

**FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTAL**

**INFORMATION**

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December 10, 2004

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, 2004. 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. It was, once again, ranked among the top 15 public master's degree granting universities in the nation, according to *U.S. News and World Report Best Colleges and Universities* recent college ratings (August 20, 2004). This is a direct reflection of Western's emphasis on excellence in education and its vision to be one of the best comprehensive universities in the country. According to the same study, for the eighth year in a row Western is ranked No. 2 among universities in the West. Western's national reputation and 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  
Ben Casler, Student Trustee  
Betty Woods  
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  
Eileen V. Coughlin, Vice President for Student Affairs and Academic Support Services  
Robert G. Edie, Vice President for External Affairs  
Stephanie Bowers, Vice President for University Advancement  
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

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, 2004, and 2003. 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.

These financial statements are prepared in accordance with Governmental Accounting Standards Board (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 two fiscal years and report all assets and liabilities of the University.

The amounts in these statements represent the assets available to continue the operations of the institution, also identifies 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.

Below is a condensed view of the Statements of Net Assets as of June 30, 2004, 2003, and 2002:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>(Dollars in thousands)</i>		
<b>Assets</b>			
Current assets	\$ 62,110	\$ 50,877	\$ 45,198
Non-current assets	18,478	27,674	37,534
Capital assets	292,536	272,546	233,811
Total assets	<u>373,124</u>	<u>351,097</u>	<u>316,543</u>
<b>Liabilities</b>			
Current liabilities	28,342	23,867	21,268
Non-current liabilities	68,787	71,573	62,234
Total liabilities	<u>97,129</u>	<u>95,440</u>	<u>83,502</u>
<b>Net Assets</b>			
Invested in capital assets, net	226,057	211,803	193,288
Restricted, non-expendable	3,369	2,818	2,768
Restricted, expendable:	18,653	17,673	18,810
Unrestricted	27,916	23,363	18,175
Total net assets	<u>\$ 275,995</u>	<u>\$ 255,657</u>	<u>\$ 233,041</u>

The University's total assets increased from \$317 million to \$351 million and to \$373 million over the last three years. This increase of nearly \$60 million is largely the result of the University's ambitious capital building program. During these years, the University has constructed several new facilities, helping to ease the crowded conditions on campus. Included in these projects are the Campus Services Building, the Wade King Student Recreation Center, the Communications facility and the design phase of the Academic Instruction Center. Additionally, University Residences have been doing major renovations to residence halls and apartments on campus.

The University's non-current investments have decreased over this same period as bond proceeds have been spent on construction and renovation costs. In fiscal years 2003 and 2002, the University sold \$15 million and \$29 million in bonds to finance major renovation projects for University Residences and the construction of the Wade King Student Recreation Center, respectively. As the bond proceeds have been expended, non-current investments have decreased, and capital assets have increased.

During fiscal year 2003, University Residences received \$1.8 million from Sodexo America as part of the new contract agreement for food services. The money will be used to expand and renovate food service facilities on campus.

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 Wade King Student Recreation Center bonds were defeased.

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:*

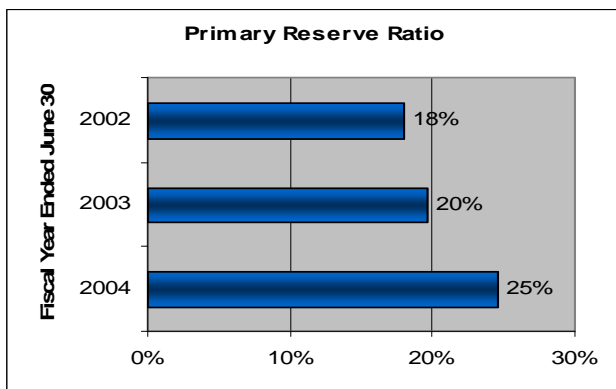
- *Nonexpendable* - consists of funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditures but for investment purposes only. The earnings on the invested principle can be used for purposes designated by the donors.
- *Expendable* - resources 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* - 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, or to comply with bond covenants, such as revenue pledges.

**Ratio Analysis**

In evaluating the University's financial health and performance some strategic ratios aid in this analysis. We believe that the following ratios will help provide a clear, high level assessment of the overall financial health of the institution. These ratios, when considered together and over time historically and in the future, will be the most informative in answering questions about the overall financial health 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 readily access 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 generally less volatile, 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 the result of the University's proactive review of fund balances and efforts to contain spending.

Reserve balances have increased by 43% 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.

