



**EASTERN**  
WASHINGTON UNIVERSITY

start something **big**

# 2016 FINANCIAL REPORT

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## Our Mission

***EWU expands opportunities for personal transformation through excellence in learning.***

EWU achieves this mission by:

- fostering excellence in learning through quality academic programs, undergraduate and graduate student research and individual student-faculty interaction. Students extend their learning beyond the classroom through co-curricular programs, life skills development, internship programs, volunteering and service learning.
- creating environments for personal transformation that enrich the lives of individuals, families, communities and society at large.
- expanding opportunity for all students by providing critical access to first generation students, underserved populations, place-bound students, and other students who may not have the opportunity for higher education.
- developing faculty and staff by growing and strengthening an intellectual community and supporting professional development.

# LETTER FROM THE PRESIDENT.....



I am pleased to present the annual financial statements for Eastern Washington University for your review.

Eastern Washington University leadership and campus constituencies—faculty, staff, students, alumni, community partners—form a team that maintains unwavering focus on our mission: transforming students’ lives through learning.

We reach out to students—Washington students, first-generation college students, diverse students, high-achieving students. We focus on high quality, rigorous academic programs, on programs that help students be successful in jobs after they graduate. We work to ensure our students are ready for a changing society and changing economy.

Our students learn in the community as well as in classrooms. Along the way they bring tremendous value to our communities. Our students volunteer thousands of hours. They’re active in our schools. They participate in mentoring programs in elementary schools as well as with Boys and Girls Clubs and other organizations. Our business students help community members prepare their taxes. Urban planning students intern with local agencies. Our dental hygiene clinic provides excellent service to low income clients and veterans.

Last spring, we graduated 3,000 students. Almost half graduated free of debt. The majority of our 2016 graduates are employed and contributing to the growth and success of their communities.

All our work must rest on a strong financial foundation. Responsible financial stewardship is key to our students’ success and central to our mission.

Thank you for taking time to review this publication. I am very proud of what we are achieving as an institution. We continue to transform lives in so many ways.

Sincerely,

A handwritten signature in cursive script that reads "M Cullinan".

Mary Cullinan, PhD  
EWU President



## Office of the Washington State Auditor

### INDEPENDENT AUDITORS'S REPORT

February 14, 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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

#### 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. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report 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 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 report 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, 2016 and 2015, 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, 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. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 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.

As discussed in Note 1 to the financial statements, during the year ended June 30, 2016, the University implemented Governmental Accounting Standards Board Statement No. 72, *Fair Value and Measurement Application*. 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 pension plan information 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.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements as a whole. The information identified in the table of contents as the Introductory Section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2017 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy

State Auditor

## 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, 2016, with comparative 2015 and 2014 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 12,350 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 11,500 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 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, which have significant implications for all public colleges and universities with defined-benefit pension plans. The cost of pension expense is now recognized during the employee service period – the time worked until separation or retirement. 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 the standard. Fiscal year 2014 information in this discussion has not been adjusted for comparative presentation. Deferred outflows are defined as a consumption of net assets that is applicable to a future reporting period. Deferred inflows are defined as an acquisition of net assets that is applicable to a future period.

### 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, 2016, 2015 and 2014, follows.

**Condensed Statement of Net Position**

*As of June 30 (in thousands)*

	2016	2015	2014
<b>Assets</b>			
Current assets	\$ 95,794	\$ 94,245	\$ 76,819
Capital assets, net of depreciation	306,342	303,330	304,790
Other non-current assets	70,442	66,472	76,313
<b>Total Assets</b>	<b>472,578</b>	<b>464,047</b>	<b>457,922</b>
<b>Deferred outflows of resources</b>	4,619	2,892	41
<b>Liabilities</b>			
Current liabilities	23,981	22,295	18,022
Non-current liabilities	90,046	85,583	67,535
<b>Total Liabilities</b>	<b>114,027</b>	<b>107,878</b>	<b>85,557</b>
<b>Deferred inflows of resources</b>	3,692	8,082	-
<b>Net Position</b>	<b>\$ 359,478</b>	<b>\$ 350,979</b>	<b>\$ 372,406</b>

Current assets consist primarily of cash, short term investments, accounts receivables and inventories. The change in FY15 current assets is mainly from reallocations between cash and short- and long-term investments.

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. In FY15, the University established a faculty twelve month pay program, which allows qualifying faculty working on a nine month contract to be paid over a full year. At the end of FY15, this resulted in an increase in accrued payroll liabilities. Noncurrent liabilities in both FY15 and FY16 increased mostly from the net pension liability created by GASB 68, which recognizes the University's proportionate share of the overall net liability of all employers participating in the state administered defined benefit retirement plans.

Deferred outflows of resources and deferred inflows of resources relate primarily to the University's adoption of GASB 68. Deferred outflows consist mostly of pension contributions made after the measurement date for the net pension liability, while deferred inflows relate to differences between projected and actual investment earnings on pension plan investments.

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 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 assets are 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.

Net position at June 30, 2016, 2015 and 2014 is summarized as follows:

### Condensed Net Position

As of June 30 (in thousands)

	2016	2015	2014
Invested in capital assets, net of related debt	\$ 253,589	\$ 249,085	\$ 248,641
Restricted:			
Non-expendable	5,922	5,910	5,938
Expendable	20,894	21,251	23,018
Unrestricted	79,073	74,733	94,809
Total net position	\$ 359,478	\$ 350,979	\$ 372,406

The change in net position is driven by the difference between revenues and expenses. The primary factor that contributed to the decrease in net position in FY15 is the implementation of GASB No. 68, which required a restatement to FY15 beginning net position to give a retroactive effect to the standard. In FY16 the increase in total net position was driven by continued investment in capital assets as well as increases in tuition and operating appropriations exceeding increases in compensation and 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

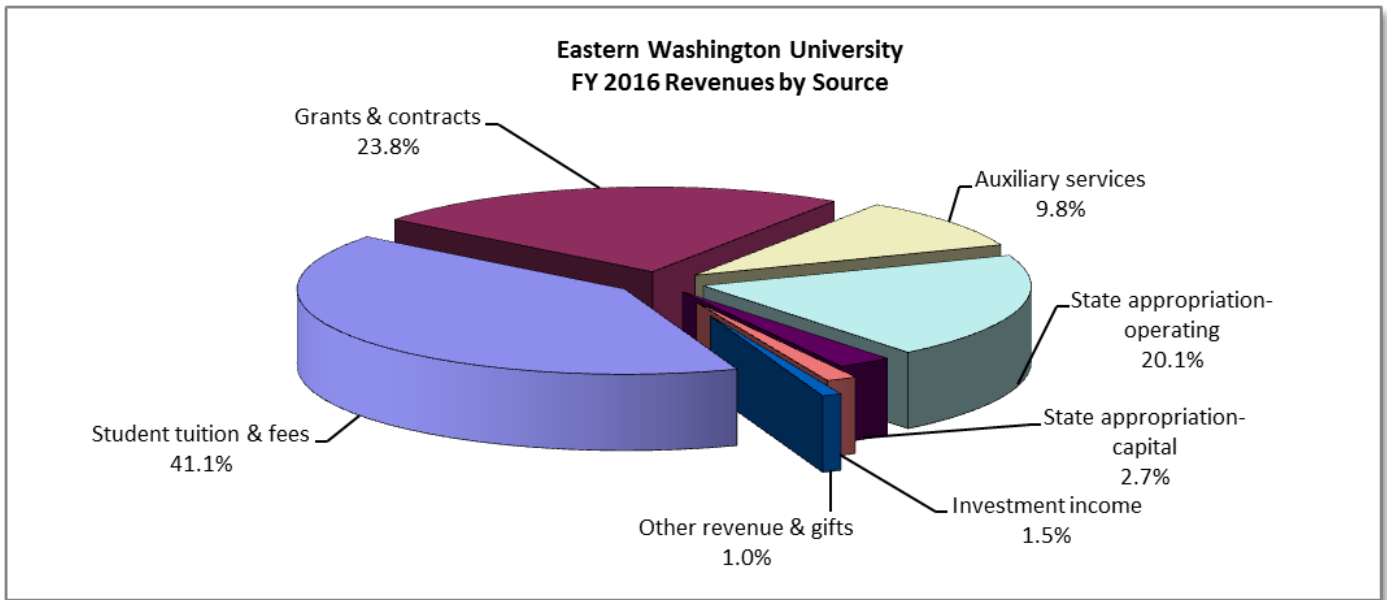
For the year ended June 30 (in thousands)

	2016	2015	2014
Operating revenue	\$ 156,660	\$ 156,601	\$ 143,838
Operating expenses	220,887	218,597	203,538
Net operating loss	(64,227)	(61,996)	(59,700)
Non-operating revenues	70,165	62,844	65,210
Non-operating expenses	2,498	2,310	2,195
Income/(loss) before other revenues	3,440	(1,462)	3,315
Other revenues and expenses	5,059	3,360	13,312
Increase in net position	8,499	1,898	16,626
Net position, beginning of year	350,979	372,406	355,779
Adjustment to beginning net position	-	(23,325)	-
Net position, end of year	\$ 359,478	\$ 350,979	\$ 372,406

*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, 2016. The ensuing table compares revenues by source for fiscal years ended 2016, 2015 and 2014.



