



EASTERN
WASHINGTON UNIVERSITY

start something **big**

2014 FINANCIAL REPORT

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Our Mission

EWU expands opportunities for personal transformation through excellence in learning.

EWU achieves this mission by:

- fostering excellence in learning through quality academic programs, undergraduate and graduate student research and individual student-faculty interaction. Students extend their learning beyond the classroom through co-curricular programs, life skills development, internship programs, volunteering and service learning.
- creating environments for personal transformation that enrich the lives of individuals, families, communities and society at large.
- expanding opportunity for all students by providing critical access to first generation students, underserved populations, place-bound students, and other students who may not have the opportunity for higher education.
- developing faculty and staff by growing and strengthening an intellectual community and supporting professional development.

LETTER FROM THE PRESIDENT.....



I am pleased to present the annual financial statements for Eastern Washington University.

During my first year as president, I have been thoughtfully examining all aspects of the institution. I have also been working alongside university leadership to identify the next steps in our strategic planning process, which focuses on identifying multiple pathways to enable our students to succeed.

None of our goals can be accomplished without a solid financial foundation. Eastern must remain committed to fiscal sustainability as we continue transforming the lives of EWU students.

The campus is growing. Now, in Fall 2014, over 13,000 students attend Eastern. Our programs and support services must also develop so that students have the coursework and the support they need. State-of-the-art advising, mentoring programs, and scholarships are all important to our students' success.

Within the constrained budget environment in the state of Washington, we must prudently manage our resources while exploring innovative ways to help students stay enrolled, continue learning, and graduate in a timely fashion.

As you will see in the pages that follow, these statements reflect Eastern's fiscal strength. Responsible stewardship of our budget meets the expectations of the state and its taxpayers.

Eastern has accomplished fiscal stability and strength in many ways. By strategically investing in key academic support programs, the university has successfully navigated many fiscal challenges in recent years. Capital investments have resulted in state-of-the-art academic and residential buildings that attract students, improve the campus culture, and facilitate learning.

Eastern Washington University is nationally recognized for attracting, retaining and graduating students from diverse backgrounds. As president, I am committed to seeing that Eastern continues to offer a top-notch, affordable education while living within its means.

If we remain prudent stewards of our finances, we will continue to provide our students excellent opportunities to be successful.

Thank you for taking the time to look through this publication. You will see that Eastern continues to make tremendous progress as it strengthens its financial position.

Sincerely,

A handwritten signature in cursive script that reads "Mary Cullinan". The ink is dark and the signature is fluid and legible.

Mary Cullinan, PhD
EWU President



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

January 12, 2015

Board of Trustees
Eastern Washington University
Cheney, Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Eastern Washington University, Spokane County, Washington, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Eastern Washington University Foundation, a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Eastern Washington University Foundation, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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 aggregate discretely presented component units of the Eastern Washington University, Washington, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of Eastern Washington University are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the state of Washington that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

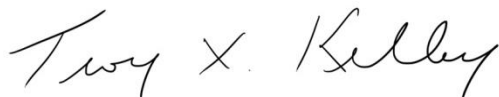
Required Supplementary Information

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

Supplementary and Other Information

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

Sincerely,



TROY KELLEY
STATE AUDITOR

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Eastern Washington University ("the University") for the fiscal year ended June 30, 2014, with comparative 2013 and 2012 financial information. This MD&A provides the readers an objective and easily readable analysis of the University's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying footnotes to the financial statements.

Reporting Entity

Eastern Washington University, one of six state-assisted public institutions of higher education in the state of Washington, provides baccalaureate and graduate educational programs for about 12,800 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 11,250 residents. Eastern also offers a variety of upper division and graduate programs at the EWU Spokane campus and at various locations throughout the state of Washington. For example, through a collaborative agreement, our university center at Bellevue College offers upper division courses for selected bachelor degree programs leading to a four-year degree awarded by Eastern Washington University.

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

Using the financial statements

The University reports as a business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended. Under this model, the financial report consists of three statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

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

Reclassifications and Impact from Changes in Reporting Requirements

Certain reclassifications not affecting total net position have been made to prior year amounts in order to conform to current year presentation. Early implementation of GASB No. 65 in FY 2013 brought a change in accounting principles that resulted in an adjustment to beginning net position as of July 1, 2011 when bond issuance costs were expensed in the period incurred rather than amortized over the life of the debt. GASB No. 63, a related pronouncement which took effect in FY 2013, adds deferred outflows and deferred inflows to the financial statement presentation. Deferred outflows are defined as a consumption of net assets that is applicable to a future reporting period. Deferred inflows are defined as an acquisition of net assets that is applicable to a future period. GASB No. 63 also changes the designation of *net assets* to *net position* and affects titles and reporting categories for the ensuing financial statements.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the last two fiscal years and reports all assets and liabilities of the University. This statement represents the assets available to continue operations of the institution and also identifies how much the institution owes vendors, investors and lenders. A summarized comparison of the University's assets, liabilities and net position as of June 30, 2014, 2013 and 2012, follows.

Condensed Statement of Net Position

As of June 30 (in thousands)

	2014	2013	2012
Assets			
Current assets	\$ 76,819	\$ 88,061	\$ 85,787
Capital assets, net of depreciation	304,790	293,312	265,952
Other non-current assets	76,313	60,084	62,012
Total Assets	457,922	441,457	413,751
Deferred outflows of resources	41	51	61
Liabilities			
Current liabilities	18,022	19,302	17,428
Non-current liabilities	67,535	66,427	66,981
Total Liabilities	85,557	85,729	84,409
Net Position	\$ 372,406	\$ 355,779	\$ 329,403

Current assets consist primarily of cash, short term investments, accounts receivables and inventories. The change in current assets is mainly from reallocations between cash and short- and long-term investments, and continued spending of bond proceeds remaining from debt issued in FY12.

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

Liquidity is an important indicator of financial stability which can be measured by the number of days an institution is able to operate using unrestricted cash and investments that can be liquidated and spent within one year. Over the past couple years the University has increased its ability to cover operating costs and slightly extended that margin in FY14 (see ratios later in this section). Within the industry, it is generally considered prudent to maintain reserves to cover operating expenses for at least 60 to 90 days. At fiscal yearend the University has significantly better liquidity coverage than the industry average.

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

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

Restricted-Nonexpendable – This category consists of funds on which the donor or external party has imposed a restriction. Permanent endowments are the primary origin of nonexpendable funds; the corpus is available for investment only.

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

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

Net position at June 30, 2014, 2013 and 2012 is summarized as follows:

Condensed Net Position

As of June 30 (in thousands)

	2014	2013	2012
Net investment in capital assets	\$ 248,641	\$ 243,239	\$ 229,880
Restricted:			
Non-expendable	5,938	5,809	5,599
Expendable	23,018	20,126	16,717
Unrestricted	94,809	86,605	77,207
Total net position	\$ 372,406	\$ 355,779	\$ 329,403

The change in net position is driven by the difference between revenues and expenses. Factors that contribute to the increase in net position stem from enrollment growth, student fee rate increases, investments in capital assets (educational classrooms and student facilities), and spending restraint. Beginning in February 2010 along with other executive order restrictions, a statewide freeze on wage increases persisted through June 2013. As economic conditions began to improve over the past couple years, university leaders moved forward under fiscal caution keeping operating costs and other direct expenses well below budgeted levels.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position provides information about the operating performance of the University. The statement classifies revenues and expenses as either operating or non-operating. Under current reporting guidelines, state appropriations are classified as non-operating revenues though such funding is used to cover operating expenses. To better assess the University's financial health, include all revenue sources and focus on the increase (or decrease) in net position. A summarized comparison of the University's operating performance and ending net position follows for the fiscal years ended June 30:

