

**EASTERN WASHINGTON UNIVERSITY FOUNDATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2016 AND 2015**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
<b>CONSOLIDATED STATEMENTS OF FINANCIAL POSITION</b>	<b>3</b>
<b>CONSOLIDATED STATEMENTS OF ACTIVITIES</b>	<b>4</b>
<b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>	<b>6</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>8</b>

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Eastern Washington University Foundation  
Cheney, Washington

We have audited the accompanying consolidated financial statements of Eastern Washington University Foundation (a nonprofit organization) (the Foundation) which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated financial statements.

Board of Directors  
Eastern Washington University Foundation

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eastern Washington University Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Spokane, Washington  
October 31, 2016

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2016 AND 2015**

<b>ASSETS</b>	2016	2015
Cash and Cash Equivalents	\$ 2,181,417	\$ 1,309,262
Certificates of Deposit	1,443,216	1,506,594
Promises to Give, Net of Allowances and Discounts	368,593	381,556
Other Assets	209,320	388,874
Contributions Receivable from Charitable Trusts	374,673	369,078
Investments Held in Charitable Trusts	175,088	199,239
Investments	18,738,529	18,451,993
Beneficial Interest in Perpetual Trusts	2,306,335	2,427,771
Total Assets	\$ 25,797,171	\$ 25,034,367
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 105,234	\$ 129,644
Annuities Payable	96,388	112,424
Total Liabilities	201,622	242,068
<b>COMMITMENTS</b>		
<b>NET ASSETS</b>		
Unrestricted	393,007	379,921
Temporarily Restricted	6,422,672	6,535,960
Permanently Restricted	18,779,870	17,876,418
Total Net Assets	25,595,549	24,792,299
Total Liabilities and Net Assets	\$ 25,797,171	\$ 25,034,367

See accompanying Notes to Consolidated Financial Statements.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND SUPPORT</b>				
Contributions	\$ 47,044	\$ 2,366,293	\$ 956,987	\$ 3,370,324
Contributions from Trusts	-	93,598	-	93,598
Investment Income, Net of Fees of \$82,393	43,780	332,100	-	375,880
Realized Gain (Loss) on Investments	(514)	3,199,295	-	3,198,781
Unrealized Loss on Investments	-	(3,217,160)	-	(3,217,160)
Change in Value of Split-Interest Agreements	-	-	(123,955)	(123,955)
Support Provided by Eastern Washington University	1,066,737	-	-	1,066,737
Other	(148,016)	1,049,935	16,180	918,099
Total Revenues, Gains, and Support	<u>1,009,031</u>	<u>3,824,061</u>	<u>849,212</u>	<u>5,682,304</u>
 Net Assets Released from Restrictions and Other Transfers	 3,883,109	 (3,937,349)	 54,240	 -
<b>EXPENSES</b>				
Management and General	954,935	-	-	954,935
Fundraising	666,728	-	-	666,728
Support Provided to/for Eastern Washington University	3,257,391	-	-	3,257,391
Total Expenses	<u>4,879,054</u>	<u>-</u>	<u>-</u>	<u>4,879,054</u>
 <b>CHANGES IN NET ASSETS</b>	 13,086	 (113,288)	 903,452	 803,250
 Net Assets - Beginning of Year	 <u>379,921</u>	 <u>6,535,960</u>	 <u>17,876,418</u>	 <u>24,792,299</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u>\$ 393,007</u>	 <u>\$ 6,422,672</u>	 <u>\$ 18,779,870</u>	 <u>\$ 25,595,549</u>

See accompanying Notes to Consolidated Financial Statements.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND SUPPORT</b>				
Contributions	\$ 232,769	\$ 2,080,865	\$ 298,440	\$ 2,612,074
Contributions from Trusts	-	94,215	-	94,215
Investment Income, Net of Fees of \$82,059	37,971	359,487	-	397,458
Realized Gain (Loss) on Investments	(317)	580,635	-	580,318
Unrealized Gain on Investments	-	(281,899)	-	(281,899)
Change in Value of Split-Interest Agreements	-	-	(86,667)	(86,667)
Support Provided by Eastern Washington University	1,030,416	-	-	1,030,416
Other	450	814,656	18,449	833,555
Total Revenues, Gains, and Support	<u>1,301,289</u>	<u>3,647,959</u>	<u>230,222</u>	<u>5,179,470</u>
 Net Assets Released from Restrictions and Other Transfers	 3,559,563	 (3,771,286)	 211,723	 -
<b>EXPENSES</b>				
Management and General	1,016,177	-	-	1,016,177
Fundraising	618,050	-	-	618,050
Support Provided to/for Eastern Washington University	3,034,578	-	-	3,034,578
Total Expenses	<u>4,668,805</u>	<u>-</u>	<u>-</u>	<u>4,668,805</u>
 <b>CHANGES IN NET ASSETS</b>	 192,047	 (123,327)	 441,945	 510,665
 Net Assets - Beginning of Year	 <u>187,874</u>	 <u>6,659,287</u>	 <u>17,434,473</u>	 <u>24,281,634</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u>\$ 379,921</u>	 <u>\$ 6,535,960</u>	 <u>\$ 17,876,418</u>	 <u>\$ 24,792,299</u>

See accompanying Notes to Consolidated Financial Statements.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Contributors and Trusts	\$ 3,867,434	\$ 4,110,316
Cash Received from Events and Sale of Goods and Services	1,031,616	833,555
Cash Paid for Foundation Administration and Fundraising	(1,645,812)	(1,595,467)
Cash Paid on Behalf of Eastern Washington University	(3,257,391)	(3,034,578)
Net Cash Provided (Used) by Operating Activities	(4,153)	313,826
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	12,134,399	2,738,308
Purchases of Investments	(12,439,314)	(3,072,071)
Proceeds from Sale of Capital Assets	58,828	-
Proceeds from Sale of Certificates of Deposit	500,000	-
Purchases of Certificates of Deposits	(436,622)	(1,506,594)
Net Cash Used by Investing Activities	(182,709)	(1,840,357)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions and Other Revenue Restricted for Endowments	973,167	298,440
Collection of Promises to Give Restricted for Endowments	85,850	90,958
Distribution to Annuitants	-	(5,941)
Net Cash Provided by Financing Activities	1,059,017	383,457
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	872,155	(1,143,074)
Cash and Cash Equivalents - Beginning of Year	1,309,262	2,452,336
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 2,181,417	\$ 1,309,262

See accompanying Notes to Consolidated Financial Statements.



	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Changes in Net Assets	\$ 803,250	\$ 510,665
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	5,596	8,394
(Gain) Loss on Investments	18,379	(298,419)
Loss on Sale of Capital Assets	113,517	-
Change in Value of Split-Interest Agreements	(6,948)	5,942
Noncash Contributions Received	(258,404)	(433,220)
Distribution of Noncash Contributions to Eastern Washington University	258,404	433,220
Change in Beneficial Interest in Perpetual Trusts	121,436	77,428
Contributions Restricted and Other Revenue for Long-Term Purposes	(973,167)	(298,440)
Changes in Assets and Liabilities:		
Promises to Give	(72,887)	280,534
Other	11,081	12,000
Accounts Payable	(24,410)	15,722
Total Adjustments	<u>(807,403)</u>	<u>(196,839)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,153)</u>	<u>\$ 313,826</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

New Promises to Give Received as Contribution for Endowments	<u>\$ 12,500</u>	<u>\$ 10,000</u>
--	------------------	------------------

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Eastern Washington University Foundation (the Foundation) is a nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation is organized for charitable and educational purposes and is operated to receive, hold, invest, and properly administer the assets and to make expenditures to or for the benefit of Eastern Washington University (the University), established in 1882 and governed by the board of trustees.

The Foundation, established in 1977, operates under a Memorandum of Understanding, dated September 10, 2009, with the University to raise and hold economic resources for the direct benefit of the University, a governmental unit. In exchange, the University provides the Foundation with partial office space, furniture and equipment, supplies, and staff to operate the Foundation. Due to the significance of the financial relationship with the University, in accordance with Governmental Accounting Standards Board (GASB) No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB No. 14, the Foundation is included as a component unit of the University for financial reporting purposes and is, therefore, also included in the University's comprehensive annual financial report. Funds of the Foundation are neither subject to the state of Washington appropriation process nor held in the state treasury and are not owned by the state.

The Foundation exists to raise and manage private resources to support the mission, goals, and priorities of the University, to provide educational opportunities for the students of the University; and to establish a margin of institutional excellence unattainable with state and federal funds alone.

The Foundation has fiduciary responsibility for Eastern Washington University Alumni Association, a nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the IRC. The Foundation's consolidated financial statements include this nonprofit corporation. All significant intercompany transactions and accounts have been eliminated in consolidation.

**Basis of Presentation**

Financial statement presentation follows the requirements of Statement of Financial Accounting Standards *Financial Statements of Not-for-Profit Organizations*. Under *Financial Statements of Not-for-Profit Organizations*, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting**

These consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, the Foundation considers short-term cash investments and highly liquid debt instruments, if any, purchased with a maturity of three months or less, to be cash equivalents. Certificates of deposit are carried at cost plus accrued interest.

**Investments**

Investments are stated at fair value based on quoted market prices. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and unrealized appreciation (depreciation) of those investments, is shown in the consolidated statements of activities. Investment income is accrued as earned and reported net of investment advisory fees.

The Foundation has significant exposure to a number of risks including interest rate, market, and credit risks for marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the consolidated financial statements.

**Credit Risk**

The Foundation's investments consist primarily of financial instruments including cash and cash equivalents, equity funds, fixed income funds, mutual funds, realty funds, and money market funds. These financial instruments may subject the Foundation to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

**Market Risk**

The Foundation is subject to market risk, foreign currency risk, and interest rate risk with respect to its investment portfolio. To manage these risks, the Foundation has an investment policy setting out a target mix of investments designed to provide optimal return within reasonable risk tolerances.

**Promises to Give**

Unconditional promises to give, less an allowance for uncollectible accounts, are recognized as revenue in the period the promise is made in writing by the donor. Unconditional promises to give receivables in excess of one year are discounted to their net present value using a discount rate based on the three month U.S. Treasury bill rate at the time of contribution. Accounts are written off in the period they are determined to be uncollectible. Conditional promises to give, if any, are recognized when the conditions on which they depend are substantially met.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

Contributions are recognized when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Noncash contributions are recorded and reflected in the accompanying consolidated financial statements at their estimated fair market values at the date they are received.

**Other Assets**

Other assets are comprised of accrued investment income, prepaid assets, advances, property and equipment (see Note 8), and collections of art.

**Capital Assets and Depreciation**

Property and equipment with a cost greater than \$5,000 and a normal useful life of at least one year are capitalized at cost when purchased, and at fair market value or appraised value when acquired by gift. Depreciation is provided on the straight-line basis over the estimated useful lives of the respective assets, which is generally 30 years for buildings and improvements and three years for computers, equipment, and software. Property and equipment, net, are included in other assets in the consolidated statements of financial position.

The Foundation periodically reviews the carrying amount of capital assets whenever events or circumstances provide evidence that suggests the carrying amount may not be recoverable. If, after reviewing the undiscounted future net operating cash flows from these assets, it is determined that the assets are impaired, the impairment in value is recognized as a charge in the consolidated statements of activities. As of June 30, 2016, the Foundation does not believe that the carrying value of its capital assets has been impaired.

**Collections**

The Foundation has capitalized its collections since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the acquisition date. Gains or losses on the deaccession of collection items are classified on the consolidated statements of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. Collections are included in other assets in the consolidated statements of financial position.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Beneficial Interests in Trusts and Other Split-Interest Agreements**

The Foundation has established, through its planned giving program, the ability for donors to design charitable gift plans through the Foundation for the benefit of the University with the added benefit of achieving personalized financial goals for the future. Trusts can be established through contributions of property from donors to provide income, generally for life, to designated beneficiaries, except for a lead trust, which pays its income for a term of years to the Foundation. Each year, beneficiaries receive payments as specified in the trust agreement; a fixed payment (annuity trusts) or a percentage of the trust's fair market value (standard unitrusts), which may be limited to the net income (net-income-with-make-up unitrusts). Upon the termination of each trust, its assets generally will be distributed to the Foundation, or individuals named by the donor, for the purposes designated in the trust agreements. Trusts distributed to the Foundation at termination are assessed a one-time administrative fee. The fee was 10% and 3.5% for the years ended June 30, 2016 and 2015, respectively.

The trusts, formulated through written legal trust documents, are separate legal entities, created under the provisions of the IRC and applicable Washington law. Each trust has a calendar year-end as required by the IRC. The charitable remainder trusts are exempt from federal income taxes, except in any year in which they receive unrelated business taxable income.

In accordance with trust documents, the trusts' property and all receipts of every kind shall be managed and invested by the trustee from which the trustee shall pay an annuity amount in each taxable year of the trusts. Any income in excess of the annuity amount shall be added to the principal annually. Initial recognition and subsequent adjustments to the assets' carrying value are reported as a change in value of split-interest agreements in the accompanying consolidated statements of activities and are classified as to restriction based on donor-imposed purposes or time restrictions, if any. A contribution receivable is presented for trusts in which the Foundation is only the remainderman. The Foundation serves as remainderman, trustee, or both on certain trusts.

**Obligations to Beneficiaries of Split-Interest Agreements**

Obligations to beneficiaries of split-interest agreements, including charitable remainder trusts and charitable gift annuities, are recorded when incurred at the present value of the distributions to be made to the donor-designated beneficiaries. Distributions are paid over the lives or another specified period. Present values are determined using discount rates established by the Internal Revenue Service (IRS) and actuarially determined expected lives. An annuity payable is presented for the trusts in which the Foundation is both the trustee and remainderman. Obligations to beneficiaries of charitable trusts are revalued annually at June 30. The net revaluations, together with any remaining recorded obligations, are recorded as net changes in the value of split-interest agreements.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Endowments**

The Foundation's endowment consists of approximately 250 funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Endowments are managed in a unitized investment pool. It is the goal of the Foundation to maintain proper stewardship of assets donors have entrusted to the Foundation for the benefit of the University, its programs, and its students.

The Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of 2006. Under UPMIFA, annual spending (payout) may be taken from investment income and net realized and unrealized investment gains. The annual dollar amount distributed to each of the accounts within the endowment pool is 4% of the three-year moving average of the endowment's market value. Payout is distributed to individual funds annually on July 1 based on the number of units in each fund. The objective of the spending rate policy is to ensure the dollar amounts distributed will keep pace with inflation. The rate is annually reviewed to reassess anticipated future rates of inflation and total return on investments. The Foundation assesses a 2% administrative fee annually.

In the rare cases when the Foundation has accepted an endowment gift that cannot be pooled for investment purposes, the principal is held and invested separately from all other Foundation investments. At times, the Foundation also temporarily holds donated assets in the nonpooled endowment until they can be liquidated and transferred to the pooled endowment fund. There were no separately held and managed individual endowment funds at June 30, 2016 and 2015.

**Earnings on the Investment of Endowment and Similar Funds**

Income, realized net gains, and unrealized net gains on the investment of endowment and similar funds are reported as follows:

As an accumulation in permanently restricted net assets in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund;

As increases in temporarily restricted net assets for the portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets until those amounts are appropriated for expenditure; and

As increases in unrestricted net assets if the fair value of assets associated with individual donor restricted endowment funds fall below the level that either the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration and when appropriated for expenditure.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Foundation has been restricted by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

**Donor-Restricted Gifts**

Donor-restricted gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions, and related investment gains and losses, whose restrictions are fulfilled in the same time period are classified as restricted and released from restriction for use.

**Income Taxes**

Under provisions of Section 501(c)(3) of the IRC, the Foundation is exempt from federal income taxes, except for net income from unrelated business activities.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustments to the consolidated financial statements to comply with the provisions of this guidance.

**Fair Value Measurements and Disclosures**

Financial Accounting Standards Board *Accounting Standards Codification* 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

*Level 1:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

*Level 2:* Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements and Disclosures (Continued)**

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation methodologies used at June 30, 2016 and 2015.

**Functional Allocation of Expenses**

Costs of providing support to Eastern Washington University have been summarized on a functional basis on the consolidated statement of activities. Costs are allocated between program services, management and general and fundraising based on evaluations of the related activities. Management and general expenses include expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the organizations.

**Subsequent Events**

Subsequent events have been reviewed through October 31, 2016, which is the date the consolidated financial statements were available to be issued.

**NOTE 2 PROMISES TO GIVE**

Unconditional promises to give, net of allowance for uncollectible accounts, were as follows at June 30:

	<u>2016</u>	<u>2015</u>
Receivable in Less than One Year	\$ 184,680	\$ 205,017
Receivable in One to Five Years	214,195	194,420
Total	<u>398,875</u>	<u>399,437</u>
Less Allowance for Uncollectible Promises to Give	29,388	17,727
Less Discount on Promises to Give	894	154
Total	<u>\$ 368,593</u>	<u>\$ 381,556</u>



**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 3 INVESTMENTS**

Investments consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Fixed Income Mutual Funds	\$ 6,615,196	\$ 6,188,453
Equity Securities	142,250	162,312
Equity Mutual Funds	12,104,492	12,035,613
Short-Term Money Market Investments	51,679	264,854
Total	<u>\$ 18,913,617</u>	<u>\$ 18,651,232</u>

Investments are reported in the consolidated statements of financial position at June 30:

	<u>2016</u>	<u>2015</u>
Restricted for Endowments	\$ 18,738,529	\$ 18,451,993
Held in Charitable Trusts	175,088	199,239
Total	<u>\$ 18,913,617</u>	<u>\$ 18,651,232</u>

As a result of previous general market declines, endowments of colleges, universities, and other nonprofit organizations experienced negative investment returns and overall reductions in the value of their investment portfolios. This year the market continued its recovery however the market had a slight decline again in June. Because these portfolios are directly linked to the endowment funds, many endowed gifts that did have a market value that was below the “historic dollar value” (typically the fair market value at the time of the gift) creating what is referred to as an “underwater endowment” have now moved into a market value that is above the “historic dollar value” creating what is referred to as an “abovewater endowment.”

The current economic environment has contributed to the increase in the number of endowment funds and total dollar amounts by which the funds are abovewater. As of June 30, 2016, there were still 19 underwater endowment funds with a market value of \$61,269 less than the historic dollar values. This was an increase compared to June 30, 2015, when there were 19 underwater endowment funds with a market value of \$41,094 less than the historic dollar values. Contextually of the 19 underwater endowment funds, 7 funds allowed distributions while underwater per donor agreement hence will likely remain underwater for an extended period of time and 12 are underwater by less than \$6,000.

**NOTE 4 ENDOWMENT INVESTMENT SECURITIES**

The Foundation’s endowment consists of approximately 250 individual funds established for a variety of purposes. The Foundation includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments (quasi-endowments). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 4 ENDOWMENT INVESTMENT SECURITIES (CONTINUED)**

*Interpretation of relevant law – Washington Uniform Prudent Management of Institutional Funds Act (UPMIFA):*

The board of directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that either the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$61,269 and \$41,094 at June 30, 2016 and 2015, respectively, and appreciations of value reported in temporarily restricted net assets under UPMIFA were \$2,547,320 and \$3,145,347 at June 30, 2016 and 2015, respectively.

The deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Foundation. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 4    ENDOWMENT INVESTMENT SECURITIES (CONTINUED)**

**Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the investment committee of the Foundation, the endowment assets are invested in a manner that is intended to produce a relatively predictable and stable payout stream each year and maintain purchasing power of the assets over the investment horizon. The Foundation expects its endowment funds, over time, to provide an average real rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total-return strategy in which investment returns are achieved through both capital appreciation/depreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and how the Investment Objectives Relate to Spending Policy**

The Foundation's spending policy allows for the endowment funds to distribute 6% per year (4% for individual accounts and 2% for the management fee) computed quarterly based on the average market value for the 36 months preceding and including the quarter ended prior to the distribution date, adjusted for new gifts on the first day of the distribution quarter.

In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

The Foundation plans to utilize its current spending policy for fiscal year 2016.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 4 ENDOWMENT INVESTMENT SECURITIES (CONTINUED)**

Endowment net assets consisted of the following at June 30:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ (61,269)	\$ 2,547,320	\$ 15,929,885	\$ 18,415,936
Board-Designated Endowment Funds	67,529	-	-	67,529
Endowment Net Assets	<u>\$ 6,260</u>	<u>\$ 2,547,320</u>	<u>\$ 15,929,885</u>	<u>\$ 18,483,465</u>

  

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ (41,094)	\$ 3,145,347	\$ 14,829,228	\$ 17,933,481
Board-Designated Endowment Funds	69,921	-	-	69,921
Endowment Net Assets	<u>\$ 28,827</u>	<u>\$ 3,145,347</u>	<u>\$ 14,829,228</u>	<u>\$ 18,003,402</u>

Endowment net assets are comprised of cash and cash equivalents, investments, accrued investment income, an interfund receivable, and a noncash gift included in the collections of art in the statements of financial position.

Changes in endowment net assets were as follows for the years ended June 30:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	\$ 28,827	\$ 3,145,347	\$ 14,829,228	\$ 18,003,402
Contributions Received	-	-	1,010,412	1,010,412
Investment Return	(22,567)	(20,278)	-	(42,845)
Distributions to/for EWU	-	(577,749)	-	(577,749)
Reclassifications Made at the Request of the Donor	-	-	90,245	90,245
Endowment Net Assets	<u>\$ 6,260</u>	<u>\$ 2,547,320</u>	<u>\$ 15,929,885</u>	<u>\$ 18,483,465</u>

  

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	\$ 30,447	\$ 3,420,582	\$ 14,207,643	\$ 17,658,672
Contributions Received	-	-	381,694	381,694
Investment Return	(1,620)	313,655	-	312,035
Distributions to/for EWU	-	(588,890)	-	(588,890)
Reclassifications Made at the Request of the Donor	-	-	239,891	239,891
Endowment Net Assets	<u>\$ 28,827</u>	<u>\$ 3,145,347</u>	<u>\$ 14,829,228</u>	<u>\$ 18,003,402</u>

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 5 FAIR VALUE MEASUREMENTS**

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities refer to Note 1 – Summary of Significant Accounting Policies.

Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and their placement within the fair value hierarchy levels.

Investments are stated at fair value, which is determined by using market quotations and other information available at the valuation date.

Beneficial interest in perpetual trusts and contributions receivable from charitable trusts are stated at fair value, which is determined by using market quotations of the underlying investments at the valuation date.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables disclose by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis at June 30:

	2016			
	Level 1	Level 2	Level 3	Total
Short-Term Money				
Market Investments	\$ 51,679	\$ -	\$ -	\$ 51,679
Equity Securities	142,250	-	-	142,250
Equity Mutual Funds	12,104,492	-	-	12,104,492
Fixed Income Mutual Funds	6,615,196	-	-	6,615,196
Contributions Receivable				
from Charitable Trusts	-	-	374,673	374,673
Beneficial Interest in Perpetual Trusts	-	-	2,306,335	2,306,335
Total	<u>\$ 18,913,617</u>	<u>\$ -</u>	<u>\$ 2,681,008</u>	<u>\$ 21,594,625</u>

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)**

	2015			Total
	Level 1	Level 2	Level 3	
Short-Term Money				
Market Investments	\$ 264,854	\$ -	\$ -	\$ 264,854
Equity Securities	162,312	-	-	162,312
Equity Mutual Funds	12,035,613	-	-	12,035,613
Fixed Income Mutual Funds	6,188,453	-	-	6,188,453
Contributions Receivable				
from Charitable Trusts	-	-	369,078	369,078
Beneficial Interest in Perpetual Trusts	-	-	2,427,771	2,427,771
Total	<u>\$ 18,651,232</u>	<u>\$ -</u>	<u>\$ 2,796,849</u>	<u>\$ 21,448,081</u>

The following tables set forth a summary of changes in the fair value of beneficial interest in perpetual trusts and contributions receivable from charitable trusts, the Foundation's Level 3 assets at June 30:

	2016		
	Contributions Receivable from Charitable Trusts	Beneficial Interest in Perpetual Trusts	Total
Balance - Beginning of Year	\$ 369,078	\$ 2,427,771	\$ 2,796,849
Change in Value of Split-Interest Agreements	5,595	(121,436)	(115,841)
Balance - End of Year	<u>\$ 374,673</u>	<u>\$ 2,306,335</u>	<u>\$ 2,681,008</u>

	2015		
	Contributions Receivable from Charitable Trusts	Beneficial Interest in Perpetual Trusts	Total
Balance - Beginning of Year	\$ 377,810	\$ 2,505,199	\$ 2,883,009
Change in Value of Split-Interest Agreements	(8,732)	(77,428)	(86,160)
Balance - End of Year	<u>\$ 369,078</u>	<u>\$ 2,427,771</u>	<u>\$ 2,796,849</u>

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 6 ANNUITIES PAYABLE**

Annuities payable consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Annuity Payable in Quarterly Installments of 6% of the Fair Market Value of Donated Assets for the Life of the Donor	\$ 44,495	\$ 52,075
Annuity Payable in Quarterly Installments of 6% of the Fair Market Value of Donated Assets for the Life of the Donor	51,893	60,349
Total	<u>\$ 96,388</u>	<u>\$ 112,424</u>

**NOTE 7 SUPPORT PROVIDED BY THE UNIVERSITY**

The Foundation has an agreement with the University whereby the Foundation will 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 office space, furniture and equipment, supplies and related office expenses, and professional staff to operate the Foundation. The fair value of services received of \$1,066,737 and \$1,030,416 has been recorded in the consolidated financial statements of the Foundation for the fiscal years ended June 30, 2016 and 2015, respectively.

**NOTE 8 CAPITAL ASSETS**

The Foundation's capital assets included in other assets in the consolidated statements of financial position were as follows at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ -	\$ 35,250
Building	-	199,750
Furniture and Equipment	34,833	86,888
Collections of Works of Art	184,942	184,942
Total	<u>219,775</u>	<u>506,830</u>
Less Accumulated Depreciation for Building and Furniture and Equipment	34,833	143,948
Total	<u>\$ 184,942</u>	<u>\$ 362,882</u>

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 9 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets are restricted for the following purposes at June 30:

	2016	2015
Support Provided to/for the University	\$ 5,973,627	\$ 6,350,579
Eastern Washington University Alumni Association	140,470	114,013
For Periods After June 30, 2016 and 2015, Respectively	<u>308,575</u>	<u>71,368</u>
Total	<u>\$ 6,422,672</u>	<u>\$ 6,535,960</u>

Permanently restricted net assets are restricted for the following purposes at June 30:

	2016	2015
Endowment Net Assets	\$ 15,929,885	\$ 14,829,228
Endowment Pledges Receivable	90,277	163,526
Charitable Trusts Which the Final Distributions are to be Held in Perpetuity for Support Provided to/for the University	453,373	455,893
Beneficial Interest in Perpetual Trusts	<u>2,306,335</u>	<u>2,427,771</u>
Total	<u>\$ 18,779,870</u>	<u>\$ 17,876,418</u>

**NOTE 10 NET ASSETS RELEASED FROM RESTRICTIONS AND OTHER TRANSFERS**

During the years ended June 30, 2016 and 2015, the Foundation incurred various expenses in satisfaction of the restricted purposes specified by donors, or satisfied the restrictions by the occurrence of other events. Accordingly, during the years ended June 30, 2016 and 2015, corresponding net asset reclassifications have been recorded in the accompanying consolidated statements of activities, together with other transfers as described in the following tables:

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Support Provided to/for the University	\$ 3,446,256	\$ (3,410,251)	\$ (36,005)
Reclassifications Made Based on UPMIFA	(19,608)	19,608	-
Reclassification Made at the Request of Donors	5,831	(142,927)	137,096
Endowment Management Fees	450,630	(403,779)	(46,851)
Endowment Net Assets	<u>\$ 3,883,109</u>	<u>\$ (3,937,349)</u>	<u>\$ 54,240</u>



**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 10 NET ASSETS RELEASED FROM RESTRICTIONS AND OTHER TRANSFERS  
(CONTINUED)**

	2015		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Support Provided to/for the University	\$ 3,370,733	\$(3,358,513)	\$ (12,220)
Reclassifications Made Based on UPMIFA	(147,338)	(9,917)	157,255
Reclassification Made at the Request of Donors	(474)	(66,214)	66,688
Endowment Management Fees	336,642	(336,642)	-
Endowment Net Assets	<u>\$ 3,559,563</u>	<u>\$(3,771,286)</u>	<u>\$ 211,723</u>

Net assets were released from donor restrictions each year by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors such as funds designated for professorships and graduate fellowships.

**NOTE 11 GATEWAY PROJECT**

In May 2012, the Foundation's board of directors authorized a \$1,517,495 interfund loan at an industry competitive interest rate of 2.96% that allows the Foundation to complete the Gateway Project schematic design and feasibility services, purchase/install Roos Field video scoreboard, and purchase/install Reese Court video board. In September 2016, the Foundation's board of directors approved the AECOM proposal to commence an economic, program review and cost analysis review of the Gateway project in the amount of \$74,000. At the request of the University, the loan addition provides the Foundation the ability to increase supporting EWU (see Note 13 Commitments). The repayment mechanism for the loan remains the assigning of marketing rights for EWU Athletics to the University to the Foundation. Marketing revenue continues to be utilized for principal and interest payments. The interest revenue generated over the term of the loan is being utilized equally between unrestricted use and general scholarship use. Further, there is a secure line of credit with Washington Trust Bank in the unlikely event that access to funds is needed by the Foundation. This line of credit has yet to be accessed. As of June 30, 2016 and 2015, the interfund loan amount was \$1,282,937 and \$1,341,168, respectively, with the first scheduled payment completed on June 30, 2013. The interfund loan has been eliminated for presentation on the consolidated statements of financial position.

A secured line of credit was entered into with Washington Trust Bank on July 12, 2012, for \$1,500,000. In the unlikely event it is utilized, years 1 to 5 will have a fixed tax-exempt interest rate of 2.96% and years 6 to 10 will be the 5 year FHLB rate plus 2% with a floor of 4%. Among the terms of the note is a requirement to maintain minimum cash or cash equivalents equal to the outstanding commitment amount. Loan fees of \$7,500 were paid. As of June 30, 2016 and 2015, there was no outstanding commitment on the line of credit.

**EASTERN WASHINGTON UNIVERSITY FOUNDATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 12 COMMITMENTS**

On June 30, 2012, the Foundation entered into an agreement with KP Sports and Entertainment. KP Sports and Entertainment will represent the Foundation in a marketing and sales capacity to secure corporate sponsorships for the University's Intercollegiate Athletic Program (whose rights were granted to the Foundation by the University). This agreement shall be effective as of July 1, 2012, through the end of the athletic season of 2017-18. KP Sports and Entertainment will receive 25% credit of the total gross revenue sold until the expiration of the sponsorship contract, and they have guaranteed minimum net revenues to the Foundation ranging from \$155,000 to \$172,500 over the term of the contract. The Foundation will provide the University with an annual guaranteed payment of \$120,000 from the Foundation's 75% of the sponsorship revenue share each year.

On September 30, 2015 Learfield Sports acquired KP Sports and Entertainment LLC. The Foundation negotiated a new contract with Learfield Sports. This agreement shall be effective as of September 30, 2016 through June 30, 2026. Learfield Sports will pay EWU Foundation a guaranteed rights fee. This annual fee ranges from \$335,000 to \$510,000 throughout the term of the contract. They will also pay EWU Foundation 50% of the Adjusted Gross Revenue which exceeds the threshold amount that ranges from \$755,000 to \$1,095,000 throughout the term of the contract. The Foundation will continue to provide the University with an annual guaranteed payment of \$120,000 from the Foundation's portion of the guaranteed rights payment. The payments to the University will increase to \$125,000 in 2019 and \$150,000 in 2021 through 2026.