EASTERN WASHINGTON UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

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(A NONPROFIT CORPORATION)
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Eastern Washington University Foundation
Cheney, Washington

We have audited the accompanying statement of financial position of Eastern Washington University Foundation (a nonprofit corporation) as of June 30, 2011, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Eastern Washington University Foundation as of June 30, 2010, were audited by LeMaster & Daniels PLLC (whose practice became part of LarsonAllen LLP effective November 1, 2010), whose report dated October 20, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Eastern Washington University Foundation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LarsonAllen LLP

LarsonAllen LLP

Spokane, Washington
October 19, 2011

EASTERN WASHINGTON UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and Cash Equivalents	$ 3,864,690	$ 3,534,813
Promises to Give, Net of Allowances and Discounts	824,904	1,053,769
Other Assets	428,664	437,698
Contributions Receivable from Charitable Trusts	316,836	266,173
Investments Held in Charitable Trusts	176,681	137,540
Investments	13,507,215	11,057,569
Beneficial Interest in Perpetual Trusts	2,479,666	2,204,440
Total Assets	$ 21,598,656	$ 18,692,002
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 81,752	$ 178,564
Annuities Payable	148,492	144,531
Notes Payable	674,530	17,877
Total Liabilities	904,774	340,972
NET ASSETS		
Unrestricted (Deficit)	(330,160)	(1,328,042)
Temporarily Restricted	5,511,381	4,783,404
Permanently Restricted	15,512,661	14,895,668
Total Net Assets	20,693,882	18,351,030
Total Liabilities and Net Assets	$ 21,598,656	$ 18,692,002

See accompanying Notes to Financial Statements.

EASTERN WASHINGTON UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT				
Contributions	$ 81,926	$ 1,802,741	$ 240,481	$ 2,125,148
Contributions from Trusts	-	122,852	-	122,852
Investment Income, Net of Fees of $90,567 and $90,178, Respectively	7,505	305,711	1,037	314,253
Realized Gain (Loss) on Investments	(193)	115,681	-	115,488
Unrealized Gain on Investments	1,167,192	883,822	-	2,051,014
Change in Value of Split-Interest Agreements	-	-	350,607	350,607
Support Provided by Eastern Washington University	1,087,472	-	-	1,087,472
Other	630	290,107	25,094	315,831
Net Assets Released from Restrictions and Other Transfers	2,793,163	(2,792,937)	(226)	-
Total Revenues, Gains, and Support	5,137,695	727,977	616,993	6,482,665
EXPENSES				
Management and General	834,414	-	-	834,414
Fundraising	652,791	-	-	652,791
Support Provided to/for Eastern Washington University	2,652,608	-	-	2,652,608
Total Expenses	4,139,813	-	-	4,139,813
CHANGE IN NET ASSETS	997,882	727,977	616,993	2,342,852
Net Assets (Deficit) - Beginning of Year	(1,328,042)	4,783,404	14,895,668	18,351,030
NET ASSETS (DEFICIT) - END OF YEAR	$ (330,160)	$ 5,511,381	$ 15,512,661	$ 20,693,882

See accompanying Notes to Financial Statements.

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 139,677	$ 2,135,152	$ 220,602	$ 2,495,431
-	42,246	-	42,246
7,766	242,076	-	249,842
-	408,619	-	408,619
-	328,040	-	328,040
-	-	142,117	142,117
1,174,791	-	-	1,174,791
757	377,569	6,688	385,014
123,846	(386,020)	262,174	-
1,446,837	3,147,682	631,581	5,226,100
805,055	-	-	805,055
694,988	-	-	694,988
1,577,641	-	-	1,577,641
3,077,684	-	-	3,077,684
(1,630,847)	3,147,682	631,581	2,148,416
302,805	1,635,722	14,264,087	16,202,614
$ (1,328,042)	$ 4,783,404	$ 14,895,668	$ 18,351,030

