



Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

Central Washington University System

For the period July 1, 2013 through June 30, 2014

Published January 22, 2015

Report No. 1013485





Washington State Auditor Troy Kelley

January 22, 2015

Central Washington University System
Ellensburg, Washington

Report on Financial Statements

Please find attached our report on the Central Washington University System's financial statements.

We are issuing this report in order to provide information on the University System's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Central Washington University System July 1, 2013 through June 30, 2014

Central Washington University System
Ellensburg, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Central Washington University System, Kittitas County, Washington, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University System's basic financial statements, and have issued our report thereon dated January 15, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the University System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University System's internal control. Accordingly, we do not express an opinion on the effectiveness of the University System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

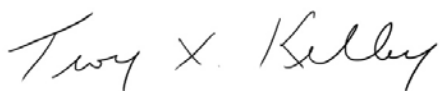
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the University System's financial statements are free from material misstatement, we performed tests of the University System's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 15, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Central Washington University System July 1, 2013 through June 30, 2014

Central Washington University System
Ellensburg, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Central Washington University System, Kittitas County, Washington, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University System's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

University System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit .

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Washington University System, as of June 30, 2014 and 2013, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of Central Washington University System are intended to present the financial position, and the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the University that is attributable to the transactions of the Housing, Dining, Bookstore, Parking, and Student Activity Funds. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained


during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Central Washington University as of and for the years ended June 30, 2014 and 2013, and our report thereon, dated December 22, 2014, expressed an unmodified opinion on those financial statements.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015 on our consideration of the University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University System's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 15, 2015

FINANCIAL SECTION

Central Washington University System July 1, 2013 through June 30, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014 and 2013

Statement of Revenues, Expenses and Changes in Net Position – 2014 and 2013

Statement of Cash Flows – 2014 and 2013

Notes to Financial Statements – 2014 and 2013

MANAGEMENT DISCUSSION AND ANALYSIS

The "system" is composed of the housing and dining fund, services and activities fee fund, student union building fee fund, recreation center fee fund, bookstore fund and the parking fund of Central Washington University (CWU). The system was established in 2004 as a segment of the university with the intent of formalizing a grouping of similar entities for the purpose of generating revenue to repay bonded debt. By organizing in this fashion the system is intended to support the pledge of revenue to the special revenue bonds issued.

The management discussion and analysis (MD&A) provides an overview of the financial position and activities of the system for the fiscal year ended June 30, 2014. The MD&A focuses on the current year's activities, and resulting changes and facts to assist readers in understanding the accompanying financial statements. The MD&A should be read in conjunction with the accompanying financial statements and notes to the financial statements. The financial statements, notes, and this discussion and analysis are the responsibility of management.

Activities from the system's component units are included in the accompanying financial statements.

FINANCIAL HIGHLIGHTS



The system's overall financial standing continues to be sound, with total assets of \$186 million and total liabilities of \$137 million. The system's net position totals \$48 million.

As a result of strategic financial planning and budgeting, the net position of the system increased in the current fiscal year. Total operating revenues have remained stable, increasing by nearly two percent. This is primarily a result of increases in room and board revenue. Total operating expenses increased 4 percent, primarily due to a one time salary and benefit cost associated with the classified staff contracts.

These operating cost increases were offset by a permanent decrease in debt service costs (non-operating) as a result of the advance refunding of the bonds of 2004. The advance refunding, which occurred in 2013, reduced debt service in 2014 by \$509,780 and reduced future scheduled payments for the life of the bond. This allowed for an increase in Net Position of \$879,321. This is 3.4 times the increase in Net Position achieved in 2013.

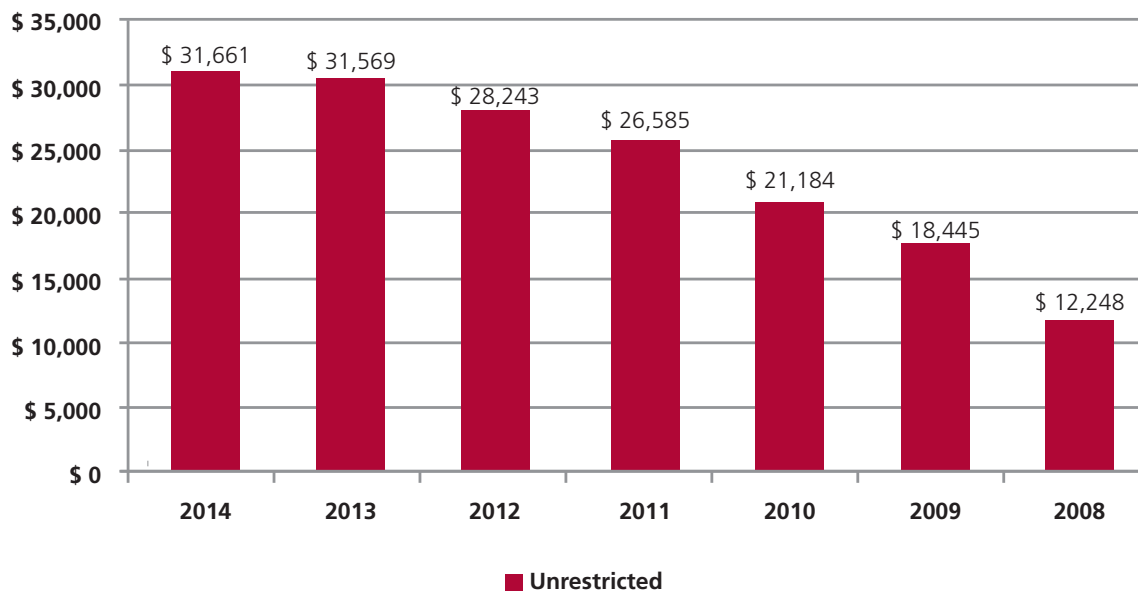
Unrestricted net position is one indicator of an organization's overall financial condition and an increase generally indicates improving fiscal conditions. Unrestricted net remained stable in 2014 at \$31.6 million. We believe this demonstrates a stable net position.

Unrestricted net position is often accumulated for designated purposes or is held in order to meet the CWU debt policy. (Please see a full discussion of CWU's Debt Policy on page 11.)

