



FINANCIAL REPORT 2007-2006

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTAL

INFORMATION

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December 14, 2007

Kevin Raymond, Chair
Board of Trustees
Western Washington University
Bellingham, WA 98225

Dear Mr. Raymond:

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.

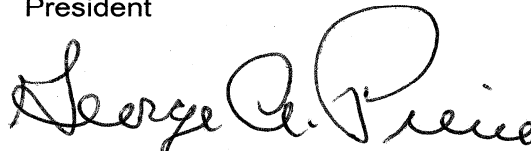
KPMG LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the Western Washington University financial statements for the year ended June 30, 2007. This opinion is included in the independent auditor's report.

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 eleventh year in a row, Western is ranked second among public master's-granting universities in the West, according to the 2007-08 U.S. News & World Report college rankings. Western is also the highest ranking public, master's-granting university in the Pacific Northwest. 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, PhD
President



George A. Pierce, PhD
Vice President for Business and Financial Affairs

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Antasia Parker, Student Trustee
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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 Financial Services
Shonda L. Shipman, Accounting Director, Financial Services

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provide an overview of the financial position and activities of Western Washington University (University) for the years ended June 30, 2007 and 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

Using the Financial Statements

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

The 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. GASB standards require that financial statements be presented to focus on the University as a whole.

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.

A summarized comparison of the University's assets, liabilities, and net assets as of June 30, 2007, 2006, and 2005, follows:

	2007	2006	2005
	<i>(Dollars in thousands)</i>		
Assets			
Current assets	\$ 68,844	\$ 63,624	\$ 63,781
Non-current assets	21,789	25,144	16,202
Land and capital assets	330,751	316,027	304,027
Total assets	<u>421,384</u>	<u>404,795</u>	<u>384,010</u>
Liabilities			
Current liabilities	28,911	26,290	26,966
Non-current liabilities	74,843	74,359	66,983
Total liabilities	<u>103,754</u>	<u>100,649</u>	<u>93,949</u>
Net Assets			
Invested in capital assets, net	256,832	246,343	234,675
Restricted, non-expendable	4,592	3,922	3,419
Restricted, expendable:	20,422	19,108	19,676
Unrestricted	35,784	34,773	32,291
Total net assets	<u>\$ 317,630</u>	<u>\$ 304,146</u>	<u>\$ 290,061</u>

Current assets consist primarily of cash, short term investments, and accounts receivable. Total current assets increased by \$5.2 million to \$69 million at June 30, 2007 due to higher investment gains which resulted in greater investment balances both in the University pooled funds and funds held by the State Treasurer.

Land and capital assets increased primarily due to the purchase of the Lincoln Creek property as well as other capital assets. The excess of current assets over current liabilities of \$39.9 million in 2007 reflects the continuing ability of the University to meet its short-term obligations.

Current and long-term liabilities increased over the prior year due to the issuance of \$2.6 million in State Certificates of Participation to purchase the property at Lincoln Creek to be used as a park and ride and the recording of a \$603 thousand net pension obligation.

The difference between total assets and total liabilities, net assets or "equity", 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.

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

Invested in Capital Assets (net of related debt) – This is the University's total investments in property, plant equipment, and infrastructure, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted Net Assets:

- Nonexpendable net assets 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 net assets are 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;

Unrestricted Net Assets – are all other funds available to the institution for any purpose. Unrestricted net assets are often internally designated for specific purposes.

The University's net assets as of June 30, 2007, 2006, and 2005 are summarized as follows:

	2007	2006	2005
	<i>(Dollars in thousands)</i>		
Invested in capital assets, net of related debt	\$ 256,832	\$ 246,343	\$ 234,675
Restricted:			
Nonexpendable	4,592	3,922	3,419
Expendable	20,422	19,108	19,676
Unrestricted	35,784	34,773	32,291
Total net assets	<u>\$ 317,630</u>	<u>\$ 304,146</u>	<u>\$ 290,061</u>

Net investment in capital assets increased \$10.5 million in 2007 and \$11.7 million in 2006. This balance increases as debt is paid off or when the University funds fixed asset purchases without financing. This balance decreases as assets are depreciated. The increase each year demonstrates that the University continues to invest in its buildings and educational facilities.

Restricted expendable net assets grew \$1.3 million in 2007 as a result of earnings on endowments.

Unrestricted net assets in 2007 increased by \$1 million or 2.9% from 2006, primarily due to an increase in Housing and Dining's internally designated capital plan fund. The growth in 2006 was \$2.5 million or 7.7% over 2005. The increase in 2006 was driven by continuing tuition increases and a strong investment return, offset by capital expenditures.

Capital Improvements and Related Debt

In 2007, total long-term debt for financing capital assets increased by \$67 thousand to \$77.2 million, as a result of financing by an auxiliary entity of \$2.6 million to purchase property for a park and ride facility and offset by the annual

debt payments made. In 2006, total long-term debt associated with capital assets increased to \$77.2, an increase of \$7.8 million over 2005. The University's Housing and Dining System issued revenue bonds of \$9.6 million during fiscal 2006 to fund the renovation of a residence hall on campus.

In 2007, \$22 million was expended on capital construction projects, including \$9.6 million on the Academic Instructional Center and \$5 million on the Higginson Hall renovation. Expenditures for capital construction projects were \$13.1 million in 2006; the largest of these were \$3.2 million for a new building at the Shannon Point Marine Center, \$3.1 million for renovations to Bond Hall, and \$1.8 million for pre-design work on the Academic Instructional Center.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statements of Revenues, Expenses, and Changes in Net Assets present the University's results of operations and nonoperating items that result in the changes in Net Assets for the year. In accordance with GASB reporting principles, revenues and expenses are classified as operating, non-operating or other.

