



**WESTERN**  
WASHINGTON UNIVERSITY

**FINANCIAL REPORT 2002 - 2003**

**FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTAL**

**INFORMATION**

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Karen W. Morse  
President

Bellingham, Washington 98225-9000  
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December 17, 2003

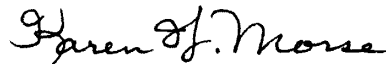
Betty Woods, Chair  
Board of Trustees  
Western Washington University  
Bellingham, WA 98225

Dear Ms. Woods:


We are pleased to submit the Annual Financial Report of Western Washington University, which represents the financial position of the University for the year ending June 30, 2003.

The accounts of the University are maintained in accordance with policies and regulations established by Washington State and its Office of Financial Management. This report has been prepared in accordance with generally accepted practices, as recommended by the American Institute of Certified Public Accountants and the National Association of College and University Business Officers.

Sincerely,



Karen W. Morse  
President



George A. Pierce  
Vice President  
Business and Financial Affairs

***BOARD OF TRUSTEES***

Betty Woods, Chair  
John D. Warner, Vice Chair  
Kevin M. Raymond, Secretary  
Philip E. Sharpe, Jr.  
Anita Sheety, Student Trustee  
Brent A. Stewart  
Grace T. Yuan  
Peggy Zoro

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Andrew R. Bodman, Provost and Vice President for Academic Affairs  
George A. Pierce, Vice President for Business and Financial Affairs  
Robert G. Edie, Vice President for External Affairs  
Eileen V. Coughlin, Vice President for Student Affairs and Academic Support Services  
Mary R. Carlson, Assistant Vice President for Business and Financial Affairs  
Terry L. Ely, Accounting Director, Business and Financial Affairs

**Overview of the Financial Statements and Financial Analysis for the Fiscal Years Ended June 30, 2003 and June 30, 2002**

Western Washington University is pleased to present its financial statements for fiscal years 2003 and 2002. There are three comparative financial statements presented: the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows.

**Accounting and Financial Reporting Changes Resulting from Implementation of GASB 34/35**

Last year was the first year that the financial statements were presented following the guidance in Governmental Accounting Standards Board (GASB) Statements 34 and 35. In the first year of implementation, the University elected not to show comparative statements. Now that the second year under the new reporting standard is complete, the statements presented here are comparative.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated.

**Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point in time financial statement. Its purpose is to present a fiscal snapshot of Western Washington University. It presents end-of-the-year data concerning both current and non-current assets and liabilities for the University.

The data in this statement presents the assets available to continue the operations of the institution. It shows how much the institution owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

The University's total assets at the end of fiscal year 2003 were \$351 million and \$319 million at the end of fiscal year 2002. This is an increase of \$35 million over the total at the end of fiscal year 2002. This increase is due to the capital appropriations received for the construction and renovation work being done on campus facilities. Such projects include the new Communications Facility now under construction, the re-roofing of Miller Hall, and numerous others. In addition, the Housing and Dining System issued revenue bonds in May 2003 to fund renovations of residence halls and student apartments.

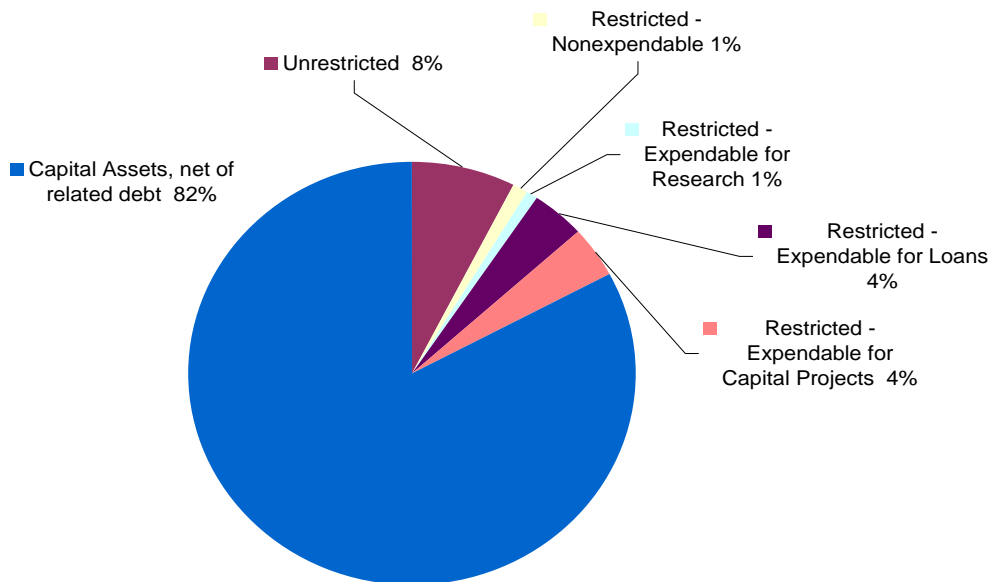
The University's current assets increased as a result of receiving the Housing and Dining System bond proceeds. These proceeds reimbursed Housing and Dining System operating funds for capital spending. Another factor contributing to the increase was increased project management fees resulting from extensive capital construction. These funds are invested in time certificates of deposit to fund current operations of the University.

Western's total liabilities at the end of fiscal year 2003 were \$11.9 million greater than last year. This change is in non-current liabilities and reflects the \$15.2 million in revenue bonds issued by the Housing and Dining System in May 2003.

Below is a condensed view of the Statements of Net Assets:

**Summary of Net Assets**
*(Dollars in thousands)*

	<b>As of June 30, 2003</b>	<b>and</b>	<b>2002</b>
<b>Assets</b>			
Current assets	\$ 50,877		\$ 45,198
Non-current assets:			
Capital assets	272,546		233,811
Other	27,674		37,534
Total assets	<u>351,097</u>		<u>316,543</u>
<b>Liabilities</b>			
Current liabilities	19,082		21,268
Non-current liabilities	76,358		62,234
Total liabilities	<u>95,440</u>		<u>83,502</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	211,803		193,288
Restricted, non-expendable	2,818		2,768
Restricted, expendable:	21,788		18,810
Unrestricted	19,248		18,175
Total net assets	<u>\$ 255,657</u>		<u>\$ 233,041</u>

**Net Assets**


The University reports its "equity" in the following categories:

*Invested in Capital Assets, net of related debt* - consists of the University's investments in land, buildings, infrastructure, furniture and equipment. These assets are shown at their acquisition cost, net of accumulated depreciation and related outstanding debt obligations.

*Restricted Net Assets:*

- *Non-expendable* - consists of funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditures but for investment purposes only.
- *Expendable* - resources which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed upon them by donors or other external parties. Some are restricted for use as loans to students or scholarships for students, others for research projects, and yet others for capital projects.

*Unrestricted Net Assets* - all other funds available to the institution for the general and educational purposes of the University.

Unrestricted net assets increased by 6% in the current year in spite of difficult economic conditions. The University instituted strict spending restrictions and made a concerted effort to curtail unnecessary expenditures.