EASTERN WASHINGTON UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributors and Trusts	$ 3,348,958	$ 1,555,597
Investment Income	404,820	8,154
Gain (Loss) on Investments Reinvested	75,187	(54,758)
Interest and Fees Paid	(52,553)	(14,498)
Cash Received from Events and Sale of Goods and Services	315,831	378,326
Cash Paid for Foundation Administration and Fundraising	(1,555,288)	(196,358)
Cash Paid on Behalf of Eastern Washington University	(2,689,319)	(1,615,321)
Net Cash Provided (Used) by Operating Activities	(152,364)	61,142
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	10,289,291	15,677,877
Purchases of Investments	(10,572,241)	(15,567,852)
Net Cash Provided (Used) by Investing Activities	(282,950)	110,025
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted for Endowments	119,000	309,478
Proceeds on Notes Payable	825,000	-
Payments on Notes Payable	(168,347)	(35,633)
Distribution to Annuitants	(10,462)	(12,000)
Net Cash Provided by Financing Activities	765,191	261,845
NET INCREASE IN CASH AND CASH EQUIVALENTS	329,877	433,012
Cash and Cash Equivalents - Beginning of Year	3,534,813	3,101,801
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,864,690	$ 3,534,813

EASTERN WASHINGTON UNIVERSITY FOUNDATION
(A NONPROFIT CORPORATION)
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Assets	$ 2,342,852	$ 2,148,416
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	8,394	15,384
(Gain) Loss on Investments	(2,166,696)	(328,040)
Change in Value of Split-interest Agreements	20,998	(142,117)
Noncash Contributions Received	(432,944)	(91,242)
Distribution of Noncash Contributions to Eastern Washington University	432,944	91,242
Contributions Restricted for Investment in Endowments	(275,226)	(220,602)
Changes in Assets and Liabilities:		
Promises to Give	109,865	(420,906)
Other	(95,739)	(643,166)
Accounts Payable	(96,812)	(347,827)
Total Adjustments	(2,495,216)	(2,087,274)
Net Cash Provided (Used) by Operating Activities	$ (152,364)	$ 61,142

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

	2011	2010
New Promises to Give Received as Contribution for Endowments	$ 15,600	$ 75,000

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Eastern Washington University Foundation (the Foundation) is a nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation is organized for charitable and educational purposes and is operated to receive, hold, invest, and properly administer the assets and to make expenditures to or for the benefit of Eastern Washington University (the University), established in 1882 and governed by the Board of Trustees.

The Foundation, established in 1977, operates under an Agreement of Services, dated June 24, 1997, with the University to raise and hold economic resources for the direct benefit of the University, a governmental unit. In exchange, the University provides the Foundation with partial office space, furniture and equipment, supplies, and staff to operate the Foundation. Due to the significance of the financial relationship with the University, in accordance with Government Accounting Standards Board (GASB) No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB No. 14, the Foundation is included as a component unit of the University for financial reporting purposes and is therefore also included in the University's comprehensive annual financial report. Funds of the Foundation are neither subject to the state of Washington appropriation process nor held in the state treasury and are not owned by the state.

The Foundation exists to raise and manage private resources to support the mission, goals, and priorities of the University, to provide educational opportunities for the students of the University; and to establish a margin of institutional excellence unattainable with state and federal funds alone.

The Foundation has fiduciary responsibility for Eagle Athletic Association and Eastern Washington University Alumni Association, both of which are nonprofit corporations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation's financial statements include these nonprofit corporations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

These financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers short-term cash investments and highly liquid debt instruments, if any, purchased with a maturity of three months or less, to be cash equivalents. Short-term investments consist of certificates of deposit and are carried at fair value, which approximates cost.

Investments

Investments are stated at fair value based on quoted market prices. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and unrealized appreciation (depreciation) of those investments, is shown in the statements of activities. Investment income is accrued as earned and reported net of investment advisory fees.