A condensed comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2007, 2006, and 2005 follows:

	2007	2006	2005
	<i>(Dollars in thousands)</i>		
Operating revenues	\$ 144,289	\$ 139,116	\$ 132,668
Operating expenses	215,168	198,842	188,789
Operating loss	(70,879)	(59,726)	(56,121)
State appropriations revenue	64,482	62,901	58,015
Other non-operating revenues	6,932	5,378	4,028
Non-operating expenses	(3,677)	(3,417)	(3,038)
(Loss) income before other revenues	(3,142)	5,136	2,884
Other revenues	16,626	8,949	11,181
Increase in net assets	13,484	14,085	14,065
Net assets, beginning of year	304,146	290,061	275,996
Net assets, end of year	<u>\$ 317,630</u>	<u>\$ 304,146</u>	<u>\$ 290,061</u>

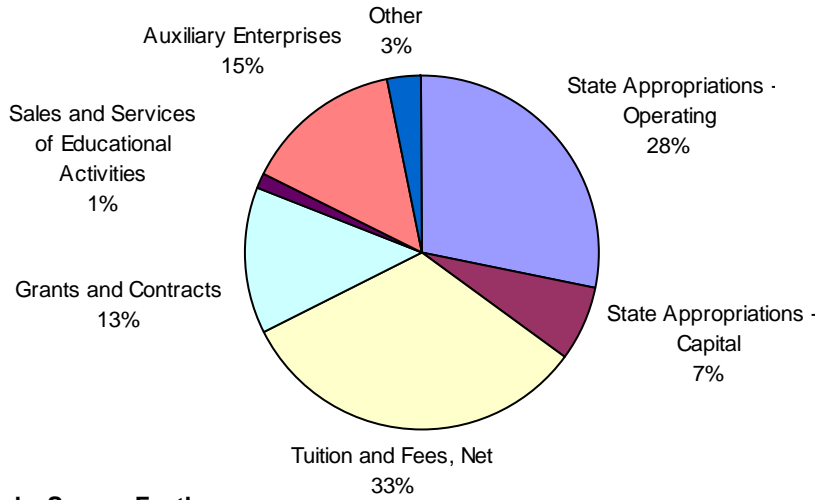
Primary Funding Sources

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support its educational operating expenses. Tuition revenue, net of scholarship allowances, has continued to grow, increasing from \$72.2 million in 2006 to \$76.1 million in 2007. The impact to students as a result of tuition rate increases was partially offset by the increase in scholarships (including scholarship allowances) which increased \$616 thousand in 2007.

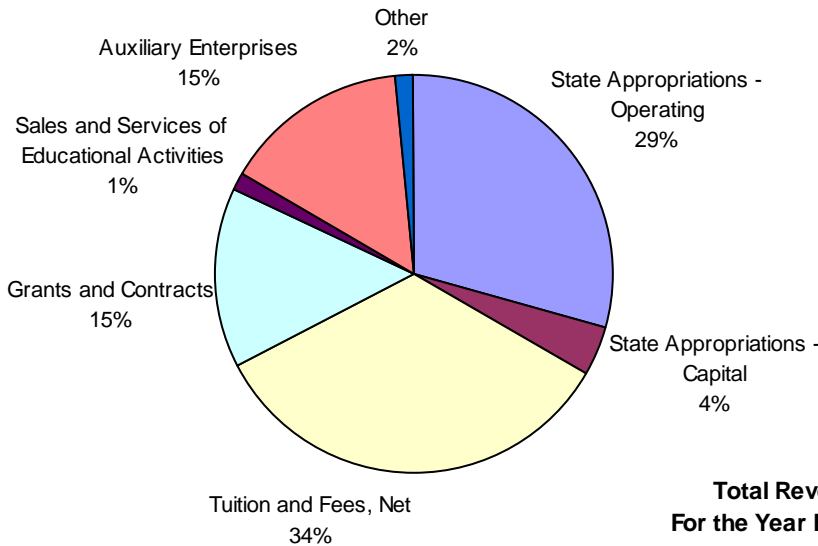
State appropriation revenues for operations increased from \$62.9 million to \$64.5 million during fiscal 2007, a 2.54% increase, and increased from \$58 million to \$62.9 million during fiscal 2006. State appropriations are considered nonoperating revenue under GASB 35 standards and are reflected in the non operating section of the income statement; however, the funds are solely used to support operations.

The University increased tuition by 6% in 2007 and 2006. Enrollment increased 3.6% between fiscal 2007 and 2006; from an annual headcount of 12,518 in 2006 to 12,979 in 2007.

The following graphs illustrate the revenues by source for the years ended June 30, 2007 and 2006:



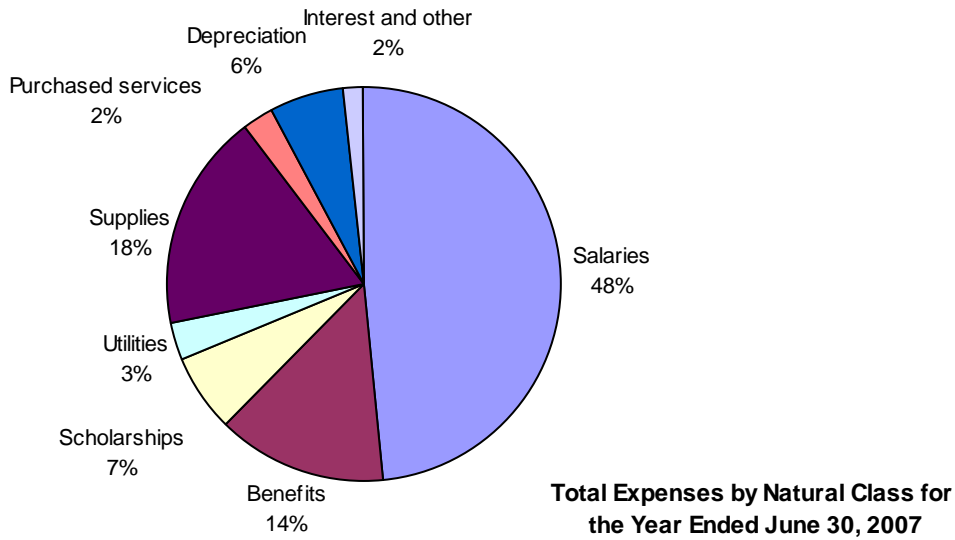
Total Revenues by Source For the Year Ended June 30, 2007



