

FINANCIAL REPORT 2006



EASTERN
WASHINGTON UNIVERSITY



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MESSAGE FROM THE PRESIDENT



It has been an exciting first year for me at Eastern Washington University, punctuated by exciting changes and new faces.

Of course, during this year of transition, the University continued to move forward on several of the fronts that had been set in motion before I arrived. We had a year that combined change, stability and planning for the future.

For the sixth consecutive year, we continued to grow in the number of students we serve, with our official headcount of students enrolled at the main campus exceeding 10,000 for the first time in EWU history. To achieve that, we increased our student retention rates and became the first-choice school for even more graduating high school seniors.

Commitment to student success remains our paramount priority at Eastern. That commitment is showcased by examples such as our successful Student Research and Creative Works Symposium and our Washington Achievers program, which this year serves 194 underrepresented or low income students.

As we've grown, so has our need for improving our student services. This year we broke ground on a new \$26 million student recreation center, planned and paid for through a cooperative effort between the EWU administration and the Associated Students of Eastern Washington University. The new facility will provide the Eastern community with 117,000 square feet of new

recreation space, featuring a multi-purpose area that will give more flexibility for fun and events than ever before at EWU.

In addition to the physical changes to the campus, we have also taken the next step on the path toward finalizing a university-wide strategic plan that incorporates every element and unit on campus and lays out goals with specific action on how to attain them. I am proud to boast that over 90 percent of our university units met the first deadline for submitting their plans, at the beginning of 2007. This demonstrates a genuine commitment to this process at all levels.

In a year full of beginnings, it is important for us to remember that we also must recommit ourselves to our long tradition of being an active leader in the region. We are defining our future plans for the Riverpoint campus in Spokane, and I am excited about the opportunities for prosperity the evolving University District in Spokane presents, not only for Eastern, but for the region as a whole.

I want to thank Eastern's family and friends for making my first academic year at EWU challenging and rewarding. I am looking forward to many more to come.

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

Rodolfo Arévalo, Ph.D.
President

BOARD OF TRUSTEES (AS OF 6/30/06)

Gordon E. Budke
Ines Zozaya-Geist
Jo Ann Kauffman
Neil McReynolds
Kris Mikkelsen, Chair
Stacey Roestal (student trustee)
Bertha Ortega
Paul Tanaka, Vice Chair

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Rodolfo Arévalo
Vice President for Academic Affairs and Provost
Ronald H. Dalla (Interim)
Vice President for Business and Finance
Mary Voves
Vice President for Student Affairs
William Ponder

UNIVERSITY DEANS (AS OF 6/30/06)

College of Arts and Letters
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College of Business and Public Administration
Dolores Tremewan Martin
College of Education and Human Development
Alan J. Coelho (Interim)
College of Science, Mathematics and Technology
Raymond A. Soltero
College of Social and Behavioral Sciences
Vickie Rutledge Shields
Graduate and Undergraduate Studies
Lawrence J. Briggs (Interim)
Libraries and Chief Information Officer
Patricia M. Kelley
School of Social Work and Human Services
Michael Frumkin

MISSION STATEMENT

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

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

Financial Section

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**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

January 29, 2007

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, 2006 and 2005, 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 audit. We did not audit the financial statements of the Eastern Washington University Foundation. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Eastern Washington University Foundation, is based on the report of the other auditors.

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

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, 2006 and 2005, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Eastern Washington University, as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2005, the University implemented the Governmental Accounting Standards Board's Statement 40, Deposit and Investment Risk Disclosures.

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 five-year historical review presented on page 28 is not a required part of the basic financial statement but is supplementary information presented for the purposes of additional analysis. 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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position and activities of Eastern Washington University ("the University") for the fiscal year ended June 30, 2006, with comparative 2005 and 2004 financial information. This MD&A provides the readers an objective and easily readable analysis of the University's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes to the financial statements.

Reporting Entity

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

The University's main campus is located in Cheney, Washington, a community of about 10,000 residents. Eastern also offers a variety of upper division and graduate programs at the Riverpoint Higher Education Park, at the EWU Spokane Center in Spokane, Washington and at various locations throughout the state of Washington.

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

Using the Financial Statements

The University reports as a business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial*

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

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

Statement of Net Assets

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

2006, 2005 and 2004, follows.

Current assets consist primarily of cash, short term investments, accounts receivables and inventories. After decreasing \$4.5 million from 2004 to 2005, current assets increased \$10.5 million in fiscal year 2006 due primarily to an increase in cash equivalents and reallocation of long term investments to short term. The increase was tempered by a \$3.2 million reduction in accounts receivable in 2006 of which \$2.8 million can be attributed to a reduction in the amount billed for state-funded capital project expenses.

The University continues to increase the investment in capital assets, which consist of land, buildings, infrastructure and equipment. The growth from \$195.2 million in 2005 to \$207.6 million in 2006, an increase of \$12.4 million, is largely due to the major renovation of Senior Hall and the construction of our new Visitor's Center.

Non-current assets are comprised mainly of endowments, long-term investments and receivables. Long-term investments decreased \$6.7 million in fiscal year 2006, which had increased \$9.8 million the year before. The decrease results from a reallocation of long-term investments to short term, with both short- and long-term investments increasing \$2.2 million over 2005.

STATEMENT OF NET ASSETS			
As of June 30 (in thousands)			
	2006	2005	2004
ASSETS			
Current assets	\$51,300	\$40,835	\$45,297
Capital assets, net	207,648	195,225	176,456
Other non-current assets	31,758	37,904	28,153
Total assets	290,706	273,964	249,906
LIABILITIES			
Current liabilities	16,507	18,953	16,602
Non-current liabilities	17,991	19,065	20,530
Total liabilities	34,498	38,018	37,132
NET ASSETS	\$256,208	\$235,946	\$212,774

Liabilities include amounts payable to suppliers for goods and services, payroll and related liabilities and debt principal payments. Current liabilities over the past three years have fluctuated between years due mostly to the timing of vendor payables for capital asset improvements. In 2006, current liabilities decreased \$2.4 million from 2005 due primarily to a \$1.8 million reduction in accrued construction-related costs. Non-current liabilities decreased \$1.1 million from 2005 to 2006 reflecting a reduction of debt service payments.

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

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

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

the University are permanent endowments.

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

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

The University's net assets at June 30, 2006, 2005 and 2004 are summarized as follows:

The \$13.9 million (7.8 percent) and \$20.2 million (12.7 percent) increase in the

net invested in capital assets in 2006 and 2005, respectively, reflects the University's continuing commitment to replacement and expansion of its capital assets.

The restricted net assets include mainly permanent endowments, student loan funds and funds available for capital projects. These assets have increased slightly from \$19.2 million in 2005 to \$19.9 million in 2006.

The University's unrestricted net assets continue to increase as shown by the \$3 million increase from 2004 to 2005 and the \$5.7 million increase from 2005 to 2006. The unrestricted net assets are not subject to externally imposed stipulations; however, the University has designated the unrestricted net assets for various academic programs and initiatives. For example, \$7.6 million of the unrestricted net assets is designated for services to be provided by auxiliary enterprises and services funds.