Condensed Statement of Revenues, Expenses and Changes in Net Position

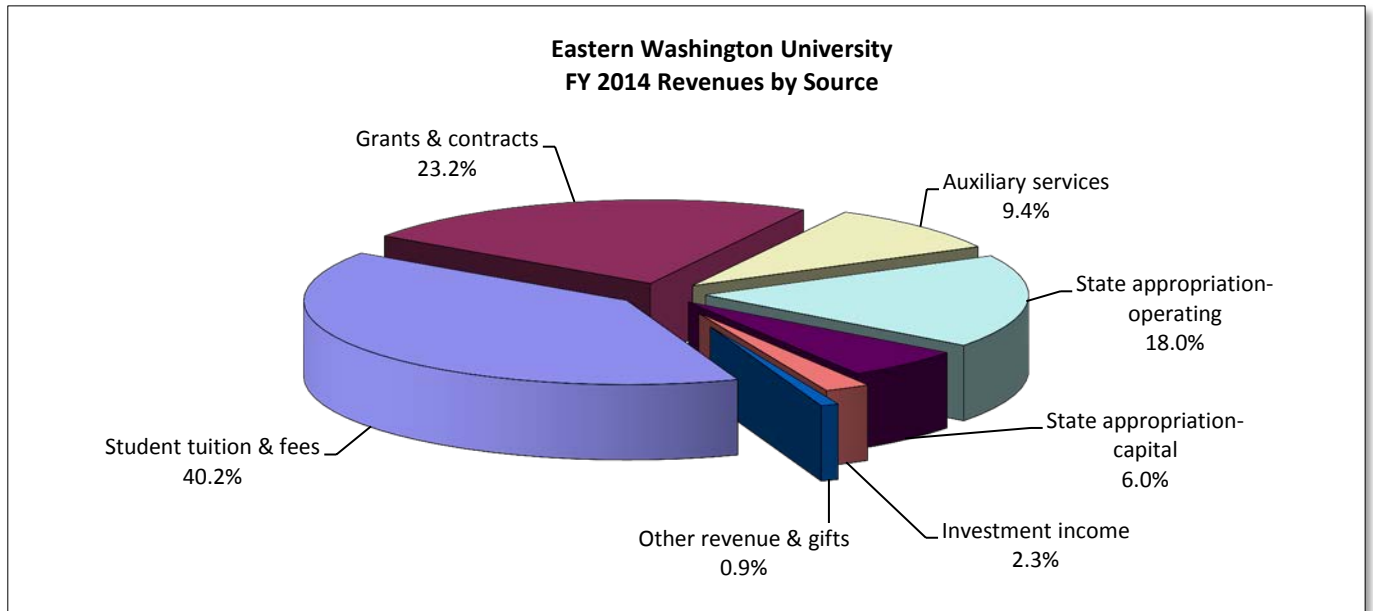
For the year ended June 30 (in thousands)

	2014	2013	2012
Operating revenue	\$ 143,838	\$ 140,566	\$ 129,990
Operating expenses	203,538	190,626	181,395
Net operating loss	(59,700)	(50,060)	(51,405)
Non-operating revenues	65,210	60,643	57,314
Non-operating expenses	2,195	1,451	2,215
Income/(loss) before other revenues	3,315	9,132	3,694
Other revenues and expenses	13,312	17,244	13,591
Increase in net position	16,627	26,376	17,285
Net position, beginning of year	355,779	329,403	312,430
Adjustment for change in accounting principle (GASB 65)	-	-	(312)
Net position, end of year	\$ 372,406	\$ 355,779	\$ 329,403

Operating and Non-operating Revenues

Operating revenues consist primarily of tuition and fees, sponsored program revenue (i.e., grants and contracts), and sales and services revenue generated by auxiliary enterprises and other support operations. Non-operating revenues consist primarily of state appropriations, investment income and Pell grants for student financial aid. Other revenues and expenses are derived almost entirely from state capital project appropriations with a small portion coming from gifts to permanent endowments.

The illustration below shows revenues by source (both operating and non-operating) used to fund the University's programs for the year ended June 30, 2014. The ensuing table compares revenues by source for fiscal years ended 2014, 2013 and 2012.



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

	2014		2013		2012	
Student tuition & fees	\$ 89,281	40.2%	\$ 88,337	40.2%	\$ 81,428	40.5%
Grants & contracts	51,741	23.2%	49,389	22.5%	46,747	23.3%
Auxiliary services	20,916	9.4%	20,167	9.2%	19,106	9.5%
State appropriation-operating	40,070	18.0%	36,535	16.6%	34,830	17.3%
State appropriation-capital	13,313	6.0%	18,584	8.5%	13,561	6.8%
Investment income	5,058	2.3%	3,683	1.7%	3,435	1.7%
Other revenue & gifts	1,982	0.9%	3,099	1.3%	1,788	0.9%
Total	\$ 222,361	100%	\$ 219,794	100.0%	\$ 200,895	100.0%

Tuition, other student fees, and state operating appropriations are the primary sources of funding for the University's academic programs. Eastern Washington University's 2011-13 biennial state appropriations decreased approximately 40 percent from 2007-09 levels. During the economic recession and extended periods of reduced state funding, the legislature has given measured authority to increase tuition rates for selected categories and some institutional discretion for other categories as needed.

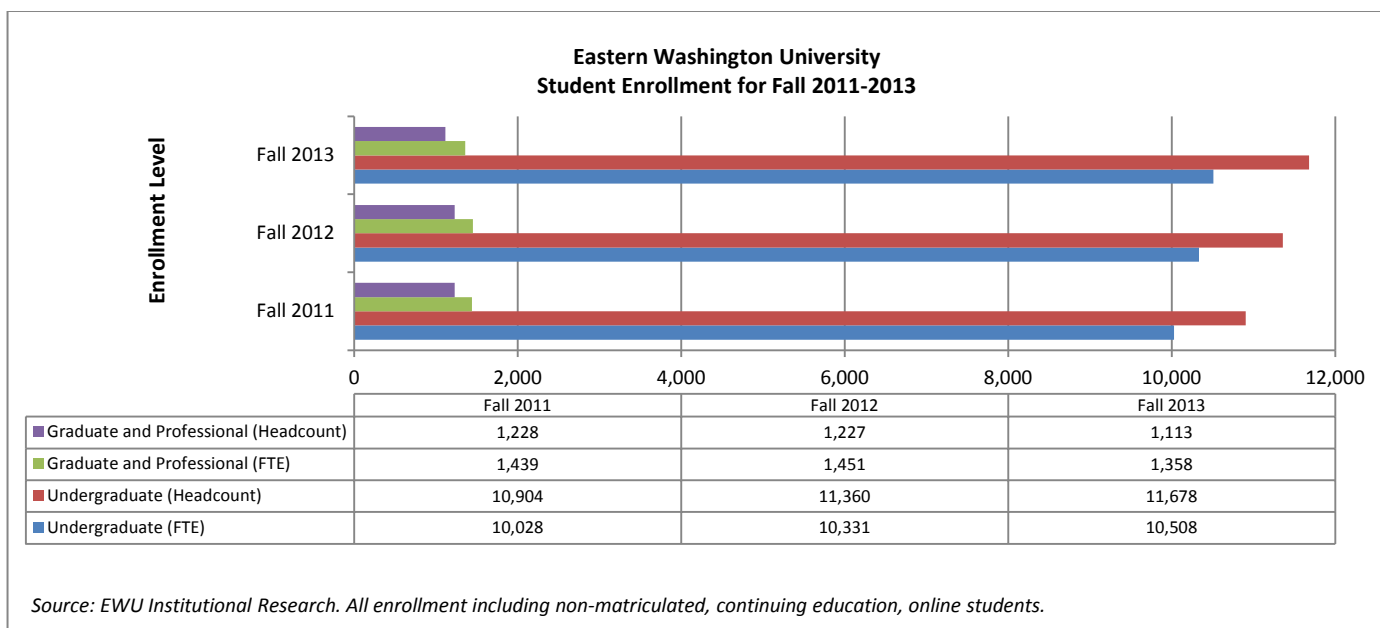
The University increasingly looks to tuition and other student fees to help offset reductions of state operating appropriations and to continue growing and transforming the University. Most tuition rates were increased for each of the three academic years as shown in the following table. However, there was no increase in resident undergraduate tuition for FY14, the largest population and revenue source among all class standings. Thus, total net student tuition and fee revenue increased only 1.1 percent before inflation over the prior year.

Full-Time Quarterly Tuition and S&A Fee Rates (10 through 18 credits)

with Percentage Increase over Prior Year

Academic Year	Resident Undergraduate	Increase over Prior Year	Resident Graduate	Increase over Prior Year	Nonresident Undergraduate	Increase over Prior Year	Nonresident Graduate	Increase over Prior Year
2013-14	2,457	0%	3,445	7%	6,447	7%	7,994	7%
2012-13	2,457	11%	3,233	9%	6,039	11%	7,484	9%
2011-12	2,230	11%	2,977	9%	5,456	11%	6,877	9%

Managing enrollment growth during periods of economic downturn continues to be a challenge for the University. State operating appropriations have fallen while student enrollment has grown. The challenge is to cultivate sustainable growth while continuing to provide affordable learning opportunities. Maintaining the institution’s fiscal health is the cornerstone for meeting this challenge.