Total Revenues by Source For the Year Ended June 30, 2006

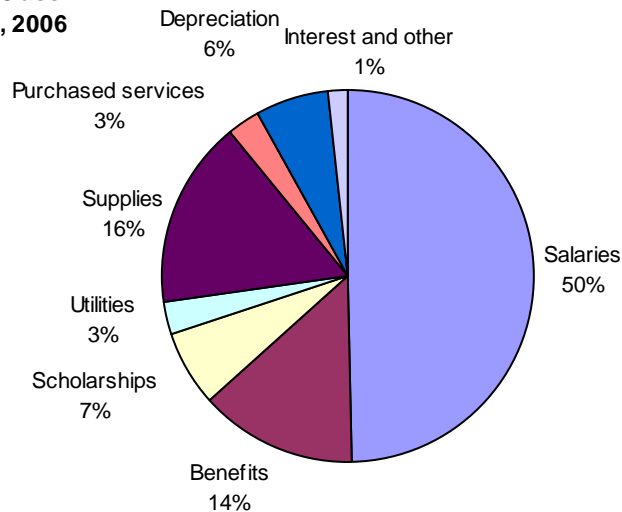
The University's operating expenses increased \$16.3 million in 2007 primarily due to an \$8.3 million dollar change related to salaries and benefits. Salaries and benefits increased approximately 6.5%, versus a \$6.2 million, or 5.1% increase in the prior year. The increase is due to additional employees, as well as increased salary and benefit levels. The University also recorded an additional \$712 thousand in pension obligations during fiscal 2007.

The following graphs illustrate the expenses of the University by natural class for the years ended June 30, 2007 and 2006:



Supplies, materials, personal and purchased services increased \$6.3 million or 19.1%, versus an increase of \$1.1 million or 2.85% in the prior year. This increase is primarily due to additional repairs and maintenance projects on campus and higher costs associated with travel including increased gas prices.

**Total Expenses by Natural Class
For the Year Ended June 30, 2006**



Operating Loss

The University's operating loss increased to \$70.9 million in 2007 from \$59.7 million in 2006 and \$56.1 million in 2005. The University provided faculty and professional staff salary increases of 5% and classified staff a 1.2% increase. Expenses for pension obligations of \$712 thousand also contributed to the larger operating loss.

As discussed earlier, GASB standards require that state appropriations, which are only used to support operations, be classified as non-operating revenues, thereby creating the significant loss. If state appropriations were classified as operating revenue, the operating (loss) income would be as follows for 2007, 2006, and 2005, respectively; \$(5.2) million, \$3.2 million, and \$1.9 million. The University continues to rely upon non-operating revenues to fund its operations, including grant revenues and investment income.

Economic Factors That Will Affect the Future

The State Legislature appropriated \$400,000 in planning funds to support faculty studies of model facilities and the assessment of feasibility for projects involving the presence of the University on the Bellingham waterfront to provide unique educational and community opportunities.

During the current fiscal year, Western continued its plan to locate on the Bellingham waterfront. Western solicited and evaluated proposals for waterfront development, held open forums, met with community members, and developed information on space 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, 2007 and 2006, 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 Western Washington University Foundation, a discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the report of the other auditors provide a reasonable basis for our opinions.

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, 2007 and 2006, and the changes in its financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the financial statements, the Foundation changed its policy for valuing real estate held for investment as of June 30, 2006.

The management's discussion and analysis on pages 4 through 9 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 16, 2007

STATEMENTS OF NET ASSETS
As of June 30, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents (Note 3)	\$ 25,018,265	\$ 22,538,278
Investments (Note 4)	30,726,971	29,592,796
Funds with State Treasurer (Note 5)	3,979,465	3,481,192
Interest receivable	1,828,144	1,519,490
Accounts receivable, net (Note 6)	3,009,796	3,065,681
Prepaid expenses	90,132	127,023
Inventories (Note 8)	1,316,098	1,668,863
Total current assets	<u>65,968,871</u>	<u>61,993,323</u>
Noncurrent assets:		
Cash and cash equivalents (Note 3)	139,199	197,148
Investments (Note 4)	13,659,737	17,247,584
Due from State Treasurer	2,874,661	1,630,880
Student loans receivable, net (Note 7)	7,989,982	7,698,631
Land (Note 9)	12,150,822	9,269,370
Capital assets, net (Note 9)	318,600,335	306,758,118
Total non-current assets	<u>355,414,736</u>	<u>342,801,731</u>
Total assets	<u>421,383,607</u>	<u>404,795,054</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	12,371,691	10,699,458
Deposits payable	2,182,191	2,182,628
Deferred revenues	4,253,172	4,070,745
Compensated absences	6,704,837	5,986,630
Current portion of bonds and notes payable (Note 14)	2,881,866	2,805,752
Current portion of net pension obligation (Note 14)	110,000	-
Deposits held in custody for others	406,454	544,977
Total current liabilities	<u>28,910,211</u>	<u>26,290,190</u>
Noncurrent liabilities:		
Long-term portion of bonds and notes payable (Note 14)	74,349,891	74,358,544
Long-term net pension obligation (Note 14)	493,053	-
Total Liabilities	<u>103,753,154</u>	<u>100,648,734</u>
Net Assets		
Invested in capital assets, net of related debt	256,831,967	246,343,280
Restricted for:		
Nonexpendable: scholarships and professorships	4,592,237	3,922,207
Expendable:		
Instruction and research	2,172,187	2,034,403
Loans	11,231,996	10,848,377
Capital Projects	7,017,861	6,225,226
Unrestricted	35,784,205	34,772,827
Total net assets	<u>\$ 317,630,453</u>	<u>\$ 304,146,320</u>

