



CWU

2017



CWU



Welcome



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, 2017

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WASHINGTON STATE AUDITOR'S OFFICE

Independent Auditor's Report on Financial Statements

CENTRAL WASHINGTON UNIVERSITY SYSTEM
JULY 1, 2015 THROUGH JUNE 30, 2017

Board of Trustees
Central Washington University System
Ellensburg, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Central Washington University System, Kittitas County, Washington, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University System's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing opinions on the effectiveness of the University System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Washington University System, as of June 30, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Central Washington University System are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only that portion of business-type activities of the University that is attributable to the transactions of the Housing, Dining, Bookstore, Parking and Student Activity Funds. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2017 and 2016, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

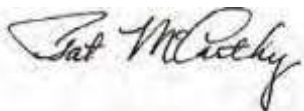
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial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

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Central Washington University as of and for the years ended June 30, 2017 and 2016, and our report thereon, dated February 5, 2018, expressed an unmodified opinions on those financial statements.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2018 on our consideration of the University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University System's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

February 5, 2018

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’s primary function is to provide services to students. 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, 2017. 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 2017

The System’s overall financial standing continues to be sound, with total assets and deferred outflows of \$181.8 million and total liabilities and deferred inflows of \$133.1 million. The System’s net position totals \$48.7 million. Compared to the fiscal year 2016 figures, total assets and deferred outflows increased by \$1.7 million, while total liabilities and deferred inflows are relatively unchanged, decreasing by \$500,000. Net position has increased by \$2.3 million.

Total operating revenues increased by 5.9 percent or \$3.3 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 3.7 percent, or \$1.8 million primarily due to increases in staffing costs and the increase in costs of goods sold associated with an increase in sales revenue.

During 2017, net position increased by \$2.3 million primarily due to revenue increases and cost control in the operations.

Unrestricted net position is one indicator of an organization’s overall financial condition and an increase generally indicates improving fiscal conditions. During 2017, the unrestricted net position increased by \$1.6 million. This was primarily due to an increase in net operating income of \$1.5 million.

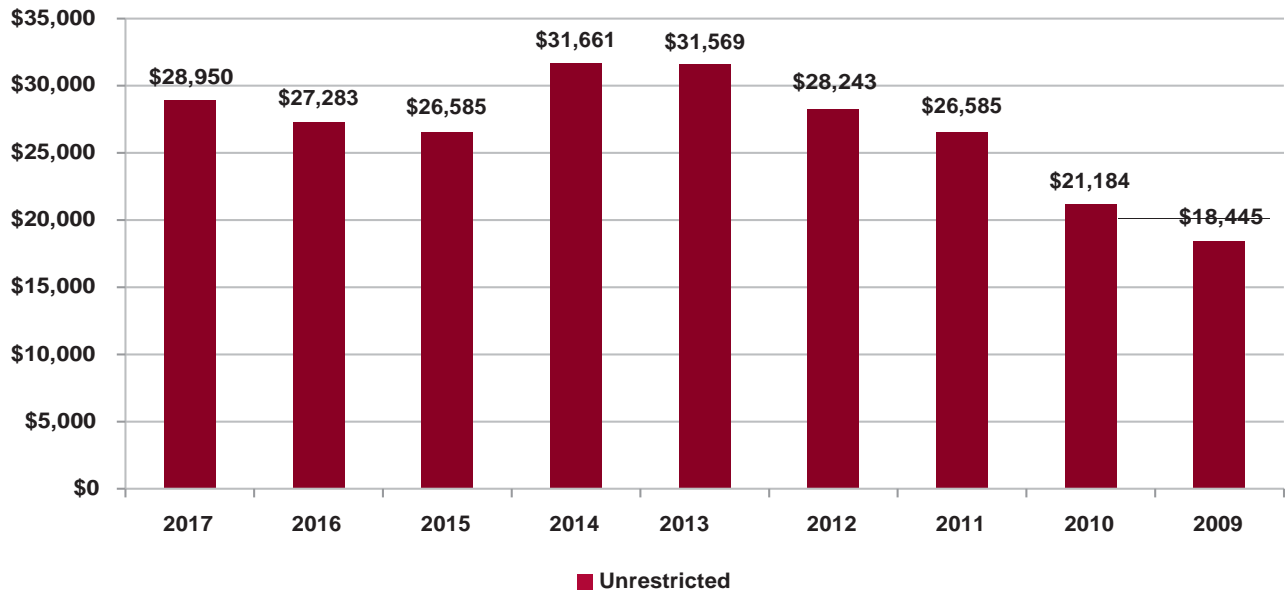


Unrestricted net position is often accumulated for designated purposes or is held in order to meet the CWU debt policy.¹ The following table and graph show the System's unrestricted net position for the nine most recent fiscal years:

UNRESTRICTED NET POSITION (IN THOUSANDS)

	2017	2016	2015	2014	2013	2012	2011	2010	2009
UNRESTRICTED	\$ 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 13.

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.

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

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 liabilities and may be thought of as one way to measure the System's financial health, or financial position.

Assets and liabilities are classified as either current or 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.



The following table shows the Condensed Statement of Net Position at June 30, 2017, 2016, and 2015:

CONDENSED STATEMENT OF NET POSITION – JUNE 30, 2017, 2016 AND 2015
(IN THOUSANDS)

	2017	2016	2015	2017-2016 Dollar Change	Percent Change
Current assets	\$ 40,458	\$ 37,554	\$ 35,785	\$ 2,904	7.7%
Capital assets, net	137,358	139,394	141,725	(2,036)	(1.5%)
Other non-current assets	113	812	694	(699)	(86%)
Total Assets	177,929	177,761	178,204	168	0.1%
Deferred outflows	3,866	2,164	2,241	1,702	79%
Current liabilities	10,235	9,100	8,116	1,135	12.5%
Non-current liabilities	122,531	123,749	126,184	(1,218)	(1.0%)
Total liabilities	132,766	132,849	134,299	(83)	(0.1%)
Deferred inflows	365	760	1,752	(395)	(52.0%)
Invested in capital assets, net	19,714	19,032	17,808	682	4%
Restricted	–	–	–	–	–
Unrestricted	28,950	27,283	26,585	1,667	6.1%
Total net position	\$ 48,664	\$ 46,316	\$ 44,393	\$ 2,348	5.1%
Current ratio (CURRENT ASSETS TO CURRENT LIABILITIES)	3.953	4.200	4.400	–	–
Primary reserve ratio (EXPENDABLE NET ASSETS TO OPERATING EXPENSES)	0.61	0.58	0.57	–	–

Total assets and deferred outflows were increased by \$1.9 million at the end of fiscal year 2017. This is primarily due to the deferred gains associated with the refunding of the 2008 Bonds (see Note 7). Cash and cash equivalents increased by \$2.4 million from the preceding year, mainly attributed to increases in operating revenue due to room and board rate increases and higher student participation. Net capital assets decreased \$2.0 million due to depreciation expense partially offset by capital additions.

On June 30, 2017, the System had \$137.4 million invested in *net capital assets*, as reflected in the following table. This represents a net decrease of \$2.0 million or 1.4 percent during the fiscal year.

