Office of the Washington State Auditor
Pat McCarthy

## Financial Statements Audit Report

# Eastern Washington University

**For the period July 1, 2015 through June 30, 2017**

**Published February 21, 2018**

**Report No. 1020857**

# Office of the Washington State Auditor
# Pat McCarthy

February 21, 2018

Board of Trustees
Eastern Washington University
Cheney, Washington

## Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • Pat.McCarthy@sao.wa.gov

# TABLE OF CONTENTS

# 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*

**Eastern Washington University**
**July 1, 2015 through June 30, 2017**

Board of Trustees
Eastern Washington University
Cheney, 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 business-type activities and the aggregate discretely presented component units of the Eastern Washington University, Spokane County, Washington, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 16, 2018. As discussed in Note 1 to the financial statements, during the year ended June 30, 2017, the University implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Our report includes a reference to other auditors who audited the financial statements of the Eastern Washington University Foundation (the Foundation), the Eastern Washington University Housing and Dining Services (Housing), the Eastern Washington University Associated Student Activities, the Eastern Washington University Bookstore, and the Eastern Washington University Pence Union Building (PUB) as described in our report on the University's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Foundation, and Auxiliary Services were not audited in accordance with *Government Auditing Standards*. Accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation, Housing, or Auxiliary.

The financial statements of the Eastern Washington University, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the University and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017 and 2016, 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. Our opinion is not modified with respect to this matter.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the University'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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'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's financial statements are free from material misstatement, we performed tests of the University'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'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'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.

Pat McCarthy

State Auditor

Olympia, WA

February 16, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Eastern Washington University**
**July 1, 2015 through June 30, 2017**

Board of Trustees
Eastern Washington University
Cheney, Washington

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Eastern Washington University, Spokane County, Washington, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed on page 11.

### 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 opinions on these financial statements based on our audits. We did not audit the financial statements of the Eastern Washington Foundation (the Foundation), which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. We also did not audit the financial statements of the Eastern Washington University Housing and Dining Services (Housing), the Eastern Washington University Associated Student Activities, the Eastern Washington University Bookstore, and the Eastern Washington University Pence Union Building (PUB) which represent a portion of the assets, net position and revenues of the University business-type activities. Those statements were audited by other auditors, whose reports has been furnished to us, and our opinions, insofar as it relates to the amounts included for the Foundation, Housing, and Auxiliary, are based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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. The financial statements of the Foundation, and Auxiliary Services were not audited in accordance with *Government Auditing Standards*.

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'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'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 opinions.

## Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Eastern Washington University, as of June 30, 2017 and 2016, and the respective 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 to the financial statements, in 2017, the University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Eastern Washington University, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the University and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2017 and 2016, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 11 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2018 on our consideration of the University'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's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

February 16, 2018

# FINANCIAL SECTION

## Eastern Washington University
## July 1, 2015 through June 30, 2017

## REQUIRED SUPPLEMENTARY INFORMATION



## BASIC FINANCIAL STATEMENTS



## REQUIRED SUPPLEMENTARY INFORMATION

## Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Eastern Washington University ("the University") for the fiscal year ended June 30, 2017, with comparative 2016 and 2015 financial information. This MD&A provides the readers an objective and easily readable analysis of the University's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying footnotes to the financial statements.

**Reporting Entity**

Eastern Washington University, one of six state-assisted public institutions of higher education in the state of Washington, provides baccalaureate and graduate educational programs for about 12,600 students. The University was established in 1882 and its primary purpose is to prepare individuals for successful contributions to society throughout their careers and in their leadership role as citizens.

The University's main campus is located in Cheney, Washington, a community of approximately 12,200 residents. Eastern also offers a variety of upper division and graduate programs at the EWU Spokane campus and at various locations throughout the state of Washington. For example, through a collaborative agreement, our university center at Bellevue College offers upper division courses for selected bachelor degree programs leading to a four-year degree awarded by Eastern Washington University.

The University is governed by an eight-member Board of Trustees appointed by the governor of the state with the consent of the Senate. One of the members is a full time student of the University. By statute the Board of Trustees has full control of the University and its property of various kinds, except as otherwise provided by law.

**Using the financial statements**

The University reports as a business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended. Under this model, the financial report consists of three statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* requires a university to report an organization that raises and holds economic resources for the direct benefit of a government unit. Under this requirement the EWU Foundation is a component unit of the University and their financial statements are incorporated in this financial report.

**Impact from Changes in Reporting Requirements**

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was implemented for the fiscal year ending June 30, 2017. GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented for the fiscal year ending June 30, 2015.

The primary impact of these standards results in the cost of retirement benefit expense being recognized during the employee service period – the time worked until separation or retirement. For state administered defined benefit plans, each employer's proportionate share of the net pension liability is calculated based on the employer's annual contributions as a percentage of the contributions of all participating employers, and reported on the statement of net position along with deferred inflows and outflows relating to changes in the net pension liability. An adjustment to beginning net position for fiscal year 2015 was necessary to give a retroactive effect to the implementation of GASB 68. For the Eastern Washington University Supplemental Retirement Plan (EWUSRP), the total pension liability and related deferred inflows and outflows for each employer is determined by the Office of State Actuary (OSA). An adjustment to beginning net position for fiscal year 2017 was necessary to give a retroactive effect to the implementation of GASB 73.

## Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the last two fiscal years and reports all assets and liabilities of the University. This statement represents the assets available to continue operations of the institution and also identifies how much the institution owes vendors, investors and lenders.

A summarized comparison of the University's assets, liabilities and net position as of June 30, 2017, 2016 and 2015, follows.

**Condensed Statement of Net Position**
*As of June 30 (in thousands)*

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 131,209 | $ 95,794 | $ 94,245 |
| Capital assets, net of depreciation | 322,048 | 306,342 | 303,330 |
| Other non-current assets | 66,062 | 70,442 | 66,472 |
| Total Assets | 519,319 | 472,578 | 464,047 |
| **Deferred outflows of resources** | 6,785 | 4,619 | 2,892 |
| **Liabilities** | | | |
| Current liabilities | 26,334 | 23,981 | 22,295 |
| Non-current liabilities | 132,661 | 90,046 | 85,583 |
| Total Liabilities | 158,995 | 114,027 | 107,878 |
| **Deferred inflows of resources** | 3,544 | 3,692 | 8,082 |
| **Net Position** | $ 363,565 | $ 359,478 | $ 350,979 |

Current assets consist primarily of cash, short term investments, accounts receivables and inventories. The increase in FY17 is mostly attributable to the unspent revenue bond proceeds from the 2016B Series issuance in the beginning of FY17. Proceeds are being used to fund the construction of the Pence Union Building (PUB) renovation. Additionally, reallocations between short and long term investments caused changes within current and noncurrent asset categories.

Liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities, bond debt, deposits held for others, and unearned revenues. Current liabilities fluctuate between years due mostly to the timing of vendor payables for capital asset improvements, and increased in FY17 for payables related to the PUB renovation. Noncurrent liabilities in both FY17 and FY16 increased from the pension liabilities created by GASBs 68 and 73 (see footnote 8), but most visibly due to the additional bond debt outstanding at the end of FY17 for the new Series 2016B revenue bonds.

Deferred outflows of resources and deferred inflows of resources relate primarily to the University's adoption of GASBs 68, 71 and 73. Deferred outflows consist of pension contributions made after the measurement date for the net pension liability, differences between projected and actual investment earnings on pension plan investments, and differences between expected and actual experience, while deferred inflows relate to changes of actuarial assumptions used to calculate the liabilities and differences between expected and actual experience.

Liquidity is an important indicator of financial stability which can be measured by the number of days an institution is able to operate using unrestricted cash and investments that can be liquidated and spent within one year. Over the past couple of years the University has maintained its ability to cover operating costs (see ratios later in this section). Within the industry, it is generally considered prudent to maintain reserves to cover operating expenses for at least 60 to 90 days. At fiscal yearend the University has significantly better liquidity coverage than the industry average.

Net position, the difference between assets plus deferred outflows less liabilities and deferred inflows, is a broad indicator of the financial condition of the University. The change in net position measures whether the overall financial condition has improved or worsened during the year. The University reports its net position in four categories:

*Net Investment in Capital Assets* – This is the University's investment in property, plant and equipment, net of accumulated depreciation and the amount of outstanding debt related to those capital assets.

*Restricted-Nonexpendable* – This category consists of funds on which the donor or external party has imposed a restriction. Permanent endowments are the primary origin of nonexpendable funds; the corpus is available for investment only.

*Restricted Expendable* – This category includes resources which the University is legally or contractually obligated to spend in accordance with the time or purpose restrictions on the use of the asset placed upon them by donors or other external parties. The primary expendable funds for the University are student loans, capital project funds, and the spendable portion of endowments. Balances fluctuate with the timing of capital project expenditures, contributions to permanent endowments, and other conditions.

*Unrestricted* – These are all other funds available to the University for the general and educational obligations to meet current expenses for any purpose. Unrestricted net position is not subject to externally imposed stipulations; however, the University has designated the majority of unrestricted net assets for various academic programs and university support functions such as auxiliary enterprises and service funds. This is also the net position classification most affected by the implementation of GASB pronouncements regarding accounting and reporting of pension liabilities. Adjustments to beginning net position in FY17 and FY15 for these pronouncements directly impacted unrestricted net position.

Net position at June 30, 2017, 2016 and 2015 is summarized as follows:

**Condensed Net Position**
*As of June 30 (in thousands)*

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net investment in capital assets | $ 258,542 | $ 253,589 | $ 249,085 |
| Restricted: | | | |
| Non-expendable | 5,996 | 5,922 | 5,910 |
| Expendable | 17,388 | 20,894 | 21,251 |
| Unrestricted | 81,639 | 79,073 | 74,733 |
| Total net position | $ 363,565 | $ 359,478 | $ 350,979 |

The change in net position is driven by the difference between revenues and expenses. In both FY16 and FY17 the increase in total net position was driven by continued investment in capital assets through capital appropriations as well as increases in operating appropriations exceeding increases in compensation and other operating costs.

**Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position provides information about the operating performance of the University. The statement classifies revenues and expenses as either operating or non-operating. Under current reporting guidelines, state appropriations are classified as non-operating revenues though such funding is used to cover operating expenses. To better assess the University's financial health, include all revenue sources and focus on the increase (or decrease) in net position. A summarized comparison of the University's operating performance and ending net position follows for the fiscal years ended June 30:

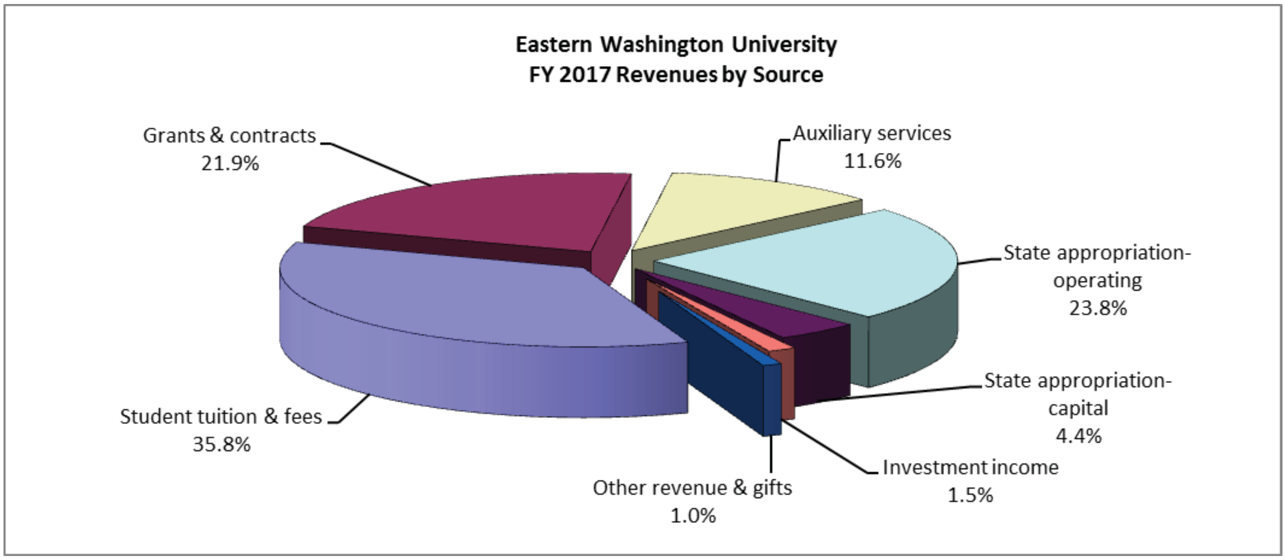
**Condensed Statement of Revenues, Expenses and Changes in Net Position**
*For the year ended June 30 (in thousands)*

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Operating revenue | $ 147,983 | $ 156,660 | $ 156,601 |
| Operating expenses | 225,091 | 220,887 | 218,597 |
| Net operating loss | (77,108) | (64,227) | (61,996) |
| Net non-operating revenues | 76,322 | 67,667 | 60,533 |
| Income/(loss) before other revenues | (786) | 3,440 | (1,463) |
| Other revenues and expenses | 10,411 | 5,059 | 3,361 |
| Increase in net position | 9,625 | 8,499 | 1,898 |
| Net position, beginning of year | 359,478 | 350,979 | 372,406 |
| Adjustment to beginning net position (Note 1) | (5,538) | - | (23,325) |
| Net position, end of year | $ 363,565 | $ 359,478 | $ 350,979 |

*Operating and Non-operating Revenues*

Operating revenues consist primarily of tuition and fees, sponsored program revenue (i.e., grants and contracts), and sales and services revenue generated by auxiliary enterprises and other support operations. Non-operating revenues consist primarily of state appropriations, investment income and Pell grants for student financial aid. Other revenues and expenses are derived almost entirely from state capital project appropriations.