See Accompanying Notes to the Financial Statements

ASSETS

	<u>2007</u>	<u>2006</u>
CASH AND CASH EQUIVALENTS	\$ 1,240,968	\$ 1,258,534
INVESTMENTS		
Short-term investment pool	5,565,914	5,321,839
Long-term investment pool		
Externally managed investments	28,227,206	23,742,062
Real estate held for investment, net	1,494,520	1,430,000
Note receivable	492,000	492,000
Annuity and life income investments	5,550,985	5,064,415
Other	<u>108,436</u>	<u>115,508</u>
Total investments	<u>41,439,061</u>	<u>36,165,824</u>
RECEIVABLES		
Promises to give, net	2,963,380	2,989,000
Other	<u>9,558</u>	<u>6,768</u>
Total receivables	<u>2,972,938</u>	<u>2,995,768</u>
OTHER ASSETS	9,057	14,228
CAPITAL ASSETS, net	<u>1,119,288</u>	<u>1,144,404</u>
TOTAL ASSETS	<u>\$ 46,781,312</u>	<u>\$ 41,578,758</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 61,263	\$ 107,023
Due to Western Washington University	245,029	444,578
Annuity and life income obligations	1,894,421	1,853,178
Contingent obligation to Northwest Indian College Foundation	<u>1,154,750</u>	<u>1,051,258</u>
Total liabilities	<u>3,355,463</u>	<u>3,456,037</u>
NET ASSETS		
Unrestricted	10,776,966	9,148,494
Temporarily restricted	16,497,331	13,429,490
Permanently restricted	<u>16,151,552</u>	<u>15,544,737</u>
Total net assets	<u>43,425,849</u>	<u>38,122,721</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 46,781,312</u>	<u>\$ 41,578,758</u>

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2007

	2007	2006
Operating Revenues		
Student tuition and fees	\$ 86,744,307	\$ 82,548,623
Less scholarship allowances	<u>(10,687,587)</u>	<u>(10,323,958)</u>
Net student tuition and fees	76,056,720	72,224,665
Federal grants and contracts	17,033,926	16,700,009
State and local grants and contracts	12,303,871	12,652,299
Nongovernmental grants and contracts	1,387,721	1,880,368
Sales and services of educational activities	3,240,086	2,903,382
Interest earned on loans to students	144,086	151,364
Auxiliary enterprises	37,096,243	35,553,161
Less scholarship allowances	<u>(2,973,160)</u>	<u>(2,949,431)</u>
Net auxiliary enterprises	34,123,083	32,603,730
Total operating revenues	<u>144,289,493</u>	<u>139,115,817</u>
Operating Expenses		
Salaries and wages	105,961,453	100,404,526
Benefits	30,468,850	27,690,260
Scholarships and fellowships	14,002,459	13,386,305
Utilities	6,548,415	5,779,778
Supplies and materials	39,537,729	33,190,662
Purchased and personal services	5,261,560	5,535,030
Depreciation	<u>13,388,100</u>	<u>12,855,532</u>
Total operating expenses	<u>215,168,566</u>	<u>198,842,093</u>
Operating loss	<u>(70,879,073)</u>	<u>(59,726,276)</u>
Nonoperating Revenues <Expenses>		
State appropriations	64,481,771	62,901,042
Investment income	6,095,800	5,101,824
Interest on indebtedness	(3,677,177)	(3,417,385)
Gains on endowments	826,223	262,077
Nonoperating rental property income	<u>9,778</u>	<u>14,962</u>
Net non-operating revenues	<u>67,736,395</u>	<u>64,862,520</u>
(Loss)gain before other revenues, expenses, gains, or losses	<u>(3,142,678)</u>	<u>5,136,244</u>
Other Revenues		
Capital appropriations	16,526,811	8,449,245
Gifts to permanent endowments	<u>100,000</u>	<u>500,000</u>
Total other revenues	<u>16,626,811</u>	<u>8,949,245</u>
Increase in net assets	13,484,133	14,085,489
Net assets, beginning of year	<u>304,146,320</u>	<u>290,060,831</u>
Net assets, end of year	<u>\$ 317,630,453</u>	<u>\$ 304,146,320</u>

See Accompanying Notes to Financial Statements

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007
SUPPORT AND REVENUE				
Contributions	\$ 408,153	\$ 2,882,976	\$ 604,272	\$ 3,895,401
Less change in allowance for uncollectible promises to give	410	3,350	1,230	4,990
Services and facilities provided by Western Washington University	<u>1,768,965</u>	<u>—</u>	<u>—</u>	<u>1,768,965</u>
	2,177,528	2,886,326	605,502	5,669,356
Net unrealized gains (losses) on investments	1,376,004	2,948,772	—	4,324,776
Net realized gains (losses) on investments	(286)	190,071	—	189,785
Interest and dividends	395,612	646,473	—	1,042,085
Amortization	—	64,520	—	64,520
Fund raising events and other	<u>62,757</u>	<u>519,077</u>	<u>1,313</u>	<u>583,147</u>
Total support and revenue before net assets released from restrictions	4,011,615	7,255,239	606,815	11,873,669
Net assets released from restrictions				
Satisfaction of program restrictions	3,273,816	(3,273,816)	—	—
Satisfaction of spending allocation restrictions	278,749	(278,749)	—	—
Satisfaction of administration fee restrictions	240,337	(240,337)	—	—
Change in restrictions	<u>102,392</u>	<u>(102,392)</u>	<u>—</u>	<u>—</u>
Total support and revenue	<u>7,906,909</u>	<u>3,359,945</u>	<u>606,815</u>	<u>11,873,669</u>
EXPENSES AND CHANGE IN VALUATION OF ANNUITY OBLIGATIONS				
Program services and grants	3,925,758	—	—	3,925,758
Management and general – WWU in-kind	896,127	—	—	896,127
Management and general – other	257,106	—	—	257,106
Fund raising – WWU in-kind	872,838	—	—	872,838
Fund raising	<u>306,086</u>	<u>—</u>	<u>—</u>	<u>306,086</u>
Total expenses	6,257,915	—	—	6,257,915
Change in valuation of annuity obligations	<u>20,522</u>	<u>292,104</u>	<u>—</u>	<u>312,626</u>
Total expenses and change in valuation of annuity obligations	<u>6,278,437</u>	<u>292,104</u>	<u>—</u>	<u>6,570,541</u>
CHANGE IN NET ASSETS	1,628,472	3,067,841	606,815	5,303,128
NET ASSETS, beginning of year	<u>9,148,494</u>	<u>13,429,490</u>	<u>15,544,737</u>	<u>38,122,721</u>
NET ASSETS, end of year	<u>\$ 10,776,966</u>	<u>\$ 16,497,331</u>	<u>\$ 16,151,552</u>	<u>\$ 43,425,849</u>