The Foundation has significant exposure to a number of risks including interest, market and credit risks for marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the financial statements.

Promises to Give

Unconditional promises to give, less an allowance for uncollectible accounts, are recognized as revenue in the period the promise is made in writing by the donor. Unconditional promises to give receivable in excess of one year are discounted to their net present value using a discount rate based on the three-month U.S. Treasury bill rate at the time of contribution. Accounts are written off in the period they are determined to be uncollectible. Conditional promises to give, if any, are recognized when the conditions on which they depend are substantially met.

Other Assets

Other assets are comprised of accrued investment income, the cash surrender value of a life insurance policy, prepaid assets, note receivable, property and equipment (see note 9), and collections of art.

Cash Surrender Value of Life Insurance Policy

Where there is a cash surrender value of an insurance policy owned by the Foundation, that value is recognized in other assets. The value is provided by the insurance company based on the terms and conditions of the corresponding insurance policy. The cash surrender value of life insurance policies is carried as an asset and the excess of the premiums paid over the increases in the cash surrender value is charged as an expense in the statements of activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Surrender Value of Life Insurance Policy (Continued)

The Foundation had been named as the owner and beneficiary of a donor's universal adjustable life insurance policy with a cash surrender value of $33,430 at June 30, 2009. The donor paid the premiums on the life insurance policy directly to the insurance company prior to 1990 at which time the annual dividends became sufficient to cover the annual premiums. Any remaining dividends in excess of the premiums were put back into the policy. Under the terms of the policy, the Foundation receives the cash surrender value if the policy is terminated. During fiscal 2010, the Foundation terminated the policy receiving $35,357 with a realized gain of $1,927.

Capital Assets and Depreciation

Property and equipment with a cost greater than $5,000 and a normal useful life of at least one year are capitalized at cost when purchased, and at fair market value or appraised value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 30 years for buildings and improvements and 3 years for computers, equipment, and software. Property and equipment, net, are included in other assets in the statements of financial position.

The Foundation periodically reviews the carrying amount of capital assets whenever events or circumstances provide evidence that suggests the carrying amount may not be recoverable. If, after reviewing the undiscounted future net operating cash flows from these assets, it is determined that the assets are impaired, the impairment in value is recognized as a charge in the statements of activities. As of June 30, 2010, the Foundation does not believe that the carrying value of its capital assets has been impaired.

Collections

The Foundation has capitalized its collections since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the acquisition date. Gains or losses on the deaccession of collection items are classified on the statements of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. Collections are included in other assets in the statements of financial position.

Beneficial Interests in Trusts and Other Split-Interest Agreements

The Foundation has established, through its planned giving program, the ability for donors to design charitable gift plans through the Foundation for the benefit of the University with the added benefit of achieving personalized financial goals for the future. Trusts can be established through contributions of property from donors to provide income, generally for life, to designated beneficiaries, except for a lead trust, which pays its income for a term of years to the Foundation. Each year, beneficiaries receive payments as specified in the trust agreement; a fixed payment (annuity trusts) or a percentage of the trust's fair market value (standard unitrusts), which may be limited to the net income (net-income-with-make-up unitrusts). Upon the termination of each trust, its assets generally will be distributed to the Foundation, or individuals named by the donor, for the purposes designated in the trust agreements. Trusts distributed to the Foundation at termination are assessed a one-time 2% administrative fee.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interests in Trusts and Other Split-Interest Agreements (Continued)

The trusts, formulated through written legal trust documents, are separate legal entities, created under the provisions of the Internal Revenue Code and applicable Washington law. Each trust has a calendar year end as required by the Internal Revenue Code. The charitable remainder trusts are exempt from federal income taxes, except in any year in which they receive unrelated business taxable income.

