

**FINANCIAL STATEMENTS**  
**AND**  
**REQUIRED SUPPLEMENTAL**  
**INFORMATION**

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November 14, 2008

Philip E. Sharpe Jr., Chair  
Board of Trustees  
Western Washington University  
Bellingham, WA 98225

Dr. Mr. Sharpe,

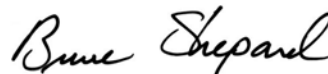
We are pleased to submit the Annual Financial Report of Western Washington University. The accounts of the University are maintained in accordance with policies and regulations established by Washington State and its Office of Financial Management. This report has been prepared in accordance with generally 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, 2008. 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. Currently, Western is the highest-ranking, public master's granting university in the Pacific Northwest, according to the 2009 U.S. News & World Report college rankings. 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,



Bruce Shepard  
President



George A. Pierce  
Vice President for Business and Financial Affairs

***BOARD OF TRUSTEES\****

Philip E. Sharpe, Jr., Chair  
Peggy Zoro, Vice Chair  
Dennis Madsen, Secretary  
Hannah Higgins, Student Trustee  
Howard Lincoln  
Kevin Raymond  
John D. Warner

***ADMINISTRATIVE OFFICERS\****

Bruce Shepard, President  
Dennis Murphy, Interim 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  
Sherry Burkey, Interim Vice President for External Affairs  
Stephanie Bowers, Vice President for University Advancement  
Kathleen L. Wetherell, Assistant Vice President for Financial Services  
Shonda L. Shipman, Accounting Services Director, Financial Services

\* as of Independent Auditors' report date

**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, 2008 and 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

**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. One of the members is a full-time student of the University.

The University is located in Bellingham, WA, a community of 75,000 residents located in the shadow of Mt. Baker and the waters of Bellingham Bay. The University was established in 1893 and currently has over 13,000 students.

**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. 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. GASB standards require that financial statements be presented on a consolidated basis in order to focus on the University as a whole.

**Financial Health**

The Balance Sheets present the financial condition of the University at the end of the last three fiscal years and report all assets and liabilities of the University.

A summarized comparison of the University's assets, liabilities, and net assets as of June 30, 2008, 2007, and 2006, follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<i>(Dollars in thousands)</i>		
<b>Assets</b>			
Current assets	\$ 78,006	\$ 68,844	\$ 63,624
Non-current assets	22,855	21,789	25,144
Land and capital assets	370,392	330,751	316,027
Total assets	<u>471,253</u>	<u>421,384</u>	<u>404,795</u>
<b>Liabilities</b>			
Current liabilities	33,188	28,911	26,290
Non-current liabilities	72,703	74,843	74,359
Total liabilities	<u>105,891</u>	<u>103,754</u>	<u>100,649</u>
<b>Net Assets</b>			
Invested in capital assets, net	295,702	256,832	246,343
Restricted, non-expendable	4,923	4,592	3,922
Restricted, expendable:	23,125	20,422	19,108
Unrestricted	41,612	35,784	34,773
Total net assets	<u>\$ 365,362</u>	<u>\$ 317,630</u>	<u>\$ 304,146</u>

Current assets consist primarily of cash, short term investments, funds held with the State Treasurer, and accounts receivable from students. Total current assets increased by \$9.1 million during fiscal 2008 to a balance of \$78 million due to larger current investments in certificates of deposit, additional balances held by the State Treasurer and an increase in receivables from students. Over the last year, the University has added over 500 employees, net of attrition, increased student enrollment and added new programs, which has increased revenues and current asset balances. The June 30, 2007 balance of \$68.8 million was an increase of \$5.2 million over 2006.

Land and capital assets increased over \$39 million with the completion of the Higginson Hall remodeling project and the final construction phase of the Academic Instructional Center. The Academic Instructional Center is scheduled for completion during fall 2008 with the departments occupying the building by January 2009. The purchase of the Lincoln Creek property during 2007, the remodeling costs for Higginson Hall and the construction costs for the Academic Instructional Center contributed to the \$15 million increase in land and capital assets during fiscal 2007.

The excess of current assets over current liabilities of \$44.8 million in 2008 reflects the continuing ability of the University to meet its short-term obligations with liquid or easily liquidated assets. Current liabilities increased \$4.3 million over fiscal 2007 as a result of increased construction costs payable and an increase in the compensated absences balance. Long-term liabilities decreased from the prior year due to higher principal payments on debt service despite an increase in the 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. “Equity” is reported 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, 2008, 2007, and 2006 are summarized as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<i>(Dollars in thousands)</i>		
Invested in capital assets, net of related debt	\$ 295,702	\$ 256,832	\$ 246,343
Restricted:			
Nonexpendable	4,923	4,592	3,922
Expendable	23,125	20,422	19,108
Unrestricted	41,612	35,784	34,773
Total net assets	<u>\$ 365,362</u>	<u>\$ 317,630</u>	<u>\$ 304,146</u>

Net investment in capital assets increased substantially during fiscal 2008 to \$296 million dollars, a \$38.9 million increase over 2007. This increase was a direct result of the University’s investment in its buildings and educational facilities. Major projects undertaken this year were the completion of the Higginson Hall residence facility remodel and the final construction phase of the Academic Instructional Center.

Restricted expendable net assets increased \$2.7 million (13.2%) in 2008 as earnings on the State Permanent Fund (permanent fund), which 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, outpaced expenditures, and additional reserves were set aside for renewals and replacements in the Housing System and the Wade King Student Recreation Center.

Unrestricted net assets in 2008 increased by \$5.8 million (16.2%) resulting from strong performance by the university's auxiliary enterprises which added to their reserves, and support for new programs from the state. The growth in 2007 was \$1 million or 3.0% over 2006. The increase in both years was driven by continuing tuition increases and large increases in both operating and capital appropriations.

### Capital Improvements and Related Debt

Payments made on current outstanding debt and no additional debt issuances during fiscal 2008 to fund capital assets resulted in a decrease in long-term bonds and notes payable of \$2.5 million from the prior year. In 2007 total long-term debt for financing capital assets increased by \$67 thousand to \$77.2 million, related to the purchase of property for a park and ride facility.