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006
SUPPORT AND REVENUE				
Contributions	\$ 441,420	\$ 3,518,282	\$ 1,855,151	\$ 5,814,853
Less change in allowance for uncollectible promises to give	360	(440)	(170)	(250)
Services and facilities provided by Western Washington University	1,729,833			1,729,833
	<u>2,171,613</u>	<u>3,517,842</u>	<u>1,854,981</u>	<u>7,544,436</u>
Net unrealized gains (losses) on investments	713,933	857,856		1,571,789
Net realized gains (losses) on investments	5,307	285,334		290,641
Interest and dividends	347,512	519,855		867,367
Amortization		26,077		26,077
Fund raising events and other	21,133	547,959	275	569,367
Total support and revenue before net assets released from restrictions	3,259,498	5,754,923	1,855,256	10,869,677
Net assets released from restrictions				
Satisfaction of program restrictions	2,637,587	(2,637,587)		
Satisfaction of spending allocation restrictions	1,444,505	(1,444,505)		
Satisfaction of administration fee restrictions	215,692	(215,692)		
Change in restrictions	47,893	(47,893)		
Total support and revenue	<u>7,605,175</u>	<u>1,409,246</u>	<u>1,855,256</u>	<u>10,869,677</u>
EXPENSES AND CHANGE IN VALUATION OF ANNUITY OBLIGATIONS				
Program services and grants	4,351,719			4,351,719
Management and general - WWU in-kind	873,214			873,214
Management and general - other	255,187			255,187
Fund raising - WWU in-kind	856,619			856,619
Fund raising	183,531			183,531
Total expenses	6,520,270			6,520,270
Change in valuation of annuity obligations	(28,390)	224,371		195,981
Total expenses and change in valuation of annuity obligations	<u>6,491,880</u>	<u>224,371</u>		<u>6,716,251</u>
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
	1,113,295	1,184,875	1,855,256	4,153,426
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
		581,923		581,923
CHANGE IN NET ASSETS	<u>1,113,295</u>	<u>1,766,798</u>	<u>1,855,256</u>	<u>4,735,349</u>
NET ASSETS, beginning of year	8,035,199	11,662,692	13,689,481	33,387,372
NET ASSETS, end of year	<u>\$ 9,148,494</u>	<u>\$ 13,429,490</u>	<u>\$ 15,544,737</u>	<u>\$ 38,122,721</u>

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Tuition and fees	\$ 76,150,683	\$ 72,944,924
Grants and contracts	30,647,944	31,226,911
Payments to vendors	(64,349,373)	(58,404,127)
Payments to employees for salaries and benefits	(134,700,756)	(127,958,787)
Loans issued to students	(2,057,807)	(1,961,155)
Collection of loans to students	1,766,580	2,033,703
Auxiliary enterprise charges	34,650,987	32,915,245
Sales and services of educational activities	2,932,368	2,968,639
Interest received on loans to students	144,086	151,364
Net cash used by operating activities	(54,815,288)	(46,083,283)
Cash flows from noncapital financing activities		
State appropriations	64,481,771	62,901,042
Direct Lending proceeds	45,714,757	46,913,250
Direct Lending disbursements	(45,714,881)	(46,985,840)
Gifts to permanent endowments	100,000	500,000
Net cash provided by noncapital financing activities	64,581,647	63,328,452
Cash flows from investing activities		
Purchases of investments	(147,703,535)	(152,422,100)
Proceeds from sales of investments	150,796,560	155,728,322
Interest received on investments	5,521,349	4,620,049
Net cash provided by investing activities	8,614,374	7,926,271
Cash flows from capital and related financing activities		
Proceeds from capital debt	2,602,897	10,141,019
Interest earned on bond proceeds	265,797	174,449
Capital appropriations	15,283,030	9,007,963
Permanent fund provided (used) for capital projects	(498,273)	1,356,084
Purchases of capital assets	(26,998,834)	(25,636,561)
Principal paid on capital debt	(2,914,865)	(2,329,230)
Interest paid on capital debt	(3,708,225)	(3,316,707)
Other activities	9,778	14,962
Net cash used by capital and related financing activities	(15,958,695)	(10,588,021)
Net increase in cash and cash equivalents	2,422,038	14,583,419
Cash and cash equivalents, beginning of year	22,735,426	8,152,007
Cash and cash equivalents, end of year	\$ 25,157,464	\$ 22,735,426

See Accompanying Notes to the Financial Statements

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

	<u>2007</u>	<u>2006</u>
Operating loss	\$ (70,879,073)	\$ (59,726,276)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	13,388,100	12,855,532
Amortization of issuance costs	270,315	-
Net pension obligation	712,166	-
Gain on disposal of capital assets	(49,646)	-
Changes in assets and liabilities		
Accounts receivable	55,885	(569,845)
Student loans receivable	(291,351)	68,315
Inventories	352,765	(227,207)
Prepaid expenses	36,891	(125,253)
Accounts payable and accrued expenses	639,992	(215,592)
Deferred revenue	182,427	989,589
Student and other deposits	(437)	548,235
Deposits held in custody	48,471	71,387
Compensated absences	718,207	247,832
Net cash used by operating activities	<u>\$ (54,815,288)</u>	<u>\$ (46,083,283)</u>

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.

