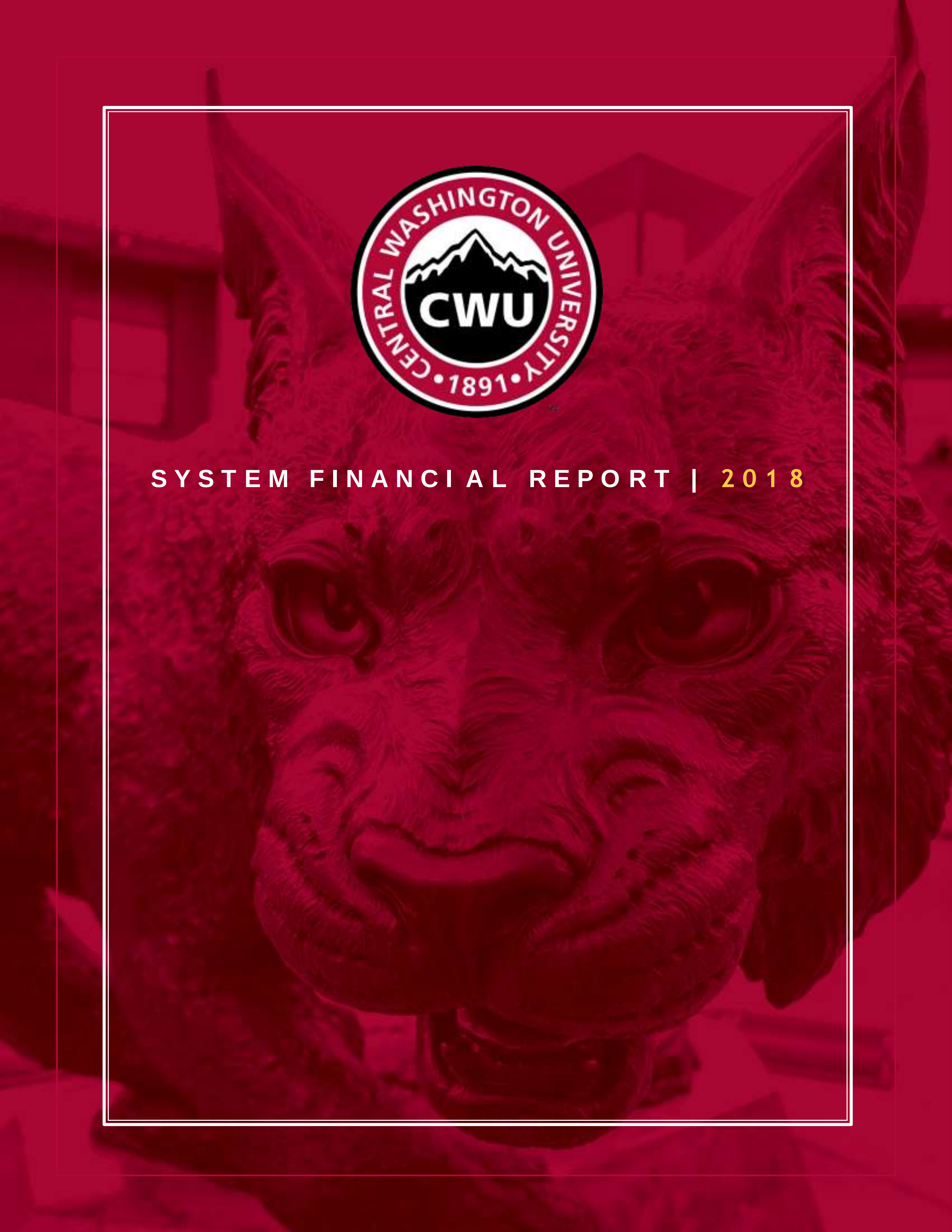


SYSTEM FINANCIAL REPORT | 2018

Central Washington University

ANNUAL SYSTEM FINANCIAL REPORT

Funds associated with the following functions and revenue sources: housing, dining, services and activities fee, student union building fee, recreation center fee, wildcat shop, and parking fees.

Fiscal Year Ended June 30, 2018


RECREATION

Contents

WASHINGTON STATE AUDITOR'S OFFICE

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

CENTRAL WASHINGTON UNIVERSITY SYSTEM

JULY 1, 2017 THROUGH JUNE 30, 2018

Board of Trustees
Central Washington University System
Ellensburg, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Central Washington University System, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University basic financial statements, and have issued our report thereon dated February 8, 2019. As discussed in Note 1 to the financial statements, during the year ended June 30, 2018, the University implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

As discussed in Note 1, the financial statements of the Central Washington University System, a department of the University 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 University that is attributable to the transactions of the University System. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2018, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the University financial statements are free from material misstatement, we performed tests of the University compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy
State Auditor
Olympia, WA

February 8, 2019

Management Discussion and Analysis

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

The management discussion and analysis (MD&A) provides an overview of the financial position and activities of the System for the fiscal year end June 30, 2018. The MD&A focuses on the current year's activities, and the resulting changes and facts to assist readers in understanding the accompanying financial statements. The MD&A should be read in conjunction with the accompanying financial statements and notes to the financial statements. The financial statements, notes, and this discussion and analysis are the responsibility of CWU management.

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

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2018

New Residence Hall, Dining Facility and New Student Recreation Facility

In order to meet the growing demand for student housing on the CWU campus and to ensure that student's needs are meet, the System issued Bonds with a par amount of $45.4 million on March 19th 2018. The proceeds of the new bonds are designated to be used to pay for construction of a 402-bed residence hall, 6,000 square-foot dining facility and improvements to System owned apartments. The residence hall and dining facilities will be located on a nine-acre site at East Dean Nicholson Boulevard and North Wildcat Way. This project is under construction at the time of writing and will open for use in the fall of 2019 (fiscal 2020). The CWU Board of Trustees has decided to name this facility after longtime psychology professor Owen Dugmore.

In addition, the Student Activity Fee Fund has committed $4.0 million in cash reserves to the development of a new running track and sport turf facility (Rec X). These funds coupled with reserves of the system will allow for a $6 million project. The new expanded recreation facility will be directly adjacent to Dugmore Hall, the new dining facility and will include parking for 250 vehicles. This facility is scheduled to open during the fall quarter of 2018 (fiscal 2019).

New Accounting Pronouncement Adopted

During Fiscal Year 2018 Central Washington University implemented the Governmental Accounting Standards Board (GASB) Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This is a required implementation and has effected many of the balances discussed in the MD&A. The requirements of Statement No. 75 do not affect the amount entities pay to provide other postemployment benefits to retirees, only how costs are accounted for and reported in the financial statements. The GASB believes these requirements enhance the accountability and transparency of governments that provide their employees with retirement benefits.

For more information about GASB 75, please see: www.gasb.org

The System's overall financial standing continues to be sound, with total assets and deferred outflows of $232.5 million and total liabilities and deferred inflows of $188.3 million. The System's net position totals $44.2 million. Compared to the Fiscal Year 2017 figures, total assets and deferred outflows increased by $50.8 million, while total liabilities and deferred inflows are increased by $55.2 million. Net position has decreased by $4.4 million.

Total operating revenues increased by 6 percent or $3.5 million. This is primarily a result of increases in room and board rates and an increase in incoming freshmen which generates a larger student body to participate in our programs.

Total operating expenses increased 2 percent, or $1.1 million primarily due to increases in staffing.

During 2018, Net Position decreased by $4.4 million. This was primarily due to revenue increases and cost control in the operations yielding an increase in net position of $5.8 million, which was offset by a decrease in Net Position of $10.2 related to the implementation of GASB 75.

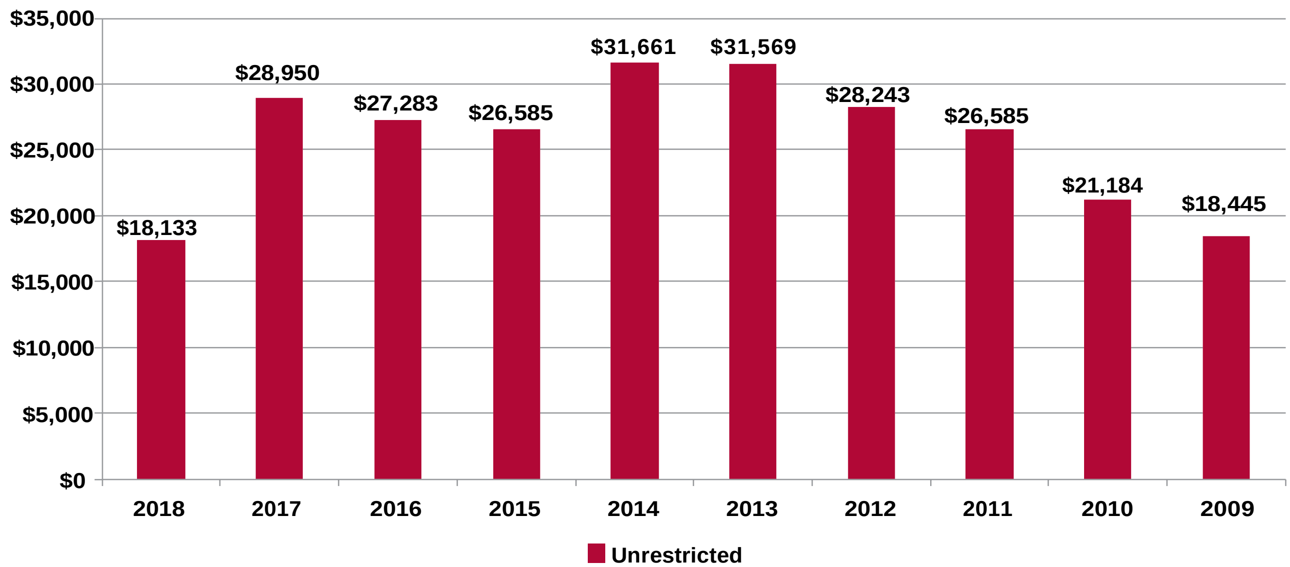
Unrestricted net position is one indicator of an organization's overall financial condition and an increase generally indicates improving fiscal conditions. During 2018, the Unrestricted net position decreased by $10.8 million. This was primarily due to the implementation of GASB 75.

Unrestricted net position is often accumulated for designated purposes or is held in order to meet the CWU debt policy.1 The following table and graph show the System's unrestricted net position for the ten most recent fiscal years.