The illustration below shows revenues by source (both operating and non-operating) used to fund the University's programs for the year ended June 30, 2017. The ensuing table compares revenues by source for fiscal years ended 2017, 2016 and 2015.




**Revenues by Source *(in thousands)***
**For the year ended June 30**

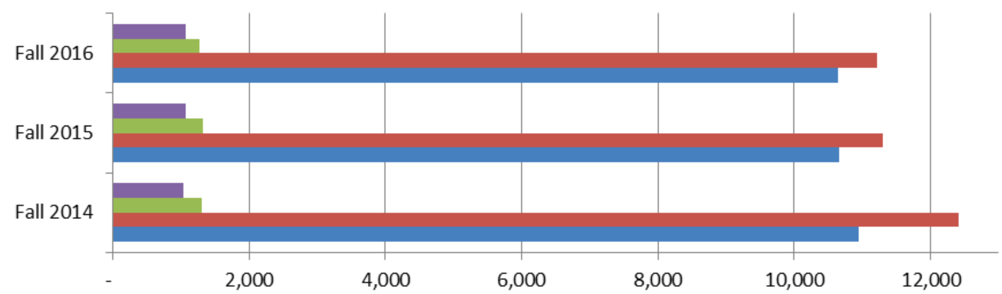
| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Student tuition & fees | $ 85,015 | 35.8% | $ 89,621 | 38.4% | $ 94,033 | 42.2% |
| Grants & contracts | 51,910 | 21.9% | 55,452 | 23.8% | 57,165 | 25.7% |
| Auxiliary services | 27,460 | 11.6% | 29,084 | 12.5% | 23,100 | 10.3% |
| State appropriation-operating | 56,522 | 23.8% | 46,957 | 20.1% | 38,573 | 17.3% |
| State appropriation-capital | 10,411 | 4.4% | 6,272 | 2.7% | 3,360 | 1.5% |
| Investment income | 3,807 | 1.5% | 3,498 | 1.5% | 3,722 | 1.7% |
| Other revenue & gifts | 2,435 | 1.0% | 2,238 | 1.0% | 2,852 | 1.3% |
| Total | $ 237,560 | 100% | $ 233,122 | 100.0% | $ 222,805 | 100.0% |

Tuition, other student fees, and state operating appropriations are the primary sources of funding for the University's academic programs. The University increasingly looks to tuition and other student fees to continue growing and transforming the University. During the economic recession and extended periods of reduced state funding, the legislature has historically given measured authority to increase tuition rates for selected categories and some institutional discretion for other categories as needed. Conversely, during periods of economic growth, the legislature may increase state appropriation levels to offset some restriction on tuition rate increases. The following two tables illustrate the fluctuating levels in resident undergraduate tuition rates over the past three years and enrollment levels during that time. For the 2015-17 biennium, tuition rates were reduced for resident undergraduates through state mandates. Operating tuition rates were reduced 5 percent for FY16 and another 15 percent for FY17, and are offset by increases in state operating appropriations.

**Full-Time Quarterly Tuition and S&A Fee Rates (10 through 18 credits) with Percentage Change over Prior Year**

| Academic Year | Resident Undergraduate | Change | Resident Graduate | Change | Nonresident Undergraduate | Change | Nonresident Graduate | Change |
|---|---|---|---|---|---|---|---|---|
| 2016-17 | 2,037 | -13.4% | 3,651 | 0.3% | 7,501 | 4.9% | 8,479 | 0.2% |
| 2015-16 | 2,351 | -4.3% | 3,640 | 0.0% | 7,153 | 4.9% | 8,466 | 0.0% |
| 2014-15 | 2,457 | 0.0% | 3,640 | 5.7% | 6,822 | 5.8% | 8,462 | 5.9% |

**Eastern Washington University Fall Enrollment**




| | Fall 2014 | Fall 2015 | Fall 2016 |
|---|---|---|---|
| Graduate and Professional (Headcount) | 1,042 | 1,061 | 1,062 |
| Graduate and Professional (FTE) | 1,309 | 1,324 | 1,271 |
| Undergraduate (Headcount) | 12,411 | 11,300 | 11,217 |
| Undergraduate (FTE) | 10,949 | 10,664 | 10,637 |

Source: EWU Institutional Research (all students including non-matriculated, continuing education, online students, running start)

One of the University's challenges during periods of economic uncertainty is to cultivate sustainable growth while continuing to provide affordable learning opportunities. Maintaining the institution's fiscal health is the cornerstone for meeting this challenge. Continued fluctuations in state support and relatively stable student enrollment cause an increased dependency on tuition and fee revenue to cover the cost of providing educational and related support services. To assess progress and monitor financial health the University monitors a variety of indicators that focus on enrollment in connection with tuition rates, state funding levels, and the related financial impact on students and their families.

| Financial Indicator | Definition | Calculation | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| Tuition dependency ratio (%)[1] | Helps measure sensitivity to changes in enrollment levels | Net tuition and fees plus governmental grants to the institution for student tuition divided by the sum of operating and non-operating revenues | 60.0 | 57.4 | 53.9 |
| Unrestricted financial resources-to-operations (x) | Measures coverage of annual operations by the most liquid resources | Unrestricted net assets divided by total adjusted operating expenses | .37 | .39 | .39 |
| Annual days cash on hand | Measures the number of days an institution is able to operate (cover its cash operating expenses) | Annual liquidity times 365 divided by total expenses less depreciation and unusually large non-cash expenses | 242 | 249 | 251 |
| Current ratio[2] | Measures liquidity – ability to meet current obligations with liquid assets | Current assets divided by current liabilities | 4.23 | 3.99 | 4.98 |

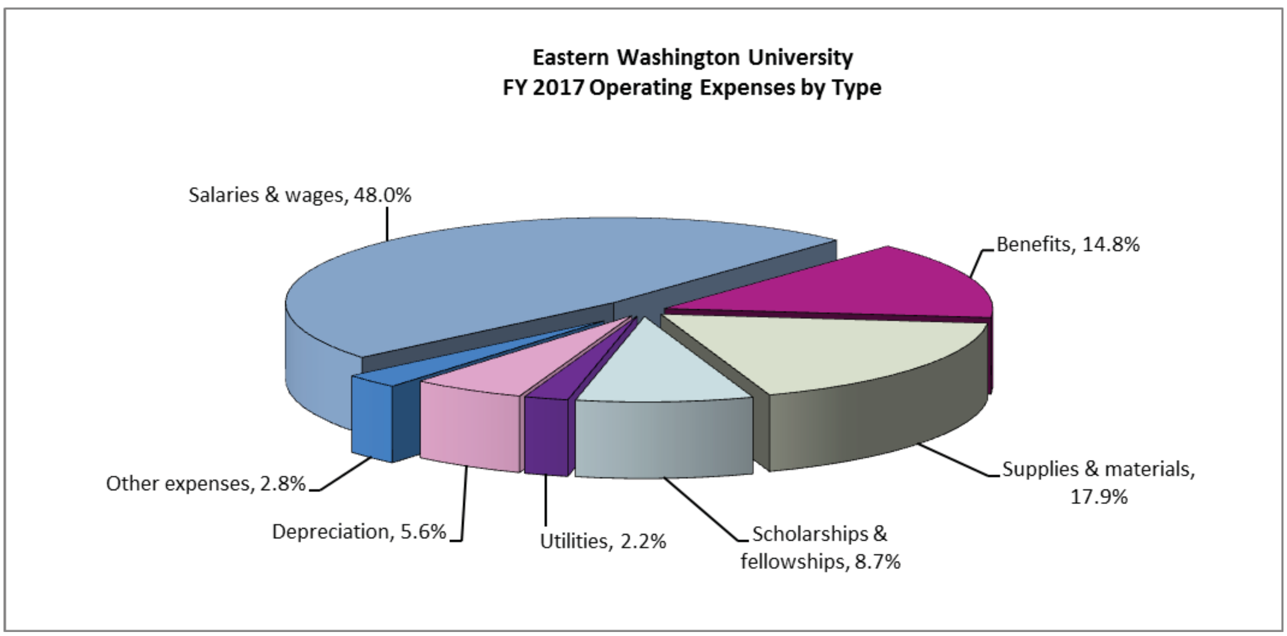
[1] The downward trend is attributable to increased state operating appropriation revenue offsetting decreases in undergraduate tuition rates in FY16 and FY17.
[2] FY17 includes Series 2016B unspent bond proceeds which temporarily inflates the current ratio until invested in capital assets.

These financial indicators are useful for institutional trend analysis and become more meaningful when compared to peer institutions (not included here) such as those with the same debt rating, similar student population and degree offerings, or to industry norms. Within that context, the University appears to be relatively well positioned to weather the current economic environment and make investments for the future. Factors that could affect these financial indicators are student enrollment levels, tuition pricing inelasticity, issuance of new revenue debt, entering into new leases, funding levels for state and federal financial aid, state appropriations, and the economy as a whole.

University programming support also consists of revenues received from governmental and private sources in the form of grants and contracts. The mix between federal, state and private sources fluctuates from year to year but overall funding has remained between 20-25 percent of total revenues for each of the three years ended 2017, as need based grant revenue typically follows changes in tuition rates. Grants are generally managed on a reimbursement basis in that revenues are drawn to cover expenses incurred and thus have minimal effect on net income other than partial recovery of indirect costs. Changes in grants and contracts funding from governmental and private sources underscores the impact the overall economy can have on the delivery of educational services. A decrease in these funding sources could directly affect staffing levels and educational opportunities.

*Operating Expenses*

Operating expenses consist mainly of employee compensation, supplies and materials costs, and student scholarships and fellowships. Shown below is an illustration of operating expenses by type (object) for the year ended June 30, 2017. The ensuing table compares expenses for fiscal years ending June 30, 2017, 2016 and 2015.