During fiscal 2008, \$42.2 million was expended on construction projects, including \$40 million on the Academic Instructional Center. In 2007, \$22 million was expended for capital construction, including \$9.6 million on the Academic Instructional Center. Specific projects underway at the end of fiscal 2008 are listed below:

*Academic Instructional Center:* Total project costs of \$64.2 million were incurred to complete the construction, furnishing, and equipping of the approximately 120,000 gross square foot facility. The project is nearing completion and classes are scheduled to begin winter 2009.

*Miller Hall Renovation:* Funds to design the major remodel of this 134,000 gross square foot facility were received during the 2007-2009 biennium. A construction appropriation has been requested for the 2009-2011 biennium as the University's highest priority major project request.

*Carver Academic Renovation:* Funds to pre-design the renovation of this facility were requested during the 2007-2009 biennium. Design funding has been requested for the 2009-2011 biennium to begin work on the University's second highest priority project.

### 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, 2008, 2007, and 2006 follows:

	2008	2007	2006
	<i>(Dollars in thousands)</i>		
Operating revenues	145,988	138,107	132,552
Operating expenses	226,464	215,168	198,842
Operating loss	(80,476)	(77,061)	(66,290)
State appropriations revenue	75,418	64,482	62,901
Other non-operating revenues	12,788	13,113	11,942
Non-operating expenses	(4,277)	(3,677)	(3,417)
(Loss) income before other revenues	3,453	(3,143)	5,136
Other revenues	44,279	16,627	8,949
Increase in net assets	47,732	13,484	14,085
Net assets, beginning of year	317,630	304,146	290,061
Net assets, end of year	365,362	317,630	304,146

**Primary Funding Sources**

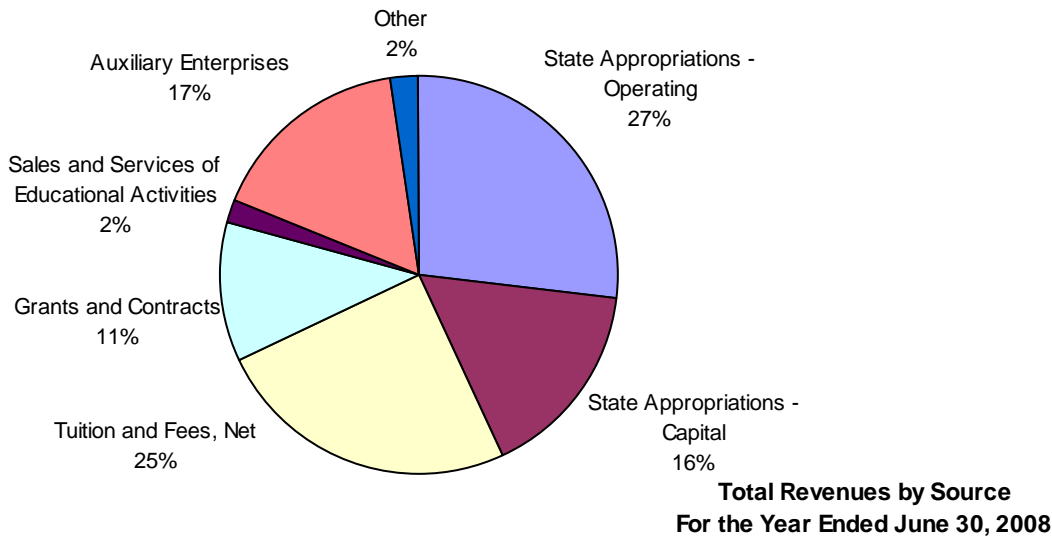
The University relies primarily on student tuition and fees and state appropriations as revenue sources to support operations. Tuition revenue, net of scholarship allowances, has continued to grow, increasing \$3.5 million (5.4%) in fiscal 2008. The University has flexibility in setting undergraduate non-resident tuition rates, which aids in compensating for decreases in state funding. Tuition increased 5% during fiscal 2008 compared to increases of 6% in 2007 and 2006; while enrollment increased slightly over fiscal 2007 to an annual headcount of 13,006 compared to 12,979 in 2007 and 12,518 in 2006.

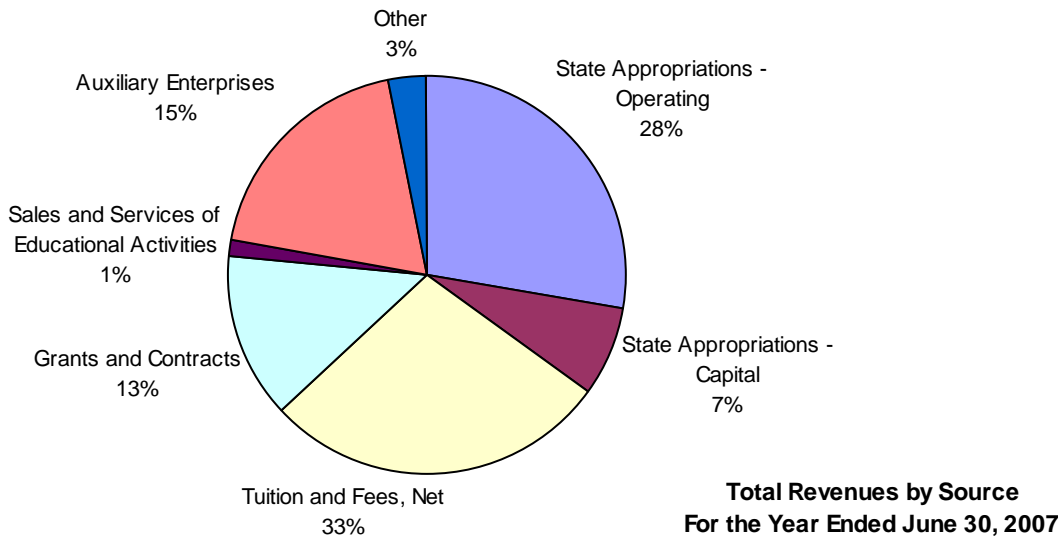
The impact to students from tuition rate increases was partially offset by increases in scholarships (including scholarship allowances) which were \$525,000 (3.8%) higher.