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

The changes in total net assets, as presented on the Statement of Net Assets, are detailed in the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues received by Western, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution during the past fiscal year.

Below is a condensed version of the Statement of Revenues, Expenses, and Changes in Net Assets for the Fiscal Years ended June 30, 2003 and 2002:

**Summary of Revenues, Expenses and Changes in Net Assets**

*(Dollars in thousands)*

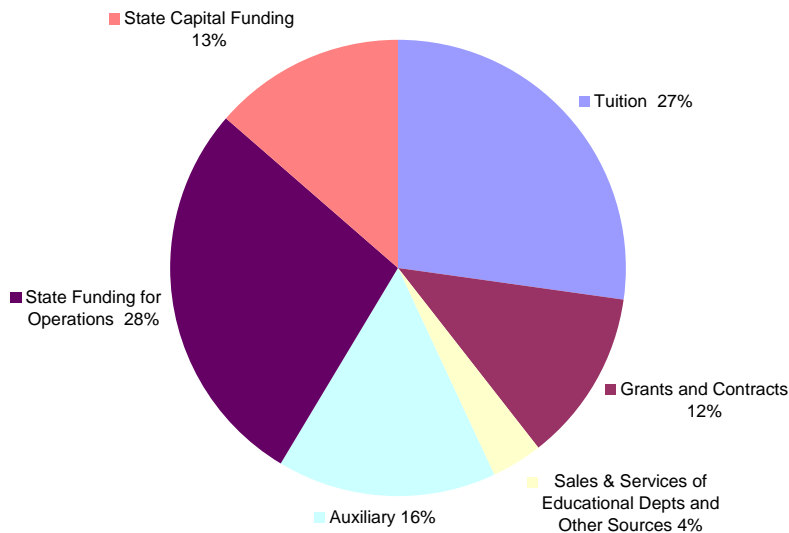
	<b>For the Fiscal Years ended June 30, 2003 and 2002</b>	
Operating revenues	\$ 116,406	\$ 102,217
Operating expenses	<u>179,772</u>	<u>166,982</u>
Income (loss) from operations	(63,366)	(64,765)
Non-operating revenues	61,514	64,907
Non-operating expenses	<u>(3,335)</u>	<u>(2,613)</u>
Loss before other revenues	(5,187)	(2,471)
Other revenues	<u>27,803</u>	<u>18,513</u>
Increase in net assets	22,616	16,042
Net assets, beginning of year	<u>233,041</u>	<u>216,999</u>
Net assets, end of year	<u>\$ 255,657</u>	<u>\$ 233,041</u>

In general, operating revenues are those received for providing goods and services to the customers of the institution, primarily students. Operating expenses are those expenses paid to acquire or produce the

goods and services provided in return for the operating revenues. Basically this is the income from and the cost of carrying out the mission of Western Washington University.

Non-operating revenues are monies received for which goods and services are not provided. State appropriations are non-operating because they are provided by the Legislature to Western as a subsidy towards carrying out its educational mission. Investment income is also considered non-operating as it is derived from managing the institution's cash and investments.

Revenues for Education and Research

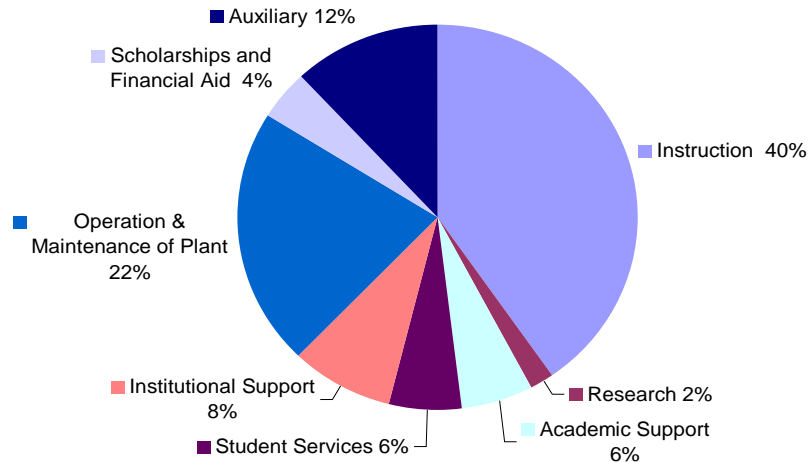


For fiscal year 2003, State appropriation revenues for operations decreased from \$59.9 million to \$57.2 million, a 4% decrease. This was a result of the economic health of the State and the subsequent budget reductions that were passed on to all State agencies. To offset the impact of this budget reduction, the 2002-03 supplemental budget passed by the State Legislature authorized the University to increase resident undergraduate tuition by 14% and also gave the institution unlimited tuition setting authority for non-resident and graduate students. Western used this authority to raise non-resident undergraduate tuition by 8% and all graduate tuition by 3%. This resulted in an 11% overall increase in tuition revenue, from \$50.1 million in 2002 to \$55.8 million in 2003. With the increased tuition setting flexibility granted by the Legislature, and the modest enrollment growth experienced this year, the institution was able to craft a balanced budget that continued to preserve educational quality and student accessibility without major budget reductions.

While, historically, State appropriations have funded a greater share of the University's operating costs than has tuition revenue, over time, the State has reduced its contribution to higher education. This has been offset by increases in tuition and fees. While State appropriation revenue used to contribute a greater percentage of total revenue to the University, the graph above shows that now tuition revenue and State appropriation revenues are nearly equal. In fiscal years 2003 and 2002, State operating appropriation revenue accounted for 28% and 32% of total revenue, respectively, while tuition revenues were only 27% of the total for both years.



### Expenses by Program



During the current fiscal year operating expenses increased by 8%. Wage increases were not granted by the State Legislature, but benefit costs increased. With the increase in tuition revenue, additional funds were available for scholarships and financial aid expenditures which increased by 34%. Utility costs increased by 8% in part due to the energy crisis in other parts of the country. General supplies and materials expenses increased by 20% due to the institution's extensive repair and renovation projects. These repair projects are funded by capital appropriations, however the nature of the work is such that it does not meet the State's definition of a capitalizable asset; thus, the costs are expensed as part of operating costs of the University.

Operating expenses also increased as a result of two fires which occurred on campus during the year. The first, in Parks Hall, did more than \$3.6 million damage to the building and the equipment inside. The University reallocated \$2.5 million from capital funds to pay for most of the repairs. The University also temporarily reallocated funds from various other operating budgets and reserve funds to cover emergency costs related to operations and repair of the facility. Insurance is expected to cover \$300,000 of the costs. A supplemental operating budget allotment for \$850,000 covered the balance of the costs.

The second fire occurred in the Fairhaven Administration Building. The University was insured for the majority of the loss. The uninsured portion of the loss is approximately \$690,000. As of June 30, 2003, the University was still in negotiations with the insurer as to the final claim value. All repair costs were paid or accrued at the end of the year.