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The following table and graph show the system's unrestricted net position for the seven most recent fiscal years:

UNRESTRICTED NET POSITION (in thousands)



USING THE ANNUAL REPORT

This annual report consists of a series of financial statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements provide information on the system as a whole and present a long-term view of the system's finances. The statements help answer the basic question, "Is the system, as a whole, financially better off or worse off as a result of the year's activities?" (Please refer to Note 1 on page 15 for activities included in the system's basic financial statements.)

Other non-financial factors, such as the condition of the working assets (physical infrastructure), changes in student enrollment and on-campus occupancy need to be considered in order to assess the overall health of the system.



STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of the system at one point in time and includes all assets and liabilities of the system. Net position is the difference between assets and liabilities and may be thought of as one way to measure the system's financial health, or financial position.

Assets and liabilities are classified as either current or noncurrent. Current assets are those resources that are convertible to cash within one year and are available to satisfy current liabilities. Current assets include cash and cash equivalents, short-term investments, accounts receivable, and inventory. Non-current assets are mainly long-term investments and property, equipment, and intangibles. Current liabilities are those obligations of the system that are due within one year of the statement date. Non-current liabilities are comprised of long-term debt and other obligations of the system.

Net position is reported in three categories: net investment in capital assets; restricted net position (both non-expendable and expendable); and unrestricted net position. Net investment in capital assets consists of capital assets less the balance of the outstanding debt incurred during the construction or improvement of those assets. Restricted net position is limited in use due to the constraints put in place by the donors or by law. Unrestricted net position includes assets that do not qualify as either invested in capital assets, net of related debt, or restricted net position. However, CWU may have imposed restrictions on the use of some assets within this category, for example, reserving certain funds for bond payments, to support the emergency reserve fund designated by the Board of Trustees, or funds accumulated to complete capital renovation and construction.

The unrestricted net position balances shown are not only cash balances, but consist of investments, accounts receivable, inventories, and other non-liquid assets. The unrestricted net position balance fluctuates over time and should indicate the ability of the system to withstand external stresses. Decreases are not necessarily an indicator of trouble in the system; they may occur due to planned expenditures of funds set aside for a specific purpose, for example to replace or renovate buildings or infrastructure. This type of decrease may be advantageous to the system and could indicate opportunities for the future.

CONDENSED STATEMENT OF NET POSITION – JUNE 30, 2014, 2013 AND 2012 (in thousands)

	2014	2013	2012	2014-2013	
				\$ Change	% Change
Current Assets	\$ 36,275	\$ 35,905	\$ 32,500	\$ 371	1.0%
Capital Assets, Net	144,753	147,327	146,046	(2,574)	(1.7%)
Other Noncurrent Assets	1,853	1,904	9,037	(51)	(3.0%)
Total Assets	182,882	185,136	187,582	(2,254)	(1.2%)
Deferred Outflows	2,409	2,530	0	(121)	5.0%
Current Liabilities	8,220	7,661	7,232	558	7.3%
Noncurrent Liabilities	128,240	132,059	132,657	(3,820)	(2.9%)
Total Liabilities	136,459	139,721	139,889	(3,261)	(2.3%)
Net Investment In Capital Assets	17,171	16,383	19,450	788	5.0%
Restricted	0	0	0	-	-
Unrestricted	31,661	31,569	28,243	92	0.3%
Total Net Position	\$ 48,832	\$ 47,952	\$ 47,693	\$ 880	1.8%
Current Ratio					
(Current assets to current liabilities)	4.4	4.7	4.5	-	-
Primary Reserve Ratio					
(Expendable Net Position To Operating Expenses)	0.68	0.71	0.62	-	-

Total assets were reduced by \$2.3 million at the end of fiscal year 2014. This is primarily due to \$4.2 million in depreciation which was partially offset by additions to capital assets. Net capital assets decreased \$2.6 million for net additions to property and equipment, less depreciation expense. (For further discussion please see the Capital Asset and Long-Term Liabilities Highlights on page 10.) Cash and equivalents remained consistent at \$32.8 million (including cash restricted for capital projects). The Deferred Outflows balance was amortized and reduced by \$121,000 at June 30, 2014.

The Deferred Outflows number represents costs associated with previous debt issuances. This accounting treatment is the result of GASB 63 & 65 which were adopted in 2013 and were discussed at length in the 2013 MD&A. There are no deferred outflows recorded in 2012 as this was prior to the adoption of the new accounting standards.

Total liabilities decreased by \$3.8 million during fiscal year 2014 from \$140 million to a total of \$136.5 million. The bonds payable and bond premium (net) liabilities decreased \$4.4 million due primarily to the regularly scheduled principal payments totaling \$3.3 million that were paid and reduced the outstanding balance. No debt transactions are contemplated at present for the System.

The current ratio, current assets divided by current liabilities, measures the system's ability to meet current obligations. The system's current ratio at June 30, 2014 was 4.4 to 1, which means the system's current assets are 4.4 times that of its current liabilities. The system's current ratio at June 30, 2013 was 4.7 to 1.

Total net position increased \$880,000 during fiscal year 2014. The total net position is equal to the year's operating activity less the effects of the financing activities, specifically the debt service payments.

The primary reserve ratio is calculated by dividing unrestricted net position by operating expenses. This measures the ability of the system to continue operating at current levels, within current restrictions and constraints, lacking any future revenues. Proof of an adequate reserve ratio is often required to secure long-term financing. The system's primary reserve ratio at June 30, 2014 is 0.68 to 1, which indicates that, in an extreme emergency situation, the system could continue its current operations for approximately 36 weeks. In 2014 this ratio was at a similar ratio of .72 to 1.

A recent industry financial analysis guide, Strategic Financial Analysis For Higher Education published by KPMG suggests, "For institutions, an analysis of financial statements suggests that a Primary Reserve Ratio of .40x or better is advisable to give institutions the flexibility to transform the enterprise."



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position provides information about the system's activities during the year by reporting all the revenues and expenses for the year. In the Statement of Revenues, Expenses and Changes in Net Position, all of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as the system's operating results.

