



***FINANCIAL REPORT 2004-2005***

**FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTAL**

**INFORMATION**

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December 9, 2005

John D. Warner, Chair  
Board of Trustees  
Western Washington University  
Bellingham, WA 98225

Dear Mr. Warner:

We are pleased to submit the Annual Financial Report of Western Washington University. 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 accounting principles and following the guidance of the Governmental Accounting Standards Board.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.


KPMG LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the Western Washington University financial statements for the year ended June 30, 2005. This opinion is included in the independent auditor's report.

Management's discussion and analysis, located at the front of the financial section of this report, provides a narrative introduction, overview, and analysis of the basic financial statements. Western Washington University is recognized nationwide as a distinctive public comprehensive university. For the ninth year in a row, Western is ranked second among public master's-granting universities in the West, according to the 2006 U.S. News & World Report college rankings. Only two public schools are ranked in the top 20 among master's-granting universities in the West. Western's national academic excellence and faculty, as well as its prime location, make it an institution "in demand", which will continue to help it weather more difficult economic climates.

Sincerely,



Karen W. Morse  
President



George A. Pierce  
Vice President for Business and Financial Affairs

***BOARD OF TRUSTEES***

John D. Warner, Chair  
Kevin Raymond, Vice Chair  
Philip E. Sharpe, Jr., Secretary  
Maya Tomlin, Student Trustee  
Dennis Madsen  
Betty Woods  
Grace T. Yuan  
Peggy Zoro

***ADMINISTRATIVE OFFICERS***

Karen W. Morse, President  
Andrew R. Bodman, Provost and Vice President for Academic Affairs  
George A. Pierce, Vice President for Business and Financial Affairs  
Eileen V. Coughlin, Vice President for Student Affairs and Academic Support Services  
Robert F. Frazier, Vice President for External Affairs  
Stephanie Bowers, Vice President for University Advancement  
Mary R. Carlson, Assistant Vice President for Business and Financial Affairs  
Shonda L. Shipman, Interim Accounting Director, Fiscal Services and Business Support

## Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of Western Washington University (University) for the years ended June 30, 2005 and 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

### Presentation of the Financial Statements

The University's financial reports include the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows.

The statements are formatted following the guidelines of the Governmental Accounting Standards Board (GASB) pronouncements. These financial statements are prepared in accordance with GASB principles, which establish standards for external financial reporting for public colleges and universities. The University's financial statements have been prepared 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.

### Financial Health

The Statements of Net Assets present the financial condition of the University at the end of the last three fiscal years and report all assets and liabilities of the University.

These statements represent the assets available to continue the operations of the institution and identify how much the institution owes vendors, investors and lending institutions. Finally, the difference between total assets and total liabilities – net assets- is one indicator of the current financial condition of the University. The change in net assets measures whether the overall financial condition has improved or deteriorated during the year.

A summarized comparison of the University's assets, liabilities and net assets as of June 30, 2005, 2004, and 2003 follows:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>(Dollars in thousands)</i>		
<b>Assets</b>			
Current assets	\$ 63,781	\$ 62,110	\$ 50,877
Non-current assets	16,201	18,478	27,674
Capital assets	304,028	292,536	272,546
Total assets	<u>384,010</u>	<u>373,124</u>	<u>351,097</u>
<b>Liabilities</b>			
Current liabilities	26,966	28,342	23,867
Non-current liabilities	66,984	68,787	71,573
Total liabilities	<u>93,950</u>	<u>97,129</u>	<u>95,440</u>
<b>Net Assets</b>			
Invested in capital assets, net	234,675	226,057	211,803
Restricted, non-expendable	3,483	3,369	2,818
Restricted, expendable:	19,612	18,653	17,673
Unrestricted	32,291	27,916	23,363
Total net assets	<u>\$ 290,061</u>	<u>\$ 275,995</u>	<u>\$ 255,657</u>

The University's total assets at the end of fiscal years 2003, 2004, and 2005 were \$351 million, \$373 million, and \$384 million, respectively. This increase of nearly \$33 million in three years is largely the result of the University's on-going capital building program.

Over the last two years, the University has constructed several new facilities, to help ease the crowded conditions on campus and to provide students with a state-of-the-art recreation center. Buildings completed during fiscal year 2004 include the Wade King Student Recreation Center and the Communications Building. The Academic Instruction Center was under construction at the end of fiscal year 2005. University Residences has also had major capital projects underway, such as the renovation of the Birnam Wood student apartments.

The University's current investments have increased over the past three years while long term investments have decreased. In fiscal year 2003, the University sold \$15 million in bonds to finance the major renovation projects for University Residences. Additionally, State Capital Appropriations have been the largest in the University's history over this period. As the bond and capital appropriation proceeds have been expended, noncurrent assets have decreased, and capital assets have increased.

Western's current liabilities over the last three years, while fluctuating slightly due to timing differences, have remained steady. Non-current liabilities increased in 2003 when new bonds were sold by University Residences, then decreased in 2004 when \$1 million in bonds were defeased by the Wade King Student Recreation Center.

In 2005, the Housing and Dining System issued \$12.6 million in revenue refunding bonds to defease \$11.1 million in bonds issued in 1999 that were callable beginning in 2011. Management expects the refunding will provide a savings of approximately \$662,000 over the life of the bonds.

The Housing and Dining System plans to issue approximately \$9.7 million in revenue bonds in January 2006 to provide funding for the renovation of the Higginson Hall student residence.

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 outstanding debt obligations related to them.

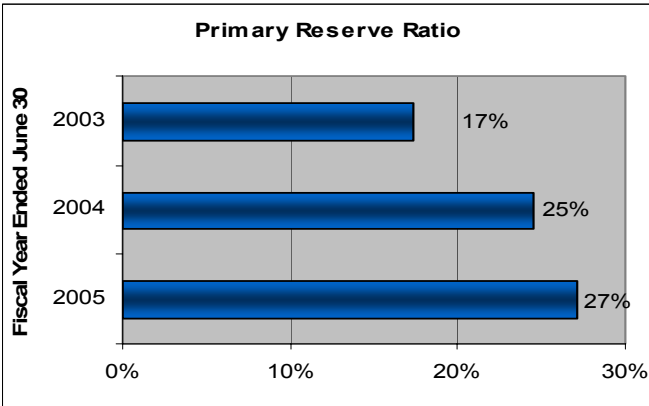
#### *Restricted Net Assets:*

- *Nonexpendable* - 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 others for capital projects.

*Unrestricted Net Assets* – includes all other funds available to the institution for the general and educational purposes of the University. Unrestricted assets are often internally designated for specific purposes by the Board of Trustees.

#### **Ratio Analysis**

Ratios can be helpful in evaluating the University's financial health and performance. The following pages contain strategic ratios to aid in analysis. We believe that the following ratio will help provide a clear, high level assessment of the overall financial picture of the institution.