UNRESTRICTED NET POSITION (IN THOUSANDS)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
UNRESTRICTED	$18,133	$ 28,950	$ 27,283	$ 26,585	$ 31,661	$ 31,569	$ 28,243	$ 26,585	$ 21,184	$ 18,445

UNRESTRICTED NET POSITION (IN THOUSANDS)



1 Please see a full discussion of CWU's debt policy on page 12.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements: the *Statement of Net Position*, the *Statement of Revenues, Expenses, and Changes in Net Position*, and the *Statement of Cash Flows*. These statements provide information on the System as a whole and present a long-term view of the System's finances. The statements help answer the basic question, "Is the System, as a whole, financially better off or worse off as a result of the year's activities?"[2]

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

STATEMENT OF NET POSITION

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

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

Deferred outflows of resources are a consumption of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources are transactions that result in the acquisition of net assets in one period that are applicable to future periods.

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

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

2 Please refer to Note 1 on page 17 for activities included in the System's basic financial statements.

The following table shows the Condensed Statement of Net Position at June 30, 2018 and June 30, 2017:

CONDENSED STATEMENT OF NET POSITION – JUNE 30, 2018 AND JUNE 30, 2017
(IN THOUSANDS)

	2018	2017	2018-2017 Dollar Change	Percent Change
Capital assets, net	144,467	137,358	7,109	5.2%
Total Assets	**227,776**	**117,929**	**49,847**	**28.0%**
Total assets and deferred outflows	**232,546**	**181,795**	**50,751**	**28%**
Non-current liabilities	174,650	122,531	52,119	42.5%
Deferred inflows	2,320	365	1,955	535.6%
Net investment in capital assets	26,107	19,714	6,393	32%
Unrestricted	18,132	28,950	(10,818)	-37.4%
Current ratio (CURRENT ASSETS TO CURRENT LIABILITIES)	3.509	3.953	–	–
Primary reserve ratio (EXPENDABLE NET ASSETS TO OPERATING EXPENSES)	0.35	0.61	–	–

Total assets and deferred outflows were increased by $50.8 million at the end of fiscal year 2018. This is primarily due to the proceeds associated with the sale of the 2018 Bonds (see Note 7). Net capital assets increased by $7.1 million for net additions to property and equipment; less depreciation expense.[3] The largest increase was in the Construction In Progress category and represents, primarily, funds expended as of June 30th 2018 for the construction of the new Residence Hall. Current cash and equivalents decreased by $1.3 million from the preceding year, mainly attributed to expenditures for capital assets.

The current ratio, current assets divided by current liabilities, measures the System's ability to meet current obligations. The System's current ratio at June 30, 2018 was 3.5 to 1, which means the System's current assets are 3.5 times that of its current liabilities. The System's current ratio at June 30, 2017 was 4.0 to 1. This indicates that the System's ability to meet current liabilities is relatively unchanged.

The primary reserve ratio is calculated by dividing unrestricted net position by operating expenses. This measures the ability of the System to continue operating at current levels, within current restrictions and constraints, lacking any future revenues. Proof of an adequate reserve ratio is often required to secure long-term financing. The System's primary reserve ratio at June 30, 2018 is 0.35 to 1, which indicates that, in an extreme emergency situation, the System could continue its current operations for approximately four months. In 2017 this ratio was at a ratio of .61 to 1. This ratio is a standard way to view the viability of an entity such as The System, however the effects of the implementations of GASB 68 and 75 have impacted the usefulness of comparing this figure for the System year-over-year.

In an industry financial analysis guide, *Strategic Financial Analysis For Higher Education* published by KPMG suggests, "For institutions, an analysis of financial statements suggests that a Primary Reserve Ratio of .40x or better is advisable to give institutions the flexibility to transform the enterprise." This is some confirmation that the System's Primary Reserve Ratio is near what, we believe, could be considered a reasonable percentage.

3 For further discussion please see the Capital Asset and Long Term Liabilities Highlights on page 7

CAPITAL ASSET AND LONG-TERM LIABILITIES HIGHLIGHTS

On June 30, 2018, the System had $144.5 million invested in net capital assets, as reflected in the following table. This represents a net increase of $7.1 million or 5.2 percent during the fiscal year.

CAPITAL ASSETS (IN THOUSANDS)

(IN THOUSANDS)

	2018	2017
Land	$ 1,720	$ 1,098
Equipment	4,304	3,618
Improvements and Infrastructure	8,698	11,038
Buildings	180,895	175,869
Construction in progress	8,813	1,451
Art	40	40
Total	**204,470**	**193,113**
Total accumulated depreciation and amortization	**(60,003)**	**(55,756)**
Capital assets, net	**$ 144,467**	**$ 137,358**

Depreciable capital assets, net of depreciation, increased during fiscal year 2018 by $11.4 million (See Note 4). Construction in progress for projects underway totaled $8.7 million at June 30, 2018. The total depreciation expense was $4.4 million for the year ended June 30, 2018. The difference between the net additions of working assets ($11.4 million) and the depreciation expense of $4.4 million results in a net increase of $7.1 million in capital assets, net.

The increase shown in the category Land of $.6 million represents a property acquisition adjacent to the main University for future development. The Construction in progress figure of $8.8 is a composite of many improvement projects underway at June 30, 2018. The largest components of these expenditures are; $4 million in progress for Dugmore Hall and Dining improvements, $900 thousand in progress for the RecX and $1 million in progress in a large scale roof replacement for the Student Village apartment complex.

The Deferred Outflows balance has two components this year.

The Deferred Gain or Loss on Refunding Outflows number represents costs associated with previous debt issuances. This accounting treatment is the result of Governmental Accounting Standards Board (GASB) 63 & 65 which were adopted in 2013. This component of the Deferred Outflows balance was amortized and decreased by $.5 million at June 30, 2018 and will continue to be amortized on a straight-line basis through the term of the replacement Bonds of 2017.

The second component, Deferred Pension Contribution, is a result of the adoption of GASB 68. This component represents the payments made by the System of $1.3 million on behalf of employees, subsequent to the measurement date of June 30, 2017. (See note 12)

In total, liabilities increased during fiscal year 2018, from $132.8 million in 2017 to a total of $186 million at the end of 2018. The largest contributor to this increase was the sale of the Bonds of 2018 for the construction of Dugmore Hall (a new residence hall – See Note 7).

As of June 30, 2018, $63.7 million of System revenues (100 percent) are pledged as security for outstanding System bonds.

LONG-TERM OBLIGATIONS (IN THOUSANDS)

	2018	2017
Construction accounts payable	$ -	$ -
Accrued leave liabilities	231	[illegible]
Net bond premium/discount, net of amortization	7,799	5,858
Bonds payable, net of current portion	152,940	111,540
Pension liability	5,070	4,826
Total non-current liabilities	**166,040**	**122,531**
Unrestricted net position	18,133	28,950
Viability ratio (UNRESTRICTED TO NON-CURRENT LIABILITIES)	**11%**	**24%**

The viability ratio measures the System's ability to retire non-current liabilities using available current resources. The ratio is calculated by dividing unrestricted net position by long-term debt. The System's viability ratio at June 30, 2018 was .11 to 1. This is a decline from the previous year's figure of .24 to 1. The degradation in this ratio was due to two factors, an increase of $41.4 in long-term debt related to the construction of Dugmore Hall and a decline in unrestricted due primarily to the recognition of $10.8 million in OPEB liabilities related to the implementation of GASB 75. (See notes 10 and 12)

Total net position decreased $4.4 million during fiscal year 2018. The total change in net position is equal to the year's operating activity less the effects of the costs of cash funded capital improvements and the financing activities, specifically the debt service payments. This decrease is the result, primarily, of the annual operation of the System which generated operating income of $10.7 million, less land purchased of $.6 million and improvements to equipment, infrastructure and buildings of $3.4 million and payments on long term debt commitments that are associated with the working assets which made this result possible.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2018	2017
Operating revenues	$ 63,688	$ 60,156
Operating expenses	53,011	51,880
Operating income (loss)	10,677	8,276
Total non-operating revenues net of expenses	(4,876)	(5,580)
Increase in net position	$ 5,800	$ 2,696
Net income margin (increase in net position to total revenue)	9.11%	4.48%

As of June 30, 2018, operating revenues increased 6 percent while operating expenses increased 2 percent.

Net income margin is a measure of current year financial status. The margin is calculated by dividing increase in net position by total revenue. The System's net income margin for fiscal year 2018 is 9.1 percent. A positive operating margin is good, as it signifies the System is not spending more than it is taking in.

The majority of the non-operating expenses relate to interest expense on long-term debt ($6.0 million). There also were two items in non-operating revenues during fiscal 2018: 1.) $630k received as part of the Build America Bonds program (BABS), and 2.) $480k earned on investments.

Revenues

Revenues from auxiliary enterprises such as housing, bookstore, and food service increased 6 percent from fiscal year 2017. The following table shows revenues by source for the fiscal years ended June 30, 2018 and June 30, 2017:

OPERATING REVENUES (IN THOUSANDS)

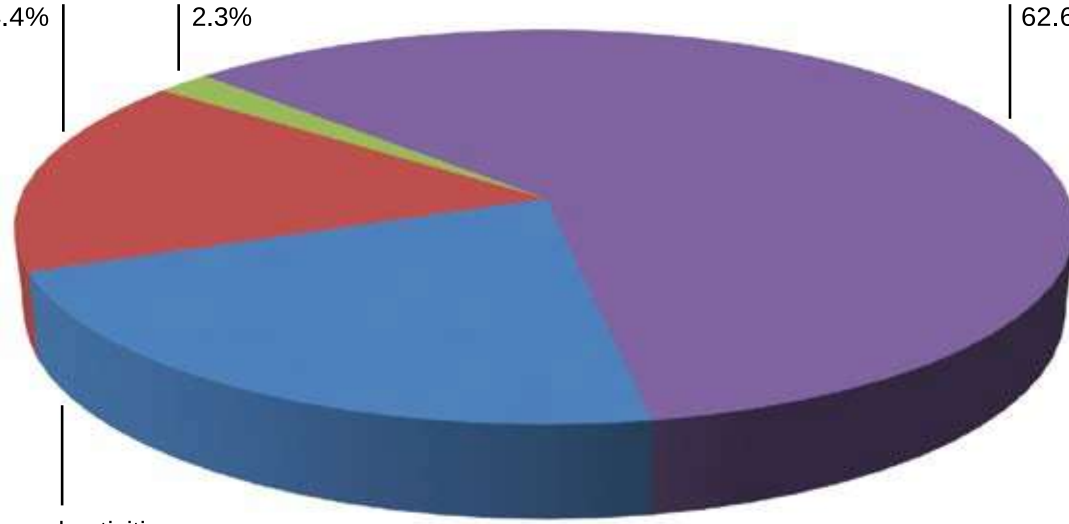
	2018	2017	2017-18 Dollar Change	Percent Change
Services and activities	$ 13,188	$ 13,177	$ 11	0.1%
University store	9,187	9,804	(617)	-6.3%
Parking	1,458	1,145	313	27.3%
Housing and dining	39,855	36,030	3,825	10.6%
Total operating revenues	**$ 63,688**	**$ 60,156**	**$ 3,532**	**5.87%**

Increases in student participation in the System offerings were the primary cause of the increase in total operating revenues. Housing and Dining rate increases enhanced the operating revenue above the amount that could be expected due to increases in student counts alone. These planned rate increases coupled with the increase in participation in the Housing and Dining program allowed for a 10.6 percent increase in operating revenue. Parking revenues increased due to an increase in the fee for parking infractions. The total revenues for the University Store decreased by 6.3% due to a shift in business to textbook rentals. Although the revenues for textbook rentals are lower in gross terms, the cost of goods sold also was decreased. The textbook rental business shift was a planned strategic alignment and is not only good for the student customer, it will also lower the costs to the System of operating the bookstore.