Revenues and expenses are categorized as either operating or non-operating. Operating revenues are revenues earned by the system in exchange for its goods and services. These revenues include tuition and fees, grants and contracts, sales and services of educational products and auxiliary enterprise revenues. Operating expenses are those incurred during the normal operations of the system and include, salaries and wages, operating expenses, depreciation, cost of sales and services. Non-operating revenues and expenses are those derived from non-exchange transactions. Examples include interest paid on capital debt, insurance proceeds, investment income, interest rebates, and gains or losses on capital assets.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in thousands)

	FY 2014	FY 2013	FY 2012	2014-2013 \$ Change	% Change
Operating revenues	\$ 52,569	\$ 51,627	\$ 51,440	\$ 942	2.0%
Operating expenses	46,405	44,429	45,445	1,976	4.0%
Operating Income (loss)	6,163	7,198	5,995	(1,035)	(14.0%)
Total non-operating revenues net of expenses	(5,284)	(6,939)	(5,094)	1,655	(24.0%)
Increases in net assets	\$ 879	\$ 259	\$ 901	\$ 620	239.0%
Net income margin (increase in net position to total revenue)	1.67%	0.50%	1.75%	—	—

From June 30, 2013 operating expenses increased 4 percent and operating revenues increased 2 percent.

Net income margin is a measure of current year financial status. The margin is calculated by dividing the increase in net position by total revenue. The system's net income margin for fiscal year 2014 is 1.67 percent. A positive operating margin is good, as it signifies the system is not spending more than it is taking in. The majority of the non-operating expenses relate to interest expense on long-term debt (\$6 million). There also were two items in non-operating revenues during fiscal 2014: 1.) the \$630,000 received as part of the Build America Bonds program, and 2.) \$135,000 earned on investments.

Revenues

Revenues from auxiliary enterprises such as housing, bookstore and food service increased 1.8 percent from fiscal year 2013. The following table shows revenues by source for the fiscal years ended June 30, 2014, 2013 and 2012:

OPERATING REVENUES

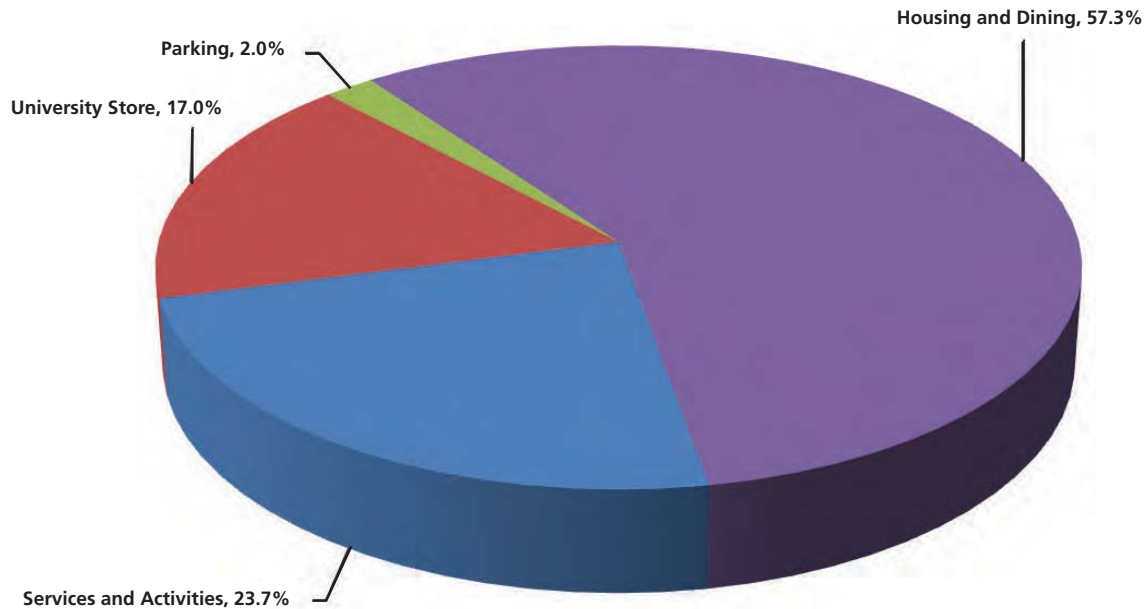
(in thousands)

	FY 2014	FY 2013	FY 2012	2014-2013 \$ Change	% Change
Services and activities	\$ 12,483	\$ 12,964	\$ 13,254	(\$ 481)	(3.7%)
University store	8,951	9,343	9,604	(392)	(4.2%)
Parking	1,033	1,083	1,028	(51)	(4.7%)
Housing and dining	30,102	28,236	27,555	1,866	6.6%
Total Operating Revenues	52,569	51,627	51,440	942	1.8%

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Housing and Dining rate increases were the primary driver of increases in revenue by operation. This was partially offset by reduction in program participants in Parking and the University Store. In addition, as a recruiting and retention tool, CWU utilized more of its tuition waiver authority during 2014. As the Services and Activities is a component of and embedded in tuition this caused a reduction in gross Services and Activities Fees.

SYSTEM OPERATING REVENUES FY 2014



No major changes in these percentages have occurred from the previous fiscal year; Housing and Dining Services continues to generate the largest portion of operating revenues

EXPENSES

OPERATING EXPENSES (in thousands)

	FY 2014	FY 2013	FY 2012	\$ Change	% Change
Compensation	\$ 14,016	\$ 13,288	\$ 13,156	\$ 729	5.0%
Benefits	3,393	3,162	3,228	231	7.0%
Goods and Services	22,888	22,789	22,985	99	0.0%
Tuition (Fees) Waivers	238	402	573	(164)	(41.0%)
Personal Services	226	198	176	28	14.0%
Other	237	(316)	328	552	(175.0%)
Equipment	849	610	1,127	239	39.0%
Travel	440	588	433	(148)	(25.0%)
Depreciation	4,118	3,707	3,439	411	11.0%
Total Operating Expenses	\$ 46,405	\$ 44,429	\$ 45,445	\$ 1,976	4.0%

Salaries and wages expense for the system increased by 5 percent in fiscal year 2014 as a result of filling vacant employee positions and a one-time incentive paid to classified staff. Of the total increase in operating expenses of \$1.976 million, roughly \$960,000 was associated with salaries and benefits. The majority of this increase was the one-time contractual payment mentioned previously.

Overall, operating expenses increased 4 percent in FY 2014. These expenses include equipment purchases, travel, office expenses, supplies, utilities, repairs, rents and leases, fees, other general expenses and costs of goods sold.