**Primary Reserve Ratio**


The Primary Reserve Ratio measures the financial strength of the institution by comparing expendable net assets to total expenses. Expendable net assets represent those assets that the institution can access quickly and spend to satisfy its obligations. Expenses, rather than revenues, are used in the calculation since they are a better indicator of operating size, are less volatile generally, and are under greater management control. An upward trend in this ratio indicates a strengthening of financial condition.

Western's ratio has increased each year. The current year's increase is a result of the University's analysis of fund balances and overall conservation of resources.

This analysis of reserve balances has also resulted in progressive increases in Unrestricted Net Assets. These have increased by 38% over the last three years.

**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 statement presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as operating, non-operating or other.

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. Under GASB reporting principles, state appropriations are classified as non-operating revenues. Investment income is also classified as non-operating revenue.

Following is a condensed version of the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2005, 2004, and 2003:

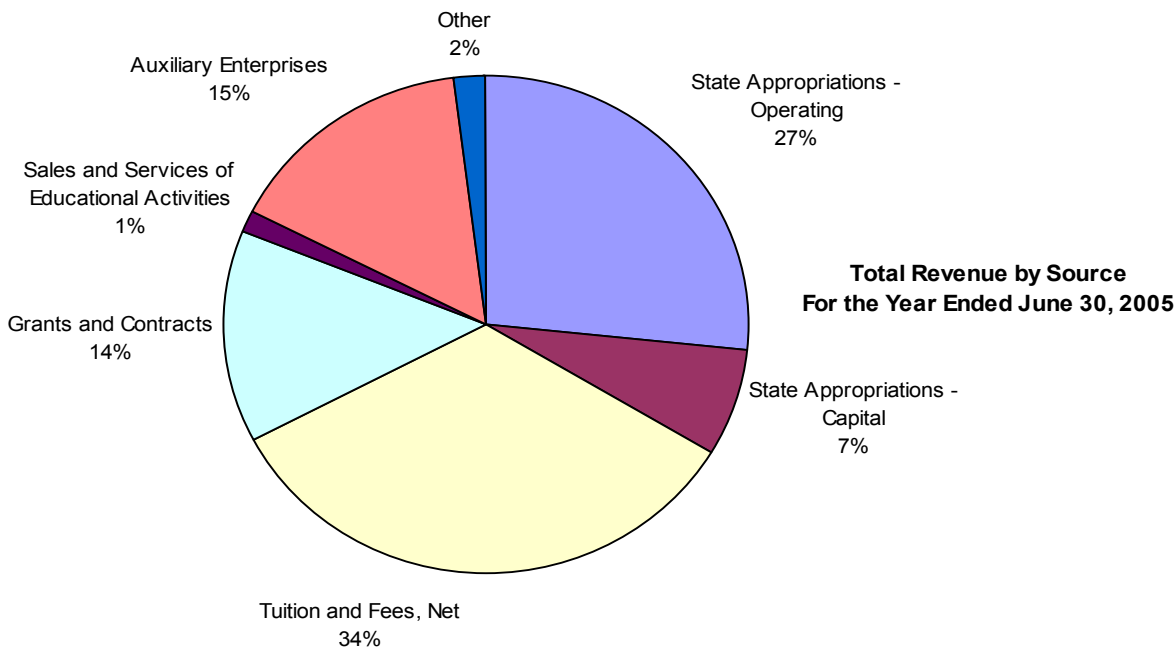
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>(Dollars in thousands)</i>		
Operating revenues	\$ 132,682	\$ 122,604	\$ 116,406
Operating expenses	188,789	177,138	179,772
Income (loss) from operations	<u>(56,107)</u>	<u>(54,534)</u>	<u>(63,366)</u>
Non-operating revenues	58,919	59,938	64,969
Non-operating expenses	<u>(3,038)</u>	<u>(2,207)</u>	<u>(3,335)</u>
Income (loss) before other revenues	(226)	3,197	(1,732)
Other revenues	<u>14,292</u>	<u>17,141</u>	<u>24,348</u>
Increase in net assets	14,066	20,338	22,616
Net assets, beginning of year	275,995	255,657	233,041
Net assets, end of year	<u>\$ 290,061</u>	<u>\$ 275,995</u>	<u>\$ 255,657</u>

Over the last three years, State appropriation revenues decreased from \$57.2 million to \$54.9 million, a 4% decrease. State budget reductions were offset by tuition and enrollment increases. The University increased tuition by

approximately 8% in 2003 and 7% in 2004 and 2005. Enrollment increased a little over 1% per year from an average annual headcount of 12,011 in 2003 to 12,477 in 2005.

The University's largest component of revenue is tuition and fees, followed closely by State Appropriations.

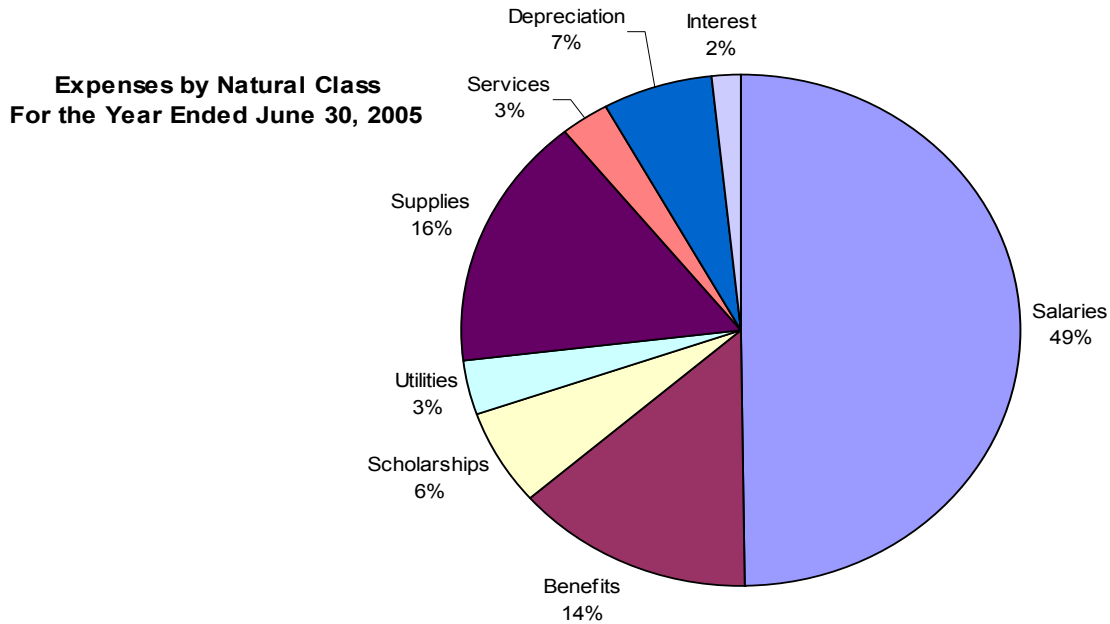
Over the past three years, increases in State Capital appropriation revenues have funded much needed construction of academic facilities and related infrastructure improvements to meet Western's current and future enrollment.