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

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 along with funds invested in the LGIP. 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 equivalents, and investments at amortized cost, which approximates fair value. See Notes 3 and 4 to the financial statements for additional detail.

Accounts Receivable

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

Inventories

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

Capital Assets

Land, buildings, and equipment are recorded at cost or, if acquired by gift, at fair market value on the date of the gift. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Interest expense incurred during capital construction is capitalized as part of the building cost. During 2007 and 2006, no construction related interest was capitalized.

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 related 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 which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable - Nonexpendable restricted net assets consist of endowment and similar type funds 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, 2007 and 2006, the carrying amount of cash and cash equivalents is \$25,157,464 and \$22,735,426 respectively. The carrying amount of cash and cash equivalents approximates the market value.

All cash, except for change funds, 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

To maximize investment income, the University combines unrestricted cash funds from all areas into an external 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 \$30,726,971 and \$29,592,796 in pooled investments at June 30, 2007 and 2006, respectively.

In addition to the investments in the internal pool, the University separately invested \$1,100,000 and \$2,215,509 of bond proceeds in time certificates of deposits and the LGIP, respectively at June 30, 2007 compared to \$6,996,771 and \$1,100,000 at June 30, 2006.

As of June 30, 2007 and 2006, the Renewal and Replacement funds of \$2,585,855 and \$2,212,729 were separately invested in time certificates of deposit.

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, 2007 and 2006, the University's Endowment fund held \$7,758,373 and \$6,938,084 in investments, respectively 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, 2007, 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	\$ 30,726,971	\$ 23,572,396	\$ 7,154,575			
Renewal and Replacement Funds:						
Time Certificates of Deposits	2,585,855	2,585,855				
Higginson Hall Bond Proceeds						
LGIP	2,215,509	2,215,509				
Certificates of Deposits	1,100,000	1,100,000				
WWU Endowment Funds:						
Mutual Funds - Money Market	1,626,918	1,626,918				
U.S. Treasury Fixed Income Securities	1,063,183		486,296			576,887
U.S. Agency Fixed Income Securities	746,668			328,380		418,288
Equity Securities	4,321,604					
Total Endowment Funds	<u>7,758,373</u>					
TOTAL INVESTMENTS	<u>\$ 44,386,708</u>					

At June 30, 2006, the University held the following investments:

Investment Type	Fair Value	Less than 1	Investment Maturities (in Years)			
			1-2	2-3	3-4	>4 years
WWU Investment Pool:						
Time Certificates of Deposits	\$ 29,592,796	\$ 22,709,665		\$ 6,883,131		
Renewal and Replacement Funds:						
Time Certificates of Deposits	2,212,729	2,212,729				
Higginson Hall Bond Proceeds						
LGIP	6,996,771	6,996,771				
Certificates of Deposits	1,100,000		1,100,000			
WWU Endowment Funds:						
Mutual Funds - Money Market	1,444,490	1,444,490				
Time Certificates of Deposit	197,950	197,950				
U.S. Treasury Fixed Income Securities	1,239,331			865,618		373,713
U.S. Agency Fixed Income Securities	381,267				381,267	
Equity Securities	3,675,046					
Total Endowment Funds	<u>6,938,084</u>					
TOTAL INVESTMENTS	<u>\$ 46,840,380</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

This account represents 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, 2007 and 2006, the market value of the principal of the Normal School Permanent Fund is \$211,010,786 and \$204,393,313, respectively. The University's earnings on the fund for the year ended June 30, 2007 and 2006 are \$2,677,320, and \$2,508,515, 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, 2007 and 2006, accounts receivable are as follows:

	<u>2007</u>	<u>2006</u>
Student tuition and fees	\$ 508,544	\$ 716,131
Federal, State and private grants and contracts	730,159	712,996
Auxiliary enterprises and other operating activities	<u>2,185,991</u>	<u>2,179,378</u>
Total accounts receivable	3,424,694	3,608,505
Less allowance for doubtful accounts	<u>(414,898)</u>	<u>(542,824)</u>
Net accounts receivable	<u>\$ 3,009,796</u>	<u>\$ 3,065,681</u>

7. STUDENT LOANS RECEIVABLE

At June 30, 2007 and 2006, student loans receivable are as follows:

	<u>2007</u>	<u>2006</u>
Federal Perkins student loans	\$ 8,753,274	\$ 8,399,553
Other long-term loans	79,473	90,615
Institutional loans	<u>70,289</u>	<u>86,773</u>
Total student loans	8,903,036	8,576,941
Less allowance for doubtful accounts	<u>(913,054)</u>	<u>(878,310)</u>
Net student loans receivable	<u>\$ 7,989,982</u>	<u>\$ 7,698,631</u>

8. INVENTORIES

At June 30, 2007 and 2006, inventories, stated at the lower of cost or market value using various methods: retail, first-in, first-out (FIFO), or average cost, consist of the following:

Location	<u>Valuation Method</u>	<u>2007</u>	<u>2006</u>
Bookstore	Retail	\$ 728,941	\$ 1,116,783
Central Stores	Average Cost	152,477	157,067
Facilities Maintenance	FIFO	167,719	172,647
Lock Shop	FIFO	102,373	72,366
Other inventory	FIFO	<u>164,588</u>	<u>150,000</u>
Total inventory		<u>\$ 1,316,098</u>	<u>\$ 1,668,863</u>

9. LAND AND CAPITAL ASSETS

The depreciation expense for the fiscal years ended June 30, 2007 and 2006 was \$13,388,100 and \$12,855,532, respectively.