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

	2016		2015		2014	
Student tuition & fees	\$ 95,894	41.1%	\$ 94,033	42.2%	\$ 89,280	40.2%
Grants & contracts	55,452	23.8%	57,165	25.7%	51,741	23.3%
Auxiliary services	22,811	9.8%	23,100	10.3%	20,916	9.4%
State appropriation-operating	46,957	20.1%	38,573	17.3%	40,070	18.0%
State appropriation-capital	6,272	2.7%	3,360	1.5%	13,312	6.0%
Investment income	3,498	1.5%	3,722	1.7%	5,058	2.3%
Other revenue & gifts	2,238	1.0%	2,852	1.3%	1,983	0.8%
<b>Total</b>	<b>\$ 233,122</b>	<b>100.0%</b>	<b>\$ 222,805</b>	<b>100.0%</b>	<b>\$ 222,360</b>	<b>100%</b>

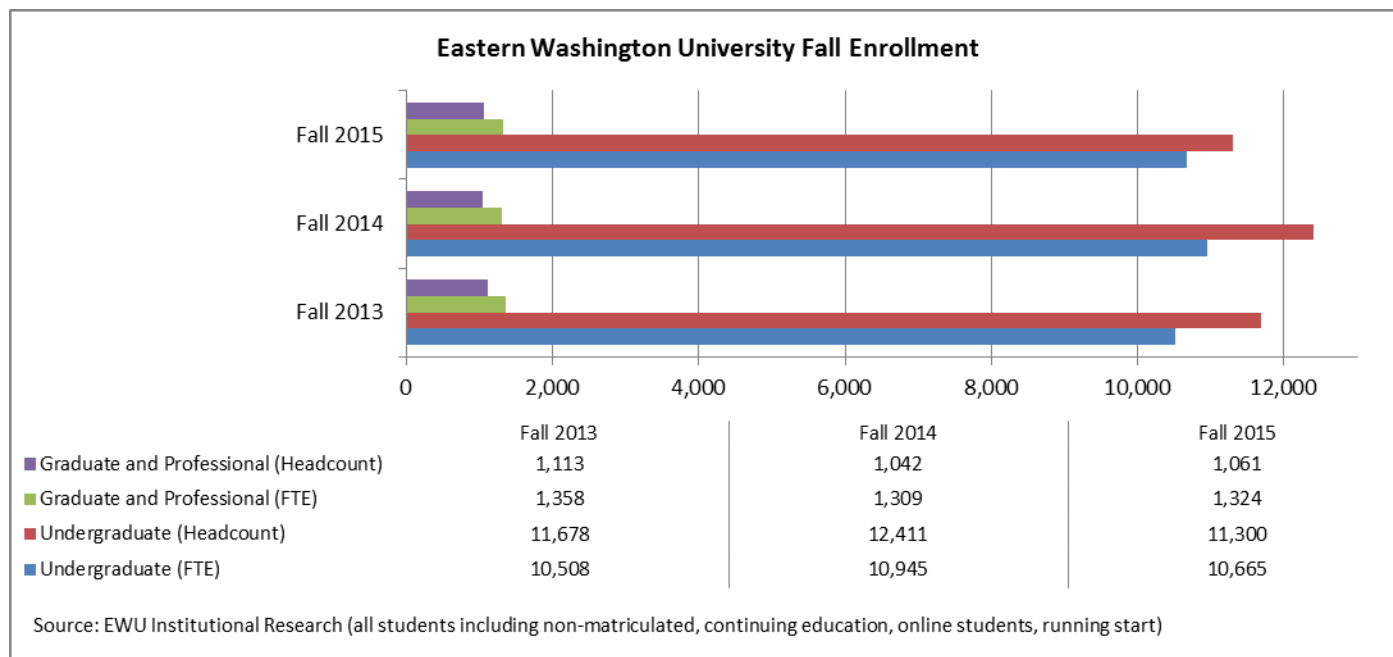
Tuition, other student fees, and state operating appropriations are the primary sources of funding for the University’s academic programs. Eastern Washington University’s 2013-15 biennial state appropriations decreased approximately 30 percent from 2007-09 levels. During the economic recession and extended 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.

The University increasingly looks to tuition and other student fees to continue growing and transforming the University. Tuition rate categories were increased for each of the three academic years as shown in the following table. Total net student tuition and fee revenue increased in part due to these tuition increases, enrollment growth and program related fees. However, there was no increase in resident undergraduate tuition for the two preceding years, followed by a decrease in FY16. For the 2015-17 biennium, tuition rates were reduced for resident undergraduates through state mandates. Operating tuition rates were reduced 5% for FY16 and another 15% 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
2015-16	2,351	-4%	3,641	0%	7,153	5%	8,466	0%
2014-15	2,457	0%	3,640	6%	6,822	6%	8,462	6%
2013-14	2,457	0%	3,445	7%	6,447	7%	7,994	7%

Managing enrollment during periods of economic uncertainty has been a challenge for the University. The challenge 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.



With continued fluctuations in state support and relatively steady student enrollment, dependency on tuition and fee revenues remains significant for covering the cost of providing educational and related support services. These funding variations impact the timing and scale of institutional growth. 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	FY14	FY15	FY16
Tuition dependency ratio (%)	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	62.0	62.6	60.1
Unrestricted financial resources-to-operations (x) <sup>1</sup>	Measures coverage of annual operations by the most liquid resources	Unrestricted net assets divided by total adjusted operating expenses	.52	.37	.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	241	242	249
Current ratio <sup>2</sup>	Measures liquidity – ability to meet current obligations with liquid assets	Current assets divided by current liabilities	4.26	4.23	3.99

<sup>1</sup> The FY15 unrestricted financial resources to operations ratio decreased because unrestricted net position was affected by the adoption of GASB 68 (see impact from Changes in Reporting Requirements section, earlier).

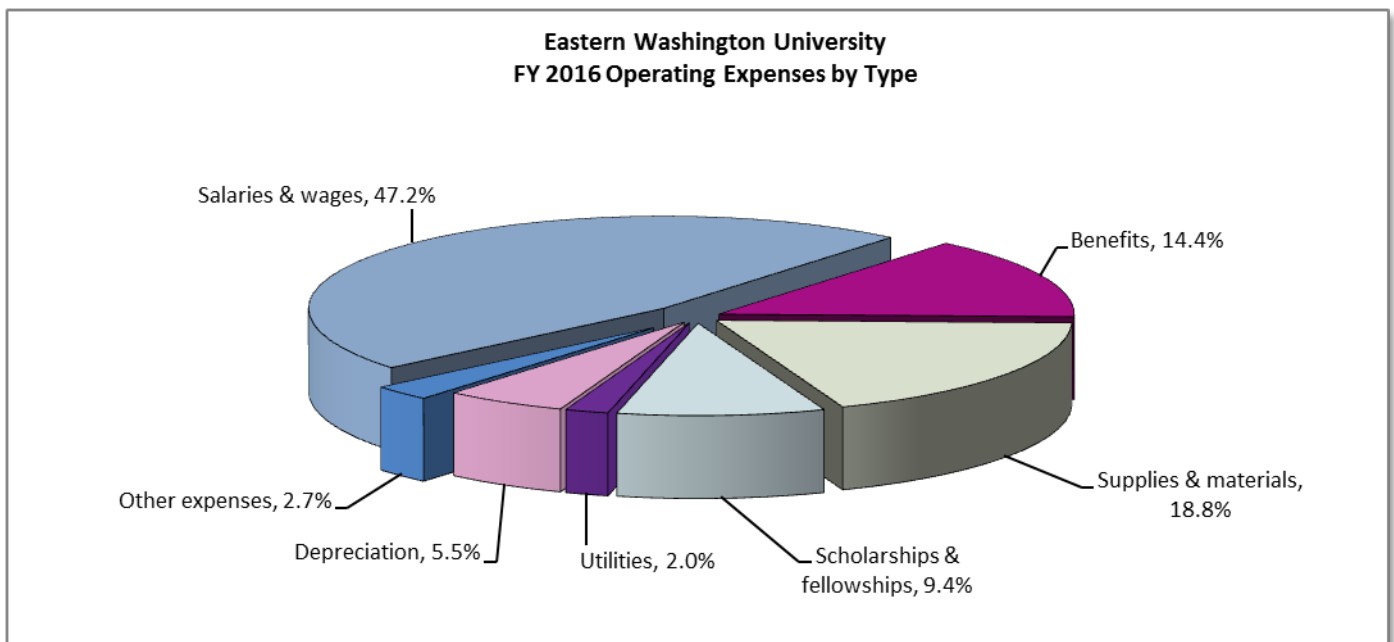
<sup>2</sup> FY14 includes Series 2012 unspent bond proceeds which temporarily inflated the current ratio until invested in capital assets.