NET ASSETS			
As of June 30 (in thousands)			
	2006	2005	2004
Invested in capital assets, net of related debt	\$192,672	\$178,792	\$158,540
Restricted:			
Non-expendable	4,533	3,922	3,717
Expendable	15,347	15,297	15,541
Unrestricted	43,656	37,935	34,976
Total net assets	\$256,208	\$235,946	\$212,774

Statement of Revenues, Expenses and Changes in Net Assets

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

The statement classifies revenues and expenses as either operating or non-operating. Under GASB reporting principles, state appropriations are classified as non-operating revenues. The University receives state appropriations that

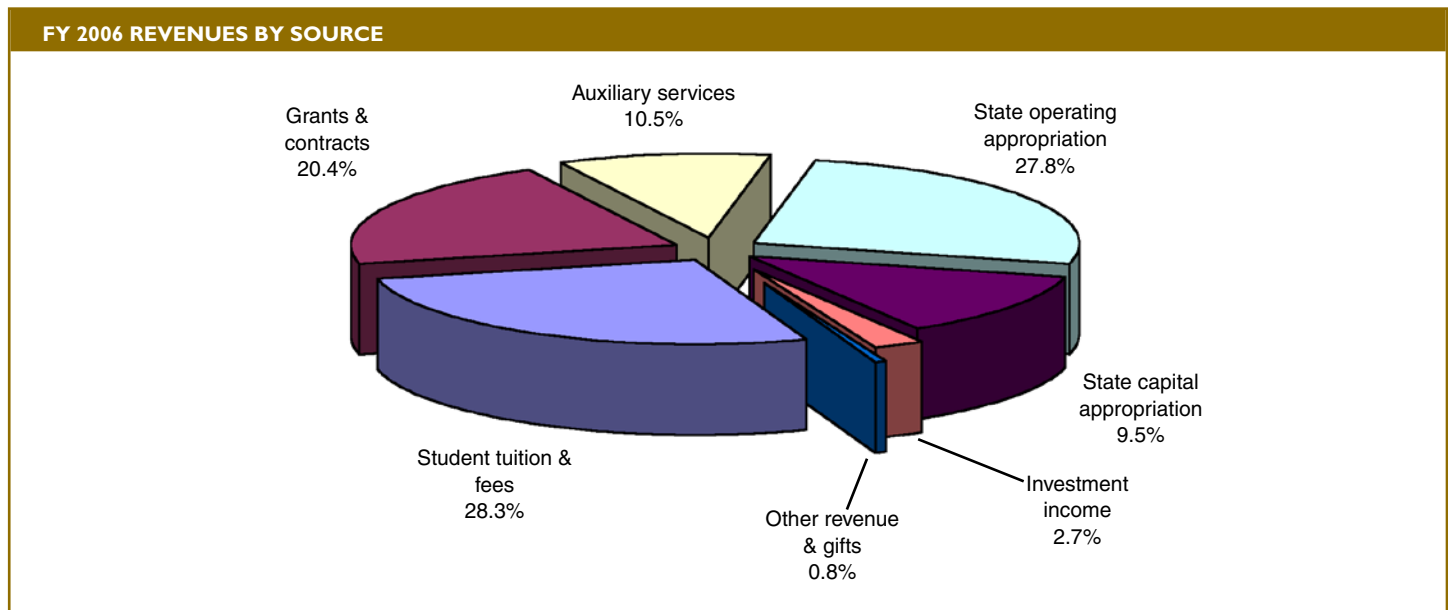
offset the loss generated by operating expenses. A summarized comparison of the University's Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2006, 2005 and 2004, follows:

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
For the year ended June 30 (in thousands)			
	2006	2005	2004
Operating revenue	\$104,102	\$98,964	\$94,921
Operating expenses	153,303	143,220	135,421
Net operating loss	(49,201)	(44,256)	(40,500)
Non-operating revenues	53,049	47,141	45,284
Non-operating expenses	796	853	920
Income/(loss) before other revenues	3,052	2,032	3,864
Other revenues and expenses	17,210	21,140	15,986
Increase in net assets	20,262	23,172	19,850
Net assets, beginning of year	235,946	212,774	192,924
Net assets, end of year	\$256,208	\$235,946	\$212,774

Operating and Non-operating Revenues

Operating revenues consist of tuition and fees, sponsored program revenue and sales and services revenue generated by auxiliary and other enterprises. Non-operating revenues consist of state appropriations and investment income.

The illustration below shows revenues by source (both operating and non-operating), which were used to fund the University's programs for the year ended June 30, 2006. The ensuing table contains a comparison of revenues for years ended 2006, 2005 and 2004.



REVENUES BY SOURCE

(in thousands)

	2006	2005	2004
Student tuition & fees	\$49,331	\$45,197	\$42,466
Grants & contracts	35,653	34,985	34,029
Auxiliary services	18,261	17,898	17,547
State operating appropriation	48,424	43,188	41,649
State capital appropriation	16,600	20,940	15,862
Investment income	4,625	3,943	3,635
Other revenue & gifts	1,468	1,094	1,003
Total	\$174,362	\$167,245	\$156,191

Tuition and fees and state appropriations are the primary sources of funding for the University's academic programs. Tuition and fee revenues increased 9.1 percent in 2006, up from the 6.4 percent increase in 2005. This increase resulted primarily from a tuition and fee rate increase of 6 percent for resident categories, coupled with additional enrollments.

State legislative appropriations for operations increased \$5.2 million in 2006 after increasing \$1.5 million in 2005. The increase reverses a trend where state

general fund appropriations had decreased in each of the three years leading into and including 2004. Even with increased state appropriations, tuition and fees have made up a slightly higher percentage of revenues available for operations since 2004.

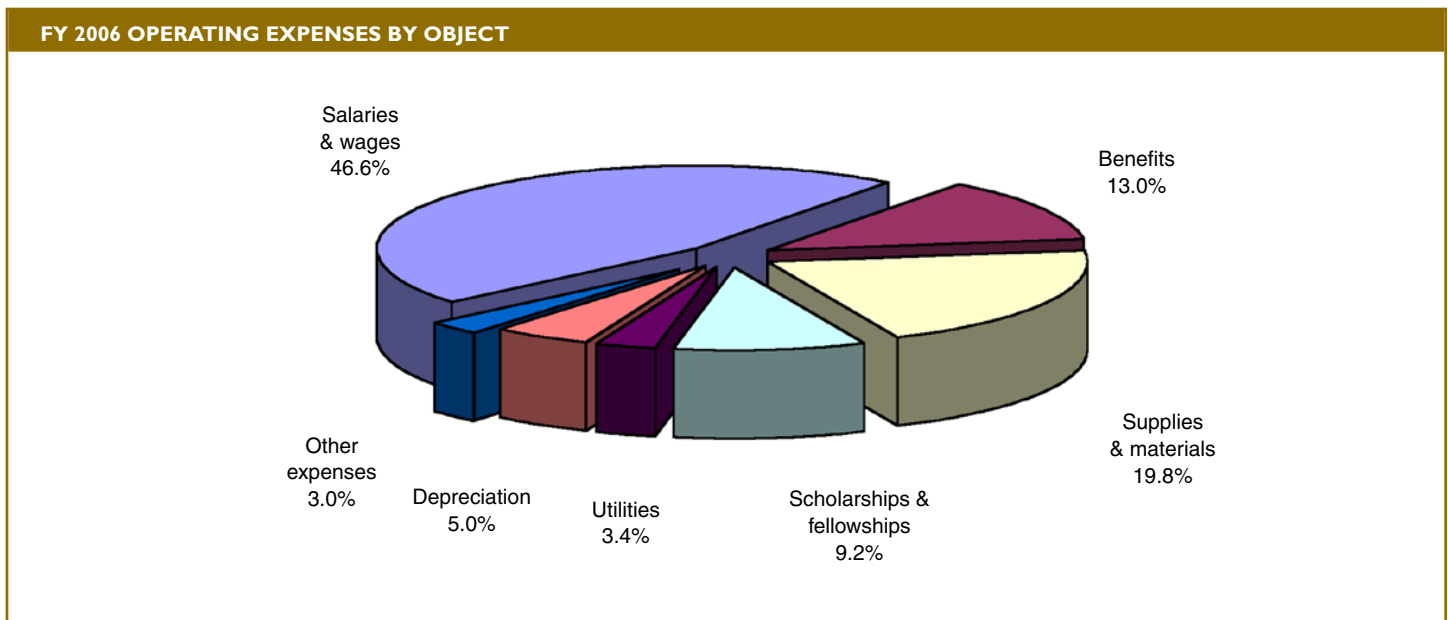
University programming support also consists of revenues received from governmental and private sources in the form of grants and contracts, which normally provide for the recovery of direct and indirect costs. Revenues from financial aid, grants and contracts increased slightly in each year