State appropriation revenues for operations increased \$10.9 million (16.9%) to \$75.4 million in fiscal 2008, compared to an increase of \$1.6 million in fiscal 2007. The appropriation includes state support for an additional 293 full-time equivalent (FTE) student enrollments during fiscal 2008. One hundred and thirty of these students are currently attending courses on Western's campus in programs offered by the Woodring College of Education. These programs were converted from self-sustaining to state supported for the 2007-2009 biennium. As a result, the university received state support for the students currently enrolled, as well as for expansion in both programs.

Capital appropriations are recognized as expenditures are incurred on capital projects. This revenue source increased over \$27 million from fiscal 2007 primarily due to increased expenditures relating to the final construction phase of the Academic Instructional Center.

The following graphs illustrate revenues by source for the years ended June 30, 2008 and 2007:





The University's operating expenses increased \$11.3 million during fiscal 2008 compared to a \$16.3 million increase during 2007.

Of this increase, the majority related to salaries and benefits which increased approximately 8.3% compared with a 6.5% increase in the prior year. Classified, professional staff and faculty received salary adjustments of 3.2%; in addition, classified staff received longevity step increases and faculty members received a one-time bonus of 4%. The University hired and/or promoted over 500 employees (net of attrition) during fiscal 2008.

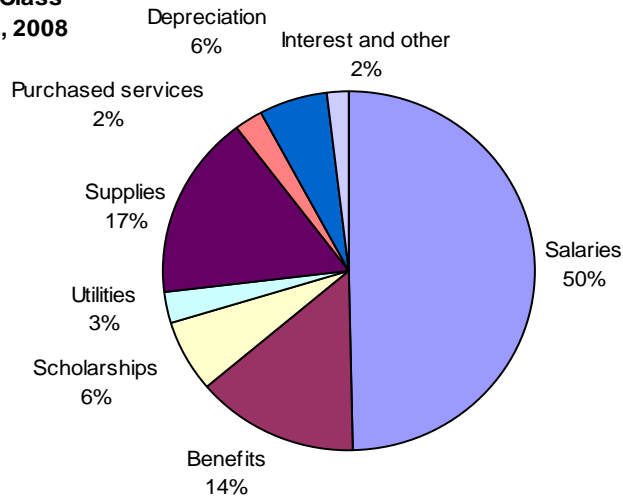
Supplies, materials, personal and purchased services decreased approximately \$1 million during 2008 compared to an increase of \$6.3 million during 2007 and a \$1.1 million increase in 2006.

The reduction in expenses consists primarily of: a \$304 thousand decrease in bank card fees due to a change in policy regarding the acceptance of credit cards in person for tuition payments which shifted the payment of the merchant fee from the university to the payee, a \$433 thousand decrease in expenditures on non-capital computer equipment funded by the Student Technology Fee as projects funded by this fee vary year to year, and a \$427 thousand decrease in expenses related to Extended Education and Summer Programs. These programs saw a reduction in participants needing housing on campus, a reduction in advertising expense due to diminishing programs, and the discontinuance of a trial academic course.

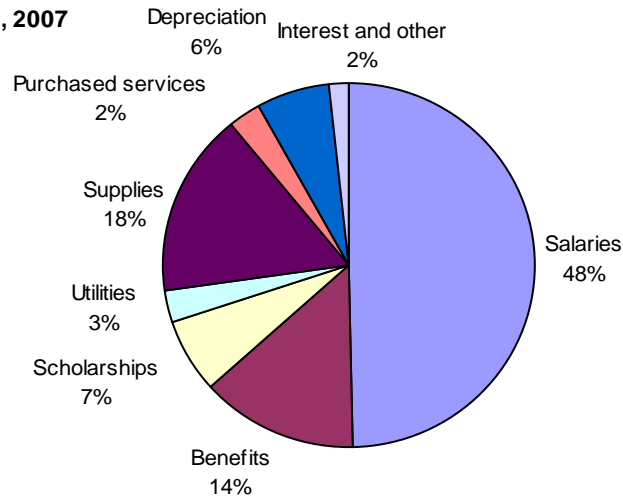
The increase during fiscal 2007 was primarily due to additional repairs and maintenance projects on campus and higher costs associated with travel including increased gasoline prices.

The following graphs illustrate expenses by natural class for the years ended June 30, 2008 and 2007:

**Total Expenses by Natural Class  
For the Year Ended June 30, 2008**



**Total Expenses by Natural Class  
For the Year Ended June 30, 2007**



**Operating Loss**

The University's operating loss increased by \$3.4 million to \$80.5 million in 2008, compared to \$77.1 million in 2007 and \$66.3 million in 2006. The University provided all faculty and staff salary increases of 3.2% during fiscal 2008. Overall operating revenue increased \$7.9 million or 5.7% over the prior year compared to an increase in expenditures of \$11.3 million.

GASB standards require that state appropriations and Federal Pell grants are classified as non-operating revenues, thereby creating the operating loss. If these revenues were classified as operating revenue, the operating (loss) income would be as follows for 2008, 2007, and 2006, respectively; \$1.8 million, \$(6.4) million, and \$3.2 million. The University continues to rely upon state and capital appropriations along with non-operating revenues to fund ongoing operations.

**Economic Factors That Will Affect the Future**

The University's operating budget for fiscal 2009 is \$127.8 million comprised of \$76.3 million in state operating appropriations and \$51.5 million in net tuition operating fee revenue. The tuition fee revenue is based on budgeted student enrollments of 12,175 full-time equivalents for the fiscal year. The Board of Trustees approved a 5% tuition increase for all students except non-resident graduate students.

Western's enrollments for fall 2008 quarter is 13,711 with 3,325 incoming freshman compared to a freshman class of 3,189 for fall 2007.





KPMG LLP  
Suite 900  
801 Second Avenue  
Seattle, WA 98104

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, 2008 and 2007, 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 the 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 controls over financial reporting as a basis for designing audit procedures that 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 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.