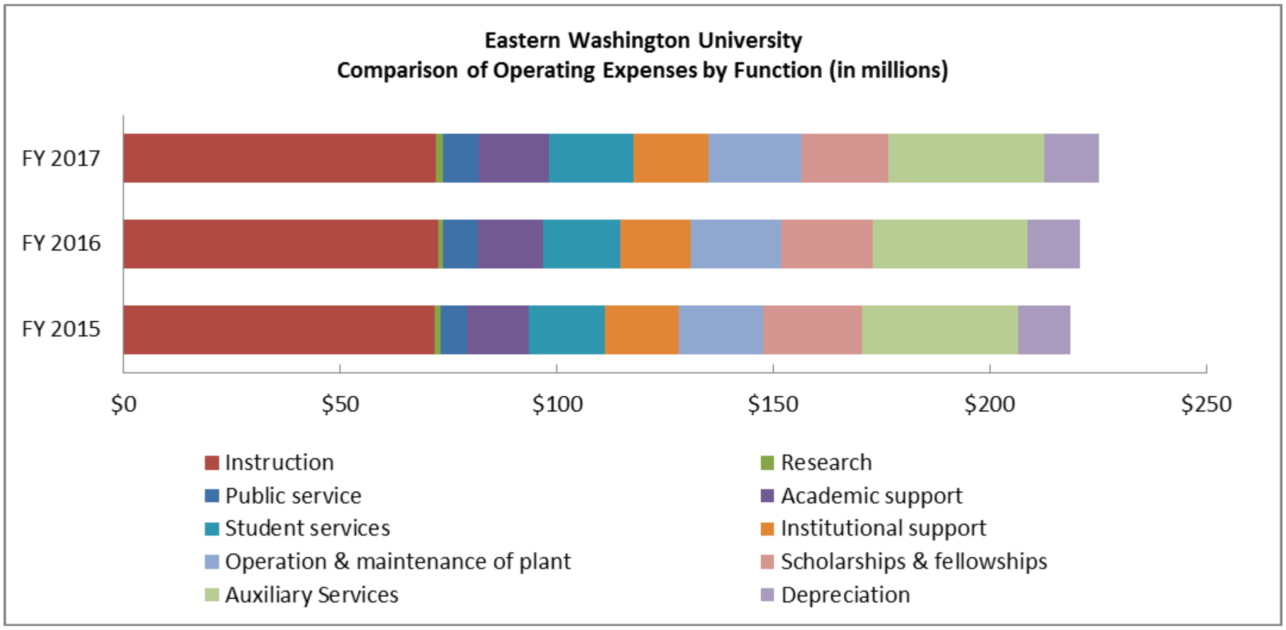



**Operating Expenses by Type *(in thousands)***
**For the year ended June 30**

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| Salaries & wages | $ 107,947 | 48.0% | $ 104,181 | 47.2% | $ 100,612 | 46.0% |
| Benefits | 33,277 | 14.8% | 31,821 | 14.4% | 28,464 | 13.0% |
| Supplies & materials | 40,387 | 17.9% | 40,791 | 18.5% | 44,478 | 20.5% |
| Scholarships & fellowships | 19,593 | 8.7% | 20,826 | 9.4% | 22,131 | 10.1% |
| Utilities | 4,883 | 2.2% | 4,355 | 2.0% | 4,599 | 2.1% |
| Depreciation | 12,541 | 5.6% | 12,257 | 5.5% | 12,087 | 5.5% |
| Other expenses | 6,463 | 2.8% | 6,656 | 3.0% | 6,226 | 2.8% |
| Total | $ 225,091 | 100.0% | $ 220,887 | 100.0% | $ 218,597 | 100.0% |

Salaries and wages expense continues to increase as collective bargaining agreements significantly impact compensation levels, and the cost of health benefit premiums increased in both FY16 and FY17. Operating expenses increased 1.9 percent while operating revenue decreased 5.5 percent in FY17 as tuition pricing for resident undergraduates decreased and was offset by other tuition and fee categories. However, operating and capital appropriations were up nearly 26 percent.

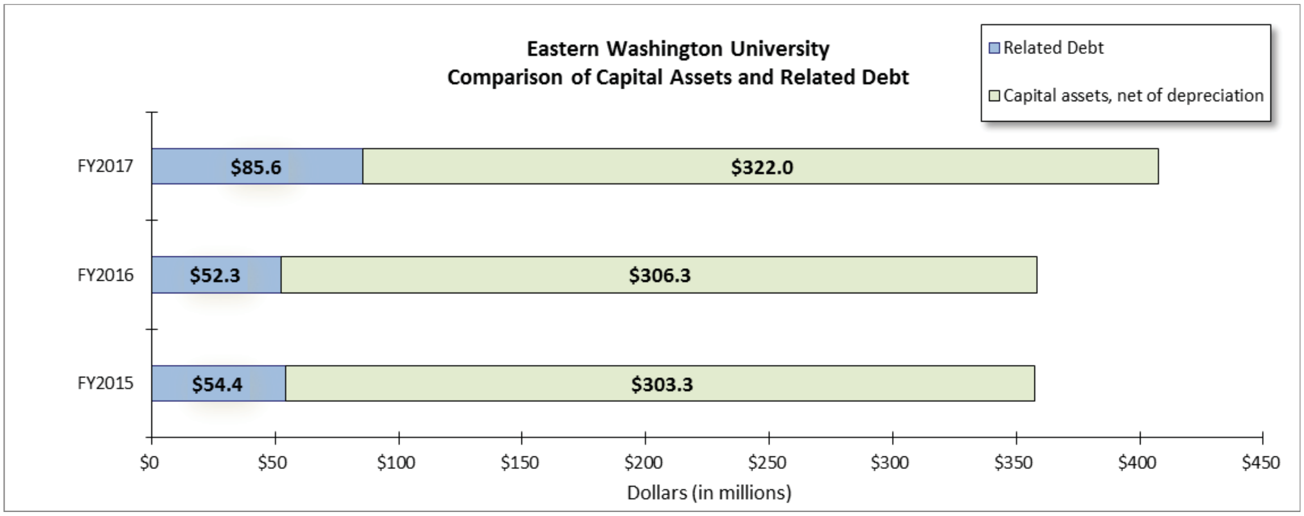
An alternative view of operating expenses is by functional (programmatic) classification as shown below for the years ended June 30, 2017, 2016 and 2015.




Instructional expense comprises the largest single category of operating costs. Fluctuations in expenses for operation and maintenance of plant are largely impacted by fluctuations in non-capitalized facility improvements. The amount varies by year depending on several factors including the types and timing of projects undertaken. See Footnote 15 for additional details regarding functional expenses.

**Capital Asset and Debt Activities**

The University continues to increase the investment in capital assets, consisting mostly of buildings, infrastructure and equipment (see Footnote 7). In FY17, net capital assets increased due to the completion of the campus water system upgrade as well as the PUB renovation construction beginning during the fiscal year and associated costs being placed into construction in progress. Additionally, design costs related to the Interdisciplinary Science Center (ISC) were capitalized. In FY16, additions to construction in progress offset increases in accumulated depreciation, resulting in a $3 million increase in net capital assets.




The University's Comprehensive Facilities Master Plan is used to guide the long-range physical development of campus facilities, focusing on critical areas of need, space utilization, and preservation of the infrastructure of state assets. The chart above shows the change of investment in capital assets and the associated debt load used to partially finance the construction of those assets.

Smaller projects occurring each year may not have as significant of a dollar impact, but do fit within the Master Plan. In FY 2017, the following projects were either completed or placed into construction in progress:

- Energy management systems for Sutton Hall, JFK Library and Science building
- Steam infrastructure upgrades
- Chilled water capacity upgrade
- Campus utility metering replacement

The University issued Services and Activities Fee Refunding Bonds, Series 2016A, on August 30, 2016 and Revenue bonds, Series 2016B, on October 13, 2016. The proceeds of the Series 2016A bonds were used to refinance the remaining principal balance of the Series 2006 bonds (which had both revenue and refunding components), and the proceeds of the Series 2016B bonds were used to finance the remodel of the Pence Union Building. In early fiscal year 2017, Moody's Investors Service affirmed an A1 rating on the Series 2016A and 2016B Services and Activities Fee refunding and revenue bonds. Debt service coverage remains healthy as demonstrated by the financial ratios below.

| Financial Indicator | Definitions | Calculation | FY2015 | FY2016 | FY2017[1] |
|---|---|---|---|---|---|
| Expendable financial resources to direct debt (x) | Measures coverage of direct debt by financial resources that are ultimately expendable | Expendable financial resources divided by direct debt | 1.88 | 2.03 | 1.25 |
| Financial debt burden ratio (%) | Examines dependence on borrowed funds as a source of financing the mission and the relative cost of borrowing to overall expenditures | Principal and interest on capital debt and lease divided by operating and non-operating expenses less depreciation plus principal paid on capital debt and leases | 2.08 | 2.05 | 2.48 |
| Debt service coverage (x) | Measures actual margin of protection for annual debt service payments from annual operations. A higher ratio is considered to be advantageous while a declining ratio may be cause for concern. | Annual operating surplus (deficit) plus interest and depreciation expenses divided by actual principal and interest payments | 2.96 | 4.11 | 2.64 |

Additional information concerning capital asset and debt activity is provided in the footnotes (see Footnote 7 through 11).

[1] FY17 ratios were impacted by the issuance of the 2016B Series revenue bonds.

**Summary of Financial Health and Economic Factors That Will Affect the Future**

In 2015 the University's overall financial position was significantly impacted by the implementation of GASB 68. Net position decreased to $351 million after the adjustment to beginning net position of $23.3 million. FY 2016 net position improved and was affected by revenues totaling $233 million and expenses totaling $225 million. FY 2017 net position increased from investment in capital assets, and unrestricted net position increased despite the requirement to report liability amounts for retirement benefits in accordance with new accounting standards. Other factors that can impact financial position includes additional accounting and reporting requirements. In FY18, GASB Statement 75 will require the University to report actuarially calculated liabilities for other postemployment benefits (OPEB – see note 13 for more information) and record expenses for those costs as they are earned, similar in concept to GASB Statements 68 and 73.

Through strategic planning the University's leadership continues to address ongoing funding issues that impact service delivery of educational opportunities at Eastern Washington University. New investments in student residential housing and academic and student buildings are aimed at attracting, retaining and serving the student population. Together with comprehensive financial management, investments in technology, and a focus on student support services, the strategic plan guides the University toward its goal of serving the region, preparing students for leadership roles, and contributing to a strong workforce while maintaining value and providing assistance for first-generation students, underrepresented groups, and others in financial need.

The 2017-19 capital budget passed during the 2017 legislative session included reappropriations for projects originally funded in the 2013-15 biennium. No new capital projects were included in the 2017-19 capital budget, which included EWU's request for the construction of the EWU Interdisciplinary Science Center, estimated at $67 million.

# Statements of Net Position

*June 30, 2017 and 2016*

| ASSETS | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 71,637,645 | $ 44,708,202 |
| Short-term investments | 39,747,510 | 29,866,242 |
| Deposit with State of Washington | 3,426,596 | 7,501,958 |
| Accounts receivable (net of allowances of $533,528 and $493,901, respectively) | 14,250,343 | 11,475,628 |
| Student loans receivable (net of allowances of $30,902 and $28,791, respectively) | 52,415 | 64,140 |
| Inventories | 1,058,668 | 1,484,527 |
| Other assets | 1,035,448 | 692,931 |
| Total current assets | 131,208,625 | 95,793,628 |
| Noncurrent assets: | | |
| Endowment investments | 9,571,404 | 8,977,700 |
| Other long-term investments | 51,442,598 | 55,997,671 |
| Student loans receivable (less allowances of $1,002,373 and $1,005,060, respectively) | 4,689,942 | 4,870,378 |
| Other noncurrent assets | 73,338 | 102,682 |
| Restricted net pension asset | 285,520 | 494,651 |
| Capital assets, net of accumulated depreciation | 322,047,578 | 306,341,759 |
| Total noncurrent assets | 388,110,380 | 376,784,841 |
| Total assets | $ 519,319,005 | $ 472,578,469 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Unamortized loss on bond refunding | $ - | $ 21,940 |
| Deferred outflows of resources related to pensions | 6,785,138 | 4,595,996 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | $ 9,682,824 | $ 8,519,169 |
| Accrued liabilities | 8,962,950 | 8,369,250 |
| Deposits or funds held for others | 109,473 | 452,349 |
| Unearned revenue | 4,741,190 | 4,406,180 |
| Long-term liabilities, current portion | 2,836,981 | 2,233,878 |
| Total current liabilities | 26,333,418 | 23,980,826 |
| Noncurrent liabilities: | | |
| Compensated absences | 7,632,223 | 7,628,026 |
| Net pension liabilities | 39,382,800 | 31,572,364 |
| Long-term liabilities | 85,646,100 | 50,845,258 |
| Total noncurrent liabilities | 132,661,123 | 90,045,648 |
| Total liabilities | $ 158,994,541 | $ 114,026,474 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Unamortized gain on bond refunding | $ 18,852 | $ - |
| Deferred inflows of resources related to pensions | 3,525,609 | 3,691,634 |
| **NET POSITION** | | |
| Net investment in capital assets | $ 258,541,566 | $ 253,588,719 |
| Restricted for: | | |
| Nonexpendable: | | |
| Endowments | 5,358,820 | 5,358,610 |
| Charitable gift annuities | 637,005 | 563,645 |
| Expendable: | | |
| Loans | 8,548,879 | 8,786,661 |
| Capital projects | 2,723,648 | 6,390,748 |
| Endowments and other | 5,830,317 | 5,222,066 |
| Net Pension Asset | 285,520 | 494,651 |
| Unrestricted | 81,639,386 | 79,073,197 |
| Total net position | $ 363,565,141 | $ 359,478,297 |