from 2004 to 2006 with increases in state-funded grants making up for decreases in federal funding.

State legislative appropriations for capital improvements decreased \$4.3 million or 20.7 percent in 2006 as compared to an increase of \$5.1 million, or 32 percent in 2005. The University receives a biennial appropriation for capital improvements and this decrease reflects the completion of the Computing and Engineering Building and major renovations to Senior Hall.

Operating Expenses

Operating expenses consist mainly of salary and benefit costs, supplies and materials costs and student scholarships and fellowships. Shown below is an illustration of operating expenses by natural classification (object) for the year ended June 30, 2006. The ensuing table contains a comparison of expenses for years ended June 30, 2006, 2005 and 2004.



OPERATING EXPENSES BY OBJECT

(in thousands)

	2006	2005	2004
Salaries & wages	\$71,425	\$66,542	\$63,683
Benefits	19,990	17,843	15,982
Supplies & materials	30,374	29,460	27,815
Scholarships & fellowships	14,159	13,846	13,609
Utilities	5,137	4,293	3,848
Depreciation	7,623	7,386	7,082
Other expenses	4,595	3,850	3,402
Total	\$153,303	\$143,220	\$135,421

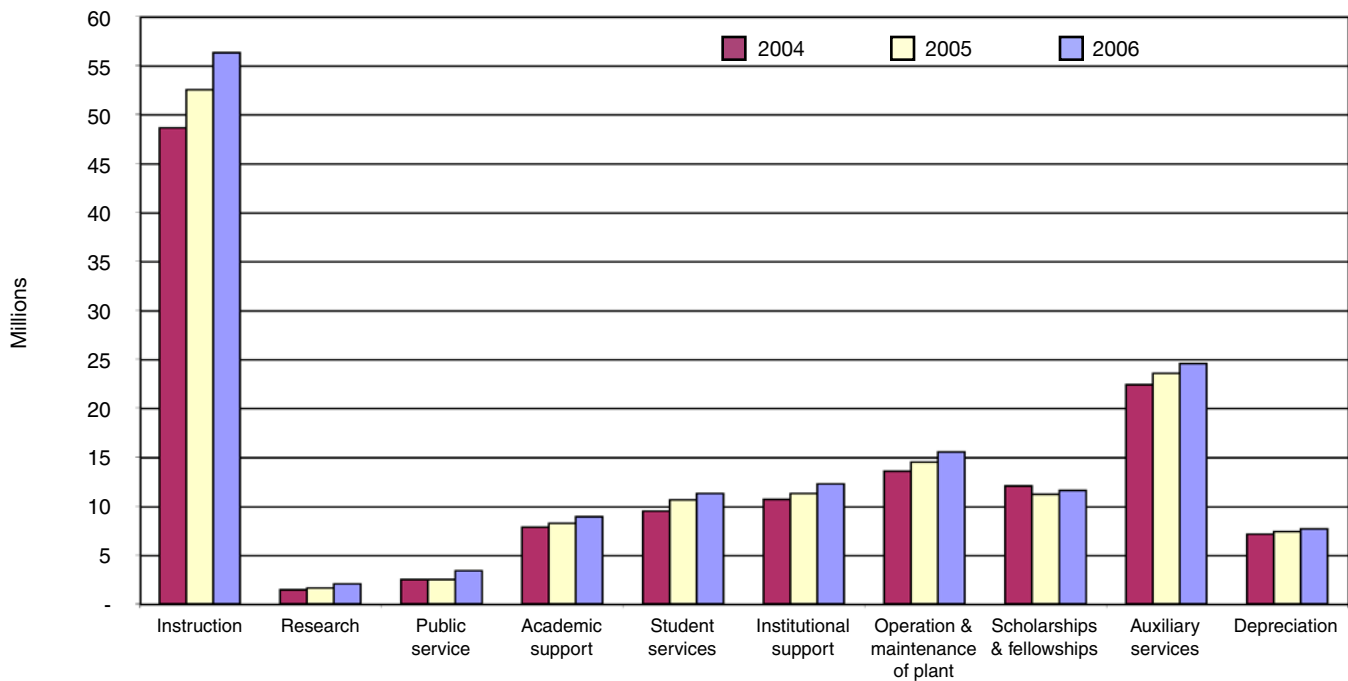
Salaries, wages and benefits are the major support cost for the University's programs. Expenses from salaries and wages increased 7.3 percent in 2006 compared to 4.5 percent in 2005 while benefits increased 12.0 percent in 2006 compared to 11.6 percent in 2005. Other than fluctuations in staffing levels,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

The cost of utility expenses rose 19.7 percent in 2006, mostly from rising energy prices in the region.

In 2006, non-capitalized facility costs were down 32.1 percent from 2005. These costs result from capital project expenses that are not capitalized to an asset. The amount varies by year depending on several factors including the types of projects undertaken in the comprehensive capital facilities improvement plan.

An alternative view of operating expenses by natural (object) classification is to view operating expenses by functional classification. The illustration on the next page is of operating expenses by function for the years ended June 30, 2006, 2005 and 2004. The chart shows expenses increased in nearly all functional categories from 2003 to 2006 with instructional expenses comprising the majority of operating costs.

COMPARISON OF OPERATING EXPENSES BY FUNCTION

*Capital Asset and Debt Activities*

Capital assets are funded mainly by state biennial appropriation. The University's Comprehensive Master Plan is used to guide the long-range physical development of the campus, focusing on critical areas of need, space utilization and preservation of the infrastructure. Additions to capital assets, net of depreciation and retirements, amounted to \$12.4 million in 2006 compared to \$18.8 million in 2005 and \$9.9 million in 2004.