CAPITAL ASSETS (IN THOUSANDS)
(IN THOUSANDS)

	2017	2016	2015
Land	\$ 1,098	\$ 1,098	\$ 1,098
Equipment	3,618	3,571	3,189
Improvements and Infrastructure	11,038	10,841	8,618
Buildings	175,869	175,270	175,270
Construction in progress	1,451	114	867
Art	40	40	40
Total	193,113	190,934	189,082
Total accumulated depreciation and amortization	(55,756)	(51,541)	(47,357)
Capital assets, net	\$ 137,358	\$ 139,394	\$ 141,725

Depreciable capital assets, net of depreciation, decreased during fiscal year 2017 by \$2.2 million (see Note 4). Construction in progress for projects underway totaled \$1.5 million at June 30, 2017. The total depreciation expense was \$4.3 million for the year ended June 30, 2017. The difference between the net additions of working assets \$2.2 million and the depreciation expense of \$4.3 million results in a net reduction of \$2.1 million in capital assets.

Management Discussion and Analysis | CONTINUED

The Deferred outflows balance has two components this year.

The Deferred loss on refunding represents the component of deferred outflows 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 increased by \$1.8 million at June 30, 2017 due to the advanced refunding. This amount represents the difference between the par amount of the refunded bonds and the series 2016 bonds, including premium, which replaced them. This amount will continue to be amortized on a straight-line basis through the term of the replacement Bonds of 2016.

The second component, Deferred pension contribution, is a result of the adoption of GASB 68 and was reduced to (\$60k) using the prescribed methodology during 2017. (See note 12)

In total, **liabilities** were relatively unchanged during fiscal year 2017 increasing from \$132.8 million in 2016 to a total of \$132.7 million in 2017. However there were changes in some of the components.

Accounts payable increased by 21.9 percent to \$2.8 million from \$2.3 million in fiscal year 2016. This increase was primarily due to construction work on the Old Heat plant which had been incurred during the summer construction season and was paid in July. Deposits payable increased by 61.3 percent to \$1.5 million at June 30, 2017. This was due to the timing of the cyclic return of housing deposits to students who had paid them and had left University Housing. The return usually occurs in the month of June, but this year occurred in July. The non-current portion of bond premium increased by \$1.1 million to \$5.8 million at June 30, 2017 as the bonds of 2016 sold at a premium. The non-current portion of bonds payable decreased by \$5 million due to the regularly scheduled bond payments made by the System and the difference in the par amount between the bonds of 2016 and the original bonds of 2008 which was \$200,000.

Non-current liabilities decreased during 2017 by \$1.3 million. This decrease was primarily due to \$3.5 million in regularly scheduled principal payments on long term debt.

As of June 30, 2017, \$60.2 million of System revenues (100 percent) are pledged as security for outstanding System bonds.

LONG-TERM OBLIGATIONS (IN THOUSANDS)

	2017	2016	2015
Construction accounts payable	\$ 0	\$ 0	\$ 0
Accrued leave liabilities	307	309	3,002
Net bond premium/discount, net of amortization	5,858	3,703	3,917
Bonds payable, net of current portion	111,540	115,590	119,265
Pension liability	4,826	4,147	-
Total non-current liabilities	122,531	123,806	126,184
Unrestricted net position	\$ 28,950	\$ 27,283	\$ 26,585
Viability ratio (UNRESTRICTED TO NON-CURRENT LIABILITIES)	24%	22%	21%

The viability ratio measures the System's ability to retire long-term debt using available current resources. The ratio is calculated by dividing unrestricted net position by long-term debt. The System's viability ratio at June 30, 2017 was .24 to 1. This is an improvement from the previous year's figure of .22 to 1.

Deferred inflows of \$760,000 were recorded in the System ledgers during 2016. This amount represents the Deferred pension earnings related to the adoption of the new account standard (GASB 68) and was amortized to \$365,000 using the prescribed formula during fiscal year 2017. (See Note 12)

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, 2017 was 4.0 to 1, which means the System's current assets are four times that of its current liabilities. The System's current ratio at June 30, 2016 was 4.2 to 1. The increases in accounts payable and deposits payable, both current liabilities, was a contributing factor to the decrease in the current ratio.

Total net position increased \$2.3 million during fiscal year 2017. The total change in net position is equal to the year's operating activity less the effects of the financing activities, specifically the debt service payments. This increase is the result, primarily, of the annual operation of the System which generated an operating income of \$8.3 million, less long-term debt commitments that are associated with the working assets which made this result possible.

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, 2017 is 0.61 to 1, which indicates that, in an extreme emergency situation, the System could continue its current operations for approximately seven months. In 2016 this ratio was at a similar ratio of .58 to 1.

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 above what, we believe, could be considered a reasonable percentage.



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, and cost of sales and services. Non-operating revenues and expenses are those derived from non-exchange transactions. Examples include: interest paid on capital debt, insurance proceeds, investment income, interest rebates, and gains or losses on capital assets.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(IN THOUSANDS)

	2017	2016	2015	2017-16 Dollar Change	Percent Change
Operating revenues	\$ 60,156	\$ 56,832	\$ 51,690	\$ 3,324	5.85%
Operating expenses	51,880	50,029	46,977	1,851	3.70%
Operating income (loss)	8,276	6,802	4,712	1,474	21.70%
Total non-operating revenues net of expenses	(5,928)	(4,880)	(5,219)	(700)	14.00%
Increase in net position	\$ 2,348	\$ 1,923	\$ (507)	\$ 774	40.00%
Net income margin (INCREASE IN NET ASSETS TO TOTAL REVENUE)	3.90%	3.38%	(0.98%)	—	—

As of June 30, 2016, operating expenses increased 3.7 percent and operating revenues increased 5.9 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 2017 is 3.9 percent which is an improvement over the 3.38 percent in fiscal year 2016. A positive operating margin is financially healthy, as it signifies the System is taking in more than it is spending.

The majority of the non-operating expenses relate to interest expense on long-term debt (\$6.5 million). There also were two items in non-operating revenues during fiscal 2017: 1.) \$630,000 received as part of the Build America Bonds program (BABS), and 2.) \$339,000 earned on investments.