### Capital Improvements and Related Debt

State capital appropriation revenues increased by 55% over the last year. This was a result of planned capital construction for much needed academic space, necessary repairs, and infrastructure improvements. This biennium saw the State Legislature approve the largest capital appropriation Western has ever received. Projects being funded with this appropriation include the Communications Facility, currently under construction, and the design of another academic building that will provide additional classroom and faculty office space. Also underway are extensive infrastructure improvement projects as well as renovations to existing structures in keeping with the State's commitment to preserve campus facilities.

The Housing and Dining System issued revenue and refunding bonds in May of 2003. The bonds were sold via competitive sale at an average interest rate of 3.32%. A portion of the proceeds was used to refund existing bonds of the system. The remaining proceeds were used to fund the renovation of the Highland Hall residence hall and the Birnam Wood apartment buildings.

The University issued \$29.3 million in revenue bonds in 2002 to fund the construction of the Wade King Student Recreation Center.

**Economic Outlook**

While there are clear signs of a national economic recovery, continued layoffs in the aerospace industry and nearly flat employment growth in Washington lead to a cautious forecast for the State.

In this environment, lawmakers in Olympia approved a reduced operating and capital budget for 2003-2005. The operating budget allows higher education to balance most of the \$131 million cut by raising tuition and managing fiscal resources with few constrictions. Salary increases for higher education were not included in the budget. State mandated classified staff step increases were funded by an internal reallocation of the University's budget. The State also provided funding for the recruitment and retention of faculty and staff, for additional enrollments in high demand areas, and for transfer students transitioning from community college into four year institutions. Compared to other areas in State government, the budget reductions in higher education were held to a minimum.

Demand for Western's product, a quality education, continues to be high. This is a direct reflection of Western's national reputation for excellence in education. For the seventh year in a row, *U.S. News & World Report Best Colleges and Universities* ranked Western No. 2 among public master's degree granting universities in the West. Nationally, Western ranks among the top 15 percent of all public and private universities in its class. Western's national reputation and prime location make it an institution "in demand", which should continue to help it weather a more difficult economic climate.

The State capital budget included funds for the University's top five major projects. Of particular note is the Legislature's commitment to approve a six year plan to fund \$750 million in construction for colleges and universities. The first year of funding includes \$5.6 million for the design of a new academic instruction complex on Western's campus. There is also increased emphasis on facilities preservation and maintenance, with \$9.5 million earmarked for preservation and maintenance on the Western campus.



801 Second Avenue  
Suite 900  
Seattle, WA 98104

### Independent Auditors' Report

The Board of Trustees  
Western Washington University:

We have audited the accompanying financial statements of Western Washington University as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Housing and Dining Systems, Student Recreation Center, or the Western Associated Students Bookstore, departments of the University, which statements reflect total assets constituting 31% and total revenues constituting 25% in 2003, of the related totals. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the above departments, are based solely on the reports of the other auditors. The accompanying financial statements of the University as of and for the year ended June 30, 2002, were audited by other auditors whose report thereon dated January 21, 2003, expressed an unqualified opinion, which included an explanatory paragraph that described a change in accounting principle on those statements.

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 provides a reasonable basis for our opinion.

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of Western Washington University as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

**KPMG LLP**

October 1, 2003



KPMG, LLP, KPMG LLP, a limited liability partnership, is  
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**STATEMENTS OF NET ASSETS**
**As of June 30, 2003 and 2002**

<b>Assets</b>	<b>2003</b>	<b>2002</b>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 11,724,593	\$ 11,474,657
Investments (Note 3)	26,219,844	20,982,197
Due from State Treasurer	2,387,763	3,084,633
Funds with State Treasurer (Note 4)	3,056,064	3,067,396
Interest receivable	952,896	584,485
Accounts receivable, net (Note 5)	5,180,934	4,661,471
Prepaid expenses	20,413	2,956
Inventories	1,334,829	1,340,372
Total current assets	<u>50,877,336</u>	<u>45,198,167</u>
Non-current assets:		
Investments (Note 3)	19,885,217	28,994,910
Student loan receivable, net (Note 6)	7,789,057	8,539,081
Capital assets, net (Note 8)	272,545,398	233,811,148
Total non-current assets	<u>300,219,672</u>	<u>271,345,139</u>
Total assets	<u>351,097,008</u>	<u>316,543,306</u>
 <b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	12,932,779	9,692,293
Deposits payable	1,528,038	1,830,182
Deferred revenues	766,217	1,198,089
Current portion of long-term liabilities (Note 17)	2,155,820	5,409,849
Deposits held in custody for others	1,698,848	3,137,450
Total current liabilities	<u>19,081,702</u>	<u>21,267,863</u>
Non-current liabilities:		
Accrued leave payable (Note 17)	4,823,094	4,523,350
Long-term liabilities (Note 17)	71,534,909	57,710,792
Total non-current liabilities	<u>76,358,003</u>	<u>62,234,142</u>
Total Liabilities	<u>95,439,705</u>	<u>83,502,005</u>
 <b>Net Assets</b>		
Invested in capital assets, net of related debt	211,802,949	193,288,498
Restricted for:		
Non-expendable: scholarships and professorships	2,818,357	2,768,357
Expendable:		
Research	2,165,175	2,014,607
Loans	10,102,535	10,558,487
Capital projects	9,519,899	6,236,456
Unrestricted	19,248,388	18,174,896
Total net assets	<u>\$ 255,657,303</u>	<u>\$ 233,041,301</u>

*See Accompanying Notes to the Financial Statements*

**STATEMENTS OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS for the years ended June 30, 2003 & 2002**

	<u>2003</u>	<u>2002</u>
<b>Operating Revenues</b>		
Student tuition and fees	\$ 62,354,042	\$ 56,778,618
Less scholarship and financial aid allowances	<u>(6,539,651)</u>	<u>(6,725,003)</u>
Net student tuition and fees	55,814,391	50,053,615
Federal grants and contracts	13,769,539	12,427,119
State and local grants and contracts	8,906,413	7,289,881
Non-governmental grants and contracts	2,624,459	2,363,078
Sales and services of educational activities	2,850,305	2,721,070
Interest earned on loans to students	208,332	155,467
Auxiliary enterprises	34,297,384	29,683,388
Less scholarship and financial aid allowances	<u>(2,064,396)</u>	<u>(2,476,934)</u>
Net auxiliary enterprises	32,232,988	27,206,454
Total operating revenues	<u>116,406,428</u>	<u>102,216,684</u>
<b>Operating Expenses</b>		
Salaries and wages	84,551,977	83,827,397
Benefits	19,956,540	19,709,126
Scholarships, fellowships and financial aid	11,606,378	8,671,073
Utilities	5,056,339	4,697,084
Supplies and materials	41,464,149	34,494,841
Purchased and personal services	5,752,509	3,968,828
Depreciation	11,384,610	11,613,991
Total operating expenses	<u>179,772,502</u>	<u>166,982,340</u>
Operating loss	(63,366,074)	(64,765,656)
<b>Non-operating Revenues &lt;Expenses&gt;</b>		
State appropriations	57,183,323	59,858,399
Investment income	4,330,332	5,048,470
Interest on indebtedness	(3,297,826)	(2,568,322)
Non-operating income net of expenses	<u>(37,115)</u>	<u>(44,363)</u>
Net non-operating revenues	58,178,714	62,294,184
Loss before other revenues, expenses, gains, or losses	<u>(5,187,360)</u>	<u>(2,471,472)</u>
<b>Other Revenues &lt;Expenses&gt;</b>		
Capital appropriations	27,753,362	17,952,539
Gifts to permanent endowments	50,000	560,400
Total other revenues	<u>27,803,362</u>	<u>18,512,939</u>
Increase in net assets	22,616,002	16,041,467
Net assets, beginning of year	233,041,301	216,999,834
Net assets, end of year	<u>\$ 255,657,303</u>	<u>\$ 233,041,301</u>