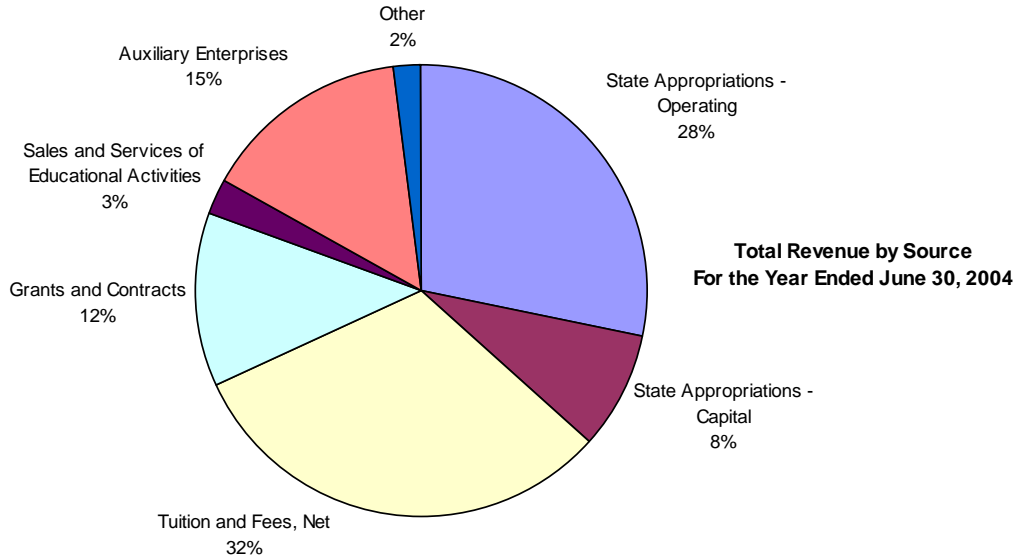
Following is a condensed version of the Statements of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2004, 2003, and 2002:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>(Dollars in thousands)</i>		
Operating revenues	\$ 122,604	\$ 116,406	\$ 102,217
Operating expenses	<u>177,138</u>	<u>179,772</u>	<u>166,982</u>
Income (loss) from operations	(54,534)	(63,366)	(64,765)
Non-operating revenues	59,950	64,969	64,906
Non-operating expenses	<u>(2,219)</u>	<u>(3,335)</u>	<u>(2,612)</u>
Loss before other revenues	3,197	(1,732)	(2,471)
Other revenues	<u>17,141</u>	<u>24,348</u>	<u>18,513</u>
increase in net assets	20,338	22,616	16,042
Net assets, beginning of year	<u>255,657</u>	<u>233,041</u>	<u>216,999</u>
Net assets, end of year	<u>\$ 275,995</u>	<u>\$ 255,657</u>	<u>\$ 233,041</u>

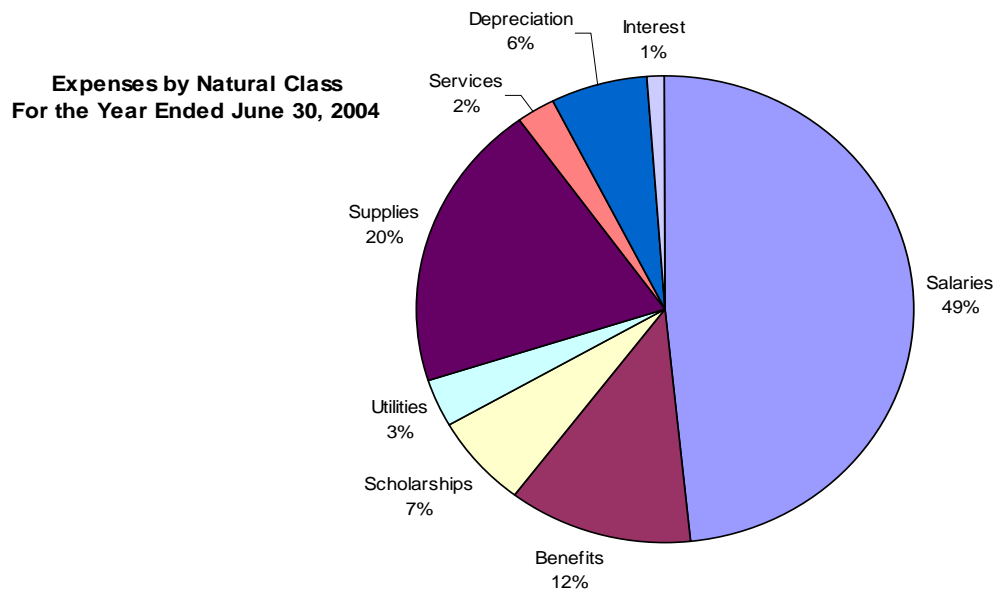
Over the last three years, State appropriation revenues for operations decreased from \$59.9 million to \$56.3 million, a 6% decrease. State budget reductions were offset by tuition and enrollment increases. The University increased tuition by approximately 7% in 2004 and 8% in 2003. Enrollment increased by a little over 1% per year. The average annual headcount was 12,193 in 2004, 12,011 in 2003 and 11,878 in 2002.

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.

The following graph illustrates the components of the University's revenues by source.