Construction in progress at June 30, 2006 totaled \$3.3 million in 2006 compared to \$28.5 million in 2005 and \$12.8 million in 2004. The decrease in 2006 is due mainly to the completed renovation of Senior Hall

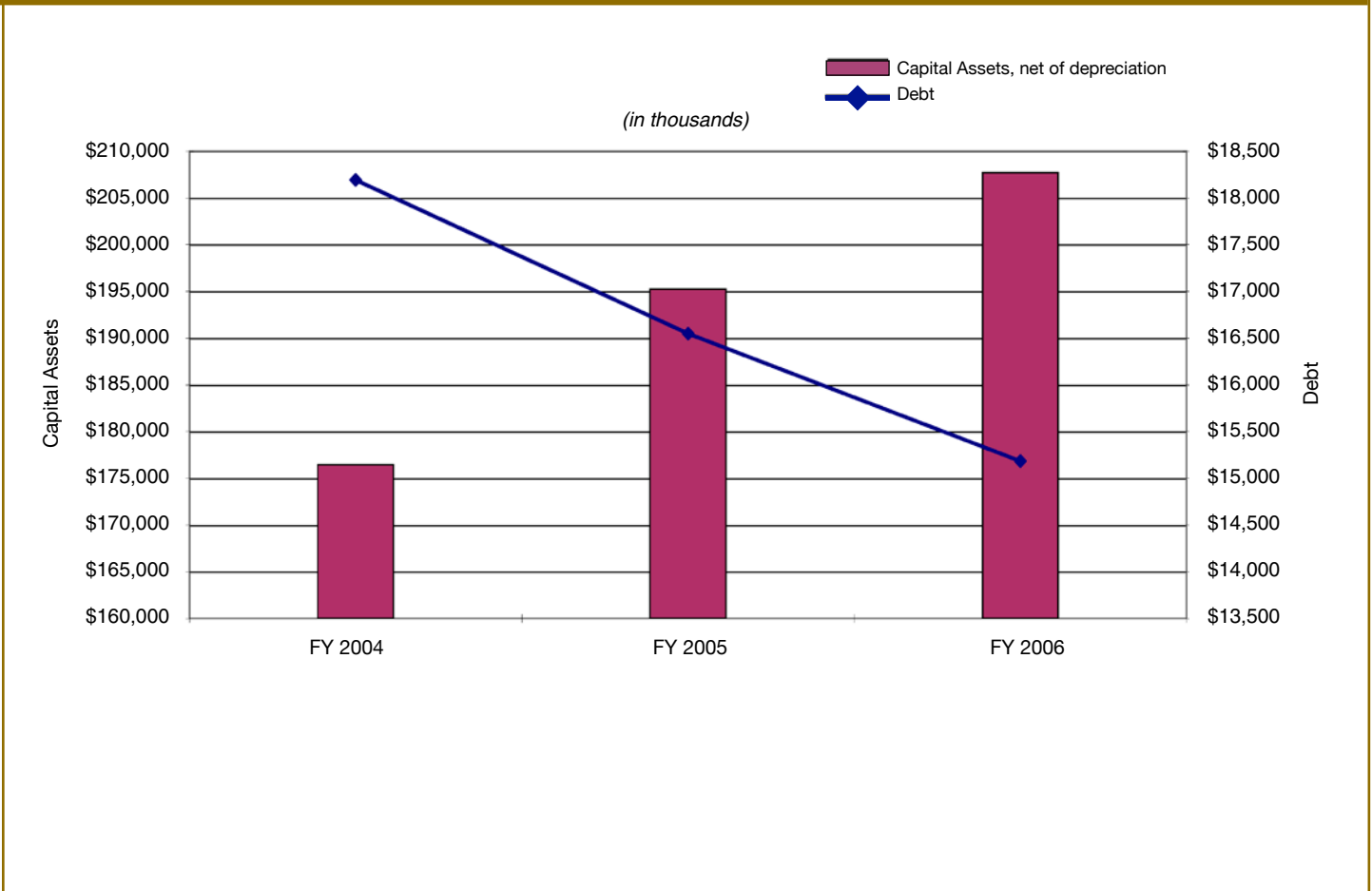
and the new Computing and Engineering Building which were placed in service during 2006.

Total long-term debt associated with capital assets decreased, as there were no new issuances in 2006. Obligations under capital leases amounted to \$4.8 million in 2006 compared to \$5.3 million in 2005 and \$5.8 million in 2004. Bonds payable amounted to \$10.4 million in 2006 compared to \$11.4 million in 2005 and \$12.4 million in 2004.

The chart on the next page shows the progression of increasing investment in capital assets yet decreasing debt load typically used to finance the construction of those assets. Clearly, funding from state capital appropriations significantly

contributes to the University's ability to build infrastructure in support of academic programs. However, not all capital projects are funded by state appropriations. On October 11, 2006 the University issued Series 2006 Services and Activities Fee Revenue and Refunding Bonds totaling \$33,715,000 with interest rates ranging from 4.0% to 5.0%. Of this, \$28,090,000 will be used to fund the construction of a new student recreation center and \$5,625,000 will be used for current refunding of the outstanding Series 1993 Service & Activities Fee Revenue Bonds. Additional information related to capital assets and long-term debt is disclosed in the Notes to the Financial Statements. See footnotes 7, 8 and 14.

FY 2004-06 COMPARISON OF DEBT TO CAPITAL ASSETS



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

During 2006, the University's overall financial position generally improved as a whole. However, funding for higher education in the state of Washington continues to be under pressure. Although state appropriations increased with the 2005-2007 biennium, enrollment demand continues to outpace state funding. The 2005 legislature granted greater flexibility

in setting certain tuition rates to help universities fund this demand. In addition, the University's recently approved strategic plan addresses ongoing funding issues to help ensure sustainability and flexibility in meeting educational opportunities at Eastern Washington University.

One measure of the University's ability to meet its strategic plan is the composite financial index (CFI), a weighted score comprised of four key ratios used to measure financial health as described in *Strategic*

Financial Analysis for Higher Education, a collaborative product by KPMG, Prager, Sealy & Co., and Bearing Point. The CFI is useful in helping governing boards and senior management understand the financial position that an institution enjoys in the marketplace. The University continues to assess its financial health by comparing current and historical CFI scores with a view towards implementing the academic strategic plan.

STATEMENT OF NET ASSETS

June 30, 2006 and 2005

ASSETS	June 30, 2006	June 30, 2005
Current assets:		
Cash and cash equivalents	\$12,498,442	\$6,753,210
Short-term investments	22,880,115	14,037,800
Deposit with State of Washington	6,701,458	6,565,780
Accounts receivable (net of allowances of \$100,587 and 111,547, respectively)	7,386,697	10,581,008
Student loans receivable (net of allowances of \$19,434 and \$35,656, respectively)	109,582	201,510
Inventories	1,364,575	1,254,420
Other assets	359,317	1,441,289
Total current assets	<u>51,300,186</u>	<u>40,835,017</u>
Noncurrent assets:		
Endowment investments	6,376,731	5,607,298
Other long-term investments	19,726,282	26,380,608
Student loans receivable (less allowances of \$580,285 and \$172,214, respectively)	5,347,039	5,568,256
Other noncurrent assets	308,016	348,129
Capital assets, net of accumulated depreciation	207,648,174	195,225,064
Total noncurrent assets	<u>239,406,242</u>	<u>233,129,355</u>
Total assets	<u>\$290,706,428</u>	<u>\$273,964,372</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$6,571,183	\$9,512,286
Accrued liabilities	4,292,192	3,861,889
Compensated absences	19,967	11,426
Deposits or funds held for others	1,713,191	1,456,932
Deferred revenue	2,577,870	2,619,683
Long-term liabilities, current portion	1,332,410	1,490,666
Total current liabilities	<u>16,506,813</u>	<u>18,952,882</u>
Noncurrent liabilities:		
Compensated absences	4,027,344	3,808,891
Long-term liabilities	13,964,261	15,256,881
Total noncurrent liabilities	<u>17,991,605</u>	<u>19,065,772</u>
Total liabilities	<u>\$34,498,418</u>	<u>\$38,018,654</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$192,672,015	\$178,792,050
Restricted for:		
Nonexpendable:		
Endowments	4,345,370	3,735,018
Other	187,250	187,250
Expendable:		
Loans	6,396,660	6,581,375
Capital projects	6,701,458	6,565,780
Endowments	2,031,360	1,872,280
Other	217,419	276,737
Unrestricted	43,656,478	37,935,228
Total net assets	<u>\$256,208,010</u>	<u>\$235,945,718</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, 2006 and 2005