*See Accompanying Notes to the Financial Statements*

**STATEMENTS OF CASH FLOWS**
*for the years ended June 30, 2003 and 2002*

	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 54,653,507	\$ 50,558,869
Receipts from grants and contracts	25,491,635	20,932,136
Payments to vendors	(60,722,672)	(53,752,010)
Payments to employees for salaries and benefits	(104,002,792)	(103,226,615)
Loans issued to students	(2,053,683)	(1,898,047)
Collection of loans to students	2,803,885	1,932,481
Sales of auxiliary enterprises	31,341,709	26,619,815
Sales and services of educational activities	3,023,243	2,972,048
Interest received on loans to students	208,332	155,467
Net cash used in operating activities	<u>(49,256,835)</u>	<u>(55,705,856)</u>
<b>Cash flows from non-capital financing activities</b>		
State operating appropriations	58,443,167	61,888,457
Direct Lending proceeds	39,048,333	38,331,497
Direct Lending disbursements	(39,514,358)	(36,866,999)
Gifts to permanent endowments	50,000	560,400
Net cash provided by non-capital financing activities	<u>58,027,142</u>	<u>63,913,355</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(939,119,116)	(1,078,937,997)
Proceeds from sales of investments	942,452,929	1,058,765,620
Interest received on investments	3,589,040	4,828,762
Net cash provided by (used in) investing activities	<u>6,922,853</u>	<u>(15,343,615)</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from capital debt	14,868,444	29,051,936
Interest earned on bond proceeds	372,881	310,709
State capital appropriations	27,190,388	17,264,514
Permanent fund used for capital projects	11,332	(276,277)
Purchases of capital assets	(50,030,434)	(28,951,822)
Principal paid on capital debt	(4,197,621)	(1,514,837)
Interest paid on capital debt	(3,621,100)	(1,985,739)
Other activities	(37,115)	(44,363)
Net cash provided by (used in) capital and related financing activities	<u>(15,443,225)</u>	<u>13,854,121</u>
Net increase in cash and cash equivalents	249,936	6,718,005
Cash and cash equivalents, beginning of year	<u>11,474,657</u>	<u>4,756,652</u>
Cash and cash equivalents, end of year	<u>\$ 11,724,593</u>	<u>\$ 11,474,657</u>

*See Accompanying Notes to the Financial Statements*

**Reconciliation of Operating Loss to Net Cash Used by Operating Activities**

	<u>2003</u>	<u>2002</u>
Operating loss	\$ (63,366,074)	\$ (64,765,656)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	11,384,610	11,613,991
Changes in assets and liabilities		
Accounts receivable	(519,463)	(1,024,198)
Student loans receivable	750,024	20,744
Inventories	5,543	36,625
Prepaid expenses	(17,457)	534,802
Accounts payable and accrued expenses	3,475,333	(2,592,623)
Deferred revenue	(431,872)	(309,347)
Student and other deposits	(302,144)	288,521
Deposits held in custody	(434,344)	80,365
Compensated absences	199,009	410,920
Net cash used in operating activities	<u>\$ (49,256,835)</u>	<u>\$ (55,705,856)</u>
 Supplemental disclosure of cash flow information		
Acquisition of capital assets through accounts payable	<u>\$ 4,764,903</u>	<u>\$ 4,676,476</u>

*See Accompanying Notes to the Financial Statements*

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Financial Reporting Entity**

Western Washington University is a comprehensive, degree granting public university in the State of Washington. It is governed by a Board of eight Trustees appointed by the Governor. These financial statements summarize all the fund types of the University including agency funds.

**Financial Statement Presentation**

The financial statements are presented in accordance with generally accepted accounting principles and following the guidance given by the Governmental Accounting Standards Board (GASB) in Statements 34 and 35.

**Basis of Accounting**

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated. The University has elected not to apply any FASB pronouncements issued after November 30, 1989.

**Cash, Cash Equivalents and Investments**

Cash balances in excess of current requirements are pooled and invested in certificates of deposit and municipal investor accounts with maturities of three months or less. Investments intended to fund University operations are shown as current investments even though the original maturities may be in excess of three months. Other investment instruments are held with the intent to fund long-term capital projects. These are classified as long-term investments. Funds invested with the Local Government Investment Pool are considered cash equivalents.

**Accounts Receivable**

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.

Accounts receivable are shown net of estimated uncollectible amounts.

**Inventories**

Inventories are carried at the lower of cost or market value.

**Capital Assets**

Land, buildings and equipment are recorded at cost or, if acquired by gift, at fair market value on the date of the gift. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Interest expense incurred during capital construction is capitalized as part of the building cost. During 2003 and 2002, \$838,440 and \$2.3 million of construction related interest was capitalized, respectively.

Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 15 years for library resources, and 5 to 7 years for equipment.

**Deferred Revenues**

Deferred revenues occur when revenues have been collected in advance for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but relate to the subsequent accounting period.

**Net Assets**

The University's net assets are classified as follows:

*Invested in capital assets, net of related debt* – This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of capital assets.

*Restricted net assets – expendable* – Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.



*Restricted net assets – non-expendable* – Non-expendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Unrestricted net assets* – Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

#### Classification of Revenues

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

*Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, State and local grants and contracts, and (4) interest on institutional student loans.

*Non-operating revenues* – Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, State appropriations and investment income.

#### Scholarship and Financial Aid Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of revenues, expenses, and changes in net

assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs, are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

#### Tax Exemption

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

#### Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

## **2. CASH AND CASH EQUIVALENTS**

At June 30, 2003 and 2002, the carrying amount of cash and cash equivalents is \$11,724,593 and \$11,474,657 respectively. The carrying amount of cash and cash equivalents approximates the market value.

Cash and cash equivalents include bank demand deposits, change funds, petty cash and temporary investments in the Local Government Investment Pool made by the University to minimize idle cash. All cash, except for change funds and petty cash, is covered by the Federal Deposit Insurance Corporation (FDIC), by collateral held in a multiple financial institution, or by collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

## **3. INVESTMENTS**

Investments include time certificates of deposit, municipal investor accounts and some amounts held in the Local Government Investment Pool. Investments held to fund operations are classified as current assets. At June 30, 2003 and 2002, the carrying value of current investments was \$26,219,844 and \$20,982,197, respectively.

Investments held for long-term capital projects are classified as non-current assets. At June 30, 2003 and 2002, the carrying value of non-current investments was \$19,885,217 and \$28,994,910, respectively. The carrying amount of investments approximates the market value.