Costs of Goods Sold is a large component due to the operation of the bookstore and dining service. These two operations have industry standard cost components of approximately 76 percent and 35 percent respectively.

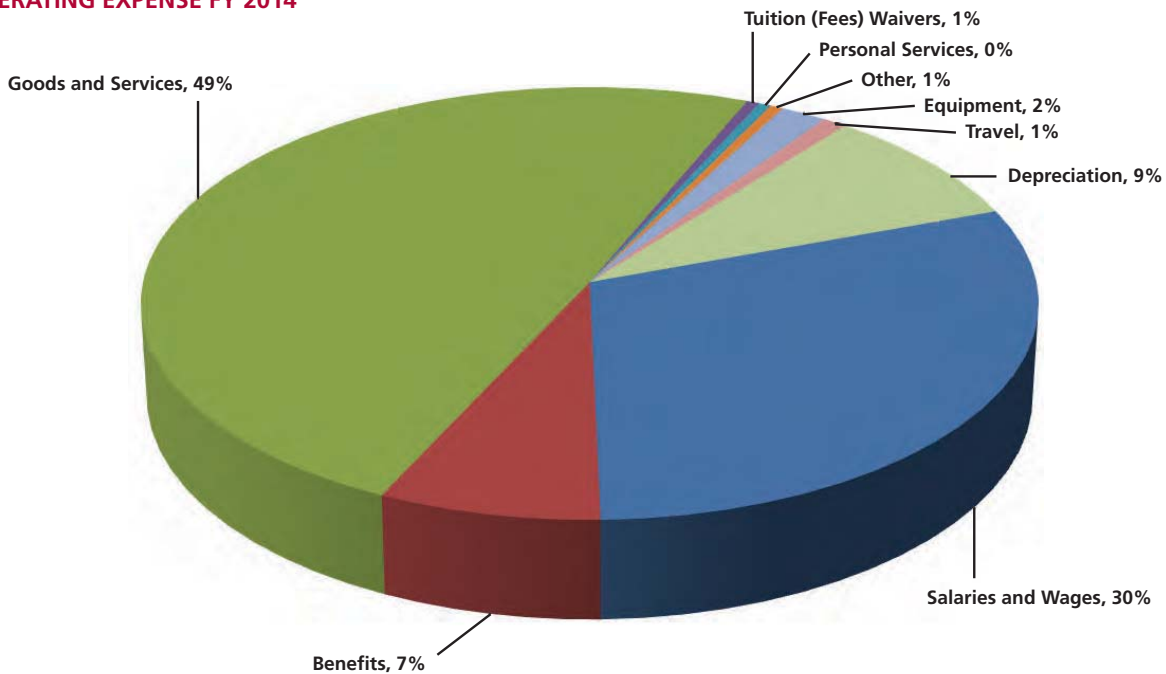
The number shown in the Other category in 2013, (\$316,000) was a result of a change in CWU's estimation of allowance for bad debts. This was a one-time accumulated adjustment.

Depreciation expense increased by \$411,000 which is the natural result of improvements to the System's building infrastructure. There is no cash cost associated with depreciation, the expense is required to conform to GAAP.

Design and development costs associated with a proposed Short-Getz Hall renovation of \$639,000 were expensed during 2014 as a full scale facility replacement is no longer contemplated. It is now planned to perform a modest renovation and place the facility back in service.

The allocation of operating expenses among the natural classification categories has not changed significantly from fiscal year 2013. The following chart depicts the uses of operating funds according to natural classification for fiscal year 2014:

OPERATING EXPENSE FY 2014



STATEMENT OF CASH FLOWS

The Statement of Cash Flows shows inflows and outflows of cash without regard to accrual items. Cash flows from operating activities on the Statement of Cash Flows will always differ from the operating gain or loss on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) because of the inclusion of non-cash items, such as depreciation expense, on the SRECNP. Also, the SRECNP is prepared on the accrual basis of accounting, meaning that it shows revenues earned and expenses incurred.

The primary cash receipts from operating activities consist of tuition and fees, grants and contracts, and auxiliary income from housing, food service and bookstore operations. Cash outlays include payment of wages and benefits, and operating expenses such as utilities, supplies, insurance and repairs and costs of goods sold through the dining and bookstore operations.

Cash flows from capital and related financing activities include all plant funds and related long-term debt activities (except depreciation and amortization), as well as capital gifts, grants and appropriations. Purchase and sale of investments and income earned on investments are included in cash flows from investing activities.

CONDENSED STATEMENT OF CASH FLOWS (in thousands)

	FY 2014	FY 2013	FY 2012
Cash flows from operating activities	\$10,349	\$10,117	\$9,685
Cash flows from non-capital financing activities	—	—	—
Cash flows from capital and related financing activities	(10,343)	(13,530)	(28,358)
Cash flows from investing activities	135	—	16,193
Increase in cash and cash equivalents during the year	142	(3,413)	(2,480)
Cash and cash equivalents, beginning of year	33,140	36,554	39,034
Cash and cash equivalents, end of year	33,282	33,140	36,554

Consistent with accounting standards, cash flows associated with previous bond sales, while restricted in purpose, are shown in the table above and in the Statement of Cash Flows. The apparent reduction in cash on hand is a result of expenditures for capital projects. The cash flows from operating activities increased by \$233,000.

CAPITAL ASSET AND LONG-TERM LIABILITIES HIGHLIGHTS CAPITAL ASSETS

On June 30, 2014, the system had \$144 million invested in net capital assets, as reflected in the following table. This represents a net decrease of \$2.6 million or 1.7 percent during the fiscal year.

CAPITAL ASSETS (in thousands)

	FY 2014	FY 2013	FY 2012
Land	\$ 1,098	\$ 1,098	\$ 1,098
Equipment	3,020	2,699	2,755
Improvements and Infrastructure	8,173	7,786	6,850
Buildings	174,931	174,795	142,772
Construction in progress	730	84	29,212
Total	187,952	186,462	182,686
Total accumulated depreciation and amortization	(43,199)	(39,135)	(36,641)
Capital assets, net	\$ 144,753	\$ 147,327	\$ 146,046

Total additions to depreciable capital assets in fiscal year 2014 were \$897,000. Construction in progress for projects underway totaled \$730,000 at June 30, 2014. The total depreciation expense was \$4.2 million for the year ended June 30, 2013.