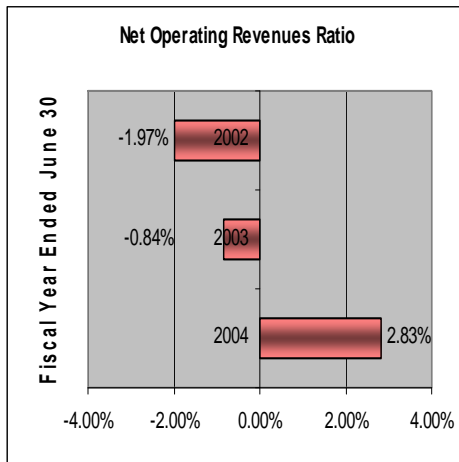


The following illustrates graphically the University's expenditures.



During the current fiscal year, operating expenses decreased by 1.5% or \$2.6 million. Decreases are due primarily to higher expenses in fiscal year 2003 to address restoration of buildings following the two fires that occurred on campus.

The University increased faculty and exempt salaries by 1.5% in 2004. 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. Repairs and maintenance costs decreased substantially as the extensive building and renovation projects underway over the past years were completed.



### Net Operating Revenues Ratio

The Net Operating Revenues Ratio indicates whether total operating activities resulted in a surplus or deficit. This shows whether or not the University is “living within its means.” A large surplus or deficit directly impacts the amount of funds an institution adds to or subtracts from net assets, thereby affecting the Primary Reserve Ratio.

Western is just completing a multi-year intensive building and renovation project planned and executed to increase its instructional capacity and insure that its plant facilities are in good condition. This has resulted in higher repair and maintenance operating costs in fiscal years 2002 and 2003. During fiscal year 2004, expenses have decreased as expected and the University has been able to add to its reserves.

### Capital Improvements and Related Debt

The University is just completing three years of the most intensive building and construction activity in its history. These projects were funded by a combination of debt issuance and State capital appropriations. The debt-funded project, the Wade King Student Recreation Center, came in under budget and as a result, the University was able to legally defease approximately \$1 million of the total \$29 million in bonds issued for the project.

No new bonds were issued in fiscal year 2004; however, Moody’s representatives visited the campus, evaluating the credit-worthiness of the institution. The University maintains its A2 rating.

### Economic Factors That Will Affect the Future

Washington continues to face a steady but slow economic recovery at the state level. Continuing strength in the state’s housing market is helping to offset the effects of an uneven U.S. employment recovery and high fuel prices.

In the upcoming 2005-07 biennium the State of Washington is projecting a general fund operating budget shortfall of \$1.7 billion, (as noted at: <http://www.ofm.wa.gov/news/snapshot.htm>). Based on past performance, it is anticipated that the Governor and the Legislature will address this deficit with minimal reliance on any new sources of revenue or tax increases. Rather, the expectation is that the State will continue to provide essential services while focusing on implementing additional state government efficiencies, reshaping the way State business is conducted, and making programmatic rather than across-the-board budget reductions.

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, a new state budget planning initiative, 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 a direct 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 high in Washington and across the nation. Fall 2004 enrollment at each of the six four-year baccalaureate institutions in the State 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.



**STATEMENTS OF NET ASSETS**
*As of June 30, 2004 and 2003*

<b>Assets</b>	<b>2004</b>	<b>2003</b>
Current assets:		
Cash and cash equivalents (Note 3)	\$ 11,596,659	\$ 11,724,593
Investments (Note 4)	37,599,999	26,219,844
Due from State Treasurer	2,903,937	2,387,763
Funds with State Treasurer (Note 5)	4,018,398	3,056,064
Interest receivable	1,136,649	952,896
Accounts receivable, net (Note 6)	3,330,511	3,837,478
Insurance proceeds receivable	54,568	1,343,456
Prepaid expenses	17,379	20,413
Inventories (Note 8)	1,451,754	1,334,829
Total current assets	62,109,854	50,877,336
Non-current assets:		
Investments (Note 4)	10,691,499	19,885,217
Student loan receivable, net (Note 7)	7,787,001	7,789,057
Land (Note 9)	9,269,370	9,269,370
Capital assets, net (Note 9)	283,266,507	263,276,028
Total non-current assets	311,014,377	300,219,672
Total assets	373,124,231	351,097,008
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	11,634,242	12,932,779
Deposits payable	2,091,453	1,528,038
Deferred revenues	3,743,248	766,217
Compensated absences (Notes 11)	5,349,528	5,191,945
Current portion of long-term liabilities (Note 14)	2,229,195	1,749,441
Deposits held in custody for others	3,294,251	1,698,848
Total current liabilities	28,341,917	23,867,268
Non-current liabilities:		
Bonds and notes payable (Notes 12,13,14)	68,786,846	71,572,437
Total non-current liabilities	68,786,846	71,572,437
Total liabilities	97,128,763	95,439,705
<b>Net Assets</b>		
Invested in capital assets, net of related debt	226,057,136	211,802,949
Restricted for:		
Nonexpendable: scholarships and professorships	3,369,017	2,818,357
Expendable:		
Instruction and research	1,876,928	2,165,175
Student loans	10,478,396	10,102,535
Capital projects	6,298,170	5,405,550
Unrestricted	27,915,821	23,362,737
Total net assets	\$ 275,995,468	\$ 255,657,303