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, 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 2016. 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, 2016. The ensuing table compares expenses for fiscal years ending June 30, 2016, 2015 and 2014.

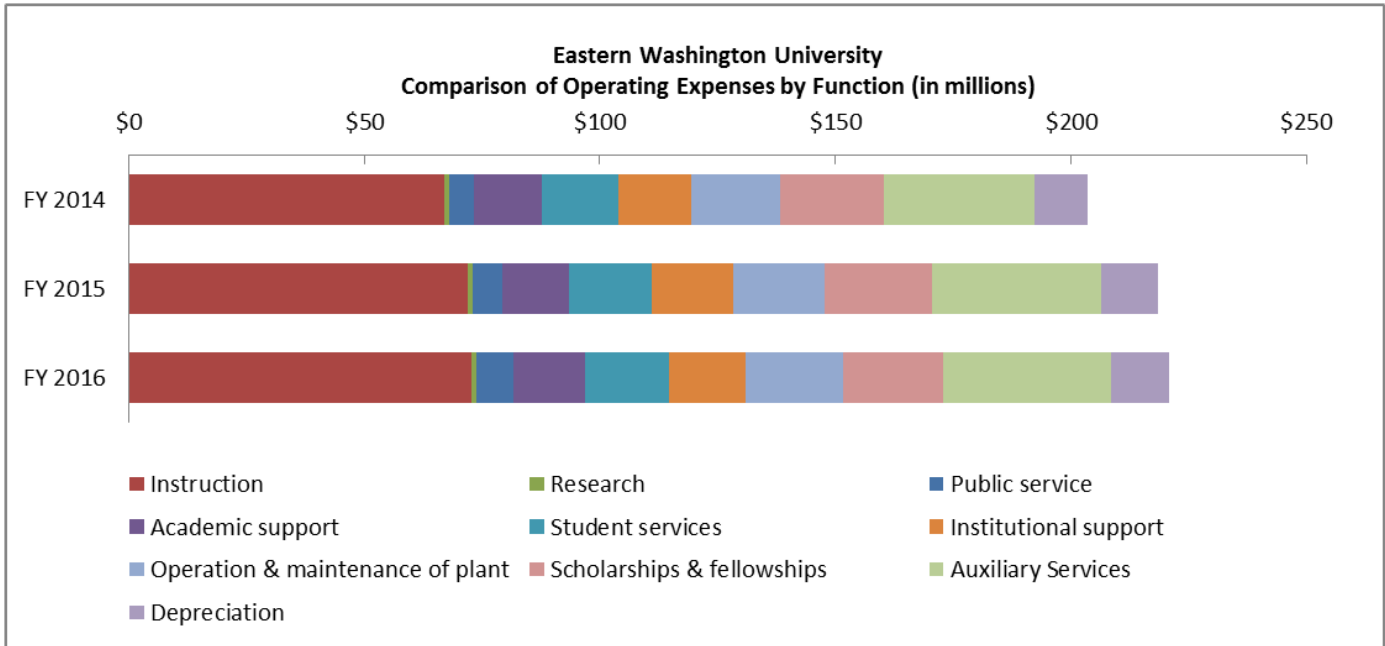


**Operating Expenses by Type (in thousands)  
For the year ended June 30**

	2016		2015		2014	
Salaries & wages	\$ 104,181	47.2%	\$ 100,612	46.0%	\$ 92,676	45.5%
Benefits	31,821	14.4%	28,464	13.0%	28,494	14.0%
Supplies & materials	41,478	18.8%	44,880	20.5%	38,998	19.2%
Scholarships & fellowships	20,826	9.4%	22,131	10.1%	21,923	10.8%
Utilities	4,355	2.0%	4,599	2.1%	4,917	2.4%
Depreciation	12,257	5.5%	12,087	5.5%	11,357	5.6%
Other expenses	5,969	2.7%	5,824	2.8%	5,173	2.5%
<b>Total</b>	<b>\$ 220,887</b>	<b>100.0%</b>	<b>\$ 218,597</b>	<b>100.0%</b>	<b>\$ 203,538</b>	<b>100%</b>

Salaries, wages and benefits are the major support cost for the University’s programs, followed by supplies and materials, scholarships, and other operating expenses. Embedded in the expenses for employee benefits is the pension expense recorded as a result of the adoption of GASB 68. This standard requires pension expense for defined-benefit plans to be actuarially determined instead of cash contributions made to the plan during the fiscal year. This change resulted in a net decrease for retirement benefit expense in FY 2015. Additionally, the cost of health benefit premiums decreased in FY 2015, causing benefits expense to fluctuate while salaries and wages continued to increase. In total, operating expenses increased 1.1 percent while operating revenue remained flat during FY16. However, net non-operating revenues were up nearly 12 percent as state operating appropriations increased in FY16.

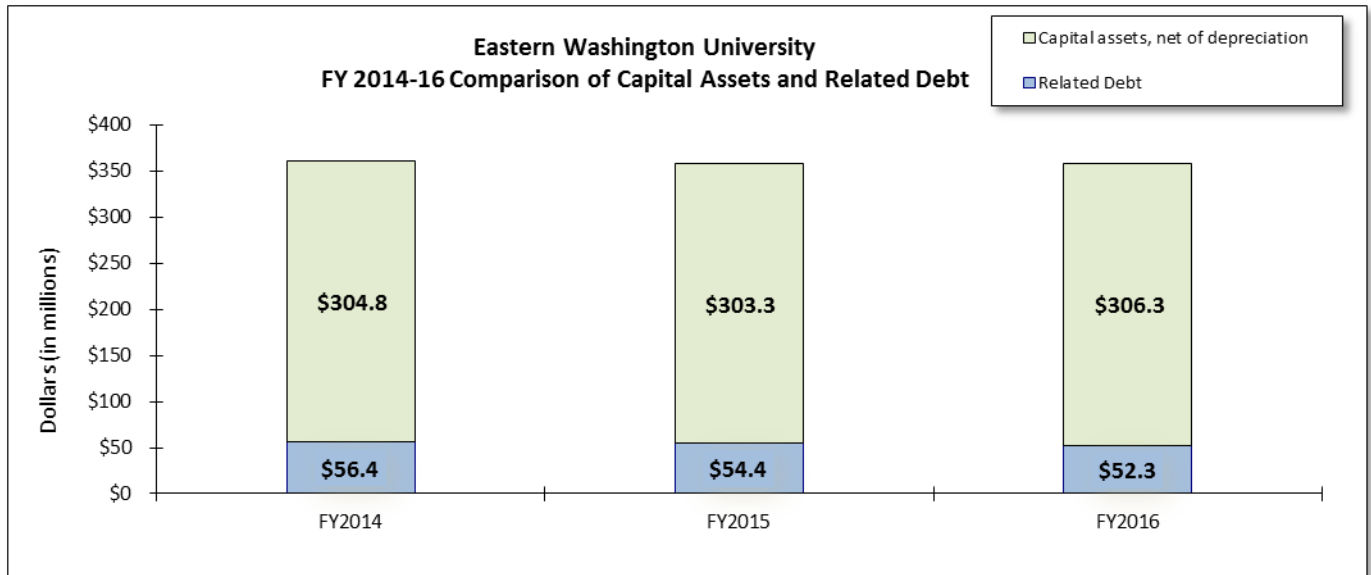
An alternative view of operating expenses is by functional (programmatic) classification as shown below for the years ended June 30, 2016, 2015 and 2014.