Following are the changes in land and capital assets for the year ended June 30, 2007:

	6/30/2006	Additions/ Transfers	Retirements	6/30/2007
Land	\$ 9,269,370	\$ 2,881,452	\$ -	\$ 12,150,822
Capital Assets				
Infrastructure	\$ 41,165,653	\$ 12,081,993	\$ -	\$ 53,247,646
Buildings	301,240,879	5,248,329	-	306,489,208
Furniture, fixtures and equipment	31,774,370	1,518,172	805,138	32,487,404
Library materials, Art collection	42,668,275	1,976,935	-	44,645,210
Improvements	26,660,456	10,700,601	-	37,361,057
Construction in Progress	33,132,634	18,252,125	24,504,308	26,880,451
Total capital assets	476,642,267	49,778,155	25,309,446	501,110,976
Less accumulated Depreciation				
Infrastructure	16,243,667	1,685,245	-	17,928,912
Buildings	90,454,705	6,644,020	-	97,098,725
Furniture, fixtures and equipment	26,902,971	1,842,605	761,608	27,983,968
Library materials, Art collection	29,594,891	1,651,875	-	31,246,766
Improvements	6,687,915	1,564,355	-	8,252,270
Total accumulated depreciation	169,884,149	13,388,100	761,608	182,510,641
Net capital assets	\$ 306,758,118	\$ 36,390,055	\$ 24,547,838	\$ 318,600,335

The retirement column also represents costs of completed projects transferred from Construction in Progress to their respective asset accounts during the fiscal year.

Following are the changes in land and capital assets for the year ended June 30, 2006:

	6/30/2005	Additions/ Transfers	Retirements	6/30/2006
Land	\$ 9,269,370	\$ -	\$ -	\$ 9,269,370
Capital assets				
Infrastructure	\$ 40,873,119	\$ 292,534	\$ -	\$ 41,165,653
Buildings	301,223,070	65,484	47,675	301,240,879
Furniture, fixtures and equipment	30,353,503	1,984,788	563,921	31,774,370
Library materials, Art collection	40,743,851	1,924,424	-	42,668,275
Improvements	18,336,136	8,324,320	-	26,660,456
Construction in progress	20,845,706	12,286,928		33,132,634
Total capital assets	452,375,385	24,878,478	611,596	476,642,267
Less accumulated depreciation				
Infrastructure	14,829,124	1,414,543		16,243,667
Buildings	83,892,387	6,597,360	35,042	90,454,705
Furniture, fixtures and equipment	25,504,362	1,951,879	553,270	26,902,971
Library materials, Art collection	27,995,075	1,599,816	-	29,594,891
Improvements	5,395,981	1,291,934	-	6,687,915
Total accumulated depreciation	157,616,929	12,855,532	588,312	169,884,149
Net capital assets	\$ 294,758,456	\$ 12,022,946	\$ 23,284	\$ 306,758,118

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 19th and 20th 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, 2007 and 2006 is \$6,704,837 and \$5,986,630, respectively. This consists of unused vacation leave and compensatory time earned for professional and classified staff. It also includes a percentage of earned and unused sick leave for professional and classified staff.

In 2004, the University began participating in the Voluntary Employees' Beneficiary Association – Medical Expense Plan (VEBA-MEP). This plan is a post-retirement medical expense reimbursement account available to professional staff employees of Western. The VEBA-MEP enables the University to deposit funds equivalent to the cash-out of compensable unused sick leave at retirement, tax free to a VEBA trust account for the retiree's behalf. Funds deposited

into a VEBA-MEP account, as well as the earnings on the account, are not subject to federal income or social security taxes.

During 2007 and 2006, \$34,984 and \$69,709, respectively was contributed to VEBA accounts by the University on behalf of employees. The amount deposited during each year is dictated by the number of employees retiring and their accumulated sick leave balances.

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>
2008	\$278,188	\$135,945
2009	244,450	125,748
2010	231,077	116,431
2011	217,054	107,200
2012	135,386	99,033
2013-2017	702,741	412,105
2018-2022	695,801	268,238
2023-2027	866,564	100,193
Total	<u>\$3,371,261</u>	<u>\$1,364,893</u>

At June 30, 2007 and 2006, the University had \$6,118,806 and \$3,470,908 of assets financed by certificates of participation with \$2,790,495 and \$2,587,405 of accumulated depreciation, respectively.

13. BONDS PAYABLE

Bonds payable consist of revenue bonds issued by the University for Housing and Dining System facilities and 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.

The Housing and Dining System has the following outstanding bond issues:

Series 2006 Revenue Bonds with an interest rate of 4% and an aggregate face value of \$9,335,000 at June 30, 2007, which is reported net of the original discount and debt issuance costs of \$82,516.

Series 2005 Revenue and Refunding Bonds with interest rates ranging from 3.375% to 4.50% and an aggregate face value of \$12,385,000 at June 30, 2007, which is reported net of the unamortized original discount and debt issuance costs of \$1,435,375.

Series 2003 Revenue and Refunding Bonds with interest rates ranging from 2% to 4.65% and an aggregate face value of \$13,370,000 at June 30, 2007, which is reported net of the unamortized original issue discount and debt issuance costs of \$350,192.

Series 1999 Junior Lien Revenue Bonds with interest rates ranging from 4.5% to 6.0% and an aggregate face value of \$1,200,000 at June 30, 2007, which is reported net of the unamortized original issue discount and debt issuance costs of \$24,720.

Series 1998 Junior Lien Revenue and Refunding Bonds with interest rates ranging from 4.2% to 5.5% and an aggregate face value of \$14,275,000 at June 30, 2007, which is reported net of the unamortized original issue premium and debt issuance costs of \$547,766.

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 have an aggregate face value of \$26,545,000 at June 30, 2007, which is reported net of the unamortized original issue discount, bond issuance costs, and a loss on defeasance of \$808,935.

Advance Refunding

The scheduled liabilities as of June 30, 2007 and 2006 do not include \$11,725,000 and \$12,030,000, respectively, of Housing and Dining System revenue bonds which were advanced refunded in October 1991 and May 2005.

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.