*The footnote disclosures are an integral part of the financial statements.*

# Statements of Revenues, Expenses, and Changes in Net Position

*For the Years Ended June 30, 2017 and 2016*

| **REVENUES** | FY 2017 | FY 2016 |
|---|---|---|
| Operating revenues: | | |
| Student tuition and fees | | |
| (net of scholarship allowances of $30,176,898 and $32,341,376 respectively) | $ 85,014,645 | $ 89,620,774 |
| Federal grants and contracts | 4,809,193 | 4,783,752 |
| State and local grants and contracts | 23,977,489 | 26,463,022 |
| Nongovernmental grants and contracts | 4,467,424 | 4,726,159 |
| Sales and services of auxiliary enterprises | | |
| Housing and dining services | | |
| (net of scholarship allowances of $7,037,935 and $7,365,654, respectively) | 16,483,559 | 17,611,392 |
| Other auxiliary enterprises | 10,976,541 | 11,472,958 |
| Other operating revenue | 2,254,108 | 1,981,474 |
| Total operating revenue | 147,982,959 | 156,659,531 |
| | | |
| **EXPENSES** | | |
| Operating expenses: | | |
| Salaries and wages | 107,947,357 | 104,180,875 |
| Benefits | 33,276,998 | 31,821,343 |
| Scholarships and fellowships | 19,593,358 | 20,825,774 |
| Utilities | 4,882,957 | 4,355,019 |
| Supplies and materials | 38,057,671 | 39,564,603 |
| Non-capitalized facility improvements (NCFI) | 2,329,593 | 1,226,572 |
| Other | 6,462,831 | 6,656,370 |
| Depreciation | 12,540,545 | 12,256,576 |
| Total operating expenses | 225,091,310 | 220,887,132 |
| | | |
| Operating loss | (77,108,351) | (64,227,601) |
| | | |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| State appropriations | 56,522,000 | 46,957,000 |
| Investment income, gains and losses | 3,806,789 | 3,498,299 |
| Interest on capital asset-related debt | (2,838,379) | (2,228,017) |
| Gifts | 180,417 | 231,393 |
| Loss on disposal of capital assets | (3,680) | (270,288) |
| Pell grant revenue | 18,655,621 | 19,479,148 |
| Net non-operating revenues | 76,322,768 | 67,667,535 |
| Gain (loss) before other revenues, expenses, gains or losses | (785,583) | 3,439,934 |
| | | |
| State appropriations - capital | 10,410,761 | 6,271,916 |
| Gifts to permanent endowments | 210 | 25,030 |
| Extraordinary item - Moore v. HCA settlement | - | (1,238,000) |
| Total other revenues and expenses | 10,410,971 | 5,058,946 |
| Increase in net position | 9,625,388 | 8,498,880 |
| | | |
| **NET POSITION** | | |
| Net position, beginning of year | 359,478,297 | 350,979,417 |
| Adjustment to beginning net position (Note 1) | (5,538,544) | - |
| Net position, beginning of year as restated | 353,939,753 | 350,979,417 |
| Net position, end of year | $ 363,565,141 | $ 359,478,297 |

*The footnote disclosures are an integral part of the financial statements.*

# Statements of Cash Flows

*For the Years Ended June 30, 2017 and 2016*

| | FY 2017 | FY 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and fees | $ 83,896,850 | $ 91,124,170 |
| Grants and contracts | 32,764,484 | 36,177,222 |
| Payments to vendors | (50,238,301) | (50,639,624) |
| Payments to employees | (140,539,518) | (134,754,462) |
| Payments for scholarships and fellowships | (19,593,358) | (20,825,774) |
| Loans issued to students | (753,309) | (1,264,181) |
| Collection of student loans | 942,693 | 976,360 |
| Auxiliary enterprise receipts | 27,438,899 | 28,459,644 |
| Other receipts (payments) | 1,975,721 | 3,374,764 |
| Net cash used by operating activities | (64,105,839) | (47,371,881) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State appropriations | 56,342,000 | 46,957,000 |
| Pell grant | 18,655,621 | 19,479,148 |
| Endowment gifts | 210 | 25,030 |
| Extraordinary item - Moore v. HCA settlement (Note 16) | - | (1,238,000) |
| Stafford/Plus/Direct loans receipts | 56,542,156 | 63,619,450 |
| Stafford/Plus/Direct loans disbursements | (56,542,156) | (63,619,450) |
| Agency fund receipts | 10,159,178 | 8,084,407 |
| Agency fund disbursements | (10,467,634) | (7,982,949) |
| Net cash provided by noncapital financing activities | 74,689,375 | 65,324,636 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from bond issuance | 62,012,095 | - |
| Capital appropriations | 13,651,105 | 3,237,975 |
| Purchases of capital assets | (28,069,626) | (15,307,544) |
| Principal paid on capital debt and leases | (26,322,348) | (2,100,168) |
| Interest paid on capital debt and leases | (2,812,209) | (2,271,714) |
| Net cash provided (used) by capital financing activities | 18,459,017 | (16,441,451) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | 30,420,488 | 40,465,611 |
| Interest on investments | 3,388,452 | 3,602,169 |
| Purchase of investments | (35,922,050) | (37,061,982) |
| Net cash provided (used) by investing activities | (2,113,110) | 7,005,798 |
| Net increase (decrease) in cash | 26,929,443 | 8,517,102 |
| Cash, beginning of year | 44,708,202 | 36,191,100 |
| Cash, end of year | $ 71,637,645 | $ 44,708,202 |

*The footnote disclosures are an integral part of the financial statements.*

# Statements of Cash Flows *(Continued)*

*For the Years Ended June 30, 2017 and 2016*

| | FY 2017 | FY 2016 |
|---|---|---|
| **Reconciliation of operating loss to net cash used by operating activities** | | |
| Operating loss | $ (77,108,351) | $ (64,227,601) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation expense | 12,540,545 | 12,256,576 |
| Changes in assets and liabilities: | | |
| Receivables, net | (1,759,697) | 1,245,136 |
| Inventories | 425,859 | (282,816) |
| Other assets | (342,517) | 1,771,760 |
| Accounts payable | 1,554,435 | 1,975,302 |
| Deferred and unearned revenue | 335,010 | (193,854) |
| Deposits held for others | (34,419) | (263,434) |
| Compensated absenses and other | (34,719) | 1,864,169 |
| Net Pension Liability | 125,856 | (1,262,156) |
| Loans to students | 192,159 | (254,963) |
| Net cash used by operating activities | $ (64,105,839) | $ (47,371,881) |
| Noncash Transactions | | |
| Capital contributions | 180,417 | 231,393 |
| Loss on disposal of capital assets | (3,680) | (270,288) |

*The footnote disclosures are an integral part of the financial statements.*

# Notes to Financial Statements

## Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

Eastern Washington University, an agency of the State of Washington, is governed by an eight-member Board of Trustees that are appointed by the Governor and confirmed by the state senate. The University's financial activity is included in the general purpose financial statements of the State of Washington.

The Eastern Washington University Foundation (Foundation) is established as a tax exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation's 35 member board consists of graduates and friends of the University. The University has an agreement with the Foundation to 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 partial office space, furniture and equipment, supplies, and staff to operate the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by or for the benefit of the University, the Foundation is considered a legally separate component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements include assets and earnings of other unrelated entities; these amounts are not material to the Foundation's financial position taken as a whole. For the fiscal years ended June 30, 2017 and 2016, the net distribution from the Foundation to the University for restricted and unrestricted purposes which includes both student scholarships and program support follows:

| Fiscal Year | Net Distribution |
|---|---|
| 2017 | $2,159,218 |
| 2016 | $2,190,654 |

Intra-entity transactions and balances between the University and Foundation are not eliminated for financial statement presentation. Complete financial statements for the Foundation can be obtained from the Foundation's administrative office located at 102 Hargreaves Hall, Cheney, WA 99004.

Basis of Accounting

The financial statements of the University are presented in accordance with accounting principles generally accepted in the United States of America. The University reports as a special purpose government engaged in business-type activity as defined by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended. Accordingly, the University's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The flow of economic resources focus considers all of the assets available to the University for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long-term, are recorded and depreciation is recorded as a charge to operations. The accrual basis of accounting recognizes revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable. All significant intra-agency transactions have been eliminated, which includes intra-agency payables and receivables as well as interdepartmental receipts and expenses.

In accordance with GASBS No. 39, the Foundation is considered a legally separate component unit of the University. As a non-governmental component unit, the Foundation follows applicable non-profit reporting and disclosure standards. Revenue recognition principles for these financial accounting standards may differ from those which apply to the University; results have not been restated.

Operating Activities
The University's policy for defining operating activities as reported in the Statement of Revenues, Expenses, and Changes in Net Position is to include those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Primarily, operating activities involve delivery of higher education courses and supporting services such as residential housing and dining which incur expenses for salaries, benefits, supplies and materials, and scholarships. Payments for these services include tuition and related fees, plus sales from supporting services. Other revenue sources include federal, state and local grants and contracts. As prescribed by GASBS No. 35, certain significant revenue streams relied upon for operations are recorded as non-operating revenues, including state appropriations, gifts and investment income. Therefore, it is expected that operating expenses will generally exceed operating revenues resulting in a net operating loss.

Inventories
Inventories are carried at cost (generally determined on the first-in, first-out method) which is not in excess of market.

Cash Equivalents
Cash equivalents are considered to be highly liquid investments with an original maturity of 90 days or less. Funds invested through the State Treasurer's Local Government Investment Pool are reported as cash equivalents.

Tax Exemption
The University is a tax-exempt organization under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from federal income taxes on related income.

State Appropriations
The State of Washington appropriates funds to the University on both an annual and biennial basis. Appropriations are recognized as revenue when the related expenses are incurred.

Unearned Revenues
The balance of unearned revenue represents amounts for which the asset recognition criteria have been met, but for which the earnings process is not complete. Summer quarter tuition is shown as unearned revenue which represents the majority of the balance shown on the Statement of Net Position.

Capital Assets
Capital assets are stated at cost, or if acquired by gift, at estimated fair value at the date of the gift, less depreciation. The capitalization threshold is $100,000 or greater for infrastructure, buildings and building improvements and $5,000 or greater for all other capital assets such as equipment. All purchased land is capitalized regardless of cost. Generally, the useful life of capital assets is 50 years for buildings, five to 50 years for infrastructure and improvements other than buildings, 20 years for library books, and four to seven years for equipment. Depreciation of capitalized assets, excluding inexhaustible assets such as land, is provided on a straight-line basis over the estimated useful lives of the respective assets.

Accrued Leave
Accrued annual and sick leave are categorized as non-current liabilities under the assumption that employees are using most of the leave they are earning. Compensatory time is required to be used or cashed out at year end.

Charitable Gift Annuities
Under RCW 28B.10.485 the University may issue charitable gift annuity contracts in return for a gift of assets to the institution. In turn, the University agrees to pay a fixed amount of money to one or two beneficiaries for their lifetime. The assets received are recognized at fair value. The annuity payable is based upon the present value of the expected payments to the named recipients under the agreements using actuarial tables for life expectancies.

Use of Estimates
Allowances for uncollectible accounts (Note 3) are estimates based on aging and historical collection of student loans and accounts receivable. Actual results could differ from those estimates; however, the University believes these allowances are adequate.

Net Position
The University's net position is classified as follows:

*Net investment in capital assets:* The University's investments in capital assets, less accumulated depreciation, net of outstanding debt obligations that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net position:*
The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

> *Non-expendable:* Net assets subject to externally-imposed requirements that they be maintained permanently by the University, including permanent endowments and charitable gift annuity funds.
>
> *Expendable:* Net assets which the University is obligated to spend in accordance with restrictions imposed by external parties.

*Unrestricted net position:* Net assets not subject to externally imposed restrictions, but which may be designated for specific purposes by management, or the Board of Trustees. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Deferred Pay
Eastern Washington University offers an optional 12 month, 24-payment plan to eligible faculty. The Faculty Twelve Month Pay Option Plan provides a method for faculty to spread their academic year salary over 12 months. The payroll deductions are based on amount paid rather than amount earned. For example, federal withholding, retirement contributions, FICA taxes are calculated on the amount paid. The plan is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended. Accrued earnings and benefits at June 30, 2017 were $3,820,921 and $572,004, respectively. Accrued earnings and benefits at June 30, 2016 were $3,269,896 and $493,570, respectively.