As discussed in note 1, the financial statements of Western Washington University are intended to present the financial position, and the changes in financial position, and, where appropriate, cash flows of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Washington that is attributable to the transactions of Western Washington University. They do not purport to, and do not, present fairly the financial position of the State of Washington as of June 30, 2008 and 2007, the changes in its financial position, or, where appropriate, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material aspects, the financial position of Western Washington University and of its discretely presented component unit as of June 30, 2008 and 2007, 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.

The management's discussion and analysis on pages 4 through 10 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 inquires 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 14, 2008



**STATEMENTS OF NET ASSETS**
*As of June 30, 2008 and 2007*

<b>Assets</b>	2008	2007
Current assets:		
Cash and cash equivalents (Note 3)	\$ 25,389,055	\$ 25,018,265
Investments (Note 4)	38,461,021	30,726,971
Funds with State Treasurer (Note 5)	6,910,084	3,979,465
Interest receivable	1,953,877	1,828,144
Accounts receivable, net (Note 6)	3,912,294	3,009,796
Prepaid expenses	111,344	90,132
Inventories (Note 8)	1,268,712	1,316,098
Total current assets	78,006,387	65,968,871
Noncurrent assets:		
Cash and cash equivalents (Note 3)	145,339	139,199
Investments (Note 4)	9,822,808	13,659,737
Due from State Treasurer	4,931,661	2,874,661
Student loans receivable, net (Note 7)	7,955,550	7,989,982
Land (Note 10)	12,772,593	12,150,822
Capital assets, net (Note 10)	357,619,109	318,600,335
Total non-current assets	393,247,060	355,414,736
Total assets	471,253,447	421,383,607
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	14,961,778	12,371,691
Deposits payable	2,295,927	2,182,191
Deferred revenues	5,040,459	4,253,172
Compensated absences (Note 11)	7,625,941	6,704,837
Current portion of bonds and notes payable (Note 15)	2,957,471	2,881,866
Current portion of net pension obligations (Note 15)	97,500	110,000
Deposits held in custody for others	209,537	406,454
Total current liabilities	33,188,613	28,910,211
Noncurrent liabilities:		
Long-term portion of bonds and notes payable (Note 15)	71,732,158	74,349,891
Long-term net pension obligations (Note 15)	971,010	493,053
Total Liabilities	105,891,781	103,753,154
<b>Net Assets</b>		
Invested in capital assets, net of related debt	295,702,072	256,831,967
Restricted for:		
Nonexpendable: scholarships and professorships	4,029,007	4,019,007
Expendable:		
Instruction and research	2,580,876	2,745,417
Loans	11,282,300	11,231,996
Capital Projects	10,155,283	7,017,861
Unrestricted	41,612,128	35,784,205
Total net assets	\$ 365,361,666	\$ 317,630,453

*See Accompanying Notes to the Financial Statements*

**STATEMENTS OF FINANCIAL POSITION**
**For the year ended June 30, 2008**

<b>Assets</b>	2008	2007
Cash and cash equivalents	\$ 2,872,323	\$ 1,240,968
Investments:		
Short-term investment pool	5,090,217	5,565,914
Long-term investment pool		
Externally managed investments	27,621,143	28,289,085
Real estate held for investment, net	1,561,949	1,494,520
Note receivable	-	492,000
Annuity and life income investments	4,836,850	5,550,985
Other	312,757	46,557
Total investments	39,422,916	41,439,061
Receivables:		
Promises to give, net	3,020,736	2,963,380
Due from Western Washington University	112,054	-
Other	49,488	9,558
Total receivables	3,182,278	2,972,938
Other assets	13,888	9,057
Capital assets, net	1,120,541	1,119,288
Total assets	46,611,946	46,781,312
<b>Liabilities</b>	<b>2008</b>	<b>2007</b>
Accounts payable	\$ 199,560	\$ 61,263
Due to Western Washington University	-	245,029
Annuity and life income obligations	1,738,525	1,894,421
Contingent obligation to Northwest Indian College Foundation	-	-
Total liabilities	3,026,352	3,355,463
<b>Net Assets</b>		
Unrestricted	11,356,223	10,776,966
Temporarily restricted	15,242,098	16,497,331
Permanently restricted	16,987,273	16,151,552
Total net assets	43,585,594	43,425,849
Total Liabilities and Net Assets	\$ 46,611,946	\$ 46,781,312

**STATEMENTS OF REVENUES, EXPENSES & CHANGES IN NET ASSETS for the years ended June 30, 2008 and 2007**

	2008	2007
<b>Operating Revenues</b>		
Student tuition and fees	\$ 81,217,433	\$ 76,176,651
Less scholarship allowances	<u>(12,215,513)</u>	<u>(10,687,587)</u>
Net student tuition and fees	69,001,920	65,489,064
Federal grants and contracts	11,272,466	10,851,112
State and local grants and contracts	12,595,085	12,303,871
Nongovernmental grants and contracts	1,264,074	1,387,721
Sales and services of educational activities	4,836,640	3,240,086
Interest earned on loans to students	136,871	144,086
Auxiliary enterprises	50,334,001	47,663,899
Less scholarship allowances	<u>(3,452,539)</u>	<u>(2,973,160)</u>
Net auxiliary enterprises	46,881,462	44,690,739
Total operating revenues	145,988,518	138,106,679
<b>Operating Expenses</b>		
Salaries and wages	114,509,642	105,961,453
Benefits	33,268,166	30,468,850
Scholarships and fellowships	14,527,102	14,002,459
Utilities	6,340,414	6,124,478
Supplies and materials	38,674,456	39,961,666
Purchased and personal services	5,505,286	5,261,560
Depreciation	13,639,067	13,388,100
Total operating expenses	226,464,133	215,168,566
Operating loss	(80,475,615)	(77,061,887)
<b>Nonoperating Revenues &lt;Expenses&gt;</b>		
State appropriations	75,417,882	64,481,771
Federal Pell grant revenue	6,868,173	6,182,814
Investment income	5,892,772	6,095,800
Interest on indebtedness	(3,607,772)	(3,677,177)
Loss on endowments	(668,488)	826,223
Nonoperating rental property income	26,143	9,778
Net non-operating revenues	83,928,710	73,919,209
(Loss)gain before other revenues, expenses, gains, or losses	3,453,095	(3,142,678)
<b>Other Revenues</b>		
Capital appropriations	44,268,118	16,526,811
Gifts to permanent endowments	10,000	100,000
Total other revenues	44,278,118	16,626,811
Increase in net assets	47,731,213	13,484,133
Net assets, beginning of year	317,630,453	304,146,320
Net assets, end of year	\$ 365,361,666	\$ 317,630,453