The Housing and Dining rate increase from fiscal year 2017 to 2018 was 7% for Residence Halls and the Dining rate increase was 3%, these combined are an approximate aggregate increase of 5%. The remainder, or 6.6%, of the fiscal year 2018 revenue figure increase of 10.6% was generated through an increase in student participation. In fiscal year 2017, housing was approaching capacity to accommodate students; in fiscal year 2018 housing accommodations have reached their capacity.

The Services and Activities fee rate increased 2.2% from fiscal 2017 to 2018. The .1% revenue increase shown in the table above is attributable this rate increase offset by fewer students paying the fee due in part to tuition waivers provided by the University.

OPERATING REVENUES FY 2018



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

OPERATING EXPENSES - JUNE 30 (IN THOUSANDS)

	2018	2017	2018-17 Dollar Change	Percent Change
Salaries and wages	$ 16,928	$ 16,151	$777	5%
Benefits	4,445	4,106	339	8%
Goods and services	25,190	25,062	128	1%
Tuition (fees) waivers	527	677	(150)	-22%
Personal services	310	449	(139)	-31%
Other	293	231	62	27%
Travel	659	629	30	5%
Total	**$ 53,012**	**$ 51,880**	**$ 1,132**	**2%**

Salaries and Wages expense for the System increased by 5 percent in fiscal year 2018 as a result of cost of living adjustments, state wide minimum wage increases and the addition of staff as student participation in the System's programs increased. Benefits also increased, by 8 percent, for these same reasons.

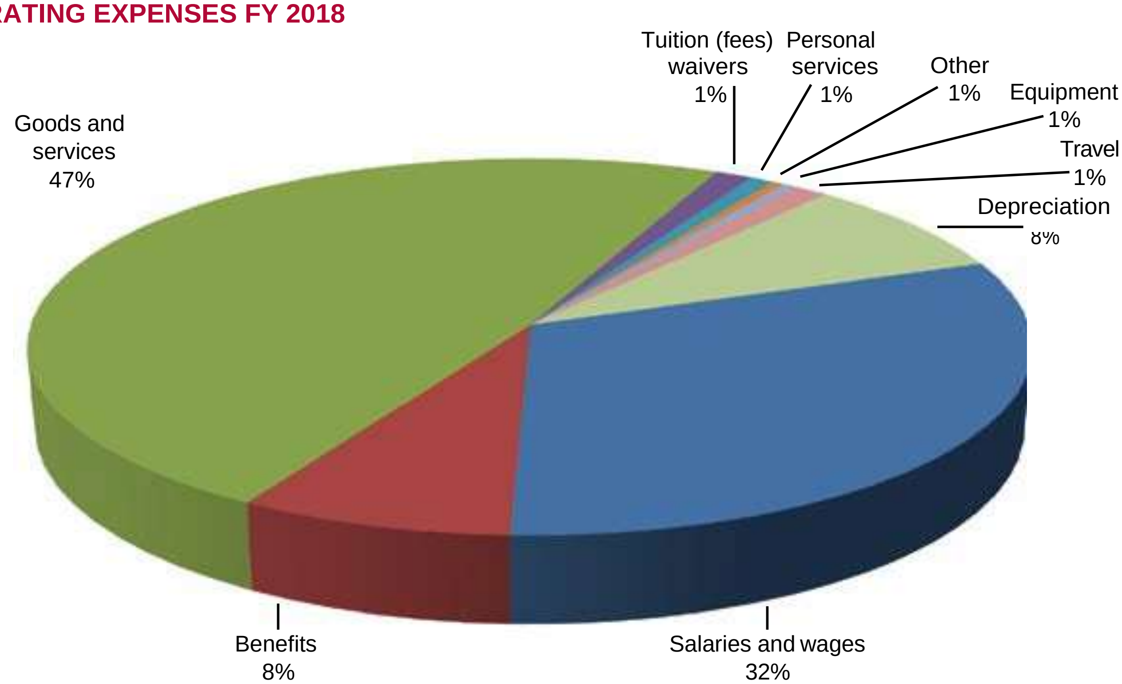
The total increase in operating expenses of $1.1 million, was associated with salaries and benefits cost increases. This was primarily due to increased staff levels to accommodate the added number of student customers. All other operating expenses were relatively unchanged from the previous year.

Overall, operating expenses increased 2 percent in FY 2018.

Depreciation expense increased by $58 thousand which is the natural result of improvements to the System's building infrastructure. There is no cash cost associated with depreciation, the expense is required to conform to GAAP.

The allocation of operating expenses among the natural classification categories has not changed significantly from fiscal year 2017. The following chart depicts the uses of operating funds according to natural classification for fiscal year 2018:

OPERATING EXPENSES FY 2018



STATEMENT OF CASH FLOWS

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

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

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

There has been no significant change in the amount of cash on hand in the previous three fiscal years. The decrease in cash on hand of $1.3 million at June 30, 2018 was primarily related to cash funded capital improvements mentioned in the capital assets discussion which were partially offset by the cash generated as the result of operations during 2018.

The Condensed Statement of Cash Flows for the fiscal years ended June 30, 2018 and June 30, 2017 is shown below:

CONDENSED STATEMENT OF CASH FLOWS | JUNE 30 (IN THOUSANDS)

	2018	2017
Cash flows from operating activities	$ 14,279	$ 13,004
Cash flows from non-capital financing activities	0	0
Cash flows from investing activities	(42,858)	339
Cash flows from capital and related financing activities	27,225	(10,906)
Increase in cash and cash equivalents during the year	(1,354)	2,437
Cash and cash equivalents, beginning of year	34,419	31,981
Cash and cash equivalents, end of year	**$ 33,065**	**$ 34,419**

DEBT AND RESERVES POLICY

The University's formal debt policy is CWUP 2-10-045, Debt Issuance and Repayment.4 The policy is detailed and spells out many constraints intended to maintain the health of the University's debt program.

The University's has a formal reserve policy, CWUP 2-10-105, Reserve. This policy defines the University's reserve philosophy and principles, clarifies purposes for holding reserves and identifies target reserve amounts for certain funds.

FINANCIAL CONTACT

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

4 CWUP 2-10-045, Debt Issuance and Repayment is available at http://www.cwu.edu/resources-reports/cwup-2-10-045-debt-issuance- and-repayment.

Annual System Financial Statements

CENTRAL WASHINGTON UNIVERSITY—SYSTEM
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

	2018
Assets	
Current assets:	
Cash and cash equivalents	$ 33,064,317
Accounts receivable, net	4,210,693
Inventories	2,504,191
Total current assets	**39,779,202**
Non-current assets	
Investment restricted for capital projects	43,338,125
Issuance costs, net of amortization	-
Capital assets, net of depreciation	144,466,846
Pension assets, net	192,222
Total non-current assets	**187,997,193**
Deferred outflows	
Deferred pensions	1,150,175
Deferred OPEB contribution	151,107
Deferred gain or loss on refunding	3,469,067
Total deferred outflows	**4,770,349**
Total assets and deferred outflows	**232,546,744**
Liabilities	
Current liabilities	
Accounts payable	2,884,372
Accrued liabilities	1,482,285
Deposits payable	1,064,611
Unearned revenues	539,932
OPEB liability	937,289
Current portion bond premium	403,556
Current portion bond payable	4,025,000
Total current liabilities	**11,337,046**
Non-current liabilities	
Construction accounts payable	–
Accrued leave liabilities	230,747
Net bond premium/discount, net of amortization	7,798,893
Bonds payable, net of current portion	152,940,000
Pension liability	5,069,830
OPEB liability	8,610,974
Total non-current liabilities	**174,650,444**
Total liabilities	**185,987,490**
Deferred inflows	
Deferred pension earnings	2,320,031
Total liabilities and deferred inflows	**188,307,521**
Net position	
Net investment in capital assets	26,106,588
Unrestricted	18,132,634
Total net position	**$ 44,239,222**

See Accompanying Notes to the Financial Statements

CENTRAL WASHINGTON UNIVERSITY—SYSTEM

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	2018
Operating revenues	
Services and activities	$ 13,188,290
University store	9,187,452
Parking	1,458,281
Housing and dining	39,854,400
Total operating revenue	**63,688,424**
Operating expenses	
Services and activities	10,447,874
University store	10,316,632
Parking	1,046,751
Housing and dining	26,836,571
Depreciation	4,363,988
Total operating expenses	**53,011,817**
Operating income (loss)	**10,676,607**
Non-operating revenues (expenses)	
Investment income	479,765
Interest on indebtedness	(5,986,335)
Non-operation income, net of expenses	630,194
Net non-operating revenues (expenses)	**(4,876,376)**
Income or (loss) before other revenues, expenses, gains or losses	5,800,231
Increase (decrease) in net assets	5,800,231
Net position, beginning of year	**48,663,732**
Change in accounting principle, GASB 75	**(10,224,741)**
Net position, end of year	**$ 44,239,222**