In accordance with trust documents, the trusts' property and all receipts of every kind shall be managed and invested by the trustee from which the trustee shall pay an annuity amount in each taxable year of the trusts. Any income in excess of the annuity amount shall be added to the principal annually. Initial recognition and subsequent adjustments to the assets' carrying value are reported as a change in value of split-interest agreements in the accompanying statements of activities and are classified as to restriction based on donor-imposed purposes or time restrictions, if any. A contribution receivable is presented for trusts in which the Foundation is only the remainderman. The Foundation serves as remainderman, trustee, or both on certain trusts.

Obligations to Beneficiaries of Split-Interest Agreements

Obligations to beneficiaries of split-interest agreements, including charitable remainder trusts and charitable gift annuities, are recorded when incurred at the present value of the distributions to be made to the donor-designated beneficiaries. Distributions are paid over the lives or another specified period. Present values are determined using discount rates established by the Internal Revenue Service and actuarially determined expected lives. An annuity payable is presented for the trusts in which the Foundation is both the trustee and remainderman. Obligations to beneficiaries of charitable trusts are revalued annually at June 30. The net revaluations, together with any remaining recorded obligations are recorded as net changes in the value of split-interest agreements.

Endowments

The Foundation's endowment consists of approximately 200 funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America ("GAAP"), net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Endowments are managed in a unitized investment pool. It is the goal of the Foundation to maintain proper stewardship of assets donors have entrusted to the Foundation for the benefit of the University, its programs, and its students.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowments (Continued)

The Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of 2006. Under UPMIFA, annual spending (payout) may be taken from investment income and net realized and unrealized investment gains. The annual dollar amount distributed to each of the accounts within the endowment pool is 4% of the three-year moving average of the endowment's market value. Payout is distributed to individual funds annually on July 1 based on the number of units in each fund. The objective of the spending rate policy is to ensure the dollar amounts distributed will keep pace with inflation. The rate is periodically reviewed to reassess anticipated future rates of inflation and total return on investments. The Foundation assesses a 2% administrative fee annually.

In the rare cases when the Foundation has accepted an endowment gift that cannot be pooled for investment purposes, the principal is held and invested separately from all other Foundation investments. At times, the Foundation also temporarily holds donated assets in the non-pooled endowment until they can be liquidated and transferred to the pooled endowment fund. There were no separately held and managed individual endowment funds at June 30, 2011.

Earnings on the Investment of Endowment and Similar Funds

Income, realized net gains, and unrealized net gains on the investment of endowment and similar funds are reported as follows:

As an accumulation in permanently restricted net assets in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund;

As increases in temporarily restricted net assets for the portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets until those amounts are appropriated for expenditure; and

As increases in unrestricted net assets if the fair value of assets associated with individual donor restricted endowment funds fall below the level that either the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration and when appropriated for expenditure.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been restricted by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donor-Restricted Gifts

Donor-restricted gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions, and related investment gains and losses, whose restrictions are fulfilled in the same time period are classified as restricted and released from restriction for use.

Credit Risk

The Foundation's investments consist primarily of financial instruments including cash and cash equivalents, equity funds, fixed income funds, mutual funds, realty funds, and money market funds. These financial instruments may subject the Foundation to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

Market Risk

The Foundation is subject to market risk, foreign currency risk, and interest rate risk with respect to its investment portfolio. To manage these risks, the Foundation has an investment policy setting out a target mix of investments designed to provide optimal return within reasonable risk tolerances.

Uncertain Tax Positions

Management has evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance or that would jeopardize the Foundation's tax exempt status. With few exceptions, the Foundation is no longer subject to income tax examinations by tax authorities for years before 2006.

Reclassifications

Certain items in the 2010 financial statements have been reclassified to conform with the presentation used in the 2011 financial statements with no effect on the previously reported change in net assets.