Revenues

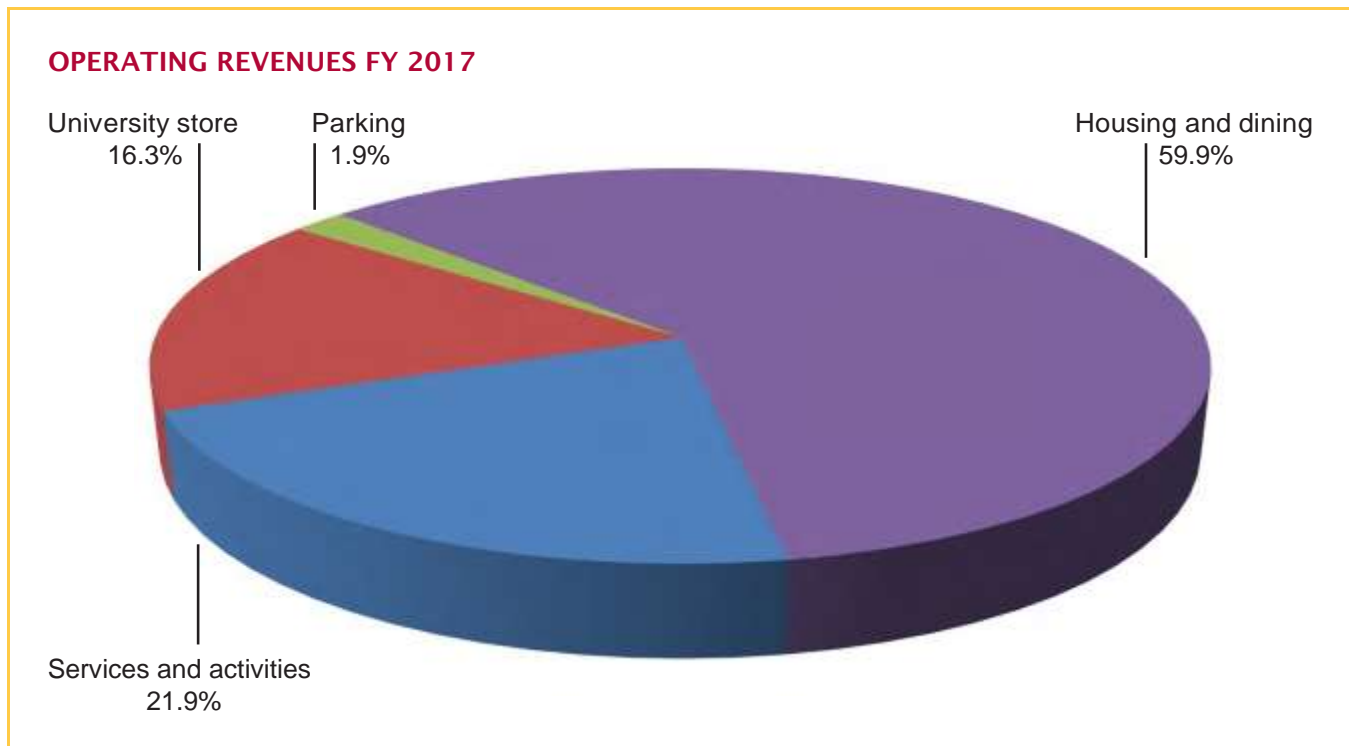
Operating Revenues for the System increased 5.9 percent from fiscal year 2016. The following table shows revenues by source for the fiscal years ended June 30, 2017, 2016, and 2015:

OPERATING REVENUES (IN THOUSANDS)					
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017-16 Dollar Change</u>	<u>Percent Change</u>
Services and activities	\$ 13,177	\$ 12,909	\$ 12,255	\$ 268	2.1%
University store	9,804	9,447	8,974	358	3.8%
Parking	1,145	1,139	1,043	6	0.5%
Housing and dining	36,030	33,337	29,418	2,692	8.1%
Total operating revenues	\$ 60,156	\$ 56,832	\$ 51,690	\$ 3,324	5.85%

Increases in student participation in the System offerings, in addition to rate increases, were the 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 an 8.1 percent increase in operating revenue.

The Housing rate increase from fiscal year 2016 to 2017 was 5 percent and the Dining rate increase was 3 percent, these combined are an approximate aggregate increase of 4 percent. The remainder, or 4.1 percent, of the fiscal year 2016 revenue figure increase of 8.1 percent was generated through an increase in student participation. In fiscal year 2016, Housing was approaching capacity to accommodate students; in fiscal year 2017 Housing accommodations have reached their capacity.

The increase shown in the Services and Activities fee revenue was related to enrollment increases.



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.

Expenses

OPERATING EXPENSES (IN THOUSANDS)

	2017	2016	2015	2017-16 Dollar Change	Percent Change
Salary and wages	\$ 16,151	\$ 15,002	\$ 14,736	\$ 1,149	8%
Benefits	4,106	4,003	3,220	103	3%
Goods and services	25,062	24,430	22,522	472	2%
Tuition (fees) waivers	677	578	245	99	17%
Personal services	449	294	267	154	52%
Other	231	415	311	(23)	(9%)
Equipment	269	241	922	28	12%
Travel	629	808	576	(179)	(22%)
Depreciation	4,306	4,260	4,178	46	1%
Total operating expenses	\$ 51,880	\$ 50,030	\$ 46,977	\$ 1,851	4%

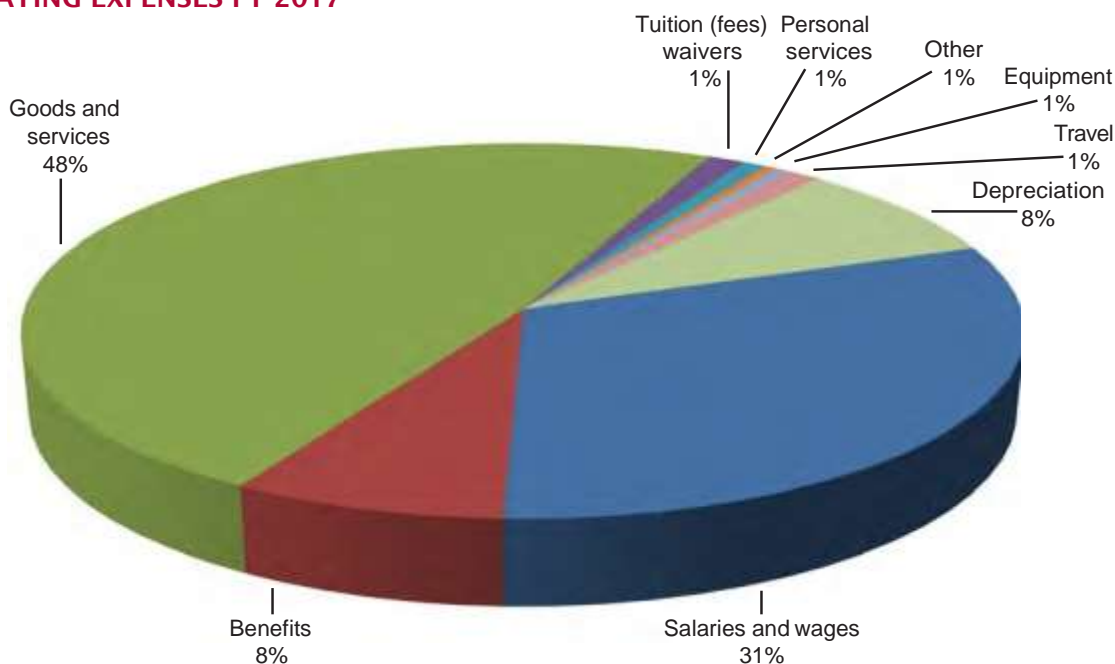
Salaries and wages expense for the System increased by 8 percent in fiscal year 2017 as a result of cost of living adjustments, state-wide minimum wage increases, and the addition of staff as student participation in the System’s programs increased. Benefits also increased, by 3 percent, for these same reasons.

Of the total increase in operating expenses of \$1.8 million, roughly \$1.2 million was associated with salaries and wages and benefits. Goods and services expense was the next largest increase at \$472,000 due to an increase in the cost of goods sold in Dining and the Bookstore related to higher sales.

Overall, operating expenses increased 3.7 percent in fiscal year 2017.

The allocation of operating expenses among the natural classification categories has not changed significantly from fiscal year 2016. The following chart depicts the uses of operating funds according to natural classification for fiscal year 2017:

OPERATING EXPENSES FY 2017



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.