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 which consist of land, buildings, infrastructure and equipment (see Footnote 7). In FY15, these increases were offset by the disposal of a large number of equipment items. In FY16, additions to construction in progress offset increases in accumulated depreciation, resulting in a \$2.62 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 on the following page shows the change of investment in capital assets and the associated debt load used to partially finance the construction of those assets.



While several minor improvement projects take place from year to year, two major projects completed in FY 2014 substantially increased the University's investment in buildings. In December 2013 work was completed on the Patterson Hall renovation and expansion project, the University's largest academic building with 40 general use classrooms and two computer labs. Funded by the state capital budget, the project renovated the existing 102,347 square foot building and provides an additional 33,196 square feet of space. In fall 2013, construction was completed on a new 350-bed residence hall, which was funded by revenue bond proceeds, with debt service paid by the Housing and Dining system.

Other smaller projects occurring in FY 2015 included completion of a new recycling complex, design work to upgrade the University's water system, and completion of an electrical system upgrade for the primary Office of Information Technology building. In FY 2016, the University capitalized expenses related to construction of the water system upgrade, design work on the student union building renovation, design costs for an interdisciplinary science center, and various other building and infrastructure improvements.

In September 2015 Moody's Investors Service affirmed the A1 rating on the outstanding Series 2012 Housing and Dining System Revenue Bonds and 2006 Services and Activities Fee Revenue Bonds. The outlook is stable and debt service coverage remains healthy as demonstrated by the financial ratios below.

Financial Indicator	Definitions	Calculation	FY 2014	FY 2015	FY 2016
Expendable financial resources to direct debt (x) <sup>1</sup>	Measures coverage of direct debt by financial resources that are ultimately expendable	Expendable financial resources divided by direct debt	2.21	1.88	2.03
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	2.02	2.08	2.05
Debt service coverage (x) <sup>2</sup>	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	4.22	2.96	4.11

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

<sup>1</sup> The FY15 expendable financial resources to direct debt ratio decreased because unrestricted net position was affected by the adoption of GASB 68 (see impact from Changes in Reporting Requirements section, earlier).

<sup>2</sup> The FY15 debt service coverage ratio decreased as the adjusted loss before other revenues and expenses was lower than other years.

## 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.

Funding for higher education continues to be under pressure with fluctuating state funding and increasing enrollment demand. Reductions in historical state funding levels have been partially offset by higher tuition and fee rates. However, for the 2015-2017 biennium, the Washington State Legislature enacted legislation that revokes public universities' authority to set their own undergraduate resident tuition rates. Eastern Washington University was required to lower undergraduate resident tuition by 5% in FY16 and 15% in FY17, reductions which are being offset by increases in state appropriations approved by the legislature. Mandated funding for K-12 public education has placed even greater demands on the statewide budget, which magnifies the importance of a balanced funding model for higher education.

Other factors that can impact financial position include changes in accounting and reporting requirements. In FY17, GASB Statement 73 will require additional liabilities to be recorded for the supplemental portion of the Eastern Washington University Retirement Plan (see note 12 for more information), and 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 68.

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 major renovations to classrooms and other facilities 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 Board of Trustees approved a mandatory student fee increase of \$195 per year for the Pence Union Building renovation project. The fee will be used to pay debt service on revenue bonds issued in October 2016, which will fund the design and construction of the PUB remodel. See footnote 16 for more information.



# Statements of Net Position

June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,708,202	\$ 36,191,100
Short-term investments	29,866,242	37,095,270
Deposit with State of Washington	7,501,958	6,626,562
Accounts receivable (net of allowances of \$493,901 and \$363,415, respectively)	11,475,628	10,562,219
Student loans receivable (net of allowances of \$28,791 and \$9,641, respectively)	64,140	103,056
Inventories	1,484,527	1,201,711
Other assets	692,931	2,464,691
Total current assets	<u>95,793,628</u>	<u>94,244,609</u>
Noncurrent assets:		
Endowment investments	8,977,700	9,411,669
Other long-term investments	55,997,671	51,842,172
Student loans receivable (less allowances of \$1,005,060 and \$1,021,836, respectively)	4,870,378	4,576,498
Other noncurrent assets	102,682	108,984
Restricted net pension asset	494,651	532,925
Capital assets, net of accumulated depreciation	306,341,759	303,329,688
Total noncurrent assets	<u>376,784,841</u>	<u>369,801,936</u>
Total assets	<u>\$ 472,578,469</u>	<u>\$ 464,046,545</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized loss on bond refunding	\$ 21,940	\$ 31,691
Deferred outflows of resources related to pensions	<u>4,595,996</u>	<u>2,861,383</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 8,519,169	\$ 7,205,015
Accrued liabilities	8,369,250	7,723,507
Deposits or funds held for others	452,349	614,325
Unearned revenue	4,406,180	4,600,034
Long-term liabilities, current portion	<u>2,233,878</u>	<u>2,151,698</u>
Total current liabilities	<u>23,980,826</u>	<u>22,294,579</u>
Noncurrent liabilities:		
Compensated absences	7,628,026	7,115,826
Unamortized premiums on debt issues	572,760	617,105
Net pension liability	22,949,034	18,124,064
Long-term liabilities	<u>58,895,828</u>	<u>59,726,207</u>
Total noncurrent liabilities	<u>90,045,648</u>	<u>85,583,202</u>
Total liabilities	<u>\$ 114,026,474</u>	<u>\$ 107,877,781</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	<u>3,691,634</u>	<u>8,082,421</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 253,588,719	\$ 249,085,340
Restricted for:		
Nonexpendable:		
Endowments	5,358,610	5,333,585
Charitable gift annuities	563,645	576,288
Expendable:		
Loans	8,786,661	8,700,047
Capital projects	6,390,748	6,699,697
Endowments and other	5,222,066	5,318,735
Net Pension Asset	494,651	532,924
Unrestricted	<u>79,073,197</u>	<u>74,732,801</u>
Total net position	<u>\$ 359,478,297</u>	<u>\$ 350,979,417</u>

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

For the Years Ended June 30, 2016 and 2015

	FY 2016	FY 2015
<b>REVENUES</b>		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$26,067,932 and \$27,946,411 respectively)	\$ 95,894,218	\$ 94,032,500
Federal grants and contracts	4,783,752	5,221,499
State and local grants and contracts	26,463,022	26,562,813
Nongovernmental grants and contracts	4,726,159	5,028,898
Sales and services of auxiliary enterprises		
Housing and dining services (net of scholarship allowances of \$11,635,181 and \$11,150,415, respectively)	13,341,865	13,601,942
Other auxiliary enterprises (net of scholarship allowances of \$2,003,917 and \$1,791,086, respectively)	9,469,041	9,497,815
Other operating revenue	1,981,474	2,655,894
Total operating revenue	<u>156,659,531</u>	<u>156,601,361</u>
<b>EXPENSES</b>		
Operating expenses:		
Salaries and wages	104,180,875	100,611,593
Benefits	31,821,343	28,463,831
Scholarships and fellowships	20,825,774	22,131,095
Utilities	4,355,019	4,598,821
Supplies and materials	40,252,459	42,189,745
Non-capitalized facility improvements (NCFI)	1,226,572	2,690,750
Other	5,968,514	5,824,100
Depreciation	12,256,576	12,086,644
Total operating expenses	<u>220,887,132</u>	<u>218,596,579</u>
Operating loss	(64,227,601)	(61,995,218)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
State appropriations	46,957,000	38,572,703
Investment income, gains and losses	3,498,299	3,722,146
Interest on capital asset-related debt	(2,228,017)	(2,309,951)
Gifts	231,393	196,005
Loss on disposal of capital assets	(270,288)	-
Pell grant revenue	19,479,148	20,352,078
Net non-operating revenues	<u>67,667,535</u>	<u>60,532,981</u>
Gain (loss) before other revenues, expenses, gains or losses	<u>3,439,934</u>	<u>(1,462,237)</u>
State appropriations - capital	6,271,916	3,359,989
Gifts to permanent endowments	25,030	245
Extraordinary item - Moore v. HCA settlement	(1,238,000)	-
Total other revenues and expenses	5,058,946	3,360,234
Increase in net position	8,498,880	1,897,997
<b>NET POSITION</b>		
Net position, beginning of year	350,979,417	372,405,915
Adjustment to beginning net position (Note 1)	-	(23,324,495)
Net position, beginning of year as restated	<u>350,979,417</u>	<u>349,081,420</u>
Net position, end of year	<u>\$ 359,478,297</u>	<u>\$ 350,979,417</u>

# Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015

	FY 2016	FY 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 97,397,614	\$ 92,033,844
Grants and contracts	36,177,222	37,047,113
Payments to vendors	(50,639,624)	(55,418,358)
Payments to employees	(134,754,462)	(123,409,359)
Payments for scholarships and fellowships	(20,825,774)	(22,131,095)
Loans issued to students	(1,264,181)	(809,055)
Collection of student loans	976,360	1,106,576
Auxiliary enterprise receipts	22,186,200	23,512,767
Other receipts (payments)	3,374,764	3,791,307
Net cash used by operating activities	<u>(47,371,881)</u>	<u>(44,276,260)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	46,957,000	38,572,703
Pell grant	19,479,148	20,352,078
Endowment gifts	25,030	245
Extraordinary item - Moore v. HCA settlement (Note 16)	(1,238,000)	-
Stafford/Plus/Direct loans receipts	63,619,450	65,592,385
Stafford/Plus/Direct loans disbursements	(63,619,450)	(65,485,144)
Agency fund receipts	8,084,407	7,674,248
Agency fund disbursements	(7,982,949)	(7,771,462)
Net cash provided by noncapital financing activities	<u>65,324,636</u>	<u>58,935,053</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations	3,237,975	5,080,707
Purchases of capital assets	(15,307,544)	(10,430,370)
Principal paid on capital debt and leases	(2,100,168)	(2,037,441)
Interest paid on capital debt and leases	(2,271,714)	(2,351,868)
Net cash provided (used) by capital financing activities	<u>(16,441,451)</u>	<u>(9,738,972)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	40,465,611	21,696,733
Interest on investments	3,602,169	3,373,292
Purchase of investments	(37,061,982)	(27,137,235)
Net cash provided (used) by investing activities	<u>7,005,798</u>	<u>(2,067,210)</u>
Net increase (decrease) in cash	8,517,102	2,852,611
Cash, beginning of year	36,191,100	33,338,489
Cash, end of year	<u>\$ 44,708,202</u>	<u>\$ 36,191,100</u>

# Statements of Cash Flows *(Continued)*

*For the Years Ended June 30, 2016 and 2015*

	<u>FY 2016</u>	<u>FY 2015</u>
<b>Reconciliation of net operating revenue (expenses) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ (64,227,601)	\$ (61,995,218)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	12,256,576	12,086,644
Changes in assets and liabilities:		
Receivables, net	1,245,136	(1,202,078)
Inventories	(282,816)	34,574
Other assets	1,771,760	736,645
Accounts payable	1,975,302	3,740,126
Deferred and unearned revenue	(193,854)	(47,428)
Deposits held for others	(263,434)	534,093
Compensated absences and other	1,864,169	2,059,310
Net Pension Liability	(1,262,156)	(512,318)
Loans to students	(254,963)	289,390
Net cash used by operating activities	<u>\$ (47,371,881)</u>	<u>\$ (44,276,260)</u>
 Noncash Transactions		
Capital contributions	231,393	196,005
Loss on disposal of capital assets	(270,288)	-

# Statements of Financial Position - Component Unit (Foundation)

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,181,417	\$ 1,309,262
Certificates of deposit	1,443,216	1,506,594
Promises to give, net of allowances and discounts	368,593	381,556
Other assets	209,320	388,874
Contributions receivable from charitable trusts	374,673	369,078
Investments held in charitable trusts	175,088	199,239
Investments	18,738,529	18,451,993
Beneficial interest in perpetual trusts	<u>2,306,335</u>	<u>2,427,771</u>
Total assets	<u>\$ 25,797,171</u>	<u>\$ 25,034,367</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 105,234	\$ 129,644
Annuities payable	<u>96,388</u>	<u>112,424</u>
Total liabilities	201,622	242,068
<b>NET ASSETS</b>		
Unrestricted (deficit)	393,007	379,921
Temporarily restricted	6,422,672	6,535,960
Permanently restricted	<u>18,779,870</u>	<u>17,876,418</u>
Total net assets	<u>25,595,549</u>	<u>24,792,299</u>
Total liabilities and net assets	<u>\$ 25,797,171</u>	<u>\$ 25,034,367</u>

# Statements of Activities – Component Unit (Foundation)

For the Years Ended June 30, 2016 and 2015

	FY 2016				FY 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND SUPPORT</b>								
Contributions	\$ 47,044	\$ 2,366,293	\$ 956,987	\$ 3,370,324	\$ 232,769	\$ 2,080,865	\$ 298,440	\$ 2,612,074
Contributions from trusts	-	93,598	-	93,598	-	94,215	-	94,215
Investment Income, net of fees of \$82,393 and \$82,059, respectively	43,780	332,100	-	375,880	37,971	359,487	-	397,458
Realized gain (loss) on investments	(514)	3,199,295	-	3,198,781	(317)	580,635	-	580,318
Unrealized gain (loss) on investments	-	(3,217,160)	-	(3,217,160)	-	(281,899)	-	(281,899)
Change in value of split-interest agreements	-	-	(123,955)	(123,955)	-	-	(86,667)	(86,667)
Support provided by Eastern Washington University	1,066,737	-	-	1,066,737	1,030,416	-	-	1,030,416
Other	(148,016)	1,049,935	16,180	918,099	450	814,656	18,449	833,555
Total revenues, gains, and support	1,009,031	3,824,061	849,212	5,682,304	1,301,289	3,647,959	230,222	5,179,470
Net assets released from restrictions and other transfers	3,883,109	(3,937,349)	54,240	-	3,559,563	(3,771,286)	211,723	-
<b>EXPENSES</b>								
Management and general	954,935	-	-	954,935	1,016,177	-	-	1,016,177
Fundraising	666,728	-	-	666,728	618,050	-	-	618,050
Support provided to/for Eastern Washington University	3,257,391	-	-	3,257,391	3,034,578	-	-	3,034,578
Total expenses	4,879,054	-	-	4,879,054	4,668,805	-	-	4,668,805
<b>CHANGE IN NET ASSETS</b>	13,086	(113,288)	903,452	803,250	192,047	(123,327)	441,945	510,665
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	379,921	6,535,960	17,876,418	24,792,299	187,874	6,659,287	17,434,473	24,281,634
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	\$ 393,007	\$ 6,422,672	\$ 18,779,870	\$ 25,595,549	\$ 379,921	\$ 6,535,960	\$ 17,876,418	\$ 24,792,299

## 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, 2016 and 2015, the net distribution from the Foundation to the University for restricted and unrestricted purposes which includes both student scholarships and program support follows:

<u>Fiscal Year</u>	<u>Net Distribution</u>
2016	\$2,190,654
2015	\$2,004,162

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. The plan was established in fiscal year 2015, and accrued earnings and benefits at June 30, 2016 were \$3,269,896 and \$493,570, respectively. Accrued earnings and benefits at June 30, 2015 were \$2,871,073 and \$430,564, respectively.