NOTE 2 INVESTMENTS

Investments consisted of the following:

	June 30, 2011	June 30, 2010
Fixed Income Mutual Funds	$ 3,256,630	$ 3,311,645
Equity Securities	95,734	75,507
Equity Mutual Funds	9,398,991	7,190,757
Short-term Money Market Investments	932,541	617,200
Total	$ 13,683,896	$ 11,195,109

Such investments are reported in the statements of financial position as:

	June 30, 2011	June 30, 2010
Designated for State Match	$ 288,557	$ 277,579
Restricted for Endowments	13,218,658	10,779,990
Total	13,507,215	11,057,569
Held in Charitable Trusts	176,681	137,540
Total	$ 13,683,896	$ 11,195,109

As a result of previous general market declines, endowments of colleges, universities, and other not-for-profit organizations experienced negative investment returns and overall reductions in the value of their investment portfolios. Because these portfolios are directly linked to the endowment funds, many endowed gifts received had a market value that declined below the “historic dollar value” (typically the fair market value at the time of the gift) creating what is referred to as an “underwater endowment.”

The current economic environment has contributed to the decrease in the number of endowment funds and total dollar amount by which the funds are underwater. As of June 30, 2011, there were 104 underwater endowment funds with a market value of $700,369 less than the historic dollar values. This was a decrease compared to June 30, 2010, when there were 150 underwater endowment funds with a market value of $1,740,448 less than historic dollar values.

NOTE 3 PROMISES TO GIVE

Unconditional promises to give, net of allowance for uncollectible accounts, were as follows:

	June 30, 2011	June 30, 2010
Receivable in Less Than One Year	$ 334,670	$ 434,137
Receivable in One to Five Years	497,006	620,558
Receivable After Five Years	35,000	56,500
Total	866,676	1,111,195
Less: Allowance for Uncollectible Promises to Give	36,305	36,305
Less: Discount on Promises to Give	5,467	21,121
Total	$ 824,904	$ 1,053,769

NOTE 4 ENDOWMENT INVESTMENT SECURITIES

The Foundation's endowment consists of approximately 250 individual funds established for a variety of purposes. The Foundation includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – Washington Uniform Prudent Management of Institutional Funds Act (UPMIFA):

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundation and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundation
(7) The investment policies of the Foundation

NOTE 4 ENDOWMENT INVESTMENT SECURITIES (CONTINUED)

Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that either the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $700,369 and $1,740,448 at June 30, 2011 and 2010, respectively, and in temporarily restricted net assets under UPMIFA were $1,460,424 and $1,795,283 at June 30, 2011 and 2010, respectively.

These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the University. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters:

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the Investment Committee of the Foundation, the endowment assets are invested in a manner that is intended to produce a relatively predictable and stable payout stream each year and maintain purchasing power of the assets over the investment horizon. The Foundation expects its endowment funds, over time, to provide an average real rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives:

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total-return strategy in which investment returns are achieved through both capital appreciation/depreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and how the Investment Objectives Relate to Spending Policy:

The Foundation’s spending policy allows for the endowment funds to distribute 6% per year (4% for individual accounts and 2% for the management and advancement fee) computed quarterly based on the average market value for the 36 months preceding and including the quarter ended prior to the distribution date, adjusted for new gifts on the first day of the distribution quarter.

NOTE 4 ENDOWMENT INVESTMENT SECURITIES (CONTINUED)

Spending Policy and how the Investment Objectives Relate to Spending Policy (Continued):

In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

The Foundation plans to utilize its current spending policy for fiscal year 2011.

Endowment net assets consisted of the following:

	June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ (585,366)	$ 1,460,424	$ 12,545,131	$ 13,420,189
Board-Designated Endowment Funds	74,196	-	-	74,196
Endowment Net Assets	$ (511,170)	$ 1,460,424	$ 12,545,131	$ 13,494,385

	June 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ (1,740,448)	$ 545,364	$ 12,168,559	$ 10,973,475
Board-Designated Endowment Funds	62,087	-	-	62,087
Endowment Net Assets	$ (1,678,361)	$ 545,364	$ 12,168,559	$ 11,035,562

Endowment net assets are comprised of cash and cash equivalents, investments, accrued investment income, an interfund receivable, and a noncash gift included in the collections of art in the statements of financial position.