*See Accompanying Notes to the Financial Statements*



# FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

As of June 30, 2004 and 2003

<b>Assets</b>	<b>2004</b>	<b>2003</b>
Cash and cash equivalents	\$ 7,082,395	\$ 5,796,890
Investments		
Long-term investment pool	16,475,773	14,005,715
Annuity and life income investments	5,153,185	4,690,789
Real estate	214,659	411,159
Other	59,157	83,033
Total investments	<u>21,902,774</u>	<u>19,190,696</u>
Receivables		
Promises to give, net	2,463,371	465,738
Other	23,733	4,674
Total receivables	<u>2,487,104</u>	<u>470,412</u>
Total assets	<u>\$ 31,472,273</u>	<u>\$ 25,457,998</u>
<b>Liabilities</b>		
Accounts payable	\$ 74,329	\$ 66,836
Annuity and life income obligations	2,197,732	2,194,689
Contingent obligation to Northwest Indian College Foundation	<u>940,957</u>	<u>854,623</u>
Total liabilities	<u>3,213,018</u>	<u>3,116,148</u>
<b>Net Assets</b>		
Unrestricted	5,104,166	2,923,381
Temporarily restricted	10,537,841	8,381,404
Permanently restricted	<u>12,617,248</u>	<u>11,037,065</u>
Total net assets	<u>28,259,255</u>	<u>22,341,850</u>
Total liabilities and net assets	<u>\$ 31,472,273</u>	<u>\$ 25,457,998</u>

See Accompanying Notes to the Financial Statements

**STATEMENTS OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS for the years ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Revenues</b>		
Student tuition and fees	\$ 71,545,687	\$ 62,354,042
Less scholarship allowances	<u>(8,563,891)</u>	<u>(6,539,651)</u>
Net student tuition and fees	62,981,796	55,814,391
Federal grants and contracts	11,133,365	13,769,539
State and local grants and contracts	12,545,185	8,906,413
Nongovernmental grants and contracts	957,136	2,624,459
Sales and services of educational activities	5,006,151	2,850,305
Interest earned on loans to students	132,099	208,333
Auxiliary enterprises	32,339,841	34,297,384
Less scholarship allowances	<u>(2,491,959)</u>	<u>(2,064,396)</u>
Net auxiliary enterprises	29,847,882	32,232,988
Total operating revenues	<u>122,603,614</u>	<u>116,406,428</u>
<b>Operating Expenses</b>		
Salaries and wages	91,826,930	89,687,948
Benefits	22,384,682	21,163,797
Scholarships and fellowships	11,899,299	11,606,378
Utilities	5,519,249	5,056,339
Supplies and materials	29,862,152	35,120,921
Purchased and personal services	4,440,319	5,752,509
Depreciation	<u>11,205,537</u>	<u>11,384,610</u>
Total operating expenses	<u>177,138,168</u>	<u>179,772,502</u>
Operating loss	(54,534,554)	(63,366,074)
<b>Non-operating Revenues (Expenses)</b>		
State appropriations	56,272,803	60,638,937
Investment income	3,665,971	4,330,332
Interest on indebtedness	(2,218,331)	(3,297,826)
Non-operating income net of expenses	<u>10,908</u>	<u>(37,115)</u>
Net non-operating revenues	<u>57,731,351</u>	<u>61,634,328</u>
Gain(loss) before other revenues, expenses, gains or losses	3,196,797	(1,731,746)
<b>Other Revenues (Expenses)</b>		
Capital appropriations	16,590,718	24,297,748
Gifts to permanent endowments	<u>550,650</u>	<u>50,000</u>
Total other revenues	<u>17,141,368</u>	<u>24,347,748</u>
<b>Increase in Net Assets</b>	20,338,165	22,616,002
<b>Net Assets, beginning of year</b>	<u>255,657,303</u>	<u>233,041,301</u>
<b>Net Assets, end of year</b>	<u><u>\$ 275,995,468</u></u>	<u><u>\$ 255,657,303</u></u>