Bonds Outstanding

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
2008	\$ 2,055,000	\$ 2,192,614	\$ 545,000	\$ 1,295,150
2009	2,135,000	2,111,011	565,000	1,273,350
2010	2,220,000	2,022,665	585,000	1,250,750
2011	2,310,000	1,927,036	615,000	1,225,888
2012	2,400,000	1,833,641	640,000	1,199,750
2013-2017	13,590,000	7,561,140	3,665,000	5,537,980
2018-2022	16,995,000	4,162,145	4,655,000	4,539,000
2023-2027	8,860,000	798,381	5,945,000	3,253,500
2028-2032	-	-	7,580,000	1,611,500
2033	-	-	1,750,000	87,500
Total	50,565,000	\$ 22,608,633	26,545,000	\$ 21,274,368
Less unamortized costs	518,389		744,896	
Less unamortized loss on defeasance	1,922,180		64,039	
Total	\$ 48,124,431		\$ 25,736,065	

14. LONG-TERM LIABILITIES

Following are the changes in long-term liabilities for the years ended June 30, 2007 and 2006:

	6/30/2006	Additions/ Amortization	Retirements	6/30/2007	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$ 76,061,736	\$ 268,760	\$ 2,470,000	\$ 73,860,496	\$ 2,600,000
Notes payable	1,102,560	2,604,453	335,752	3,371,261	281,866
Net pension obligation	-	712,166	109,113	603,053	110,000
Total long-term liabilities	<u>77,164,296</u>	<u>3,585,379</u>	<u>2,914,865</u>	<u>77,834,810</u>	<u>2,991,866</u>

	6/30/2005	Additions/ Amortization	Retirements	6/30/2006	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$ 68,359,753	\$ 9,791,983	\$ 2,090,000	\$ 76,061,736	\$ 2,470,000
Notes payable	992,754	388,623	278,817	1,102,560	335,752
Total long-term liabilities	<u>\$ 69,352,507</u>	<u>\$ 10,180,606</u>	<u>\$ 2,368,817</u>	<u>\$ 77,164,296</u>	<u>\$ 2,805,752</u>

15. LEASES

The University finances certain equipment through non-cancelable operating leases. At June 30, 2007, future payments under these operating leases are as follows:

Fiscal Year	Lease Payment
2008	\$346,353
2009	335,430
2010	330,637
2011	172,294
2012	28,648
Total minimum lease payments	<u>\$1,213,362</u>

16. 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.

17. 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, 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Instruction	\$ 79,072,912	\$ 74,180,428
Research	3,724,126	3,270,497
Academic support	11,385,763	9,989,795
Student services	14,174,848	12,602,335
Institutional support	18,105,906	16,624,728
Operation and maintenance of plant	29,669,116	26,245,216
Scholarships and other student aid	14,002,459	13,386,305
Auxiliary enterprise expenditures	<u>45,033,436</u>	<u>42,542,789</u>
Total operating expenses	<u>\$ 215,168,566</u>	<u>\$ 198,842,093</u>

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), 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 years ended June 30, 2007, 2006, and 2005 is \$31,220,467, \$30,130,598, and \$28,654,628; the payroll for employees covered by TRS is \$1,192,299, \$1,138,113, and \$1,314,355; the payroll covered by WWURP is \$66,650,428, \$60,878,662, and \$56,009,134; the payroll for LEOFF is \$660,572, \$592,601, and \$575,903, respectively. The total payroll for the University is \$105,266,321, \$100,287,921, and \$95,166,518 at June 30, 2007, 2006, and 2005 respectively.

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>2007</u>	<u>2006</u>	<u>2005</u>
Employee	\$4,858,383	\$4,594,947	\$ 4,336,867
University	\$4,864,876	4,597,727	4,335,929

Supplemental Component (Unaudited)

The University received an actuarial evaluation of the supplemental component of the WWURP during fiscal year 2007. The previous evaluation was performed in 2004. The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2007 and 2004 was \$4,120,000 and \$1,559,000, respectively, and is amortized over a 16.5 year period. The Annual Required Contribution (ARC) of \$563,000 consists of amortization of the UAAL (\$269,000) and normal cost (or current cost) (\$281,000). The UAAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 6% to 8% and projected salary increases of 4% per year. Approximately \$109,113 and \$108,115 of the University's payroll was covered under this plan during 2007 and 2005, respectively. The following table reflects the activity in the Net Pension Obligation for the year ended June 30, 2007:

Balance as of June 30, 2005	\$ -
Annual Required Contribution FY06	110,801
Payments to Beneficiaries FY06	<u>(110,801)</u>
Balance as of June 30, 2006	-
Annual Required Contribution FY07	712,166
Payments to Beneficiaries FY07	<u>(109,113)</u>
Balance as of June 30, 2007	<u>\$603,053</u>

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 available to the public 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, 2007 follow:

	<u>Employee</u>	<u>University</u>
PERS		
Plan I	6.00%	4.58%
Plan II	3.50%	4.58%
Plan III	5.00-15.00%	4.58%
TRS		
Plan I	6.00%	4.44%
Plan II	2.92%	4.44%
Plan III	5.00-15.00%	4.44%
LEOFF		
Plan II	7.84%	8.02%

All required employer and employee contributions have been made. The required contributions for the years ending June 30, 2007, 2006, and 2005 are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
PERS			
Employee	\$1,300,836	\$1,002,577	\$738,047
University	1,405,429	723,235	390,500
TRS			
Employee	41,225	40,055	43,517
University	30,501	17,648	10,668
LEOFF			
Employee	51,791	41,201	29,295
University	52,991	42,327	30,417

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, 2007 and 2006 are:

	<u>2007</u>	<u>2006</u>
Operating	\$2,530,565	\$2,561,392
Research	1,067,817	1,538,561
Capital projects	<u>46,079,879</u>	<u>12,063,902</u>
Total commitments	<u><u>\$49,678,261</u></u>	<u><u>\$16,163,855</u></u>

Commitments for capital projects increased during fiscal 2007 as a result of over \$40 million dollars encumbered for the construction of the Academic Instructional Center scheduled to open in fall of 2008.

21. SUBSEQUENT EVENTS

During October 2007, the University signed a two year lease with the Port of Bellingham to relocate portions of the operations of Huxley College, the Woodring College of Education, and the Science and Technology Departments. This relocation is in conjunction with the University's plans for a presence on the Bellingham waterfront.