Changes in endowment net assets were as follows:

	Year Ended June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	$ (1,678,361)	$ 545,364	$ 12,168,559	$ 11,035,562
Contributions	-	-	411,782	411,782
Investment Return	1,167,191	915,060	-	2,082,251
Reclassifications Made at the Request of the Donor	-	-	(35,210)	(35,210)
Endowment Net Assets	$ (511,170)	$ 1,460,424	$ 12,545,131	$ 13,494,385

NOTE 4 ENDOWMENT INVESTMENT SECURITIES (CONTINUED)

	Year Ended June 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	$ 194,650	$ (1,465,105)	$ 11,889,240	$ 10,618,785
Net Asset Reclassification Based				-
on Change in Law	(1,920,546)	1,989,933	(69,387)	-
Contributions	-	-	309,478	309,478
Investment Return	47,535	20,536	-	68,071
Distributions to/for Support of the University	-	-	(755)	(755)
Reclassifications Made at the				
Request of the Donor	-	-	39,983	39,983
Endowment Net Assets	$ (1,678,361)	$ 545,364	$ 12,168,559	$ 11,035,562

NOTE 5 FAIR VALUE MEASUREMENTS

The Foundation follows the provisions of Financial Accounting Standards Board (FASB) guidance related to the measurement of its financial assets. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy defined by FASB are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 – Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to the endowment's needs.

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and their placement within the fair value hierarchy levels.

Investments are stated at fair value, which is determined by using market quotations and other information available at the valuation date.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables disclose by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis:

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Short-Term Money Market Investments	$ 932,541	$ -	$ -	$ 932,541
Equity Securities	95,734	-	-	95,734
Equity Mutual Funds	9,398,991	-	-	9,398,991
Fixed Income Mutual Funds	3,256,630	-	-	3,256,630
Total	$ 13,683,896	$ -	$ -	$ 13,683,896

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Short-Term Money Market Investments	$ 617,200	$ -	$ -	$ 617,200
Equity Securities	75,507	-	-	75,507
Equity Mutual Funds	7,190,757	-	-	7,190,757
Fixed Income Mutual Funds	3,311,645	-	-	3,311,645
Total	$ 11,195,109	$ -	$ -	$ 11,195,109

NOTE 6 ANNUITIES PAYABLE

Annuities payable consisted of the following:

	June 30, 2011	June 30, 2010
Annuity Payable at $1,000 Per Month for the Longer of the Donor's or His/Her Spouse's Life	$ 39,545	$ 50,006
Annuity Payable in Quarterly Installments of 6% of the Fair Market Value of Donated Assets for the Life of the Donor	51,066	44,728
Annuity Payable in Quarterly Installments of 6% of the Fair Market Value of Donated Assets for the Life of the Donor	57,881	49,797
	$ 148,492	$ 144,531

NOTE 7 SUPPORT PROVIDED BY THE UNIVERSITY

The Foundation has an agreement with the University whereby the Foundation will design and implement such programs and procedures to persuade continuous and philanthropic support for the benefit of the University. In exchange, the University provides the Foundation with office space, furniture and equipment, supplies and related office expenses, and professional staff to operate the Foundation. The fair value of services received of $1,087,472 and $1,174,791 has been recorded in the financial statements of the Foundation for the fiscal years ended June 30, 2011 and 2010, respectively.

NOTE 8 LONG-TERM DEBT

Long-term debt was as follows:

	June 30, 2011	June 30, 2010
Note Payable to US Bank, Payable in Monthly Installments of $15,518, Including Interest at 4.82%, Through July 2015; Secured by Artificial Turf Pledges of $870,200	$ 674,530	$ -
Note Payable to Sterling Savings Bank, Payable in Monthly Installments of $948, Including Interest at 6.5% Through January 2009, Adjustable Thereafter Through 2032; Secured by Deed of Trust	-	17,877
	$ 674,530	$ 17,877

A note payable to US Bank in the amount of $825,000 was entered into on June 25, 2010, to finance the installation of the red turf at the football stadium at the University. The note proceeds were obtained from the bank on July 1, 2010; accordingly, the note was not a liability at June 30, 2010. Among the terms of the note is a requirement to annually meet a minimum fixed charge ratio.