See Accompanying Notes to the Financial Statements

CENTRAL WASHINGTON UNIVERSITY—SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	2018
Cash flows from operating activities	
Auxiliary enterprise charges and student fees	$ 63,550,693
Payments to vendors	(32,194,129)
Payments to employees for salaries and benefits	(17,077,374)
Net cash provided by operating activities	**14,279,191**
Cash flows from non-capital financing activities	**–**
Cash flows from investing activities	
Purchases of investments	(47,171,538)
Investment proceeds	3,833,413
Investment income	479,765
Other investment activity	–
Net cash provided by investing activities	**(42,858,359)**
Cash flows from capital and related financing activities	
Purchases of capital assets	(11,473,285)
Proceeds from sales of capital debt	45,425,000
Principal paid on capital debt	(3,845,000)
Interest paid on capital debt	(3,511,990)
Other capital activities	630,194
Net cash provided by capital and related financing activities	**27,224,919**
Net increase in cash and cash equivalents	(1,354,250)
Cash and cash equivalents, beginning of year	**34,418,567**
Cash and cash equivalents, end of year	**$ 33,064,317**

RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Operating income	**$ 10,676,607**
Adjustments to reconcile operating profit to net cash provided by operating activities	
Depreciation expense	4,363,988
Loss on disposal of asset	**–**
Changes in assets and liabilities	
Accounts receivable	(65,310)
Inventories	(609,804)
Accounts payable	54,457
Other liabilities	–
Accrued expenses	(73,122)
Deferred revenue	9,181
Deposits payable	(81,602)
Current non-cash GASB 68 expense	81,336
Other current liabilities	–
Construction accounts payable	–
Accrued liabilities	(76,541)
Net cash provided by operating activities	**$ 14,279,191**

See Accompanying Notes to the Financial Statements

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

Financial Statement Presentation

The System's financial statements for the fiscal year ended June 30, 2018, are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. Comparative totals for the year ended June 30, 2017 are presented where appropriate.

Basis of Accounting

The System's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

Cash Equivalents

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

Investments

The University accounts for its investments at fair value in accordance with the relevant GASB statements. Changes in unrealized gains or losses on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position.

Accounts Receivable

Accounts receivable consists primarily of rents and charges for services provided to students. Accounts receivable are recorded net of estimated uncollectible amounts. The estimate is based on a fixed percentage of outstanding receivables.

Inventories

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

Non-current Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other non-current assets, are classified as non-current assets in the statement of net position.

Fair Value of Investments

The University records financial instruments at estimated fair value. Fair value accounting defines fair value as 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. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.
The fair value standard describes three levels of inputs that may be used to measure fair value:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active Markets that the organization has the ability to access.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no changes in valuation methodologies used at June 30, 2018 or June 30, 2017.

Where quoted market prices are available in an active market, investments are classified within Level 1 of the Valuation hierarchy. Level 1 investments include exchange-traded equities (mutual funds, stocks, and government bonds). If quoted market prices are not available, then fair market values are estimated by using pricing models, quoted prices of investments include foreign and corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, investments would be classified within Level 3 of the hierarchy. Realized and unrealized gains and/or loses on investments are included in the statement of revenue expenses and changes in net position.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. The University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year.

Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for building components, 20 to 50 years for infrastructure and land improvements, 5 to 7 years for equipment, 15 years for library books, and 3 to 15 years for intangibles. Inexhaustible resources such as the art collections and the library reserve collections are not depreciated. Donated capital assets are measured at acquisition value not fair market value.
(see also Note 7 – Capital Assets).

Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net assets by the government that is applicable to a future reporting period.

Deferred Inflows of Resources

Deferred Inflows of Resources are transactions that result in the acquisition of net assets in one period that are applicable to future periods.

Unearned Revenues

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

Compensated Absences

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

Non-current Liabilities

Non-current liabilities include: (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

Net Position

The System's net position is classified as follows:

Net Investment in Capital Assets: This represents the university's total investment in extent debt has been incurred but not yet expended for capital assets, such amounts are included as a component of Net Investment in Capital Assets.

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

Income Taxes

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

Classification of Revenues

The System has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student room and board fees, (2) student fees, (3) parking fines or fees, (4) retail sales and (5) conference revenues.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as investment income and the Build America Bond program (BABs) credit received from the US Treasury in association with the Bonds of 2010.

Change in Accounting Principles

On July 1, 2017, the University adopted GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (OPEB), which establishes new actuarial methods and discount rate standards for the measurement and recognition of the cost of postemployment benefits provided to the employees of state and local governmental employers. This Statement replaces the requirements of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other that Pensions." As a result of implementing Statement No. 75, The University has recognized its proportionate share of the state of Washington's actuarially determined total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense. Prior to adopting this Statement the University's financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expenses based on cash contributions paid to the OPEB plan administrator. In addition to the reporting changes described above, implementation of this Statement resulted in the restatement of fiscal year 2018 beginning Unrestricted Net Position, reducing it be $10,224,741. The System's Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows present only one fiscal year, since the change in accounting treatment required by Statement No. 75 is not able to be applied to the prior fiscal year due to the constraints of available information.

The beginning fiscal year 2018 net position was restated and decreased due to the implementation of GASB 75, which requires each state employer to account for their proportionate share of the OPEB liability. This restatement had a material impact on the Net Position on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) of ($10.2) million and the Unrestricted Net Position on the Statement of Net Position (SNP).

RECONCILIATION OF RESTATED NET POSITION

Ending net position FY 2017	$ 48,663,732
Change in accounting principle, GASB 75	(10,224,741)
Beginning net position FY 2018	**$ 38,438,991**

NOTE 2 – CASH AND CASH EQUIVALENTS; OTHER DEPOSITS; AND INVESTMENTS

Cash and Cash Equivalents

At June 30, 2018 the carrying amount of the System's cash and cash equivalents were as follows:

CASH AND CASH EQUIVALENTS

	June 30, 2018
Cash and equivalents, operating	$ 33,064,317
Investments - restricted for capital projects	43,338,125
Total	**$ 76,402,442**

The amount listed as Investments Restricted for Capital Projects represents unspent bond proceeds which are invested in serialized CDs, all of which have an original maturity of more than 30 days. This amount will be expended for the construction of Dugmore hall, the dining facility and to pay capitalized interest on these projects. CDs and LGIP are reported at amortized cost which approximates fair value. All investments qualify as Level 1.

NOTE 3 – ACCOUNTS RECEIVABLE

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

ACCOUNTS RECEIVABLE

	June 30, 2018
Services and activities	$ 810,198
University store	2,021,833
Parking	156,353
Housing and dining	1,511,823
Sub Total	**4,500,207**
Less allowance for doubtful accounts	(289,514)
Net accounts receivable	**$ 4,210,693**

NOTE 4 – CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2018:

CAPITAL ASSETS

	Balance at June 30, 2017	Additions	Disposals	Recats	Balance at June 30, 2018
Depreciable assets					
Buildings	$ 175,868,987	$ 1,924,925	–	$ 3,101,164	$180,895,076
Improvements and infrastructure	11,037,830	761,452	–	(3,101,164)	8,698,118
Equipment	3,617,596	791,560	(105,516)	–	4,303,640
Artwork	40,000	–	–	–	40,000
Construction in progress	1,450,616	9,926,988	(2,563,752)	–	8,813,852
Non-depreciable assets:	**192,015,029**	**13,404,925**	**(2,669,268)**	**–**	**202,750,686**
Land	1,098,055	621,478	–	–	1,719,533
Total cost	**193,113,084**	**14,026,403**	**(2,669,268)**	**–**	**204,470,219**
Less accumulated depreciation					
Buildings	47,712,703	3,829,506	(47,346)	509,260	52,004,123
Improvements and infrastructure	5,134,825	268,284	–	(509,260)	4,893,849
Equipment	2,908,010	266,198	(68,804)	–	3,105,404
Total accumulated depreciation	55,755,538	4,363,988	(116,150)	–	60,003,376
Net plant assets	**$ 137,357,546**	**$ 9,662,415**	**$ (2,553,118)**	**–**	**$ 144,466,843**

The total depreciation expense was $4,363,988 for the year ended June 30, 2018.

NOTE 5 – ACCRUED LEAVE LIABILITIES

At termination of employment, employees may receive cash payment for all accumulated vacation and compensatory time. Employees who retire get 25 percent of the value of their accumulated sick leave credited to a Voluntary Employees' Beneficiary Association (VEBA) account, which can be used for future medical expenses or insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by University employees are accrued as expenses when incurred. The amounts represent a liability to the University and are recorded and reported accordingly. The sick leave liability is recorded as an actuarial estimate of one-fourth the total balance on the payroll records. The accrued leave liability balance as of June 30, 2018 was $856,550.

NOTE 6 – REVENUE BONDS AND NOTES PAYABLE

The following schedule of bonds payable provides a listing of outstanding debt at the end of fiscal year 2018, for the System.

REVENUE BONDS AND NOTES PAYABLE

	Balance at June 30, 2017	Additions	Retirements	Principal Payments	Balance at June 30, 2018
CWU System bonds					
CWU System Bonds of 2008	$ 915,000	$ –	$ –	$ (915,000)	$ 0
CWU System Bonds of 2010 Series A	1,320,000	–	–	(645,000)	675,000
CWU System Bonds of 2010 Series B	29,770,000	–	–	–	29,770,000
CWU System Bonds of 2012	6,120,000	–	–	(325,000)	5,795,000
CWU System Bonds of 2013	48,085,000	–	–	(1,960,000)	46,125,000
CWU System Bonds of 2016	29,175,000	–	–	–	29,175,000
CWU System Bonds of 2018	–	45,425,000	–	–	45,425,000
Total bonds payable	**$ 115,385,000**	**$ 45,425,000**	**$ –**	**$(3,845,000)**	**$156,965,000**
Bond premium	6,185,153	2,017,296	–	–	8,202,449
Total	**$ 121,570,153**	**$47,442,296**	**$ –**	**$(3,845,000)**	**$165,167,449**

Central Washington University System Bonds, Series 2008, issued in the original amount of $36,495,000 and mature in varying annual amounts to May 1, 2038. Principal and interest on these revenue bonds are collateralized by a pledge of revenues. A principal payment of $915,000 was required and paid during Fiscal 2018. This was the final payment on the Central Washington University System Bonds, Series 2008.

Central Washington University System Bonds, Series 2010 A, tax exempt issued in the original amount of $2,515,000 maturing in varying annual amounts to May 1, 2019. Principal and interest on these revenue bonds are collateralized by a pledge of revenues. A principal payment of $645,000 was scheduled and paid during Fiscal 2018. A principal payment of $675,000 is scheduled for May 1, 2019.