*See Accompanying Notes to the Financial Statements*

**STATEMENTS OF ACTIVITIES & CHANGES IN NET ASSETS**
**For the year ended June 30, 2008**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008
<b>Support and Revenue</b>				
Contributions, net of allowance for uncollectible promises to give	\$1,474,387	\$3,602,228	\$872,567	\$5,949,182
Services and facilities provided by Western Washington University	2,251,623	-	-	2,251,623
Net unrealized gains (losses) on investments	(601,974)	(1,867,616)	-	(2,469,590)
Net realized gains (losses) on investments	(15,671)	158,933	-	143,262
Interest and dividends	381,027	648,785	-	1,029,812
Amortization	-	67,429	-	67,429
Fund raising events and other	81,674	547,427	1,367	630,468
Total support and revenue before net assets released from restrictions	3,571,066	3,157,186	873,934	7,602,186
Net assets released from restrictions	4,128,788	(4,128,788)	-	-
Change in restrictions	67,376	(29,163)	(38,213)	-
Total support and revenue	<u>7,767,230</u>	<u>(1,000,765)</u>	<u>835,721</u>	<u>7,602,186</u>
<b>Expenses and Change in Valuation of Annuity Obligations</b>				
Program services and grants	4,260,458	-	-	4,260,458
Management and general - WWU in-kind	1,246,412	-	-	1,246,412
Management and general - other	328,892	-	-	328,892
Fund raising - WWU in-kind	1,005,211	-	-	1,005,211
Fund raising	409,178	-	-	409,178
Total expenses	7,250,151	-	-	7,250,151
Change in valuation of annuity obligations	(62,178)	254,468	-	192,290
Total expenses and change in valuation of annuity obligations	<u>7,187,973</u>	<u>254,468</u>	<u>-</u>	<u>7,442,441</u>
<b>Change in Net Assets</b>	579,257	(1,255,233)	835,721	159,745
<b>Net Assets</b> , beginning of year	<u>10,776,966</u>	<u>16,497,331</u>	<u>16,151,552</u>	<u>43,425,849</u>
<b>Net Assets</b> , end of year	<u>\$11,356,223</u>	<u>\$15,242,098</u>	<u>\$16,987,273</u>	<u>\$43,585,594</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007
<b>Support and Revenue</b>				
Contributions, net of allowance for uncollectible promises to give	\$408,563	\$2,886,326	\$605,502	\$3,900,391
Services and facilities provided by Western Washington University	1,768,965	-	-	1,768,965
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	62,757	519,077	1,313	583,147
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	3,792,902	(3,792,902)	-	-
Change in restrictions	102,392	(102,392)	-	-
Total support and revenue	<u>7,906,909</u>	<u>3,359,945</u>	<u>606,815</u>	<u>11,873,669</u>
<b>Expenses and Change in Valuation of Annuity Obligations</b>				
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	306,086	-	-	306,086
Total expenses	6,257,915	-	-	6,257,915
Change in valuation of annuity obligations	20,522	292,104	-	312,626
Total expenses and change in valuation of annuity obligations	6,278,437	292,104	-	6,570,541
<b>Change in Net Assets</b>	1,628,472	3,067,841	606,815	5,303,128
<b>Net Assets</b> , beginning of year	9,148,494	13,429,490	15,544,737	38,122,721
<b>Net Assets</b> , end of year	<u>\$10,776,966</u>	<u>\$16,497,331</u>	<u>\$16,151,552</u>	<u>\$43,425,849</u>

	2008	2007
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 69,464,855	\$ 65,583,028
Grants and contracts	24,783,903	24,465,130
Payments to vendors	(67,581,427)	(66,234,750)
Payments to employees for salaries and benefits	(145,813,240)	(134,700,756)
Loans issued to students	(1,295,204)	(2,057,807)
Collection of loans to students	1,304,600	1,766,580
Sales of auxiliary enterprises	46,906,431	45,218,643
Sales and services of educational activities	4,496,692	2,932,368
Interest received on loans to students	136,871	144,086
Net cash used by operating activities	(67,596,519)	(62,883,478)
<b>Cash flows from noncapital financing activities</b>		
State appropriations	75,417,882	64,481,771
Direct Lending proceeds	45,215,371	45,714,757
Direct Lending disbursements	(45,204,269)	(45,714,881)
Federal Pell grant receipts	6,868,173	6,182,814
Gifts to permanent endowments	10,000	100,000
Net cash provided by noncapital financing activities	82,307,157	70,764,461
<b>Cash flows from investing activities</b>		
Purchases of investments	(172,168,668)	(147,703,535)
Proceeds from sales of investments	167,603,059	150,796,560
Interest received on investments	5,716,693	5,521,349
Net cash provided by investing activities	1,151,084	8,614,374
<b>Cash flows from capital and related financing activities</b>		
Proceeds from capital debt	362,512	2,602,897
Interest earned on bond proceeds	50,346	265,797
Capital appropriations	42,211,118	15,283,030
Purchases of capital assets	(51,339,864)	(25,611,731)
Principal paid on capital debt	(3,167,097)	(2,914,865)
Interest paid on capital debt	(3,627,950)	(3,708,225)
Other activities	26,143	9,778
Net cash used by capital and related financing activities	(15,484,792)	(14,073,319)
Net increase in cash and cash equivalents	376,930	2,422,038
Cash and cash equivalents, beginning of year	25,157,464	22,735,426
Cash and cash equivalents, end of year	\$ 25,534,394	\$ 25,157,464