*See Accompanying Notes to the Financial Statements*

**STATEMENT 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	1,451,631	-	-	1,451,631
	<u>3,279,787</u>	<u>3,993,390</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	10,176	355,676	-	365,852
Total support and revenue before net assets released from restrictions	4,117,223	5,998,008	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	266,762	(453,138)	186,376	-
Total support and revenue	<u>7,458,847</u>	<u>2,470,008</u>	<u>1,580,183</u>	<u>11,509,038</u>
<b>Expenses and Change 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	116,297	-	-	116,297
Total expenses	5,263,696	-	-	5,263,696
Change in valuation of annuity obligations	14,366	313,571	-	327,937
Total expenses and change in valuation of annuity obligations	<u>5,278,062</u>	<u>313,571</u>	<u>-</u>	<u>5,591,633</u>
<b>Change in Net Assets</b>	2,180,785	2,156,437	1,580,183	5,917,405
<b>Net Assets, beginning of year</b>	2,923,381	8,381,404	11,037,065	22,341,850
<b>Net Assets, end of year</b>	<u>\$ 5,104,166</u>	<u>\$ 10,537,841</u>	<u>\$ 12,617,248</u>	<u>\$ 28,259,255</u>

*See Accompanying Notes to the Financial Statements*

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**
**For the year ended June 30, 2003**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2003</u>
<b>Support and Revenue</b>				
Contributions	\$ 938,065	\$ 3,681,494	\$ 1,189,139	\$ 5,808,698
Less estimated annuities and income payable	-	(739,770)	-	(739,770)
Less change in allowance for uncollectible promises to give	410	920	10	1,340
Services and facilities provided by Western Washington University	<u>1,306,886</u>	<u>-</u>	<u>-</u>	<u>1,306,886</u>
	2,245,361	2,942,644	1,189,149	6,377,154
Net unrealized gains (losses) on investments	(396,616)	234,375	-	(162,241)
Net realized gains (losses) on investments	(2,977)	(185,396)	-	(188,373)
Interest and dividends	162,442	369,471	-	531,913
Fund raising events and other	<u>8,745</u>	<u>324,995</u>	<u>2,251</u>	<u>335,991</u>
Total support and revenue before net assets released from restrictions	2,016,955	3,686,089	1,191,400	6,894,444
Net assets released from restrictions				
Satisfaction of program restrictions	2,747,308	(2,747,308)	-	-
Satisfaction of spending allocation restrictions	(26,306)	26,306	-	-
Satisfaction of administration fee restrictions	129,040	(129,040)	-	-
Change in restrictions	<u>69,074</u>	<u>(927,795)</u>	<u>858,721</u>	<u>-</u>
Total support and revenue	<u>4,936,071</u>	<u>(91,748)</u>	<u>2,050,121</u>	<u>6,894,444</u>
<b>Expenses and Change in Valuation of Annuity Obligations</b>				
Program services and grants	3,060,572	-	-	3,060,572
Management and general - WWU in-kind	1,306,886	-	-	1,306,886
Management and general - other	207,143	-	-	207,143
Fund raising	<u>170,983</u>	<u>-</u>	<u>-</u>	<u>170,983</u>
Total expenses	4,745,584	-	-	4,745,584
Change in valuation of annuity obligations	<u>17,828</u>	<u>29,717</u>	<u>-</u>	<u>47,545</u>
Total expenses and change in valuation of annuity obligations	<u>4,763,412</u>	<u>29,717</u>	<u>-</u>	<u>4,793,129</u>
<b>Change in Net Assets</b>	172,659	(121,465)	2,050,121	2,101,315
<b>Net Assets, beginning of year, as originally reported</b>	3,224,718	8,028,873	8,986,944	20,240,535
<b>Prior Period Adjustment</b>	<u>(473,996)</u>	<u>473,996</u>	<u>-</u>	<u>-</u>
<b>Net Assets, beginning of year, restated</b>	<u>2,750,722</u>	<u>8,502,869</u>	<u>8,986,944</u>	<u>20,240,535</u>
<b>Net Assets, end of year</b>	<u>\$ 2,923,381</u>	<u>\$ 8,381,404</u>	<u>\$ 11,037,065</u>	<u>\$ 22,341,850</u>

*See Accompanying Notes to the Financial Statements*

**STATEMENTS OF CASH FLOWS**
*for the years ended June 30, 2004 and 2003*

	<u>2004</u>	<u>2003</u>
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 66,159,128	\$ 54,653,507
Grants and contracts	24,441,615	25,491,635
Payments to vendors	(52,374,434)	(54,379,443)
Payments to employees for salaries and benefits	(113,786,838)	(110,346,019)
Loans issued to students	(2,093,913)	(2,053,683)
Collection of loans to students	2,083,071	2,803,885
Auxiliary enterprise charges	31,725,873	31,341,709
Sales and services of educational activities	4,984,467	3,023,243
Interest received on loans to students	132,099	208,332
Net cash used in operating activities	<u>(38,728,932)</u>	<u>(49,256,834)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	56,272,803	61,898,781
Direct Lending proceeds	45,668,242	39,048,333
Direct Lending disbursements	(45,668,387)	(39,514,358)
Gifts to permanent endowments	550,650	50,000
Net cash provided by noncapital financing activities	<u>56,823,308</u>	<u>61,482,756</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(122,164,152)	(939,119,116)
Proceeds from sales of investments	121,643,301	942,452,929
Interest received on investments	3,350,360	3,589,040
Net cash provided by investing activities	<u>2,829,509</u>	<u>6,922,853</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from capital debt	217,175	14,868,444
Interest earned on bond proceeds	131,858	372,881
Capital appropriations	16,074,544	23,734,774
Permanent fund used for capital projects	(962,334)	11,332
Purchases of capital assets	(31,801,925)	(50,030,434)
Principal paid on capital debt	(2,523,012)	(4,197,621)
Interest paid on capital debt	(2,199,033)	(3,621,100)
Other activities	10,908	(37,115)
Net cash used in capital and related financing activities	<u>(21,051,819)</u>	<u>(18,898,839)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	(127,934)	249,936
<b>Cash and Cash Equivalents, beginning of year</b>	11,724,593	11,474,657
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 11,596,659</u>	<u>\$ 11,724,593</u>