The Central Washington University System Bonds Series 2010 B, taxable Build America Bonds issued in the original amount of $31,950,000 maturing in varying annual amounts to May 1, 2040. Principal and interest on these revenue bonds are collateralized by a pledge of revenues. The Series 2010 B bonds were issued under the American Recovery Act of 2008 Build America Bond Program as taxable bonds. Under this program the university expects to receive a subsidy from the United States federal government of 35% of interest paid through maturity. The subsidy received during Fiscal 2018 was $630,194. This amount is shown as non-operating revenue on the Statement of Revenue, Expenses and Changes in Net Position. No principal payment was scheduled during Fiscal 2018. No principal payment is scheduled for fiscal 2019.

Central Washington University System Bonds, Series 2012, issued in the original amount of $7,655,000 and mature in varying annual amounts to May 1, 2032. Principal and interest on these revenue bonds are collateralized by a pledge of revenues. A principal payment of $325,000 was required and paid during Fiscal 2018. A principal payment of $335,000 is scheduled for May 1, 2019.

Central Washington University System Bonds, Series 2013, issued in the original amount of $53,415,000 and mature in varying annual amounts to May 1, 2034. Principal and interest on these revenue bonds are collateralized by a pledge of revenues. A principal payment of $1,960,000 was required and paid of scheduled during 2018. A principal payment of $2,050,000 is scheduled for May 1, 2019.

Central Washington University System Bonds, Series 2016, issued in the original amount of $29,175,000 and mature in varying annual amounts to May 1, 2038. Principal and interest on these revenue bonds are collateralized by a pledge of revenues. The first principal payment of $965,000 will be required on, and is scheduled for, May 1, 2019.

Central Washington University System Bonds, Series 2018, issued in the original amount of $45,425,000 and mature in varying annual amounts to May 1, 2049. Principal and interest on these revenue bonds are collateralized by a pledge of revenues. The first principal payment of $625,000 will be required on, and is scheduled for, May 1, 2020. See Note #7 Bonds of 2018.

Maturity Information

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

DEBT SERVICE REQUIREMENTS

SYSTEM REVENUE BONDS

Fiscal Year	Principal	Interest	Total
2019	$ 4,025,000	$ 7,061,319	$ 11,086,319
2020	5,410,000	6,735,975	12,145,975
2021	5,645,000	6,482,374	12,127,374
2022	5,890,000	6,217,625	12,107,625
2023	6,170,000	5,930,424	12,100,424
2024-28	35,255,000	24,986,496	60,241,496
2029-33	40,425,000	16,647,210	57,072,210
2034-38	28,360,000	9,101,890	37,461,890
2039-43	12,575,000	4,082,836	16,657,836
2044-48	10,785,000	1,813,200	12,598,200
2049	2,425,000	97,000	2,522,000
Total	**$ 156,965,000**	**$ 89,156,348**	**$ 246,121,348**

**Amounts do not reflect federal subsidies to be received for Build America Bonds Interest.*

NOTE 7 – GENERAL LONG TERM DEBT – BONDS OF 2018

The System issued Bonds with a par amount of $45,425,000 on March 19th 2018. The bonds have an average interest rate of 4.0% and an all-in true interest cost of 3.75%. The average life of the bonds is 19 years with a final maturity date of May 1st, 2049.

The net proceeds of $47,037,049, including a bond premium of $2,363,004 and after payment of $750,943 in underwrite fees and other issuance costs, will be used to construct a 402 bed residence hall, a 6,000 square foot dining facility and to pay capitalized interest of $2,037,051 through fall of 2019 (fiscal 2020).

NOTE 8 – RETIREMENT PLANS

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

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

RETIREMENT PLANS

Fiscal Year	Amount
2009	$ 563,408
2010	429,411
2011	440,996
2012	539,475
2013	547,320
2014	697,897
2015	700,993
2016	839,731
2017	892,255
2018	$ 1,027,418

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

PERS, TRS, AND LEOFF CONTRIBUTION RATES

	2018		2017		2016	
Plan	**Member**	**University**	**Member**	**University**	**Member**	**University**
PERS 1	6.00%	9.21%	6.00%	9.21%	6.00%	11.18%
PERS 2	6.12%	11.18%	6.12%	11.18%	6.12%	11.18%
PERS 3	VARIOUS	11.18%	VARIOUS	11.18%	VARIOUS	11.18%
LEOFF	8.41%	8.59%	8.41%	8.59%	8.41%	8.59%

NOTE 9 – NATURAL CLASSIFICATIONS

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

NATURAL CLASSIFICATIONS

	June 30, 2018
Salaries and wages	$ 16,927,711
Employee benefits	4,445,134
Personal services	310,492
Goods and services	25,190,522
Travel	658,683
Equipment	295,739
Student fee waivers	526,976
Misc.	292,573
Depreciation	4,363,988
Total	**$ 53,011,817**

NOTE 10 —OTHER POST-EMPLOYMENT BENEFITS

During fiscal year 2018, the System adopted GASB Statement No.75—Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenditures and related liabilities (assets), note disclosures, and required supplementary information in the financial reports of state and local government employers.

State Plan Description

The state of Washington implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) Accounting and Financial Reporting for Postemployment Benefits Other Than Pension for fiscal year 2018 financial reporting.

The state, consisting of state agencies and its component units as well as higher education institutions, is considered a single employer based on guidance provided in GASB Statement No.75. The State Health Care Authority (HCA) administers this single employer defined benefit other postemployment benefit (OPEB) plan. Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB OPEB plan is funded on a pay-as-you-go basis with contributions set by the Legislature each biennium as a part of the budget process. The PEBB OPEB plan has no assets and does not issue a publicly available financial report.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system.

As of June 2017, membership in the PEBB plan consisted of the following:

PLAN PARTICIPANTS	
Active System Employees	202

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non- Medicare community-rated health insurance risk pool on a self- pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on the claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2018, the explicit subsidy was up to $150 per member per month, and it will increase up to $168 per member per month in calendar year 2019.

Presentations and Allocations

Allocation Method

OPEB implicit and explicit subsidies as well as administrative costs are funded by required contributions made by participating employers. State agency contributions are made on behalf of all active, health care eligible employees, regardless of enrollment status. Based on this funding practice, the allocation method used to determine proportionate share is each agency's percentage of the state's total active, health care eligible employee headcount.

The same headcount used in determining proportionate share is also used in determining the transactions subsequent to the measurement date, specifically, the retiree portion of premium payments made by agencies on behalf of active, health care eligible employees between the measurement date of June 30, 2017 and the reporting date of June 30, 2018. The portion of health care premiums attributed to retirees for both explicit and implicit subsidies is determined by using the Fiscal Year 2018 3rd Quarter Update in the PEBB Financial Projection Model (PFPM) from the State Health Care Authority.

Total OPEB Liability

As of June 30, 2018, components of the calculation of total OPEB liability determined in accordance with GASB Statement No. 75 for CWU are represented in the following table:

System Proportionate Share (%)	**0.1638955331%**
Interest Cost	303,206
Changes in assumptions	(1,479,043)
Benefit payments	(154,519)
Other	–
Total OPEB liability - beginning	10,381,528
Total OPEB liability - ending	**$ 9,548,263**

Deferred Inflows and Deferred Outflows Schedule

Amortization schedules of the deferred inflows and outflows of resources resulting from differences between expected and actual experience and changes of assumptions were calculated by the Office of the State Actuary for the state.

As of June 30, 2018, the deferred inflows and deferred outflows of resources for CWU are as follows:

System Proportionate Share (%)	**0.1638955331%**	
Differences between expected and actual experience	$ –	$ –
Transactions subsequent to the measurement date	–	151,107
Total deferred (inflows)/outflows	**$ 1,446,220**	**$ 151,107**

Amounts currently reported as deferred inflows and deferred outflows of resources related to OPEB will be recognized as OPEB expense in subsequent years for CWU as follows:

Proportionate Share (%)	0.1638955331%
2019	$ (180,777.47)
2020	(180,777.47)
2021	(180,777.47)
2022	(180,777.47)
2023	(180,777.47)
Thereafter	$ (542,332.94)

The change in CWU's proportionate share of OPEB liability and deferred inflows and deferred outflows of resources based on measurement date are represented in the following table:

Proportionate Share (%) 2016	0.1663019606%
Total OPEB liability - ending 2016	$ 10,381,528
Total OPEB liability change in proportion	(150,223)
Total deferred inflows/outflows 2017 (change in proportion)	154,519
Total change in proportion	**$ (147,954)**

OPEB Expense

As of June 30, 2018, the components that make up OPEB expense for Central Washington University (CWU) are as follows:

System Proportionate Share (%)	**0.1638955331%**
Service Cost	$ 647,314
Interest Cost	303,206
Amortization of differences between expected and actual experience	–
Amortization of changes in assumptions	(164,338)
Changes of benefit terms	–
Amortization of changes in proportion	(16,439)
Administrative expenses	–
Total OPEB expense	**$ 769,742**

Actuarial Methods and Assumptions

Actuarial Assumptions

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	3.00%
Projected salary changes	3.75%, including service-based salary increases
Health care trend rates*	Trend rate assumptions vary slightly by medical plan. Initial rate is 7.00%, reaching an ultimate rate of approximately 5.00% in 2080
Post-retirement participation percentage	65.00%
Percentage with spouse coverage	45.00%

*For additional detail on the health care trend rates, please see Office of the State Actuary's 2017 OPEB Actuarial Valuation Report.

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

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2015 Economic Experience Study.

Actuarial Methodology

The total OPEB liability was determined using the following actuarial methodologies:

Actuarial valuation date	1/1/2017
Actuarial measurement date	6/30/2017
Actuarial cost method	Entry age
Amortization method	The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.
Asset valuation method	N/A - no assets

In order to calculate the beginning total OPEB liability balance under GASB Statement No. 75, the January 1, 2017 actuarial valuation was projected backwards to the measurement date of June 30, 2016, while the ending balance was determined by projecting the January 1, 2017 valuation forward to June 30, 2017. Both the forward and backward projections reflect the plan's service cost, assumed interest, and expected benefit payments.

The actuarial methodology used to determine the transactions subsequent to the measurement date were as follows:

Explicit medicare subsidy	Subsidy amounts are calculated at subscriber level, based on the benefit plan and enrollment tier selected, then summed over entire population to include Medicare retirees from the State, Higher Education, K-12, and Political Subdivision groups.
Implicit medicare subsidy	Subsidy amounts are calculated using the implicit subsidy rate* (difference between theoretical early retiree rates and composite rates** for non-Medicare risk pool) and the enrollment counts for early retirees.