REVENUES	<u>FY 2006</u>	<u>FY 2005</u>
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$11,239,807 and \$11,452,452, respectively)	\$49,330,854	\$45,196,510
Federal grants and contracts	14,478,440	14,932,943
State and local grants and contracts	16,525,617	14,545,469
Nongovernmental grants and contracts	4,648,593	5,507,338
Sales and services of auxiliary enterprises:		
Housing and dining services (net of scholarship allowances of \$3,746,602 and \$3,420,862, respectively)	9,330,603	8,688,089
Other auxiliary enterprises (net of scholarship allowances of \$749,905 and \$689,639, respectively)	8,930,352	9,209,683
Other operating revenue	857,529	883,804
Total operating revenue	<u>104,101,988</u>	<u>98,963,836</u>
 EXPENSES		
Operating expenses:		
Salaries and wages	71,425,315	66,541,885
Benefits	19,990,209	17,843,371
Scholarships and fellowships	14,159,439	13,846,476
Utilities	5,137,126	4,293,025
Supplies and materials	28,862,684	27,232,011
Non-capitalized facility improvements	1,511,541	2,227,513
Other	4,593,396	3,850,662
Depreciation	7,623,486	7,385,551
Total operating expenses	<u>153,303,196</u>	<u>143,220,494</u>
 Operating loss	 (49,201,208)	 (44,256,658)
 NON-OPERATING REVENUES (EXPENSES)		
State appropriation	48,424,000	43,187,971
Investment income, gains and losses	4,625,479	3,942,678
Interest on capital asset-related debt	(796,234)	(853,169)
Other non-operating revenue	-	10,627
Net non-operating revenues	<u>52,253,245</u>	<u>46,288,107</u>
Gain before other revenues, expenses, gains or losses	<u>3,052,037</u>	<u>2,031,449</u>
 Capital appropriations	 16,599,903	 20,939,824
Gifts to permanent endowments	610,352	200,000
Total other revenues and expenses	<u>17,210,255</u>	<u>21,139,824</u>
Increase in net assets	20,262,292	23,171,273
 NET ASSETS		
Net assets, beginning of year	235,945,718	212,774,445
Net assets, end of year	<u>\$256,208,010</u>	<u>\$235,945,718</u>

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

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2006 and 2005

	FY 2006	FY 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	\$48,859,363	\$45,337,183
Grants and contracts	35,722,493	35,468,632
Payments to vendors	(42,377,831)	(34,907,780)
Payments to employees	(90,718,446)	(84,164,465)
Payments for scholarships and fellowships	(14,159,439)	(13,846,476)
Loans issued to students	(2,088,290)	(2,020,846)
Collection of student loans	2,295,260	2,057,876
Auxiliary enterprise receipts	18,631,979	17,488,830
Other receipts (payments)	1,276,779	474,217
Net cash used by operating activities	<u>(42,558,132)</u>	<u>(34,112,829)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	48,747,113	42,863,100
Endowment gifts	610,352	200,000
Stafford/Plus loans receipts	53,628,306	49,946,145
Stafford/Plus loans disbursements	(53,494,317)	(50,029,010)
Agency fund receipts	43,669,494	42,240,537
Agency fund disbursements	(43,532,259)	(42,065,965)
Net cash provided by noncapital financing activities	<u>49,628,689</u>	<u>43,154,807</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital appropriations	19,441,984	19,820,523
Purchases of capital assets	(20,182,274)	(25,833,108)
Principal paid on capital debt and leases	(1,490,657)	(1,622,817)
Interest paid on capital debt and leases	(762,435)	(819,096)
Net cash used by capital financing activities	<u>(2,993,382)</u>	<u>(8,454,498)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	26,913,318	11,725,583
Interest on investments	4,449,776	3,710,225
Purchase of investments	(29,695,037)	(20,109,424)
Net cash used by investing activities	<u>1,668,057</u>	<u>(4,673,616)</u>
Net increase (decrease) in cash	5,745,232	(4,086,136)
Cash, beginning of year	<u>6,753,210</u>	<u>10,839,346</u>
Cash, end of year	<u>\$12,498,442</u>	<u>\$6,753,210</u>

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

STATEMENT OF CASH FLOWS *(continued)**For the Years Ended June 30, 2006 and 2005***Reconciliation of net operating revenue (expenses) to net cash provided (used) by operating activities:**

Operating income (loss)	\$(49,201,207)	\$(44,256,658)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	7,623,486	7,385,551
Changes in assets and liabilities:		
Receivables, net	29,117	999,544
Inventories	(110,155)	(48,245)
Other assets	1,081,980	(664,615)
Accounts payable	(2,504,497)	2,651,484
Deferred revenue	(41,812)	(191,704)
Deposits held for others	(14,965)	(19,134)
Compensated absences	266,775	(110,858)
Loans to students	313,146	141,806
Net cash used by operating activities	<u>\$(42,558,132)</u>	<u>\$(34,112,829)</u>
NONCASH TRANSACTIONS:		
Buildings and equipment	0	105,086
Capital leases	0	(105,086)

BALANCE SHEETS — COMPONENT UNIT (FOUNDATION)

	June 30,	
	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$1,577,045	\$847,451
Investments available for expenditure	1,267,905	1,868,574
Promises to give, net	1,572,792	1,952,155
Other assets	559,036	592,645
Contributions receivable from charitable trusts	570,336	575,265
Investments held in charitable trusts	232,755	209,667
Investments restricted for endowments	9,996,117	8,836,518
Beneficial interest in perpetual trusts	1,815,526	1,826,386
	<u>\$17,591,512</u>	<u>\$16,708,661</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$69,068	\$10,777
Deferred revenue	21,400	15,310
Annuities payable	155,163	165,917
Notes payable	870,792	994,402
Total liabilities	<u>1,116,423</u>	<u>1,186,406</u>
NET ASSETS:		
Unrestricted	(183,629)	(176,515)
Temporarily restricted	4,076,505	4,294,209
Permanently restricted	12,582,213	11,404,561
Total net assets	<u>16,475,089</u>	<u>15,522,255</u>
	<u>\$17,591,512</u>	<u>\$16,708,661</u>

STATEMENT OF ACTIVITIES — COMPONENT UNIT (FOUNDATION)