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

Financial Indicator	Definition	Calculation	FY12	FY13	FY14
Tuition dependency ratio (%)	Helps measure sensitivity to changes in enrollment levels	Net tuition and fees plus governmental grants to the institution for student tuition divided by the sum of operating and non-operating revenues	61.9	62.6	62.0
Unrestricted financial resources-to-operations (x)	Measures coverage of annual operations by the most liquid resources	Unrestricted net assets divided by total adjusted operating expenses	.47	.51	.52
Annual days cash on hand	Measures the number of days an institution is able to operate (cover its cash operating expenses)	Annual liquidity times 365 divided by total expenses less depreciation and unusually large non-cash expenses	224	236	241
Current ratio ¹	Measures liquidity – ability to meet current obligations with liquid assets	Current assets divided by current liabilities	4.92	4.56	4.26

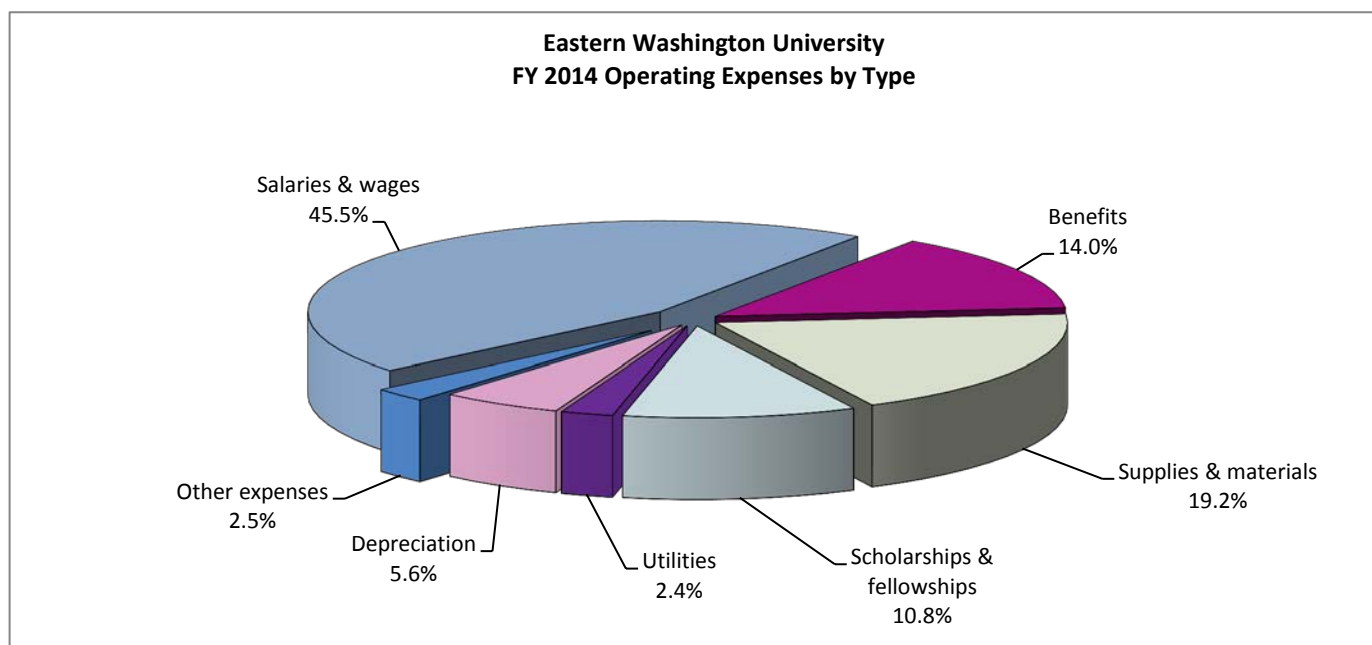
¹ Includes Series 2012 unspent bond proceeds which temporarily inflates the current ratio until invested in capital assets.

These financial indicators are useful for institutional trend analysis and become more meaningful when compared to peer institutions (not included here) such as those with the same debt rating, similar student population and degree offerings, or to industry norms. Within that context, the University appears to be relatively well positioned to weather the current economic environment and make investments for the future. Factors that could affect these financial indicators are student enrollment levels, tuition pricing inelasticity, issuance of new revenue debt, funding levels for state and federal financial aid, state appropriations, and the economy as a whole.

University programming support also consists of revenues received from governmental and private sources in the form of grants and contracts. The mix between federal, state and private sources fluctuates from year to year but overall funding has remained at roughly 20 percent of total revenues for each of the three years ended 2014. Grants are generally managed on a reimbursement basis in that revenues are drawn to cover expenses incurred and thus have minimal effect on net income other than partial recovery of indirect costs. This reliance on grants and contracts from governmental and private sources underscores the impact the overall economy can have on the delivery of educational services. A decrease in these funding sources could directly affect staffing levels and educational opportunities.

Operating Expenses

Operating expenses consist mainly of employee compensation, supplies and materials costs, and student scholarships and fellowships. Shown below is an illustration of operating expenses by type (object) for the year ended June 30, 2014. The ensuing table compares expenses for fiscal years ending June 30, 2014, 2013 and 2012.



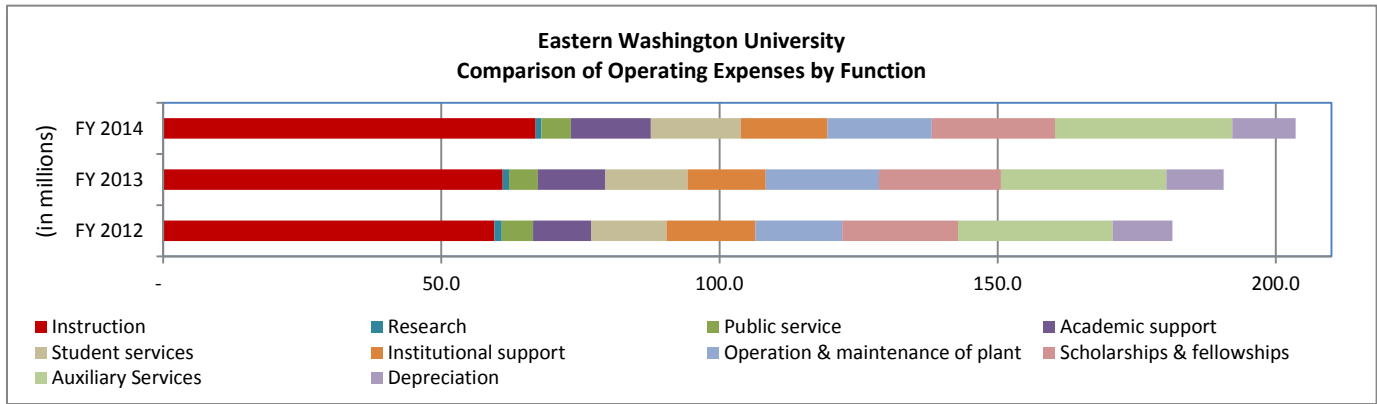
Operating Expenses by Type (in thousands)

For the year ended June 30

	2014		2013		2012	
Salaries & wages	\$ 92,676	45.5%	\$ 84,278	44.2%	\$ 82,225	45.3%
Benefits	28,494	14.0%	26,111	13.7%	26,987	14.9%
Supplies & materials	38,998	19.2%	39,618	20.8%	32,861	18.1%
Scholarships & fellowships	21,923	10.8%	21,520	11.3%	20,493	11.3%
Utilities	4,917	2.4%	4,369	2.3%	4,150	2.3%
Depreciation	11,357	5.6%	10,233	5.4%	10,701	5.9%
Other expenses	5,173	2.5%	4,497	2.3%	3,978	2.2%
Total	\$ 203,538	100%	\$ 190,626	100%	\$ 181,395	100.0%

Salaries, wages and benefits are the major support cost for the University's programs, followed by supplies and materials, scholarships, and other operating expenses. In FY14, salary expenses increased by 10 percent and benefits increased by 9.1 percent over the prior year. In total, operating expenses increased 6.7 percent while operating revenue increased only 2.3 percent during FY14. However, net non-operating revenues were up 6.4 percent and total revenues ended the year on a positive note outpacing expenses by \$ 16.6 million.