*early retirees assumed to be 58% more expensive than non-Medicare risk pool as a whole on a per adult unit basis.
**calculated across non-Medicare risk pool for both self-insured and fully-insured plans using the PEBB Financial Projection Model (PFPM).

Discount Rate

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 2.85 percent for the June 30, 2016 measurement date and 3.58 percent for the June 30, 2017 measurement date.

Sensitivity of Total OPEB Liability to Changes in the Discount Rate
The following represents the total OPEB liability of CWU calculated using the discount rate of 3.58 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) that the current rate:

DISCOUNT RATE SENSITIVITY

Agency	1% Decrease	Current Discount Rate	1% Increase
CWU System	$ 11,650,059	$ 9,548,263	$ 7,921,810

Sensitivity of Total OPEB Liability to Changes in the Health Care Cost Trend Rates
The following represents the total OPEB liability of CWU calculated using the health care trend rates of 7.00 percent decreasing to 5.00 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (6.00 percent decreasing to 4.00 percent) or 1 percentage point higher (8.00 percent decreasing to 6.00 percent) than the current rate:

HEALTH CARE COST TREND RATE SENSITIVITY

Agency	1% Decrease	Current Discount Rate	1% Increase
CWU System	$ 7,713,682	$ 9,548,263	$ 12,010,433

Additional Information
Additional actuarial and OPEB plan information is included in the Washington State 2018 CAFR on OFM's website: https://www.ofm.wa.gov/accounting/financial-audit-reports/comprehensive-annual-financial-report. All other actuarial data, assumptions, and methods relied on for the preparation of this report for GASB Statement No. 75 can be found on Office of the State Actuary's website: http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx

NOTE 11 – PENSION PLANS

Central Washington University adopted GASB 73 during the 2017 fiscal year. GASB 73 is meant to establish a single framework of comparison for the presentation of information relating to pension activity. These changes relate to single employer plans not covered within the scope of GASB 68.

Central Washington University Retirement Plan
The Central Washington University Retirement Plan (CWURP), a single-employer 403(b) defined contribution plan administered by the University. To qualify as an eligible participant, an employee must be employed at least fifty percent of the normal full-time work load as a CWU faculty, civil service exempt staff, or other salaried employee. Contributions to the plan are invested in annuity contracts or mutual fund accounts in which employees have, at all times, a 100% vested interest in their accumulations. Benefits from fund sponsors are available upon separation or retirement at the member's option. The number of participants in the CWURP as of June 30, 2018 was 56.

Funding Policy
Current mandatory contribution rates are set at 5% for employees under the age of 35, 7.5% for employees between the ages of 35 – 49, and 10% for employees 50 and above. Contribution rates are established and amendable by Central Washington University's board of trustees per RCW 28.B.14.400. Employer contributions for the year ended June 30, 2018 were $174,063.

Central Washington University Supplemental Retirement Plan
The Central Washington University Supplemental Retirement Plan (CWUSRP), a single employer 401(a) defined-benefit retirement plan administered by the university operates in tandem with the 403(b) plan to supplement the expected defined-contribution retirement savings accumulated under the CWURP. The CWUSRP was closed to new participants effective September 1, 1998. The plan has a supplemental payment component which guarantees a minimum retirement benefit to eligible retirees based upon a one-time

calculation at the employee's retirement date. The University makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements. To qualify as an eligible participant, an employee must be employed at least fifty percent of the normal full-time work load as a CWU faculty, civil service exempt staff, or other salaried employee.

As of June 30, 2017 there were approximately 65 inactive employees receiving benefits, no inactive employee entitled but not yet reviving benefits, and 1 active employee participating in the CWUSRP plan. Participants of CWUSRP are considered vested once all of the following criteria are met: the participant has reached the age of 62 while employed at CWU or retires due to health and the participant has ten or more years of service. The monthly benefit amount due to the participant is one-twelfth of 2% of his or her average annual salary multiplied by the number of service years. If the participant retires early, the monthly benefit is reduced by .5% times the number of calendar months between the date of retirement and the normal retirement age. There were no benefit payments made during the fiscal year ending June 30, 2018 as there were no CWURP Retirees from the System.

Total Pension Liability (TPL)

The total pension liability is based on an actuarial valuation performed as of June 30, 2016 using the entry age actuarial cost method. Any assets considered to offset the total pension liability are not held in an irrevocable trust. As such, the total pension liability is shown on the balance sheet under GASB 73 as opposed to the net pension liability reported for GASB 68. Procedures performed by the Office of the State Actuary were used to roll forward the total pension liability to the measurement date of June 30, 2018. The CWURP pension expense for the fiscal year ending June 30, 2018 was $33,739.

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AS OF JUNE 30, 2018

Beginning balance	**$ 287,774**
Service cost	3,089
Interest	10,150
Changes in benefit terms	—
Differences between expected and actual experience	(15,820)
Changes in assumptions	(9,264)
Benefit payments	(13,986)
Ending balance	**261,974**
TPL Interest Rate Sensitivity Discount Rate	261,974
TPL Interest Rate Sensitivity 1% Decrease	291,712
TPL Interest Rate Sensitivity 1% Increase	$ 236,819

Certain assumptions were applied in determining the total pension liability as of June 30, 2016 with the results rolled forward to the June 30, 2018 measurement date.

- Salary increases: 3.75% - 3.50%
- Investment returns: 4.25% - 6.25%
- Discount rate: 3.58% (Bond Buyer General Obligation 20-Bond Municipal Bond Index)
- Mortality rate assumptions: 100% Scale BB (RP-2000 Combined Healthy Table, April 2016)

Deferred Inflows

At June 30, 2018, the CWURP plan reported a deferred inflow of resources from the following sources.

DEFERRED INFLOW

Difference between expected and actual experience	$ 17,415
Change in assumptions	9,573
Total	**$ 26,988**

Amortization of Deferred Inflows

Amounts reported as deferred inflows of resources will be recognized in pension expense in the following fiscal years.

AMORTIZATION OF DEFERRED INFLOWS

2019	$ (14,767)
2020	(6,416)
2021	(5,771)
Thereafter	–
Total	**$ (26,988)**

Public Employees Retirement System plans 1, 2, and 3; Teachers Retirement Systems plans 1, 2, and 3; Law Enforcement Officers and Fire Fighters plan 2:

Plan Description: Central Washington University contributes to PERS, TRS, and LEOFF; cost-sharing multiple-employer defined benefit pension plans administered by the Washington State Department of Retirement Systems.

PERS plan 1 and TRS plan 1 provide retirement and disability benefits, and minimum benefit increases, beginning at any age with 30 years of service, or at age 55 with 25 years of service, or at age 60 with five years of service to eligible members hired prior to October 1, 1977.

PERS plan 2 and TRS plan 2 provide retirement and disability benefits, and a cost-of-living allowance, beginning at age 65 with five years of service, or an actuarially reduced benefit beginning at age 55 with 20 years of service, to eligible members hired on or after October 1, 1977.

LEOFF plan 2 provides retirement and disability benefits, and a cost-of-living allowance, beginning at age 53 with five years of service, or an actuarially reduced benefit beginning at age 50 with 20 years of service, to eligible law enforcement officer members hired on or after October 1, 1977.

PERS plan 3 and TRS plan 3 are hybrid defined-benefit and defined-contribution plans. University contributions fund the defined benefit component, providing retirement and disability benefits, and a cost-of-living allowance, beginning at age 65 with minimum service requirements, or an actuarially reduced benefit at age 55 with at least 10 years of service, to eligible members hired on or after July 1, 1996, and those who transferred from PERS plan 2 and TRS plan 2. Member contributions are fully vested in the defined contribution component of the plan and funds are available at separation or retirement at the member's option.

The authority to establish and amend benefit provisions for PERS, TRS, and LEOFF plans resides with the legislature. The Washington State Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Department of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380.

Funding Policy: The office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS, TRS, and LEOFF. Plan 1 members are required by statute to contribute 6 percent of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. Plan 3 members elect their contribution rate at employment from both flat and aggregated rate plans varying from 5 percent to 15 percent of annual covered salary. The contribution rates at June 30, 2018 were as follows:

System and member contributions for the current year and two previous years were as follows:

PERS1, PERS2, PERS3 AND LEOFF CONTRIBUTION RATES

	2018		2017		2016	
Plan	**Member**	**University**	**Member**	**University**	**Member**	**University**
PERS 1	6.00%	9.21%	6.00%	9.21%	6.00%	11.18%
PERS 2	6.12%	11.18%	6.12%	11.18%	6.12%	11.18%
PERS 3	VARIOUS	11.18%	VARIOUS	11.18%	VARIOUS	11.18%
LEOFF	8.41%	8.59%	8.41%	8.59%	8.41%	8.59%

NOTE 12 – PENSION LIABILITY

PERS1, PERS2, PERS3 AND LEOFF CONTRIBUTIONS

	2018		2017		2016	
Plan	**Member**	**University**	**Member**	**University**	**Member**	**University**
PERS 1	$ 8,673	$ 18,266	$ 8,633	$ 18,828	$ 7,998	$ 12,277
PERS 2	347,696	599,669	279,440	510,480	259,583	474,203
PERS 3	142,962	270,995	124,461	213,700	102,206	180,577
LEOFF	24,437	24,940	25,570	26,177	29,789	30,426
Total	**$ 523,768**	**$ 913,871**	**$ 438,104**	**$ 769,125**	**$ 399,576**	**$ 697,483**

The university adopted GASB Statement No.68—Accounting and Financial Reporting for Pensions. These changes in accounting policies for pensions are designed to improve transparency regarding pension obligations by requiring recognition of a liability equal to the net pension liability for the System's proportionate share of the Department of Retirement Systems (DRS) defined benefit plans. This standard requires recognition of pension expense using a systematic method, designed to match the cost of pension benefits with service periods for eligible employees, and to assist in paying for PERS1 and TRS1 future retiree costs. Because this was to be retroactively implemented, CWU also restated its beginning 2015 fund balance. The CWU financial data is now presented in accordance with the new accounting standards described above.

Central Washington University Retirement Benefits

Substantially all full-time classified employees at CWU participate in the DRS retirement plans. CWU has a financial responsibility for pension benefits associated with its defined benefit plans, and the University's financial statements for 2018 have been updated to include the university's proportionate share of the State's pension liability. Pension liability is allocated to multiple funds, based on their proportionate share of covered compensation for the fiscal year.