The Condensed Statement of Cash Flows for the fiscal years ended June 30, 2017, 2016, and 2015 is shown below:

CONDENSED STATEMENT OF CASH FLOWS (IN THOUSANDS)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities	\$ 13,004	\$ 10,741	\$ 9,483
Cash flows from non-capital financing activities	0	0	0
Cash flows from investing activities	339	240	228
Cash flows from capital and related financing activities	(10,906)	(10,604)	(11,389)
Increase in cash and cash equivalents during the year	2,437	377	(1,678)
Cash and cash equivalents, beginning of year	<u>31,981</u>	<u>31,604</u>	<u>33,282</u>
Cash and cash equivalents, end of year	\$ 34,419	\$ 31,981	\$ 31,604

There has been no significant change in the amount of cash on hand in the three fiscal years presented. The increase in cash on hand of \$2.5 million at June 30, 2017 was primarily related to the results of operations during fiscal year 2017. This is a result of increases in room and board rates and an increase in incoming freshmen which generated a larger student body to participate in our programs.

DEBT POLICY

The University's formal debt policy is CWUP 2-10-045, Debt Issuance and Repayment.⁵ The policy is detailed and spells out many constraints intended to maintain the health of the University's debt program. One of these constraints is maintenance of a designation of net position for building repair and improvements.⁶ This designated portion of the unrestricted net position of the System is the funding mechanism for the major renovations. Due, in part, to housing opening fall 2017 above capacity, the CWU Board of Trustees (BOT) has directed CWU management to explore construction opportunities for a new residence hall. If this project is undertaken, it is anticipated that bonds would be sold in the spring of 2018 and a new revenue generating building would open in fall 2019 (fiscal year 2020).

On August 9, 2016, the System successfully completed an advance refunding of the Bonds of 2008. Those bonds were originally issued for the construction of a residence hall on the CWU campus. By taking advantage of this opportunity the System's annual debt service will be reduced by approximately \$280,000 per year for the next 21 years, resulting in a gross savings of about \$6 million over the life of the replacement bonds. Since this transaction occurred subsequent to the end of fiscal 2016, it has not affected the financial statements presented. (See Note 7)

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 Accounting & Financial Services, 400 E. University Way, Ellensburg, WA 98926, 509-963-2956.

⁵ 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>.

⁶ Please see CWUP 2-10-045, Sect. 9(G), Capital Reserve and Replacement.



Annual System Financial Statements

CENTRAL WASHINGTON UNIVERSITY—SYSTEM STATEMENT OF NET POSITION AS OF JUNE 30, 2017 AND 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 34,418,567	\$ 31,981,328
Accounts receivable, net	4,145,383	3,639,872
Inventories	1,894,387	1,933,570
Total current assets	40,458,338	37,554,770
Non-current assets		
Cash restricted for capital projects	—	—
Investment restricted for capital projects	—	—
Issuance costs, net of amortization	—	643,907
Capital assets, net of depreciation	137,357,548	139,393,947
Pension assets, net	112,782	168,544
Total non-current assets	137,470,330	140,206,398
Deferred outflows		
Deferred pension contribution	(60,254)	(1,268)
Deferred loss on refunding	3,926,115	2,165,268
Total deferred outflows	3,865,861	2,164,001
Total assets and deferred outflows	181,794,529	179,925,168
Liabilities		
Current liabilities		
Accounts payable	2,829,915	2,320,173
Accrued liabilities	1,555,407	1,655,441
Deposits payable	1,146,213	710,395
Unearned revenues	530,751	536,113
Other liabilities	—	—
Current portion bond premium	327,330	203,083
Current portion bond payable	3,845,000	3,675,000
Total current liabilities	10,234,617	9,100,205
Non-current liabilities		
Construction accounts payable	—	—
Accrued leave liabilities	307,287	308,883
Net bond premium/discount, net of amortization	5,857,823	3,702,624
Bonds payable, net of current portion	111,540,000	115,590,001
Pension liability	4,825,740	4,147,715
Total non-current liabilities	122,530,851	123,749,223
Total liabilities	132,765,468	132,849,428
Deferred inflows		
Deferred pension earnings	365,330	760,027
Total liabilities and deferred inflows	133,130,798	133,609,454
Net position		
Net investment in capital assets	19,713,511	19,032,415
Unrestricted	28,950,221	27,283,299
Total net position	\$ 48,663,732	\$ 46,315,714

See Accompanying Notes to the Financial Statements

**CENTRAL WASHINGTON UNIVERSITY—SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues		
Services and activities	\$ 13,176,896	\$ 12,908,906
University store	9,804,374	9,446,753
Parking	1,145,258	1,139,004
Housing and dining	36,029,703	33,337,205
Total operating revenue	60,156,230	56,831,869
Operating expenses		
Services and activities	10,210,918	10,169,569
University store	9,599,478	9,087,478
Parking	1,277,868	1,301,528
Housing and dining	26,486,151	25,211,269
Depreciation	4,305,878	4,259,599
Total operating expenses	51,880,293	50,029,443
Operating income (loss)	8,275,937	6,802,426
Non-operating revenues (expenses)		
Investment income	339,021	240,145
Interest on indebtedness	(6,548,167)	(5,749,621)
Non-operation income, net of expenses	629,518	629,856
Net non-operating revenues (expenses)	(5,579,627)	(4,879,620)
Income or (loss)	2,696,310	1,922,806
Increase (decrease) in net assets	2,696,310	1,922,806
Net position, beginning of year	46,315,714	44,392,908
Net cumulative GASB 73 (as restated)	348,292	—
Net position, end of year	\$ 48,663,732	\$ 46,315,714

See Accompanying Notes to the Financial Statements

**CENTRAL WASHINGTON UNIVERSITY—SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Auxiliary enterprise charges and student fees	\$ 60,081,175	\$ 56,012,686
Payments to vendors	(30,824,930)	(27,479,543)
Payments to employees for salaries and benefits	(16,252,405)	(17,792,105)
Net cash provided by operating activities	<u>13,003,840</u>	<u>10,741,038</u>
Cash flows from non-capital financing activities	<u>—</u>	<u>—</u>
Cash flows from investing activities		
Purchases of investments	—	—
Investment proceeds	—	—
Investment income	339,021	240,145
Other investment activity	—	—
Net cash provided by investing activities	<u>339,021</u>	<u>240,145</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(2,269,479)	(1,928,743)
Proceeds from sales of capital debt	—	—
Principal paid on capital debt	(3,880,000)	(3,515,000)
Interest paid on capital debt	(5,385,661)	(5,790,375)
Other capital activities	629,518	629,856
Net cash provided by capital and related financing activities	<u>(10,905,622)</u>	<u>(10,604,261)</u>
Net increase in cash and cash equivalents	2,437,239	376,922
Cash and cash equivalents, beginning of year	31,981,328	31,604,406
Cash and cash equivalents, end of year	<u>\$ 34,418,567</u>	<u>\$ 31,981,328</u>
Reconciliation of operating income to net cash used by operating activities		
Operating income	<u>\$ 8,275,937</u>	<u>\$ 6,802,426</u>
Adjustments to reconcile operating profit to net cash provided by operating activities		
Depreciation expense	4,305,878	4,259,599
Loss on disposal of asset	—	—
Changes in assets and liabilities		
Accounts receivable	(505,511)	(829,935)
Inventories	39,182	(562,907)
Accounts payable	509,743	480,331
Other liabilities	—	(1,500)
Accrued expenses	(100,034)	334,828
Deferred revenue	(5,361)	(23,586)
Deposits payable	435,818	34,338
Current non-cash GASB 68 expense	49,785	2,940,071
Other current liabilities	—	—
Construction accounts payable	—	—
Accrued liabilities	(1,595)	(2,692,627)
Net cash provided by operating activities	<u>\$ 13,003,840</u>	<u>\$ 10,741,038</u>

See Accompanying Notes to the Financial Statements

Notes to Financial Statements

CENTRAL WASHINGTON UNIVERSITY — JUNE 30, 2017 AND JUNE 30, 2016

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, 2017, 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, 2016 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.