*See Accompanying Notes to the Financial Statements*

**STATEMENTS OF CASH FLOWS**
*for the years ended June 30, 2004 and 2003*

	<u>2004</u>	<u>2003</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
<b>Operating Loss</b>	\$ (54,534,554)	\$ (63,366,074)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	11,205,537	11,384,610
Changes in assets and liabilities		
Accounts receivable	506,967	(519,463)
Insurance proceeds receivable	1,288,888	-
Student loans receivable	2,056	750,024
Inventories	(116,925)	5,543
Prepaid expenses	3,034	(17,457)
Accounts payable and accrued expenses	(711,925)	3,475,334
Deferred revenue	2,977,031	(431,872)
Student and other deposits	563,415	(302,144)
Deposits held in custody	(70,039)	(434,344)
Compensated absences	157,583	199,009
Net cash used in operating activities	<u>\$ (38,728,932)</u>	<u>\$ (49,256,834)</u>
 <b>Supplemental Disclosure of Cash Flow Information</b>		
Acquisition of capital assets through accounts payable	<u>\$ 4,158,994</u>	<u>\$ 4,764,903</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, the University, 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 discretely 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 Western Washington University Foundation at 516 High Street, MS-9034, Bellingham, WA 98225.

**Financial Statement Presentation**

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

**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 savings accounts and certificates of deposit with maturities of three months or less. Investments intended to fund University operations are shown as current investments. Other investment instruments are held with the intent to fund endowments and capital projects. These are classified as long term investments.

**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 is incurred. Interest expense incurred during capital construction is capitalized as part of the building cost.

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, 2004 and 2003, the carrying amount of cash and cash equivalents is \$11,596,659 and \$11,724,593 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).

**4. INVESTMENTS**

During the 2004 fiscal year, the University implemented GASB Statement Number 40, *Deposit and Investment Risk Disclosure*. This statement amends GASB Statement Number 3 and addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Investments include time certificates of deposit, savings accounts and some amounts held in the Local Government Investment Pool. Investments held to fund operations are classified as current assets. At June 30, 2004 and 2003, the carrying value of current investments was \$37,599,999 and \$26,219,844, respectively.

Investments held for long-term capital projects are classified as non-current assets. At June 30, 2004 and 2003, the carrying value of non-current investments was \$10,691,499 and \$19,885,217, respectively. The carrying amount of investments approximates the market value.

At June 30, 2004 and 2003, the University's investment balances are as follows:

	2004	2003
Current investments		
Savings account	\$ 26,909	\$ 26,755
Time certificates of deposit	37,573,090	26,193,089
Total current investments	37,599,999	26,219,844
Non-current investments		
Savings account	30,820	31,046
Local Government Investment Pool	486,129	1,525,151
Time certificates of deposit	10,174,550	18,329,020
Total non-current investments	10,691,499	19,885,217
Total investments	\$ 48,291,498	\$ 46,105,061

**Interest Rate Risk**

All of the University's investments have a fixed interest rate over a specific term that is generally less than two years. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

State law limits the University's investments to the following: certificates, notes, or bonds of the United States or its agencies, state, county, municipal bonds, federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation, or obligations of other government sponsored corporations, the Local Government Investment Pool (LGIP), and negotiable certificates of deposit of any national or state commercial or mutual savings bank and loan association doing business in the United States.

As of June 30, 2004, the University's investment in the LGIP was in high-quality, short-term investments. All investments are required to be rated A-1 by Standard and Poor's and P-1 by Moody's Investor Services, Inc. Investments are restricted to securities that mature in 397 days or less, and the portfolio maintains a weighted average maturity of 90 days or less. All other investments are not rated but insured by the FDIC and the PDPC.

**Concentration of Credit Risk**

There is no limit on the amount the University may invest in any one issuer however; it does try to spread its investments across a wide diversity of institutions. More than 5 percent of the University's investments are with the following institutions: Banner Bank (16%), the Local Government Investment Pool (13%), and First Savings Bank of

Renton (12%), Frontier Bank (11%), Horizon Bank (11%), Sterling Savings Bank (11%), Yakima Federal Savings & Loan (11%), and US Bank (7%). All of these investments are insured by the FDIC for the first \$100,000 and by the PDPC for the remaining amounts.