Reclassifications, Restatements, and Changes in Accounting Principles
Implementation of GASB No. 73 resulted in an adjustment to beginning net position as of July 1, 2016. Under the change in accounting principle prescribed by GASB No. 73, pension expense for the Eastern Washington University Supplemental Retirement Plan is now determined based on actuarial assumptions and recorded as a cost of the service period. Changes in the pension liability are recognized through deferred outflows and deferred inflows of resources related to pensions. See footnote 12 for more information about the plan and actuarial assumptions used to determine the liability. The information provided by Office of State Actuary for the June 30, 2017 measurement date only allowed the University to restate FY 17 beginning net position. Following is a

reconciliation of the July 1, 2016 beginning net position as previously reported, to the restated net position for the same period:

| | |
|---|---|
| Total Net Position, as previously reported, July 1, 2016 | $ 359,478,297 |
| Less: pension expense recorded retroactively by GASB 73 | (5,538,544) |
| Total Net Position, as restated, July 1, 2016 | $ 353,939,753 |

During fiscal year 2016, the University implemented GASB Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Note 2 for more information.

Certain reclassifications not affecting total net position have been made to 2016 amounts in order to conform to 2017 presentation.

## Note 2: Deposits and Investments

Deposits are comprised of cash and cash equivalents which include bank demand deposits, petty cash held at the University, and unit shares in the Local Government Investment Pool operated by the Washington State Treasurer. Cash and cash equivalents are stated at cost or amortized cost. Except for petty cash held at the University, all others are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool. At fiscal yearend, insured/collateralized deposits consist of the following:

| | Carrying Value | |
|---|---|---|
| | June 30, 2017 | June 30, 2016 |
| Deposits | | |
| Cash and cash equivalents | | |
| Interest bearing | $ 71,511,440 | $ 44,577,727 |
| Other | 126,205 | 130,475 |
| Total deposits | $ 71,637,645 | $ 44,708,202 |

At June 30, 2017, investment maturities are as follows:

| | Fair value | Investment maturities for fixed income securities (in months) | | | |
|---|---|---|---|---|---|
| | June 30, 2017 | 0 – 9 | 10 – 24 | 25 – 60 | 61 – 120 |
| Investments – Operating Funds | | | | | |
| U.S. Government agency bonds | $ 90,390,549 | $ 33,757,830 | $ 32,992,320 | $ 23,640,398 | $ - |
| Investments – Charitable Gift Annuities | | | | | |
| Investment unit trusts | | | | | |
| Equity fund | 488,013 | | | | |
| Bond fund | 311,547 | | | | 311,547 |
| Investments – Endowment Funds | | | | | |
| Investment unit trusts | | | | | |
| Equity fund | 5,995,157 | | | | |
| Bond fund | 3,576,246 | | | | 3,576,246 |
| Total investments | $ 100,761,512 | $ 33,757,830 | $ 32,992,320 | $ 23,640,398 | $ 3,887,793 |

At June 30, 2016, investment maturities are as follows:

| | Fair value | Investment maturities for fixed income securities (in months) | | | |
|---|---|---|---|---|---|
| | June 30, 2016 | 0 – 9 | 10 – 24 | 25 – 60 | 61 – 120 |
| Investments – Operating Funds | | | | | |
| U.S. Government agency bonds | $ 85,098,796 | $ 26,854,512 | $ 39,912,664 | $ 18,331,620 | $ - |
| Investments – Charitable Gift Annuities | | | | | |
| Investment unit trusts | | | | | |
| Equity fund | 431,098 | | | | |
| Bond fund | 334,019 | | | | 334,019 |
| Investments – Endowment Funds | | | | | |
| Investment unit trusts | | | | | |
| Equity fund | 5,458,182 | | | | |
| Bond fund | 3,519,518 | | | | 3,519,518 |
| Total investments | $ 94,841,613 | $ 26,854,512 | $ 39,912,664 | $ 18,331,620 | $ 3,853,537 |

At June 30, 2017 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is $4,212,584 which is reported as restricted, expendable on the Statement of Net Position. RCW 24.44.050 of the Washington State Code allows for the spending of net appreciation on investments of donor-restricted endowments. Accordingly, the income distribution policy is 3-5 percent of the three year moving average of the fair value of net assets.

Fair value of the investment unit trust was determined using the fund's current share price. Fair values of all other investments were provided by major investment brokers or banks.

The Bond Fund is comprised of many underlying securities including debt instruments with varied maturity dates. As a whole, the fund had a weighted average maturity of 7.2 years at year end.

Through its investment policies for operating funds, the University manages its exposure to custodial credit risk, credit (quality) risk, interest rate risk, concentration of credit risk, and foreign currency risk. Eligible investments are only those securities and deposits authorized by state statute RCW 39 and 43.

Custodial Credit Risk

Investments, where evidenced by specific, identifiable securities, are insured or registered or are held by the University's custodian bank in the University's name. All securities transactions are conducted on a delivery-versus-payment basis. Invested assets of donor-restricted endowments are represented by shares in investment unit trusts (pools) rather than specific, identifiable securities and, as such, are not directly subject to custodial credit risk. Similarly, cash equivalents held in the Local Government Investment Pool are also represented by shares in investment unit trusts.

Credit (Quality) Risk

For operating funds, the University limits exposure to credit risk by limiting investments in fixed income securities to obligations of the U.S. government or similar instruments explicitly guaranteed by the U.S. government which are not considered to have credit risk. Underlying debt securities in unitized investments had an average rating of AA+ at year end.

Interest Rate Risk

The University manages its exposure to fair value losses resulting from changes in interest rates by structuring the total portfolio time horizon. Unless matched to a specific cash flow, the University generally will not directly invest operating funds in securities maturing more than five years from the date of purchase. The goal of the overall portfolio for operating funds is to maintain each individual portfolio at a desired target percentage to balance cash flow requirements, safety, liquidity and yield. For endowment funds, the goal is to maintain a ratio of debt and equity investments which recognizes the inherent growth potential of equities and bonds for an endowment that will exist in perpetuity.

| Portfolio | Target | Policy Range |
|---|---|---|
| Operating funds | | |
| Liquidity pool | 25% | 20-40% |
| Intermediate pool | 50% | 30-60% |
| Long Term pool | 25% | 15-40% |
| | | |
| Endowment funds | | |
| US public equity | 30% | 25-35% |
| US private equity | 5% | 0-10% |
| International equity | 10% | 5-10% |
| Fixed income | 30% | 25-35% |
| Commodities | 5% | 0-10% |
| Hedge funds | 5% | 0-10% |
| Natural resources | 5% | 0-10% |
| Real estate | 5% | 0-10% |
| Cash and equivalents | 0% | 0-15% |

Concentration of Credit Risk

The University's investment policy for operating funds does not limit its exposure to concentration of credit risk. However, operating funds are invested only in securities issued by or explicitly guaranteed by the U.S. government or those covered by the FDIC or by collateral held in a multiple financial institution collateral pool.

Foreign Currency Risk

A small percentage of underlying securities within unitized investments may be denominated in foreign currency. Any adverse effect on the fair value of investments resulting from changes to exchange rates is not considered to be significant to the portfolio as a whole.

Fair Value Hierarchy

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. As defined by GASB Statement No. 72, securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for identical securities, Level 2 securities are valued using observable inputs, and Level 3 securities are valued using unobservable inputs. U.S. Governmental Agency Bonds classified in Level 2 are valued using quoted prices for similar securities and interest rates. The level of fair value measurement is based on the lowest level of significant input for the security type in its entirety. Invested assets of donor-restricted endowments are represented by shares in investment unit trusts (pools) rather than specific, identifiable securities and, as such, are not required to be categorized within the fair value hierarchy.

The University has the following recurring fair value measurements as of June 30, 2017:

• U.S. Government agency bonds of $90,390,549 are valued using a matrix pricing model (Level 2 inputs).

## Note 3: Accounts and Student Loans Receivable

Accounts and student loans receivable at June 30, 2017 and 2016 consist of the following:

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| **Accounts receivable** | | |
| Student tuition and fees (less allowances of $242,314 and $248,217, respectively) | $ 6,495,354 | $ 5,037,059 |
| Auxiliary enterprises (less allowances of $287,898 and $238,550, respectively) | 1,622,925 | 1,642,949 |
| Contracts and grants | 1,992,700 | 1,506,570 |
| State reimbursement | 4,085,438 | 3,070,420 |
| Other (less allowances of $3,316 and $7,133, respectively) | 53,926 | 218,630 |
| Total accounts receivable | $ 14,250,343 | $ 11,475,628 |
| **Student loans receivable** | | |
| Federal programs (less allowances of $1,002,373 and $1,005,060, respectively) | $ 4,689,942 | $ 4,870,378 |
| Institutional loans (less allowances of $30,902 and $28,791, respectively) | 52,415 | 64,140 |
| Total student loans receivable | $ 4,742,357 | $ 4,934,518 |

## Note 4: Funds with State Treasurer

The Normal School Permanent Fund, established under RCW 43.79.160, is a permanent endowment fund that derives its corpus from the sale of state lands/timber. The investing activities are handled by the Washington State Treasurer's Office, while the sale of land/timber is handled by the State Department of Natural Resources. Interest earned from the investments are either reinvested or used exclusively for the benefit of Eastern Washington University, Central Washington University, Western Washington University and The Evergreen State College. The balance of the fund represents the University's share of the net earnings and tuition distributions, reduced by expenses for capital projects and debt service incurred over the years.

## Note 5: Compensated Absences

Vacation leave represents a liability to the University and is recorded and reported accordingly. Accumulated sick leave earned and unused, calculated at 25 percent of unused balance, represents a probable liability to the University and is recorded and reported accordingly. The employee is entitled to either the present value of 25 percent of his/her unused sick leave balance upon retirement or 25 percent of his/her accumulation for the year in which it exceeds 480 hours. Accrued compensatory time represents a liability to the University, but is expected to be used or cashed out by fiscal year end and therefore does not represent a liability at June 30.

| Leave Type | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Vacation | $ 5,868,726 | $ 5,949,653 |
| Sick | $ 1,763,497 | $ 1,678,373 |

## Note 6: Risk Management

The University participates in a State of Washington risk management self-insurance program. Premiums are based on actuarially-determined projections and include allowances for payments of both outstanding and current liabilities. The University assumes its potential liability and property losses for all properties except for auxiliary enterprise buildings and contents. The auxiliary enterprise buildings were acquired with the proceeds of bond issues where the bond agreement requires the University to carry insurance on property. The University has elected to become a self-insurer of unemployment compensation. Cash reserves total $3,148,409 and $3,200,925 at June 30, 2017 and 2016, respectively.

## Note 7: Capital Assets

During FY17, bond interest costs in the amount of $756,833 were capitalized as part of the PUB renovation project. Construction commitments relating to this project at the end of FY17 were $23,140,426. Capital asset activity for the two-year period ended June 30, 2017 is summarized as follows.

| | June 30, 2015 | Additions | Retirements | June 30, 2016 | Additions | Retirements | June 30, 2017 |
|---|---|---|---|---|---|---|---|
| **Non-depreciable Capital Assets** | | | | | | | |
| Land | $ 1,524,834 | $ - | $ - | $ 1,524,834 | $ - | $ - | $ 1,524,834 |
| Construction in progress | 3,755,667 | 11,989,155 | 1,143,908 | 14,600,914 | 25,382,617 | 14,243,909 | 25,739,622 |
| **Subtotal** | 5,280,501 | 11,989,155 | 1,143,908 | 16,125,748 | 25,382,617 | 14,243,909 | 27,264,456 |
| **Depreciable Capital Assets** | | | | | | | |
| Buildings | 375,682,721 | 194,415 | 832,943 | 375,044,193 | 4,468,814 | - | 379,513,007 |
| Improvements other than buildings | 17,529,039 | 390,231 | - | 17,919,270 | 429,352 | - | 18,348,622 |
| Infrastructure | 30,699,799 | 692,703 | - | 31,392,502 | 9,345,744 | - | 40,738,246 |
| Furniture, fixtures and equipment | 34,737,444 | 1,920,700 | 992,876 | 35,665,268 | 1,503,885 | 501,631 | 36,667,522 |
| Library materials | 24,131,845 | 1,495,641 | 1,561,820 | 24,065,666 | 1,363,540 | 1,316,490 | 24,112,716 |
| **Subtotal** | 482,780,848 | 4,693,690 | 3,387,639 | 484,086,899 | 17,111,335 | 1,818,121 | 499,380,113 |
| **Total Capital Assets** | 488,061,349 | 16,682,845 | 4,531,547 | 500,212,647 | 42,493,952 | 16,062,030 | 526,644,569 |
| **Less Accumulated Depreciation** | | | | | | | |
| Buildings | 118,294,696 | 7,316,594 | 564,911 | 125,046,379 | 7,306,168 | - | 132,352,547 |
| Improvements other than buildings | 7,174,881 | 584,989 | - | 7,759,870 | 603,257 | - | 8,363,127 |
| Infrastructure | 20,747,202 | 937,887 | - | 21,685,089 | 1,167,932 | - | 22,853,021 |
| Furniture, fixtures and equipment | 27,851,190 | 2,193,228 | 990,618 | 29,053,800 | 2,237,931 | 497,954 | 30,793,777 |
| Library materials | 10,663,692 | 1,223,878 | 1,561,820 | 10,325,750 | 1,225,257 | 1,316,488 | 10,234,519 |
| **Total Accumulated Depreciation** | 184,731,661 | 12,256,576 | 3,117,349 | 193,870,888 | 12,540,545 | 1,814,442 | 204,596,991 |
| **Capital assets, net of depreciation** | $ 303,329,688 | $ 4,426,269 | $ 1,414,198 | $ 306,341,759 | $ 29,953,407 | $ 14,247,588 | $ 322,047,578 |