*See Accompanying Notes to the Financial Statements*

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

	<u>2008</u>	<u>2007</u>
Operating loss	\$ (80,475,615)	\$ (77,061,886)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	13,639,067	13,388,100
Amortization of bond issuance cost	262,457	270,315
Gain on disposal of fixed assets	(15,307)	(49,646)
Net pension obligation expense	465,457	712,166
Changes in assets and liabilities:		
Funds with the State Treasurer	(2,365,016)	(1,885,377)
Accounts receivable	(902,498)	55,885
Student loans receivable	34,432	(291,351)
Inventories	47,386	352,765
Prepaid expenses	(21,212)	36,891
Accounts payable and accrued expenses	120,222	639,992
Deferred revenue	787,287	182,427
Student and other deposits	113,736	(437)
Deposits held in custody	(208,019)	48,471
Compensated absences	921,104	718,207
Net cash used by operating activities	<u>\$ (67,596,519)</u>	<u>\$ (62,883,478)</u>
 Supplemental disclosure of cash flow information		
Acquisition of capital assets through accounts payable	<u>\$ 2,490,043</u>	<u>\$ 1,063,289</u>

*See Accompanying Notes to the Financial Statements*



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

Western Washington University (the 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 Governmental Accounting Standards Board (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 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 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.

New Accounting Pronouncements, Effective July 1, 2007

The Governmental Accounting Standards Board has issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", effective for the year ending June 30, 2008. This pronouncement establishes a standard to measure the liability for retiree health care and life insurance costs, which the University subsidizes. See Note 20 for additional information.

The Governmental Accounting Standards Board has issued Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", effective for the year ending June 30, 2008. This pronouncement includes provisions for disclosure of pledged revenues.

The Governmental Accounting Standards Board has issued Statement No. 50, "Pension Disclosure – an amendment of GASB Statements No. 25 and No. 27" effective for reporting periods beginning after June 15, 2007. This pronouncement more closely aligns the financial reporting requirements for pensions with those for other post employment benefits. The University has no additional disclosures resulting from this new pronouncement.

**Other Accounting Policies**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 equivalent, 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 2008 and 2007, 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 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 on income related to the University's mission.

### 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**

Cash and cash equivalents include cash on hand, petty cash, change funds, and bank deposits. 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).

At June 30, 2008 and 2007, the carrying amount of cash equivalents is \$16,262,729 and \$11,981,343 respectively. The carrying amount of cash equivalents approximates the market value.

## **4. INVESTMENTS**

To maximize investment income, the University combines unrestricted cash funds from all areas into an internal investment pool. Investment income is allocated to University departments in proportion to the respective average balances in the investment pool. The University's pool is invested in certificates of deposit. The University held \$38,461,021 and \$30,726,971 in pooled investments at June 30, 2008 and 2007, respectively.

In addition to the investments in the internal pool, the University separately invested \$1,100,000 of bond proceeds in time certificates of deposits and \$2.2 million in the LGIP, at June 30, 2007. There were no bond proceeds invested at June 30, 2008.

As of June 30, 2008 and 2007, the Renewal and Replacement funds of \$2,725,104 and \$2,585,855 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, 2008 and 2007, the University's Endowment fund held \$7,097,704 and \$7,758,373 in investments, respectively. Investments are independently managed by two investment firms. Endowment investments are reported as non-current assets on the Statement of Net Assets and as restricted nonexpendable net assets.

**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 pooled 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.

**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

At June 30, 2008, 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
<b>WWU Investment Pool:</b>						
Time Certificates of Deposits	\$ 38,461,021	\$ 35,521,641	\$ 1,567,350	\$ 1,372,030		
<b>Renewal and Replacement Funds:</b>						
Time Certificates of Deposits	2,725,104	2,725,104				
<b>WWU Endowment Funds:</b>						
Mutual Funds - Money Market	1,173,769	1,173,769				
U.S. Treasury Fixed Income Securities	1,152,891		510,453			642,438
U.S. Agency Fixed Income Securities	811,895			811,895		
Equity Securities	3,959,149					
Total Endowment Funds	<u>7,097,704</u>					
<b>TOTAL INVESTMENTS</b>	<b>\$ <u>48,283,829</u></b>					

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
<b>WWU Investment Pool:</b>						
Time Certificates of Deposits	\$ 30,726,971	\$ 23,572,396	\$ 7,154,575			
<b>Renewal and Replacement Funds:</b>						
Time Certificates of Deposits	2,585,855	2,585,855				
<b>Higginson Hall Bond Proceeds</b>						
LGIP	2,215,509	2,215,509				
Certificates of Deposits	1,100,000	1,100,000				
<b>WWU Endowment Funds:</b>						
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					
<b>Total Endowment Funds</b>	<u>7,758,373</u>					
<b>TOTAL INVESTMENTS</b>	<u>\$ 44,386,708</u>					

## 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.

The primary sources of new principal for the Normal School Permanent fund are 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 and are managed by the State Department of Natural Resources.

The University's earnings on the fund for the year ended June 30, 2008 and 2007 are \$2,706,790, and \$2,677,320, respectively.