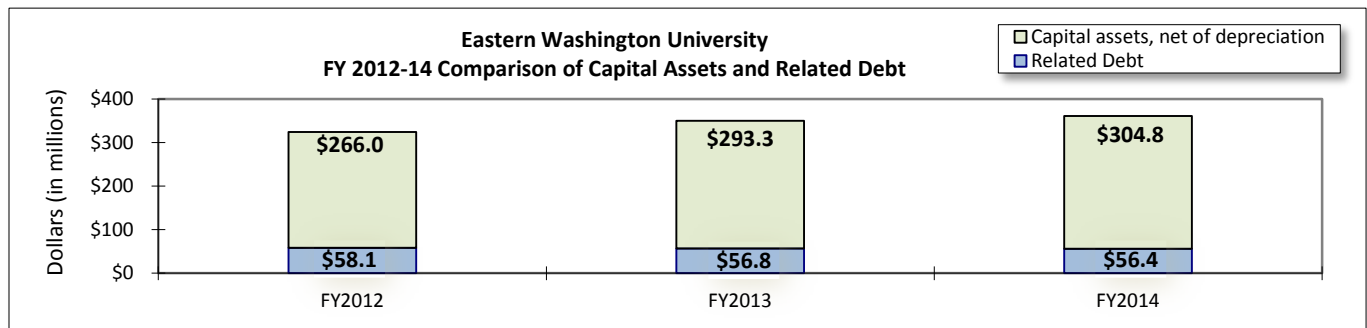
An alternative view of operating expenses is by functional (programmatic) classification as shown below for the years ended June 30, 2014, 2013 and 2012.



Instructional expenses by far comprise the largest single category of operating costs. Fluctuations in expenses for operation and maintenance of plant are largely impacted by non-capitalized facility improvements associated with project expenses that are not capitalized to an asset. The amount varies by year depending on several factors including the types and timing of projects undertaken. The rise in auxiliary services costs reflects the greater demand in support services necessary to meet the growing student population. See Footnote 15 for additional details regarding functional expenses.

Capital Asset and Debt Activities

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



While several minor improvement projects took place during this time, two major projects comprise most of the increase in capital assets. In December 2013 work was completed on the Patterson Hall renovation and expansion project, the University's largest academic building with 40 general use classrooms and two computer labs. Funded by the state capital budget, the project renovates the existing 102,347 square foot building and provides an additional 33,196 square feet of space.

State capital appropriations significantly contribute to the University's ability to build infrastructure in support of academic programs without adding debt. However, not all capital projects are funded by state appropriations. Eastern may also use

operating revenue and long-term debt to fund capital assets. In FY 2010, the University initiated a plan to invest in the campus residential facilities. In late summer 2013 construction was completed for a new 350-bed residence hall on campus land. In April 2012 the University issued \$25.3 million in new revenue bonds to finance this project (see Footnote 10 for additional information).

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

<u>Financial Indicator</u>	<u>Definitions</u>	<u>Calculation</u>	FY 2012	FY 2013	FY 2014
Expendable financial resources to direct debt (x)	Measures coverage of direct debt by financial resources that are ultimately expendable	Expendable financial resources divided by direct debt	1.71	1.96	2.21
Financial debt burden ratio (%)	Examines dependence on borrowed funds as a source of financing the mission and the relative cost of borrowing to overall expenditures	Principal and interest on capital debt and lease divided by operating and non-operating expenses less depreciation plus principal paid on capital debt and leases	2.33	1.51	2.02
Debt service coverage (x) ⁱ	Measures actual margin of protection for annual debt service payments from annual operations. A higher ratio is considered to be advantageous while a declining ratio may be cause for concern.	Annual operating surplus (deficit) plus interest and depreciation expenses divided by actual principal and interest payments	3.93	7.50	4.22

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

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

In 2014 the University's overall financial position improved as a whole. Net position increased to \$372.4 million, an increase of \$16.6 million or 4.67 percent on revenues of \$222.3 million and expenses totaling \$205.7 million. Funding for higher education continues to be under pressure with fluctuating state funding and increasing enrollment demand. Reductions in historical state funding levels have been partially offset by higher tuition and fee rates; however, those rates are controlled through state legislation which could impact the ability to meet future financial goals. While the state and national economic outlook has improved slightly over the past year, financial pressure is expected to continue as the state struggles with sustainable funding for education. Mandated funding for K-12 public education has placed even greater demands on the statewide budget, which magnifies the importance of tuition setting authority in higher education.

Other factors that can impact financial position include changes in accounting and reporting requirements. GASB 68 is a major new accounting standard with significant implications for all public colleges and universities with defined-benefit pension plans such as the Public Employees Retirement System. Effective in FY 2015, it changes the measurement of net pension liabilities and requires presentation in the financial statements at the employer level. The cost of pension expense will be recognized during the employee service period – the time worked until separation or retirement. The university's proportionate share of the net pension liability will be calculated based on the expected long-term contribution effort in relation to that of all participating employers across the state. The net pension liability will impact the university financial statements by reducing unrestricted fund balance.

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

ⁱ The FY13 debt service coverage ratio increased because principal repayments for the Series 2012 Housing and Dining Revenue Bonds were deferred until FY14. As expected, the ratio decreased in the following year when principal payments began.

Statements of Net Position

June 30, 2014 and 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,338,489	\$ 35,580,778
Short-term investments	21,210,098	29,133,079
Deposit with State of Washington	7,813,974	7,041,613
Accounts receivable (net of allowances of \$290,045 and \$314,931, respectively)	9,897,193	12,227,696
Student loans receivable (net of allowances of \$8,962 and \$9,350, respectively)	121,306	125,277
Inventories	1,236,285	1,299,612
Other assets	3,201,336	2,652,792
Total current assets	<u>76,818,681</u>	<u>88,060,847</u>
Noncurrent assets:		
Endowment investments	9,464,446	8,417,708
Other long-term investments	61,885,211	46,703,677
Student loans receivable (less allowances of \$889,870 and \$875,812, respectively)	4,847,638	4,841,405
Other noncurrent assets	115,286	121,588
Capital assets, net of accumulated depreciation	304,789,957	293,311,309
Total noncurrent assets	<u>381,102,538</u>	<u>353,395,687</u>
Total assets	<u>\$ 457,921,219</u>	<u>\$ 441,456,534</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on bond refunding	\$ 41,442	\$ 51,193
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 7,601,333	\$ 9,462,131
Accrued liabilities	3,604,434	3,168,758
Compensated absences	14,983	9,373
Deposits or funds held for others	70,205	405,107
Unearned revenue	4,647,462	4,386,014
Long-term liabilities, current portion	2,083,471	1,870,389
Total current liabilities	<u>18,021,888</u>	<u>19,301,772</u>
Noncurrent liabilities:		
Compensated absences	6,528,495	5,965,374
Unamortized premiums on debt issues	661,450	509,345
Long-term liabilities	60,344,913	59,952,650
Total noncurrent liabilities	<u>67,534,858</u>	<u>66,427,369</u>
Total liabilities	<u>\$ 85,556,746</u>	<u>\$ 85,729,141</u>
NET POSITION		
Net investment in capital assets	\$ 248,640,936	\$ 243,238,794
Restricted for:		
Nonexpendable:		
Endowments	5,333,245	5,333,195
Charitable gift annuities	604,851	476,242
Expendable:		
Loans	8,700,755	8,473,398
Capital projects	9,345,348	7,557,567
Endowments and other	4,971,995	4,094,439
Unrestricted	94,808,785	86,604,951
Total net position	<u>\$ 372,405,915</u>	<u>\$ 355,778,586</u>