## Note 8: Long-term Liabilities

Long-term liability activity for the year ended June 30, 2017 is summarized as follows:

| | June 30, 2016 | Additions | Reductions | June 30, 2017 | Current Portion |
|---|---|---|---|---|---|
| **Leases and bonds payable** | | | | | |
| Lease obligations (Note 9) | $ 3,179,903 | $ - | $ 422,348 | $ 2,757,555 | $ 440,451 |
| Revenue bonds payable (Note 10) | 49,125,000 | 59,640,000 | 25,900,000 | 82,865,000 | 2,345,000 |
| Total leases and bonds payable | 52,304,903 | 59,640,000 | 26,322,348 | 85,622,555 | 2,785,451 |
| **Other liabilities** | | | | | |
| Charitable gift annuities (Note 1) | 201,472 | 14,464 | 53,380 | 162,556 | 51,530 |
| Total pension liability (Note 12) | 8,623,331 | 6,617,413 | 3,639,592 | 11,601,152 | - |
| Net pension liability (Note 12) | 22,949,034 | 4,832,614 | - | 27,781,648 | - |
| Compensated absences (Note 5) | 7,628,026 | 5,141,410 | 5,137,213 | 7,632,223 | - |
| **Total long-term liabilities** | $ 91,706,766 | $ 76,245,901 | $ 35,152,533 | $ 132,800,134 | $ 2,836,981 |

Long-term liability activity for the year ended June 30, 2016 is summarized as follows:

| | June 30, 2015 | Additions | Reductions | June 30, 2016 | Current Portion |
|---|---|---|---|---|---|
| **Leases and bonds payable** | | | | | |
| Lease obligations (Note 9) | $ 3,595,071 | $ - | $ 415,168 | $ 3,179,903 | $ 422,348 |
| Revenue bonds payable (Note 10) | 50,810,000 | - | 1,685,000 | 49,125,000 | 1,760,000 |
| Total leases and bonds payable | 54,405,071 | - | 2,100,168 | 52,304,903 | 2,182,348 |
| **Other liabilities** | | | | | |
| Charitable gift annuities (Note 1) | 237,859 | 16,267 | 52,654 | 201,472 | 51,530 |
| Net pension obligation (Note 12) | 7,234,976 | 1,542,000 | 153,645 | 8,623,331 | - |
| Net pension liability (Note 12) | 18,124,064 | 4,824,970 | - | 22,949,034 | - |
| Compensated absences (Note 5) | 7,115,825 | 4,840,393 | 4,328,192 | 7,628,026 | - |
| **Total long-term liabilities** | $ 87,117,795 | $ 11,223,630 | $ 6,634,659 | $ 91,706,766 | $ 2,233,878 |

## Note 9: Leases

The University leases facilities and furnishings for student dormitory residences, office and computer equipment, and other assets under a variety of agreements. The University's non-cancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2018 through 2022. Total operating lease expenses in fiscal year 2017 were $545,695.

The University also entered into certain agreements that are classified as capital leases; the related assets and liabilities are recorded in the financial records at the inception of the lease. The gross amount of the assets acquired through a capital lease is $4,511,693.

Minimum lease payments under leases together with the present value of the net minimum capital lease payments as of June 30, 2017, are as follows:

| Fiscal Year Annual Payment | Operating | Capital |
|---|---|---|
| 2018 | $ 395,962 | $ 585,493 |
| 2019 | 321,697 | 601,423 |
| 2020 | 235,867 | 601,995 |
| 2021 | 134,139 | 593,302 |
| 2022 | 67,338 | 585,410 |
| 2023 | - | 255,193 |
| Obligation under leases | $ 1,155,003 | 3,222,816 |
| Less: Amount representing interest costs | | (465,261) |
| Present value of minimum obligation under capital leases | | $ 2,757,555 |

## Note 10: Bonds Payable

Bonds payable consist of revenue bonds issued by University auxiliary enterprises for capital construction projects as shown below. The Housing and Dining System net revenues and student and activities fees paid by each student enrolled are pledged for debt service on the bonds of Eastern Washington University. The Series 2012 and 2016 Revenue and Refunding Bonds are tax-exempt debt with external restrictions as outlined in the bond covenants.

The University issued Services and Activities Fee Refunding Bonds, Series 2016A, on August 30, 2016 and Revenue bonds, Series 2016B, on October 13, 2016. The Series 2016A bonds bear an interest rate varying from 2 to 5 percent and are due serially on October 1 in amounts ranging from $575,000 to $1,395,000. The refunding resulted in $6,158,186 gross debt service savings over the next twenty one years and an economic gain of $4,745,011. The Series 2016B bonds bear an interest rate varying from 2.625 percent to 5 percent and are due serially on October 1 in amounts from $430,000 to $1,930,000. The proceeds of the Series 2016B bonds were used to finance the remodel of the Pence Union Building while the Series 2016A proceeds were used to refinance the remaining principal balance of the Series 2006 bonds.

| | Interest Rate | Maturity Date | Original Balance | Outstanding Balance |
|---|---|---|---|---|
| Service and Activities Refunding Bonds, Series 2016A | 2.00% - 5.00% | 2017-2037 | $ 23,465,000 | $ 23,465,000 |
| Service and Activities Revenue Bonds, Series 2016B | 2.625% - 5.00% | 2017-2046 | 36,175,000 | 36,175,000 |
| Housing and Dining System Revenue Bonds, Series 2012 | 3.00% - 4.125% | 2017-2042 | 25,330,000 | 23,225,000 |
| Total Revenue Bonds Payable | | | $ 84,970,000 | $ 82,865,000 |

Eastern Washington University debt service requirements for the next five years and thereafter are as follows:

| Fiscal Year | Principal | Interest |
|---|---|---|
| 2018 | $ 2,345,000 | $ 2,847,346 |
| 2019 | 2,415,000 | 2,775,296 |
| 2020 | 2,095,000 | 2,701,446 |
| 2021 | 2,175,000 | 2,625,596 |
| 2022 | 2,260,000 | 2,540,271 |
| 2023-2027 | 12,980,000 | 11,063,537 |
| 2028-2032 | 15,655,000 | 8,464,937 |
| 2033-2037 | 18,295,000 | 5,885,195 |
| 2038-2042 | 15,615,000 | 2,956,807 |
| 2043-2047 | 9,030,000 | 753,513 |
| Totals | 82,865,000 | $ 42,613,944 |
| Add: Unamortized Bond Premium | 2,697,970 | |
| | $ 85,562,970 | |

## Note 11: Pledged Revenues

The University has pledged specific revenues, net of certain operating expenses, to repay the principal and interest of revenue and refunding bonds as follows:

| Source of Revenue Pledged | Current Year Revenues Pledged (net) | Current Year Debt Service | Total Future Revenues Pledged | Description of Debt | Purpose of Debt | Term of Commitment |
|---|---|---|---|---|---|---|
| Service & Activity fee revenue | $ 10,382,448 | $ 2,755,426 | $ 88,347,450 | Service & Activities Fee Revenue and Refunding Bonds – Series 2016A&B | Refund outstanding debt on S&A Revenue/ Refunding Bonds of 2006 and construction of student union building | 2037 (Refunding) 2046 (Revenue) |
| Housing and Dining revenues net of operating expenses | $ 5,358,459 | $ 1,486,800 | $ 37,131,494 | Housing and Dining System Revenue Bonds – Series 2012 | Design and construction of a new residence hall | 2042 |

## Note 12: Retirement Plans

The University offers four contributory retirement plans. The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) are cost-sharing, multi-employer defined benefit plans; PERS and TRS also have a defined contribution component. The Eastern Washington University Retirement Plan is a defined contribution plan with supplemental payment, when required. The University's total payroll for the year ended June 30, 2017, was $107,947,357. The payroll for employees covered by PERS was $28,095,867; payroll for employees covered by TRS was $1,119,777; payroll for employees covered by LEOFF was $1,148,894; and payroll for employees covered by the Eastern Washington University Retirement Plan was $62,749,903.

General
The University implemented Statement No. 68 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Pensions* in fiscal year 2015 financial reporting. Washington's pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the Eastern Washington University Retirement Plan (discussed later), they are administered in a way equivalent to pension trust arrangements as defined by the GASB.
In accordance with Statement No. 68, the University has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities.

The University implemented Statement No. 73 of the GASB, *Accounting and Financial Reporting for Pensions Not within the Scope of GASB Statement No. 68*, for the fiscal year ending 2017. As established in chapter 28B.10 RCW, eligible higher education state employees may participate in higher education retirement plans. The Eastern Washington University Retirement Plan (EWURP) includes a defined contribution plan administered by a third party with a supplemental defined benefit component (on a pay-as-you-go basis) which is administered by the state. The current fiscal year end is the measurement date for reporting pension liabilities under Statement No. 73.

Basis of Accounting
Retirement plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, related deferred outflows of resources and deferred inflows of resources, and retirement expense, information about the fiduciary net position of all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The University recognized $3,033,276 and $1,928,001 in pension expense for all plans subject to the requirements of GASB Statement No. 68 for fiscal years 2017 and 2016, respectively.

Department of Retirement Systems
As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the state and local governments. The Governor appoints the director of the DRS. The DRS administered systems that the University offers its employees are comprised of five defined benefit retirement plans and two defined benefit/defined contribution plans. Below are the DRS plans that the University offers its employees:

**Public Employees' Retirement System (PERS)**
Plan 1 - defined benefit
Plan 2 - defined benefit
Plan 3 - defined benefit/defined contribution
**Teachers' Retirement System (TRS)**
Plan 1 - defined benefit
Plan 2 - defined benefit
Plan 3 – defined benefit/defined contribution
**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**
Plan 2 - defined benefit

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, and, LEOFF systems and plans was funded by an employer rate of 0.18 percent of employee salaries.

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the Governmental Accounting Standards Board. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at: http://www.drs.wa.gov/administration/annual-report/default.htm.

Public Employees' Retirement System (PERS)

***Plan Description*** - the Legislature established the Public Employees' Retirement System in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. PERS Plan 1 is closed to new entrants.

As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the retirement strategy fund that assumes the member will retire at age 65.

Members in PERS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions adjusted by earnings and losses from investments of those contributions upon separation from PERS-covered employment.

***Benefits Provided -*** PERS plans provide retirement, disability, and death benefits to eligible members.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service. This is reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC. Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months.

PERS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

PERS Plan 3 members have the option to retire early with reduced benefits.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

***Contributions*** - PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute.

Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee defined benefit contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

Required contribution rates for fiscal year 2017 are presented later in this footnote.

<u>Teacher's Retirement System (TRS)</u>
***Plan Description*** - The Legislature established the Teachers' Retirement System in 1938. TRS retirement benefit provisions are established in chapters 41.32 and 41.34 RCW and may be amended only by the Legislature. Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative, or supervisory capacity. TRS is comprised principally of non-state agency employees.

TRS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes.

Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. TRS Plan 1 is closed to new entrants.

As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the retirement strategy fund that assumes the member will retire at age 65. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings.

Members in TRS Plan 3 are immediately vested in the defined contribution portion of their plan, and can elect to withdraw total employee contributions adjusted by earnings and losses from investments of those contributions upon separation from TRS-covered employment.

***Benefits Provided*** - TRS plans provide retirement, disability, and death benefits to eligible members.

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service.

The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional cost of living allowance (COLA) amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 retirement benefits are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service.

A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. TRS Plan 2 members have the option to retire early with reduced benefits. The AFC is the average of the member's 60 highest paid consecutive months.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan. TRS Plan 3 members have the option to retire early with reduced benefits.

***Contributions*** - TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. The methods used to determine the contribution requirements are established under state statute.

Members in TRS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment.