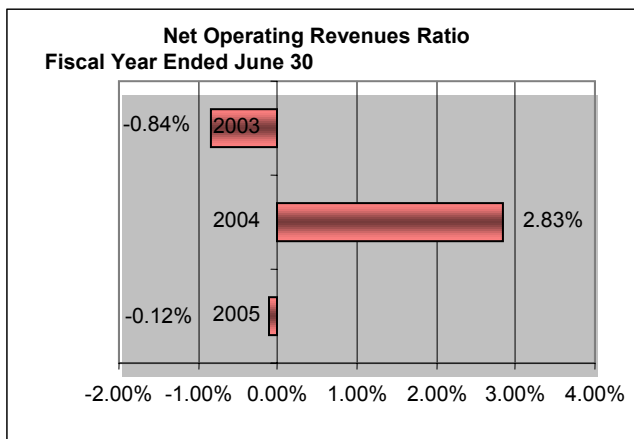
During the current fiscal year, operating expenses increased by 6.5% or \$11.6 million. Increases are due primarily to increased salary and benefit costs in fiscal year 2005.

The University increased faculty and exempt salaries by 1.0% in 2004 and 2.0% in 2005. Benefit costs increased as well due to rising health insurance rates. Increases in utilities resulted from rising energy prices, and the addition of new facilities. The University responded to these pressures by prudent management of expenses in others areas.





### Net Operating Revenues Ratio



The Net Operating Revenues Ratio indicates whether total operating activities resulted in a surplus or deficit. This displays if the University is “living within its means”. A large surplus or deficit directly impacts the amount of funds an institution adds or subtracts from net assets, thereby affecting the primary reserve ratio.

Although the net operating revenues ratio decreased during fiscal 2005, Western was still able to add to its reserves as a result of the additions to capital assets relating to Western’s multi-year intensive building and renovation project along with the decrease in current and long-term liabilities.

### Economic Factors That Will Affect the Future

Washington continues to enjoy steady economic recovery at the state level. Strength in the state’s housing market due mainly to low interest rates continues to be the main driver of the state economic growth. Higher oil and gas prices have yet to dampen consumer spending and the anticipated effects of Hurricanes Katrina and Rita on gas prices may be temporary. Nationally, federal spending and private investment to reconstruct the Gulf Coast states are expected to provide a temporary stimulus to the economy.

September 2005 revenue forecasts for Washington State indicate that General Fund revenue is up \$492.9 million over the June 2005 forecast for 2005-07, creating \$1.119 billion in reserves. The Governor has indicated that some of the new revenue will be used to strengthen Washington’s pension system, meet increased caseloads in public education and social services, and to build healthy reserves.

Public higher education has been identified by the Governor as one of the most compelling priorities of state government. Discussions surrounding the Governor's Priorities of Government recognize and underscore that no other public investment promises to yield so much in enhancing the competitiveness of the state in a global society and economy. Consequently, the state has directed interest in investing public funds to ensure that a high quality college education is affordable for all qualified Washington residents.

The demand for access and retraining opportunities are at an all-time in Washington and across the nation. Fall 2005 enrollment at Western Washington University exceeded the budgeted (funded) enrollment levels. With funding reductions from the State in the past and those that are expected in the future, higher education institutions are increasingly more dependent upon tuition to bridge this funding gap in order to provide the additional monies needed for essential academic, student, and support program needs.



KPMG LLP  
Suite 900  
801 Second Avenue  
Seattle, WA 98104

### Independent Auditors' Report

The Board of Trustees  
Western Washington University:

We have audited the accompanying financial statements of Western Washington University and its discretely presented component unit as of and for the years ended June 30, 2005 and 2004, 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 audits. 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 29% in both years and total revenues constituting 18% and 27% in 2005 and 2004, respectively, of the related totals. In addition, we did not audit the financial statements of Western Washington University Foundation, a discretely presented component unit. 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 and component unit, are based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Western Washington University and of its discretely presented component unit as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 9 are not a required part of the basic financial statements but are 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**

November 4, 2005

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

<b>Assets</b>	2005	2004
Current assets:		
Cash and cash equivalents (Note 3)	\$ 7,948,818	\$ 8,338,201
Investments (Note 4)	42,092,403	37,573,090
Due from State Treasurer	2,189,598	2,903,937
Funds with State Treasurer (Note 5)	4,837,276	4,018,398
Interest receivable	1,212,164	1,136,649
Accounts receivable, net (Note 6)	4,057,641	3,385,079
Prepaid expenses	1,770	17,379
Inventories (Note 8)	1,441,656	1,451,754
Total current assets	63,781,326	58,824,487
Non-current assets:		
Cash and cash equivalents (Note 3)	203,189	201,537
Investments (Note 4)	8,231,085	13,775,329
Student loan receivable, net (Note 7)	7,766,946	7,787,001
Land (Note 9)	9,269,370	9,269,370
Capital assets, net (Note 9)	294,758,456	283,266,507
Total non-current assets	320,229,046	314,299,744
Total assets	384,010,372	373,124,231
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	11,651,871	11,634,242
Deposits payable	1,634,393	2,091,453
Deferred revenues	4,586,829	3,743,248
Compensated absences	5,738,798	5,349,528
Current portion of long-term liabilities (Note 11, 14)	2,368,817	2,229,195
Deposits held in custody for others	985,143	3,294,251
Total current liabilities	26,965,851	28,341,917
Non-current liabilities:		
Bonds and notes payable (Notes 12,13,14)	66,983,690	68,786,846
Total Liabilities	93,949,541	97,128,763
<b>Net Assets</b>		
Invested in capital assets, net of related debt	234,675,319	226,057,136
Restricted for:		
Nonexpendable: scholarships and professorships	3,419,017	3,369,017
Expendable:		
Instruction and research	1,894,244	1,876,928
Loans	10,533,578	10,478,396
Capital Projects	7,247,723	6,298,170
Unrestricted	32,290,950	27,915,821
Total net assets	\$ 290,060,831	\$ 275,995,468

*See Accompanying Notes to the Financial Statements*

<b>Assets</b>	<u>2005</u>	<u>2004</u>
<b>Cash and cash equivalents</b>	\$ 749,800	\$ 3,024,227
<b>Investments</b>		
Long-term investment pool	21,895,277	16,475,773
Annuity and life income investments	5,081,709	5,153,185
Short-term investment pool	4,251,236	4,058,168
Real estate, net	1,036,659	214,659
Note receivable	492,000	-
Other	60,271	59,157
Total investments	<u>32,817,152</u>	<u>25,960,942</u>
<b>Receivables</b>		
Promises to give, net	2,880,796	2,463,371
Other	4,844	7,488
Total receivables	<u>2,885,640</u>	<u>2,470,859</u>
<b>Other assets</b>	<u>14,896</u>	<u>16,245</u>
<b>Total assets</b>	<u>\$ 36,467,488</u>	<u>\$ 31,472,273</u>
 <b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 75,300	\$ 74,329
Annuity and life income obligations	2,006,115	2,197,732
Contingent obligation to Northwest Indian College Foundation	998,701	940,957
Total liabilities	<u>3,080,116</u>	<u>3,213,018</u>
<b>Net assets</b>		
Unrestricted	8,035,199	5,104,166
Temporarily restricted	11,662,692	10,537,841
Permanently restricted	13,689,481	12,617,248
Total net assets	<u>33,387,372</u>	<u>28,259,255</u>
<b>Total liabilities and net assets</b>	<u>\$ 36,467,488</u>	<u>\$ 31,472,273</u>