The University's investments are categorized to give an indication of the level of custodial risk assumed by the University. Category 1 includes investments that are insured or registered, or are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments held by the University or its agent in the University's name. Category 3 includes uninsured and unregistered investments held by the counter party's trust department or agent, but not in the University's name.

At June 30, 2003 and 2002, the University's investment balances at market are as follows:

	<u>2003</u>	<u>2002</u>	<u>Category</u>
<b>Current Investments:</b>			
U.S. Government Securities	\$ -	\$ 300,235	1
Money market account	26,755	2,266,159	2
Time certificates of deposit	26,193,089	18,415,803	2
Sub-total	<u>26,219,844</u>	<u>20,982,197</u>	
<b>Non-current investments:</b>			
Money market account	31,046	99,585	2
Local Government Investment Pool	1,525,151	1,333,305	2
Time certificates of deposit	18,329,020	27,562,020	2
Sub-total	<u>19,885,217</u>	<u>28,994,910</u>	
<b>Total</b>	<u>\$ 46,105,061</u>	<u>\$ 49,977,107</u>	

#### 4. FUNDS WITH STATE TREASURER

The balance of this account at June 30, 2003 and 2002, are \$3,056,064 and \$3,067,396 respectively, and represent the University's share of net earnings of the Normal School Permanent Fund and tuition distributions, reduced by expenditures for capital projects and debt service incurred over the years.

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 and timber. The investing activities are the responsibility of the Washington State Treasurer's Office, while managing the sales and leases of land

and timber is the responsibility of the State's Department of Natural Resources.

Interest earned from the investments is either reinvested or used for the benefit of Central Washington University, Eastern Washington University, Western Washington University, and The Evergreen State College. At June 30, 2003 and 2002, the market values of the principal of the Normal School Permanent Fund are \$213,041,380 and \$200,130,408, respectively. The University's earnings on the fund for the year ended June 30, 2003 and 2002 are \$2,858,590 and \$3,307,125, respectively, and is included in investment income.

#### 5. ACCOUNTS RECEIVABLE – At June 30, 2003 and 2002, accounts receivable are as follows:

	<u>2003</u>	<u>2002</u>
Student tuition and fees	\$1,567,027	\$1,523,881
Federal, State and private grants and contracts	591,797	872,454
Auxiliary enterprises and other operating activities	2,208,736	2,353,449
Insurance	1,344,702	-
Sub-total	<u>5,712,262</u>	<u>4,749,784</u>
Less allowance for doubtful accounts	<u>531,328</u>	<u>88,313</u>
Net accounts receivable	<u>\$5,180,934</u>	<u>\$4,661,471</u>

**6. STUDENT LOANS RECEIVABLE** – At June 30, 2003 and 2002, student loans receivable are as follows:

	2003	2002
Federal Perkins Student Loans	\$ 8,400,050	\$ 8,300,211
Other long-term loans	83,123	93,014
Institutional loans	200,558	200,656
Sub-total	8,683,731	8,593,881
Less allowance for doubtful accounts	894,674	54,800
Total	<u>\$ 7,789,057</u>	<u>\$ 8,539,081</u>

**7. CAPITAL ASSETS**

The depreciation expense for the fiscal years ended June 30, 2003 and 2002 was \$11,384,610 and \$11,613,991, respectively. Following are the changes in capital assets for the years ended June 30, 2003 and 2002:

Asset Type	Additions/			6/30/03
	6/30/02	Transfers	Retirements	
Land	\$ 9,110,698	\$ 158,672	\$	\$ 9,269,370
Infrastructure	27,180,667	1,741,238		28,921,905
Buildings	217,191,281	11,447,845		228,639,126
Furniture, fixtures and equipment	26,710,212	2,042,816	590,422	28,162,606
Library materials	35,302,062	1,839,245		37,141,307
Improvements	7,732,743	3,194,587	100,000	10,827,330
Construction in progress	35,919,452	29,889,479	1,036,640	64,772,291
Total	359,147,115	50,313,882	1,727,062	407,733,935

**Less Accumulated Depreciation**

Buildings	66,993,983	4,720,434		71,714,417
Infrastructure	11,327,129	1,035,695		12,362,824
Furniture, fixtures and equipment	20,566,612	2,564,290	526,040	22,604,862
Library materials	23,548,608	2,416,242	1,006,000	24,958,850
Improvements	2,899,635	647,949		3,547,584
Total accumulated depreciation	125,335,967	11,384,610	1,532,040	135,188,537
Capital assets, net	<u>\$233,811,148</u>	<u>\$ 38,929,272</u>	<u>\$ 195,022</u>	<u>\$272,545,398</u>

Asset Type	Additions/			6/30/02
	6/30/01	Transfers	Retirements	
Land	\$ 8,558,619	\$ 552,079	\$	\$ 9,110,698
Infrastructure	32,547,061	2,366,349		34,913,410
Buildings	187,511,160	29,680,121		217,191,281
Furniture, fixtures and equipment	24,750,442	2,043,807	84,037	26,710,212
Library materials	33,523,782	1,778,280		35,302,062
Construction in progress	39,910,010	(3,990,558)		35,919,452
Total	326,801,074	32,430,078	84,037	359,147,115

**Less Accumulated Depreciation**

Buildings	61,531,557	5,462,426		66,993,983
Infrastructure	12,573,034	1,653,730		14,226,764
Furniture, fixtures and equipment	17,961,894	2,688,755	84,037	20,566,612
Library materials	21,739,528	1,809,080		23,548,608
Total accumulated depreciation	113,806,013	11,613,991	84,037	125,335,967
Capital assets, net	<u>\$212,995,061</u>	<u>\$ 20,816,087</u>	<u>\$ 0</u>	<u>\$233,811,148</u>

**8. ENCUMBRANCES**

Goods and services for operating and capital projects, contracted for but not yet received, are considered to be commitments at year end. The amount of these encumbrances at June 30, 2003 and 2002 are:

	2003	2002
Operating	\$ 2,208,313	\$ 2,875,971
Research	288,809	617,052
Capital construction	33,360,106	26,321,043
Total	<u>\$35,857,228</u>	<u>\$ 29,814,066</u>

**9. ACCRUED LEAVE PAYABLE**

The accrued leave balance as of June 30, 2003 and 2002 is \$5,191,945 and \$4,992,936, respectively. Of these totals, \$368,851 and \$469,586 represent the current portion and \$4,823,094 and \$4,523,350 represent the long-term portion, respectively. This consists of unused vacation leave and compensatory time earned for exempt professionals and classified staff. It also includes a percentage of earned and unused sick leave for exempt professionals and classified staff.

For reporting purposes, the current portion of vacation leave was calculated as the three year average of vacation leave cash payments. The current portion of the accrued sick leave was calculated as the three year average of sick leave cash payments, adjusted by an actuarial percentage determined by the State.

**12. LEASES**

The University finances certain land and equipment purchases through the Washington State Treasurer's leasing program. These leases are accounted for as capital leases. The University also has operating leases for office equipment.