Prior to adopting the pension accounting changes, CWU reported pension expense based on cash contributions to DRS. All state employers are required to contribute at a rate set by The Washington State legislature. Employer contribution rates were 9.21 percent for PERS1, 11.18 percent for PERS2 and PERS3 and 8.59 percent for LEOFF2 during 2018 fiscal year. These pension accounting changes do not impact the University's requirements for making contributions to DRS.

Pension Plan Tables & Discussion

The following table represents the University's aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions, for the years 2017-2018.

AGGREGATE GASB 68 ENTRIES

Pension asset	$ 192,222
Pension liability	(4,822,390)
Less pension expense	718,839
Plus deferred inflows of resources related to pensions	(918,243)
Less deferred outflows of resources related to pensions	1,237,323
Net	**$ 339,445**

State Sponsored Pension Plans

Substantially all of CWU's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2 percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by state statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2018 were as follows:

PERS PLAN 1

Actual Contribution Rates	Employer	Employee*
July 1, 2017 - June 30, 2018	9.21%	6.00%

The System's actual contributions to the plan were $18,266 for the fiscal year ended June 30, 2018.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2 percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2017 were as follows:

PERS PLAN 2/3

Actual Contribution Rates	Employer	Employee
July 1, 2017 - June 30, 2018	11.18%	6.12%
Employee PERS Plan 3	11.18%	VARIES

The System's actual contribution to the plans were $870,665 for the fiscal year ended June 30, 2018.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. Central Washington University participates solely in LEOFF Plan 2.

LEOFF Plan 2 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions
The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2017 were as follows:

LEOFF PLAN 2

Actual Contribution Rates	Employer	Employee
Ports and universities	8.59%	8.41%

The System's actual contributions to the plan were $24,940 for the year ended June 30, 2018.

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. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2017, the state contributed $60,375,158 to LEOFF Plan 2.

Actuarial Assumptions
The total pension liability (TPL) for each of the plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' Comprehensive Annual Financial Report located on the DRS employer-resource GASB webpage. These assumptions reflect the results of OSA's *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's "Combined Healthy Table" and "Combined Disabled Table." The Society of Actuaries published the document. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB.

Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout the member's lifetime.

Change in Assumptions and Methods: Actuarial results that OSA provided within this publication reflect the following changes in assumptions and methods:

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 and TRS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%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 for current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.70% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.70% except LEOFF Plan 2, which has assumed 7.50%.)

Consistent with the long-term expected rate of return, a 7.50% 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% was used to determine the total liability.

Long-Term Expected Rate of Return

OSA selected a 7.50% long-term expected rate of return on pension plan investments using a building- block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the WSIB provided.

The CMAs contain three pieces of information for each class of assets 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

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the 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, 2017.
The inflation component used to create the table is 2.20% and represents the WSIB's most recent long-term estimate of broad economic inflation.

ESTIMATED RATES OF RETURN BY ASSET CLASS

Asset Class	Target Allocation	% Long-term Expended Real Rate of Return Arithmetic
Fixed income	20%	1.70%
Tangible assets	5%	4.90%
Real estate	15%	5.80%
Global equity	37%	6.30%
Private equity	23%	9.30%
	100%	

Sensitivity of NPL

The table below presents the net pension liability of employers, calculated using the discount rate of 7.50% as well as what employers' net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

SENSITIVITY OF NPL

CWU Plan	CWU Allocation	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
PERS 1	0.055280%	$ 3,195,430	$ 2,623,094	$ 2,127,329
PERS 2/3	0.063298%	5,925,132	2,199,295	(853,475)
LEOFF 2	0.013852%	41,597	(192,222)	(382,728)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the System reported a total pension liability of $4,822,390 and an asset of $ 192,222 for its proportionate share of the net pension balances as follows:

PENSION PLAN FIDUCIARY NET POSITION

CWU Plan	Liability	Asset
PERS 1	$ 2,623,094	
PERS 2/3	2,199,295	
TRS 1	—	
TRS 2/3	—	
LEOFF 2		$ (192,222)
Total	**$ 4,822,390**	**$ (192,222)**

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for state pension support provided to the System. The amount recognized by the System as its proportionate share of the net pension liability/(asset), the related state support, and the total portion of the net pension liability/(asset) that was associated with the System were as follows:

CWU Plan	Liability (or Asset)
LEOFF 2–employer's proportionate share	**$ (192,222)**

As of June 30, 2018, the Systems's proportionate share of the collective net pension liabilities was as follows:

CWU Plan	Proportionate Share June 30, 2017	Proportionate Share June 30, 2018	Change in Proportion
PERS 1	0.0478743%	0.0552803%	0.0074060%
PERS 2/3	0.0607279%	0.0632978%	0.0025699%

As of June 30, 2018, the System's proportionate share of the collective net pension assets was as follows:

CWU Plan	Proportionate Share June 30, 2017	Proportionate Share June 30, 2018	Change in Proportion
LEOFF 2	0.0193912%	0.0138521%	(0.0055391%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2017, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Non-employer Allocations* for all plans except LEOFF 1, a plan the University does not utilize.

In fiscal year 2018, the state of Washington contributed 39.345464 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.654536 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the fiscal year ended June 30, 2018, System recognized a net pension expense as follows:

CWU Plan	Pension Expense
PERS 1	$ 547,166.63
PERS 2/3	132,693.68
TRS 1	–
TRS 2/3	–
LEOFF 2	8,816.97
Total	**$ 688,677.28**

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, Central Washington University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ –	$ –
Net difference between projected and actual investment earnings on pension plan investments	–	(97,887)
Changes of assumptions	–	–
Change in proportion and differences between contributions and proportionate share of contributions	–	–
Contributions subsequent to the measurement date	361,106	–
Total	**$ 361,106**	**$ (97,887)**

PERS 2/3

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 222,840	$ (72,331)
Net difference between projected and actual investment earnings on pension plan investments	–	(586,279)
Changes of assumptions	23,361	–
Change in proportion and differences between contributions and proportionate share of contributions	79,574	(98,113)
Contributions subsequent to the measurement date	474,918	–
Total	**$ 800,693**	**$ (756,723)**

LEOFF 2

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,449	(7,289)
Net difference between projected and actual investment earnings on pension plan investments	–	(43,155)
Changes of assumptions	231	–
Change in proportion and differences between contributions and proportionate share of contributions	44,455	$ (13,188)
Contributions subsequent to the measurement date	22,389	–
Total	**$ 75,524**	**$ (63,633)**

Deferred outflows of resources related to pensions resulting from the university's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PERS 1

Difference Between Projected and Actual Earnings on Plan Investments

Year ended June 30	Amount	Proportionate Share	System's Share Amortization Table
2018	$ (119,690,000)	0.055280%	$ (66,165)
2019	37,788,000	0.055280%	20,889
2020	(8,774,000)	0.055280%	(4,850)
2021	(86,397,000)	0.055280%	(47,761)
Thereafter	–	0.055280%	–
Total	$ (177,073,000)	0.055280%	$ (97,887)

PERS 2/3

Difference Between Expected and Actual Experience

Year ended June 30	Amount	Proportionate Share	System's Share Amortization Table
2018	$ 90,825,000	0.063298%	$ 57,490
2019	23,799,000	0.063298%	15,064
2020	20,668,000	0.063298%	13,082
2021	31,057,000	0.063298%	19,658
2022	31,057,000	0.063298%	19,658
Thereafter	40,374,000	0.063298%	25,556
Total	**$ 237,780,000**	**0.063298%**	**$ 150,509**

PERS 2/3

Difference Between Projected and Actual Earnings on Plan Investments

Year ended June 30	Amount	Proportionate Share	System's Share Amortization Table
2018	$ (476,810,000)	0.063298%	$ (301,810)
2019	58,854,000	0.063298%	37,253
2020	(104,435,000)	0.063298%	(66,105)
2021	(403,833,000)	0.063298%	(255,617)
2022	(926,224,000)	0.063298%	–
Thereafter	–	0.063298%	–
Total	**$ (1,852,448,000)**	**0.063298%**	**$ (586,279)**

PERS 2/3

Changes of Assumptions

Year ended June 30	Amount	Proportionate Share	System's Share Amortization Table
2018	$ 16,933,000	0.063298%	$ 10,718
2019	15,917,000	0.063298%	10,075
2020	3,244,000	0.063298%	2,053
2021	246,000	0.063298%	156
2022	246,000	0.063298%	156
Thereafter	320,000	0.063298%	203
Total	**$ 36,906,000**	**0.063298%**	**$ 23,361**

PERS 2/3

Changes in proportion and differences between contributions and proportionate share of contributions

Year ended June 30	Deferred Inflows	Deferred Outflows
2018	$ (123,723)	$ 15,014
2019	(85,957)	15,014
2020	(12,156)	15,014
2021	–	15,014
2022	–	15,014
Thereafter	123,723	4,504
Total	**$ (98,113)**	**$ 79,574**

LEOFF 2

Difference Between Expected and Actual Earnings

Year ended June 30	Amount	Proportionate Share	System's Share Amortization Table
2018	$ (157,722,000)	0.013852%	$ (21,848)
2019	17,814,000	0.013852%	2,468
2020	(35,982,000)	0.013852%	(4,984)
2021	(135,653,000)	0.013852%	(18,791)
2022	–	0.013852%	–
Thereafter	–	0.013852%	–
Total	**$ (311,543,000)**	**0.013852%**	**$ (43,155)**

LEOFF 2

Differences Between Expected and Actual Earnings on Plan Investments

Year ended June 30	Amount	Proportionate Share	System's Share Amortization Table
2018	$ 13,228,000	0.013852%	$ 1,832
2019	13,228,000	0.013852%	1,832
2020	13,228,000	0.013852%	1,832
2021	(617,000)	0.013852%	(85)
Thereafter	(25,217,000)	0.013852%	(3,493)
Total	$ 8,368,000	0.013852%	$ 1,159

LEOFF 2

Changes in Assumptions

Year Ended June 30,	Amount	Proportionate Share	System's Share Amortization Table
2018	$ 522,000	0.013852%	$ 72
2019	522,000	0.013852%	72
2020	522,000	0.013852%	72
2021	105,000	0.013852%	15
2022	–	0.013852%	–
Thereafter	–	0.013852%	–
Total	**$ 1,671,000**	**0.013852%**	**$ 231**

LEOFF 2

Changes in proportion and differences between contributions and proportionate share of contributions

Year ended June 30	Deferred Inflows	Deferred Outflows
2018	$ (4,938)	$ 6,943
2019	(4,215)	6,943
2020	(4,036)	6,943
2021	–	5,036
2022	–	4,559
Thereafter	–	14,030
Total	**$ (13,188)**	**$ 44,455**

Appendix

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

Notes to RSI

Methods and assumptions used in calculations of actuarial determined contributions for PERS, TRS and LEOFF – The Office of the State Actuary (OSA) calculates the Actuarially Determined Contributions (ADC) based on the results of an actuarial valuation consistent with the state's funding policy defined under Chapter 41.45 RCW. Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30th, 2014 valuation date, completed in the Fall of 2015, determines the ADC for the period beginning July 1st, 2016 and ending June 30th, 2018.