	Year Ended June 30, 2006				Year Ended June 30, 2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT								
Contributions	\$188,973	\$2,012,618	\$1,050,926	\$3,252,517	\$195,345	\$2,482,645	\$481,627	\$3,159,617
Contributions from trusts	-	77,033	-	77,033	-	67,807	-	67,807
Investment income	(9,650)	206,179	15,297	211,826	6,342	251,440	14,458	272,240
Realized gain (loss)								
on investments	(67)	195,822	-	195,755	(29)	3	-	(26)
Unrealized gain								
on investments	-	364,027	22,781	386,808	-	450,787	31,117	481,904
Change in value of split-interest agreements	-	-	(28,430)	(28,430)	-	-	81,600	81,600
Support provided by Eastern Washington University	1,816,548	-	-	1,816,548	1,901,796	-	-	1,901,796
Other	-	368,872	4,230	373,102	-	364,830	6,005	370,835
Net assets released from restrictions	3,329,407	(3,329,407)	-	-	3,990,845	(3,990,845)	-	-
Reclassification of net assets	-	(112,848)	112,848	-	-	97,433	(97,433)	-
Total revenues, gains, and support	<u>5,325,211</u>	<u>(217,704)</u>	<u>1,177,652</u>	<u>6,285,159</u>	<u>6,094,299</u>	<u>(275,900)</u>	<u>517,374</u>	<u>6,335,773</u>
EXPENSES								
Management and general	76,218	-	-	76,218	925,796	-	-	925,796
Fund raising	692,282	-	-	692,282	1,349,404	-	-	1,349,404
Support provided to/for Eastern Washington University	4,563,825	-	-	4,563,825	3,805,491	-	-	3,805,491
	<u>5,332,325</u>	<u>-</u>	<u>-</u>	<u>5,332,325</u>	<u>6,080,691</u>	<u>-</u>	<u>-</u>	<u>6,080,691</u>
CHANGE IN NET ASSETS	(7,114)	(217,704)	1,177,652	952,834	13,608	(275,900)	517,374	255,082
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(176,515)</u>	<u>4,294,209</u>	<u>11,404,561</u>	<u>15,522,255</u>	<u>(190,123)</u>	<u>4,570,108</u>	<u>10,887,186</u>	<u>15,267,171</u>
NET ASSETS (DEFICIT), END OF YEAR	<u><u>\$(183,629)</u></u>	<u><u>\$4,076,505</u></u>	<u><u>\$12,582,213</u></u>	<u><u>\$16,475,089</u></u>	<u><u>\$(176,515)</u></u>	<u><u>\$4,294,209</u></u>	<u><u>\$11,404,561</u></u>	<u><u>\$15,522,255</u></u>

NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2006

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 related office expenses, 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. During the fiscal year ended June 30, 2006, the foundation distributed more than \$2.7 million to the University for restricted and unrestricted purposes which includes both student scholarships and program support.

Intra-entity transactions and balances between the University and foundation are not eliminated for financial statement presentation. Complete financial statements for the foundation can be obtained from the

foundation's administrative office located at 121 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 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.

As a non-governmental component unit, the foundation follows applicable nonprofit reporting and disclosure standards. In accordance with GASBS No. 39, the foundation is considered a legally separate component unit of the University.

OPERATING ACTIVITIES

The University's policy for defining operating activities as reported in the Statement of Revenues, Expenses, and Changes in Net Assets is to include those that

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

INVENTORIES

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

CASH EQUIVALENTS

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

TAX EXEMPTION

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

STATE APPROPRIATIONS

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

DEFERRED REVENUES

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

CAPITAL ASSETS

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

ACCRUED LEAVE

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

NET ASSETS

The University's net assets are classified as follows:

Invested in capital assets, net of related debt:

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

Restricted net assets:

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

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

Unrestricted net assets.

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

RECLASSIFICATIONS

Certain reclassifications not affecting total net assets have been made to 2005 amounts in order to conform to 2006 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, 2006, insured/collateralized deposits consist of the following:

DEPOSITS	
	Carrying Value June 30, 2006
Cash and cash equivalents	
Interest bearing	\$12,366,902
Other	131,540
Total deposits	\$12,498,442

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, 2006, investments consist of the following:

INVESTMENT PORTFOLIO					
	Fair Value	Investment Maturities for Fixed Income Securities (<i>in months</i>)			
		0 - 9	10 - 24	25 - 60	61 - 120
Investments – Operating Funds					
U.S. Government agency bonds	\$26,625,058	\$7,933,125	\$12,737,245	\$5,954,688	
Certificates of deposit	15,981,339	7,101,152	3,793,263	5,086,924	
Investments – Endowment Funds					
Investments unit trusts					
Equity fund	\$3,804,475				
Bond fund	2,572,256				\$2,572,256
Total investments	\$48,983,128	\$15,034,277	\$16,530,508	\$11,041,612	\$2,572,256

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 7.85 years at year end.

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.

At June 30, 2006, the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$2,031,360 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.

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 subject to custodial credit risk. Similarly, cash equivalents held in the Local Government Investment Pool are also represented by shares in investment unit trusts.

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

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

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

Concentration of Credit Risk. The University's investment policy for operating funds does not limit its exposure to concentration of credit risk. However, operating funds are invested only in

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

Foreign Currency Risk. A small percentage of underlying securities within unitized

investments may be denominated in foreign currency. Any adverse effect on the fair value of investments resulting from changes to exchange rates is not considered to be significant to the portfolio as a whole.

Note 3: Accounts and Student Loans Receivable

Accounts and student loans receivable at June 30, 2006 and 2005, consist of the following:

ACCOUNTS AND STUDENT LOANS RECEIVABLE		
	June 30, 2006	June 30, 2005
Accounts receivable		
Student tuition and fees	\$2,128,857	\$1,705,847
Auxiliary enterprises (less allowances of \$69,147 and \$96,230, respectively)	1,046,415	1,422,342
Contracts and grants	2,376,845	2,447,043
State reimbursement	1,673,582	4,838,776
Other (less allowances of \$31,440 and \$15,317, respectively)	160,998	167,000
Total accounts receivable	\$7,386,697	\$10,581,008
Student loans receivable		
Federal programs (less allowances of \$580,285 and \$172,214, respectively)	\$5,347,039	\$5,568,256
Institutional loans (less allowances of \$19,434 and \$35,656, respectively)	109,582	201,510
Total student loans receivable	\$5,456,621	\$5,769,766

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, 2006, totals \$3,082,015. This amount represents a liability to the University and is recorded and reported accordingly.

Accumulated sick leave earned and unused at June 30, 2006, calculated at 25 percent of unused balance, totals \$945,329. 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, 2006, totals \$19,967. 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 \$1,998,382 at June 30, 2006.