*See Accompanying Notes to the Financial Statements*

**STATEMENTS OF REVENUES, EXPENSES & CHANGES IN NET ASSETS** For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>		
Student tuition and fees	\$ 78,153,151	\$ 71,545,687
Less scholarship allowances	<u>(9,012,238)</u>	<u>(8,563,891)</u>
Net student tuition and fees	69,140,913	62,981,796
Federal grants and contracts	16,239,436	13,606,094
State and local grants and contracts	10,808,158	10,072,456
Nongovernmental grants and contracts	1,652,328	957,136
Sales and services of educational activities	2,849,666	5,006,151
Interest earned on loans to students	132,343	132,099
Auxiliary enterprises	34,517,518	32,339,841
Less scholarship allowances	<u>(2,658,639)</u>	<u>(2,491,959)</u>
Net auxiliary enterprises	31,858,879	29,847,882
Total operating revenues	<u>132,681,723</u>	<u>122,603,614</u>
<b>Operating Expenses</b>		
Salaries and wages	95,495,024	91,826,930
Benefits	26,382,976	22,384,682
Scholarships and fellowships	11,837,042	11,899,299
Utilities	6,466,509	5,519,249
Supplies and materials	31,229,920	29,862,152
Purchased and personal services	4,967,301	4,440,319
Depreciation	<u>12,409,760</u>	<u>11,205,537</u>
Total operating expenses	<u>188,788,532</u>	<u>177,138,168</u>
Operating loss	<u>(56,106,809)</u>	<u>(54,534,554)</u>
<b>Non-operating Revenues &lt;Expenses&gt;</b>		
State appropriations	54,904,371	56,272,803
Investment income	3,985,943	3,665,971
Interest on indebtedness	(3,038,142)	(2,218,331)
Non-operating income net of expenses	<u>28,234</u>	<u>10,908</u>
Net non-operating revenues	<u>55,880,406</u>	<u>57,731,351</u>
Gain(loss) before other revenues, expenses, gains, or losses	<u>(226,403)</u>	<u>3,196,797</u>
<b>Other Revenues &lt;Expenses&gt;</b>		
Capital appropriations	14,241,766	16,590,718
Gifts to permanent endowments	<u>50,000</u>	<u>550,650</u>
Total other revenues	<u>14,291,766</u>	<u>17,141,368</u>
Increase in net assets	14,065,363	20,338,165
Net assets, beginning of year	<u>275,995,468</u>	<u>255,657,303</u>
Net assets, end of year	<u>\$ 290,060,831</u>	<u>\$ 275,995,468</u>

*See Accompanying Notes to the Financial Statements*

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**
**For the year ended June 30, 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005
<b>Support and Revenue</b>				
Contributions	\$ 2,306,393	\$ 3,986,678	\$ 1,013,871	\$ 7,306,942
Less estimated annuities and income payable	-	-	-	-
Less change in allowance for uncollectible promises to give	(1,020)	(10)	(8,340)	(9,370)
Services and facilities provided by Western Washington University	<u>1,618,051</u>	-	-	<u>1,618,051</u>
	3,923,424	3,986,668	1,005,531	8,915,623
Net unrealized gains (losses) on investments	543,063	712,216	-	1,255,279
Net realized gains (losses) on investments	257	416,094	-	416,351
Interest and dividends	310,764	489,351	-	800,115
Amortization	-	22,000	-	22,000
Fund raising events and other	<u>25,704</u>	<u>389,461</u>	-	<u>415,165</u>
Total support and revenue before net assets released from restrictions	4,803,212	6,015,790	1,005,531	11,824,533
Net assets released from restrictions				
Satisfaction of program restrictions	3,960,420	(3,960,420)	-	-
Satisfaction of spending allocation restrictions	318,938	(318,938)	-	-
Satisfaction of administration fee restrictions	191,078	(191,078)	-	-
Change in restrictions	<u>185,411</u>	<u>(252,113)</u>	<u>66,702</u>	<u>-</u>
Total support and revenue	<u>9,459,059</u>	<u>1,293,241</u>	<u>1,072,233</u>	<u>11,824,533</u>
<b>Expenses and changes in valuation of annuity obligations</b>				
Program services and grants	4,517,109	-	-	4,517,109
Management and general - WWU in-kind	908,861	-	-	908,861
Management and general - other	211,546	-	-	211,546
Fund raising - WWU in-kind	709,190	-	-	709,190
Fund raising	<u>160,313</u>	-	-	<u>160,313</u>
Total expenses	6,507,019	-	-	6,507,019
Change in valuation of annuity obligations	<u>21,007</u>	<u>168,390</u>	-	<u>189,397</u>
Total expenses and change in valuation of annuity obligations	<u>6,528,026</u>	<u>168,390</u>	-	<u>6,696,416</u>
<b>Change in net assets</b>	2,931,033	1,124,851	1,072,233	5,128,117
<b>Net assets, beginning of year</b>	<u>5,104,166</u>	<u>10,537,841</u>	<u>12,617,248</u>	<u>28,259,255</u>
<b>Net assets, end of year</b>	<u>\$ 8,035,199</u>	<u>\$ 11,662,692</u>	<u>\$ 13,689,481</u>	<u>\$ 33,387,372</u>

