21,373,061	\$ 74,319	\$ 2,137	\$ 33,214,319	\$ 21,375,198

Notes to Financial Statements – June 30, 2010

Note 11: Pledged Revenues

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

Source of Revenue Pledged	Current Year Revenues Pledged (net)	Current Year Debt Service	Total Future Revenues Pledged	Description of Debt	Purpose of Debt	Term of Commitment
Housing & Dining revenues, net of operating expense	3,221,753	539,915	1,622,950	H&D Revenue & Refunding Bonds – Series 2002	Refund outstanding debt on H&D Bonds of 1992	2013
S&A fee revenue and earnings on invested fees	661,205	582,300	5,345,700	Service & Activities Fee Refunding Bonds – Series 2006	Refund outstanding debt on S&A Revenue Bonds of 1993	2019
S&A fee revenue and earnings on invested fees	2,040,672	1,682,717	47,544,405	Service & Activities Fee Revenue Bonds – Series 2006	Construction of a new student recreation center	2038

Note 12: Pension Plans

The University offers four contributory pension plans. The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) are cost-sharing, multi-employer defined benefit plans; PERS and TRS also have a defined contribution component. The Eastern Washington University Retirement Plan is a defined contribution plan with supplemental payment, when required. The University's total payroll for the year ended June 30, 2010, was \$83,985,160. The payroll for employees covered by PERS was \$24,512,477; payroll for employees covered by TRS was \$122,909; payroll for employees covered by LEOFF was \$557,038; and payroll for employees covered by the Eastern Washington University Retirement Plan was \$46,381,432.

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, 2010		Required Employer Contributions		
	Employee	University	FY 2008	FY 2009	FY 2010
PERS					
Plan I	6.00%	5.31%	\$ 125,691	\$ 146,543	\$ 75,715
Plan II	3.90%	5.31%	1,177,282	1,709,532	1,036,222
Plan III	Varies	5.31%*	210,090	300,498	189,222
TRS					
Plan I	6.00%	6.14%	\$ 8,717	\$ 6,349	\$ 3,341
Plan II	3.36%	6.14%	5,470	8,231	4,529
LEOFF					
Plan II	8.46%	8.62%	\$ 52,794	\$ 49,604	\$ 48,010

*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 benefit provision for the year ended June 30, 2010.

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, 2010, total \$3,966,088.

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, 2009. The actuarial assumptions for the evaluation included an investment rate of return of 5% and projected salary increases ranging from 2% to 4%. The previous evaluation was performed in 2007. 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, 2009 was \$6,023,000 under the plan's entry age normal method and is amortized over a 14.5 year period. The annual required contribution (ARC) is projected at \$1,055,000. 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 net pension obligation activity for the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

Net Pension Obligation	FY 2010	FY 2009	FY 2008
Balance as of July 1	\$ 1,444,661	\$ 528,365	\$ 314,592
Add: Annual Required Contribution	1,055,000	1,055,000	365,000
Less: Payments to beneficiaries	158,088	138,703	151,227
Balance as of June 30	\$ 2,341,573	\$ 1,444,661	\$ 528,365

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, 2010, 2009 and 2008 follows:

Net OPEB Obligation	FY 2010	FY 2009	FY 2008
Balance as of July 1	\$ 6,154,000	\$ 3,064,000	\$ -
Add: Estimated annual OPEB expenses	3,928,000	3,637,000	3,556,000
Less: Estimated contributions	510,000	547,000	492,000
Balance as of June 30	\$ 9,572,000	\$ 6,154,000	\$ 3,064,000

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, 2010 and 2009 follows:

	Housing and Dining System Refunding Revenue Bonds Series 2002		Associated Student Activities Revenue and Refunding Bonds Series 2006	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Assets				
Current assets	\$ 4,984,396	\$ 5,751,267	\$ 2,159,412	\$ 2,696,644
Non-current assets	22,149,262	21,363,998	37,881,693	37,635,860
Total assets	27,133,658	27,115,265	40,041,105	40,332,504
Liabilities				
Current liabilities	1,902,877	1,777,011	1,375,834	1,305,685
Non-current liabilities	4,745,795	5,556,368	30,988,108	31,814,519
Total liabilities	6,648,672	7,333,379	32,363,942	33,120,204
Net assets				
Invested in capital assets, net of related debt	13,885,283	14,100,516	4,214,904	4,445,737
Restricted	187,250	187,250	-	-
Unrestricted	6,412,453	5,494,120	3,462,259	2,766,563
Total net assets	\$20,484,986	\$19,781,886	\$7,677,163	\$7,212,300

Notes to Financial Statements – June 30, 2010

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

	Housing and Dining System Refunding Revenue Bonds Series 2002		Associated Student Activities Revenue and Refunding Bonds Series 2006	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Operating revenues	\$15,024,961	\$14,684,993	\$5,111,682	\$4,767,441
Operating expenses	14,096,840	14,133,450	3,444,460	2,937,359
Net operating income	928,121	551,543	1,667,222	1,830,082
Non-operating revenues (expenses)	(225,021)	(159,975)	(1,348,759)	(1,346,808)
Transfers	-	-	146,400	646,838
Change in net assets	703,100	391,568	464,863	1,130,112
Net assets, beginning of year	19,781,886	19,390,318	7,212,300	6,082,188
Net assets, end of year	\$20,484,986	\$19,781,886	\$7,677,163	\$7,212,300

Condensed Statement of Cash Flows

Net cash flows provided by				
operating activities	\$2,286,444	\$1,627,809	\$2,668,058	\$2,532,722
Net cash flows provided (used) by				
non-capital and related financing activities	-	-	90,000	90,000
Net cash flows used by capital				
and related financing activities	(1,147,801)	(1,229,638)	(2,343,046)	(2,210,546)
Net cash flows provided				
by investing activities	(2,330,325)	623,738	(1,060,080)	245,630
Net increase (decrease) in cash	(1,191,682)	1,021,909	(645,068)	657,806
Cash—beginning of year	3,561,029	2,539,120	1,767,316	1,109,510
Cash—end of year	\$2,369,347	\$3,561,029	\$1,122,248	\$1,767,316

Note 15: Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2010 and 2009 are summarized as follows:

Operating Expenses	FY 2010	FY 2009
Educational and general		
Instruction	\$61,349,369	\$61,861,740
Research	1,307,582	1,203,962
Public service	5,368,294	5,643,442
Academic support	11,190,098	13,415,079
Student services	14,220,179	14,196,242
Institutional support	16,657,918	14,948,979
Operation and maintenance of plant	16,696,491	24,104,328
Scholarships and fellowships	16,423,798	13,779,381
Auxiliary enterprises	26,269,478	26,797,720
Depreciation	10,434,089	10,373,914
Total operating expenses	\$179,917,296	\$186,324,787

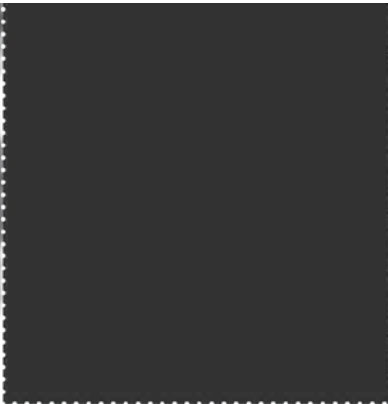
Note 16: Other Matters

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

In late summer 2010 information was presented to the Board of Trustees concerning the potential for issuing revenue bonds to support the student housing master plan using a multi-phase build and renovation approach. The final student housing plan and funding levels are not yet determined.

Outstanding purchase orders and other commitments at June 30, 2010 totals \$4,488,655 for various goods and services.