## 6. ACCOUNTS RECEIVABLE

At June 30, the major components of accounts receivable are as follows:

	2008	2007
Student tuition and fees	\$ 1,347,213	\$ 508,544
Federal, State and private grants and contracts	508,286	730,159
Auxiliary enterprises and other operating activities	2,592,518	2,185,991
<b>Total accounts receivable</b>	<u>4,448,017</u>	<u>3,424,694</u>
Less allowance for doubtful accounts	(535,723)	(414,898)
<b>Net accounts receivable</b>	<u>\$ 3,912,294</u>	<u>\$ 3,009,796</u>

**7. STUDENT LOANS RECEIVABLE**

At June 30, student loans receivable are as follows:

	2008	2007
Federal Perkins student loans	\$ 8,753,857	\$ 8,753,274
Other long-term loans	65,866	79,473
Institutional loans	55,236	70,289
Total student loans	<u>8,874,959</u>	<u>8,903,036</u>
Less allowance for doubtful accounts	<u>(919,409)</u>	<u>(913,054)</u>
Net student loans receivable	<u>\$ 7,955,550</u>	<u>\$ 7,989,982</u>

**8. INVENTORIES**

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

Location	Valuation Method	2008	2007
Bookstore	Retail	\$ 735,323	\$ 728,941
Central Stores	Average Cost	144,611	152,477
Facilities Maintenance	FIFO	156,777	167,719
Lock Shop	FIFO	109,309	102,373
Other inventory	FIFO	<u>122,692</u>	<u>164,588</u>
Total inventory		<u>\$ 1,268,712</u>	<u>\$ 1,316,098</u>

**9. 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.

**10. LAND AND CAPITAL ASSETS**

The depreciation expense for the fiscal years ended June 30, 2008 and 2007 was \$13,639,067 and \$13,388,100 respectively. Following are the changes in land and capital assets for the year ended June 30, 2008:

	6/30/2007	Additions/ Transfers	Retirements	6/30/2008
Land	\$ 12,150,822	\$ 621,771	\$ -	\$ 12,772,593
<b>Capital Assets</b>				
Infrastructure	\$ 53,247,646	\$ -	\$ -	\$ 53,247,646
Buildings	306,489,208	9,324,669	-	315,813,877
Furniture, fixtures and equipment	32,487,404	2,037,098	664,802	33,859,700
Library materials, Art collection	44,645,210	2,016,974	-	46,662,184
Improvements	37,361,057	4,936,558	-	42,297,615
Construction in Progress	26,880,451	34,451,319	99,897	61,231,873
Total capital assets	501,110,976	52,766,618	764,699	553,112,895
<b>Less accumulated Depreciation</b>				
Infrastructure	17,928,912	1,394,467	-	19,323,379
Buildings	97,098,725	6,750,115	-	103,848,840
Furniture, fixtures and equipment	27,983,968	1,836,383	655,922	29,164,429
Library materials, Art collection	31,246,766	1,706,545	-	32,953,311
Improvements	8,252,270	1,951,557	-	10,203,827
Total accumulated depreciation	182,510,641	13,639,067	655,922	195,493,786
<b>Net capital assets</b>	\$ 318,600,335	\$ 39,127,551	\$ 108,777	\$ 357,619,109

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
<b>Capital Assets</b>				
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	(6,196,222)	55,961	26,880,451
Total capital assets	476,642,267	25,329,808	861,099	501,110,976
<b>Less accumulated Depreciation</b>				
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
<b>Net capital assets</b>	\$ 306,758,118	\$ 11,941,708	\$ 99,491	\$ 318,600,335

**11. COMPENSATED ABSENCES**

The accrued leave balance as of June 30, 2008 and 2007 is \$7,625,941 and \$6,704,837, 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 a current liability.

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 your cash-out of compensable unused sick leave at retirement, tax free to a VEBA trust account on your 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 2008 and 2007, \$57,361 and \$34,984 respectively, was contributed to VEBA accounts by the University on behalf of employees.

**12. NOTES PAYABLE**

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

Fiscal Year	Principal	Interest
2009	\$257,471	\$128,984
2010	244,433	119,183
2011	228,265	109,479
2012	184,908	100,039
2013	132,121	97,819
2014-2018	714,245	383,441
2019-2023	735,000	238,208
2024-2026	670,233	65,269
<b>Total</b>	<b>\$3,166,676</b>	<b>\$1,242,422</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.

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 \$8,995,000 at June 30, 2008, which is reported net of the original discount and debt issuance costs of \$75,057.

Series 2005 Revenue and Refunding Bonds with interest rates ranging from 3.375% to 4.50% and an aggregate face value of \$12,275,000 at June 30, 2008, which is reported net of the unamortized original discount and debt issuance costs of \$1,322,191.

Series 2003 Revenue and Refunding Bonds with interest rates ranging from 3% to 4.65% and an aggregate face value of \$12,780,000 at June 30, 2008, which is reported net of the unamortized original issue discount and debt issuance costs of \$314,681.

Series 1999 Junior Lien Revenue Bonds with interest rates ranging from 5.1% to 6.0% and an aggregate face value of \$820,000 at June 30, 2008, which is reported net of the unamortized original issue discount and debt issuance costs of \$16,328.

Series 1998 Junior Lien Revenue and Refunding Bonds with interest rates ranging from 4.4% to 5.5% and an aggregate face value of \$13,640,000 at June 30, 2008, which is reported net of the unamortized original issue premium and debt issuance costs of \$498,762.

**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 \$26,000,000 at June 30, 2008, which is reported net of the unamortized original issue discount, bond issuance costs, and a loss on defeasance of \$760,028.

**Advance Refunding**

The scheduled liabilities as of June 30, 2008 and 2007 do not include \$11,405,000 and \$11,725,000, 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
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	2,495,000	1,735,075	670,000	1,172,230
2014-2018	14,195,000	6,963,104	3,840,000	5,362,250
2019-2023	16,995,000	3,377,748	4,885,000	4,306,250
2024-2028	5,760,000	445,739	6,240,000	2,956,250
2029-2033	-	-	7,960,000	1,232,500
<b>Total</b>	<b>48,510,000</b>	<b>\$ 20,416,019</b>	<b>26,000,000</b>	<b>\$ 19,979,218</b>
Less unamortized costs	469,315		699,381	
Less unamortized loss on defeasance	1,757,704		60,647	
<b>Total</b>	<b>\$ 46,282,981</b>		<b>\$ 25,239,972</b>	

**14. PLEDGED REVENUES**

The University has pledged specific revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

**NOTES TO THE FINANCIAL STATEMENTS**
**June 30, 2008 and 2007**

Source of Revenue Pledged	Total Future Revenues Pledged *	Description of Debt	Purpose of Debt	Term of Commitment	Proportion of Debt Service to Pledged Revenues (current yr)
Housing and Dining revenues, net of operating expenses	\$ 68,926,019	Housing and Dining bonds issued in 1998, 1999, 2003, 2005, 2006	Construction and renovation of student housing projects	2026	18.21%
Recreation Center gross revenues	\$ 45,979,218	Recreation Center bonds issued in 2002	Construction of the Recreation Center	2033	11.19%