Planned Renovation or Replacement

The Housing and Dining fund, a sub-set of the system, is in year 10 of a 30 year renewal and replacement plan for campus housing buildings. This plan adapts over time to the changing business climate and needs of the system. This comprehensive plan prioritizes improvements based on facility condition assessments which is the industry standard for this type of business.

Based on this plan and informed by the priority indicated in it, the next renovation will be to the Getz-Short apartment facility.

When this project is completed the system's unrestricted net position would decline accordingly. (Please see Note 4 for detailed information about the system's capital assets on page 19.)

Non-current Liabilities

The system experienced no substantial change in long-term obligations from FY 2013 to FY 2014

LONG-TERM OBLIGATIONS (in thousands)

	FY 2014	FY 2013	FY 2012
Construction accounts payable	\$ 1,126	\$ 1,125	\$ 1,400
Accrued leave liabilities	185	232	242
Net bond premium/discount, net of amortization	4,148	4,916	934
Bonds payable, net of current portion	122,780	126,340	130,080
Total Debt	128,240	132,613	132,657
Unrestricted Net position	\$ 31,661	\$ 31,569	\$ 28,243
Viability Ratio (unrestricted net position to non-current liabilities)	25%	24%	21%

Long-term liabilities were reduced during 2014 by 3.6 million in regularly scheduled principal payments. At June 30, 2014, \$52.6 million of system revenues (100 percent) are pledged as security for outstanding system bonds.

The viability ratio measures the system's ability to retire long-term debt using available current resources. The ratio is calculated by dividing unrestricted net position by long-term debt. The system's viability ratio at June 30, 2014 was .25 to 1. This is an improvement over the previous year's figure of .24 to 1. (For detailed information about the system's long-term liabilities please see Notes 6 and 7 on pages 20-22.)

DEBT POLICY

CWU's formal debt policy is CWUP 2-10-045, *Debt Issuance and Repayment*. (CWUP 2-10-045, *Debt Issuance and Repayment* is available at <http://www.cwu.edu/resources-reports/cwup-2-10-045-debt-issuance-and-repayment>.) The policy is detailed and spells out many constraints intended to maintain the health of CWU's debt program. One of these constraints is maintenance of a designation of net position for building repair and improvements. (Please see CWUP 2-10-045, Sect. 9(G), *Capital Reserve and Replacement*.) This designated portion of the unrestricted net position of the system is the funding mechanism for the major renovations. No debt transactions are contemplated at present for the system.

FINANCIAL CONTACT

The system's financial statements are designed to present users with a general overview of the system's finances and to demonstrate accountability. If you have questions about the report or need additional financial information, contact the Office of the AVP of Finance and Business Auxiliaries at, 400 E. University Way, Ellensburg, WA 98926, 509-963-2956.

**CENTRAL WASHINGTON UNIVERSITY – SYSTEM
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 32,155,738	\$ 31,995,948
Accounts receivable, net	2,704,830	2,510,628
Inventories	1,414,631	1,398,030
Total current assets	<u>36,275,199</u>	<u>35,904,607</u>
Non-current assets		
Cash restricted for capital projects	1,126,384	1,144,351
Investments restricted for capital projects	-	-
Issuance costs, net of amortization	727,072	759,901
Capital assets, net of depreciation	144,753,242	147,327,146
Total non-current assets	<u>146,606,698</u>	<u>149,231,397</u>
Deferred out-flows		
Deferred loss on refunding	2,409,123	2,529,579
Total assets and deferred out-flows	<u>185,291,019</u>	<u>187,665,582</u>
Liabilities		
Current liabilities		
Accounts payable	1,719,769	1,537,496
Accrued liabilities	1,336,260	1,257,696
Deposits payable	836,602	761,203
Unearned revenues	535,153	549,838
Other liabilities	1,300	4,500
Current portion bond premium	230,689	230,689
Current portion bond payable	3,560,000	3,320,000
Total current liabilities	<u>8,219,773</u>	<u>7,661,422</u>
Non-current liabilities		
Construction accounts payable	1,126,384	1,125,022
Accrued leave liabilities	185,081	231,711
Net bond premium/discount, net of amortization	4,148,171	4,362,659
Bonds payable, net of current portion	122,780,000	126,340,000
Total non-current liabilities	<u>128,239,636</u>	<u>132,059,392</u>
Total liabilities	<u>136,459,409</u>	<u>139,720,814</u>
Net position		
Net investment in capital assets	17,170,576	16,382,606
Unrestricted	31,661,034	31,569,684
Total net position	<u>\$ 48,831,610</u>	<u>\$ 47,952,289</u>

See Accompanying Notes to the Financial Statements

**CENTRAL WASHINGTON UNIVERSITY – SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Operating revenues		
Services and activities	\$ 12,482,937	\$ 12,964,152
University store	8,950,940	9,343,347
Parking	1,032,651	1,083,270
Housing and dining	30,102,132	28,236,359
Total operating revenue	<u>52,568,660</u>	<u>51,627,127</u>
Operating expenses		
Services and activities	8,633,986	8,130,565
University store	8,711,474	8,812,802
Parking	1,027,033	1,064,399
Housing and dining	23,914,703	22,714,484
Depreciation	4,117,971	3,706,608
Total operating expenses	<u>46,405,167</u>	<u>44,428,857</u>
Operating income (loss)	<u>6,163,493</u>	<u>7,198,270</u>
Non-operating revenues (expenses)		
Investment income	135,052	–
Interest on indebtedness	(6,049,898)	(8,135,494)
Non-operation income, net of expenses	630,674	1,196,361
Net non-operating revenues (expenses)	<u>(5,284,172)</u>	<u>(6,939,133)</u>
Income or (loss) before other revenues, expenses, gains, or losses	<u>879,321</u>	<u>259,137</u>
Increase (Decrease) in net assets	<u>879,321</u>	<u>259,137</u>
Net position, beginning of year	<u>47,952,289</u>	<u>47,693,152</u>
Net position, end of year	<u>\$ 48,831,610</u>	<u>\$ 47,952,289</u>