#### 5. FUNDS WITH STATE TREASURER

The balance of this account at June 30, 2004 and 2003 is \$4,018,398 and \$3,056,064, 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, 2004 and 2003, the market value of the principal of the Normal School Permanent Fund is \$206,353,882 and \$213,041,380, respectively. The University's earnings on the fund for the year ended June 30, 2004 and 2003 are \$2,470,442 and \$2,939,105, 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, 2004 and 2003, accounts receivable are as follows:

	2004	2003
Student tuition and fees	\$ 844,659	\$ 1,567,027
Federal, State and private grants and contracts	1,140,197	591,797
Auxiliary enterprises and other operating activities	1,959,872	2,209,982
Total accounts receivable	3,944,728	4,368,806
Less allowance for doubtful accounts	(614,217)	(531,328)
Net accounts receivable	<u>\$ 3,330,511</u>	<u>\$ 3,837,478</u>

#### 7. STUDENT LOANS RECEIVABLE

At June 30, 2004 and 2003, student loans receivable are as follows:

	2004	2003
Federal Perkins student loans	\$ 8,459,241	\$ 8,400,050
Institutional loans	128,140	200,558
Other long-term loans	78,715	83,123
Total student loans	8,666,096	8,683,731
Less allowance for doubtful accounts	(879,095)	(894,674)
Net student loans receivable	<u>\$ 7,787,001</u>	<u>\$ 7,789,057</u>

**8. INVENTORIES**

At June 30, 2004 and 2003, inventories, stated at cost using various methods: retail, first-in, first-out (FIFO), or average cost, consist of the following:

Location	Valuation Method	2004	2003
Bookstore	Retail	\$ 966,357	\$ 917,827
Central Stores	Average Cost	114,896	51,840
Facilities Management	FIFO	142,858	135,194
Lockshop	FIFO	68,527	79,763
Other inventory	FIFO	159,116	150,205
<b>Total inventory</b>		<b>\$ 1,451,754</b>	<b>\$ 1,334,829</b>

**9. LAND AND CAPITAL ASSETS**

The depreciation expense for the fiscal years ended June 30, 2004 and 2003 was \$11,205,537 and \$11,384,610, respectively. During 2004 and 2003, \$1,513,022 and \$838,440 of construction related interest was capitalized, respectively. 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
<b>Land</b>	\$ 9,269,370	\$ -	\$ -	\$ 9,269,370
<b>Capital assets</b>				
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
<b>Total capital assets</b>	<b>398,464,565</b>	<b>31,205,109</b>	<b>361,211</b>	<b>429,308,463</b>
<b>Less accumulated depreciation</b>				
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
<b>Total accumulated depreciation</b>	<b>135,188,537</b>	<b>11,205,537</b>	<b>352,118</b>	<b>146,041,956</b>
<b>Net capital assets</b>	<b>\$ 263,276,028</b>	<b>\$ 19,999,572</b>	<b>\$ 9,093</b>	<b>\$ 283,266,507</b>

Following are the changes in land and capital assets for the year ended June 30, 2003:

	6/30/2002	Additions/ Transfers	Retirements	6/30/2003
Land	\$ 9,110,698	\$ 158,672	\$ -	\$ 9,269,370
Capital assets				
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 capital assets	350,036,417	50,155,210	1,727,062	398,464,565
Less accumulated depreciation				
Infrastructure	66,993,983	4,720,434	-	71,714,417
Buildings	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
Net capital assets	\$ 224,700,450	\$ 38,770,600	\$ 195,022	\$ 263,276,028

## 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, 2004 and 2003 is \$5,349,528 and \$5,191,945, 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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 286,230	\$ 32,139
2006	223,216	19,995
2007	207,992	10,919
2008	51,824	4,886
2009	40,594	3,297
2010-2014	61,686	7,374
2015-2019	12,051	301
<b>Total</b>	<b>\$ 883,593</b>	<b>\$ 78,911</b>

**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.

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 \$27,044,497 and \$28,424,416 at June 30, 2004 and 2003, which is reported net of the unamortized original issue discount and bond issuance costs of \$885,708 and \$965,584, 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 an economic 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.

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 remaining debt service for the general obligation bonds is due in fiscal year 2005, including \$67,965 of principal and \$1,742 of interest.