\* total future principal and interest payments on debt

**15. LONG-TERM LIABILITIES**

Following are the changes in long-term liabilities for the years ended June 30, 2008 and 2007:

	6/30/2007		Additions/		6/30/2008		Current Portion			
			Amortization	Retirements						
Bonds and notes payable										
Revenue and refunding bonds	\$	73,860,496	\$	262,457	\$	2,600,000	\$	71,522,953	\$	2,700,000
Notes payable		3,371,261		362,514		567,099		3,166,676		257,471
Net pension obligation		603,053		563,000		97,543		1,068,510		97,500
Total long-term liabilities		77,834,810		1,187,971		3,264,642		75,758,139		3,054,971

	6/30/2006		Additions/		6/30/2007		Current Portion			
			Amortization	Retirements						
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	\$	77,164,296	\$	3,585,379	\$	2,914,865	\$	77,834,810	\$	2,991,866

**16. LEASES**

The University finances certain equipment through non-cancelable operating leases. At June 30, 2008, future payments under these operating leases are as follows:

Fiscal Year	Lease Payment
2009	\$ 356,808
2010	355,375
2011	216,626
2012	66,839
2013	14,811
Total minimum lease payments	<u>\$ 1,010,459</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. 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, 2008 and 2007 are summarized as follows:

	2008	2007
Instruction	\$ 86,490,893	\$ 80,176,687
Research	4,145,858	3,766,952
Academic support	11,319,808	11,666,065
Student services	16,420,205	14,586,824
Institutional support	20,962,731	18,960,212
Operation and maintenance of plant	31,090,406	30,867,581
Scholarships and other student aid	14,527,102	14,002,459
Auxiliary enterprise expenditures	41,507,130	41,141,786
<b>Total operating expenses</b>	<b>\$ 226,464,133</b>	<b>\$ 215,168,566</b>

**19. 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, 2008 and 2007 is \$35,208,415 and \$31,220,467; the payroll for employees covered by TRS is \$1,286,424 and \$1,192,299; the payroll covered by WWURP is \$70,996,394 and \$66,650,428; the payroll for LEOFF is \$719,410 and \$660,572, respectively. The total payroll for the University is \$114,605,885 and \$105,266,321.

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>2008</u>	<u>2007</u>	<u>2006</u>
Employee	\$ 5,040,493	\$ 4,858,383	\$ 4,594,947
University	5,049,565	4,864,876	4,597,727

Supplemental Component

The University received an actuarial evaluation of the supplemental component of the UWRP during fiscal year 2007. The previous evaluation was performed in 2004. The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2007 and 2004 was \$4,120,000 and \$1,559,000, respectively, and is amortized over a 19.5 year period. The Annual Required Contribution (ARC) of \$563,000 consists of amortization of the UAL

(\$269,000), normal cost (or current cost) (\$281,000) and interest. The UAL 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 ranging from 2% to 4%. Approximately \$63,343,172 and \$52,111,611 of the University's payroll was covered under this plan during 2007 and 2004, respectively.

The following table reflects the activity in the Net Pension Obligation for the year ended June 30, 2008:

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	603,053
Annual Required Contribution FY08	563,000
Payments to Beneficiaries FY08	<u>( 97,543)</u>
Balance as of June 30, 2008	<u>\$ 1,068,510</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 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, 2008 follow:

	<u>Employee</u>	<u>University</u>
<b>PERS</b>		
Plan I	6%	6.13%
Plan II	4.15%	6.13%
Plan III	5-15%	6.13%
<b>TRS</b>		
Plan I	6%	5.64%
Plan II	2.92%	5.64%
Plan III	5-15%	5.64%
<b>LEOFF</b>		
Plan II	8.63%	8.80%

All required employer and employee contributions have been made.

The required contributions for the years ending June 30, 2008, 2007, and 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>PERS</b>			
Employee	\$ 1,622,505	\$ 1,300,836	\$ 1,002,577
University	2,120,547	1,405,429	723,235
<b>TRS</b>			
Employee	44,421	41,225	40,055
University	41,325	30,501	17,648
<b>LEOFF</b>			
Employee	62,106	51,791	41,201
University	63,283	52,991	42,327

**20. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through

to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employees.

State of Washington retirees may elect coverage through state health and life insurance plans, for

which they pay less than the full cost of the benefits, based on their age and other demographic factors.

The health care premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of the retirees. An additional factor in the OPEB obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit subsidy"). For 2008, this amount was \$164 per retiree eligible for parts A and B of Medicare. This is also passed through to state agencies via active employees rates charged to the agency.

There is no formal State or University plan that underlies the subsidy of retiree health and life insurance.

An actuarial study performed by the Washington Office of the State Actuary calculated the total OPEB obligation of the State of Washington at July 1, 2007. The Actuary calculated the OPEB obligation based on individual state employee data, including age, retirement eligibility, and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

Since sufficient specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been determined nor recorded in the University's financial statements.

The University was billed and paid approximately \$17.5 million for active and retiree health care expenses in 2008.

## 21. 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.

## 22. 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, 2008 and 2007 are:

	<u>2008</u>	<u>2007</u>
Operating	\$ 2,899,317	\$ 2,530,565
Research	1,046,000	1,067,817
Capital projects	<u>16,570,976</u>	<u>46,079,879</u>
Total commitments	<u>\$ 20,516,293</u>	<u>\$ 49,678,261</u>

## 23. SUBSEQUENT EVENTS

Since June 30, 2008, major U.S. equity and fixed income indices have experienced significant declines. Management is monitoring investment market conditions and the impact such declines are having on the University's endowment investment portfolio. The University is actively reviewing its endowment investment policies, including asset allocation and spending practices. A hold has been placed on using endowment funds to meet current spending allocations in order to protect further erosion of the balance. Other resources will be utilized to meet spending needs until the value of the endowments recovers.