EASTERN
WASHINGTON UNIVERSITY

start something **big**

2018 FINANCIAL REPORT

CONTENTS

Introductory Section

Financial Section

Our Mission

EWU expands opportunities for personal transformation through excellence in learning.

EWU achieves this mission by:

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

LETTER FROM THE PRESIDENT

I am pleased to present the annual financial statements for Eastern Washington University. As you can see, the important work of this university rests on a strong financial foundation. Responsible financial stewardship is key to our students' success and central to our mission.

Last year we launched our new strategic plan. The plan reflects the vision, ideas, and priorities of constituencies on and off campus. It builds on our former five-year plan, focused on student success, which generated key initiatives such as re-thinking student advising, revising general education, and creating the Learning Commons.

In our new plan, the word student, of course, remains primary: student success is the reason the university exists. Our planning processes will always have a laser focus on supporting academic excellence and the work of EWU faculty and staff that enables students to learn, graduate, and be successful, productive citizens.

Access, learning, and completion are core values for every aspect of EWU.

In the new plan, we also stress the importance of EWU being a leader and model for diversity and inclusion, ensuring our campuses are safe, vibrant, welcoming communities that provide opportunities for a diversity of learners.

Moreover, the new plan underscores the importance of defining and expanding our role as a regional public university, our responsibility to be recognized as a significant architect of the region. There is a critical need for EWU to partner with schools, businesses, and organizations in entrepreneurial and innovative ways. We must help fuel economic and workforce development, furthering the overall success of the communities we serve while providing students with practical experiences and knowledge.

Like our students, our university must learn and evolve. More than a plan, the new strategic document is a map or a compass, giving direction to help all of us continue to foster learning, academic excellence, and students' success in a rapidly changing world.

Thank you for taking time to review this publication. I am very proud of our mission and our achievements. We bring significant benefit to our region and our state while transforming lives through learning.

Sincerely,

MCullinan

Mary Cullinan, PhD.
President
Eastern Washington University

Office of the Washington State Auditor
Pat McCarthy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

February 4, 2019

Board of Trustees
Eastern Washington University
Cheney, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Eastern Washington University, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation, and Auxiliary Services were not audited in accordance with Government Auditing Standards.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Eastern Washington University, as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2018, the University adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of Eastern Washington University, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2018 and 2017, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated February 4, 2019, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial position and activities of Eastern Washington University ("the University") for the fiscal year ended June 30, 2018, with comparative 2017 and 2016 financial information. This MD&A provides the readers an objective and easily readable analysis of the University's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying footnotes to the financial statements.

Reporting Entity

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

The University's main campus is located in Cheney, Washington, a community of approximately 12,400 residents. Eastern also offers a variety of upper division and graduate programs at the EWU Spokane campus and at various locations throughout the state of Washington.

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

Using the financial statements

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

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

Impact from Changes in Reporting Requirements

The University adopted two GASB Statements for fiscal year 2018. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) required EWU to recognize its proportionate share of the state of Washington's total OPEB liability, related deferred inflows and outflows of resources and OPEB expense. Implementation of this Statement resulted in the restatement of fiscal year 2018 beginning net position in the amount of $70,979,783. Due to the availability of OPEB related information, the change in accounting required by Statement No. 75 has only been applied to fiscal year 2018. Fiscal year 2017 has not been restated. GASB Statement No. 81, *Irrevocable Split-Interest Agreements* required EWU to change the way it accounted for certain giving arrangements used by donors to provide resources to the University. Implementation of this Statement resulted in a restatement to restricted expendable net position at July 1, 2016. See Note 1 for more information on the impact of these statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was implemented for the fiscal year ending June 30, 2017. The primary impact of this standard resulted in the cost of retirement benefit expense being recognized during the employee service period – the time worked until separation or retirement, for the Eastern Washington University Supplemental Retirement Plan (EWUSRP). An adjustment to beginning net position for fiscal year 2017 was necessary to give a retroactive effect to the implementation of GASB 73.

The above accounting and reporting changes as well GASB Statement No. 68 (implemented in FY15) have significantly impacted the amounts reported on the Statements of Net Position (particularly unrestricted net position) despite historically positive operating results. In reading this publication it is important to consider the effects of these pronouncements especially when comparing current year results to prior year amounts.

Statement of Net Position

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

A summarized comparison of the University's assets, liabilities and net position as of June 30, 2018, 2017 and 2016, follows.

Condensed Statements of Net Position (in thousands)

	2018	2017	2016
Assets			
Current assets	$ 109,974	$ 131,193	$ 95,794
Capital assets, net of depreciation	337,523	322,048	306,342
Other non-current assets	69,111	66,062	70,442
Total Assets	516,608	519,303	472,578
Deferred outflows of resources	9,859	6,785	4,619
Liabilities			
Current liabilities	25,711	26,357	23,981
Non-current liabilities	198,519	132,661	90,046
Total Liabilities	224,230	159,018	114,027
Deferred inflows of resources	16,963	4,181	3,692
Net Position	$ 285,274	$ 362,889	$ 359,478

Current assets consist primarily of cash, short term investments and accounts receivables. The increase in FY17 is mostly attributable to the unspent revenue bond proceeds from the 2016B Series issuance in the beginning of FY17. Proceeds are being used to fund the construction of the Pence Union Building (PUB) renovation, which continues through FY18. Additionally, reallocations between short and long term investments caused changes within current and noncurrent asset categories. At the end of FY18, endowment investments were liquidated in anticipation of using a new investment brokerage. This resulted in a $9.9 million receivable that would have otherwise been classified as a noncurrent asset.

Current liabilities include amounts payable to suppliers for goods and services, accrued payroll and related liabilities and unearned revenue while noncurrent liabilities consist mostly of bond debt and liabilities related to retirement and other postemployment benefits. Current liabilities fluctuate between years due mostly to the timing of vendor payables particularly for capital asset improvements, and increased in FY17 for payables related to the PUB renovation. Noncurrent liabilities increased in both FY18 and FY17 for several reasons. The Series 2016B revenue bonds were issued in FY17 and additional retirement liabilities created by GASB Statement No. 73 were reported. In FY18, GASB Statement No. 75 required EWU to report over $67 million in OPEB liabilities that were not previously. At the end of FY18, EWU reported nearly $4 million due to the Department of Education for repayment of Perkins loan capital contributions, as this program was discontinued by the federal government.

Deferred outflows of resources and deferred inflows of resources relate primarily to the University's adoption of GASB Statements 68, 71, 73 and 75. Deferred outflows consist primarily of retirement and OPEB contributions made after the measurement date and differences between expected and actual experience, while deferred inflows relate to changes in actuarial assumptions used to calculate the liabilities and differences between projected and actual investment earnings on applicable plan assets.

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

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

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

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

Unrestricted – These are all other funds available to the University for the general and educational obligations to meet current expenses for any purpose. Unrestricted net position is not subject to externally imposed stipulations; however, the University has designated the majority of unrestricted net assets for various academic programs and university support functions such as auxiliary enterprises and service funds. This is also the net position classification most affected by the implementation of GASB pronouncements regarding accounting and reporting of long term liabilities. Adjustments to beginning net position in FY18 and FY17 for these pronouncements directly impacted unrestricted net position.

Net position at June 30, 2018, 2017 and 2016 is summarized as follows:

Categories of Net Position (in thousands)

	2018	2017	2016
Net investment in capital assets	$ 253,326	$ 258,542	$ 253,589
Restricted:			
Non-expendable	5,359	5,359	5,922
Expendable	17,276	17,388	20,894
Unrestricted	9,313	81,600	79,073
Total net position	$ 285,274	$ 362,889	$ 359,478

The most noticeable change in net position was the result of the implementation of GASB Statement No. 75 in fiscal year 2018. Additionally, net investment in capital assets fluctuates as the University constructs capital assets, especially those financed through debt issuances.

Statement of Revenues, Expenses and Changes in Net Position

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

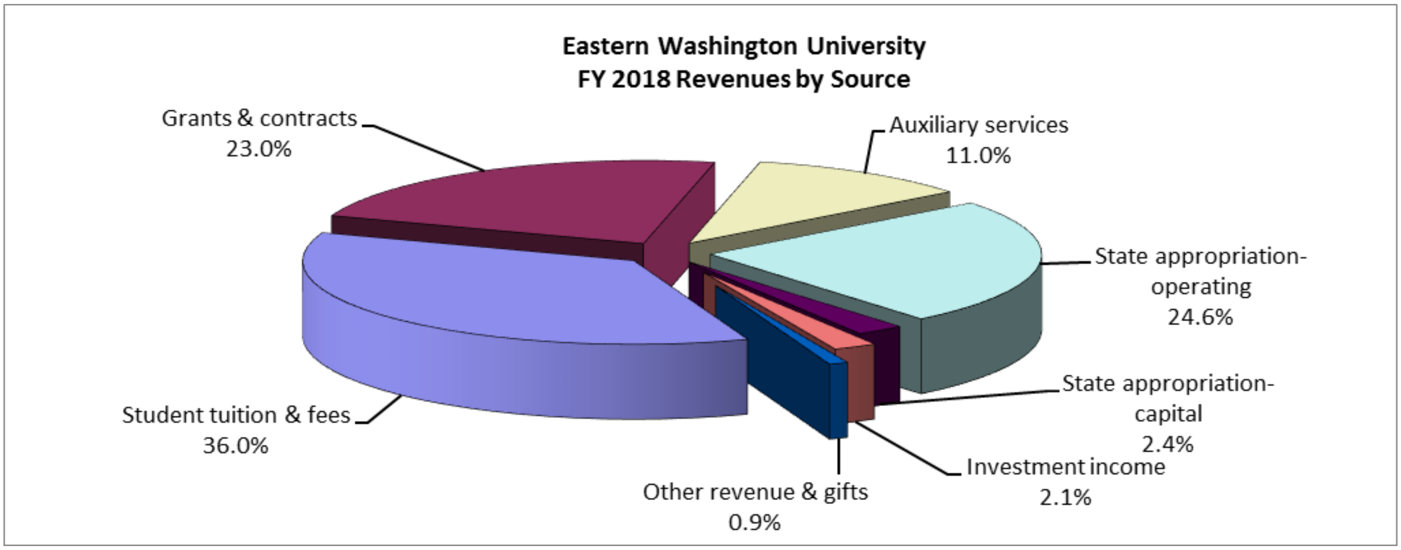
Condensed Operating Results (in thousands)

	2018	2017	2016
Operating revenue	$ 148,694	$ 147,944	$ 156,660
Operating expenses	232,249	225,091	220,887
Net operating loss	(83,555)	(77,147)	(64,227)
Net non-operating revenues	77,421	76,249	67,667
Income/(loss) before other revenues	(6,134)	(898)	3,440
Other revenues and expenses	(501)	10,411	5,059
Increase in net position	(6,635)	9,513	8,499
Net position, beginning of year	362,889	359,478	350,979
Adjustment to beginning net position (Note 1)	(70,980)	(6,102)	-
Net position, end of year	$ 285,274	$ 362,889	$ 359,478

Operating and Nonoperating Revenues

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

The illustration below shows revenues by source (both operating and non-operating) used to fund the University's programs for the year ended June 30, 2018. The ensuing table compares revenues by source for fiscal years ended 2018, 2017 and 2016.