At June 30, 2003, the minimum lease payments under capital and non-cancelable operating leases are as follows:

Fiscal Year	Capital Leases Payments	Operating Lease Payments
2004	\$ 268,537	\$ 387,340
2005	274,011	366,734
2006	198,854	302,747
2007	174,553	152,604
2008	12,352	12,947
2009-2013	61,762	491
2014-2019	24,705	0
Total minimum lease payments	<u>1,014,774</u>	<u>1,222,863</u>
Less: amounts representing interest	100,115	0
Present value of minimum lease payments	<u>\$ 914,659</u>	<u>\$1,222,863</u>
Current portion of lease payments	<u>\$ 268,537</u>	<u>\$ 387,340</u>

**10. RISK MANAGEMENT**

The University participates in a State of Washington risk management self-insurance program. Premiums to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. The University self-insures unemployment compensation for all employees.

In addition, sufficient insurance coverage for property casualty loss on the residence halls is maintained in accordance with the Housing and Dining System Master Bond Resolution.

The University has been named in several lawsuits. While the final outcome of the lawsuits cannot be predicted with certainty, it is the University's opinion that the ultimate liability will not materially affect the financial statements. The University participates in the State insurance program and is indemnified and will be reimbursed by the State for any claims Western pays related to these lawsuits.

**11. DEFERRED COMPENSATION**

The University, through the State of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The State of Washington administers the plan on behalf of the University's employees; the University does not have legal access to the funds.

**NOTES TO THE FINANCIAL STATEMENTS**
**June 30, 2003 and 2002**

At June 30, 2003 and 2002, the University had \$3,585,584 and \$3,464,021 of assets financed by capital leases with \$2,228,655 and \$2,057,197 of accumulated depreciation, respectively.

**13. BONDS PAYABLE**

Bonds payable consist of revenue bonds issued by the University for Housing and Dining System facilities, the Student Recreation Center, as well as the University's share of Washington State General Obligation Bonds issued for construction of academic buildings. Bonds outstanding are shown on the page following.

The scheduled liabilities do not include the following amounts that were advance refunded:

Original Issue	Date of Refunding	2003 Outstanding Balance	2002 Outstanding Balance
<b>Housing Revenue Bonds:</b>			
1965, Series E-F, 1966, 1967, Series A-D, 1968	October 1991	\$ 2,330,000	\$11,600,000
General Tuition Fee Revenue Bonds: Series D	August 1978	0	175,000
General Obligation Bonds: Series W-1	October 1988 - June 1998	141,927	381,894

Government obligations in amounts, maturities and bearing interest rates sufficient to fund retirement of these bonds are held in irrevocable trusts. Neither the assets of the trusts, nor their outstanding obligations, are included in the accompanying balance sheet.

Housing and Dining Revenue Bonds

As specified in the 1991 and 1992 Master Bond Resolutions, the Housing and Dining System Revenue Fund is used to pay operating expenses, principal and interest, fund debt service reserve accounts required in subsequent series resolutions, pay the renewal and replacement fund and, if desired, retire debt in the open market. Net revenues are pledged to equal at least 125% of debt service. The System has funded a reserve account for debt service, and maintains a renewal and replacement fund equal to at least 5% of outstanding bonds.

Housing and Dining Revenue and Refunding Bonds, Series 2003

On April 11, 2003, the Board of Trustees approved Resolution No. 2003-03, authorizing the issuance of Revenue and Refunding Bonds, Series 2003. On May 7, 2003, the University issued \$15,180,000 in Revenue and Refunding Bonds with interest rates ranging from 2% to 4.72%. The proceeds of \$14,675,825 (net of the original issue discount of \$340,036 and the cost of the surety bond and other issuance costs of \$164,139) have been deposited into the Project Fund and will be used for the purpose of completing Phases I and II of the renovations of Birnam Wood (an apartment complex within the Housing and Dining system) and Highland Hall (a residence hall within the Housing and Dining

System). The transaction resulted in an economic savings of approximately \$525,869. At June 30, 2003, the unexpended bond proceeds equaled \$8,580,229.

As part of the bond covenants adopted under Resolution 2002-01, the University is required to establish a bond fund which includes a debt service account and a debt service reserve account. The Bond Fund has been established including a separate account for debt service and capitalized interest. The Bond Fund is used to pay principal and interest, to fund debt service reserve accounts; the renewal and replacement fund and, if desired, retire debt in the open market. The University opted to purchase a surety bond with a Reserve Account Credit Facility to meet the debt service reserve account required under the covenants and as permitted by the covenants. A Project Fund has also been established, as required under the bond covenants, to pay for the costs of renovation. The University has outstanding revenue, refunding and general obligation bonds outstanding at June 30, 2003 with interest rates ranging from 2.0% to 7.0%. The outstanding balances at June 30, 2003 and 2002 are \$72,407,218 and \$61,640,762, respectively.

**State of Washington General Obligation Bonds**

The University reimburses the State of Washington annually for debt service payments relating to the State of Washington General Obligations Bonds from tuition, timber sales, and earnings on investments held by the Washington State Treasurer.

The University's debt service requirements for the next five years and thereafter are as follows:

Fiscal Year	Housing and Dining Revenue and Refunding Bonds		Student Recreation Center Revenue Bonds		State of Washington General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 945,000	\$ 2,130,643	\$ 440,000	\$ 1,416,390	\$ 65,467	\$ 5,120
2005	1,445,000	2,143,145	500,000	1,398,790	67,965	1,742
2006	1,495,000	2,091,970	520,000	1,378,790	0	0
2007	1,555,000	2,036,658	540,000	1,357,990	0	0
2008	1,605,000	1,976,930	560,000	1,336,390	0	0
2009-2013	9,100,000	8,796,028	3,175,000	6,316,858	0	0
2014-2018	11,490,000	6,384,954	3,960,000	5,533,150	0	0
2019-2023	14,010,000	3,049,883	5,045,000	4,443,500	0	0
2024-2028	3,805,000	376,395	6,440,000	3,049,750	0	0
2029-2033	0	0	8,210,000	1,271,500	0	0
	45,450,000	\$ 28,986,606	29,390,000	\$ 27,503,108	\$ 133,432	\$ 6,862
Less unamortized costs	1,600,630		965,584			
	<u>\$ 43,849,370</u>		<u>\$ 28,424,416</u>			

**14. OPERATING EXPENSES BY FUNCTIONAL CATEGORIES**

In the Statement of Revenues, Expenses and Changes in Net Assets, operating expenses are displayed by natural classifications which include salaries, employee benefits, goods and services, etc. Operating expenses by functional classification for the year ended June 30, 2003 and 2002 are summarized as follows:

<u>Functional Classifications</u>	<u>2003</u>	<u>2002</u>
Instruction	\$ 71,856,947	\$74,149,303
Research	3,204,472	2,622,935
Public Service	147,385	139,770
Academic Support	10,348,096	11,568,821
Student Services	10,589,656	10,940,608
Institutional Support	14,813,739	16,648,775
Operation and maintenance of plant	39,370,967	15,066,218
Scholarships and other student aid	7,432,125	4,586,653
Auxiliary enterprise expenditures	22,009,116	31,259,257
Total	<u>\$179,772,503</u>	<u>\$166,982,340</u>

**15. COLLECTIONS**

The University has several collections of art that it does not capitalize. The Outdoor Sculpture Collection is a public art collection displayed throughout the entire campus. There are also collections of 19<sup>th</sup> and 20<sup>th</sup> century prints and drawings, the Whittington Collection of Asian Ceramics, and the Chair Collection. These collections adhere to the

University's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items.

Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at the time of purchase rather than capitalized.

**16. FIRE LOSS**

On July 3, 2002, a fire in Parks Hall caused approximately \$3.6 million in damage to the building and equipment. The University reallocated \$2.5 million from capital funds to pay for most of the repairs. The University also temporarily reallocated funds from other operating budgets and reserve funds to cover emergency costs related to operations and repair of the facility. Insurance coverage is expected to be \$300,000. A supplemental operating budget request for \$850,000 was submitted and approved by the State to cover the balance of the costs. The University expensed \$3.81 million in repairs related to the fire.

On November 26, 2002, a fire on the second floor of the Fairhaven Administration building caused approximately \$3.1 million in damage to the building and equipment. The University was insured for the majority of the loss and the uninsured portion is estimated at approximately \$690,000. The expected insurance recovery is approximately \$2.43 million dollars of which \$1.055 million has been received.

As of June 30, the University was still in negotiations with the insurer as to the final claim value. Based on management's best estimate of the total insured loss, the amount still to be reimbursed is \$1.375 million. This amount is accrued as a receivable at year end and represents the full amount of estimated insurance proceeds to be collected. As this is an estimate, the actual amount collected could vary. The University expensed a net \$1.835 million in repairs related to the fire.

**17. LONG-TERM LIABILITIES**

Following are the changes in long-term liabilities for the year ended June 30, 2003:

	6/30/02	Additions	Retirements	6/30/03	Current Portion
Leases and bonds payable:					
Capital lease obligations	\$ 1,010,293	\$ 121,563	\$ 217,196	\$ 914,660	\$ 268,537
General obligation bonds	365,900	0	232,468	133,432	133,432
Revenue and refunding bonds	61,274,862	14,746,881	3,747,957	72,273,786	1,385,000
Total leases and bonds payable	62,651,055	14,868,444	4,197,621	73,321,878	1,786,969
Other long-term liabilities:					
Compensated absences	4,992,936	589,271	390,262	5,191,945	368,851
Total Long-Term Liabilities	\$ 67,643,991	\$ 15,457,715	\$ 4,587,883	\$ 78,513,823	\$ 2,155,820

	6/30/01	Additions	Retirements	6/30/02	Current Portion
Leases and bonds payable:					
Lease obligations	\$ 635,899	\$ 698,576	\$ 324,182	\$ 1,010,293	\$ 262,690
General obligation bonds	796,611	0	430,711	365,900	246,697
Revenue bonds	33,681,447	28,353,360	759,945	61,274,862	4,430,876
Total leases and bonds payable	35,113,957	29,051,936	1,514,838	62,651,055	4,940,263
Other long-term liabilities:					
Compensated absences	4,582,016	1,382,661	971,741	4,992,936	469,586
Total Long-Term Liabilities	\$ 39,695,973	\$ 30,434,597	\$ 2,486,579	\$ 67,643,991	\$ 5,409,849

**18. PENSION PLANS**

The University participates in four contributory pension plans which cover eligible faculty, staff and exempt professional employees. The Washington State Public Employees' Retirement System (PERS) plan, the Washington State Teachers Retirement System (TRS), and the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) are cost sharing multiple-employer defined benefit public retirement systems administered by the State of Washington through the Department of Retirement Systems. The Western Washington University Retirement Plan (WWURP) is a defined contribution pension plan administered by the University. Eligible employees include faculty, exempt professionals, and other positions as designated by the University. Participation was established under RCW 28B.10.

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial Statements and required supplemental information may be obtained by writing to the Washington State Department of Retirement Systems, 1025 E. Union Avenue, P.O. Box 48380, Olympia, Washington 98504-8380.

Information for the University as a stand-alone entity is not available.

The payroll for the University employees covered by PERS for the year ended June 30, 2003 and 2002 is \$27,827,411 and \$27,438,077; the payroll for employees covered by TRS is \$1,469,851 and \$1,243,992; the payroll covered by WWURP is \$53,763,024 and \$49,451,209; the payroll for LEOFF is \$550,698 and \$524,321, respectively. The total payroll subject to retirement for the University is \$90,391,331 and \$87,420,835.

**Public Employees Retirement System*****Plan Description***

PERS is a multi-employer mandatory retirement plan for all eligible non-academic University employees, and consists of three separate plans. Employees hired into an eligible position prior to October 1, 1977 and working 70 or more hours per month are enrolled in Plan I, while employees hired into an eligible position on or after October 1, 1977 and working 90 or more hours per month are enrolled in Plan II. Employees

covered under Plan II were eligible to change to Plan III effective March 2002.

Retirement benefit provisions are established in Washington State statute and may be amended only by the State Legislature. PERS benefits are vested after an employee completes five years of eligible service.

Plan I members are eligible for retirement with 30 or more years of service, at age 55 with 25 years of service credit, or at age 60 or older with at least 5 years of service credit. The annual retirement benefits are 2% of the average final compensation per year of membership service, capped at 60%. Average final compensation is based on the 24 highest-paid months.

Plan II members may retire at age 65 with 5 years of service, or at age 55 with 20 years of service. The annual retirement benefit is 2% of the average final compensation per year of membership service. Average final compensation is based on the 60 consecutive highest-paid creditable months. Plan II retirements prior to age 65 are actuarially reduced. There is no cap on years-of-service credit, and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3% annually. No significant changes were made in the benefit provisions for the years ending June 30, 2003 and 2002.

Plan III is composed of two separate benefit components. Member contributions finance a defined contribution component and employer contributions finance a defined benefit component. The member financed component provides an investment program accessible any time there is separation from covered employment. The employer financed component provides for a lifetime monthly benefit at age 65 or a reduced lifetime monthly benefit as early as age 55. The benefit amount is based on years of service credit and average final compensation. Contributions to the retirement plan are mandatory. Under federal law, once a contribution rate is selected, it cannot be changed unless the employee terminates employment, changes employers and re-enters PERS coverage.

***Funding Policy***

Each biennium, the State Economic and Revenue Forecast Council adopts Plan I employer contribution



**NOTES TO THE FINANCIAL STATEMENTS**
**June 30, 2003 and 2002**

rates and Plan II employer and employee rates. Employee contribution rates for Plan I are established by statute at 6% and do not vary from year to year. The employer and employee contribution rates for Plan II are developed by the Office of the State Actuary to fully fund Plan II. The methods used to determine the contribution requirements are established under State statute in accordance with RCW 41.40 and 41.45. All employers are required to contribute at the level required by State statute.