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.

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

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

Net Position

The System's net position is classified as follows:

Net Investment in Capital Assets: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are included as a component of Net Investment in Capital Assets.

Unrestricted: This 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.

New Accounting Standards Adopted

In fiscal year 2017, the University adopted and implemented two new accounting standards as follows:

GASB Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68” which contains provisions that apply to pension plans not previously included in GASB 68, amending the information presentation requirements, accounting for separately financed specific liabilities of defined benefit pensions, and the timing of employer recognition of revenue for the support for non-employer contributing entities in a special funding situation. Implementing this resulted in restating the beginning net position and recording the unfunded pension liability balance on the financial statement.

GASB Statement No. 82, “Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73,” which provides for the presentation of payroll related measures in the Required Supplemental Information (RSI), selection of assumptions and the treatment of deviations from the guidance in and actuarial standard of practice, and the classification of payments made by employers to satisfy employee contribution requirements. This GASB statement was taken into account with the current year calculations and associated disclosure notes of the University.

Reclassifications

The beginning fiscal year 2017 fund balance was restated and decreased due to the implementation of GASB 73, which requires each state employer to account for the unfunded liability of their supplemental retirement plans on the face of the financial statements. This restatement had an immaterial impact on the increase/ (decrease) in Net Position on the Statement of Revenue Expenses and Changes in Net Position (SRECNP) of \$348 thousand and the Unrestricted Net Position on the Statement of Net Position (SNP).

RECONCILIATION OF RESTATED NET POSITION

Ending net position FY 2016	\$ 46,315,714
Restatement for GASB 73	<u>348,292</u>
Beginning net position FY 2017	<u>\$ 45,967,422</u>

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

Cash and Cash Equivalents

As of June 30, 2017 and June 30, 2016, the carrying amount of the System’s cash and cash equivalents were as follows:

CASH AND CASH EQUIVALENTS

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Cash and equivalents, operating	\$ 34,418,567	\$ 31,981,328
Cash, restricted for capital projects	<u>0</u>	<u>0</u>
Total	<u>\$ 34,418,567</u>	<u>\$ 31,981,328</u>

In order to maximize investment income, the System’s excess cash is pooled with other CWU funds and commonly invested. The CWU investment pool is invested in accordance with the CWU investment policy. Investment interest is allocated to the various funds comprising the System.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable, due from other agencies and related allowance for uncollectible accounts consist of the following as of June 30, 2017 and June 30, 2016:

ACCOUNTS RECEIVABLE

	<u>2017</u>	<u>2016</u>
Services and activities	\$ 738,865	\$ 716,656
University store	2,313,726	1,650,515
Parking	109,025	125,202
Housing and dining	<u>1,186,079</u>	<u>1,480,990</u>
Sub Total	<u>4,347,696</u>	<u>3,973,363</u>
Less allowance for doubtful accounts	(202,313)	(333,490)
Net accounts receivable	<u>\$ 4,145,383</u>	<u>\$ 3,639,873</u>

NOTE 4 – CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2017:

	Balance at June 30, 2016	Additions	Disposals	Balance at June 30, 2017
CAPITAL ASSETS				
Depreciable assets				
Buildings	\$ 175,270,253	\$ 598,734	\$ –	\$ 175,868,987
Improvements and infrastructure	10,841,273	196,557	–	11,037,830
Equipment	3,571,147	137,322	(90,873)	3,617,596
Construction in progress	113,749	1,450,616	(113,749)	1,450,616
Art	40,000	–	–	40,000
Subtotal depreciable assets	\$ 189,836,422	\$ 2,383,229	\$ (204,622)	\$192,015,029
Non-depreciable assets				
Land	\$ 1,098,055	\$ –	\$ –	\$ 1,098,055
Total cost	\$ 190,934,477	\$ 2,383,229	\$ (204,622)	\$193,113,084
Less accumulated depreciation				
Buildings	44,143,380	3,569,323	–	47,712,703
Improvements and infrastructure	4,654,334	480,491	–	5,134,825
Equipment	2,742,819	256,064	(90,873)	2,908,010
Total accumulated depreciation	51,540,533	4,305,878	(90,873)	55,755,538
Net plant assets	\$ 139,393,944	\$ (1,922,649)	\$ (113,749)	\$137,357,546

The total depreciation expense was \$4,305,878 for the year ended June 30, 2017.

Following are the changes in capital assets for the year ended June 30, 2016:

	Balance at June 30, 2015	Additions	Disposals	Balance at June 30, 2016
CAPITAL ASSETS				
Depreciable assets				
Buildings	\$ 175,270,253	\$ –	\$ –	\$ 175,270,253
Improvements and infrastructure	8,617,579	2,223,694	–	10,841,273
Equipment	3,189,194	458,279	(76,326)	3,571,147
Construction in progress	866,982	113,749	(866,982)	113,749
Art	40,000	–	–	40,000
Subtotal depreciable assets	\$ 187,984,008	\$ 2,795,722	\$ (943,308)	\$189,836,422
Non-depreciable assets				
Land	\$ 1,098,055	\$ –	\$ –	\$ 1,098,055
Total cost	\$ 189,082,063	\$ 2,795,722	\$ (943,308)	\$190,934,477
Less accumulated depreciation				
Buildings	40,552,392	3,590,988	–	44,143,380
Improvements and infrastructure	4,264,364	389,970	–	4,654,334
Equipment	2,540,505	278,640	(76,326)	2,742,819
Total accumulated depreciation	47,357,261	4,259,598	(76,326)	51,540,533
Net plant assets	\$ 141,724,802	\$ (1,463,876)	\$ (866,982)	\$139,393,944

The total depreciation expense was \$4,259,598 for the year ended June 30, 2016.

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, 2017 was \$1,022,006. The accrued leave liability balance as of June 30, 2016 was \$1,049,562.

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 2017, for the System.

REVENUE BONDS AND NOTES PAYABLE

	Balance at June 30, 2016	Additions	Retirements	Principal Payments	Balance at June 30, 2017
CWU System bonds					
CWU System Bonds of 2008	\$ 31,175,000	\$ –	\$ (29,380,000)	\$ (880,000)	\$ 915,000
CWU System Bonds of 2010 Series A	1,930,000	–	–	(610,000)	1,320,000
CWU System Bonds of 2010 Series B	29,770,000	–	–	–	29,770,000
CWU System Bonds of 2012	6,445,000	–	–	(325,000)	6,120,000
CWU System Bonds of 2013	49,945,000	–	–	(1,860,000)	48,085,000
CWU System Bonds of 2016	–	29,175,000	–	–	29,175,000
Total bonds payable	\$ 119,265,000	\$ 29,175,000	\$ (29,380,000)	\$(3,675,000)	\$ 115,385,000
Bond discounts and issuance costs					
	\$ (643,907)	\$ –	\$ 643,907	\$ –	\$ –
Bond premium	3,905,707	2,279,446	–	–	6,185,153
Total	\$ 122,526,800	\$ 31,454,446	\$(28,736,093)	\$(3,675,000)	\$ 121,570,153

Notes to Financial Statements | CONTINUED

The following schedule of bonds payable provides a listing of outstanding debt at the end of fiscal year 2016 by the System:

REVENUE BONDS AND NOTES PAYABLE

	Balance at June 30, 2015	Additions	Retirements	Principal Payments	Balance at June 30, 2016
CWU System bonds					
CWU System Bonds of 2008	\$ 32,020,000	\$ -	\$ -	-\$ (845,000)	\$ 31,175,000
CWU System Bonds of 2010 Series A	2,515,000	-	-	(585,000)	1,930,000
CWU System Bonds of 2010 Series B	29,770,000	-	-	-	29,770,000
CWU System Bonds of 2012	6,760,000	-	-	(315,000)	6,445,000
CWU System Bonds of 2013	51,715,000	-	-	(1,770,000)	49,945,000
Total bonds payable	\$ 122,780,000	\$ -	\$ -	-\$ (3,515,000)	\$ 119,265,000
Bond discounts and issuance costs					
Bond premium	\$ (694,243)	\$ -	\$ 50,336	\$ -	\$ (643,907)
Total	\$ 126,205,952	\$ -	\$ (164,152)	\$ (3,515,000)	\$ 122,526,800

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 \$880,000 was required and paid during fiscal year 2017. The final principal payment of \$915,000 is scheduled for May 1, 2018.

The Series 2008 Bonds were advanced refunded in fiscal year 2017 and replaced with the Bonds of 2016. See Note 7 Advance Refunding.

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 \$610,000 was scheduled and paid during fiscal 2017. A principal payment of \$645,000 is scheduled for May 1, 2018.

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 (BABS) as taxable bonds. Under this program the University expects to receive a subsidy from the United States federal government of 35 percent of interest paid through maturity. The subsidy received during fiscal year 2017 was \$629,518. This amount is shown as non-operating income on the Statement of Revenue, Expenses and Changes in Net Assets. No principal payment was scheduled during fiscal year 2017. No principal payment is scheduled for fiscal year 2018.

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 year 2017. A principal payment of \$325,000 is scheduled for May 1, 2018.

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 \$1,860,000 was required and paid as scheduled during fiscal year 2017. A principal payment of \$1,960,000 is scheduled for May 1, 2018.

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.

Maturity Information

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

DEBT SERVICE REQUIREMENTS
SYSTEM REVENUE BONDS

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,845,000	\$ 5,199,243	\$ 9,044,243
2019	4,025,000	5,024,268	9,049,268
2020	4,785,000	4,841,043	9,626,043
2021	4,990,000	4,618,693	9,608,693
2022	5,200,000	4,386,693	9,586,693
2023 – 2027	25,025,000	18,361,035	45,386,035
2028 – 2032	34,255,000	11,540,545	45,795,545
2033 – 2036	20,335,000	4,399,283	24,734,283
2037 – 2040	10,925,000	1,425,955	12,350,955
Total	\$ 115,385,000	\$ 59,796,758	\$ 175,181,758

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

NOTE 7 – GENERAL LONG TERM DEBT - ADVANCE REFUNDING BONDS OF 2008

On August 9, 2016, \$29.2 million in System revenue bonds with an average coupon interest rate of 3.36 percent were issued to advance refund \$29.4 million of outstanding bonds with an average coupon interest rate of 4.75 percent. The net proceeds of \$31.4 million (after payment of \$374,000 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent (US Bank) to provide for all future debt service payments on the bonds.

As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 20 years by \$6,072,189.

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.

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.

RETIREMENT PLANS

<u>Fiscal Year</u>	<u>Amount</u>
2002	\$ 99,147
2003	105,056
2004	129,367
2005	132,557
2006	200,594
2007	304,286
2008	423,212
2009	563,408
2010	429,411
2011	440,996
2012	539,475
2013	547,320
2014	697,897
2015	700,993
2016	839,731
2017	\$ 892,255

PERS CONTRIBUTION RATES

Plan	2017		2016	
	Member	University	Member	University
PERS 1	6.00%	9.21%	6.00%	9.21%
PERS 2	4.92%	9.21%	4.92%	9.21%
PERS 3	VARIOUS	9.21%	VARIOUS	9.21%

Plan	2015		2014	
	Member	University	Member	University
PERS 1	6.00%	9.21%	6.00%	9.21%
PERS 2	4.92%	9.21%	4.92%	9.21%
PERS 3	VARIOUS	9.21%	VARIOUS	9.21%

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, 2017	June 30, 2016	June 30, 2015
Salaries and wages	\$ 16,150,776	\$ 15,001,651	\$ 14,140,943
Employee benefits	4,106,231	4,002,750	3,815,111
Personal services	448,885	294,484	267,114
Goods and services	25,062,471	24,429,564	22,522,414
Travel	628,782	807,794	575,730
Equipment	268,874	240,885	921,910
Student fee waivers	677,488	578,294	245,040
Misc.	230,908	253,545	311,015
Depreciation	4,305,878	4,259,599	4,178,204
Total	\$ 51,880,293	\$ 49,868,565	\$ 46,977,481

NOTE 10 —OTHER POST-EMPLOYMENT BENEFITS

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

Health care and life insurance programs for employees of the State of Washington are administered by the Washington Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

The health care premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the OPEB obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This is also passed through to state agencies via active employee rates charged to the agency.

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

CWU has a pension which supplements the defined contribution retirement plan (CWURP) for pre-1998 enrollees. The state actuary adjusts the amount for the unfunded accrued liability (UAL) related to future payments to this group. Beginning in 2015, the UAL will be amortized over a rolling ten-year period. This methodology is consistent with the amortization of the unfunded liabilities for PERS Plan 1 and TRS Plan 1. The current UAL is approximately \$7.3 million, and the University's 2015 Annual Required Contribution (ARC) is \$855,000.

No estimate of what portion of the University's OPEB obligation relates directly to the System is available.

NOTE 11 – PENSION PLANS

Central Washington University adopted GASB 73 during fiscal year 2017. 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 (SYSTEM RELATED)

Plan Description

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 50 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 percent 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, 2017 was 30.

Funding Policy

Current mandatory contribution rates are set at 5 percent for employees under the age of 35, 7.5 percent for employees between the ages of 35–49, and 10 percent 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, 2017 were \$173,261.

Central Washington University Supplemental Retirement Plan

The Central Washington University Supplemental Retirement Plan (CWUSR), 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 CWUSR 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.

Notes to Financial Statements | CONTINUED

As of June 30, 2017 there were two inactive employees receiving benefits, no inactive employee entitled but not yet receiving benefits, and one 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 percent 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 percent times the number of calendar months between the date of retirement and the normal retirement age. Benefit payments made during the fiscal year ending June 30, 2017 were \$13,856.17.

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, 2017. The CWURP pension expense for the fiscal year ending June 30, 2017 was (\$26,566).