*See Accompanying Notes to the Financial Statements*

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**
**For the year ended June 30, 2004**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004
<b>Support and Revenue</b>				
Contributions	\$ 1,828,076	\$ 4,100,132	\$ 1,468,497	\$ 7,396,705
Less estimated annuities and income payable	-	18,612	-	(18,612)
Less change in allowance for uncollectible promises to give	80	(88,130)	(74,690)	(162,740)
Services and facilities provided by Western Washington University	<u>1,451,631</u>	-	-	<u>1,451,631</u>
	<u>3,279,787</u>	<u>4,030,614</u>	<u>1,393,807</u>	<u>8,666,984</u>
Net unrealized gains (losses) on investments	588,011	1,067,613	-	1,655,624
Net realized gains (losses) on investments	58,640	165,461	-	224,101
Interest and dividends	180,609	415,868	-	596,477
Fund raising events and other	<u>10,176</u>	<u>355,676</u>	-	<u>365,852</u>
Total support and revenue before net assets released from restrictions	4,117,223	6,035,232	1,393,807	11,509,038
Net assets released from restrictions				
Satisfaction of program restrictions	2,662,488	(2,662,488)	-	-
Satisfaction of spending allocation restrictions	237,280	(237,280)	-	-
Satisfaction of administration fee restrictions	175,094	(175,094)	-	-
Change in restrictions	<u>266,762</u>	<u>(453,138)</u>	<u>186,376</u>	<u>-</u>
Total support and revenue	<u><u>7,458,847</u></u>	<u><u>2,507,232</u></u>	<u><u>1,580,183</u></u>	<u><u>11,509,038</u></u>
<b>Expenses and changes in valuation of annuity obligations</b>				
Program services and grants	3,085,167	-	-	3,085,167
Management and general - WWU in-kind	1,451,631	-	-	1,451,631
Management and general - other	610,601	-	-	610,601
Fund raising	<u>116,297</u>	-	-	<u>116,297</u>
Total expenses	<u>5,263,696</u>	-	-	<u>5,263,696</u>
Change in valuation of annuity obligations	<u>14,366</u>	<u>313,571</u>	-	<u>327,937</u>
Total expenses and change in valuation of annuity obligations	<u><u>5,278,062</u></u>	<u><u>313,571</u></u>	<u><u>-</u></u>	<u><u>5,591,633</u></u>
<b>Change in net assets</b>	2,180,785	2,193,661	1,580,183	5,917,405
<b>Net assets</b> , beginning of year	<u>2,923,381</u>	<u>8,381,404</u>	<u>11,037,065</u>	<u>22,341,850</u>
<b>Net assets</b> , end of year	<u><u>\$ 5,104,166</u></u>	<u><u>\$ 10,575,065</u></u>	<u><u>\$ 12,617,248</u></u>	<u><u>\$ 28,259,255</u></u>

*See Accompanying Notes to the Financial Statements*



**STATEMENTS OF CASH FLOWS**
**For the years ended June 30, 2005 & June 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 69,507,643	\$ 66,159,128
Grants and contracts	28,294,626	24,441,615
Payments to vendors	(53,544,240)	(52,374,434)
Payments to employees for salaries and benefits	(121,372,010)	(113,786,838)
Loans issued to students	(1,986,377)	(2,093,913)
Collection of loans to students	2,012,202	2,083,071
Auxiliary enterprise charges	31,506,647	31,725,873
Sales and services of educational activities	2,933,662	4,984,467
Interest received on loans to students	132,343	132,099
Net cash used by operating activities	<u>(42,515,504)</u>	<u>(38,728,932)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	54,904,371	56,272,802
Direct Lending proceeds	48,671,279	45,668,243
Direct Lending disbursements	(48,601,330)	(45,668,387)
Gifts to permanent endowments	50,000	550,650
Net cash provided by noncapital financing activities	<u>55,024,320</u>	<u>56,823,308</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(140,276,506)	(122,164,152)
Proceeds from sales of investments	138,937,371	121,643,301
Interest received on investments	3,859,016	3,350,360
Net cash provided by investing activities	<u>2,519,881</u>	<u>2,829,509</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from capital debt	13,029,037	217,175
Interest earned on bond proceeds	51,412	131,858
Capital appropriations	14,956,105	16,074,544
Permanent fund used for capital projects	(818,878)	(962,334)
Purchases of capital assets	(24,907,031)	(31,801,925)
Principal paid on capital debt	(14,692,572)	(2,523,012)
Interest paid on capital debt	(3,062,735)	(2,199,033)
Other activities	28,234	10,908
Net cash used by capital and related financing activities	<u>(15,416,428)</u>	<u>(21,051,819)</u>
Net decrease in cash and cash equivalents	(387,731)	(127,934)
Cash and cash equivalents, beginning of year	<u>8,539,738</u>	<u>8,667,672</u>
Cash and cash equivalents, end of year	<u>\$ 8,152,007</u>	<u>\$ 8,539,738</u>

*See Accompanying Notes to the Financial Statements*

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

	<u>2005</u>	<u>2004</u>
Operating loss	\$ (56,106,809)	\$ (54,534,554)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	12,409,760	11,205,537
Changes in assets and liabilities		
Accounts receivable	(672,562)	506,967
Insurance proceeds receivable		1,288,888
Student loans receivable	20,055	2,056
Inventories	10,098	(116,925)
Prepaid expenses	15,609	3,034
Accounts payable and accrued expenses	1,047,546	(711,925)
Deferred revenue	843,581	2,977,031
Student and other deposits	(457,060)	563,415
Deposits held in custody	(14,991)	(70,039)
Compensated absences	389,270	157,583
Net cash used by operating activities	<u>\$ (42,515,504)</u>	<u>\$ (38,728,932)</u>
Supplemental disclosure of cash flow information		
Acquisition of capital assets through accounts payable	<u>\$ 3,153,672</u>	<u>\$ 4,158,994</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. During the year ended June 30, 2004, the University implemented Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*. Its purpose is to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the primary government, as well as its component unit; the Western Washington University Foundation (the Foundation).

The Foundation is a legally separate, tax-exempt entity. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The board is self-perpetuating and consists of 31 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources or income thereon that the Foundation holds and invests is restricted for the activities of the University by the donors. The Foundation's activity is reported in separate financial statements because of the difference in its reporting model, as further described below.

The Foundation reports its financial results under Financial Accounting Standards Board (FASB) Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*.

As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation's financial information in the University's financial statements for these differences; however significant note disclosures (see Note 2) to the Foundation's financial statements have been incorporated into the University's notes to the financial statements.

The Foundation's financial statements can be obtained by contacting the Foundation at (360) 650-3408.

**Financial Statement Presentation**

The financial statements are presented in accordance with generally accepted accounting principles and following the guidance given by the GASB.

**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**

During the year ended June 30, 2004, the University adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures." This statement establishes and modifies disclosure requirements related to investment risks. Disclosures of the University's interest rate risk (associated with fixed income securities), credit risk, and foreign currency risk are included in Note 4.

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund University

operations are classified as current assets. Cash, cash equivalents, and investments that represent unspent bond proceeds or are held with the intent to fund capital projects are classified as non-current assets. Endowment investments are also classified as non-current assets. The University records all cash, cash equivalent, and investments at amortized cost, which approximates fair value.

#### 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, and 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 2005 and 2004, \$467,708 and \$1,513,022 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 – nonexpendable* - Nonexpendable 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 expenses. 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 Discounts and 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. COMPONENT UNIT**

The Foundation presents information about its financial position and activities according to the following three classes of net assets, depending on the existence and nature of donor restrictions:

*Unrestricted net assets* – Support received that is not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as unrestricted.