Normal cost required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2003 and 2002 were as follows:

	<u>Employee</u>	<u>Employer</u>
Plan I	6.00%	1.32%
Plan II	.65%	1.32%
Plan III	5.00-15.00%	1.32%

All required employer and employee contributions have been made. The amounts for the current year and two previous years are as follows:

	<u>Employee</u>	<u>Employer</u>
June 30, 2003	\$ 609,734	\$ 362,896
June 30, 2002	541,892	453,090
June 30, 2001	804,706	1,157,127

**Western Washington University Retirement Plan (WWURP)**
***Plan Description***

The Western Washington University Retirement Plan (WWURP) is a defined contribution pension plan covering faculty, exempt professionals, and certain other employees. Eligible employees may choose from among several investment firms who provide individual fund contracts in which to invest retirement contributions. Under the plan, all participants become immediately vested upon joining and all eligible employees must commence participation within the first two years of employment. Subject to the rules of the fund sponsor, a participant may elect to withdraw up to 100% of plan contributions upon retirement or separation from employment.

At retirement, benefits may be guaranteed fixed annuities or variable annuities depending upon the investment option chosen by the participant.

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 qualified retirees when the retirement benefit provided by the fund sponsor 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% 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% WWURP contribution after age 50, the benefit goal is 1.5% for each year of full-time service for the years in which the lower contribution was selected. No significant changes were made in the benefit provisions for the years ending June 30, 2003 and 2002.

***Funding Policy***

Employee contribution rates, which are based on age, range from 5% to 10% of salary. The University matches the employee contributions. All required employer and employee contributions have been made. The amounts for the current year and two previous years are as follows:

	<u>Employee</u>	<u>Employer</u>
June 30, 2003	\$4,000,015	\$3,999,840
June 30, 2002	3,791,336	3,790,816
June 30, 2001	3,537,469	3,536,620

The University's supplemental plan is financed on a pay as you go basis. The payments for the current year and two previous years are as follows:

June 30, 2003	\$ 134,799
June 30, 2002	140,670
June 30, 2001	153,711

**Teacher's Retirement System (TRS)**
***Plan Description***

TRS is a cost sharing, multiple-employer retirement system comprised of three separate plans: Plans I and II/III are defined benefit plans and Plan III is a defined contribution plan. TRS participants who joined the system by September 30, 1977 are Plan I members. Those joining between October 1, 1977, and

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June 30, 1996, are Plan II/III members unless they exercise an option to transfer their holdings to Plan III.

Those joining after June 30, 1996, and those exercising the transfer option, are members of both Plans II/ III and Plan III. TRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS defined benefit plans accrue interest at a rate specified by DRS. Employees in TRS can elect to withdraw total employee contributions and interest earnings thereon upon termination.

TRS retirement benefit provisions are established in State statute and may be amended only by the State Legislature. Defined benefit plan benefits are vested after an employee completes five years of eligible service.

Teachers in Plan I are eligible to retire either after 30 years of service, or at the age of 60 with 5 years of service, or at age 55 with 25 years of service. The benefit is 2% of the average earnable compensation per year of service (average earnable compensation is based on the greatest compensation during any consecutive two compensation contract years).

The normal retirement age for Plan II/III employees is 65. However, members are eligible to retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service. Plan III retirement benefits may be paid at age 55 with 10 years of service. Plan II/III benefits are 2% of the average final compensation per year of service for members not enrolled in Plan III Defined Contribution Plan (DC), and 1% of the average final compensation per year of service for members enrolled in Plan III DC. TRS Plan I and Plan II/III also provide a cost of living allowance indexed to the Seattle Consumer Price Index capped at 3% annually (average final compensation is based on the greatest compensation during any consecutive 60 month period). Plan II/III retirements prior to age 65 are actuarially reduced.

Death and disability benefits are available in Plan I. TRS Plan I members receive the following additional lump sum death benefits: retired members - \$400 (if at least 10 years of membership service), active members - \$600. Members on temporary disability receive a temporary life annuity of \$180 per month payable up to two years. After five years of service,

members on a disability retirement receive an allowance based on salary and service to date of disability. Members prior to April 25, 1973, may elect a benefit based on the formula in effect at that time. There were no significant changes in TRS benefit provisions for the fiscal years ending June 30, 2003 and 2002.

**Funding Policy**

Each biennium the State Economic and Revenue Forecast Council adopts Plan I employer contribution rates and Plan II/III employer and employee contribution rates. Employee contribution rates for Plan I are established by statute at 6%. The employer and employee contribution rates for Plan II/III are developed by the Office of the State Actuary to fully fund Plan II/III. The methods used to determine the contribution requirements are established under State statute as per RCW 41.45. All employers are required to contribute at the level required by State statute.

Normal cost required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2003 and 2002, were as follows:

	<u>Employee</u>	<u>Employer</u>
Plan I	6.00%	1.27%
Plan II	.15%	1.27%
Plan III	5.00 - 15.00%	1.27%

All required employer and employee contributions have been made. The amounts for the current year and two previous years are as follows:

	<u>Employee</u>	<u>Employer</u>
June 30, 2003	\$ 61,501	\$ 12,362
June 30, 2002	64,271	31,341
June 30, 2001	62,677	67,819

**Law Enforcement Officers' and Firefighters' Retirement System (LEOFF)**
**Plan Description**

LEOFF is a cost sharing multiple employer retirement system comprised of two separate defined benefit plans.

University employees became eligible for participation effective January 1, 1994. Following the employees' election, actual University participation began March 1, 1994. Participation is restricted to Plan II. LEOFF retirement benefits are financed from a combination of

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investment earnings, employer and employee contributions, and a special funding situation where the State pays the remainder through State legislative appropriation. Employee contributions to LEOFF accrue interest at a rate specified by DRS.

Employees in LEOFF can elect to withdraw total employee contributions and interest earnings thereon upon termination.

LEOFF was established in 1970 by the State Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised principally of non-State employees.

LEOFF retirement benefits are established in State statute and may be amended only by the State Legislature. LEOFF System benefits are vested after an employee completes five years of eligible service.

Plan II participants are eligible to retire at the age of 50 with 20 years of service, or at the age of 55 with 5 years of service. Retirement benefits prior to the age of 55 are actuarially reduced. The benefit is 2% of the average salary per year of service. The average salary is based on the highest consecutive 60 months.

Retirement benefits are indexed to the Seattle Consumer Price Index with a cap of 3% annually. There were no significant changes in LEOFF benefit provisions for the fiscal years ending June 30, 2003 and 2002.

*Funding Policy*

For Plan II, employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan II employers and employees are required to pay at the level adopted by the Economic and Revenue Forecast Council in accordance with RCW 41.45. All employers are required to contribute at the level required by State statute.

Normal cost required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2003 and 2002 were as follows:

	<u>Employee</u>	<u>Employer</u>
Plan II	4.39%	4.61%

All required employer and employee contributions have been made. The amounts for the current year and two previous years are as follows:

	<u>Employee</u>	<u>Employer</u>
June 30, 2003	\$ 24,176	\$ 25,387
June 30, 2002	23,443	24,639
June 30, 2001	27,524	28,490