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2006, is summarized as follows:

CAPITAL ASSETS				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
NON-DEPRECIABLE CAPITAL ASSETS				
Land	\$2,090,954	\$ -	\$ -	\$2,090,954
Construction in progress	28,482,820	13,504,596	38,703,795	3,283,621
Subtotal	30,573,774	13,504,596	38,703,795	5,374,575
DEPRECIABLE CAPITAL ASSETS				
Land improvements	8,589,517	2,345,056	-	10,934,573
Infrastructure	24,650,452	1,726,242	-	26,376,694
Buildings	194,367,270	37,730,803	286,755	231,811,318
Furniture, fixtures and equipment	19,732,051	2,317,085	509,087	21,540,049
Library materials	23,682,076	1,267,655	36,071	24,913,660
Subtotal	271,021,366	45,386,841	831,913	315,576,294
Total Capital Assets	301,595,140	58,891,437	39,535,708	320,950,869
Less accumulated depreciation:				
Land improvements	3,030,412	257,209	-	3,287,621
Infrastructure	11,948,330	744,762	-	12,693,092
Buildings	64,556,227	4,066,980	272,800	68,350,407
Furniture, fixtures and equipment	12,638,683	1,746,572	417,875	13,967,380
Library materials	14,196,424	807,963	192	15,004,195
Total accumulated depreciation	106,370,076	7,623,486	690,867	113,302,695
Capital assets, net of depreciation	\$195,225,064	\$51,267,951	\$38,844,841	\$207,648,174

Note 8: Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, is summarized as follows:

LONG-TERM LIABILITIES					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Leases and bonds payable					
Lease obligations (Note 9)	\$5,306,990	-	\$497,792	\$4,809,198	\$296,463
General obligation bonds	1,356,852	-	267,865	1,088,987	280,947
Revenue bonds payable (Note 10)	10,010,000	-	725,000	9,285,000	755,000
Total leases and bonds payable	16,673,842	-	1,490,657	15,183,185	1,332,410
Other liabilities					
Net pension obligation (Note 11)	73,705	39,780	-	113,485	-
Compensated absences (Note 5)	3,820,317	3,231,163	3,004,168	4,047,312	19,967
Total long-term liabilities	\$20,567,864	\$3,270,943	\$4,494,825	\$19,343,982	\$1,352,377

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 2007 through 2011. Total operating lease expenses in fiscal year 2006 were \$383,627. 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, 2006, are as follows:

ANNUAL LEASE PAYMENTS		
Fiscal Year	Operating	Capital
2007	\$356,495	\$559,462
2008	287,750	542,102
2009	218,474	529,451
2010	75,525	517,239
2011	6,032	509,157
2012-16	-	2,111,236
2017-21	-	1,925,000
2022-26	-	432,627
Obligation under leases	\$944,276	7,126,274
Less: Amount representing interest costs		(2,317,076)
Present value of minimum obligation under capital leases		\$4,809,198

Note 10: Bonds Payable

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

On August 6, 2002, the University issued \$4,515,000 in Housing and Dining System Refunding Revenue Bonds dated October 1, 2002, with interest rates ranging from 2.5% to 3.8%. Proceeds of the bond issuance were used to refund the outstanding Housing and Dining System Revenue and Refunding

Bonds, Series 1992. The purpose of the refunding was to accomplish an interest savings to the University of \$604,048 with a net present value of \$515,098 as represented by the difference between debt service on the Series 2002 bonds and debt service on the prior issue discounted to the issue date using the yield on the Series 2002 bonds as the discount rate. The 1992 Series bonds were due serially November 1 in amounts from \$310,000 to \$565,000 plus interest. The 2002 Series bonds are due serially October 1, 2003 to 2012 in amounts from \$370,000 to

\$535,000. Interest is payable semiannually on April 1 and October 1.

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

BONDS PAYABLE				
	Interest Rate	Maturity Date	Original Balance	Balance Outstanding
Eastern Washington University				
Service and Activities Fee Revenue Bond, Series 1993	4.88% - 5.00%	2006-2019	\$8,915,000	\$5,955,000
Housing and Dining System Revenue/Refunding Bonds, Series 2002	2.50% - 3.80%	2006-2013	4,515,000	3,330,000
Total Revenue Bonds			13,430,000	9,285,000
State of Washington General Obligation Bonds				
Refunding Bonds, Series R-93A	3.90% - 5.75%	2006-2011	708,756	334,979
Refunding Bonds, Series R-01A	4.50% - 9.00%	2006-2010	1,561,932	754,008
Total General Obligation Bonds			2,270,688	1,088,987
Total bonds payable			\$15,700,688	\$10,373,987

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

DEBT SERVICE REQUIREMENTS						
Fiscal Year	Eastern Washington University		State General Obligation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	755,000	390,600	280,947	52,654	1,035,947	443,254
2008	785,000	362,674	295,391	36,928	1,080,391	399,602
2009	815,000	332,233	309,290	20,137	1,124,290	352,370
2010	855,000	298,975	129,041	7,911	984,041	306,886
2011	890,000	262,970	74,318	2,137	964,318	265,107
2012-2016	3,420,000	786,730	-	-	3,420,000	786,730
2017-2019	1,765,000	135,625	-	-	1,765,000	135,625
Totals	\$9,285,000	\$2,569,807	\$1,088,987	\$119,767	\$10,373,987	\$2,689,574

Note 11: Pension Plans

The University offers four contributory pension plans. The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) are cost-sharing, multi-employer defined benefit plans; PERS and TRS also have a defined contribution component. The Eastern Washington University Retirement Plan is a defined contribution plan with supplemental payment, when required. The University's total payroll for the year ended June 30, 2006, was \$71,425,315. The payroll for employees covered by PERS was \$20,387,562; payroll for employees covered by TRS was \$258,722; payroll for employees covered by LEOFF was \$409,709; and payroll for employees covered by the Eastern Washington University Retirement Plan was \$40,654,889.

PERS, TRS, and LEOFF

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

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

Funding Policies. Each biennium, the State Pension Funding Council adopts employee and/or employer contribution

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

The required contribution rates expressed as a percentage of current year covered payroll at June 30, 2006 are shown below. The University and the employees made the required contributions. The University's required contributions for the years ending June 30 are as follows:

CONTRIBUTION RATES AND REQUIRED CONTRIBUTIONS					
	Contribution Rates at June 30, 2006		Required Employer Contributions		
	Employee	University	FY 2004	FY 2005	FY 2006
PERS					
Plan I	6.00%	2.44%	\$42,855	\$37,717	\$60,947
Plan II	2.25%	2.44%	190,368	193,087	380,712
Plan III	Varies	2.44% *	20,363	25,277	57,302
TRS					
Plan I	6.00%	2.92%	\$4,922	\$3,381	\$7,108
LEOFF					
Plan II	6.99%	7.18%	\$18,440	\$18,470	\$29,334
* Defined benefit portion only.					

EASTERN WASHINGTON UNIVERSITY
RETIREMENT SYSTEM

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

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

The supplemental payment plan determines a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The University makes direct payments to qualifying retirees when the retirement benefit provided by TIAA-CREF does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with 10 years of full-time service. The benefit goal is 2 percent of the average annual salary for each year of full-time service up to a maximum of 25 years. However, if the participant does not elect to make the 10 percent TIAA-CREF contribution after age 50, the benefit goal is 1.5 percent for each year of full-time service for the years in which the lower contribution rate was selected. No significant changes were made in the faculty benefit provision for the year ended June 30, 2006.

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, 2006, total \$3,437,162.