#### Reclassifications, Restatements, and Changes in Accounting Principles

Implementation of GASB No. 68 resulted in an adjustment to beginning net position as of July 1, 2014. Under the change in accounting principle prescribed by GASB No. 68, pension expense is now determined based on actuarial assumptions and recorded as a cost of the service period. Additionally, the University records its proportionate share of the pension plan's net pension liability. Changes in the net pension liability are recognized through deferred outflows and deferred inflows of resources related to pensions. The information provided by Department of Retirement Systems for the June 30, 2014 measurement date only allowed the University to restate

FY 15 beginning net position. Following is a reconciliation of the July 1, 2014 beginning net position as previously reported, to the restated net position for the same period:

Total Net Position, as previously reported, July 1, 2014	\$372,405,915
Less: pension expense recorded retroactively by GASB 68	(23,324,495)
Total Net Position, as restated, July 1, 2014	\$349,081,420

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 2015 amounts in order to conform to 2016 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, 2016	Carrying Value June 30, 2015
<u>Deposits</u>		
Cash and cash equivalents		
Interest bearing	\$ 44,577,727	\$ 36,061,810
Other	130,475	129,290
Total deposits	<u>\$ 44,708,202</u>	<u>\$ 36,191,100</u>

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

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

At June 30, 2015, investment maturities are as follows:

	Fair value June 30, 2015	Investment maturities for fixed income securities (in months)			
		0 – 9	10 – 24	25 – 60	61 – 120
<u>Investments – Operating Funds</u>					
U.S. Government agency bonds	\$ 88,123,295	\$ 25,043,580	\$ 38,980,415	\$ 24,099,300	-
<u>Investments – Charitable Gift Annuities</u>					
Investment unit trusts					
Equity fund	448,105				
Bond fund	366,042				\$ 366,042
<u>Investments – Endowment Funds</u>					
Investment unit trusts					
Equity fund	6,066,314				
Bond fund	3,345,355				3,345,355
Total investments	\$ 98,349,111	\$ 25,043,580	\$ 38,980,415	\$ 24,099,300	\$ 3,711,397

At June 30, 2016 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is \$3,619,060 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 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 7.5 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 A+ 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, 2016:

- U.S. Government agency bonds of \$85,098,796 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, 2016 and 2015 consist of the following:

	June 30, 2016	June 30, 2015
Accounts receivable		
Student tuition and fees (less allowances of \$248,217 and \$82,413, respectively)	\$ 5,037,059	\$ 6,720,936
Auxiliary enterprises (less allowances of \$238,550 and \$264,163, respectively)	1,642,949	1,044,082
Contracts and grants	1,506,570	1,677,033
State reimbursement	3,070,420	911,875
Other (less allowances of \$7,133 and \$16,839, respectively)	<u>218,630</u>	<u>208,293</u>
Total accounts receivable	<u>\$ 11,475,628</u>	<u>\$ 10,562,219</u>
Student loans receivable		
Federal programs (less allowances of \$1,005,060 and \$1,021,836, respectively)	\$ 4,870,378	\$ 4,576,498
Institutional loans (less allowances of \$28,791 and \$9,641, respectively)	<u>64,140</u>	<u>103,056</u>
Total student loans receivable	<u>\$ 4,934,518</u>	<u>\$ 4,679,554</u>

**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. This policy change was made in fiscal year 2015.

<u>Leave Type</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Vacation	\$5,949,653	\$5,532,281
Sick	\$1,678,373	\$1,583,545

**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 \$3,200,925 and \$3,266,017 at June 30, 2016 and 2015, respectively.

**Note 7: Capital Assets**

Capital asset activity for the two-year period ended June 30, 2016 is summarized as follows:

	June 30, 2014	Additions	Retirements	June 30, 2015	Additions	Retirements	June 30, 2016
<b>Non-depreciable Capital Assets</b>							
Land	\$1,524,834	\$-	\$-	\$1,524,834	\$-	\$-	\$1,524,834
Construction in progress	1,791,437	5,070,412	3,106,182	3,755,667	11,989,155	1,143,908	14,600,914
<b>Subtotal</b>	<b>3,316,271</b>	<b>5,070,412</b>	<b>3,106,182</b>	<b>5,280,501</b>	<b>11,989,155</b>	<b>1,143,908</b>	<b>16,125,748</b>
<b>Depreciable Capital Assets</b>							
Buildings	370,823,275	4,859,446	-	375,682,721	194,415	832,943	375,044,193
Improvements other than buildings	17,529,039	-	-	17,529,039	390,231	-	17,919,270
Infrastructure	30,699,799	-	-	30,699,799	692,703	-	31,392,502
Furniture, fixtures and equipment	35,037,565	2,318,224	2,618,345	34,737,444	1,920,700	992,876	35,665,268
Library materials	23,970,112	1,484,476	1,322,743	24,131,845	1,495,641	1,561,820	24,065,666
<b>Subtotal</b>	<b>478,059,790</b>	<b>8,662,146</b>	<b>3,941,088</b>	<b>482,780,848</b>	<b>4,693,690</b>	<b>3,387,639</b>	<b>484,086,899</b>
<b>Total Capital Assets</b>	<b>481,376,061</b>	<b>13,732,558</b>	<b>7,047,270</b>	<b>488,061,349</b>	<b>16,682,845</b>	<b>4,531,547</b>	<b>500,212,647</b>
<b>Less Accumulated Depreciation</b>							
Buildings	111,003,507	7,291,189	-	118,294,696	7,316,594	564,911	125,046,379
Improvements other than buildings	6,600,732	574,149	-	7,174,881	584,989	-	7,759,870
Infrastructure	19,838,178	909,024	-	20,747,202	937,887	-	21,685,089
Furniture, fixtures and equipment	28,344,761	2,124,773	2,618,344	27,851,190	2,193,228	990,618	29,053,800
Library materials	10,798,926	1,187,509	1,322,743	10,663,692	1,223,878	1,561,820	10,325,750
<b>Total Accumulated Depreciation</b>	<b>176,586,104</b>	<b>12,086,644</b>	<b>3,941,087</b>	<b>184,731,661</b>	<b>12,256,576</b>	<b>3,117,349</b>	<b>193,870,888</b>
<b>Capital assets, net of depreciation</b>	<b>\$304,789,957</b>	<b>\$1,645,914</b>	<b>\$3,106,183</b>	<b>\$303,329,688</b>	<b>\$4,426,269</b>	<b>\$1,414,198</b>	<b>\$306,341,759</b>

**Note 8: Long-term Liabilities**

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

	June 30, 2015	Additions	Reductions	June 30, 2016	Current Portion 2016
<b>Leases and bonds payable:</b>					
Lease obligations (Note 9)	\$ 3,595,071	\$ -	\$ 415,168	\$ 3,179,903	\$ 422,348
Revenue bonds payable (Note 10)	<u>50,810,000</u>	<u>-</u>	<u>1,685,000</u>	<u>49,125,000</u>	<u>1,760,000</u>
Total leases and bonds payable	54,405,071	-	2,100,168	52,304,903	2,182,348
<b>Other liabilities:</b>					
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)	<u>7,115,825</u>	<u>4,840,393</u>	<u>4,328,192</u>	<u>7,628,026</u>	<u>-</u>
<b>Total long-term liabilities</b>	<b>\$ 87,117,795</b>	<b>\$ 11,223,630</b>	<b>\$ 6,634,659</b>	<b>\$ 91,706,766</b>	<b>\$ 2,233,878</b>

	June 30, 2014	Additions	Reductions	June 30, 2015	Current Portion 2015
Leases and bonds payable:					
Lease obligations (Note 9)	\$ 4,007,512	\$ -	\$ 412,441	\$ 3,595,071	\$ 415,168
Revenue bonds payable (Note 10)	<u>52,435,000</u>	<u>-</u>	<u>1,625,000</u>	<u>50,810,000</u>	<u>1,685,000</u>
Total leases and bonds payable	56,442,512	-	2,037,441	54,405,071	2,100,168
Other liabilities:					
Charitable gift annuities (Note 1)	130,210	155,384	47,735	237,859	51,530
Net pension obligation (Note 12)	5,855,663	1,542,000	162,687	7,234,976	-
Net pension liability (Note 12)	-	18,124,064	-	18,124,064	-
Compensated absences (Note 5)	<u>6,543,477</u>	<u>4,802,788</u>	<u>4,230,440</u>	<u>7,115,825</u>	<u>-</u>
Total long-term liabilities	<u>\$ 68,971,862</u>	<u>\$ 24,624,236</u>	<u>\$ 6,478,303</u>	<u>\$ 87,117,795</u>	<u>\$ 2,151,698</u>

**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 2017 through 2023. Total operating lease expenses in fiscal year 2016 were \$611,466.

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.

Minimum lease payments under leases together with the present value of the net minimum capital lease payments as of June 30, 2016, are as follows:

Fiscal Year Annual Payment	Operating	Capital
2017	\$ 486,823	\$ 589,924
2018	378,003	585,493
2019	266,271	601,423
2020	162,115	601,996
2021	63,161	593,302
2022-23	<u>59,055</u>	<u>840,603</u>
Obligation under leases	<u>\$ 1,415,428</u>	3,812,741
Less: Amount representing interest costs		(632,838)
Present value of minimum obligation under capital leases		<u>\$ 3,179,903</u>

**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 Housing and Dining System Revenue Bonds is tax-exempt debt with external restrictions as outlined in the bond covenants.