*Temporarily restricted net assets* – Support received subject to donor-imposed use restrictions or time restrictions that will be met either through actions of the Foundation or by the passage of time is classified as temporarily restricted. In the period donor restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently restricted net assets* – Support received subject to donor-imposed restrictions stipulating that funds be invested in perpetuity is classified as permanently restricted. In accordance with purposes stipulated by the donors, earnings from such funds may be either unrestricted or temporarily restricted.

**3. CASH AND CASH EQUIVALENTS**

At June 30, 2005 and 2004, the carrying amount of cash and cash equivalents is \$8,152,007 and \$8,539,738 respectively. The carrying amount of cash and cash equivalents approximates the market value.

**4. INVESTMENTS**

To maximize investment income, the University combines unrestricted cash funds from all areas into an internal investment pool. Investment income is allocated to University departments in proportion to the respective average balances in the investment pool. The University's pool is invested in certificates of deposit. The University held \$42,092,403 and \$37,573,090 in pooled investments at June 30, 2005 and 2004, respectively.

In addition to the investments in the internal pool, the University separately invested \$8,231,085 and \$13,775,329 of Renewal and Replacement and Endowments funds as of June 30, 2005 and 2004, respectively.

The University Endowment funds are invested under the direction of the Endowment Investment Committee. The committee is responsible for: reviewing and recommending policy to define investment objectives and allowable investments; monitoring investment performances and social concerns and recommending investments, investment managers and/or mutual funds. At June 30, 2005, the University's Endowment fund held \$6,060,482 in investments managed by three investment firms.

**Interest Rate Risk**

The University manages its exposure to fair value losses in the investment pool by employing a "laddered maturity" strategy, in which investments mature at varying times throughout the year. In accordance with the University's Investment Policy, no pool investment maturity exceeds five years.

Endowment funds are invested under Endowment Fund Policy guidelines. These guidelines include the primary objective of achieving long-term growth using prudent investing practices, and do not limit investment maturities as a means to manage interest rate exposure. At June 30, 2005, the University held the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-2	2-3	3-4	>4 years
WWU Investment Pool:						
Time Certificates of Deposits	\$ 42,092,403	\$ 30,017,255	\$ 7,804,750	\$ -	\$ 4,270,399	\$ -
Renewal and Replacement Funds:						
Time Certificates of Deposits	2,170,603	1,152,978	1,017,625	n/a	n/a	n/a
WWU Endowment Funds:						
Mutual Funds	1,292,492	1,292,492	n/a	n/a	n/a	n/a
Time Certificates of Deposit	397,615	199,065	198,550	n/a	n/a	n/a
U.S. Treasury Fixed Income Securities	930,908	174,652	n/a	n/a	563,738	192,518
U.S. Agency Fixed Income Securities	488,073	375,132	n/a	n/a	n/a	112,941
Equity Securities	2,951,394	n/a	n/a	n/a	n/a	n/a
Total Endowment Funds	<u>6,060,482</u>					
TOTAL INVESTMENTS	<u>\$ 50,323,488</u>					

**Concentration of Credit Risk**

Time certificates of deposit are either insured through the Federal Deposit Insurance Corporation (FDIC) or collateralized by assets held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In accordance with policy, Endowment Fund equity securities consist of domestic stocks that are traded on a national exchange and are of investment grade, international stocks that are represented by American Depository Receipts (ADR), and convertible stocks and bonds.

**5. FUNDS WITH STATE TREASURER**

The balance of this account at June 30, 2005 and 2004 is \$4,837,276 and \$4,018,398, 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. Earnings from the investment are either reinvested or used for the benefit of Central Washington University, Eastern Washington University, Western Washington University, and The Evergreen State College. The investing activities are the responsibility of the Washington State Treasurer's Office.

At June 30, 2005 and 2004, the market value of the principal of the Normal School Permanent Fund is \$212,535,866 and \$206,353,882, respectively. The University's earnings on the fund for the year ended June 30, 2005 and 2004 are \$2,407,735 and \$2,470,442, respectively.

The primary sources of new principal for the Normal School Permanent fund are from the revenues, primarily timber sales, from certain state lands. The state lands include one hundred thousand acres granted by the United States government for state normal schools. These lands are managed by the State Department of Natural Resources, for the benefit of the three regional universities and The Evergreen State College.

**6. ACCOUNTS RECEIVABLE**

At June 30, 2005 and 2004, accounts receivable are as follows:

	<u>2005</u>	<u>2004</u>
Student tuition and fees	\$ 1,463,504	\$ 1,060,568
Federal, State and private grants and contracts	1,016,742	978,856
Auxiliary enterprises and other operating activities	<u>2,129,947</u>	<u>1,959,872</u>
Total accounts receivable	4,610,193	3,999,296
Less allowance for doubtful accounts	<u>(552,552)</u>	<u>(614,217)</u>
Net accounts receivable	<u><u>\$ 4,057,641</u></u>	<u><u>\$ 3,385,079</u></u>

**7. STUDENT LOANS RECEIVABLE**

At June 30, 2005 and 2004, student loans receivable are as follows:

	<u>2005</u>	<u>2004</u>
Federal Perkins student loans	\$ 8,431,832	\$ 8,459,241
Other long-term loans	93,804	78,715
Institutional loans	<u>108,182</u>	<u>128,140</u>
Total student loans	8,633,818	8,666,096
Less allowance for doubtful accounts	<u>(866,872)</u>	<u>(879,095)</u>
Net student loans receivable	<u><u>\$ 7,766,946</u></u>	<u><u>\$ 7,787,001</u></u>

**8. INVENTORIES**

At June 30, 2005 and 2004, inventories, stated at cost using various methods: retail, first-in, first-out (FIFO), or average cost, consist of the following:

Location	Valuation Method	2005	2004
Bookstore	Retail	\$ 908,040	\$ 966,357
Central Stores	Average Cost	82,949	114,896
Facilities Maintenance	FIFO	153,247	142,858
Lock Shop	FIFO	83,888	68,527
Other inventory	FIFO	213,532	159,116
Total inventory		<u>\$ 1,441,656</u>	<u>\$ 1,451,754</u>

**9. LAND AND CAPITAL ASSETS**

The depreciation expense for the fiscal years ended June 30, 2005 and 2004 was \$12,409,760 and \$11,205,537, respectively. During 2005 and 2004, \$467,708 and \$1,513,022 of construction related interest was capitalized, respectively. Following are the changes in land and capital assets for the year ended June 30, 2005:

	6/30/2004	Additions/ Transfers	Retirements	6/30/2005
Land	\$ 9,269,370	\$ -	\$ -	\$ 9,269,370
Capital assets				
Infrastructure	\$ 37,935,321	\$ 2,937,798	\$ -	\$ 40,873,119
Buildings	289,797,293	11,425,777	-	301,223,070
Furniture, fixtures and equipment	29,333,964	1,854,893	835,354	30,353,503
Library materials	38,921,316	1,822,535	-	40,743,851
Improvements	11,538,168	6,797,968	-	18,336,136
Construction in progress	21,782,401	(636,851)	299,844	20,845,706
Total capital assets	<u>429,308,463</u>	<u>24,202,120</u>	<u>1,135,198</u>	<u>452,375,385</u>
Less accumulated depreciation				
Infrastructure	13,515,052	1,314,072	-	14,829,124
Buildings	77,302,430	6,589,957	-	83,892,387
Furniture, fixtures and equipment	24,406,479	1,932,670	834,787	25,504,362
Library materials	26,446,761	1,548,314	-	27,995,075
Improvements	4,371,234	1,024,747	-	5,395,981
Total accumulated depreciation	<u>146,041,956</u>	<u>12,409,760</u>	<u>834,787</u>	<u>157,616,929</u>
Net capital assets	<u>\$ 283,266,507</u>	<u>\$ 11,792,360</u>	<u>\$ 300,411</u>	<u>\$ 294,758,456</u>



Following are the changes in land and capital assets for the year ended June 30, 2004:

	6/30/2003	Additions/ Transfers	Retirements	6/30/2004
Land	\$ 9,269,370	\$ -	\$ -	\$ 9,269,370
Capital assets				
Infrastructure	\$ 28,921,905	\$ 9,013,416	\$ -	\$ 37,935,321
Buildings	228,639,126	61,158,167	-	289,797,293
Furniture, fixtures and equipment	28,162,606	1,523,476	352,118	29,333,964
Library materials	37,141,307	1,780,009	-	38,921,316
Improvements	10,827,330	710,838	-	11,538,168
Construction in progress	64,772,291	(42,980,797)	9,093	21,782,401
	<u>\$ 398,464,565</u>	<u>\$ 31,205,109</u>	<u>361,211</u>	<u>429,308,463</u>
Less accumulated depreciation				
Infrastructure	12,362,824	1,152,228	-	13,515,052
Buildings	71,714,417	5,588,013	-	77,302,430
Furniture, fixtures and equipment	22,604,862	2,153,735	352,118	24,406,479
Library materials	24,958,850	1,487,911	-	26,446,761
Improvements	3,547,584	823,650	-	4,371,234
	<u>\$ 135,188,537</u>	<u>11,205,537</u>	<u>352,118</u>	<u>146,041,956</u>
Net capital assets	<u>\$ 263,276,028</u>	<u>\$ 19,999,572</u>	<u>\$ 9,093</u>	<u>\$ 283,266,507</u>

## 10. 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.

## 11. COMPENSATED ABSENCES

The accrued leave balance as of June 30, 2005 and 2004 is \$5,738,798 and \$5,349,528, 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 entire balance of accrued leave is considered current.

**12. NOTES PAYABLE**

The University finances certain land and equipment purchases through certificates of participation issued by the Washington State Treasurer. The University's debt service requirements for these agreements for the next five years and thereafter are as follows:

Fiscal Year	Principal	Interest
2006	\$ 278,818	\$ 34,060
2007	263,947	23,565
2008	109,581	15,431
2009	77,407	11,896
2010	55,431	9,455
20011-2015	158,268	26,286
2016-2017	49,302	2,540
Total	<u>\$ 992,754</u>	<u>\$ 123,233</u>

**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.

Housing and Dining Revenue Bonds

As specified in Master Resolution 97-09, 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.

On March 18, 2005, the Board of Trustees approved Resolution No. 2005-01, authorizing the issuance of revenue refunding bonds, Series 2005. On May 24, 2005, the University issued \$12,580,000 in Refunding Bonds with interest ranging from 3.375% to 4.50% to refund the callable bonds of the 1999 Revenue bond issue maturing June 1, 2011 and thereafter. At June 30, 2005, the aggregate outstanding principal balance of these defeased bonds was \$11,165,000.

Management expects the refunding will provide a savings of approximately \$662,000 in debt service and a cash flow savings of approximately \$3.2 million over the life of the bonds. The University incurred an accounting loss of \$1,276,821 as a result of the defeasance. This loss is being amortized over the remaining life of the bonds.

Recreation Center Revenue and Refunding Bonds

The Recreation Center issued the Revenue Bonds Series, 2002, in February 2002. The bonds bear interest at rates of 4% to 5% and mature serially until 2033. The bonds have an aggregate face value amount of \$26,669,793 and \$27,044,497 at June 30, 2005 and 2004, which is reported net of the unamortized original issue discount and bond issuance costs of \$884,204 and \$885,708, respectively.

In April 2004, the University approved a proposal to defease \$1,190,000 of the 2002 Revenue Bonds that were uncommitted due to lower than anticipated construction costs. Of these funds, \$191,000 was used toward the May 1, 2004 interest payment with the remaining \$999,000 placed in an escrow account to purchase United States Treasury securities used to legally defease \$945,000 of the bonds and pay related costs of \$54,000. Management expects the defeasance will provide a savings of approximately \$2.3 million in debt service and a cash flow savings of approximately \$2.9 million over the life of the bonds. The University incurred an accounting loss of \$74,795 as a result of the defeasance. This loss is being amortized over the remaining life of the bonds.

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 paid from earnings of the Normal School Permanent Fund.

Bonds Outstanding

The University's debt service for the general obligation bonds was paid in fiscal year 2005.

The debt service requirements for the revenue bonds for the next five years and thereafter are as follows:

Fiscal Year	Housing and Dining Revenue and Refunding Bonds		Student Recreation Center Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 1,585,000	\$ 1,950,780	\$ 505,000	\$ 1,336,350
2007	1,660,000	1,882,485	525,000	1,316,150
2008	1,715,000	1,819,214	545,000	1,295,150
2009	1,785,000	1,751,211	565,000	1,273,350
2010	1,855,000	1,676,865	585,000	1,250,750
2011-2015	10,490,000	7,147,484	3,350,000	5,851,868
2016-2020	13,010,000	4,585,599	4,230,000	4,972,500
2021-2025	11,370,000	1,396,636	5,385,000	3,805,500
2026-2030	1,005,000	45,225	6,880,000	2,316,750
2031-2035	-	-	5,005,000	508,500
Total	44,475,000	<u>\$ 22,255,499</u>	27,575,000	<u>\$ 23,926,868</u>
Less unamortized costs	1,508,219		834,205	
Less unamortized loss on defeasance	<u>1,276,821</u>		<u>71,002</u>	
Total	<u>\$ 41,689,960</u>		<u>\$ 26,669,793</u>	

Advance Refunding

The scheduled liabilities as of June 30, 2005 and 2004 do not include \$12,465,000 and \$1,825,000, respectively, of Housing and Dining System revenue bonds which were advanced refunded in October 1991 and May 2005, and do not include \$72,963 of general obligations bonds refunded between October 1988 and June 1998.

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 sheets.