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AS OF JUNE 30, 2017

Beginning balance	\$ (348,292)
Service cost	5,057
Interest	9,878
Changes in benefit terms	—
Differences between expected and actual experience	(42,815)
Changes in assumptions	(20,767)
Benefit payments	<u>(13,856)</u>
Ending balance	<u>\$ 285,787</u>
TPL Interest Rate Sensitivity Discount Rate	285,787
TPL Interest Rate Sensitivity 1% Decrease	317,223
TPL Interest Rate Sensitivity 1% Increase	<u>\$ 254,350</u>

Certain assumptions were applied in determining the total pension liability as of June 30, 2016 with the results rolled forward to the June 30, 2017 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, 2017, the CWURP plan reported a deferred inflow of resources from the following sources:

DEFERRED INFLOW

Difference between expected and actual experience	\$ 24,191
Change in assumptions	<u>11,732</u>
Total	\$ 35,924

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	
2018	\$ (27,634)
2019	(8,290)
Thereafter	—
Total	\$ (35,924)

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 (OSA), 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, 2017 were as follows:

PERS, TRS, AND LEOFF CONTRIBUTION RATES

Plan	2017		2016		2015	
	Member	University	Member	University	Member	University
PERS 1	6.00%	9.21%	6.00%	11.18%	6.00%	9.21%
PERS 2	6.12%	11.18%	6.12%	11.18%	4.92%	9.21%
PERS 3	VARIOUS	11.18%	VARIOUS	11.18%	VARIOUS	9.21%
LEOFF	8.41%	8.59%	8.41%	8.59%	8.41%	8.59%
TRS 1	6.00%	13.13%	6.00%	13.13%	6.00%	10.39%
TRS 2	5.95%	13.13%	5.95%	13.13%	4.96%	10.39%
TRS 3	VARIOUS	13.13%	VARIOUS	13.13%	VARIOUS	10.39%

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

PERS, TRS, LEOFF, AND CWURP CONTRIBUTIONS

Plan	2017		2016		2015	
	Member	University	Member	University	Member	University
PERS 1	\$ 8,438	\$ 18,828	\$ 8,353	\$ 12,822	\$ 8,124	\$ 12,470
PERS 2	7,661	17,093	8,788	13,489	11,636	17,861
PERS 3	7,451	16,626	8,346	12,811	11,517	17,679
LEOFF	12,832	28,631	18,295	28,083	19,656	30,171
TRS 1	—	—	—	—	—	—
TRS 2	—	—	—	—	—	—
TRS 3	—	—	—	—	—	—
CWURP	1,389	3,100	1,553	2,384	1,900	2,917
HERP	1,678	3,743	1,812	2,782	2,216	3,402
Total	\$ 37,772	\$ 84,278	\$ 45,334	\$ 72,371	\$ 52,833	\$ 81,097

NOTE 12 – PENSION LIABILITY

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 University'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 PERS 1 and TRS 1 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 2017 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 11.18 percent for PERS, 13.13 percent for TRS, and 8.59 percent for LEOFF 2 during 2017 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 System'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 2016-2017.

AGGREGATE GASB 68 ENTRIES

Original fund balance	\$ 3,931,693
Pension asset	55,761
Pension liability	392,238
Less pension expense	(76,350)
Plus deferred inflows of resources related to pensions	430,635
Less deferred outflows of resources related to pensions	(58,986)
Net	<u>\$ 4,674,990</u>

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 downloaded from the DRS website at www.drs.wa.gov, or obtained by writing to:

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

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 2017 were as follows:

PERS PLAN 1		
<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
July 1, 2016 - June 30, 2017	11.18%	6.00%

The System’s actual contributions to the plan were \$18,828 for the fiscal year ended June 30, 2017.

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		
<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
July 1, 2016 - June 30, 2017	11.18%	6.12%
Employee PERS Plan 3	11.18%	VARIES

The System’s actual contribution to the plans were \$678,308 for the fiscal year ended June 30, 2017.

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		
<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
Ports and universities	8.59%	8.41%

Central Washington University’s actual contributions to the plan were \$24,637 for the fiscal year ended June 30, 2017.

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, 2016, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% 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, published by the Society of Actuaries. The OSA 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, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime. There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' 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 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation)

to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year timeframe.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>% Long-term Expended Real Rate of Return Arithmetic</u>
Fixed income	20%	1.70%
Tangible assets	5%	4.40%
Real estate	15%	5.80%
Global equity	37%	6.60%
Private equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents Central Washington University's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

CWU Plan	CWU Allocation	1% Decrease (6.5%)	Current Rate (7.5%)	1% Increase (8.5%)
PERS 1	0.047874%	\$ 3,100,456	\$ 2,571,074	\$ 2,115,507
PERS 2/3	0.060728%	5,629,595	3,057,602	(1,591,658)
LEOFF 2	0.019391%	316,280	(112,785)	(436,175)

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, 2016, the System reported a total pension liability of \$5,628,675 and an asset of \$112,781 for its proportionate share of the net pension balances as follows:

CWU Plan	Liability	Asset
PERS 1	\$ 2,571,073	
PERS 2/3	3,057,602	
TRS 1	—	
TRS 2/3	—	
LEOFF 2		\$ (112,785)
Total	\$ 5,628,675	\$ (284,882)

Notes to Financial Statements | CONTINUED

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for state pension support provided to the University. The amount recognized by the University 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	<u>Liability (or Asset)</u>
LEOFF 2—employer’s proportionate share	\$ (112,785)
LEOFF 2—State’s proportionate share of the net pension liability/(asset) associated with the employer	(73,528)
Total	\$ (186,313)

As of June 30, 2017, the University’s proportionate share of the collective net pension liabilities was as follows:

CWU Plan	<u>Proportionate Share June 30, 2016</u>	<u>Proportionate Share June 30, 2017</u>	<u>Change in Proportion</u>
PERS 1	0.0357895%	0.0478743%	0.0120848%
PERS 2/3	0.0668920%	0.0607279%	(0.0061641)%

As of June 30, 2017, the University’s proportionate share of the collective net pension assets was as follows:

CWU Plan	<u>Proportionate Share June 30, 2016</u>	<u>Proportionate Share June 30, 2017</u>	<u>Change in Proportion</u>
LEOFF 2	0.0163984%	0.0193912%	0.0029928%

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 2015, the State of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability/(asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the fiscal year ended June 30, 2017, Central Washington University recognized a net pension expense as follows:

CWU Plan	Pension Expense
PERS 1	\$ (304,510)
PERS 2/3	363,591
TRS 1	—
TRS 2/3	41
LEOFF 2	17,229
Total	\$ 76,351

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, 2017, Central Washington University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	—	—
Net difference between projected and actual investment earnings on pension plan investments	\$ 64,736	—
Changes of assumptions	—	—
Change in proportion and differences between contributions and proportionate share of contributions	—	—
Contributions subsequent to the measurement date	287,898	—
Total	\$ 352,634	—

PERS 2/3	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 162,815	\$ (100,936)
Net difference between projected and actual investment earnings on pension plan investments	374,162	—
Changes of assumptions	31,602	—
Change in proportion and differences between contributions and proportionate share of contributions	—	(45,901)
Contributions subsequent to the measurement date	375,587	—
Total	\$ 944,166	\$ (146,837)

LEOFF 2	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,454	—
Net difference between projected and actual investment earnings on pension plan investments	40,528	—
Changes of assumptions	425	—
Change in proportion and differences between contributions and proportionate share of contributions	5,140	\$ (785)
Contributions subsequent to the measurement date	24,637	—
Total	\$ 86,184	\$ (785)

Notes to Financial Statements | CONTINUED

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, 2017. 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

	<u>Amount</u>	<u>Proportionate Share</u>	<u>CWU’s Share Amortization Table</u>
2017	\$ (33,294,000)	0.0478743%	\$ (15,939)
2018	(33,294,000)	0.0478743%	(15,939)
2019	124,185,000	0.0478743%	59,453
2020	77,623,000	0.0478743%	37,161