	Interest Rate	Maturity Date	Original Balance	Outstanding Balance
Service and Activities Revenue Bonds, Series 2006	4.00% - 5.00%	2016-2038	\$ 28,090,000	\$ 23,645,000
Service and Activities Refunding Bonds, Series 2006	4.00% - 4.00%	2016-2019	5,625,000	1,700,000
Housing and Dining System Revenue Bonds, Series 2012	2.00% - 4.125%	2016-2042	25,330,000	23,780,000
Total Revenue Bonds Payable			<u>\$ 59,045,000</u>	<u>\$ 49,125,000</u>

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

Fiscal Year	Eastern Washington University	
	Principal	Interest
2017	\$ 1,760,000	\$ 2,014,517
2018	1,840,000	1,942,918
2019	1,905,000	1,868,517
2020	1,370,000	1,803,418
2021	1,425,000	1,748,017
2022-2026	7,960,000	7,919,400
2027-2031	9,720,000	6,173,574
2032-2036	12,095,000	3,910,466
2037-2041	9,625,000	1,260,487
2042	1,425,000	58,781
Totals	<u>\$ 49,125,000</u>	<u>\$ 28,700,095</u>

**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	\$8,139,315	\$2,284,918	\$39,206,805	Service & Activities Fee Revenue and Refunding Bonds – Series 2006	Refund outstanding debt on S&A Revenue Bonds of 1993 and construction of a new student recreation center	2019 (Refunding) 2038 (Revenue)
Housing and Dining revenues net of operating expenses	\$7,626,135	\$1,483,000	\$38,618,290	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, 2016, was \$104,180,875. The payroll for employees covered by PERS was \$27,434,293; payroll for employees covered by TRS was \$924,746; payroll for employees covered by LEOFF was \$894,293; and payroll for employees covered by the Eastern Washington University Retirement Plan was \$59,824,364.

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.

#### 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 \$1,928,001 and \$2,026,497 in pension expense for all plans subject to the requirements of GASB Statement No. 68 for fiscal years 2016 and 2015, 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 2016 are presented later in this footnote.

#### Teacher's Retirement System (TRS)

**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 2016 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 2016 are presented later in this footnote.

**Actuarial Assumptions**

The total pension liability for each of the plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The total pension liability was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan’s normal cost (using the Entry Age Cost Method), assumed interest and actual benefit payments.

Inflation	3.00%
Salary Increases	3.75%
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.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report.

**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 long-term expected rate of return of 7.50 percent approximately equals the median of the simulated investment returns over a 50-year time horizon, adjusted to remove or dampen any short-term changes to WSIB’s CMAs that aren’t expected over the entire 50-year measurement period.

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, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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 included in this publication. To determine that rate, an asset sufficiency test was completed to test 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, PSERS Plan 2, SERS 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. The proportions are based on the University’s contributions to the pension plan relative to the contributions of all participating employers.

Year Ended 6/30/15	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
Proportionate Share	0.235935%	0.285383%	0.014280%	0.015141%	0.040159%
Net Pension Liability	11,885,340	5,768,630	421,191	48,904	(532,924)

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 6/30/15	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
1% Decrease	14,649,845	24,062,191	542,016	425,075	228,061
Current Discount Rate	11,885,340	5,768,630	421,191	48,904	(532,924)
1% Increase	9,512,283	(8,204,246)	317,479	(230,704)	(1,103,994)

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, 2016, 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
Pension contributions subsequent to the measurement date	1,340,587	-	1,666,222	-
Differences between expected and actual experience and changes in assumptions	-	-	1,097,956	-
Change in proportion	-	-	181,444	20,096
Net difference between projected and actual investment earnings on pension plan investments	-	665,493	-	2,716,136
Total	1,340,587	665,493	2,945,622	2,736,232

	TRS 1		TRS 2/3	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	38,133	-	70,007	-
Differences between expected and actual experience and changes in assumptions	-	-	21,382	-
Change in proportion	-	-	60,436	-
Net difference between projected and actual investment earnings on pension plan investments	-	35,253	-	52,120
Total	38,133	35,253	151,825	52,120

	LEOFF 2	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	75,210	-
Differences between expected and actual experience and changes in assumptions	44,620	-
Change in proportion	-	52,660
Net difference between projected and actual investment earnings on pension plan investments	-	149,877
Total	119,830	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
2017	(257,922)	(670,775)	(13,673)	757	(60,516)
2018	(257,922)	(670,775)	(13,673)	757	(60,516)
2019	(257,922)	(670,775)	(13,673)	757	(60,516)
2020	108,273	591,788	5,766	24,297	23,964
2021	-	-	-	3,130	(438)
2022	-	-	-	-	110



**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, 2016		Required Employer Contributions		
	Employee	University	FY 2014	FY 2015	FY 2016
PERS					
Plan I	6.00%	11.18%	\$ 64,245	\$ 57,464	\$ 67,757
Plan II	6.12%	11.18%	1,881,470	1,926,219	2,473,087
Plan III	Varies	11.18% *	373,595	402,747	515,043
TRS					
Plan I	6.00%	13.13%	\$ 358	\$ 42	\$ 42
Plan II	5.95%	13.13%	2,605	-	-
Plan III	Varies	13.13%	67,906	79,752	112,047
LOEFF					
Plan II	8.41%	8.59%	\$ 57,464	\$ 72,978	\$ 76,820

\* 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 defined contribution plan with certain provisions for supplemental payments. 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.

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.

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, 2016.

**Contribution** - 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, 2016, total \$5,095,073.

The University supplemental retirement benefits are unfunded and charged to operations in the years in which they are paid. The University makes no contributions other than benefit payments and there are no plan assets. The difference between benefits earned and paid represents an accrued liability; the amount is determined by an actuarial study.

An actuarial study of the supplemental pension benefits was last performed as of July 1, 2015. The previous evaluation was performed in 2013. The actuarial assumptions for the most recent valuation included an investment rate of return of 4.00 percent compounded annually and projected salary increases of 3.75% per year. Based on assumptions made regarding expected benefit payments, the actuary presents a cash flow projection rather than an actuarial funding plan to liquidate any unfunded liabilities. The University uses this cash flow projection to budget annual amounts to provide funds for these benefits.

The unfunded actuarial accrued liability (UAL) calculated at July 1, 2015 was \$10,200,000 under the plan’s entry age normal method and is amortized over a 10 year period. The UAL is amortized as a level percent of future pay; the plan was closed to new participants effective July 1, 2011. The annual required contribution (ARC) is projected at \$1,542,000. There is no inflationary factor included in the UAL valuation. The net pension obligation is the cumulative excess, if any, of the ARC over the actual benefit payments and is reported as a liability on the Statement of Net Position.

The following table reflects net pension obligation activity for the fiscal years ended June 30 follows:

Net Pension Obligation	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Balance as of July 1	\$ 7,234,976	\$ 5,855,663	\$ 4,896,140
Add: Annual Required Contribution	1,542,000	1,542,000	1,114,000
Less: Payments to beneficiaries	153,645	162,687	154,477
Balance as of June 30	\$ 8,623,331	\$ 7,234,976	\$ 5,855,663

**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	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Balance as of July 1	\$ 28,014,000	\$ 22,826,000	\$ 19,449,000
Add: Annual OPEB costs	5,948,000	5,792,000	4,020,000
Less: Estimated contributions	731,000	604,000	643,000
Balance as of June 30	\$ 33,231,000	\$ 28,014,000	\$ 22,826,000

**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 2006	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<b>Assets</b>				
Current assets	\$ 12,674,026	\$ 10,432,007	\$ 4,157,085	\$ 4,288,369
Non-current assets	48,213,200	47,439,953	37,137,031	35,437,969
Total assets	60,887,226	57,871,960	41,294,116	39,726,338
<b>Deferred outflows of resources</b>				
Unamortized loss on bond refunding	-	-	21,940	31,691
Related to pensions	480,178	247,039	49,973	28,428
<b>Liabilities</b>				
Current liabilities	1,917,959	1,962,364	1,737,535	1,845,196
Non-current liabilities	27,956,138	28,249,877	24,643,184	25,807,948
Total liabilities	29,874,097	30,212,241	26,380,719	27,653,144
<b>Deferred inflows of resources</b>				
Related to pensions	399,443	826,055	64,867	122,387
<b>Net position</b>				
Net investment in capital assets	13,260,393	13,919,931	8,926,284	6,277,314
Restricted expendable	-	47,931	-	-
Unrestricted	17,833,471	13,112,841	5,994,159	5,733,612
Total net position	\$ 31,093,864	\$ 27,080,703	\$ 14,920,443	\$ 12,010,926