Interest expense associated with the notes totaled $36,032 and $1,744 for the year ended June 30, 2011 and 2010, respectively.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Scheduled principal repayments on long-term debt, including the US Bank note payable, are as follows:

Years Ending June 30,	Amount
2012	$ 156,643
2013	164,549
2014	172,773
2015	180,565
	$ 674,530

NOTE 9 CAPITAL ASSETS

The Foundation's capital assets included in other assets in the statements of financial position were as follows:

	June 30, 2011	June 30, 2010
Land	$ 35,250	$ 35,250
Building	199,750	199,750
Furniture and Equipment	86,888	86,888
Collections of Works of Art	196,942	196,942
Total	518,830	518,830
Less: Accumulated Depreciation for Building and Furniture and Equipment	110,374	101,980
Total	$ 408,456	$ 416,850

NOTE 10 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

	June 30, 2011	June 30, 2010
Support Provided to/for the University	$ 4,396,472	$ 3,584,726
Eagle Athletic Association	207,612	193,532
Eastern Washington University Alumni Association	119,221	111,432
For Periods After June 30, 2011 and 2010, Respectively	788,076	893,714
Total	$ 5,511,381	$ 4,783,404

NOTE 10 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Permanently restricted net assets are restricted for the following purposes:

	June 30, 2011	June 30, 2010
Endowment Net Assets	$ 12,584,926	$ 12,168,559
Endowment Pledges Receivable	51,500	201,481
Endowment Works of Art	12,000	12,000
Charitable Trusts Which the Final Distributions are to be Held in Perpetuity for Support Provided to/for the University	384,570	309,188
Beneficial Interest in Perpetual Trusts	2,479,665	2,204,440
Total	$ 15,512,661	$ 14,895,668

NOTE 11 NET ASSETS RELEASED FROM RESTRICTIONS AND OTHER TRANSFERS

During the years ended June 30, 2011 and 2010, the Foundation incurred various expenses in satisfaction of the restricted purposes specified by donors, or satisfied the restrictions by the occurrence of other events. Accordingly, during the years ended June 30, 2011 and 2010, corresponding net asset reclassifications have been recorded in the accompanying statements of activities, together with other transfers as described in the following tables:

Year Ended June 30, 2011	Unrestricted	Temporarily Restricted	Permanently Restricted
Support Provided to/for the University	$ 2,751,381	$ (2,749,594)	$ (3,888)
Reclassifications Made Based on UPMIFA	(119,812)	121,659	-
Reclassification Made at the Request of Donors	(4,856)	1,195	3,662
Endowment Management Fees	166,450	(166,197)	-
Endowment Net Assets	$ 2,793,163	$ (2,792,937)	$ (226)

Year Ended June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted
Support Provided to/for the University	$ 1,809,778	$ (2,141,339)	$ (1,180)
Reclassifications Made Based on UPMIFA	(1,920,546)	1,989,933	(69,387)
Reclassification Made at the Request of Donors	-	-	119,260
Endowment Pledges Receivable	-	-	201,481
Endowment Works of Art	-	-	12,000
Endowment Management Fees	234,614	(234,614)	-
Endowment Net Assets	$ 123,846	$ (386,020)	$ 262,174

Net assets were released from donor restrictions each year by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors such as funds designated for professorships and graduate fellowships which are remitted to the University upon notification of a matching grant.

NOTE 12 SUBSEQUENT EVENTS

Subsequent events have been reviewed through October 19, 2011, which is the date the financial statements were available to be issued.