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2014 and 2013

REVENUES	<u>FY 2014</u>	<u>FY 2013</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$27,225,338 and \$26,170,505, respectively)	\$ 89,280,475	\$ 88,337,483
Federal grants and contracts	4,376,723	4,772,494
State and local grants and contracts	24,175,889	21,799,934
Nongovernmental grants and contracts	3,193,917	3,391,483
Sales and services of auxiliary enterprises		
Housing and dining services (net of scholarship allowances of \$7,904,130 and \$6,702,884, respectively)	11,592,433	10,890,432
Other auxiliary enterprises (net of scholarship allowances of \$1,574,531 and \$1,381,261, respectively)	9,324,027	9,276,647
Other operating revenue	1,894,818	2,097,073
Total operating revenue	<u>143,838,282</u>	<u>140,565,546</u>
 EXPENSES		
Operating expenses:		
Salaries and wages	92,676,207	84,277,584
Benefits	28,493,779	26,110,666
Scholarships and fellowships	21,923,012	21,520,206
Utilities	4,916,971	4,369,073
Supplies and materials	36,802,052	35,963,203
Non-capitalized facility improvements (NCFI)	2,196,327	3,655,175
Other	5,173,033	4,497,152
Depreciation	11,356,948	10,232,989
Total operating expenses	<u>203,538,329</u>	<u>190,626,048</u>
Operating loss	(59,700,047)	(50,060,502)
 NON-OPERATING REVENUES (EXPENSES)		
State appropriations	40,069,834	36,534,907
Investment income, gains and losses	5,058,333	3,683,279
Interest on capital asset-related debt	(2,194,887)	(1,450,923)
Gifts	87,397	999,694
Pell grant revenue	19,994,226	19,425,030
Net non-operating revenues	<u>63,014,903</u>	<u>59,191,987</u>
Gain before other revenues, expenses, gains or losses	<u>3,314,856</u>	<u>9,131,485</u>
State appropriations - capital	13,312,473	18,584,148
Gifts to permanent endowments	-	2,050
Special items - loss on sale of capital asset (Note 7)	-	(1,342,032)
Total other revenues and expenses	<u>13,312,473</u>	<u>17,244,166</u>
Increase in net position	16,627,329	26,375,651
 NET POSITION		
Net position, beginning of year	355,778,586	329,402,935
Net position, end of year	<u>\$ 372,405,915</u>	<u>\$ 355,778,586</u>

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

	FY 2014	FY 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 88,812,383	\$ 88,643,301
Grants and contracts	31,049,629	29,872,812
Payments to vendors	(50,725,157)	(45,232,364)
Payments to employees	(119,247,186)	(108,927,586)
Payments for scholarships and fellowships	(21,923,012)	(21,520,206)
Loans issued to students	(975,103)	(877,027)
Collection of student loans	952,985	921,193
Auxiliary enterprise receipts	20,615,142	19,845,579
Other receipts (payments)	752,981	941,547
Net cash used by operating activities	<u>(50,687,338)</u>	<u>(36,332,751)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	40,069,834	36,534,907
Pell grant	19,994,226	19,425,030
Endowment gifts	-	2,050
Stafford/Plus/Direct loans receipts	66,790,143	68,573,841
Stafford/Plus/Direct loans disbursements	(66,897,384)	(68,573,841)
Agency fund receipts	7,513,091	7,148,483
Agency fund disbursements	(7,516,692)	(7,337,664)
Net cash provided by noncapital financing activities	<u>59,953,218</u>	<u>55,772,806</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	17,609,777	15,822,728
Purchases of capital assets	(21,997,430)	(40,295,192)
Contributions and gifts in-kind	87,397	999,694
Principal paid on capital debt and leases	(1,923,579)	(1,334,083)
Interest paid on capital debt and leases	(2,037,379)	(1,438,816)
Net cash provided (used) by capital financing activities	<u>(8,261,214)</u>	<u>(26,245,669)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	29,556,326	18,536,061
Interest on investments	3,354,090	3,556,561
Purchase of investments	(36,157,371)	(27,477,325)
Net cash provided (used) by investing activities	<u>(3,246,955)</u>	<u>(5,384,703)</u>
Net increase (decrease) in cash	(2,242,289)	(12,190,317)
Cash, beginning of year	35,580,778	47,771,095
Cash, end of year	<u>\$ 33,338,489</u>	<u>\$ 35,580,778</u>

Statements of Cash Flows *(Continued)*

For the Years Ended June 30, 2014 and 2013

	<u>FY 2014</u>	<u>FY 2013</u>
Reconciliation of net operating revenue (expenses) to net cash provided (used) by operating activities		
Operating income (loss)	\$ (59,700,047)	\$ (50,060,502)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	11,356,949	10,232,989
Changes in assets and liabilities:		
Receivables, net	(1,956,413)	322,323
Inventories	63,327	98,511
Other assets	(548,544)	(1,339,761)
Accounts payable	(1,414,472)	3,101,138
Deferred and unearned revenue	251,060	425,105
Deposits held for others	(224,060)	(477,901)
Compensated absences and other	1,487,124	1,317,757
Loans to students	(2,262)	47,590
Net cash used by operating activities	<u>\$ (50,687,338)</u>	<u>\$ (36,332,751)</u>
 Noncash Transactions		
Buildings and/or equipment	1,610,530	-
Capital leases	(1,610,530)	-

Statements of Financial Position - Component Unit (Foundation)

June 30, 2014 and 2013

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
ASSETS		
Cash and cash equivalents	\$ 2,452,336	\$ 2,257,413
Promises to give, net of allowances and discounts	753,048	872,245
Other assets	405,970	423,711
Contributions receivable from charitable trusts	377,810	340,466
Investments held in charitable trusts	207,016	182,466
Investments	17,819,811	15,188,324
Beneficial interest in perpetual trusts	<u>2,505,199</u>	<u>2,331,436</u>
Total assets	<u>\$ 24,521,190</u>	<u>\$ 21,596,061</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 113,922	\$ 92,259
Annuities payable	125,634	125,693
Notes payable	<u>-</u>	<u>353,338</u>
Total liabilities	239,556	571,290
COMMITMENTS		
	-	-
NET ASSETS		
Unrestricted (deficit)	187,874	(16,506)
Temporarily restricted	6,659,287	4,697,134
Permanently restricted	<u>17,434,473</u>	<u>16,344,143</u>
Total net assets	<u>24,281,634</u>	<u>21,024,771</u>
Total liabilities and net assets	<u>\$ 24,521,190</u>	<u>\$ 21,596,061</u>

Statements of Activities – Component Unit (Foundation)

For the Years Ended June 30, 2014 and 2013

	FY 2014				FY 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT								
Contributions	\$ 50,172	\$1,787,206	\$ 725,318	\$ 2,562,696	\$ 42,555	\$ 1,447,705	\$ 408,712	\$ 1,898,972
Contributions from trusts	-	58,187	-	58,187	-	80,144	-	80,144
Investment Income, net of fees of \$99,886 and \$87,963, respectively	35,382	278,704	(2,676)	311,410	30,204	276,983	2,675	309,862
Realized gain (loss) on investments	(473)	722,929	-	722,456	(642)	357,648	-	357,006
Unrealized gain (loss) on investments	-	1,663,773	-	1,663,773	-	1,084,245	-	1,084,245
Change in value of split-interest agreements	-	-	224,131	224,131	-	-	(96,838)	(96,838)
Support provided by Eastern Washington University	997,383	-	-	997,383	941,359	-	-	941,359
Other	4,227	945,163	4,531	953,921	72	778,106	4,831	783,009
Total revenues, gains, and support	1,086,691	5,455,962	951,304	7,493,957	1,013,548	4,024,831	319,380	5,357,759
Net assets released from restrictions and other transfers	3,354,783	(3,493,809)	139,026	-	5,091,285	(5,216,110)	124,825	-
EXPENSES								
Management and general	936,284	-	-	936,284	951,040	-	-	951,040
Fundraising	606,493	-	-	606,493	573,298	-	-	573,298
Support provided to/for Eastern Washington University	2,694,317	-	-	2,694,317	4,033,767	-	-	4,033,767
Total expenses	4,237,094	-	-	4,237,094	5,558,105	-	-	5,558,105
CHANGE IN NET ASSETS	204,380	1,962,153	1,090,330	3,256,863	546,728	(1,191,279)	444,205	(200,346)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(16,506)	4,697,134	16,344,143	21,024,771	(563,234)	5,888,413	15,899,938	21,225,117
NET ASSETS (DEFICIT), END OF YEAR	\$ 187,874	\$6,659,287	\$17,434,473	\$24,281,634	\$ (16,506)	\$4,697,134	\$16,344,143	\$ 21,024,771

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

FINANCIAL REPORTING ENTITY

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

The Eastern Washington University Foundation (Foundation) is established as a tax exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation's 35-member board consists of graduates and friends of the University. The University has an agreement with the Foundation to design and implement such programs and procedures to persuade continuous and philanthropic support for the benefit of the University. In exchange, the University provides the Foundation with partial office space, furniture and equipment, supplies, and staff to operate the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by or for the benefit of the University, the Foundation is considered a legally separate component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements include assets and earnings of other unrelated entities; these amounts are not material to the Foundation's financial position taken as a whole. For the fiscal years ended June 30, 2014 and 2013, the net distribution from the Foundation to the University for restricted and unrestricted purposes which includes both student scholarships and program support follows:

<u>Fiscal Year</u>	<u>Net Distribution</u>
2014	\$1,696,934
2013	\$3,092,408

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 102 Hargreaves Hall, Cheney, WA 99004.