PERS 2/3

Difference Between Expected and Actual Experience

	<u>Amount</u>	<u>Proportionate Share</u>	<u>CWU's Share Amortization Table</u>
2017	\$ 59,770,000	0.0607279%	\$ 36,297
2018	59,770,000	0.0607279%	36,297
2019	(7,257,000)	0.0607279%	(4,407)
2020	(10,388,000)	0.0607279%	(6,308)
2021	—	0.0607279%	—

PERS 2/3

Change in Assumptions

	<u>Amount</u>	<u>Proportionate Share</u>	<u>CWU's Share Amortization Table</u>
2017	\$ 16,686,000	0.0607279%	\$ 10,133
2018	16,686,000	0.0607279%	36,297
2019	15,670,000	0.0607279%	9,516
2020	2,998,000	0.0607279%	1,821
2021	—	0.0607279%	—

PERS 2/3

Difference Between Projected and Actual Earnings on Plan Investments

	<u>Amount</u>	<u>Proportionate Share</u>	<u>CWU's Share Amortization Table</u>
2017	\$ (72,978,000)	0.0607279%	\$ (44,318)
2018	(72,978,000)	0.0607279%	(44,318)
2019	462,687,000	0.0607279%	280,980
2020	299,398,000	0.0607279%	181,818
2021	—	0.0607279%	—

PERS 2/3

Change in Proportion Share

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2017	—	\$ (31,011)
2018	—	(31,011)
2019	—	(13,194)
2020	—	(1,696)
2021	—	—

LEOFF 2

Differences Between Expected and Actual Experience

	<u>Amount</u>	<u>Proportionate Share</u>	<u>CWU Share Amortization Table</u>
2017	\$ 18,709,000	0.0193912%	\$ 3,628
2018	18,709,000	0.0193912%	3,628
2019	18,709,000	0.0193912%	3,628
2020	18,709,000	0.0193912%	3,628
2021	4,863,000	0.0193912%	943

LEOFF 2

Change in Assumptions

	<u>Amount</u>	<u>Proportionate Share</u>	<u>CWU Share Amortization Table</u>
2017	\$ 522,000	0.0193912%	\$ 101
2018	522,000	0.0193912%	101
2019	522,000	0.0193912%	101
2020	522,000	0.0193912%	101
2021	105,000	0.0193912%	20

LEOFF 2

Difference Between Projected and Actual Earnings on Plan Investments

	<u>Amount</u>	<u>Proportionate Share</u>	<u>CWU Share Amortization Table</u>
2017	\$ (22,068,000)	0.0193912%	\$ (4,279)
2018	(22,068,000)	0.0193912%	(4,279)
2019	153,468,000	0.0193912%	29,759
2020	99,671,000	0.0193912%	19,327
2021	—	0.0193912%	—

LEOFF 2

Change In Proportion

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2017	\$ 1,474	\$ (357)
2018	1,474	(357)
2019	1,474	(357)
2020	1,474	(71)
2021	719	—

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 30, 2014 valuation date, completed in the fall of 2015, determines the ADC for the period beginning July 1, 2016 and ending June 30, 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.



SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PERS I AS OF JUNE 30

	2016	2015	2014
Employer's proportion of the net pension liability(asset)	0.047874%	0.037144%	0.033128%
Employer's proportionate share of the net pension liability	\$ 2,571,074	\$ 1,942,972	\$ 1,668,836
Total	\$ 2,571,074	\$ 1,942,972	\$ 1,668,836
Employer's covered employee payroll	\$ 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	46.26%	57.25%	56.49%
Plan fiduciary net position as a percentage of the total pension liability (State)	57.03%	59.10%	61.19%
Plan fiduciary net position as a percentage of the total pension liability (U-wide)	0.15%	0.16%	0.18%
Plan fiduciary net position as a percentage of the total pension liability (System)	0.03%	0.02%	0.02%

SCHEDULE OF EMPLOYER CONTRIBUTIONS PERS I AS OF JUNE 30

	2017	2016	2015
Statutorily or contractually required contributions	\$ 331,532	\$ 274,695	\$ 168,637
Contributions in relation to the statutorily or contractually required contributions	\$ (331,532)	\$ (274,695)	\$ (168,637)
Contribution deficient (excess)	\$ —	\$ —	\$ —
Covered employer payroll	\$ 5,883,051	\$ 5,558,262	\$ 3,394,133
Contributions as a percentage of covered employee payroll	5.64%	4.94%	4.97%

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PERS 2/3
AS OF JUNE 30**

	2016	2015	2014
Employer's proportion of the net pension liability(asset)	0.060728%	0.063692%	0.066725%
Employer's proportionate share of the net pension liability	\$ 3,057,602	\$ 2,275,760	\$ 1,348,753
Total	\$ 3,057,602	\$ 2,275,760	\$ 1,348,753
Employer's covered employee payroll	\$ 5,684,165	\$ 5,653,895	\$ 5,743,524
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	53.79%	40.25%	23.48%
Plan fiduciary net position as a percentage of the total pension liability (State)	85.82%	89.20%	93.29%
Plan fiduciary net position as a percentage of the total pension liability (U-wide)	0.28%	0.29%	0.31%
Plan fiduciary net position as a percentage of the total pension liability (System)	0.05%	0.06%	0.06%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS PERS 2/3
AS OF JUNE 30**

	2017	2016	2015
Statutorily or contractually required contributions	\$ 377,561	\$ 352,739	\$ 294,321
Contributions in relation to the statutorily or contractually required contributions	\$ (377,561)	\$ (352,739)	\$ (294,321)
Contribution deficient (excess)	\$ —	\$ —	\$ —
Covered employer payroll	\$ 6,037,081	\$ 5,684,165	\$ 5,653,895
Contributions as a percentage of covered employee payroll	5.64%	4.94%	4.97%

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY LEOFF 2
AS OF JUNE 30**

	2016	2015	2014
Employer's proportion of the net pension liability(asset)	0.01939%	0.019784%	0.017172%
Employer's proportionate share of the net pension liability	\$ (112,785)	\$ (203,343)	\$ (227,881)
Total	\$ (112,785)	\$ (203,343)	\$ (227,881)
Employer's covered employee payroll	\$ 353,763	\$ 345,074	\$ 287,535
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-31.88%	-59%	-79%
Plan fiduciary net position as a percentage of the total pension liability (State)	106.04%	111.67%	116.75%
Plan fiduciary net position as a percentage of the total pension liability (U-wide)	0.05%	0.06%	0.06%
Plan fiduciary net position as a percentage of the total pension liability (System)	0.02%	0.02%	0.02%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS LEOFF 2
AS OF JUNE 30**

	2017	2016	2015
Statutorily or contractually required contributions	\$ 30,944	\$ 29,420	\$ 29,170
Contributions in relation to the statutorily or contractually required contributions	\$ (30,944)	\$ (29,420)	\$ (29,170)
Contribution deficient (excess)	\$ —	\$ —	\$ —
Covered employer payroll	\$ 364,684	\$ 353,763	\$ 345,074
Contributions as a percentage of covered employee payroll	8.49%	8.32%	8.45%

GASB 73 RSI

CWURP Schedule of Changes in the Total Pension Liability

	2017
Total pension liability - beginning	\$ 348,292
Service cost	5,057
Interest	9,878
Difference between expected and actual experience	(42,815)
Change in assumptions	(20,767)
Benefit payments	(13,856)
Other	—
Total pension liability	285,787
CWURP covered employee payroll	371,789
Total pension liability as a percentage of covered employee payroll	76.67%

CWU

2017