See Accompanying Notes to the Financial Statements

**CENTRAL WASHINGTON UNIVERSITY – SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
Cash flows from operating activities		
Auxiliary enterprise charges and student fees	\$ 52,435,173	\$ 50,328,534
Payments to vendors	(28,108,315)	(26,849,787)
Payments to employees for salaries and benefits	(13,984,475)	(13,361,984)
Net cash provided by operating activities	10,342,382	10,116,764
Cash flows from non-capital financing activities	—	—
Cash flows from investing activities		
Purchases of investments	—	—
Investment proceeds	—	—
Investment income	135,052	—
Net cash provided by investing activities	135,052	—
Cash flows from capital and related financing activities		
Purchases of capital assets	(1,542,705)	(4,987,995)
Proceeds from sales of capital debt	—	(420,000)
Principal paid on capital debt	(3,320,000)	(3,190,000)
Interest paid on capital debt	(5,479,896)	(7,415,323)
Other capital activities	6,991	2,483,072
Net cash provided by capital and related financing activities	(10,335,610)	(13,530,245)
Net increase in cash and cash equivalents	141,823	(3,413,482)
Cash and cash equivalents, beginning of year	33,140,299	36,553,780
Cash and cash equivalents, end of year	\$ 33,282,122	\$ 33,140,299

Reconciliation of Operating Income to Net Cash Used by Operating Activities

Operating income	6,163,493	7,198,270
Adjustments to reconcile operating profit to net cash provided by operating activities		
Depreciation expense	4,117,971	3,706,608
Change in assets and liabilities		
Accounts receivable	(194,201)	(1,105,134)
Inventories	(16,601)	311,164
Accounts payable	182,273	263,882
Accrued expenses	78,564	(63,403)
Unearned revenue	(14,685)	26,204
Deposits payable	75,399	(219,662)
Other current liabilities	(3,200)	9,595
Accrued liabilities	(46,630)	(10,759)
Net cash provided by operating activities	10,342,382	10,116,764

See Accompanying Notes to the Financial Statements

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Central Washington University – System is composed of the housing and dining fund, the services and activities fee fund, the bookstore fund, and the parking fund of CWU. Significant accounting policies are summarized as follows:

Financial Statement Presentation

The system's financial statements for the fiscal year ended June 30, 2014, are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. Comparative totals for the year ended June 30, 2013 are presented where appropriate.

Basis of Accounting

The system'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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements of a special purpose government entity engaged in business type activities to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

Cash Equivalents

For purposes of the statements of cash flows, the system considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists primarily of rents and charges for services provided to students. Accounts receivable are recorded net of estimated uncollectible amounts. The estimate method for the uncollectible accounts was changed in FY 2013 from a weighted average based on aging to a fixed percentage of outstanding receivables to match historical collection activity.

Inventories

Inventories consist primarily of merchandise and consumables held by the system to carry out the system's primary function: providing services to students. They are valued at cost based on the retail method or the average cost method. Cost methods are applied on a basis consistent with prior years.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. CWU'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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, five to fifty years, in accordance with state guidelines.

Unearned Revenues

Unearned revenues include amounts received for rents, and fees for services received prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences

Employee vacation, compensatory time, and sick leave are accrued at year-end for financial statement purposes. The liability and expenses incurred are recorded as accrued leave liabilities for vacation, compensatory time, and sick leave payable in the statements of net position and as a component of operating expenses in the statements of revenues, expenses, and changes in net position.

Non-current Liabilities

Non-current liabilities include principal amounts of revenue bonds payable and amounts for accrued compensated absences and other liabilities that are not estimated to be paid within the next fiscal year.

Net Position

The system's net position is classified as follows:

Net Investment in Capital Assets: 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 included as a component of Net Investment in Capital Assets.

Unrestricted: Unrestricted represents resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of CWU and may be used at the discretion of the governing board to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Income Taxes

The system, as part of CWU, is excluded from federal income taxes under Section 115(a) of the Internal Revenue Code, as amended.

Classification of Revenues

The Fund 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 room and board fees, (2) student fees, (3) parking fines or fees, (4) retail sales and (5) conference revenues.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as investment income.



NOTES TO FINANCIAL STATEMENTS

CENTRAL WASHINGTON UNIVERSITY — June 30, 2014 and June 30, 2013

New Accounting Standards Adopted

In fiscal year 2014, CWU adopted and implemented three new accounting standards as follows:

GASB Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25 (GASB 67) which improves financial reporting by state and local governmental pension plans. CWU's statements did not change based on this pronouncement.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69) which establishes accounting standards related to government combinations, acquisitions, and disposals. CWU's statements did not change based on this pronouncement.

GASB Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees* (GASB 70) which improves the accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. CWU's statements did not change based on this pronouncement.



NOTE 2 – CASH AND CASH EQUIVALENTS; OTHER DEPOSITS; AND INVESTMENTS**Cash and Cash Equivalents**

At June 30, 2014 and June 30, 2013, the carrying amount of the system's cash and cash equivalents were as follows:

CASH AND CASH EQUIVALENTS		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash and Equivalents – Operating	\$ 32,155,738	\$ 31,995,948
Cash – Restricted for Capital Projects	1,126,384	1,144,351
Total	<u>\$ 33,282,122</u>	<u>\$ 33,140,299</u>

In order to maximize investment income, the system's excess cash is pooled with other CWU funds and commonly invested. The CWU investment pool is invested in accordance with the CWU investment policy. Investment income is allocated to the various funds comprising the system in proportion to their average balance in the CWU pool.

At June 30, 2014 the amount noted as Cash Restricted for Capital Projects (\$1,126,384) represented the remaining commitment to complete the Barto Replacement housing project.

At June 30, 2013 the amount noted as Cash Restricted for Capital Projects (\$1,144,351) represents the remaining commitment to complete the Barto Replacement housing project.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable, due from other agencies and related allowance for uncollectible accounts consist of the following as of:

ACCOUNTS RECEIVABLE		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Services and activities	\$ 933,364	\$ 868,815
University store	880,280	716,643
Parking	127,593	108,972
Housing and dining	1,121,159	1,150,193
Sub Total	3,062,396	2,844,623
Less Allowance for Doubtful Accounts	(357,567)	(333,994)
Net Accounts Receivable	<u>\$ 2,704,830</u>	<u>\$ 2,510,629</u>

Accounts receivable are written off after appropriate collection procedures are pursued and they meet the following criteria: when the amount is less than \$25 for a non-student, and the account is more than ninety days old; when the amount is less than \$100 for a non-student, and the account is inactive for more than two years; when the amount is less than \$200 and the account is inactive for more than ten years; when the amount is less than \$500 and the account is inactive for more than twenty years; and when the account is inactive for more than thirty years.