Required contribution rates for fiscal year 2017 are presented later in this footnote.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

***Plan Description*** - The Law Enforcement Officers' and Fire Fighters' Retirement System was established in 1970 by the Legislature. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included effective July 27, 2003, being an exception.

LEOFF is a cost-sharing, multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF Plan 1 is closed to new entrants. The University does not contribute to Plan 1.

***Benefits Provided*** - LEOFF plans provide retirement, disability, and death benefits to eligible members.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service. FAS is based on the highest consecutive 60 months. Members who retire prior to the age of 53 receive reduced benefits. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, generally with reduced benefits.

***Contributions*** - LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The methods used to determine the contribution requirements are established under state statute.

Members in LEOFF Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board.

Required contribution rates for fiscal year 2017 are presented later in this footnote.

Actuarial Assumptions

The total pension liability (TPL) for each of the plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' Comprehensive Annual Financial Report. These assumptions reflect the results of Office of State Actuary's 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the Entry-Age Cost Method), assumed interest and actual benefit payments.

- Inflation: 3.0% total economic inflation; 3.75% salary inflation
- Salary Increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Long Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets the WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The Office of the State Actuary (OSA) selected a 7.50% long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns the WSIB provided. See the 2015 Report on Financial Condition and Economic Experience Study on the OSA website for additional information on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|---|---|---|
| Fixed Income | 20% | 1.70% |
| Tangible Assets | 5% | 4.40% |
| Real Estate | 15% | 5.80% |
| Global Equity | 37% | 6.60% |
| Private Equity | 23% | 9.60% |
| Total | 100% | |

The inflation component used to create the above table is 2.20 percent, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate

The discount rate used to measure the total pension liability was 7.50 percent for all plans. To determine that rate, an asset sufficiency test was completed to determine whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members.

Consistent with current law, the asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.70 percent except LEOFF Plan 2, which has assumed 7.50 percent.)

Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3, and TRS Plans 2 and 3 employers, whose rates include a component for the PERS Plan 1 or TRS Plan 1 liability).

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent was used to determine the total liability.

Collective Net Pension Liability/Asset

The University reported the following for its proportionate share of the collective net pension liability (asset). The proportions are based on the University's contributions to the pension plan relative to the contributions of all participating employers.

| Year Ended 6/30/17 | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 | LEOFF 2 |
|---|---|---|---|---|---|
| Proportionate Share | 0.234419% | 0.285742% | 0.016733% | 0.017044% | 0.049090% |
| Net Pension Liability | $ 12,589,381 | $ 14,386,897 | $ 571,301 | $ 234,069 | $ (285,519) |

| Year Ended 6/30/16 | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 | LEOFF 2 |
|---|---|---|---|---|---|
| Proportionate Share | 0.232536% | 0.284759% | 0.015034% | 0.015921% | 0.048127% |
| Net Pension Liability | $ 12,163,804 | $ 10,174,598 | $ 476,291 | $ 134,340 | $ (494,651) |

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate

The following presents the net pension liability/asset of the University as an employer, calculated using the discount rate of 7.50 percent, as well as what the net pension liability/asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

| Year Ended 6/30/17 | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 | LEOFF 2 |
|---|---|---|---|---|---|
| 1% Decrease | $ 15,181,528 | $ 26,488,865 | $ 702,303 | $ 529,729 | $ 800,675 |
| Current Discount Rate | 12,589,381 | 14,386,897 | 571,301 | 234,069 | (285,519) |
| 1% Increase | 10,358,680 | (7,489,211) | 458,462 | (271,917) | (1,104,195) |

| Year Ended 6/30/16 | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 | LEOFF 2 |
|---|---|---|---|---|---|
| 1% Decrease | $ 14,809,464 | $ 29,751,052 | $ 598,730 | $ 568,409 | $ 495,361 |
| Current Discount Rate | 12,163,804 | 10,174,598 | 476,291 | 134,340 | (494,651) |
| 1% Increase | 9,888,780 | (4,814,359) | 371,003 | (188,354) | (1,239,673) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | PERS 1 | | | | PERS 2/3 | | | |
|---|---|---|---|---|---|---|---|---|
| | Deferred Outflows of Resources | | Deferred Inflows of Resources | | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Pension contributions subsequent to the measurement date | $1,360,988 | $1,340,587 | $ - | $ - | $1,719,903 | $1,666,222 | $ - | $ - |
| Differences between expected and actual experience | 316,981 | - | - | - | 766,092 | 1,097,956 | 474,935 | - |
| Change in assumptions | - | - | - | - | 148,700 | - | - | - |
| Change in proportion and contributions | - | - | - | - | 182,983 | 181,444 | 14,185 | 20,096 |
| Net difference between projected and actual investment earnings on pension plan investments | - | - | - | 665,493 | 1,760,541 | - | - | 2,716,136 |
| Total | $1,677,969 | $1,340,587 | $ - | $665,493 | $4,578,219 | $2,945,622 | $489,120 | $2,736,232 |

| | TRS 1 | | | | TRS 2/3 | | | |
|---|---|---|---|---|---|---|---|---|
| | Deferred Outflows of Resources | | Deferred Inflows of Resources | | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Pension contributions subsequent to the measurement date | $ 70,629 | $ 38,133 | $ - | $ - | $ 76,128 | $ 70,007 | $ - | $ - |
| Differences between expected and actual experience | - | - | - | - | 17,707 | 21,382 | - | - |
| Change in assumptions | - | - | - | - | 2,384 | - | - | - |
| Change in proportion and contributions | - | - | - | - | 66,671 | 60,436 | - | - |
| Net difference between projected and actual investment earnings on pension plan investments | 18,121 | - | - | 35,253 | 37,679 | - | 10,386 | 52,120 |
| Total | $ 88,750 | $ 38,133 | $ - | $ 35,253 | $ 200,569 | $ 151,825 | $ 10,386 | $ 52,120 |

| | LEOFF 2 | | | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
| | 2017 | 2016 | 2017 | 2016 |
| Pension contributions subsequent to the measurement date | $ 96,512 | $ 75,210 | $ - | $ - |
| Differences between expected and actual experience | 39,124 | 44,620 | - | - |
| Changes in assumptions | 1,077 | - | - | |
| Change in proportion and contributions | 321 | - | 48,639 | 52,660 |
| Net difference between projected and actual investment earnings on pension plan investments | 102,599 | - | - | 149,877 |
| Total | $ 239,632 | $ 119,830 | $48,639 | $202,537 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30:

| | PERS 1 | PERS 2/3 | TRS 1 | TRS 2/3 | LEOFF 2 |
|---|---|---|---|---|---|
| 2018 | $ (78,047) | $ 86,302 | $ (4,683) | $ 20,866 | $ (13,135) |
| 2019 | (78,047) | 50,012 | (4,683) | 20,866 | (13,135) |
| 2020 | 291,113 | 1,353,438 | 16,952 | 46,488 | 73,035 |
| 2021 | 181,963 | 836,329 | 10,535 | 24,511 | 48,115 |
| 2022 | - | - | - | 1,323 | (401) |

The University recognized $3,033,276 in retirement benefit expense in FY17 for the above plans.

Contribution Rates

The required contribution rates expressed as a percentage of current year covered payroll are shown below. The University and the employees made the required contributions. The University's required contributions for the years ending June 30 are as follows:

| | Contribution Rates at June 30, 2017 | | Required Employer Contributions | | |
|---|---|---|---|---|---|
| | Employee | University | FY2015 | FY2016 | FY2017 |
| PERS 1 | 6.00% | 11.18% | $ 57,464 | $ 67,757 | $ 46,254 |
| PERS 2 | 6.12% | 11.18% | 1,926,219 | 2,473,087 | 2,530,164 |
| PERS 3 | Varies | 11.18%* | 402,747 | 515,043 | 554,636 |
| TRS 1 | 6.00% | 13.13% | 42 | 42 | 53 |
| TRS 3 | Varies | 13.13% | 79,752 | 112,047 | 146,974 |
| LEOFF 2 | 8.41% | 8.59% | 72,978 | 76,820 | 98,690 |

*Defined benefit portion only

Eastern Washington University Retirement System

***Plan Description*** - Faculty and certain other employees are eligible to participate in the Eastern Washington University Retirement Plan, a privately administered single employer defined contribution plan with a supplemental defined benefit plan component. RCW 28.B.10.400 authorizes the University's Board of Trustees to establish and amend plan provisions.

The employee and employer contributions are immediately vested at 100%. The plan provides for a variety of options to take income from the plan including, fixed period, interest only, lifetime income annuities, lump sum, and systematic withdrawals.

On June 8, 2011, the supplemental benefit payment was discontinued for new employees hired after July 1, 2011. This action caps and will eventually eliminate net pension obligations for the supplemental plan. No other significant changes were made in the benefit provision for the year ended June 30, 2017.

***Benefits Provided -*** The supplemental payment plan determines a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The University makes direct payments to qualifying retirees when the retirement income provided by the plan does not meet the benefit goal. Employees are eligible for a non-reduced supplemental payment after the age of 65 with 10 years of full-time service. The benefit goal is 2 percent of the average annual salary for each year of full-time service up to a maximum of 25 years, less the annuity benefit offset and any WAPERS benefits (Washington State Retirement System). However, if the participant does not elect to make the 10 percent plan contribution after age 50, the benefit goal is 1.5 percent for each year of full-time service for the years in which the lower contribution rate was selected.

***Contributions*** - *Employee* contribution rates, which are based on age, are 5 percent, 7.5 percent and 10 percent. The University matches the employee contributions. The University contributions during the year ended June 30, 2017, total $5,329,915. There are no plan assets for the EWURP. For the year ended June 30, 2017, the University reported $556,506 in retirement benefit expense relating to the supplemental component of the EWURP.

***Actuarial Assumptions -*** The total pension liability was determined by an actuarial valuation as of June 30, 2016, with the results rolled forward to the June 30, 2017, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

- Salary Increases: 3.50% - 4.25%
- Fixed and Variable Income Investment Returns: 4.25% - 6.25%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most actuarial assumptions used in the June 30, 2016, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the EWURP.

Material assumption changes during the measurement period include the discount rate increase from 2.85 percent to 3.58 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

***Discount Rate -*** The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017, measurement date.

***Plan Membership –*** Membership of the EWURP Supplemental Plan consisted of the following at June 30, 2016, the date of the latest actuarial valuation for the plan:

Beneficiaries currently receiving benefits – 38
Inactive members entitled to but not yet receiving benefits – 0
Active members – 537

***Change in Total Pension Liability –*** The following table presents the change in the total pension liability of the EWURP Supplemental Plan at June 30, 2017.

| | |
|---|---|
| **Total Pension Liability** | |
| Service cost | $ 658,465 |
| Interest | 420,402 |
| Differences between expected and actual experience | (2,853,204) |
| Changes in assumptions | (646,620) |
| Benefit payments | (139,765) |
| Net Change in Total Pension Liability | (2,560,722) |
| Total Pension Liability - Beginning | 14,161,874 |
| **Total Pension Liability - Ending** | **$ 11,601,152** |

***Sensitivity of the Total Pension Liability to Changes in the Discount Rate –*** The following table presents the total pension liability calculated using the current discount rate as well as what the total liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

| | |
|---|---|
| 1% Decrease | $ 13,265,670 |
| Current Discount Rate | 11,601,152 |
| 1% Increase | 10,217,797 |

***Deferred Outflows and Deferred Inflows of Resources Related to Pensions –*** At June 30, 2017, the EWURP Supplemental Plan reported related deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ - | $ 2,427,353 |
| Changes of assumptions | - | 550,110 |
| Total | $ - | $ 2,977,463 |

Amounts reported as related deferred outflows and deferred inflows of resources will be recognized in pension expense in the fiscal years ended June 30:

| | |
|---|---|
| 2018 | $ 522,361 |
| 2019 | 522,361 |
| 2020 | 522,361 |
| 2021 | 522,361 |
| 2022 | 522,361 |
| Thereafter | 365,658 |

## Note 13: Other Post-Employment Benefits

Effective for fiscal year 2008, the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. Other post-employment benefits (OPEB) are those provided to retired employees beyond those provided by their pension plans. Statement No. 45 requires systematic, accrual-basis measurement and recognition of OPEB expense in the year in which such benefits are earned by the member. Disclosure information, as required under GASB 45, does not exist at department levels and, as a result, the net OPEB obligation is recorded in the State of Washington comprehensive annual financial report which is available from the Office of Financial Management, Insurance Building, PO Box 43113, Olympia, Washington 98504-3113.