BASIS OF ACCOUNTING

The financial statements of the University are presented in accordance with accounting principles generally accepted in the United States of America. The University reports as a special purpose government engaged in business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended. Accordingly, the University's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The flow of economic resources focus considers all of the assets available to the University for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long-term, are recorded and depreciation is recorded as a charge to operations. The accrual basis of accounting recognizes revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable. All significant intra-agency transactions have been eliminated, which includes intra-agency payables and receivables as well as interdepartmental receipts and expenses.

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

OPERATING ACTIVITIES

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

INVENTORIES

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

CASH EQUIVALENTS

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

TAX EXEMPTION

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

STATE APPROPRIATIONS

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

UNEARNED REVENUES

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

CAPITAL ASSETS

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

ACCRUED LEAVE

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

CHARITABLE GIFT ANNUITIES

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

USE OF ESTIMATES

Allowances for uncollectible accounts (Note 3) are estimates based on aging and historical collection of student loans and accounts receivable. Actual results could differ from those estimates; however, the University believes these allowances are adequate.

NET POSITION

The University's net position is classified as follows:

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

Restricted net position:

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

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

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

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

RECLASSIFICATIONS, RESTATEMENTS, AND CHANGES IN ACCOUNTING PRINCIPLES

Certain reclassifications not affecting total net position have been made to 2013 amounts in order to conform to 2014 presentation.

Note 2: Deposits and Investments

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

	Carrying Value June 30, 2014	Carrying Value June 30, 2013
<u>Deposits</u>		
Cash and cash equivalents		
Interest bearing	\$ 33,209,754	\$ 35,450,236
Other	<u>128,735</u>	<u>130,542</u>
Total deposits	<u>\$ 33,338,489</u>	<u>\$ 35,580,778</u>

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

At June 30, 2014, investment maturities are as follows:

	Fair value June 30, 2014	<u>Investment maturities for fixed income securities (in months)</u>			
		<u>0 – 9</u>	<u>10 – 24</u>	<u>25 – 60</u>	<u>61 – 120</u>
<u>Investments – Operating Funds</u>					
U.S. Government agency bonds	\$ 82,321,920	\$ 18,103,380	\$ 40,257,420	\$ 23,961,120	
Other deposits	38,329				
<u>Investments – Charitable Gift Annuities</u>					
Investment unit trusts					
Equity fund	448,527				
Bond fund	286,533				\$ 286,533
<u>Investments – Endowment Funds</u>					
Investment unit trusts					
Equity fund	6,159,236				
Bond fund	<u>3,305,210</u>				<u>3,305,210</u>
Total investments	<u>\$ 92,559,755</u>	<u>\$ 18,103,380</u>	<u>\$ 40,257,420</u>	<u>\$ 23,961,120</u>	<u>\$ 3,591,743</u>

At June 30, 2013, investment maturities are as follows:

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

At June 30, 2014 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$4,131,322 which is reported as restricted, expendable on the Statement of Net Position. RCW 24.44.050 of the Washington State Code allows for the spending of net appreciation on investments of donor-restricted endowments. Accordingly, the income distribution policy is 5 percent of the three year moving average of the fair value of net assets.

Fair value of the investment unit trust was determined using the fund's current share price. Fair values of all other investments were provided by major investment brokers or banks.

The Bond Fund is comprised of many underlying securities including debt instruments with varied maturity dates. As a whole, the fund had a weighted average maturity of 7.2 years at year end.

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

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

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

Portfolio	Target	Policy Range
Operating funds		
Liquidity pool	25%	20-40%
Intermediate pool	50%	30-60%
Long Term pool	25%	15-40%
Endowment funds		
US equity	60%	50-70%
Fixed income	30%	20-40%
Non-US 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, 2014 and 2013 consist of the following:

	June 30, 2014	June 30, 2013
Accounts receivable		
Student tuition and fees (less allowances of \$32,190 and \$81,818, respectively)	\$ 4,601,376	\$ 4,029,931
Auxiliary enterprises (less allowances of \$232,226 and \$223,170, respectively)	1,597,584	962,036
Contracts and grants	1,885,037	1,322,133
State reimbursement	1,448,927	5,746,231
Other (less allowances of \$25,629 and \$9,943, respectively)	<u>364,269</u>	<u>167,365</u>
Total accounts receivable	<u>\$ 9,897,193</u>	<u>\$ 12,227,696</u>
Student loans receivable		
Federal programs (less allowances of \$889,870 and \$875,812, respectively)	\$ 4,847,638	\$ 4,841,405
Institutional loans (less allowances of \$8,962 and \$9,350, respectively)	<u>121,306</u>	<u>125,277</u>
Total student loans receivable	<u>\$ 4,968,944</u>	<u>\$ 4,966,682</u>

Note 4: Funds with State Treasurer

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

Note 5: Compensated Absences

Vacation leave represents a liability to the University and is recorded and reported accordingly. Accumulated sick leave earned and unused, calculated at 25 percent of unused balance, represents a probable liability to the University and is recorded and reported accordingly. The employee is entitled to either the present value of 25 percent of his/her unused sick leave balance upon retirement or 25 percent of his/her accumulation for the year in which it exceeds 480 hours. Accrued compensatory time represents a liability to the University and is recorded and reported accordingly. Earned compensatory time is expected to be used within one year and is therefore classified as a short-term liability.

<u>Leave Type</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Vacation	\$5,035,251	\$4,617,837
Sick	\$1,493,244	\$1,347,537
Compensatory	\$14,983	\$9,373

Note 6: Risk Management

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

The University has elected to become a self-insurer of unemployment compensation. Cash reserves total \$3,319,492 and \$3,375,055 at June 30, 2014 and 2013, respectively.

Note 7: Capital Assets

Capital asset activity for the two-year period ended June 30, 2014 is summarized as follows:

	June 30, 2012	Additions	Retirements	June 30, 2013	Additions	Retirements	June 30, 2014
Non-depreciable Capital Assets							
Land	\$ 2,120,954	\$ -	\$ 596,120	\$ 1,524,834	\$ -	\$ -	\$ 1,524,834
Construction in progress	<u>31,592,324</u>	<u>34,898,214</u>	<u>2,646,116</u>	<u>63,844,422</u>	<u>19,205,382</u>	<u>81,258,367</u>	<u>1,791,437</u>
Subtotal	<u>33,713,278</u>	<u>34,898,214</u>	<u>3,242,236</u>	<u>65,369,256</u>	<u>19,205,382</u>	<u>81,258,367</u>	<u>3,316,271</u>
Depreciable Capital Assets							
Buildings	293,368,812	2,646,116	4,504,993	291,509,935	79,313,340	-	370,823,275
Improvements other than buildings	15,568,805	-	-	15,568,805	1,960,234	-	17,529,039
Infrastructure	30,699,799	-	-	30,699,799	-	-	30,699,799
Furniture, fixtures and equipment	29,969,254	3,642,856	454,767	33,157,343	2,286,545	406,323	35,037,565
Library materials	<u>23,136,763</u>	<u>1,587,299</u>	<u>774,372</u>	<u>23,949,690</u>	<u>1,467,441</u>	<u>1,447,019</u>	<u>23,970,112</u>
Subtotal	<u>392,743,433</u>	<u>7,876,271</u>	<u>5,734,132</u>	<u>394,885,572</u>	<u>85,027,560</u>	<u>1,853,342</u>	<u>478,059,790</u>
Total capital assets	426,456,711	42,774,485	8,976,368	460,254,828	104,232,942	83,111,709	481,376,061
Less accumulated depreciation:							
Buildings	101,089,860	5,747,711	2,620,653	104,216,918	6,786,589	-	111,003,507
Improvements other than buildings	5,574,949	476,137	-	6,051,086	549,646	-	6,600,732
Infrastructure	17,993,001	936,153	-	18,929,154	909,024	-	19,838,178
Furniture, fixtures and equipment	25,133,689	1,920,354	399,478	26,654,565	1,957,540	267,344	28,344,761
Library materials	<u>10,713,534</u>	<u>1,152,634</u>	<u>774,372</u>	<u>11,091,796</u>	<u>1,154,149</u>	<u>1,447,019</u>	<u>10,798,926</u>
Total accumulated depreciation	<u>160,505,033</u>	<u>10,232,989</u>	<u>3,794,503</u>	<u>166,943,519</u>	<u>11,356,948</u>	<u>1,714,363</u>	<u>176,586,104</u>
Capital assets, net of depreciation	<u>\$ 265,951,678</u>	<u>\$ 32,541,496</u>	<u>\$ 5,181,865</u>	<u>\$ 293,311,309</u>	<u>\$ 92,875,994</u>	<u>\$ 81,397,346</u>	<u>\$ 304,789,957</u>