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Statistical Section

Five-Year Historical Review 28

Five-year Historical Review-*unaudited*

Years Ended June 30 (in thousands)

	2010	2009	2008	2007	2006
REVENUES					
Tuition and fees (net of allowance)	\$62,929	\$58,785	\$52,716	\$52,178	\$49,331
Gifts, grants and contracts	29,622	30,429	28,714	30,596	27,230
Auxiliary enterprises (net of allowance)	18,205	19,235	18,181	19,026	18,261
Other sources	1,846	1,992	1,911	942	857
Total operating revenues	<u>112,602</u>	<u>110,441</u>	<u>101,522</u>	<u>102,742</u>	<u>95,679</u>
EXPENSES					
Instruction	61,349	61,863	60,975	61,052	56,285
Research	1,308	1,204	1,483	2,134	2,044
Public service	5,369	5,643	5,662	3,322	3,390
Academic support (including libraries)	11,190	13,415	11,514	10,253	8,864
Student services	14,220	14,196	13,811	12,760	11,254
Institutional support	16,658	14,949	16,908	13,850	12,238
Plant operation and maintenance	16,696	24,104	25,051	16,715	15,467
Scholarships and fellowships	16,424	13,779	11,876	11,673	11,597
Auxiliary enterprises	26,269	26,797	26,241	25,445	24,541
Depreciation	10,434	10,375	9,637	9,275	7,623
Total operating expenses	<u>179,917</u>	<u>186,325</u>	<u>183,158</u>	<u>166,479</u>	<u>153,303</u>
Operating loss	(67,315)	(75,884)	(81,636)	(63,737)	(57,624)
NON-OPERATING REVENUES (EXPENSES)					
State appropriations - operating	42,735	56,196	57,997	51,547	48,424
State appropriations - federal (ARRA)	5,522				
State appropriations - capital for NCFI	2,255	7,332	7,371	2,310	1,512
Investment Income, gains and losses	4,279	4,267	5,035	7,493	4,625
Interest on capital asset-related debt	(1,717)	(1,801)	(1,902)	(1,579)	(796)
Other non-operating revenue	14,849	10,230	8,844	8,540	8,423
Total non-operating revenues	<u>67,923</u>	<u>76,224</u>	<u>77,345</u>	<u>68,311</u>	<u>62,188</u>
Income before capital contributions and additions to endowments	608	340	(4,290)	4,574	4,564
Capital appropriations	6,706	10,942	8,564	13,143	15,088
Additions to permanent endowments	27	200	600	101	610
Total other	<u>6,733</u>	<u>11,142</u>	<u>9,164</u>	<u>13,244</u>	<u>15,698</u>
Increase in net assets	\$7,341	\$11,482	\$4,874	\$17,818	\$20,262
CAPITAL ASSETS (in thousands)					
Land	\$2,121	\$2,091	\$2,091	\$2,091	\$2,091
Buildings	290,394	282,898	269,339	239,775	231,811
Land improvements/infrastructure	43,333	42,184	40,380	39,792	37,311
Equipment	29,589	29,362	28,812	25,521	21,540
Library resources	28,930	29,070	27,663	26,274	24,914
Construction in progress	7,417	6,749	9,906	22,190	3,284
Accumulated depreciation	(149,931)	(142,160)	(131,786)	(122,150)	(113,303)
Total capital assets, net	<u>\$251,853</u>	<u>\$250,194</u>	<u>\$246,405</u>	<u>\$233,493</u>	<u>\$207,648</u>
ENROLLMENTS (head count, state funded only)					
Fall quarter	10,219	9,897	9,841	10,005	9,868
Academic year average	9,767	9,541	9,451	9,531	9,479
TUITION AND FEES (per academic year)					
Undergraduate - resident	\$5,340	\$4,701	\$4,485	\$4,278	\$4,044
Undergraduate - nonresident	14,058	13,368	13,350	13,335	13,317
Graduate - resident	7,476	6,795	6,480	6,465	6,108
Graduate - nonresident	18,030	17,148	17,133	17,118	17,100

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

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