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 2006	
	2016	2015	2016	2015
<b>Operating revenues</b>	\$ 25,636,135	\$ 25,420,786	\$ 11,141,281	\$ 8,985,116
Operating expenses	20,689,993	21,147,093	4,912,868	4,891,010
Net operating income	4,946,142	4,273,693	6,228,413	4,094,106
<b>Non-operating revenues (expenses)</b>				
Transfers	(932,981)	(1,021,641)	(1,119,216)	(1,161,109)
	-	-	(2,199,600)	(2,155,518)
<b>Change in net position</b>	4,013,161	3,252,052	2,909,517	777,479
Net position, beginning of year	27,080,703	26,279,177	12,010,926	11,589,948
Adjustment to beginning net position	-	(2,450,526)	-	(356,501)
Net position, end of year	\$ 31,093,864	\$ 27,080,703	\$ 14,920,443	\$ 12,010,926

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 2006	
	2016	2015	2016	2015
Net cash flows provided by operating activities	\$ 6,207,336	\$ 6,055,376	\$ 7,044,594	\$ 5,354,241
Net cash flows provided (used) by non-capital and related financing activities	(92)	-	(2,236,328)	(2,256,000)
Net cash flows used by capital and related financing activities	(2,540,943)	(2,225,897)	(4,783,578)	(2,977,815)
Net cash flows provided by investing activities	(1,022,346)	(3,900,177)	87,000	(40,000)
Net increase (decrease) in cash	2,643,955	(70,698)	111,688	80,426
Cash—beginning of year	4,447,576	4,518,274	2,278,259	2,197,833
Cash—end of year	\$ 7,091,531	\$ 4,447,576	\$ 2,389,947	\$ 2,278,259

**Note 15: Operating Expenses by Function**

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

Operating Expenses	FY 2016	FY 2015
Educational and general		
Instruction	\$ 72,633,276	\$ 71,917,376
Research	1,254,650	1,186,156
Public service	7,751,349	6,225,693
Academic support	15,105,223	14,139,891
Student services	17,919,146	17,631,808
Institutional support	16,206,186	17,202,496
Operation and maintenance of plant	20,836,915	19,470,119
Scholarships and fellowships	21,205,531	22,650,570
Auxiliary enterprises	35,718,280	36,085,826
Depreciation	12,256,576	12,086,644
Total operating expenses	<u>\$ 220,887,132</u>	<u>\$ 218,596,579</u>

**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 is paid.

Outstanding purchase orders and other commitments at June 30, 2016 total \$10,484,038 for various goods and services.

The University issued \$23.5 million Series 2016A Refunding bonds on August 30, 2016 for the purpose of refunding the Series 2006 S&A fee bonds. Additionally, Series 2016B Revenue Bonds were issued on October 4, 2016 in the amount of \$36.2 million for the purpose of renovating the Pence Union Building. The total project cost of the renovation is approximately \$45 million. Debt service on the Series 2016B bonds will be paid through a new mandatory student fee that was collected beginning fall 2015. In fall 2018, the mandatory student fee will increase from \$65 to \$85 per term to cover debt service, contribute to the repair and replacement fund, with any excess available for building operations.

## Schedules of Required Supplementary Information

**Schedule of the University's Proportionate Share of the Net Pension Liability  
Public Employees' Retirement System (PERS) Plan 1**

Measurement Date of June 30 \*

	<b>2014</b>	<b>2015</b>
University's proportion of the net pension liability	0.235935%	0.232536%
University's proportionate share of the net pension liability	\$ 11,885,340	\$ 12,163,804
University's covered employee payroll	\$ 700,294	\$ 628,105
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1697%	1937%
Plan fiduciary net position as a percentage of the total pension liability	61%	59%

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

**Schedule of the University Contributions  
Public Employees' Retirement System (PERS) Plan 1**

Fiscal Year Ended June 30 \*

	<b>2015</b>	<b>2016</b>
Contractually required contribution	\$ 57,848	\$ 68,964
Contributions in relation to the contractually required contribution	\$ 57,464	\$ 67,757
Contribution deficiency (excess)	\$ 384	\$ 1,207
University's covered-employee payroll	\$ 628,105	\$ 616,847
Contributions as a percentage of covered-employee payroll	9%	11%

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

**Schedule of the University's Proportionate Share of the Net Pension Liability  
Public Employees' Retirement System (PERS) Plan 2/3  
Measurement Date ended June 30 \***

	<b>2014</b>	<b>2015</b>
University's proportion of the net pension liability	0.285383%	0.284759%
University's proportionate share of the net pension liability	\$ 5,768,630	\$ 10,174,598
University's covered employee payroll	\$ 24,496,463	\$ 25,317,107
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	24%	40%
Plan fiduciary net position as a percentage of the total pension liability	93%	89%

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

**Schedule of the University Contributions  
Public Employees' Retirement System (PERS) Plans 2/3  
Fiscal Year Ended June 30 \***

	<b>2015</b>	<b>2016</b>
Contractually required contribution	\$ 2,331,706	\$ 2,998,190
Contributions in relation to the contractually required contribution	\$ 2,328,966	\$ 2,988,130
Contribution deficiency (excess)	\$ 2,740	\$ 10,060
University's covered-employee payroll	\$ 25,317,107	\$26,817,445
Contributions as a percentage of covered-employee payroll	9%	11%

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

**Schedule of the University's Proportionate Share of the Net Pension Liability  
Teachers' Retirement System (TRS) Plan 1**  
Measurement Date of June 30 \*

	<b>2014</b>	<b>2015</b>
University's proportion of the net pension liability	0.014280%	0.015034%
University's proportionate share of the net pension liability	\$ 421,191	\$ 476,291
University's covered employee payroll	\$ 4,444	\$ 400
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	9477%	119073%
Plan fiduciary net position as a percentage of the total pension liability	69%	66%

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

**Schedule of the University Contributions  
Teachers' Retirement System (TRS) Plan 1**  
Fiscal Year Ended June 30 \*

	<b>2015</b>	<b>2016</b>
Contractually required contribution	\$ 42	\$ 42
Contributions in relation to the contractually required contribution	\$ 42	\$ 42
Contribution deficiency (excess)	\$ -	\$ -
University's covered-employee payroll	\$ 400	\$ 400
Contributions as a percentage of covered-employee payroll	10%	10%

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



**Schedule of the University's Proportionate Share of the Net Pension Liability  
Teachers' Retirement System (TRS) Plan 2/3**

Measurement Date ended June 30 \*

	<b>2014</b>	<b>2015</b>
University's proportion of the net pension liability	0.015141%	0.015921%
University's proportionate share of the net pension liability	\$ 48,904	\$ 134,340
University's covered employee payroll	\$ 654,525	\$ 747,348
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	7%	18%
Plan fiduciary net position as a percentage of the total pension liability	97%	92%

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

**Schedule of the University Contributions  
Teachers' Retirement System (TRS) Plan 2/3**

Fiscal Year Ended June 30 \*

	<b>2015</b>	<b>2016</b>
Contractually required contribution	\$ 77,649	\$ 111,937
Contributions in relation to the contractually required contribution	\$ 79,752	\$ 112,047
Contribution deficiency (excess)	\$ (2,103)	\$ (109)
University's covered-employee payroll	\$ 747,348	\$852,532
Contributions as a percentage of covered-employee payroll	11%	13%

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

**Schedule of the University's Proportionate Share of the Net Pension Liability  
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2**

Measurement Date of June 30 \*

	<b>2014</b>	<b>2015</b>
University's proportion of the net pension liability	0.040159%	0.048127%
University's proportionate share of the net pension liability (asset)	\$ (532,924)	\$ (494,651)
University's covered employee payroll	\$ 669,208	\$ 852,252
University's proportionate share of the net pension asset as a percentage of its covered-employee payroll	80%	58%
Plan fiduciary net position as a percentage of the total pension liability	117%	112%

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

**Schedule of the University Contributions  
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2**

Fiscal Year Ended June 30 \*

	<b>2015</b>	<b>2016</b>
Contractually required contribution	\$ 73,208	\$ 76,820
Contributions in relation to the contractually required contribution	\$ 72,978	\$ 76,820
Contribution deficiency (excess)	\$ 231	\$ -
University's covered-employee payroll	\$ 852,252	\$ 894,293
Contributions as a percentage of covered-employee payroll	9%	9%

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



The Office of Controller is responsible for preparing this report. Additional copies of this publication are available from:

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