**14. LONG-TERM LIABILITIES**

Following are the changes in bonds and notes payable for the year ended June 30, 2005 and 2004:

	<u>6/30/2004</u>	Additions	Retirements	<u>6/30/2005</u>	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$ 70,064,483	\$ 12,635,296	\$ 14,340,026	\$ 68,359,753	\$ 2,090,000
General obligation bonds	67,965	-	67,965	-	-
Notes payable	883,593	393,741	284,580	992,754	278,817
Total bonds and notes payable	<u>\$ 71,016,041</u>	<u>\$ 13,029,037</u>	<u>\$ 14,692,571</u>	<u>\$ 69,352,507</u>	<u>\$ 2,368,817</u>

	<u>6/30/2003</u>	Additions	Retirements	<u>6/30/2004</u>	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$ 72,273,786	\$ 5,081	\$ 2,214,384	\$ 70,064,483	\$ 1,875,000
General obligation bonds	133,432	-	65,467	67,965	67,965
Notes payable	914,660	212,094	243,161	883,593	286,230
Total bonds and notes payable	<u>\$ 73,321,878</u>	<u>\$ 217,175</u>	<u>\$ 2,523,012</u>	<u>\$ 71,016,041</u>	<u>\$ 2,229,195</u>

**15. LEASES**

The University finances certain equipment through non-cancelable operating leases. At June 30, 2005, future payments under these operating leases are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2006	\$ 219,678
2007	62,547
2008	37,398
2009	19,613
2010	16,566
Total minimum lease payments	<u>\$ 355,802</u>

**16. 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, and other similar categories.

Operating expenses by functional classification for the year ended June 30, 2005 and 2004 are summarized as follows:

	<u>2005</u>	<u>2004</u>
Instruction	\$ 70,718,380	\$ 63,478,060
Research	3,094,787	2,770,781
Academic support	9,971,724	10,323,820
Student services	12,065,045	10,836,789
Institutional support	15,504,152	14,737,852
Operation and maintenance of plant	23,403,854	20,730,220
Scholarships and other student aid	11,837,042	11,899,299
Auxiliary enterprise expenditures	<u>42,193,548</u>	<u>42,362,047</u>
Total operating expenses	<u>\$ 188,788,532</u>	<u>\$ 177,138,168</u>

**17. 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.

**18. PENSION PLANS**

The University offers four contributory pension plans: 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) and the Western Washington University Retirement Plan (WWURP).

The payroll for the University employees covered by PERS for the year ended June 30, 2005 and 2004 is \$28,654,628 and \$28,318,399; the payroll for employees covered by TRS is \$1,314,355 and \$1,415,308; the payroll covered by WWURP is \$56,099,134 and \$53,846,084; the payroll for LEOFF is \$575,903 and \$568,556, respectively. The total payroll for the University is \$95,166,518 and \$91,893,794.

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

The Western Washington University Retirement Plan (WWURP) is a defined contribution pension plan with a supplemental payment, when required. The plan covers faculty, professional staff, and certain other employees. It is administered by the University. The University's Board of Trustees is authorized to establish and amend benefit provisions.

Contributions to the Plan are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have at all times a 100% vested interest in their accumulations.

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.

*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:

	2005	2004	2003
Employee	\$ 4,336,867	\$ 4,123,995	\$ 4,000,015
University	4,335,929	4,124,462	3,999,840

The University's supplemental plan is financed on a pay as you go basis. The payments for the years ending June 30, 2005, 2004, and 2003, are \$108,115, \$129,573, and 134,799, respectively.

PERS, TRS, and LEOFF

*Plan Description*

Western Washington University contributes to PERS, TRS, and LEOFF, cost sharing multiple-employer defined benefit pension plans administered by the State of Washington Retirement System.

PERS I provides retirement and disability benefits, and minimum benefit increases beginning at age 66 to eligible non-academic plan members hired prior to October 1, 1977. PERS II and III provide retirement and disability benefits, and a cost-of-living allowance, to eligible non-academic plan members hired on or after October 1, 1977. In addition, PERS III has a defined contribution component, which is a fully funded by employee contributions. PERS defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS I provides retirement and disability benefits and a lump sum death benefit, and minimum benefits increases beginning at age 65 to certain eligible faculty hired prior to October 1, 1977. TRS II and III provide retirement benefits, and cost-of-living allowance to certain eligible faculty hired on or after October 1, 1977. In addition TRS III has a defined contribution component which is fully funded by employee contributions. Defined benefit plan benefits are vested after an employee completes five years of eligible service.

LEOFF II provides retirement benefits and a cost of living allowance for eligible law enforcement officers. LEOFF System benefits are vested after an employee completes five years of eligible service.

The Washington State Legislature establishes or amends benefit provisions for PERS, TRS, and LEOFF. Additional information concerning plan descriptions and benefit provisions is included in a Comprehensive Annual Financial Report publicly available from the Washington System Department of Retirement System, P.O. Box 48380, Olympia, WA, 98504.

*Funding Policy*

Each biennium, the Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required employee and/or employer contribution rates for PERS, TRS, and LEOFF plans, except where employee contribution rates are set by statute. 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, 2005 follow:

	<u>Employee</u>	<u>University</u>
<b>PERS</b>		
Plan I	6.00%	1.38%
Plan II	1.18%	1.38%
Plan III	5.00-15.00%	1.38%
<b>TRS</b>		
Plan I	6.00%	1.37%
Plan II	0.87%	1.37%
Plan III	5.00-15.00%	1.37%
<b>LEOFF</b>		
Plan II	5.09%	3.25%

All required employer and employee contributions have been made. The required contributions for the years ending June 30, 2005, 2004, and 2003 are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>PERS</b>			
Employee	\$ 738,047	\$ 726,841	\$ 609,734
University	390,500	391,650	362,896
<b>TRS</b>			
Employee	43,517	49,658	61,501
University	10,668	12,238	12,362
<b>LEOFF</b>			
Employee	29,295	28,760	24,176
University	30,417	30,011	25,387

## 19. 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 and the Wade King Student Recreation Center is maintained in accordance with the Housing and Dining System and Wade King Student Recreation Center Master Bond Resolutions.

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 paid related to these lawsuits.

**20. COMMITMENTS**

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 commitments at June 30, 2005 and 2004 are:

	<u>2005</u>	<u>2004</u>
Operating	\$ 2,552,925	\$ 2,120,896
Research	1,129,464	1,124,920
Capital projects	<u>10,701,460</u>	<u>12,408,821</u>
Total commitments	<u>\$ 14,383,849</u>	<u>\$ 15,654,637</u>

**21. LINCOLN CREEK TRANSPORTATION CENTER**

The University entered into a three year lease-purchase agreement on October 20, 2003 to acquire land for use as a park and ride. Lease payments for the three years total \$516,000, of which \$60,000 may be applied to the purchase price of \$2,650,000. The University is planning on exercising the purchase option in October 2006.

Phase one of the project, including site preparation and initial development, was completed in the fall of 2004. In September 2005, the University was awarded \$1,267,871 from the Federal Transit Administration for environmental assessment, project administration, and pre-design costs.