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, 2004. The actuarial assumptions for the evaluation included an investment rate of return of 7% and projected salary increases ranging from 2% to 4%. The previous evaluation was performed in 1999. 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, 2004 was \$2,288,000 under the plan's entry age normal method and is amortized over a 19.5 year period. The annual required contribution (ARC) is projected at \$211,000. The net pension obligation is the cumulative excess, if any, of the ARC over the actual benefit payments and is reported as a liability on the University's financial statements. The following table reflects the activity in the net pension obligation for the fiscal years ended June 30, 2005 and 2006, respectively:

NET PENSION OBLIGATION		
	FY 2005	FY 2006
Balance as of July 1	\$ 35,172	\$ 73,705
Add: Annual required contribution	211,000	211,000
Less: Payments to beneficiaries	172,467	171,220
Balance as of June 30	\$ 73,705	\$113,485

Note 12: Segment Information

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

CONDENSED STATEMENT OF NET ASSETS		
	Housing and Dining System Revenue Bonds Series 1992	Pence Union Building Revenue Bonds Series 1993
Assets		
Current assets	\$3,650,223	\$1,365,214
Noncurrent assets	23,373,928	10,919,880
Total assets	27,024,151	12,285,094
Liabilities		
Current liabilities	1,671,120	469,248
Noncurrent liabilities	7,639,149	5,679,696
Total liabilities	9,310,269	6,148,944
Net assets		
Invested in capital assets, net of related debt	13,734,706	4,582,601
Restricted	187,250	-
Unrestricted	3,791,926	1,553,549
Total net assets	\$17,713,882	\$6,136,150

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Housing and Dining System Revenue Bonds Series 1992	Pence Union Building Revenue Bonds Series 1993
Operating revenues	\$13,672,021	\$2,296,013
Operating expenses	12,636,338	2,140,665
Net operating income	1,035,683	155,347
Non-operating revenues (expenses)	(222,267)	(245,001)
Transfers	407,303	243,551
Change in net assets	1,220,719	153,898
Net assets, beginning of year	16,493,163	5,982,252
Net assets, end of year	\$17,713,882	\$6,136,150

CONDENSED STATEMENT CASH FLOWS

	Housing and Dining System Revenue Bonds Series 1992	Pence Union Building Revenue Bonds Series 1993
Net cash flows provided by operating activities	\$2,010,403	\$434,045
Net cash flows provided by non-capital and related financing activities	(50,000)	140,000
Net cash flows provided (used) by capital and related financing activities	(1,351,049)	(560,207)
Net cash flows used by investing activities	(158,754)	66,197
Net increase (decrease) in cash	450,600	80,035
Cash, beginning of year	691,001	219,483
Cash, end of year	\$1,141,601	\$299,518

Note 13: Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2006 and 2005 are summarized as follows:

OPERATING EXPENSES		
	FY 2006	FY 2005
Educational and general		
Instruction	\$56,285,131	\$52,520,776
Research	2,044,396	1,580,521
Public service	3,389,915	2,483,660
Academic support	8,863,677	8,195,205
Student services	11,254,251	10,593,186
Institutional support	12,237,546	11,261,269
Operation and maintenance of plant	15,466,922	14,474,142
Scholarships and fellowships	11,596,986	11,194,551
Auxiliary enterprises	24,540,886	23,531,632
Depreciation	7,623,486	7,385,552
Total operating expenses	\$153,303,196	\$143,220,494

Note 14: Other Matters

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

On October 11, 2006 the University issued Series 2006 Services and Activities Fee Revenue and Refunding Bonds totaling \$33,715,000 with interest rates ranging from 4.0% to 5.0%. Of this, \$28,090,000 will be used to fund the construction of a new student recreation center and \$5,625,000 will be used for current refunding of the outstanding Series 1993 Service & Activities Fee Revenue Bonds. The 2006 Series bonds to be used for construction are scheduled to be repaid by October 2027. The 2006 Series bonds to be used for current refunding of the Series 1993 bonds are scheduled to be repaid by October 2018. A dedicated portion of student-paid service and activity fees are pledged for repayment of the Series 2006 bonds.

Outstanding purchase orders and other commitments at June 30, 2006 totals \$7,714,617 for various goods and services.

Statistical Section

Five-Year Historical Review

FIVE-YEAR HISTORICAL REVIEW – UNAUDITED

Years Ended June 30 (in thousands)

	2006	2005	2004	2003	2002
REVENUES					
Tuition and fees (net of allowance)	\$49,331	\$45,196	\$42,466	\$37,730	\$32,403
Gifts, grants and contracts	35,653	34,986	34,029	31,796	27,867
Auxiliary enterprises (net of allowance)	18,261	17,898	17,547	16,830	15,517
Other sources	857	884	878	784	861
Total operating revenues	104,102	98,964	94,920	87,140	76,648
EXPENSES					
Instruction	56,285	52,521	48,583	46,634	44,702
Research	2,044	1,580	1,435	1,643	1,616
Public service	3,390	2,484	2,486	2,361	1,908
Academic support (including libraries)	8,864	8,195	7,817	7,661	7,574
Student services	11,254	10,593	9,462	9,405	9,096
Institutional support	12,238	11,261	10,632	9,395	9,403
Plant operation and maintenance	15,467	14,474	13,515	19,338	11,403
Scholarships and fellowships	11,597	11,195	12,045	11,467	10,447
Auxiliary enterprises	24,541	23,531	22,364	21,009	19,010
Depreciation	7,623	7,386	7,082	6,446	5,827
Total operating expenses	153,303	143,220	135,421	135,359	120,986
Operating loss	(49,201)	(44,256)	(40,501)	(48,219)	(44,338)
NON-OPERATING REVENUES (EXPENSES)					
State appropriations	48,424	43,188	41,649	43,906	45,592
Investment Income, gains and losses	4,625	3,943	3,635	4,110	4,249
Interest on capital asset-related debt	(796)	(853)	(920)	(943)	(825)
Other non-operating revenue	-	10	-	-	-
Total non-operating revenues	52,253	46,288	44,364	47,073	49,016
Income before capital contributions and additions to endowments	3,052	2,032	3,863	(1,146)	4,678
Capital appropriations	16,600	20,940	15,862	16,271	5,600
Additions to permanent endowments	610	200	125	101	550
Total other	17,210	21,140	15,987	16,372	6,150
Increase in net assets	\$20,262	\$23,172	\$19,850	\$15,226	\$10,828

CAPITAL ASSETS (in thousands)	2006	2005	2004	2003	2002
Land	\$2,091	\$2,091	\$2,091	\$2,091	\$2,060
Buildings	231,811	194,367	190,520	183,552	166,763
Land improvements/infrastructure	37,311	33,240	31,680	31,324	29,730
Equipment	21,540	19,732	16,215	15,771	13,526
Library resources	24,914	23,682	22,592	21,598	20,544
Construction in progress	3,284	28,483	12,851	5,438	9,473
Accumulated depreciation	(113,303)	(106,370)	(99,492)	(93,289)	(87,167)
Total capital assets, net	\$207,648	\$195,225	\$176,457	\$166,485	\$154,929

ENROLLMENTS (actual full-time equivalents)	2006	2005	2004	2003	2002
Fall quarter	9,868	9,775	9,506	9,178	8,932
Academic year average	9,280	9,317	9,126	8,857	8,636

TUITION AND FEES (per academic year)	2006	2005	2004	2003	2002
Undergraduate - resident	\$4,044	\$3,822	\$3,582	\$3,357	\$2,964
Undergraduate - nonresident	13,317	13,299	12,438	11,634	10,224
Graduate - resident	6,108	5,772	5,772	5,403	4,758
Graduate - nonresident	17,100	17,085	17,085	15,975	14,031



The Office of Controller is responsible for preparing this report.

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