The Spokane Higher Education Center, a four-story building located at 705 W. 1st Ave in downtown Spokane, sat vacant (idle) during FY 2012. The University no longer intended to use the property, instead focusing on providing educational programs and services in the nearby University District. From a service capacity perspective, the building was impaired and the property was sold for a loss in FY 2013 which is presented as a special item on the Statements of Revenues, Expenses and Changes in Net Position.

Note 8: Long-term Liabilities

Long-term liability activity for the two-year period ended June 30, 2014 is summarized as follows:

	June 30, 2013	Additions	Reductions	June 30, 2014	Current Portion 2014
Leases and bonds payable:					
Lease obligations (Note 9)	\$ 2,750,560	\$ 1,610,530	\$ 353,578	\$ 4,007,512	\$ 412,441
Revenue bonds payable (Note 10)	<u>54,005,000</u>	<u>-</u>	<u>1,570,000</u>	<u>52,435,000</u>	<u>1,625,000</u>
Total leases and bonds payable	56,755,560	1,610,530	1,923,578	56,442,512	2,037,441
Other liabilities:					
Charitable gift annuities (Note 1)	171,339	27,209	68,338	130,210	46,030
Net pension obligation (Note 12)	4,896,140	1,114,000	154,477	5,855,663	-
Compensated absences (Note 5)	<u>5,974,747</u>	<u>4,705,356</u>	<u>4,136,626</u>	<u>6,543,477</u>	<u>14,983</u>
Total long-term liabilities	<u>\$ 67,797,786</u>	<u>\$ 7,457,095</u>	<u>\$ 6,283,019</u>	<u>\$ 68,971,862</u>	<u>\$ 2,098,454</u>

	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion 2013
Leases and bonds payable:					
Lease obligations (Note 9)	\$ 3,064,643	\$ -	\$ 314,083	\$ 2,750,560	\$ 256,217
Revenue bonds payable (Note 10)	<u>55,025,000</u>	-	<u>1,020,000</u>	<u>54,005,000</u>	<u>1,570,000</u>
Total leases and bonds payable	58,089,643	-	1,334,083	56,755,560	1,826,217
Other liabilities:					
Charitable gift annuities (Note 1)	146,654	88,823	64,138	171,339	44,172
Net pension obligation (Note 12)	3,946,578	1,114,000	164,438	4,896,140	-
Compensated absences (Note 5)	<u>5,631,238</u>	<u>3,905,996</u>	<u>3,562,487</u>	<u>5,974,747</u>	<u>9,373</u>
Total long-term liabilities	<u>\$ 67,814,113</u>	<u>\$ 5,108,819</u>	<u>\$ 5,125,146</u>	<u>\$ 67,797,786</u>	<u>\$ 1,879,762</u>

Note 9: Leases

The University leases facilities and furnishings for student dormitory residences, office and computer equipment, and other assets under a variety of agreements. The University's non-cancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2015 through 2023. Total operating lease expenses in fiscal year 2014 were \$909,170.

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, 2014, are as follows:

Fiscal Year Annual Payment	Operating	Capital
2015	\$ 484,105	\$ 620,042
2016	360,576	603,123
2017	263,641	589,924
2018	123,821	585,493
2019	66,627	601,423
2020-24	<u>143,513</u>	<u>2,035,899</u>
Obligation under leases	<u>\$ 1,442,283</u>	5,035,904
Less: Amount representing interest costs		<u>(1,028,392)</u>
Present value of minimum obligation under capital leases		<u>\$ 4,007,512</u>

Note 10: Bonds Payable

Bonds payable consist of revenue bonds issued by University auxiliary enterprises for capital construction projects as shown below.

The Housing and Dining System net revenues and student and activities fees paid by each student enrolled are pledged for debt service on the bonds of Eastern Washington University. The Series 2012 Housing and Dining System Revenue Bonds is tax-exempt debt with external restrictions as outlined in the bond covenants. Under GASB 62, interest costs for such bonds are capitalized net of investment earnings on unspent proceeds until the related capital asset is substantially complete and ready for operation. Net capitalized interest, which represents the amount of expense that could have been avoided had the asset not been acquired, totals \$193,281 and \$943,264 for the fiscal years ending June 30, 2014 and 2013, respectively.

	Interest Rate	Maturity Date	Original Balance	Balance Outstanding
Eastern Washington University				
Service and Activities Revenue Bonds, Series 2006	4.00% - 5.00%	2014-2038	\$ 28,090,000	\$ 24,900,000
Service and Activities Refunding Bonds, Series 2006	4.00% - 4.00%	2014-2019	5,625,000	2,710,000
Housing and Dining System Revenue Bonds, Series 2012	2.00% - 4.125%	2014-2042	<u>25,330,000</u>	<u>24,825,000</u>
Total Revenue Bonds payable			<u>\$ 59,045,000</u>	<u>\$ 52,435,000</u>

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

Fiscal Year	Eastern Washington University	
	Principal	Interest
2015	\$ 1,625,000	\$ 2,143,667
2016	1,685,000	2,082,918
2017	1,760,000	2,014,517
2018	1,840,000	1,942,918
2019	1,905,000	1,868,517
2020-2024	7,385,000	8,480,248
2025-2029	8,965,000	6,935,318
2030-2034	11,025,000	4,891,622
2035-2039	12,135,000	2,223,343
2040-2042	<u>4,110,000</u>	<u>343,612</u>
Totals	<u>\$ 52,435,000</u>	<u>\$ 32,926,680</u>

Note 11: Pledged Revenues

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

Source of Revenue Pledged	Current Year Revenues Pledged (net)	Current Year Debt Service	Total Future Revenues Pledged	Description of Debt	Purpose of Debt	Term of Commitment
Service & activity fee revenue	\$8,497,930	\$2,283,718	\$43,776,940	Service & Activities Fee Revenue and Refunding Bonds – Series 2006	Refund outstanding debt on S&A Revenue Bonds of 1993 and construction of a new student recreation center	2019 (Refunding) 2038 (Revenue)
Housing and Dining revenues net of operating expenses	\$3,177,212	\$1,483,550	\$41,584,740	Housing and Dining System Revenue Bonds – Series 2012	Design and construction of a new residence hall	2042

Note 12: Pension Plans

The University offers four contributory pension plans. The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) are cost-sharing, multi-employer defined benefit plans; PERS and TRS also have a defined contribution component. The Eastern Washington University Retirement Plan is a defined contribution plan with supplemental payment, when required. The University's total payroll for the year ended June 30, 2014, was \$92,676,207. The payroll for employees covered by PERS was \$25,196,575; payroll for employees covered by TRS was \$658,969; payroll for employees covered by LEOFF was \$669,208; and payroll for employees covered by the Eastern Washington University Retirement Plan was \$51,512,829.

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, 2014		Required Employer Contributions		
	Employee	University	FY 2012	FY 2013	FY 2014
PERS					
Plan I	6.00%	9.21%	\$ 70,416	\$ 64,720	\$ 64,245
Plan II	4.92%	9.21%	1,379,794	1,402,930	1,881,470
Plan III	Varies	9.21% *	248,399	254,239	373,595
TRS					
Plan I	6.00%	10.39%	\$ 2,980	\$ 3,125	\$ 358
Plan II	4.96%	10.39%	4,395	5,373	2,605
Plan III	Varies	10.39%	12,715	19,882	67,906
LOEFF					
Plan II	8.41%	8.59%	\$ 50,549	\$ 51,073	\$ 57,464

* Defined benefit portion only.

Eastern Washington University Retirement System

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

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

The supplemental payment plan determines a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The University makes direct payments to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with 10 years of full-time service. The benefit goal is 2 percent of the average annual salary for each year of full-time service up to a maximum of 25 years, less the annuity benefit offset and any WAPERS benefits (Washington State Retirement System). However, if the participant does not elect to make the 10 percent TIAA-CREF contribution after age 50, the benefit goal is 1.5 percent for each year of full-time service for the years in which the lower contribution rate was selected.

On June 8, 2011, the supplemental benefit payment was discontinued for new employees hired after July 1, 2011. This action caps and will eventually eliminate net pension obligations for the supplemental plan. No other significant changes were made in the benefit provision for the year ended June 30, 2014.

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, 2014, total \$4,407,394.

The University supplemental pension benefits are unfunded and charged to operations in the years in which they are paid. The University makes no contributions other than benefit payments and there are no plan assets. The difference between benefits earned and paid represents an accrued liability; the amount is determined by an actuarial study.

An actuarial study of the supplemental pension benefits was last performed as of July 1, 2013. The previous evaluation was performed in 2011. The actuarial assumptions for the most recent valuation included an investment rate of return of 4.25 percent compounded annually and projected salary increases of three percent (3%) per year. Based on assumptions made regarding expected benefit payments, the actuary presents a cash flow projection rather than an actuarial funding plan to liquidate any unfunded liabilities. The University uses this cash flow projection to budget annual amounts to provide funds for these benefits.

The unfunded actuarial accrued liability (UAL) calculated at July 1, 2013 was \$6,747,000 under the plan's entry age normal method and is amortized over an 11 year period. The UAL is amortized as a level percent of future pay; the plan was closed to new participants effective July 1, 2011. The annual required contribution (ARC) is projected at \$1,114,000. There is no inflationary factor included in the UAL valuation. The net pension obligation is the cumulative excess, if any, of the ARC over the actual benefit payments and is reported as a liability on the Statement of Net Position.

The following table reflects net pension obligation activity for the fiscal years ended June 30 follows:

Net Pension Obligation	FY 2014	FY 2013	FY 2012
Balance as of July 1	\$ 4,896,140	\$ 3,946,578	\$ 3,130,281
Add: Annual Required Contribution	1,114,000	1,114,000	986,000
Less: Payments to beneficiaries	154,477	164,438	169,703
Balance as of June 30	\$ 5,855,663	\$ 4,896,140	\$ 3,946,578

Note 13: Other Post-Employment Benefits

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

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

Net OPEB Obligation	FY 2014	FY 2013	FY 2012
Balance as of July 1	\$ 19,449,000	\$ 16,052,000	\$ 12,580,000
Add: Annual OPEB costs	4,020,000	3,926,000	4,244,000
Less: Estimated contributions	643,000	529,000	772,000
Balance as of June 30	\$ 22,826,000	\$ 19,449,000	\$ 16,052,000

Note 14: Segment Information

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

CONDENSED STATEMENTS OF NET POSITION

	Housing and Dining System Revenue Bonds Series 2012		Associated Student Activities Revenue and Refunding Bonds Series 2006	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Assets				
Current assets	\$ 7,790,684	\$ 13,708,205	\$ 3,487,261	\$ 3,811,792
Non-current assets	<u>47,628,317</u>	<u>41,663,321</u>	<u>36,342,955</u>	<u>36,288,317</u>
Total assets	55,419,001	55,371,526	39,830,216	40,100,109
Deferred outflows of resources				
Unamortized loss on bond refunding	-	-	41,442	51,193
Liabilities				
Current liabilities	1,868,785	2,832,170	1,514,669	1,484,908
Non-current liabilities	<u>27,271,039</u>	<u>28,026,232</u>	<u>26,767,041</u>	<u>27,895,278</u>
Total liabilities	29,139,824	30,858,402	28,281,710	29,380,186
Net position				
Net investment in capital assets	14,409,521	15,773,578	5,401,921	4,898,549
Restricted expendable	1,019,671	39,056	-	-
Unrestricted	<u>10,849,985</u>	<u>8,700,490</u>	<u>6,188,027</u>	<u>5,872,567</u>
Total net position	<u>\$ 26,279,177</u>	<u>\$ 24,513,124</u>	<u>\$ 11,589,948</u>	<u>\$ 10,771,116</u>

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	Housing and Dining System Revenue Bonds Series 2012		Associated Student Activities Revenue and Refunding Bonds Series 2006	
	2014	2013	2014	2013
Fiscal Years Ended June 30				
Operating revenues	\$ 20,155,329	\$ 18,257,548	\$ 8,772,916	\$ 8,596,090
Operating expenses	<u>17,549,251</u>	<u>16,077,371</u>	<u>4,577,645</u>	<u>4,236,531</u>
Net operating income	2,606,078	2,180,177	4,195,271	4,359,559
Non-operating revenues (expenses)	(855,233)	(210,121)	(1,176,839)	(1,274,823)
Transfers	<u>15,208</u>	<u>1,033,425</u>	<u>(2,199,600)</u>	<u>(2,134,472)</u>
Change in net position	1,766,053	3,003,481	818,832	950,264
Net position, beginning of year	<u>24,513,124</u>	<u>21,509,643</u>	<u>10,771,116</u>	<u>9,820,852</u>
Net position, end of year	<u>\$ 26,279,177</u>	<u>\$ 24,513,124</u>	<u>\$ 11,589,948</u>	<u>\$ 10,771,116</u>

CONDENSED STATEMENTS OF CASH FLOWS

Net cash flows provided by operating activities	\$ 3,734,990	\$ 2,890,099	\$ 5,222,140	\$ 5,369,758
Net cash flows provided (used) by non-capital and related financing activities	-	-	(2,256,000)	(2,190,872)
Net cash flows used by capital and related financing activities	(8,404,605)	(15,843,115)	(2,694,241)	(2,356,518)
Net cash flows provided by investing activities	<u>(1,233,149)</u>	<u>(1,483,243)</u>	<u>636,796</u>	<u>(957,152)</u>
Net increase (decrease) in cash	(5,902,764)	(14,436,259)	908,695	(134,784)
Cash—beginning of year	<u>10,421,038</u>	<u>24,857,297</u>	<u>1,289,138</u>	<u>1,423,922</u>
Cash—end of year	<u>\$ 4,518,274</u>	<u>\$ 10,421,038</u>	<u>\$ 2,197,833</u>	<u>\$ 1,289,138</u>

Note 15: Operating Expenses by Function

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

Operating Expenses	FY 2014	FY 2013
Educational and general		
Instruction	\$ 66,938,085	\$ 61,021,713
Research	1,060,255	1,155,556
Public service	5,262,535	5,169,193
Academic support	14,394,257	12,149,774
Student services	16,173,331	14,756,565
Institutional support	15,574,374	14,043,510
Operation and maintenance of plant	18,756,961	20,361,034
Scholarships and fellowships	22,117,975	21,911,848
Auxiliary enterprises	31,886,040	29,768,578
Depreciation	<u>11,374,512</u>	<u>10,288,277</u>
Total operating expenses	<u>\$ 203,538,329</u>	<u>\$ 190,626,048</u>

Note 16: Other Matters

The University may be contingently liable in connection with claims arising in the normal course of its activities. University management believes that the outcome of such matters will not have a material effect on the financial statements. An exception may be *Moore v. Health Care Authority*. This is a class action lawsuit brought on behalf of state employees who allege they were improperly denied health care benefits. The plaintiffs and class requested an undetermined amount plus double damages, which means the potential for damages may be substantial. Discovery related to damages remains ongoing. On December 16, 2011, a hearing was held to determine whether to certify a class on damages for the time period June 1, 2003 through December 31, 2009. Due to the current status of the case, it is difficult to assess potential damages.

Outstanding purchase orders and other commitments at June 30, 2014 total \$5,779,005 for various goods and services mostly from public works contracts associated with construction of the new residence hall and renovations to Patterson Hall.



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

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