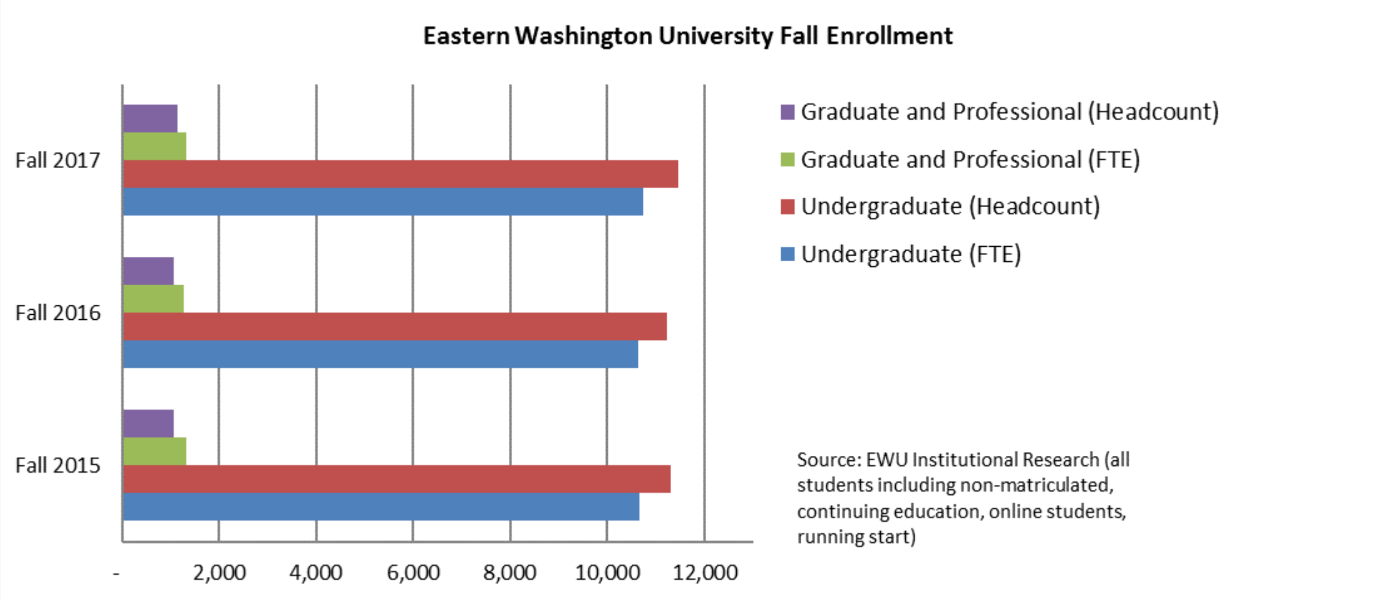
Revenues by Source (in thousands)
For the year ended June 30

	2018		2017		2016	
Student tuition & fees	$ 85,540	36.0%	$ 85,015	35.8%	$ 89,621	38.4%
Grants & contracts	54,616	23.0%	51,870	21.8%	55,452	23.8%
Auxiliary services	26,031	11.0%	27,460	11.6%	29,084	12.5%
State appropriation-operating	58,531	24.6%	56,522	23.8%	46,957	20.1%
State appropriation-capital	5,588	2.4%	10,411	4.4%	6,272	2.7%
Investment income	5,009	2.1%	3,733	1.5%	3,498	1.5%
Other revenue & gifts	2,205	0.9%	2,435	1.1%	2,238	1.0%
Total	$ 237,520	100.0%	$ 237,446	100%	$ 233,122	100.0%

Tuition, other student fees, and state operating appropriations are the primary sources of funding for the University's academic programs. The University increasingly looks to tuition and other student fees to continue growing and transforming the University. The following two tables illustrate the fluctuating levels in resident undergraduate tuition rates over the past three years and enrollment levels during that time. Operating tuition rates were reduced 5 percent for FY16 and another 15 percent for FY17 for resident undergraduates through state mandates, and are offset by increases in state operating appropriations.

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

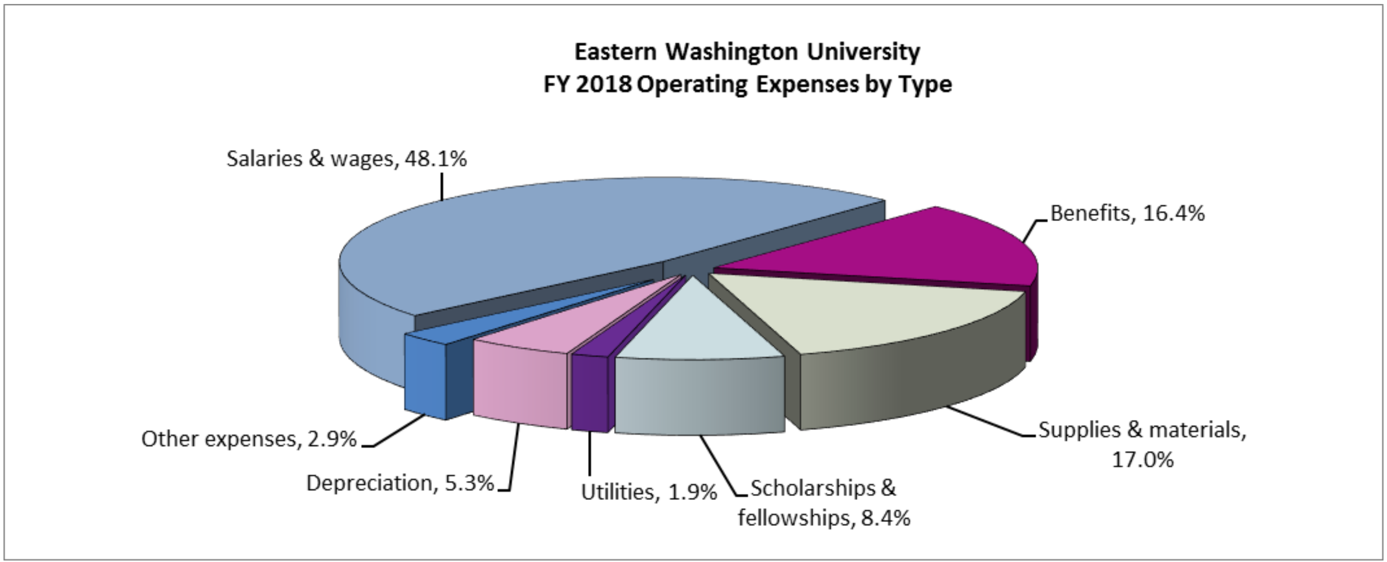
Academic Year	Resident Undergraduate	Change	Resident Graduate	Change	Nonresident Undergraduate	Change	Nonresident Graduate	Change
2017-18	$ 2,081	2.2%	$ 3,731	2.2%	$ 7,665	2.2%	$ 8,665	2.2%
2016-17	2,037	-13.4%	3,651	0.3%	7,501	4.9%	8,479	0.2%
2015-16	2,351	-4.3%	3,640	0.0%	7,153	4.9%	8,466	0.0%



Revenues received from governmental and private sources in the form of grants and contracts remains between 20-25 percent of total revenues for each of the three years ended 2018, as need based grant revenue typically follows changes in tuition rates. Grants are generally managed on a reimbursement basis, meaning revenues are drawn to cover expenses incurred and thus have minimal effect on net income other than partial recovery of indirect costs. Changes in grants and contracts funding from governmental and private sources underscores the impact the overall economy can have on the delivery of educational services.

Auxiliary revenue is largely driven by changes in room occupancy, meal plan purchases, and associated rates for those plans. Rates for double rooms, which constitute the largest part of room revenue, increased 5.5% from FY17 to FY18. Although rates increased, the average annual number of students living in the halls decreased by about 150. Dining services also experienced a decrease in revenue in FY18, which is closely tied to the number of students living on campus. Overall board rates increased only 2.5% for meal plans in FY18; however, the number of plans purchased declined.

Operating Expenses
Well over half of operating expenses are attributable to employee compensation costs. Shown below is an illustration of operating expenses by type (object) for the year ended June 30, 2018. The ensuing table compares expenses for fiscal years ending June 30, 2018, 2017 and 2016.

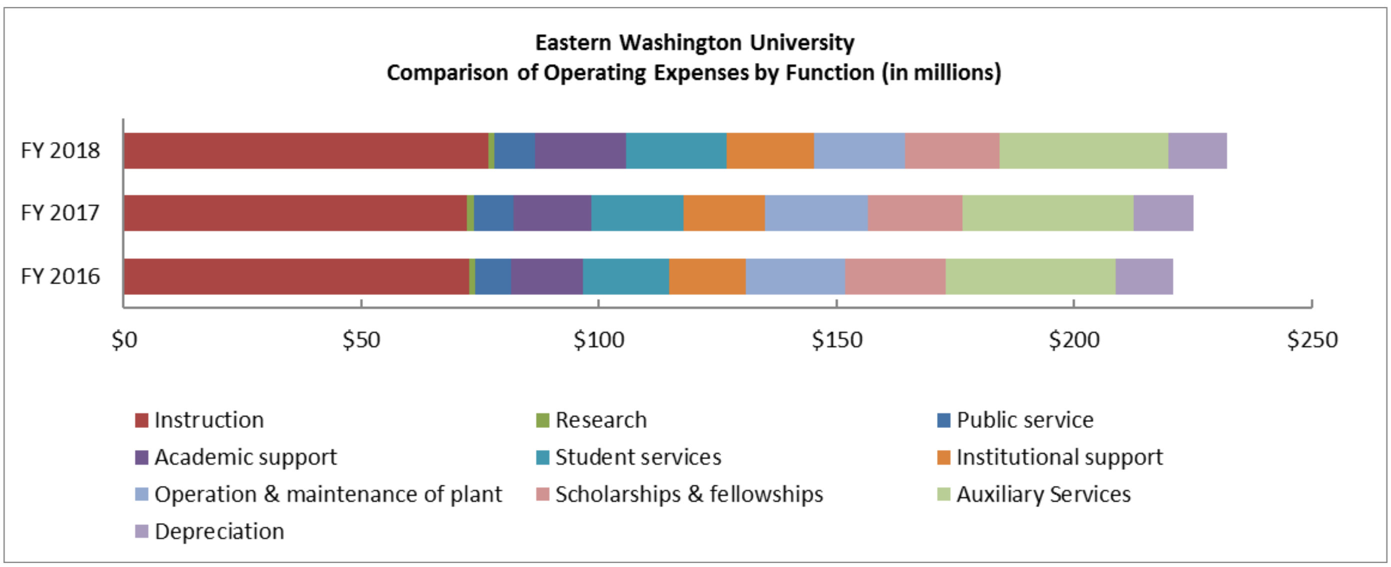


Operating Expenses by Type (in thousands)
For the year ended June 30

	2018		2017		2016	
Salaries & wages	$ 111,779	48.1%	$ 107,947	48.0%	$ 104,181	47.2%
Benefits	38,181	16.4%	33,277	14.8%	31,821	14.4%
Supplies & materials	39,426	17.0%	40,387	17.9%	40,791	18.5%
Scholarships & fellowships	19,519	8.4%	19,593	8.7%	20,826	9.4%
Utilities	4,332	1.9%	4,883	2.2%	4,355	2.0%
Depreciation	12,377	5.3%	12,541	5.6%	12,257	5.5%
Other expenses	6,635	2.9%	6,463	2.8%	6,656	3.0%
Total	$ 232,249	100.0%	$ 225,091	100.0%	$ 220,887	100.0%

Salaries and wages expense continues to increase as collective bargaining agreements significantly impact compensation levels and are not fully funded by state appropriations. The cost of health benefit premiums continues to increase each year and in FY18 benefits expense was impacted by the implementation of GASB Statement No. 75, which resulted in a net increase to benefit costs of $4.5 million. Operating expenses increased 3.2 percent while operating revenue remained relatively flat for FY18. Nonoperating activity included a loss on the demolition of the student union building which remains under construction during FY18, and repayment of a portion of the federal capital contribution for the Perkins loan program. These two new items contributed largely to an overall decrease in net position for FY18 of $6.6 million.

An alternative view of operating expenses is by functional (programmatic) classification as shown below for the years ended June 30, 2018, 2017 and 2016.



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

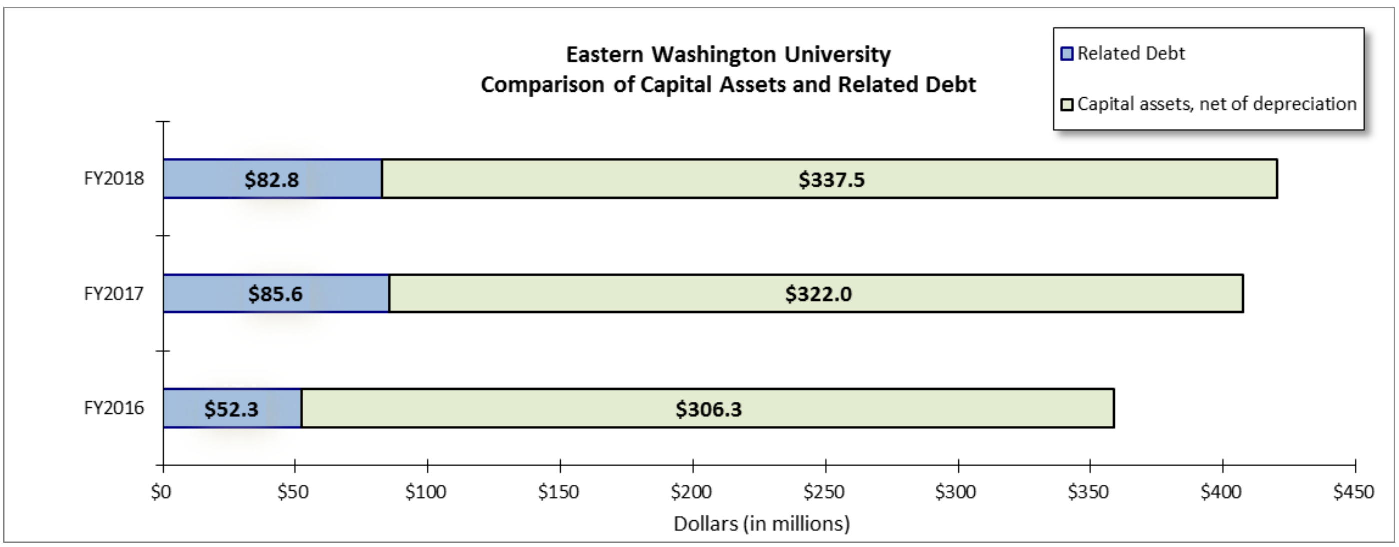
To monitor financial health the University calculates a variety of indicators that focus on results of operations, which are largely driven by tuition pricing, state appropriations, and compensation levels. These financial indicators are useful for institutional trend analysis and become more meaningful when compared to peer institutions (not included here) such as those with the same debt rating, similar student population and degree offerings, or to industry norms. Factors that could affect these financial indicators are student enrollment levels, tuition pricing inelasticity, issuance of new revenue debt, new leases, funding levels for state and federal financial aid, and state appropriations at levels to cover increasing operating costs. It is important to be aware of the impact that new accounting pronouncements have on many of these metrics. In many cases significant changes over prior years occur as a result.

Liquidity is an important indicator of financial stability which can be measured by the number of days an institution is able to operate using unrestricted cash and investments that can be liquidated and spent within one year. The University has maintained its ability to cover operating costs. Additionally, the University has more than four dollars of current assets to cover every dollar of current liabilities, better than the industry baseline of 2:1.

Financial Indicator	Definition	Calculation	FY 2018	FY 2017	FY 2016
Tuition dependency ratio (%)[1]	Helps measure sensitivity to changes in enrollment levels	Net tuition and fees plus governmental grants to the institution for student tuition divided by the sum of operating and non-operating revenues	53.8	53.9	57.4
Unrestricted financial resources-to-operations (x)[2]	Measures coverage of annual operations by the most liquid resources	Unrestricted net assets divided by total adjusted operating expenses	.05	.39	.39
Annual days cash on hand	Measures the number of days an institution is able to operate (cover its cash operating expenses)	Annual liquidity times 365 divided by total expenses less depreciation and unusually large non-cash expenses	257	251	249
Current ratio[3]	Measures liquidity – ability to meet current obligations with liquid assets	Current assets divided by current liabilities	4.28	4.98	3.99

Capital Asset and Debt Activities

The University continues to increase the investment in capital assets each year. Most apparent is the renovation of the student union building which over the course of FY18 and FY17 contributed over $40 million to construction in progress. Other significant increases during this time included the completion of the campus water system upgrade and chilled water capacity upgrade, and capitalization of design costs for the new interdisciplinary science center.



The University's Comprehensive Facilities Master Plan is used to guide the long-range physical development of campus facilities, focusing on critical areas of need, space utilization, and preservation of the infrastructure of state assets. The chart above shows the change of investment in capital assets and the associated debt load used to partially finance the construction of those assets. Smaller projects occurring each year may not have as significant of a dollar impact, but do fit within the Master Plan. The following projects were completed in fiscal years 2018 and 2017:

- Energy management systems for Sutton Hall, JFK Library and Science building
- Electrical capacity upgrades

[1] The downward trend is attributable to increased state operating appropriation revenue offsetting decreases in undergraduate tuition rates
[2] FY18 decrease result of reduction in unrestricted net position from GASB Statement No. 75
[3] FY17 includes Series 2016B unspent bond proceeds which temporarily inflates the current ratio until invested in capital assets

- Steam infrastructure upgrades
- Campus utility metering replacement

The University issued Services and Activities Fee Refunding Bonds, Series 2016A, on August 30, 2016 and Revenue bonds, Series 2016B, on October 13, 2016. The proceeds of the Series 2016A bonds were used to refinance the remaining principal balance of the Series 2006 bonds (which had both revenue and refunding components), and the proceeds of the Series 2016B bonds were used to finance the remodel of the Pence Union Building. No new debt was issued in fiscal year 2018. In early fiscal year 2017, Moody's Investors Service affirmed an A1 rating on the Series 2016A and 2016B Services and Activities Fee refunding and revenue bonds. Debt service coverage remains healthy as demonstrated by the financial ratios below.

Financial Indicator	Definitions	Calculation	FY 2018	FY 2017[1]	FY 2016
Expendable financial resources to direct debt (x)[2]	Measures coverage of direct debt by financial resources that are ultimately expendable	Expendable financial resources divided by direct debt	0.35	1.19	2.03
Financial debt burden ratio (%)	Examines dependence on borrowed funds as a source of financing the mission and the relative cost of borrowing to overall expenditures	Principal and interest on capital debt and lease divided by operating and non-operating expenses less depreciation plus principal paid on capital debt and leases	2.07	2.48	2.05
Debt service coverage (x)[3]	Measures actual margin of protection for annual debt service payments from annual operations. A higher ratio is considered to be advantageous while a declining ratio may be cause for concern.	Annual operating surplus (deficit) plus interest and depreciation expenses divided by actual principal and interest payments	1.70	2.64	4.11

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

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

As expected, unrestricted net position decreased significantly in fiscal year 2018 with the adoption of accounting pronouncements discussed earlier.

The state of Washington, through the legislative process, allocates funding to higher education institutions based on prior biennia operating appropriations adjusted for current biennia policy and funding decisions. The state compensation and benefit funding policy for higher education institutions shifted in the 2017-19 biennium. In prior biennia, the state funded 100% of compensation and benefit increases for state supported programs at a level commensurate to the classified employee contract provision. For the current biennium, the state is funding approximately 50% of these costs, with the remaining amount to be covered by EWU. Additionally, tuition policy for Washington undergraduates limits tuition increases to an amount currently at 2.2%. These policies contribute to a low revenue growth environment and are expected to continue into the future.

New investments in student residential housing and academic and student buildings are aimed at attracting, retaining and serving the student population. Construction began in FY19 on the interdisciplinary science center which will be located next to the newly remodeled student union building. Near the end of FY18, EWU entered into a lease as the primary tenant in the Catalyst Building in Spokane's University District. As the main tenant, EWU will move three programs from its College of Science, Technology, Engineering and Mathematics (CSTEM) in Cheney to the Spokane location – computer science, electrical engineering and visual communication design (VCD) programs. This move will add 50 faculty members and an additional 1,000 students to Spokane, bringing a total of 4,000 EWU students to the University District. Lease payments will begin in fiscal year 2021.

[1] FY17 ratios were impacted by the issuance of the 2016B Series revenue bonds
[2] FY18 ratio impacted by reduction in unrestricted net position from implementation of GASB Statement No. 75
[3] FY18 ratio decrease result of one time, nonrecurring non operating expenses

Statements of Net Position

June 30, 2018 and 2017

	June 30, 2018	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,546,263	$ 71,637,645
Short-term investments	26,879,460	39,747,510
Deposit with State of Washington	5,394,773	3,426,596
Endowment trade receivable	9,859,952	-
Accounts receivable (net of allowances of $521,265 and $533,528, respectively)	12,109,580	14,234,572
Student loans receivable (net of allowances of $27,285 and $30,902, respectively)	32,075	52,415
Inventories	1,136,011	1,058,668
Other assets	1,016,238	1,035,448
Total current assets	109,974,352	131,192,854
Noncurrent assets:		
Endowment investments	-	9,571,404
Other long-term investments	64,122,385	51,442,598
Student loans receivable (less allowances of $1,083,569 and $1,002,373, respectively)	4,076,885	4,689,942
Other noncurrent assets	67,921	73,338
Restricted net pension asset	843,750	285,520
Capital assets, net of accumulated depreciation	337,523,143	322,047,578
Total noncurrent assets	406,634,084	388,110,380
Total assets	$ 516,608,436	$ 519,303,234
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions and OPEB	$ 9,858,592	$ 6,785,138
LIABILITIES		
Current liabilities:		
Accounts payable	$ 7,904,971	$ 9,706,384
Accrued liabilities	9,673,747	8,962,950
Deposits or funds held for others	172,488	109,473
Unearned revenue	5,012,296	4,741,190
Long-term liabilities, current portion	2,947,985	2,836,981
Total current liabilities	25,711,487	26,356,978
Noncurrent liabilities:		
Perkins program termination, net of loan cancellations	3,973,704	-
Compensated absences	7,778,419	7,632,223
Net pension liabilities	36,815,417	39,382,800
Other postemployment benefit (OPEB) liability	67,381,391	-
Long-term liabilities	82,569,920	85,646,100
Total noncurrent liabilities	198,518,851	132,661,123
Total liabilities	$ 224,230,338	$ 159,018,101
DEFERRED INFLOWS OF RESOURCES		
Unamortized gain on bond refunding	$ 21,931	$ 18,852
Remainder interest in irrevocable split interest agreements	686,787	637,005
Deferred inflows of resources related to pensions and OPEB	16,254,429	3,525,609
NET POSITION		
Net investment in capital assets	$ 253,325,742	$ 258,541,566
Restricted for:		
Nonexpendable:		
Endowments	5,358,850	5,358,820
Expendable:		
Loans	4,490,817	8,548,879
Capital projects	5,404,790	2,723,648
Endowments and other	6,536,843	5,830,317
Net Pension Asset	843,750	285,520
Unrestricted	9,312,751	81,600,055
Total net position	$ 285,273,543	$ 362,888,805

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

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2018 and 2017

	FY 2018	FY 2017
REVENUES		
Operating revenues:		
Student tuition and fees		
(net of scholarship allowances of $32,587,963 and $30,176,898, respectively)	$ 85,539,592	$ 85,014,645
Federal grants and contracts	4,708,068	4,809,193
State and local grants and contracts	26,166,355	23,938,158
Nongovernmental grants and contracts	4,217,353	4,467,424
Sales and services of auxiliary enterprises		
Housing and dining services		
(net of scholarship allowances of $6,657,850 and $7,037,935, respectively)	15,978,474	16,483,559
Other auxiliary enterprises	10,052,442	10,976,541
Other operating revenue	2,031,357	2,254,108
Total operating revenue	148,693,641	147,943,628
EXPENSES		
Operating expenses:		
Salaries and wages	111,779,038	107,947,357
Benefits	38,181,186	33,276,998
Scholarships and fellowships	19,518,741	19,593,358
Utilities	4,331,520	4,882,957
Supplies and materials	38,122,813	38,057,671
Non-capitalized facility improvements (NCFI)	1,304,206	2,329,593
Other	6,634,830	6,462,831
Depreciation	12,376,659	12,540,545
Total operating expenses	232,248,993	225,091,310
Operating loss	(83,555,352)	(77,147,682)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	58,531,000	56,522,000
Investment income, gains and losses	5,009,109	3,733,429
Interest on capital asset-related debt	(1,810,055)	(2,838,379)
Gifts	173,580	180,417
Loss on disposal of capital assets	(33,571)	(3,680)
Perkins program termination expense, net of reimbursable cancellations	(3,973,704)	-
Pell grant revenue	19,524,602	18,655,621
Net non-operating revenues	77,420,961	76,249,408
Gain (loss) before other revenues, expenses, gains or losses	(6,134,391)	(898,274)
State appropriations - capital	5,587,813	10,410,761
Gifts to permanent endowments	120	210
Special item - loss on demolition of capital asset	(6,089,021)	-
Total other revenues and expenses	(501,088)	10,410,971
Increase in net position	(6,635,479)	9,512,697
NET POSITION		
Net position, beginning of year	362,888,805	359,478,297
Adjustment to beginning net position (Note 1)	(70,979,783)	(6,102,189)
Net position, beginning of year as restated	291,909,022	353,376,108
Net position, end of year	$ 285,273,543	$ 362,888,805

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

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	FY 2018	FY 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 85,525,673	$ 83,896,850
Grants and contracts	34,668,003	32,740,924
Payments to vendors	(52,072,812)	(50,214,741)
Payments to employees	(146,213,496)	(140,539,518)
Payments for scholarships and fellowships	(19,518,741)	(19,593,358)
Loans issued to students	(428,825)	(753,309)
Collection of student loans	1,078,755	942,693
Auxiliary enterprise receipts	25,505,417	27,438,899
Other receipts (payments)	1,873,172	1,975,721
Net cash used by operating activities	(69,582,854)	(64,105,839)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	58,562,000	56,342,000
Pell grant	19,524,602	18,655,621
Endowments and charitable gift annuities	49,902	73,570
Direct loans receipts	53,802,156	56,542,156
Direct loans disbursements	(53,812,475)	(56,542,156)
Receipts made on behalf of others	8,786,990	10,159,178
Disbursements made on behalf of others	(8,649,253)	(10,467,634)
Net cash provided by noncapital financing activities	78,263,922	74,762,735
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bond issuance	-	62,012,095
Capital appropriations	6,874,874	13,651,105
Purchases of capital assets	(33,801,237)	(28,069,626)
Principal paid on capital debt and leases	(2,923,550)	(26,322,348)
Interest paid on capital debt and leases	(1,815,590)	(2,812,209)
Net cash provided (used) by capital financing activities	(31,665,503)	18,459,017
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	40,220,349	30,420,488
Interest on investments	5,160,083	3,315,092
Purchase of investments	(40,471,608)	(35,922,050)
Net cash provided (used) by investing activities	4,908,824	(2,186,470)
Net increase (decrease) in cash	(18,075,611)	26,929,443
Cash, beginning of year	71,637,645	44,708,202
Cash, end of year	$ 53,562,034	$ 71,637,645

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

Statements of Cash Flows *(Continued)*

For the Years Ended June 30, 2018 and 2017

	FY 2018	FY 2017
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (83,555,351)	$ (77,147,682)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	12,376,659	12,540,545
Changes in assets and liabilities:		
Receivables, net	(1,161,248)	(1,743,926)
Inventories	(77,343)	425,859
Other assets	19,210	(342,517)
Accounts payable	(1,076,584)	1,577,995
Deferred and unearned revenue	271,106	335,010
Deposits held for others	(64,402)	(34,419)
Compensated absenses and other	104,570	(34,719)
Retirement liabilities and OPEB	2,931,361	125,856
Loans to students	633,397	192,159
Net cash used by operating activities	$ (69,598,625)	$ (64,105,839)

	FY 2018	FY 2017
Noncash Transactions		
Capital contributions	173,580	180,417
Loss on demolition and disposal of capital assets	(6,122,593)	(3,680)

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

Statements of Financial Position - Component Unit (Foundation)

June 30, 2018 and 2017

		2018		2017
ASSETS				
Cash and cash equivalents	$	2,295,193	$	1,805,977
Certificates of deposit		1,764,184		1,738,744
Promises to give, net		618,821		591,184
Other assets		155,759		30,415
Property and equipment, net		245,442		248,258
Assets held under split interest agreements		202,475		202,971
Beneficial interest in charitable trusts held by others		401,395		397,034
Beneficial interest in perpetual trusts		2,460,878		2,457,490
Investments		22,818,122		20,988,154
Total assets	$	30,962,269	$	28,460,227
LIABILITIES AND NET ASSETS				
Accounts payable	$	48,142	$	110,342
Liabilities under split interest agreements		116,789		108,586
Total liabilities		164,931		218,928
NET ASSETS				
Unrestricted		528,703		445,193
Temporarily restricted		9,651,732		8,203,906
Permanently restricted		20,616,903		19,592,200
Total net assets		30,797,338		28,241,299
Total liabilities and net assets	$	30,962,269	$	28,460,227

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

Statements of Activities – Component Unit (Foundation)

For the Years Ended June 30, 2018 and 2017

	FY 2018				FY 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND SUPPORT								
Contributions	$ 70,780	$ 2,639,280	$ 1,001,450	$ 3,711,510	$ 26,496	$ 2,317,225	$ 450,410	$ 2,794,131
Net investment return	39,137	1,825,189	-	1,864,326	26,859	2,253,472	-	2,280,331
Marketing revenue	-	412,712	-	412,712	-	505,518	-	505,518
Gross special events revenue	-	364,108	-	364,108	-	524,411	-	524,411
Less cost of direct benefits to donors	-	(264,753)	-	(264,753)	-	(423,803)	-	(423,803)
Net special events revenue	-	99,355	-	99,355	-	100,608	-	100,608
Other revenue	1,096	(1,714)	7,020	6,402	158	(2,296)	8,817	6,679
Support provided by Eastern				-				-
Washington University	1,395,834	-	-	1,395,834	1,104,473	-	-	1,104,473
Change in value of split-interest				-				-
agreements held by the Foundation	-	-	(950)	(950)	-	-	189,201	189,201
Distributions from and change in								-
value of beneficial interests in				-				-
assets held by others	-	67,364	-	67,364	-	85,440	-	85,440
Net assets released from restrictions	3,577,177	(3,594,360)	17,183	-	3,314,831	(3,478,733)	163,902	-
Total revenue, support, and gains	5,084,024	1,447,826	1,024,703	7,556,553	4,472,817	1,781,234	812,330	7,066,381
EXPENSES								
Program services expense				-				-
Support provided to/for Eastern								
Washington University	3,079,149	-	-	3,079,149	2,839,887	-	-	2,839,887
Support services expense								
Management and general	1,238,925	-	-	1,238,925	972,505	-	-	972,505
Fundraising and development	682,440	-	-	682,440	608,239	-	-	608,239
Total supporting services	1,921,365	-	-	1,921,365	1,580,744	-	-	1,580,744
Total expenses	5,000,514	-	-	5,000,514	4,420,631	-	-	4,420,631
CHANGE IN NET ASSETS	83,510	1,447,826	1,024,703	2,556,039	52,186	1,781,234	812,330	2,645,750
NET ASSETS, Beginning of Year	445,193	8,203,906	19,592,200	28,241,299	393,007	6,422,672	18,779,870	25,595,549
NET ASSETS, End of Year	$ 528,703	$ 9,651,732	$ 20,616,903	$ 30,797,338	$ 445,193	$ 8,203,906	$ 19,592,200	$ 28,241,299

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

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

The Eastern Washington University Foundation (Foundation) is established as a tax exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation's 35 member board consists of graduates and friends of the University. The University has an agreement with the Foundation to design and implement such programs and procedures to persuade continuous and philanthropic support for the benefit of the University. In exchange, the University provides the Foundation with partial office space, furniture and equipment, supplies, and staff to operate the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by or for the benefit of the University, the Foundation is considered a legally separate component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements include assets and earnings of other unrelated entities; these amounts are not material to the Foundation's financial position taken as a whole. For the fiscal years ended June 30, 2018 and 2017, the net distribution from the Foundation to the University for restricted and unrestricted purposes which includes both student scholarships and program support follows:

Fiscal Year	Net Distribution
2018	$1,683,315
2017	$1,735,414

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

Basis of Accounting

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

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

Operating Activities

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

Inventories

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

Cash Equivalents

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

Tax Exemption

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

State Appropriations

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

Unearned Revenues

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

Capital Assets

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

Accrued Leave

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

Charitable Gift Annuities

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

Use of Estimates

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

Net Position

The University's net position is classified as follows:

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

Restricted net position:

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

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

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

Deferred Pay

Eastern Washington University offers an optional 12 month, 24-payment plan to eligible faculty. The Faculty Twelve Month Pay Option Plan provides a method for faculty to spread their academic year salary over 12 months. The payroll deductions are based on amount paid rather than amount earned. For example, federal withholding, retirement contributions, FICA taxes are calculated on the amount paid. The plan is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended. Accrued earnings and benefits at June 30, 2018 were $4,305,671 and $781,479, respectively. Accrued earnings and benefits at June 30, 2017 were $3,820,921 and $693,497, respectively.

The University invests in a deferred compensation type 457 plan for certain employees. These funds are held until fully vested. See note 2 for more information.

Reclassifications, Restatements, Correction of Errors and Changes in Accounting Principles

On July 1, 2017, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), which establishes measurement, accounting, and reporting of postemployment benefits provided to the employees of state and local governmental employers. As a result, the University has recognized its proportionate share of the State of Washington's actuarially determined total

OPEB liability, related deferred inflows and outflows of resources, and OPEB expense. Prior to adopting this Statement, the University's financial statements did not reflect any OPEB liability or associated deferred inflows or outflows, and reported OPEB expense based on cash contributions paid to the OPEB plan.

Implementation of this Statement resulted in the restatement of fiscal year 2018 beginning net position in the amount of $70,979,783. Due to the availability of OPEB related information, the change in accounting required by Statement No. 75 has only been applied to fiscal year 2018. Fiscal year 2017 has not been restated. Following is a reconciliation of the July 1, 2017 beginning net position as previously reported to the restated net position for the same period under Statement No. 75.

Total Net Position, as previously reported, July 1, 2017	$ 362,888,805
Less: pension expense recorded retroactively by GASB 75	(70,979,783)
Total Net Position, as restated, July 1, 2017	$ 291,909,022

The University adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements* on July 1, 2017. Retroactive application of this Statement resulted in a restatement to restricted expendable net position at July 1, 2016 as noted below. Irrevocable split interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. This Statement changes the way that governments account for resources received pursuant to irrevocable split-interest agreements, both at inception and throughout the life of the contract. Under the new guidance, resources received through a remainder interest agreement are recognized by the University as revenue at the termination of the contract, and recorded as deferred inflows of resources until that time.

Implementation of GASB No. 73 resulted in an adjustment to beginning net position as of July 1, 2016. Under the change in accounting principle prescribed by GASB No. 73, pension expense for the Eastern Washington University Supplemental Retirement Plan is now determined based on actuarial assumptions and recorded as a cost of the service period. Changes in the pension liability are recognized through deferred outflows and deferred inflows of resources related to pensions. See footnote 12 for more information about the plan and actuarial assumptions used to determine the liability.

Following is a reconciliation of the July 1, 2016 beginning net position as previously reported, to the restated net position for the same period with the adoption of GASB Statements No. 73 and 81:

Total Net Position, as previously reported, July 1, 2016	$ 359,478,297
Less: pension expense recorded retroactively by GASB 73	(5,538,544)
Less: resources recorded retroactively by GASB 81	(563,645)
Total Net Position, as restated, July 1, 2016	$ 353,376,108

Certain reclassifications not affecting total net position have been made to 2017 amounts in order to conform to 2018 presentation. Correction of certain errors have been made to the 2017 amounts resulting in a reduction of ending net position in 2017 of $39,331 from the previously reported amount.

Note 2: Deposits and Investments

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

	Carrying Value	
	June 30, 2018	June 30, 2017
Deposits		
Cash and cash equivalents		
Interest bearing	$ 53,419,984	$ 71,511,440
Other	126,279	126,205
Total deposits	$ 53,546,263	$ 71,637,645

At June 30, 2018, investment maturities are as follows:

	Fair value	Investment maturities for fixed income securities (in months)			
	June 30, 2018	0 – 9	10 – 24	25 – 60	61 – 120
Investments – Operating Funds					
U.S. Government agency bonds	$ 90,148,284	$ 17,950,470	$ 47,138,473	$ 25,059,341	$ -
Investments – Charitable Gift Annuities					
Investment unit trusts					
Equity fund	494,508				
Bond fund	313,210				313,210
Deferred Compensation					
TIAA/CREF					
Guaranteed	11,452				
Equity fund	24,642				
Bond fund	9,749				9,749
Total investments	$ 91,001,845	$ 17,950,470	$ 47,138,473	$ 25,059,341	$ 322,959

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

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

At June 30, 2018 the net appreciation on investments of donor-restricted endowments that is available for expenditure authorization is $4,501,102 which is reported as restricted, expendable on the Statement of Net Position. RCW 24.55.025 of the Washington State Code allows for the spending of net appreciation on investments of donor-restricted endowments. Accordingly, the University's income distribution policy is 3-5 percent of the three year moving average of the fair value of net assets.

At June 30, 2018 the University no longer holds its donor-restricted endowments as shares in an external investment pool. The entirety of donor-restricted endowments is pending cash settlement after the liquidation of shares in an external investment pool in preparation to transfer the endowments to a new portfolio management firm. Settlement of this trade occurred on July 2 and July 11, 2018, and reinvestment occurred simultaneously. The pending trade is reported on the Statements of Net Position as an endowment trade receivable.

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

Custodial Credit Risk

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

Credit (Quality) Risk

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

Interest Rate Risk

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

Portfolio	Target	Policy Range
Operating Funds		
Liquidity Pool	25%	20-40%
Intermediate Pool	50%	30-60%
Long Term Pool	25%	15-40%
Endowment Funds		
Equity		
U.S. Equity	28%	18-38%
International Developed Market Equity	19%	9-29%
International Emerging Market Equity	10%	0-20%
Fixed Income		
U.S. Investment Grade Bonds	22%	12-32%
Inflation Protected Bonds	3%	0-8%
High Yield Bonds	6%	0-11%
Real Assets		
Real Estate & Infrastructure	4%	0-9%
Natural Resources & Commodities	7%	2-12%
Cash	1%	0-10%

Concentration of Credit Risk

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

Foreign Currency Risk

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

Fair Value Hierarchy

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

The University has the following recurring fair value measurements as of June 30, 2018:

• U.S. Government agency bonds of $90,148,284 are valued using a matrix pricing model (Level 2 inputs).

Note 3: Accounts and Student Loans Receivable

Accounts and student loans receivable at June 30, 2018 and 2017 consist of the following:

	June 30, 2018	June 30, 2017
Accounts receivable		
Student tuition and fees (less allowances of $230,036 and $242,314, respectively)	$ 6,809,928	$ 6,495,354
Auxiliary enterprises (less allowances of $278,163 and $287,898, respectively)	1,989,114	1,622,925
Contracts and grants	2,462,910	1,976,929
State reimbursement	799,200	4,085,438
Other (less allowances of $13,066 and $3,316, respectively)	48,428	53,926
Total accounts receivable	$ 12,109,580	$ 14,234,572
Student loans receivable		
Federal programs (less allowances of $1,083,569 and $1,002,373, respectively)	$ 4,076,885	$ 4,689,942
Institutional loans (less allowances of $27,285 and $30,902, respectively)	32,075	52,415
Total student loans receivable	$ 4,108,960	$ 4,742,357

Note 4: Funds with State Treasurer

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

Note 5: Compensated Absences

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

	2018	2017
Vacation	$ 6,077,866	$ 5,868,726
Sick	$ 1,700,553	$ 1,763,497

Note 6: Risk Management

The University participates in a State of Washington risk management self-insurance program. Premiums are based on actuarially-determined projections and include allowances for payments of both outstanding and current liabilities. The University assumes its potential liability and property losses for all properties except for auxiliary enterprise buildings and contents. Certain auxiliary enterprise buildings were acquired with the proceeds of bond issues where the bond agreement requires the University to carry insurance on property. The University has elected to become a self-insurer of unemployment compensation and maintains a reserve to cover the ultimate cost arising from the settlement of these claims. The reserve includes amounts required for the future payments of claims that have been both reported and incurred but not reported. Changes in the self-insurance reserve for the years ended June 30, 2018 and 2017 are shown below:

	2018	2017
Reserve at beginning of year	$ 3,148,409	$ 3,200,925
Provision for incurred claims	110,827	106,720
Claims paid	176,134	159,236
Reserve at end of year	**$ 3,083,102**	**$ 3,148,409**

Note 7: Capital Assets

Bond interest costs in the amount of $1,040,064 and $756,833 were capitalized as part of the PUB renovation project in FY18 and FY17, respectively. Construction commitments relating to this project at the end of FY18 were $6,334,168. During FY18, the University reported a loss on the demolition of a portion of the old PUB building, resulting in $6.1 million special item on the statement of revenues, expenses and changes in net position. Capital asset activity for the two-year period ended June 30, 2018 is summarized as follows.

	June 30, 2016	Additions	Retirements	June 30, 2017	Additions	Retirements	June 30, 2018
Non-depreciable Capital Assets							
Land	$ 1,524,834	$ -	$ -	$ 1,524,834	$ -	$ -	$ 1,524,834
Construction in progress	14,600,914	25,382,617	14,243,909	25,739,622	30,969,924	10,288,598	46,420,948
Subtotal	16,125,748	25,382,617	14,243,909	27,264,456	30,969,924	10,288,598	47,945,782
Depreciable Capital Assets							
Buildings	375,044,193	4,468,814	-	379,513,007	-	12,540,271	366,972,736
Improvements other than buildings	17,919,270	429,352	-	18,348,622	-	-	18,348,622
Infrastructure	31,392,502	9,345,744	-	40,738,246	10,288,598	-	51,026,844
Furniture, fixtures and equipment	35,665,268	1,503,885	501,631	36,667,522	1,607,284	1,217,690	37,057,116
Library materials	24,065,666	1,363,540	1,316,490	24,112,716	1,397,609	1,003,205	24,507,120
Subtotal	484,086,899	17,111,335	1,818,121	499,380,113	13,293,491	14,761,166	497,912,438
Total Capital Assets	500,212,647	42,493,952	16,062,030	526,644,569	44,263,415	25,049,764	545,858,220
Less Accumulated Depreciation							
Buildings	125,046,379	7,306,168	-	132,352,547	7,166,442	6,451,250	133,067,739
Improvements other than buildings	7,759,870	603,257	-	8,363,127	608,624	-	8,971,751
Infrastructure	21,685,089	1,167,932	-	22,853,021	1,298,037	-	24,151,058
Furniture, fixtures and equipment	29,053,800	2,237,931	497,954	30,793,777	2,014,933	1,207,024	31,601,686
Library materials	10,325,750	1,225,257	1,316,488	10,234,519	1,288,623	980,299	10,542,843
Total Accumulated Depreciation	193,870,888	12,540,545	1,814,442	204,596,991	12,376,659	8,638,573	208,335,077
Capital assets, net of depreciation	$ 306,341,759	$ 29,953,407	$ 14,247,588	$ 322,047,578	$ 31,886,756	$ 16,411,191	$ 337,523,143

Note 8: Long-term Liabilities

Long-term liability activity for the year ended June 30, 2018 is summarized as follows:

	June 30, 2017	Additions	Reductions	June 30, 2018	Current Portion
Leases and bonds payable					
Lease obligations (Note 9)	$ 2,757,555	$ -	$ 440,451	$ 2,317,104	$ 481,455
Revenue bonds payable (Note 10)	82,865,000	-	2,345,000	80,520,000	2,415,000
Total leases and bonds payable	85,622,555	-	2,785,451	82,837,104	2,896,455
Other liabilities					
Charitable gift annuities (Note 1)	162,556	15,227	56,853	120,930	51,530
Total pension liability (Note 12)	11,601,152	4,773,430	823,164	15,551,418	-
Net pension liability (Note 12)	27,781,648	-	6,517,648	21,264,000	-
Total OPEB liability (Note 13)	-	72,068,194	4,686,804	67,381,390	-
Compensated absences (Note 5)	7,632,223	5,244,952	5,098,756	7,778,419	-
Perkins program termination	-	3,973,704	-	3,973,704	-
Total long-term liabilities	$ 132,800,134	$ 86,075,507	$ 19,968,676	$ 198,906,965	$ 2,947,985

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

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

Note 9: Leases

The University leases facilities and furnishings for student dormitory residences, office and computer equipment, and other assets under a variety of agreements. The University's non-cancelable operating leases that have remaining terms of more than one year expire in various fiscal years from 2019 through 2023. Total operating lease expenses in fiscal year 2018 were $440,562.

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

Minimum lease payments under leases together with the present value of the net minimum capital lease payments as of June 30, 2018, are as follows:

Fiscal Year Annual Payment	Operating	Capital
2019	$ 378,107	$ 601,423
2020	286,721	601,995
2021	180,540	593,302
2022	107,433	585,410
2023	12,139	255,193
Obligation under leases	$ 964,940	2,637,323
Less: Amount representing interest costs		(320,219)
Present value of minimum obligation under capital leases		$ 2,317,104

Note 10: Bonds Payable

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

The University issued Services and Activities Fee Refunding Bonds, Series 2016A, on August 30, 2016 and Revenue bonds, Series 2016B, on October 13, 2016. The Series 2016A bonds bear an interest rate varying from 2 to 5 percent and are due serially on October 1 in amounts ranging from $795,000 to $1,395,000. The refunding resulted in $6,158,186 gross debt service savings over the next twenty one years and an economic gain of $4,745,011. The Series 2016B bonds bear an interest rate varying from 2.625 percent to 5 percent and are due serially on October 1 in amounts from $450,000 to $1,930,000. The proceeds of the Series 2016B bonds were used to finance the remodel of the Pence Union Building while the Series 2016A proceeds were used to refinance the remaining principal balance of the Series 2006 bonds.

	Interest Rate	Maturity Date	Original Balance	Outstanding Balance
Service and Activities Refunding Bonds, Series 2016A	2.00% - 5.00%	2018-2037	$ 23,465,000	$ 22,125,000
Service and Activities Revenue Bonds, Series 2016B	2.625% - 5.00%	2018-2046	36,175,000	35,745,000
Housing and Dining System Revenue Bonds, Series 2012	3.00% - 4.125%	2018-2042	25,330,000	22,650,000
Total Revenue Bonds Payable			$ 84,970,000	$ 80,520,000

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

Fiscal Year	Principal	Interest
2019	$ 2,415,000	$ 2,775,296
2020	2,095,000	2,701,446
2021	2,175,000	2,625,596
2022	2,260,000	2,540,271
2023	2,365,000	2,438,446
2024-2028	13,560,000	10,501,205
2029-2033	16,135,000	7,993,916
2034-2038	18,905,000	5,286,905
2039-2043	13,265,000	2,416,098
2044-2047	7,345,000	487,419
Totals	80,520,000	$ 39,766,598
Add: Unamortized Bond Premium	2,461,645	
	$ 82,981,645	

Note 11: Pledged Revenues

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

Source of Revenue Pledged	Current Year Revenues Pledged (net)	Current Year Debt Service	Total Future Revenues Pledged	Description of Debt	Purpose of Debt	Term of Commitment
Service & Activity fee revenue	$ 10,570,950	$ 3,707,746	$ 84,639,704	Service & Activities Fee Revenue and Refunding Bonds – Series 2016A&B	Refund outstanding debt on S&A Revenue/ Refunding Bonds of 2006 and renovation of student union building	2037 (Refunding) 2046 (Revenue)
Housing and Dining revenues net of operating expenses	$ 6,219,738	$ 1,484,600	$ 35,646,894	Housing and Dining System Revenue Bonds – Series 2012	Design and construction of a new residence hall	2042

Note 12: Retirement Plans

The University offers four contributory retirement plans. The Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) are cost-sharing, multi-employer defined benefit plans; PERS and TRS also have a defined contribution component. The Eastern Washington University Retirement Plan is a defined contribution plan with supplemental payment, when required. The University's total payroll for the year ended June 30, 2018, was $111,779,038. The payroll for employees covered by PERS was $29,822,632; payroll for employees covered by TRS was $1,443,741; payroll for employees covered by LEOFF was $1,011,692; and payroll for employees covered by the Eastern Washington University Retirement Plan was $64,552,299.

General

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

In accordance with Statement No. 68, the University has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities.

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

Basis of Accounting

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

The University recognized $1,801,307 and $3,033,276 in pension expense for all plans subject to the requirements of GASB Statement No. 68 for fiscal years 2018 and 2017, respectively.

Department of Retirement Systems

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

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

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

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

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the Governmental Accounting Standards Board. Copies of the report may be obtained by contacting the Washington

State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at: http://www.drs.wa.gov/administration/annual-report/default.htm.

Public Employees' Retirement System (PERS)

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

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

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

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

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

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

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

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.
A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service. This is reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC. Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

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

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

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

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

Required contribution rates for fiscal year 2018 are presented later in this footnote.

Teacher's Retirement System (TRS)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Required contribution rates for fiscal year 2018 are presented later in this footnote.

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

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

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

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

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

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

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

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

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

Required contribution rates for fiscal year 2018 are presented later in this footnote.

Actuarial Assumptions

The total pension liability (TPL) for each of the plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' Comprehensive Annual Financial Report. These assumptions reflect the results of Office of State Actuary's *2007-2012 Experience Study.* Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the Entry-Age Cost Method), assumed interest and actual benefit payments.

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

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

Long Term Expected Rate of Return

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

The CMAs contain three pieces of information for each class of assets WSIB currently invests in:

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

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
Total	100%	

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

Discount rate

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

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

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

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

Collective Net Pension Liability/Asset

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
Year Ended 6/30/18					
Proportionate Share	0.225802%	0.280853%	0.019939%	0.020412%	0.060803%
Net Pension Liability (Asset)	$ 10,714,502	$ 9,758,291	$ 602,820	$ 188,388	$ (843,749)
Year Ended 6/30/17					
Proportionate Share	0.234419%	0.285742%	0.016733%	0.017044%	0.049090%
Net Pension Liability (Asset)	$ 12,589,381	$ 14,386,897	$ 571,301	$ 234,069	$ (285,519)

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

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
Year Ended 6/30/18					
1% Decrease	$ 13,052,311	$ 26,289,857	$ 749,593	$ 639,833	$ 182,586
Current Discount Rate	10,714,502	9,758,291	602,820	188,388	(843,749)
1% Increase	8,689,458	(3,786,875)	475,777	(178,270)	(1,679,964)
Year Ended 6/30/17					
1% Decrease	$ 15,181,528	$ 26,488,865	$ 702,303	$ 529,729	$ 800,675
Current Discount Rate	12,589,381	14,386,897	571,301	234,069	(285,519)
1% Increase	10,358,680	(7,489,211)	458,462	(271,917)	(1,104,195)

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

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

	PERS 1				PERS 2/3			
	Deferred Outflows of Resources		Deferred Inflows of Resources		Deferred Outflows of Resources		Deferred Inflows of Resources	
	2018	2017	2018	2017	2018	2017	2018	2017
Pension contributions subsequent to the measurement date	$1,521,847	$1,360,988	$ -	$ -	$2,197,269	$1,719,903	$ -	$ -
Differences between expected and actual experience	-	316,981	-	-	988,745	766,092	320,933	474,935
Change in assumptions	-	-	-	-	103,652	148,700	-	-
Change in proportion and contributions	-	-	-	-	87,244	182,983	211,365	14,185
Net difference between projected and actual investment earnings on pension plan investments	-	-	399,835	-	-	1,760,541	2,601,326	-
Total	$1,521,847	$1,677,969	$399,835	$ -	$3,376,910	$4,578,219	$3,133,624	$489,120

	TRS 1				TRS 2/3			
	Deferred Outflows of Resources		Deferred Inflows of Resources		Deferred Outflows of Resources		Deferred Inflows of Resources	
	2018	2017	2018	2017	2018	2017	2018	2017
Pension contributions subsequent to the measurement date	$94,779	$70,629	$ -	$ -	$103,065	$ 76,128	$ -	$ -
Differences between expected and actual experience	-	-	-	-	46,978	17,707	9,611	-
Change in assumptions	-	-	-	-	2,220	2,384	-	-
Change in proportion and contributions	-	-	-	-	79,856	66,671	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	18,121	25,538	-	-	37,679	68,177	10,386
Total	$94,779	$88,750	$25,538	$ -	$232,119	$200,569	$77,788	$10,386

	LEOFF 2			
	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2018	2017	2018	2017
Pension contributions subsequent to the measurement date	$ 88,656	$ 96,512	$ -	$ -
Differences between expected and actual experience	37,084	39,124	31,996	-
Changes in assumptions	1,016	1,077	-	-
Change in proportion and contributions	616	321	129,395	48,639
Net difference between projected and actual investment earnings on pension plan investments	-	102,599	189,428	-
Total	$127,372	$239,633	$350,819	$48,639

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	LEOFF 2
2019	$ (270,263)	$ (1,015,191)	$ (18,759)	$ (1,207)	$ (108,885)
2020	85,326	265,397	7,023	30,654	(2,154)
2021	(19,812)	(253,756)	(624)	6,252	(33,375)
2022	(195,087)	(1,078,498)	(13,178)	(20,760)	(95,236)
2023	-	55,678	-	7,568	(12,938)
thereafter	-	72,386	-	28,758	(59,514)

The University recognized $1,801,307 in retirement benefit expense in FY18 for the above plans.

Contribution Rates

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

	Contribution Rates at June 30, 2018		Required Employer Contributions		
	Employee	University	FY2016	FY2017	FY2018
PERS 1	6.00%	12.70%	$ 67,757	$ 46,254	$ 47,216
PERS 2	7.38%	12.70%	2,473,087	2,530,164	3,025,246
PERS 3	Varies	12.70%*	515,043	554,636	700,058
TRS 1	6.00%	13.13%	42	53	53
TRS 3	Varies	13.13%	112,047	146,974	200,731
LEOFF 2	8.75%	8.93%	76,820	98,690	90,367

*Defined benefit portion only

Eastern Washington University Retirement System

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

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

On June 8, 2011, the supplemental benefit payment was discontinued for new employees hired after July 1, 2011. This action caps and will eventually eliminate net pension obligations for the supplemental plan. No other significant changes were made in the benefit provision for the year ended June 30, 2018.

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

Contributions - *Employee* contribution rates, which are based on age, are 5 percent, 7.5 percent and 10 percent. The University matches the employee contributions. The University contributions during the year ended June 30, 2018, total $5,471,744. There are no plan assets for the EWURP. For the year ended June 30, 2018, the University reported $841,089 in retirement benefit expense relating to the supplemental component of the EWURP.

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2017, with the results rolled forward to the June 30, 2018, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Material assumption changes during the measurement period include the discount rate increase from 3.58 percent to 3.87 percent. TIAA and CREF returns used to determine a member's assumed income were 4.23 percent for TIAA and 12.32 percent for CREF.

Discount Rate - The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.87 percent for the June 30, 2018, measurement date.

Plan Membership – Membership of the EWURP Supplemental Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation for the plan:

Beneficiaries currently receiving benefits – 34
Inactive members entitled to but not yet receiving benefits – 32
Active members – 384

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

Total Pension Liability	**2018**	**2017**
Service cost	$ 477,481	$ 658,465
Interest	428,837	420,402
Differences between expected and actual experience	3,867,111	(2,853,204)
Changes in assumptions	(621,476)	(646,620)
Benefit payments	(201,688)	(139,765)
Net Change in Total Pension Liability	3,950,265	(2,560,722)
Total Pension Liability - Beginning	11,601,152	14,161,874
Total Pension Liability - Ending	**$ 15,551,417**	**$ 11,601,152**

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

	FY2018	**FY2017**
1% Decrease	$ 17,703,225	$ 13,265,670
Current Discount Rate	$ 15,551,417	$ 11,601,152
1% Increase	$ 13,756,520	$ 10,217,797

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

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 3,322,447	$ 2,001,502	$ -	$ 2,427,353
Changes of assumptions		$987,544	-	550,110
Total	$ 3,322,447	$ 2,989,046	$ -	$ 2,977,463

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

2019	$ (65,229)
2020	(65,229)
2021	(65,229)
2022	(65,229)
2023	91,474
Thereafter	502,843

Note 13: Other Post-Employment Benefits (OPEB)

Plan Description - The state, consisting of state agencies and its component units as well as higher education institutions, is considered a single employer based on guidance provided in GASB Statement No. 75. The State Health Care Authority (HCA) administers this single employer defined benefit other postemployment benefit (OPEB) plan.

Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

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

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

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on the claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium.

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

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

Inflation Rate	3.00%
Projected Salary Changes	3.75%
Health Care Trend Rates	Initial rate is 7.00%, reaching an ultimate rate of 5.00% in 2080
Post-Retirement Participation Percentage	65.00%
Percentage with Spouse Coverage	45.00%

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

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

Actuarial Valuation Date	1/1/2017
Actuarial Measurement Date	6/30/2017
Actuarial Cost Method	Entry Age
Amortization Method	9 Years

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

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

Sensitivity of the Total OPEB Liability to Changes in the Discount and Health Care Cost Trend Rates - The following represents the total OPEB liability, calculated 1) using the discount rate of 3.58 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate, and 2) using the health care trend rates of 7.00 percent decreasing to 5.00 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (6.00 percent decreasing to 4.00 percent) or 1 percentage point higher (8.00 percent decreasing to 6.0 percent) than the current rate.

		June 30, 2018	
	1% Decrease	Current Rate	1% Increase
Discount Rate	$ 82,213,616	$ 67,381,390	$ 55,903,630
Health Care Cost Trend Rate	$ 54,434,891	$ 67,381,390	$ 84,756,749

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

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

The following represents the proportionate share of the collective total OPEB liability of the University.

June 30, 2018	
Proportionate Share ($)	Proportionate Share (%)
$ 67,381,390	1.156599%

For the year ended June 30, 2018, the University recognized OPEB expense of $5,562,622 in relation to GASB Statement 75. At June 30, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
	2018	**2018**
Transactions subsequent to the measurement date	$ 1,066,353	$ -
Differences between expected and actual experience	-	-
Changes in assumptions	-	9,277,779
Change in proportion and benefit payments	116,765	-
Total	**$ 1,183,118**	**$ 9,277,779**

Deferred outflows of resources in the amount of $1,066,353 resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2019	$ (1,145,126)
2020	(1,145,126)
2021	(1,145,126)
2022	(1,145,126)
2023	(1,145,126)
Thereafter	(3,435,384)

Note 14: Segment Information

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

CONDENSED STATEMENTS OF NET POSITION

	Housing and Dining System Revenue Bonds Series 2012		Associated Student Activities Revenue and Refunding Bonds Series 2016	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Assets				
Current assets	$ 15,222,402	$ 15,529,212	$ 9,500,447	$ 33,440,138
Non-current assets	49,262,782	46,857,704	69,199,058	49,572,695
Total assets	64,485,184	62,386,916	78,699,505	83,012,833
Deferred outflows of resources				
Related to pensions	790,748	819,490	80,006	75,366
Liabilities				
Current liabilities	1,776,173	1,836,742	5,245,076	5,110,752
Non-current liabilities	31,129,046	27,964,886	59,177,548	60,642,145
Total liabilities	32,905,219	29,801,628	64,422,624	65,752,897
Deferred inflows of resources				
Unamortized gain on bond refunding	-	-	21,931	18,852
Related to pensions	1,284,079	133,732	168,188	39,807
Net position				
Net investment in capital assets	12,245,432	12,773,149	5,385,856	8,906,448
Unrestricted	18,841,202	20,497,897	8,780,912	8,370,195
Total net position	$ 31,086,634	$ 33,271,046	$ 14,166,768	$ 17,276,643

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

	Housing and Dining System Revenue Bonds Series 2012		Associated Student Activities Revenue and Refunding Bonds Series 2016	
	2018	2017	2018	2017
Operating revenues	$ 23,293,286	$ 24,175,577	$ 11,599,338	$ 11,360,365
Operating expenses	19,578,681	20,824,973	5,457,874	5,089,052
Net operating income	3,714,605	3,350,604	6,141,464	6,271,313
Non-operating revenues (expenses)	(853,018)	(1,019,393)	(8,688,494)	(3,853,198)
Change in net position	2,861,587	2,331,211	(2,547,030)	2,418,115
Net position, beginning of year	33,271,046	31,093,864	17,276,643	14,920,443
Adjustment to beginning net position	(5,045,999)	(154,029)	(562,845)	(61,915)
Net position, end of year	$ 31,086,634	$ 33,271,046	$ 14,166,768	$ 17,276,643

CONDENSED STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30

	Housing and Dining System Revenue Bonds Series 2012		Associated Student Activities Revenue and Refunding Bonds Series 2016	
	2018	2017	2018	2017
Net cash flows provided by operating activities	$ 5,202,922	$ 4,470,679	$ 7,679,552	$ 9,235,384
Net cash flows used by non-capital and related financing activities	-	(10,000)	(2,741,375)	(1,608,152)
Net cash flows provided (used) by capital and related financing activities	(1,878,804)	(2,007,494)	(27,785,377)	22,191,387
Net cash flows provided (used) by investing activities	(1,621,474)	(2,608,999)	(309,983)	(2,029,603)
Net increase (decrease) in cash	1,702,644	(155,814)	(23,157,183)	27,789,016
Cash—beginning of year	6,935,717	7,091,531	30,178,963	2,389,947
Cash—end of year	$ 8,638,361	$ 6,935,717	$ 7,021,780	$ 30,178,963

Note 15: Operating Expenses by Function

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

	FY 2018	FY 2017
Education and general		
Instruction	$ 76,756,183	$ 72,213,464
Research	1,274,109	1,499,402
Public Service	8,638,567	8,243,810
Academic support	18,979,030	16,364,083
Student services	21,108,113	19,484,469
Institutional support	18,438,308	17,176,263
Operation and maintenance of plant	19,097,606	21,598,715
Scholarships and fellowships	19,916,984	19,975,864
Auxiliary enterprises	35,663,433	35,994,695
Depreciation	12,376,659	12,540,545
Total operating expenses	$232,248,992	$225,091,310

Note 16: Other Matters and Subsequent Events

The University entered into a lease agreement in May 2018 with South Landing Building, LLC as the primary tenant in the Catalyst Building in Spokane's University District. The initial term of the lease is one hundred twenty months from the lease commencement date (the later of substantial completion of the landlord's work or April 1, 2020). The first lease payment is due in fiscal year 2021.

Outstanding purchase orders and other commitments at June 30, 2018 total $10,380,620 for various goods and services.

Schedules of Required Supplementary Information

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

	2014	2015	2016	2017
Public Employees' Retirement System (PERS) Plan 1				
University's proportion of the net pension liability	0.235935%	0.232536%	0.234419%	0.225802%
University's proportionate share of the net pension liability	$ 11,885,340	$ 12,163,804	$ 12,589,381	$ 10,714,502
University's covered-employee payroll	700,294	628,105	616,847	418,750
University's covered-employee payroll (UAAL portion)	10,614,317	11,238,264	11,619,999	11,995,262
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1697%	1937%	2041%	2559%
Plan fiduciary net position as a percentage of the total pension liability	61%	59%	57%	61%
Public Employees' Retirement System (PERS) Plan 2/3				
University's proportion of the net pension liability	0.285383%	0.284759%	0.285742%	0.280853%
University's proportionate share of the net pension liability	$ 5,768,630	$ 10,174,598	$ 14,386,897	$ 9,758,291
University's covered-employee payroll	24,496,463	25,317,107	26,817,445	27,677,117
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	24%	40%	54%	35%
Plan fiduciary net position as a percentage of the total pension liability	93%	89%	86%	90%
Teachers' Retirement System (TRS) Plan 1				
University's proportion of the net pension liability	0.014280%	0.015034%	0.016733%	0.019939%
University's proportionate share of the net pension liability	$ 421,191	$ 476,291	$ 571,301	$ 602,820
University's covered-employee payroll	4,444	400	400	400
University's covered-employee payroll (UAAL portion)	289,693	330,776	300,432	538,532
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	9477%	119073%	142825%	150705%
Plan fiduciary net position as a percentage of the total pension liability	69%	66%	62%	65%
Teachers' Retirement System (TRS) Plan 2/3				
University's proportion of the net pension liability	0.015141%	0.015921%	0.017044%	0.020412%
University's proportionate share of the net pension liability	$ 48,904	$ 134,340	$ 234,069	$ 188,388
University's covered-employee payroll	654,525	747,348	852,532	1,119,377
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	7%	18%	27%	17%
Plan fiduciary net position as a percentage of the total pension liability	97%	92%	89%	93%
Law Enforcement Officers' and Firefighter's (LEOFF) Plan 2				
University's proportion of the net pension liability	0.040159%	0.048127%	0.049090%	0.060803%
University's proportionate share of the net pension liability	$ (532,934)	$ (494,651)	$ (285,519)	$ (843,749)
University's covered-employee payroll	669,208	852,252	894,293	1,148,894
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	80%	58%	32%	73%
Plan fiduciary net position as a percentage of the total pension liability	117%	112%	124%	113%

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

Schedule of the University Contributions
Fiscal Year Ended June 30 *

	2015	2016	2017	2018
Public Employees' Retirement System (PERS) Plan 1				
Contractually required contribution	$ 57,848	$ 68,964	$ 46,816	$ 49,626
Contributions in relation to the contractually required contribution	57,464	67,757	46,254	47,216
Contribution deficiency (excess)	385	1,207	563	2,410
University's covered-employee payroll	628,105	616,847	418,750	390,756
University's covered-employee payroll (UAAL portion)	11,238,264	11,619,999	11,995,262	11,822,785
Contributions as a percentage of covered-employee payroll	9.15%	10.98%	11.05%	12.08%
Public Employees' Retirement System (PERS) Plan 2/3				
Contractually required contribution	$ 2,331,706	$ 2,998,190	$ 3,094,302	$ 3,737,848
Contributions in relation to the contractually required contribution	2,328,966	2,988,130	3,084,800	3,725,304
Contribution deficiency (excess)	2,740	10,060	9,502	12,544
University's covered-employee payroll	25,317,107	26,817,445	27,677,117	29,431,876
Contributions as a percentage of covered-employee payroll	9.20%	11.14%	11.15%	12.66%
Teachers' Retirement System (TRS) Plan 1				
Contractually required contribution	$ 42	$ 42	$ 53	$ 61
Contributions in relation to the contractually required contribution	42	42	53	53
Contribution deficiency (excess)	-	-	-	8
University's covered-employee payroll	400	400	400	400
University's covered-employee payroll (UAAL portion)	330,776	300,432	538,532	689,753
Contributions as a percentage of covered-employee payroll	10.39%	10.39%	13.13%	13.12%
Teachers' Retirement System (TRS) Plan 2/3				
Contractually required contribution	$ 77,649	$ 111,937	$ 146,974	$ 218,924
Contributions in relation to the contractually required contribution	79,752	112,047	146,974	200,731
Contribution deficiency (excess)	(2,103)	(109)	-	18,193
University's covered-employee payroll	747,348	852,532	1,119,377	1,440,287
Contributions as a percentage of covered-employee payroll	10.67%	13.14%	13.13%	13.94%
Law Enforcement Officers' and Firefighters' (LEOFF) Plan 2				
Contractually required contribution	$ 73,208	$ 76,820	$ 98,690	$ 90,344
Contributions in relation to the contractually required contribution	72,978	76,820	98,690	90,367
Contribution deficiency (excess)	231	-	-	(23)
University's covered-employee payroll	852,252	894,293	1,148,894	1,011,692
Contributions as a percentage of covered-employee payroll	8.56%	8.59%	8.59%	8.93%

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

Schedule of the University's Changes in the Total Pension Liability Fiscal Year Ended June 30		
Total Pension Liability	**2017**	**2018**
Service cost	$ 658,465	$ 477,481
Interest	420,402	428,837
Differences between expected and actual experience	(2,853,204)	3,867,111
Changes in assumptions	(646,620)	(621,476)
Benefit payments	(139,765)	(201,688)
Net Change in Total Pension Liability	(2,560,722)	3,950,265
Total Pension Liability - Beginning	14,161,874	11,601,152
Total Pension Liability - Ending	**$ 11,601,152**	**$ 15,551,417**
Covered-employee payroll	$ 38,505,492	$ 34,113,737
Total pension liability as a percentage of covered employee payroll	30.13%	45.59%

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

Schedule of the University's Proportionate Share of the Total OPEB Liability Measurement Date of June 30*	
	2018
University's proportion of the total OPEB liability	1.156599%
University's proportionate share of the total OPEB liability	$ 67,381,390
Covered-employee payroll	$ 90,207,449
Total OPEB liability as a percentage of covered employee payroll	74.70%

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

Note: No assets are accumulated in a trust that meets the criteria in GASB Statements 73 or 75, paragraph 4 to pay related benefits for the Eastern Washington University Supplemental Retirement Plan or OPEB Plan.

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