The University funds OPEB obligations on a pay-as-you-go basis. Funding status through the fiscal years ended June 30 follows:

| Net OPEB Obligation | FY 2017 | FY 2016 | FY 2015 |
|---|---|---|---|
| Balance as of July 1 | $ 33,230,000 | $ 28,013,000 | $ 22,826,000 |
| Add: Annual OPEB costs | 6,307,000 | 5,948,000 | 5,792,000 |
| Less: Estimated contributions | 1,603,000 | 731,000 | 605,000 |
| Balance as of June 30 | $ 37,934,000 | $ 33,230,000 | $ 28,013,000 |

## Note 14: Segment Information

The following financial information represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding, and where expenses, gains and losses, assets, and liabilities are identifiable. These bonds provide funding for residential housing and student activity facilities. For more information, separately issued financial statements are available from the Office of Controller, Eastern Washington University, 319 Showalter Hall, Cheney, WA 99004. Summarized activity as of and for the years ended June 30 follows:

CONDENSED STATEMENTS OF NET POSITION

| | Housing and Dining System Revenue Bonds Series 2012 | | Associated Student Activities Revenue and Refunding Bonds Series 2016 | |
|---|---|---|---|---|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Assets | | | | |
| Current assets | $ 15,529,212 | $ 12,674,026 | $ 33,440,138 | $ 4,157,085 |
| Non-current assets | 46,857,704 | 48,213,200 | 49,572,695 | 37,137,031 |
| Total assets | 62,386,916 | 60,887,226 | 83,012,833 | 41,294,116 |
| Deferred outflows of resources | | | | |
| Unamortized loss on bond refunding | - | - | - | 21,940 |
| Related to pensions | 819,490 | 480,178 | 75,366 | 49,973 |
| Liabilities | | | | |
| Current liabilities | 1,836,742 | 1,917,959 | 5,110,752 | 1,737,535 |
| Non-current liabilities | 27,964,886 | 27,956,138 | 60,642,145 | 24,643,184 |
| Total liabilities | 29,801,628 | 29,874,097 | 65,752,897 | 26,380,719 |
| Deferred inflows of resources | | | | |
| Unamortized gain on bond refunding | - | - | 18,852 | - |
| Related to pensions | 133,732 | 399,443 | 39,807 | 64,867 |
| Net position | | | | |
| Net investment in capital assets | 12,773,149 | 13,260,393 | 8,906,448 | 8,926,284 |
| Unrestricted | 20,497,897 | 17,833,471 | 8,370,195 | 5,994,159 |
| Total net position | $ 33,271,046 | $ 31,093,864 | $ 17,276,643 | $ 14,920,443 |

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years Ended June 30

| | Housing and Dining System Revenue Bonds Series 2012 | | Associated Student Activities Revenue and Refunding Bonds Series 2016 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Operating revenues | $ 24,175,577 | $ 25,636,135 | $ 11,360,365 | $ 11,141,281 |
| Operating expenses | 20,824,973 | 20,689,993 | 5,089,052 | 4,912,868 |
| Net operating income | 3,350,604 | 4,946,142 | 6,271,313 | 6,228,413 |
| Non-operating revenues (expenses) | (1,019,393) | (932,981) | (1,641,314) | (1,119,216) |
| Transfers | - | - | (2,211,884) | (2,199,600) |
| Change in net position | 2,331,211 | 4,013,161 | 2,418,115 | 2,909,517 |
| Net position, beginning of year | 31,093,864 | 27,080,703 | 14,920,443 | 12,010,926 |
| Adjustment to beginning net position | (154,029) | - | (61,915) | - |
| Net position, end of year | $ 33,271,046 | $ 31,093,864 | $ 17,276,643 | $ 14,920,443 |

CONDENSED STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30

| | Housing and Dining System Revenue Bonds Series 2012 | | Associated Student Activities Revenue and Refunding Bonds Series 2016 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net cash flows provided by operating activities | $ 4,470,679 | $ 6,207,336 | $ 9,235,384 | $ 7,044,594 |
| Net cash flows used by non-capital and related financing activities | (10,000) | (92) | (1,608,152) | (2,236,328) |
| Net cash flows provided (used) by capital and related financing activities | (2,007,494) | (2,540,943) | 22,191,387 | (4,783,578) |
| Net cash flows provided (used) by investing activities | (2,608,999) | (1,022,346) | (2,029,603) | 87,000 |
| Net increase (decrease) in cash | (155,814) | 2,643,955 | 27,789,016 | 111,688 |
| Cash—beginning of year | 7,091,531 | 4,447,576 | 2,389,947 | 2,278,259 |
| Cash—end of year | $ 6,935,717 | $ 7,091,531 | $ 30,178,963 | $ 2,389,947 |

## Note 15: Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30 are summarized as follows:

| | FY 2017 | FY 2016 |
|---|---|---|
| Education and general | | |
| Instruction | $ 72,213,464 | $ 72,633,276 |
| Research | 1,499,402 | 1,254,650 |
| Public Service | 8,243,810 | 7,751,349 |
| Academic support | 16,364,083 | 15,105,223 |
| Student services | 19,484,469 | 17,919,146 |
| Institutional support | 17,176,263 | 16,206,186 |
| Operation and maintenance of plant | 21,598,715 | 20,836,915 |
| Scholarships and fellowships | 19,975,864 | 21,205,531 |
| Auxiliary enterprises | 35,994,695 | 35,718,280 |
| Depreciation | 12,540,545 | 12,256,576 |
| Total operating expenses | $225,091,310 | $220,887,132 |

## Note 16: Other Matters and Subsequent Events

The University may be contingently liable in connection with claims arising in the normal course of its activities. University management believes that the outcome of such matters will not have a material effect on the financial statements. The University was obligated to pay a settlement in FY16 in relation to *Moore v. Health Care Authority* (see extraordinary item on the statement of revenues, expenses, and changes in net position). This is a class action lawsuit brought on behalf of state employees who allege they were improperly denied health care benefits. No further obligations are expected after the FY16 settlement.

Outstanding purchase orders and other commitments at June 30, 2017 total $27,570,423 for various goods and services.

**Schedule of the University's Proportionate Share of the Net Pension Liability (Asset)**
Measurement Date of June 30 *

| | 2014 | 2015 | 2016 |
|---|---|---|---|
| **Public Employees' Retirement System (PERS) Plan 1** | | | |
| University's proportion of the net pension liability | 0.235935% | 0.232536% | 0.234419% |
| University's proportionate share of the net pension liability | $ 11,885,340 | $ 12,163,804 | $ 12,589,381 |
| University's covered-employee payroll | 700,294 | 628,105 | 616,847 |
| University's covered-employee payroll (UAAL portion) | 10,614,317 | 11,238,264 | 11,619,999 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 1697% | 1937% | 2041% |
| Plan fiduciary net position as a percentage of the total pension liability | 61% | 59% | 57% |
| **Public Employees' Retirement System (PERS) Plan 2/3** | | | |
| University's proportion of the net pension liability | 0.285383% | 0.284759% | 0.285742% |
| University's proportionate share of the net pension liability | $ 5,768,630 | $ 10,174,598 | $ 14,386,897 |
| University's covered-employee payroll | 24,496,463 | 25,317,107 | 26,817,445 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 24% | 40% | 54% |
| Plan fiduciary net position as a percentage of the total pension liability | 93% | 89% | 86% |
| **Teachers' Retirement System (TRS) Plan 1** | | | |
| University's proportion of the net pension liability | 0.014280% | 0.015034% | 0.016733% |
| University's proportionate share of the net pension liability | $ 421,191 | $ 476,291 | $ 571,301 |
| University's covered-employee payroll | 4,444 | 400 | 400 |
| University's covered-employee payroll (UAAL portion) | 289,693 | 330,776 | 300,432 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 9477% | 119073% | 142825% |
| Plan fiduciary net position as a percentage of the total pension liability | 69% | 66% | 62% |
| **Teachers' Retirement System (TRS) Plan 2/3** | | | |
| University's proportion of the net pension liability | 0.015141% | 0.015921% | 0.017044% |
| University's proportionate share of the net pension liability | $ 48,904 | $ 134,340 | $ 234,069 |
| University's covered-employee payroll | 654,525 | 747,348 | 852,532 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 7% | 18% | 27% |
| Plan fiduciary net position as a percentage of the total pension liability | 97% | 92% | 89% |
| **Law Enforcement Officers' and Firefighter's (LEOFF) Plan 2** | | | |
| University's proportion of the net pension liability | 0.040159% | 0.048127% | 0.049090% |
| University's proportionate share of the net pension liability | $ (532,934) | $ (494,651) | $ (285,519) |
| University's covered-employee payroll | 669,208 | 852,252 | 894,293 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 80% | 58% | 32% |
| Plan fiduciary net position as a percentage of the total pension liability | 117% | 112% | 124% |

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

**Schedule of the University Contributions**
Fiscal Year Ended June 30 *

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| **Public Employees' Retirement System (PERS) Plan 1** | | | |
| Contractually required contribution | $ 57,848 | $ 68,964 | $ 46,816 |
| Contributions in relation to the contractually required contribution | 57,464 | 67,757 | 46,254 |
| Contribution deficiency (excess) | 385 | 1,207 | 563 |
| University's covered-employee payroll | 628,105 | 616,847 | 418,750 |
| University's covered-employee payroll (UAAL portion) | 11,238,264 | 11,619,999 | 11,995,262 |
| Contributions as a percentage of covered-employee payroll | 9.15% | 10.98% | 11.05% |
| | | | |
| **Public Employees' Retirement System (PERS) Plan 2/3** | | | |
| Contractually required contribution | $ 2,331,706 | $ 2,998,190 | $ 3,094,302 |
| Contributions in relation to the contractually required contribution | 2,328,966 | 2,988,130 | 3,084,800 |
| Contribution deficiency (excess) | 2,740 | 10,060 | 9,502 |
| University's covered-employee payroll | 25,317,107 | 26,817,445 | 27,677,117 |
| Contributions as a percentage of covered-employee payroll | 9.20% | 11.14% | 11.15% |
| | | | |
| **Teachers' Retirement System (TRS) Plan 1** | | | |
| Contractually required contribution | $ 42 | $ 42 | $ 53 |
| Contributions in relation to the contractually required contribution | 42 | 42 | 53 |
| Contribution deficiency (excess) | - | - | - |
| University's covered-employee payroll | 400 | 400 | 400 |
| University's covered-employee payroll (UAAL portion) | 330,776 | 300,432 | 538,532 |
| Contributions as a percentage of covered-employee payroll | 10.39% | 10.39% | 13.13% |
| | | | |
| **Teachers' Retirement System (TRS) Plan 2/3** | | | |
| Contractually required contribution | $ 77,649 | $ 111,937 | $ 146,974 |
| Contributions in relation to the contractually required contribution | 79,752 | 112,047 | 146,974 |
| Contribution deficiency (excess) | (2,103) | (109) | - |
| University's covered-employee payroll | 747,348 | 852,532 | 1,119,377 |
| Contributions as a percentage of covered-employee payroll | 10.67% | 13.14% | 13.13% |
| | | | |
| **Law Enforcement Officers' and Firefighters' (LEOFF) Plan 2** | | | |
| Contractually required contribution | $ 73,208 | $ 76,820 | $ 98,690 |
| Contributions in relation to the contractually required contribution | 72,978 | 76,820 | 98,690 |
| Contribution deficiency (excess) | 231 | - | - |
| University's covered-employee payroll | 852,252 | 894,293 | 1,148,894 |
| Contributions as a percentage of covered-employee payroll | 8.56% | 8.59% | 8.59% |

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

| Schedule of Changes in the Total Pension Liability<br>Measurement Date of June 30* | |
|---|---|
| **Total Pension Liability** | **2017** |
| Service cost | $ 658,465 |
| Interest | 420,402 |
| Differences between expected and actual experience | (2,853,204) |
| Changes in assumptions | (646,620) |
| Benefit payments | (139,765) |
| Net Change in Total Pension Liability | (2,560,722) |
| Total Pension Liability - Beginning | 14,161,874 |
| **Total Pension Liability - Ending** | **$ 11,601,152** |
| | |
| Covered-employee payroll | $ 38,505,492 |
| Total pension liability as a percentage of covered employee payroll | 30.13% |

* As of June 30; this schedule is to be built prospectively until it contains ten years of data.

Note: No assets are accumulated in trusts or equivalent arrangements for the Eastern Washington University Supplemental Retirement Plan.

## 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 | |
|---|---|
| **Public Records requests** | PublicRecords@sao.wa.gov |
| **Main telephone** | (360) 902-0370 |
| **Toll-free Citizen Hotline** | (866) 902-3900 |
| **Website** | www.sao.wa.gov |