NOTE 4 – CAPITAL ASSETS**CAPITAL ASSETS**

	Balance at June 30, 2013	Additions	Disposals	Balance at June 30, 2014
Depreciable assets				
Buildings	\$ 174,795,176	\$ 135,619	\$ –	\$ 174,930,794
Improvements and infrastructure	7,786,237	386,774	–	8,173,014
Equipment	2,698,783	375,278	(54,154)	3,019,897
Construction in progress	83,710	730,105	(83,710)	730,105
Non-depreciable assets				
Land	1,098,055	–	–	1,098,055
Total cost	\$ 186,461,961	\$ 1,627,776	(\$ 137,874)	\$ 187,951,865
Less accumulated depreciation				
Buildings	33,290,185	3,361,308	–	36,921,493
Improvements and infrastructure	3,680,066	268,372	–	3,966,438
Equipment	2,164,564	200,291	(54,164)	2,310,692
Total accumulated depreciation	39,134,815	4,117,971	(54,164)	43,198,623
Net plant assets	\$ 147,327,146	(\$ 2,490,195)	(\$ 83,710)	\$ 144,753,242

The total depreciation expense was \$4,117,971 for the year ended June 30, 2014.

Following are the changes in capital assets for the year ended June 30, 2013:

CAPITAL ASSETS

	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Depreciable assets				
Buildings	\$ 142,772,132	\$ 33,077,787	(\$ 1,054,743)	\$ 174,795,176
Improvements and infrastructure	6,849,612	936,625	–	7,786,237
Equipment	2,755,069	101,502	(157,788)	2,698,783
Construction in progress	29,211,631	4,079,103	(33,207,024)	83,710
Non-depreciable assets				
Land	\$ 1,098,055	\$ –	\$ –	\$ 1,098,055
Total cost	\$ 182,686,499	\$ 38,195,017	(\$ 34,419,555)	\$186,461,961
Less accumulated depreciation				
Buildings	31,092,675	3,252,253	(1,054,743)	33,290,185
Improvements and infrastructure	3,434,093	245,973	–	3,680,066
Equipment	2,113,971	208,382	(157,789)	2,164,564
Total accumulated depreciation	36,640,739	3,706,608	(1,212,532)	39,134,815
Net plant assets	\$ 146,045,759	\$ 34,488,409	(\$ 33,207,023)	\$ 147,327,146

The total depreciation expense was \$3,706,608 for the year ended June 30, 2013.

NOTE 5 – ACCRUED LEAVE LIABILITIES

At termination of employment, employees may receive cash payment for all accumulated vacation and compensatory time. Employees who retire get 25 percent of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses or insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by CWU employees are accrued as expenses when incurred. The amounts represent a liability to CWU and are recorded and reported accordingly. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued leave liability balance as of June 30, 2014 was \$817,821. The accrued leave liability balance as of June 30, 2013 was \$821,814.

NOTE 6 – REVENUE BONDS AND NOTES PAYABLE

The following schedule of bonds payable provides a listing of outstanding debt at the end of fiscal year 2014 by the CWU system.

REVENUE BONDS AND NOTES PAYABLE

	Balance at June 30, 2013	Additions	Retirements	Principal Payments	Balance at June 30, 2014
CWU System bonds					
CWU System Bonds of 2004	\$ 1,505,000	\$ –	\$ –	(\$ 1,505,000)	\$ –
CWU System Bonds of 2008	33,620,000	–	–	(785,000)	32,835,000
CWU System Bonds of 2010 Series A	2,515,000	–	–	–	2,515,000
CWU System Bonds of 2010 Series B	31,230,000	–	–	(725,000)	30,505,000
CWU System Bonds of 2012	7,375,000	–	–	(305,000)	7,070,000
CWU System Bonds of 2013	53,415,000	–	–	–	53,415,000
Total bonds payable	\$ 129,660,000	–	–	(\$ 3,320,000)	\$ 126,340,000
Bond Discounts and Issuance Costs	(759,901)	–	32,829	–	(727,072)
Bond Premium	5,146,527	–	(767,667)	–	4,378,860
Total	\$ 134,046,626	\$ –	(\$ 734,838)	\$ –	\$ 129,991,788

The following schedule of bonds payable provides a listing of outstanding debt at the end of fiscal year 2013 by the CWU system.

REVENUE BONDS AND NOTES PAYABLE

	Balance at June 30, 2012	Additions	Retirements	Principal Payments	Balance at June 30, 2013
CWU System bonds					
CWU System Bonds of 2004	\$ 56,765,000	\$ –	(\$ 53,835,000)	(\$ 1,425,000)	\$ 1,505,000
CWU System Bonds of 2008	34,375,000	–	–	(755,000)	33,620,000
CWU System Bonds of 2010 Series A	2,515,000	–	–	–	2,515,000
CWU System Bonds of 2010 Series B	31,950,000	–	–	(720,000)	31,230,000
CWU System Bonds of 2012	7,665,000	–	–	(290,000)	7,375,000
CWU System Bonds of 2013	–	53,415,000	–	–	53,415,000
Total bonds payable	\$ 133,270,000	\$ 53,415,000	(\$ 53,835,000)	(\$ 3,190,000)	\$ 129,660,000
Bond Discounts and Issuance Costs	(1,868,132)	–	1,108,231	–	(759,901)
Bond Premium	961,901	4,184,626	–	–	5,146,527
Total	\$ 132,363,769	\$ 57,599,626	(\$ 52,726,769)	(\$ 3,190,000)	\$ 134,046,626

Central Washington University System Bonds, Series 2004, issued in the original amount of \$64,080,000 and mature in varying annual amounts to May 1, 2034. A principal payment of \$1,505,000 was required and paid during Fiscal 2014. No principal payment is scheduled for fiscal 2015. (See Note 7 Advance Refunded Bonds of 2004.)

Central Washington University System Bonds, Series 2008, issued in the original amount of \$36,495,000 and mature in varying annual amounts to May 1, 2038. A principal payment of \$785,000 was required and paid during Fiscal 2014. A principal payment of \$815,000 is scheduled for May 1, 2015.