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
2005	\$ 1,445,000	\$ 2,143,145	\$ 430,000	\$ 1,353,550
2006	1,495,000	2,091,970	505,000	1,336,350
2007	1,555,000	2,036,658	525,000	1,316,150
2008	1,605,000	1,976,930	545,000	1,295,150
2009	1,670,000	1,912,640	565,000	1,273,350
2010-2014	9,510,000	8,380,995	3,210,000	5,991,368
2015-2019	12,065,000	5,793,881	4,025,000	5,173,750
2020-2024	13,140,000	2,338,744	5,130,000	4,062,000
2025-2029	2,020,000	181,000	6,550,000	2,644,250
2030-2034	-	-	6,520,000	834,500
<b>Total</b>	<b>44,505,000</b>	<b>\$ 26,855,963</b>	<b>28,005,000</b>	<b>\$ 25,280,418</b>
Less unamortized costs	1,485,014		885,708	
Less unamortized loss on defeasance	-		74,795	
<b>Total</b>	<b>\$ 43,019,986</b>		<b>\$ 27,044,497</b>	

**Advance Refunding**

The scheduled liabilities as of June 30, 2004 and 2003 do not include \$1,825,000 and \$2,330,000, respectively, of Housing and Dining System revenue bonds which were advanced refunded in October 1991, and do not include \$72,963 and \$141,927, respectively, 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 long-term liabilities for the year ended June 30, 2004:

	6/30/2003	Additions	Retirements	6/30/2004	Current Portion
<b>Bonds and notes payable</b>					
Revenue and refunding bonds	\$ 72,273,786	-	\$ 2,209,303	\$ 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
<b>Total long-term liabilities</b>	<b>\$ 73,321,878</b>	<b>\$ 212,094</b>	<b>\$ 2,517,931</b>	<b>\$ 71,016,041</b>	<b>\$ 2,229,195</b>

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

	6/30/2002	Additions	Retirements	6/30/2003	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$ 61,274,862	\$ 14,746,881	\$ 3,747,957	\$ 72,273,786	\$ 1,385,000
General obligation bonds	365,900	-	232,468	133,432	133,432
Notes payable	1,010,293	121,563	217,196	914,660	231,009
Total long-term liabilities	<u>\$ 62,651,055</u>	<u>\$ 14,868,444</u>	<u>\$ 4,197,621</u>	<u>\$ 73,321,878</u>	<u>\$ 1,749,441</u>

### 15. LEASES

The University leases certain office equipment and building space through non-cancelable operating leases. At June 30, 2004, future payments under these operating leases are as follows:

Fiscal Year	Lease Payment
2005	\$ 1,078,145
2006	932,074
2007	685,692
2008	487,224
2009	433,366
2010 - 2014	<u>879,704</u>
Total minimum lease payments	<u>\$ 4,496,205</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, 2004 and 2003 are summarized as follows:

	2004	2003
Instruction	\$ 68,225,345	\$ 70,426,102
Research	2,770,781	3,036,717
Public service	113,554	138,601
Academic support	10,210,266	9,939,432
Student services	10,949,773	10,355,308
Institutional support	14,737,852	14,560,871
Operation and maintenance of plant	20,730,220	38,117,112
Scholarships and other student aid	5,409,927	6,989,181
Auxiliary enterprise expenditures	<u>43,990,450</u>	<u>26,209,178</u>
Total operating expenses	<u>\$ 177,138,168</u>	<u>\$ 179,772,502</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, 2004 and 2003 is \$28,318,399 and \$27,827,411; the payroll for employees covered by TRS is \$1,415,308 and \$1,469,851; the payroll covered by WWURP is \$53,846,084 and \$53,763,024; the payroll for LEOFF is \$568,556 and \$550,698, respectively. The total payroll for the University is \$91,826,930 and \$89,687,948.

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:

	<u>2004</u>	<u>2003</u>
Employee	\$ 4,123,995	\$ 4,000,015
University	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, 2004 and 2003 are \$129,573 and \$134,799, respectively. There is no significant difference between the annual required contributions and the cash payments.

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, 2004 follow:

	<u>Employee</u>	<u>University</u>
PERS		
Plan I	6.00%	1.40%
Plan II	1.18%	1.40%
Plan III	5.00-15.00%	1.40%
TRS		
Plan I	6.00%	1.39%
Plan II	0.87%	1.39%
Plan III	5.00-15.00%	1.39%
LEOFF		
Plan II	5.07%	5.29%

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

	<u>2004</u>	<u>2003</u>
PERS		
Employee	\$ 726,841	\$ 609,734
University	391,650	362,896
TRS		
Employee	49,658	61,501
University	12,238	12,362
LEOFF		
Employee	28,760	24,176
University	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. FIRE LOSS**

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 was \$616,780. The insurance recovery received was \$2.51 million dollars.

As of June 30, 2004, WWU had settled negotiations with the insurer regarding the final claim value. The remaining amount due from the insurer is \$54,568. All repair costs related to the fire were recognized as of June 30, 2003.

**21. 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, 2004 and 2003 are:

	<u>2004</u>	<u>2003</u>
Operating	\$ 2,120,896	\$ 2,208,313
Research	1,124,920	288,809
Capital projects	<u>12,408,821</u>	<u>33,360,106</u>
<b>Total commitments</b>	<u>\$ 15,654,637</u>	<u>\$ 35,857,228</u>