Under GASB Statement 68, government entities that participate in one or more of the State's cost-sharing, multiple employer pension plans (PERS, SERS, PSERS, TRS, and LEOFF) must present an RSI:

- Schedule of Proportionate Share of the Net Pension Liability
- Schedule of Employer Contributions

These are 10-year schedules. Until a full 10-year trend is compiled, CWU is presenting information only for those years for which information is available.

GASB 68 | SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY PERS 1
AS OF JUNE 30,

	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.055280%	0.047874%	0.037144%	0.033128%
Employers' proportionate share of the net pension liability	$ 2,623,094	$ 2,571,074	$ 1,942,972	$ 1,668,836
Total	**$ 2,623,094**	**$ 2,571,074**	**$ 1,942,972**	**$ 1,668,836**
Employer's covered employee payroll	$ 5,883,051	$ 5,558,262	$ 3,394,133	$ 2,954,158
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	44.59%	46.26%	57.25%	56.49%
Plan fiduciary net position as a percentage of the total pension liability (State)	61.24%	57.03%	59.10%	61.19%
Plan fiduciary net position as a percentage of the total pension liability (University)	0.03%	0.15%	0.16%	0.18%
Plan fiduciary net position as a percentage of the total pension liability (System)	0.03%	0.03%	0.02%	0.02%

GASB 68 | SCHEDULE OF EMPLOYER CONTRIBUTIONS PERS 1
AS OF JUNE 30,

	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 361,106	$ 331,532	$ 274,695	$ 168,637	$ 145,454
Contributions in relation to the statutorily or contractually required contributions	(361,106)	(331,532)	(274,695)	(168,637)	(145,454)
Contribution deficient (excess)	-	-	-	-	-
Covered employer payroll	$6,980,881	$5,883,051	$5,558,262	$3,394,133	$2,954,158
Contributions as a percentage of covered employee payroll	5.17%	5.64%	4.94%	4.97%	4.92%

GASB 68 | SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY PERS 2/3
AS OF JUNE 30,

	2017	2016	2015	2014
				0.066725%
Employer's proportionate share of the net pension liability	$ 2,199,295	$ 3,057,602	$ 2,275,760	$ 1,348,753
				1,348,753
Employer's covered employee payroll	$ 6,037,081	$ 5,684,165	$ 5,653,895	$ 5,743,524
				23.48%
Plan fiduciary net position as a percentage of the total pension liability (State)	90.97%	85.82%	89.20%	93.29%
				0.31%
Plan fiduciary net position as a percentage of the total pension liability (System)	0.06%	0.05%	0.06%	0.06%

GASB 68 | SCHEDULE OF EMPLOYER CONTRIBUTIONS PERS 2/3
AS OF JUNE 30,

	2018	2017	2016	2015	2014
Contributions in relation to the statutorily or contractually required contributions	(474,918)	(377,561)	(352,739)	(294,321)	(294,709)
Covered employer payroll	$6,386,456	$6,037,081	$5,684,165	$5,653,895	$5,743,524

GASB 68 | SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY LEOFF 2
AS OF JUNE 30,

	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.013852%	0.019390%	0.019784%	0.017172%
Employer's proportionate share of the net pension liability	$ (192,222)	$ (112,778)	$ (203,343)	$ (227,881)
Total	**$ (192,222)**	**$ (112,778)**	**$ (203,343)**	**$ (227,881)**
Employer's covered employee payroll	$ 364,684	$ 353,763	$ 345,074	$ 287,535
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-53%	-32%	-59%	-79%
Plan fiduciary net position as a percentage of the total pension liability (State)	113.36%	106.04%	111.67%	116.75%
Plan fiduciary net position as a percentage of the total pension liability (University)	0.02%	0.05%	0.06%	0.06%
Plan fiduciary net position as a percentage of the total pension liability (System)	0.01570%	0.02056%	0.02209%	0.02005%

GASB 68 | SCHEDULE OF EMPLOYER CONTRIBUTIONS LEOFF 2

AS OF JUNE 30,

	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 22,389	$ 30,944	$ 29,420	$ 29,170	$ 24,332
Contributions in relation to the statutorily or contractually required contributions	(22,389)	(30,944)	(29,420)	(29,170)	(24,332)
Contribution deficient (excess)	-	-	-	-	-
Covered employer payroll	$ 256,254	$ 364,684	$ 353,763	$ 345,074	$ 287,535
Contributions as a percentage of covered employee payroll	8.74%	8.49%	8.32%	8.45%	8.46%

GASB 73 RSI | CWURP SCHEDULE OF CHANGES IN THE TOTAL PENSION LIABILITY

	2018	2017
Total pension liability - beginning	$ 287,774	$ 348,292
Service cost	3,089	5,057
Interest	10,150	9,878
Difference between expected and actual experience	(15,820)	(42,815)
Change in assumptions	(9,234)	(20,767)
Benefit payments	(13,986)	(13,856)
Other	—	—
Total pension liability	261,974	285,787
CWURP covered employee payroll	$ 5,037,595	$ 371,789
Total pension liability as a percentage of covered employee payroll	5.20%	76.67%

GASB 75 RSI | SYSTEM

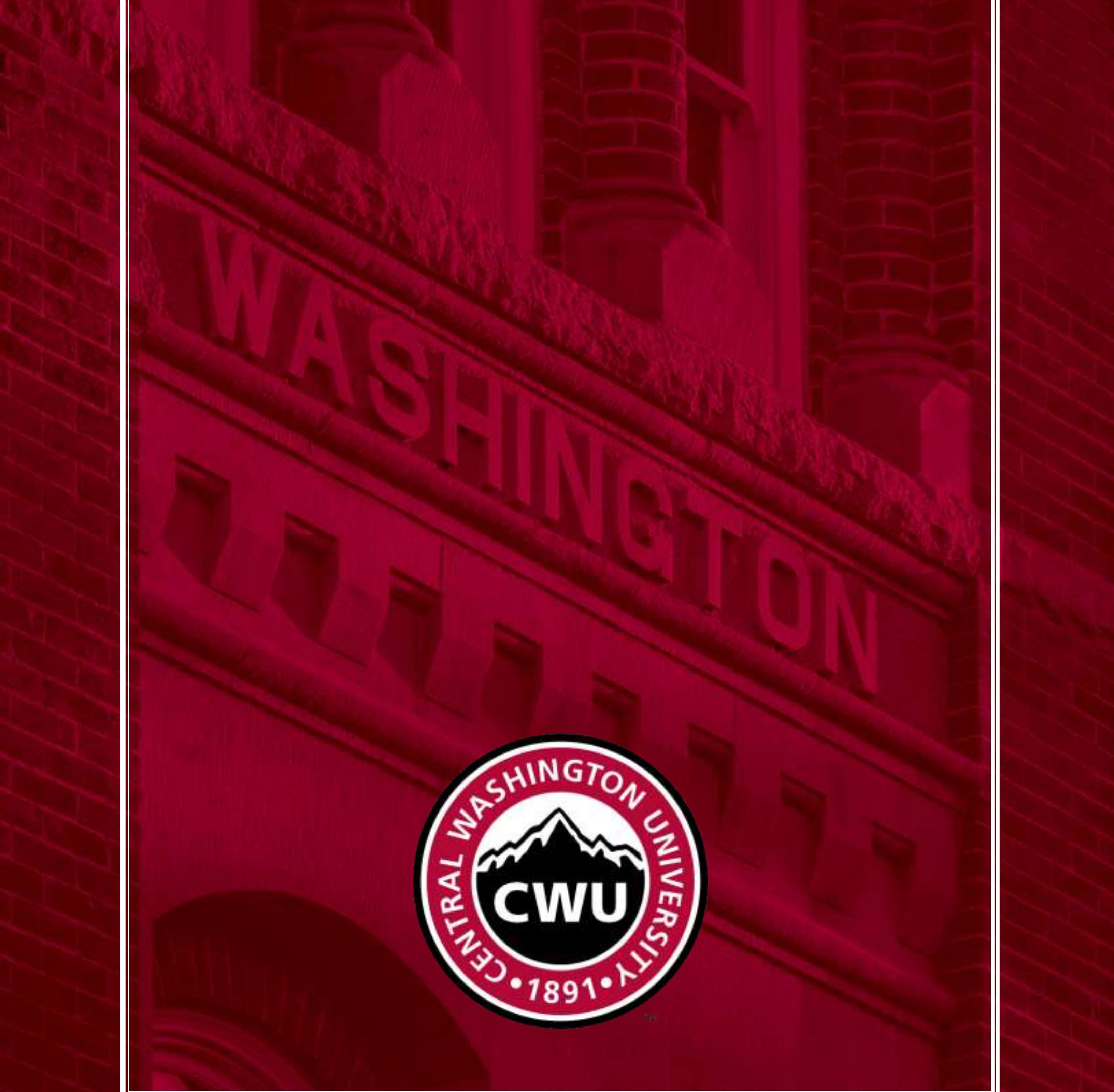
	2018
Proportionate Share (%)	0.1638955331%
Service cost	$ 647,314
Interest cost	303,206
Differences between expected and actual experience	-
Changes in assumptions	(1,479,043)
Changes in benefit terms	-
Benefit payments	(154,519)
Changes in proportionate share	(150,223)
Other	–
Net change in total OPEB liability	(833,265)
Total OPEB liability - beginning	10,381,528
Total OPEB liability - ending	**$ 9,548,263**

Schedule of Central Washington University's OPEB Contributions

Prior 10 Fiscal Years

System	**2018**
Total OPEB liability	$ 9,548,263
Covered-employee payroll	8,763,032
Total OPEB liability as a percentage of covered-employee payroll	91.7761926464%

SYSTEM FINANCIAL REPORT 2018



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