Central Washington University System Bonds, **Series 2010 A**, tax exempt issued in the original amount of \$2,515,000 and **Series 2010 B** taxable Build America Bonds issued in the original amount of \$31,950,000 maturing in varying annual amounts to May 1, 2040. A principal payment of \$725,000 was scheduled and paid during Fiscal 2014. A principal payment of \$735,000 is scheduled for May 1, 2015.

The Central Washington University System Bonds of 2010 Series B were issued under the American Recovery Act of 2008 Build America Bond Program as taxable bonds. Under this program CWU expects to receive a subsidy from the United States federal government of 35 percent of interest paid through maturity. The subsidy received during fiscal 2014 was \$630,674. This amount is shown as non-operating revenue on the Statement of Revenue, Expenses and Changes in Net Assets. No principal payment is scheduled for Fiscal 2015.

Central Washington University System Bonds, Series 2012, issued in the original amount of \$7,655,000 and mature in varying annual amounts to May 1, 2032. Principal and interest on these revenue bonds are collateralized by a pledge of revenues. A principal payment of \$305,000 was required and paid during Fiscal 2014. A principal payment of \$310,000 is scheduled for May 1, 2015.

Central Washington University System Bonds, Series 2013, issued in the original amount of \$53,415,000 and mature in varying annual amounts to May 1, 2034. Principal and interest on these revenue bonds are collateralized by a pledge of revenues. No principal payment was required during Fiscal 2014. A principal payment of \$1,700,000 is scheduled for May 1, 2015.

Maturity Information

The scheduled maturities of the system revenue bonds are as follows:

DEBT SERVICE REQUIREMENTS			
Fiscal Year	Principal	Interest	Total
2015	\$ 3,560,000	\$ 5,936,218	\$ 9,496,218
2016	3,515,000	5,816,755	9,331,755
2017	3,675,000	5,658,905	9,333,905
2018	3,845,000	5,493,705	9,338,705
2019	4,010,000	5,318,730	9,328,730
2020 – 2024	24,400,000	23,386,684	47,786,684
2025 – 2029	30,645,000	17,487,284	48,132,284
2030 – 2034	34,380,000	10,185,821	44,565,821
2035 – 2039	16,430,000	3,470,478	19,900,478
2040	1,880,000	130,660	2,010,660
Total	\$ 126,340,000	\$ 82,885,239	\$ 209,225,239
*Amounts do not reflect federal subsidies to be received for Build America Bonds Interest.			

**NOTE 7 – GENERAL LONG TERM DEBT - ADVANCE REFUNDED BONDS OF 2004
(Student Union – Recreation Center and Sue Lombard Residence Hall)**

On March 28, 2013, \$53.415 million in System Revenue bonds with an average interest rate of 3.76 percent were issued to advance refund \$53.835 million of outstanding bonds with an average interest rate of 5.25 percent. The net proceeds of \$57.899 million (after payment of \$722,000 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent (The Bank of New York Mellon) to provide for all future debt service payments on the bonds.

As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 21 years by \$10.8 million resulting in a present value gain of \$8.9 million (the difference between the present values of the debt service payments on the old and new debt).

Although the advance refunding resulted in the recognition of an accounting loss of \$3.8 million for the year ended June 30, 2013, The system, in effect, reduced its aggregate debt service payments by \$10.8 million over the next 21 years and obtained an economic gain (difference between the net present values of the old and new debt service payments) of \$8.9 million.



NOTE 8 – RETIREMENT PLANS

As employees of CWU, system permanent staff are eligible to participate in the Central Washington University Retirement Plan (CWURP), or the Public Employees Retirement System (PERS). The system contributions to these funds are as follows:

RETIREMENT PLANS

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 99,147
2003	\$ 105,056
2004	\$ 129,367
2005	\$ 132,557
2006	\$ 200,594
2007	\$ 304,286
2008	\$ 423,212
2009	\$ 563,408
2010	\$ 429,411
2011	\$ 440,996
2012	\$ 539,475
2013	\$ 547,320
2014	\$ 697,897

The CWURP is a defined contribution plan administered by CWU. Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by the three fund sponsors. Employee contribution rates, based on age, are 5 percent, 7.5 percent, or 10 percent of salary. CWU matches the contributions of employees. Within parameters established by the legislature, contribution requirements may be established or amended by Central Washington University's Board of Trustees.

PERS is a defined benefit pension plan administered by the State of Washington Department of Retirement Systems. The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for employees and employers.

PERS CONTRIBUTION RATES

<u>Plan</u>	<u>2014</u>		<u>2013</u>	
	<u>Member</u>	<u>University</u>	<u>Member</u>	<u>University</u>
PERS I	6.00%	9.21%	6.00%	7.21%
PERS II	4.92%	9.21%	4.64%	7.21%
PERS III	VARIOUS	9.21%	VARIOUS	7.21%

NOTE 9 – NATURAL CLASSIFICATIONS

The system's primary purpose is providing services to students and conference participants. Expenses are reported in categories reflecting these activities on the statement of revenues, expenses, and changes in net assets. The following is a schedule of operating expenses by natural classification.

NATURAL CLASSIFICATIONS

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Salaries and Wages	\$ 14,016,409	\$ 13,287,822
Employee Benefits	3,392,948	3,162,159
Personal Services	225,978	198,451
Goods and Services	22,888,433	22,789,280
Travel	439,958	587,908
Equipment	848,857	609,917
Student Fee Waivers	238,091	402,327
Misc.	236,521	(315,613)
Depreciation	4,117,971	3,706,608
Total	<u>\$ 46,405,167</u>	<u>\$ 44,428,857</u>

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS

During fiscal year 2008, CWU adopted GASB Statement No.45—Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions. This statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expenditures and related liabilities (assets), note disclosures, and required supplementary information in the financial reports of state and local government employers.

Health care and life insurance programs for employees of the state of Washington are administered by the Washington 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.

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 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). This is also passed through to state agencies via active employee rates charged to the agency.

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

The actuary's allocation of the overall statewide liability related to CWU was approximately \$24 million, with the annual required contribution (ARC) of approximately \$4.3 million. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately \$696,000. CWU's net OPEB obligation (NOO) at June 30, 2014, was approximately \$24 million. This amount is not included in CWU's financial statements. No estimate of what portion of CWU's OPEB obligation relates directly to the system is available.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov