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**WADE KING STUDENT RECREATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2009 and 2008

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of Western Washington University's Wade King Student Recreation Center (the Recreation Center) for the years ended June 30, 2009, 2008 and 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

Presentation of the Financial Statements

The Recreation Center's financial reports include the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows.

The statements are formatted following the guidelines of the Governmental Accounting Standards Board (GASB) pronouncements. These financial statements are prepared in accordance with GASB principles, which establish standards for external financial reporting for public colleges and universities.

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

Statements of Net Assets

The Statements of Net Assets present the financial condition of the Recreation Center at the end of the fiscal year and report all assets and liabilities of the Recreation Center.

The amounts in these statements represent the assets available to continue the operations of the Recreation Center and identify the amount owed to vendors and other parties. The difference between total assets and total liabilities (net assets) is one indicator of the current financial condition of the Recreation Center.

Below is a condensed view of the Statements of Net Assets as of June 30, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Current assets	\$2,332,842	\$2,118,205	\$1,815,429
Noncurrent assets	1,535,872	1,326,602	1,194,643
Buildings and equipment, net	<u>23,709,251</u>	<u>24,397,281</u>	<u>25,083,324</u>
Total assets	27,577,965	27,842,088	28,093,396
Liabilities			
Current liabilities	1,144,252	1,146,196	1,042,186
Noncurrent liabilities	<u>24,504,476</u>	<u>25,066,445</u>	<u>25,608,015</u>
Total liabilities	25,648,728	26,212,641	26,650,201
Net Assets			
Invested in capital assets, net	(1,013,798)	(842,691)	(652,741)
Restricted for system renewal and replacements	1,133,510	860,265	631,284
Unrestricted	<u>1,809,525</u>	<u>1,611,873</u>	<u>1,464,652</u>
Total net assets	<u>\$1,929,237</u>	<u>\$1,629,447</u>	<u>\$1,443,195</u>

**WADE KING STUDENT RECREATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2009 and 2008

Current and noncurrent assets increased \$423,907 (12.3%) over fiscal 2008 and \$434,735 (14.4%) between fiscal 2008 and 2007 as cash, cash equivalents and investments increased due to increased operating cash flows. The buildings and equipment net balance decreased \$688,030 (2.8%) in 2009 compared to 2008 and \$686,043 (2.7%) in 2008 as compared to 2007 as the Recreation Center building continues to be depreciated with no significant additions.

Current liabilities remained relatively unchanged in fiscal 2009 and decreased \$1,944 from fiscal 2008. The fiscal 2008 increase of \$104,010 over fiscal 2007 was primarily due to the accrual of approximately \$60,000 to repair a gym floor damaged by flooding from a burst pipe. Noncurrent liabilities decreased \$561,969 (-2.2%) in 2009 compared to 2008 and \$541,570 (-2.1%) in 2008 compared to 2007 due to debt payments on the outstanding bonds for the Recreation Center building.

Overall net assets increased \$299,790 (18.4%) in 2009 compared to 2008 and \$186,252 (12.9%) in 2008 compared to 2007. Invested in capital assets, net of related debt continues to decrease as the Recreation Center facility is depreciated at a faster rate than the related debt is repaid. Assets restricted for system renewals and replacements increased over the two prior fiscal years as management contributes funds for this purpose according to the five year annual contribution plan required by the debt covenants. These funds are classified as restricted net assets on the Statements of Net Assets.

Statements of Revenues, Expenses, and Changes in Net Assets

The changes in total net assets, as presented on the Statements of Net Assets, are detailed in the activity presented in the Statements of Revenues, Expenses and Changes in Net Assets. The statements present the Recreation Center's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as operating or nonoperating.

In general, operating revenues are those received for providing goods and services to the members of the Recreation Center, primarily students. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues.

Nonoperating revenues are monies received for which goods and services are not provided such as investment and gift income. Under GASB reporting principles, investment income is classified as nonoperating revenue.

Following is a condensed version of the Statements of Revenues, Expenses and Changes in Net Assets for the fiscal years ended June 30, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 4,265,131	\$ 4,109,538	\$ 3,947,500
Operating expenses	(2,771,341)	(2,746,150)	(2,390,729)
Income from operations	1,493,790	1,363,388	1,556,771
Nonoperating revenues	137,059	189,479	172,794
Nonoperating expenses	(1,331,059)	(1,366,615)	(1,388,550)
Increase in net assets	299,790	186,252	341,015
Net assets, beginning of year	1,629,447	1,443,195	1,102,180
Net assets, end of year	<u>\$ 1,929,237</u>	<u>\$ 1,629,447</u>	<u>\$ 1,443,195</u>

***WADE KING STUDENT RECREATION CENTER
 MANAGEMENT'S DISCUSSION AND ANALYSIS***

June 30, 2009 and 2008

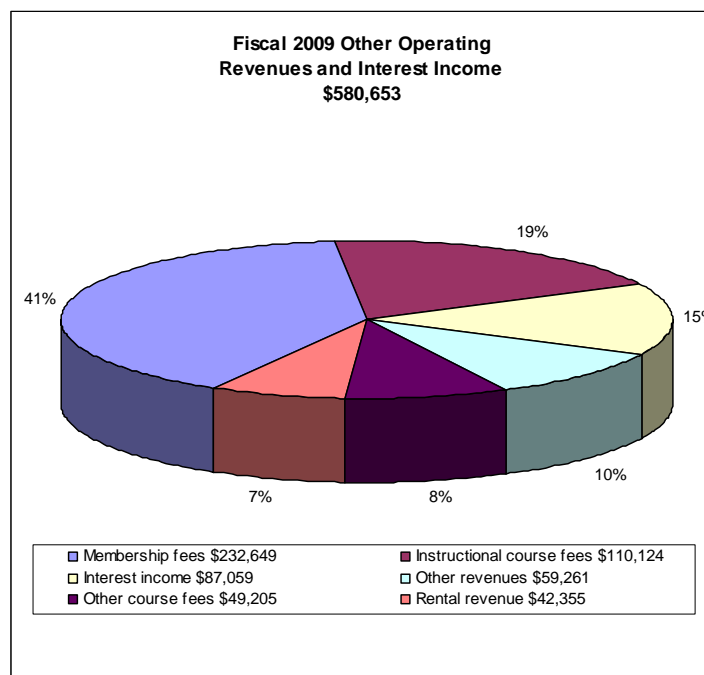
Revenues

The Recreation Center's largest source of revenue is a \$95 per quarter mandatory student fee for use of the facility for those students taking six or more credits. Other students, faculty, staff and alumni may pay the fee on a voluntary basis to gain access to the facility. The mandatory fee increased \$1 per year from \$94 in fiscal year 2008 and \$93 in fiscal year 2007. With increased enrollment consistent with the previous fiscal year, the student fee revenue for fiscal year 2009 was \$3,771,537, which was \$87,137 (2.4%) above fiscal year 2008. The increase in student fee revenue in fiscal year 2008 from fiscal 2007 was \$156,645 (4.4%).

All other operating and nonoperating revenues, excluding gift income, increased to \$580,653 in fiscal 2009 from \$564,617 in fiscal 2008 and \$542,489 in fiscal year 2007. The significant increase in other course fees can be attributed to summer camp revenue. This resulted in other course fees rising to \$49,205 in fiscal 2009 from \$2,069 in fiscal year 2008. Staff, faculty and alumni membership fees experienced the best performance in three years; increasing to \$232,649 (16.7%) in fiscal 2009 from \$199,324 (5.4%) in fiscal 2008 and from \$189,062 in fiscal year 2007. The increase each year results from increased mandatory fees and higher numbers of individuals purchasing memberships.

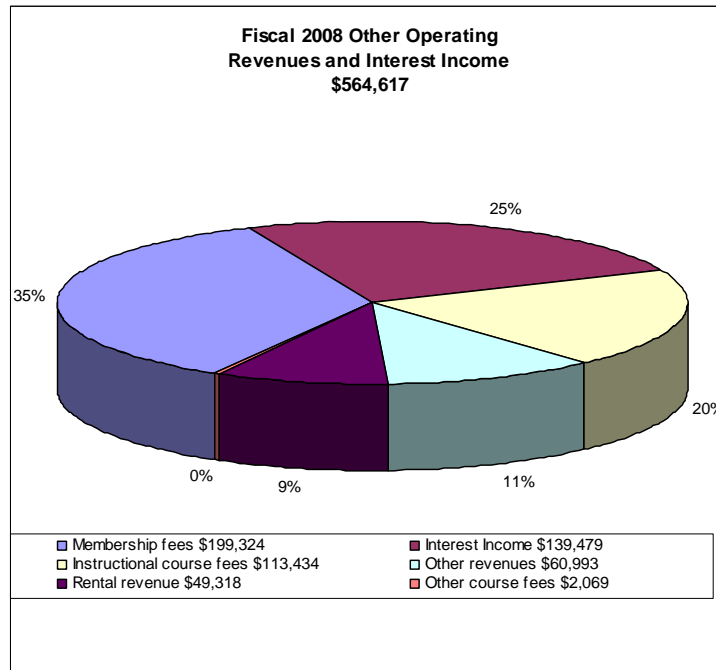
Investment income decreased significantly, declining 37.6% to \$87,059 in fiscal 2009 from \$139,479 in fiscal year 2008. Although there were significant transfers into these interest bearing accounts at the end of fiscal year 2008, low interest rates account for the lowest return on investments in three fiscal years. Investment income increased \$16,735 comparing fiscal 2008 to fiscal 2007 due to higher balances of cash and investments held by the Recreation Center.

Locker rentals, facility rentals, and retail sales decreased from the previous fiscal year, due to the economic downturn resulting in less spending by patrons on services and supplemental items at the Recreation Center. Rental revenue decreased 14.1% to \$42,355 in 2009 from \$49,318 in 2008 and \$52,294 in 2007.



***WADE KING STUDENT RECREATION CENTER
 MANAGEMENT'S DISCUSSION AND ANALYSIS***

June 30, 2009 and 2008



Expenses

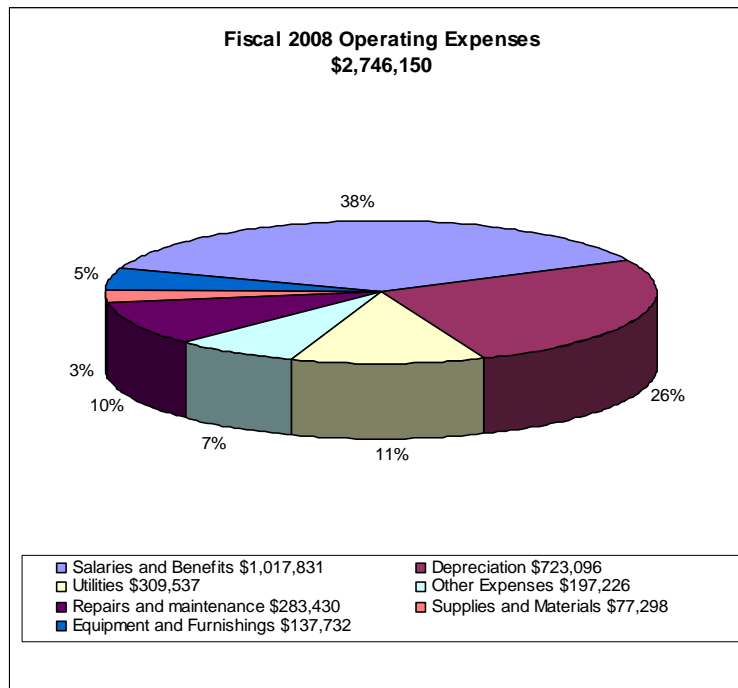
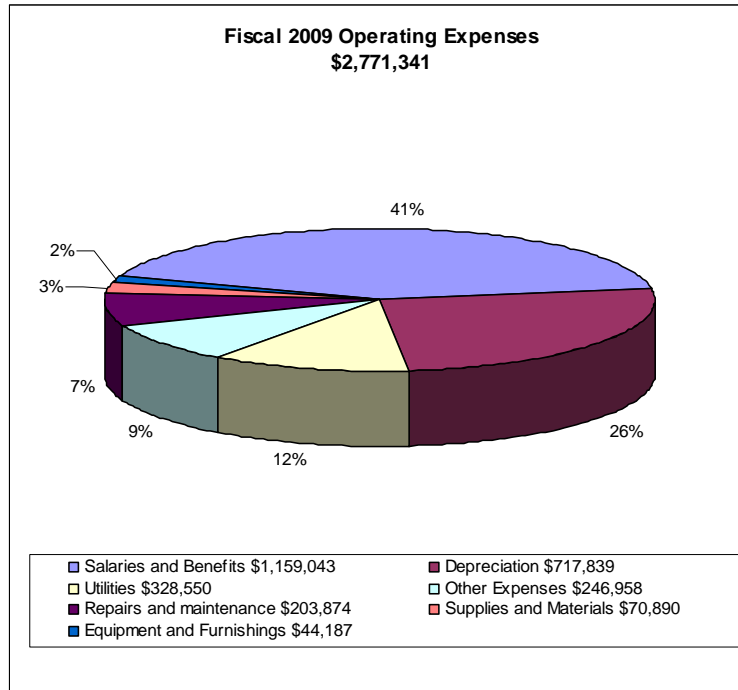
The largest category of expenses for the Recreation Center is student and professional salaries and benefits with depreciation being the second largest expense. Salaries and benefits comprised 41.8% of the total operating expenses in 2009 compared to 37.1% in fiscal year 2008 and 36.0% in fiscal year 2007. The amount increased by \$141,212 (13.9%) during fiscal 2009 from \$1,017,831 in 2008 due to additional student positions and financial support of other administrative positions in the Division of Student Affairs that oversee auxiliary operations. These expenses were \$861,774 in 2007 when there were vacant positions.

A reevaluation of the University's administrative services assessment fee was performed by the University that resulted in a 26.4% increase to \$123,791 in fiscal 2009 from \$97,948 in fiscal 2008 and a 188.0% increase from \$34,014 in fiscal 2007. This expenditure is reported under other expenses in the charts on the next page.

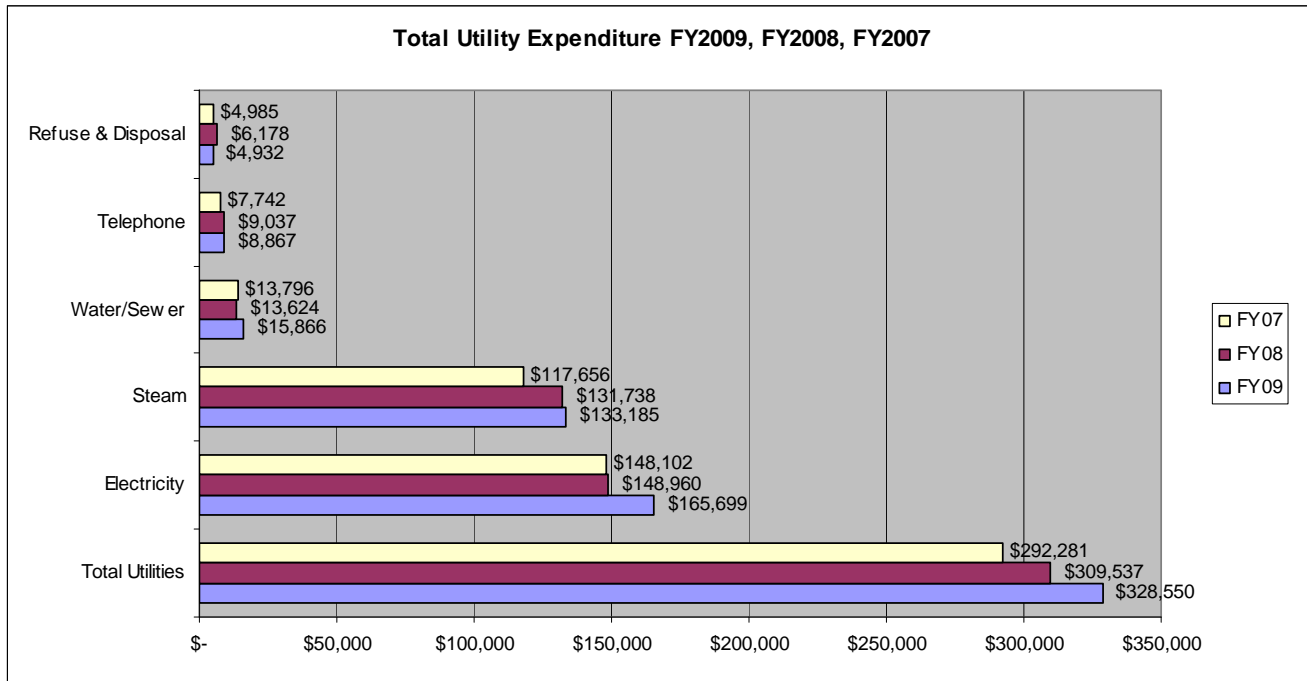
The University imposed an equipment and travel freeze to achieve savings in anticipation of state-wide budget reductions. Due to the severity of this freeze and limit of these purchases, equipment and furnishings expenses were significantly lower. Expenditures on equipment and furnishings decreased \$93,545 (67.9%) comparing 2009 to 2008 and increased \$28,334 (25.9%) in 2008 compared to 2007. The Recreation Center incurred no significant repairs during fiscal 2009 causing a decrease of \$79,556 from fiscal 2008. An increase of \$75,730 comparing fiscal 2008 to 2007 resulted from repairs to the gym floor as a result of flooding from a broken pipe.

***WADE KING STUDENT RECREATION CENTER
 MANAGEMENT'S DISCUSSION AND ANALYSIS***

June 30, 2009 and 2008



Utility expense for the year was \$328,550, a steady increase of \$19,013 (6.1%) over fiscal 2008. Fiscal 2008 utility expense was \$17,256 greater (5.9%) than in 2007; a consistent increase year to year.



Reserve Funds

- Bond Covenants require an annual addition to the Housing and Dining System (the System) renewal and replacement (R&R) reserve based on management’s assessment of the funding level necessary to maintain the facility over the long term. The initial five year requirement was for fund transfers of \$100,000 in 2004, \$150,000 in each of 2005 and 2006, and \$200,000 in 2007 and 2008. All of the transfers were made as planned including an additional \$190,000 amount in fiscal 2004. Management confirmed the Facilities Management lifecycle maintenance plan and increased the contribution accordingly for the next five year period beginning in fiscal 2009 to \$250,000 per year. At June 30, 2009, the R&R balance was \$1,360,846. Of this balance, \$1,133,510 is restricted with the remainder unrestricted.
- An Operating Reserve was established in fiscal 2005 by management for unforeseen or extraordinary expenses, and was utilized in 2007 to address increased equipment replacement costs as a result of higher student utilization than initially projected. Campus Recreation has since been able to budget for that higher level of equipment replacement from its annual operating budget so the reserve acts as an emergency fund for unpredictable repairs, insurance deductible levels, as well as the general volatility of this type of operation. The funds could also be designated for facility improvements beyond basic maintenance. Contributions to this fund in the past three years include \$125,000 in fiscal 2009 and \$300,000 in both fiscal 2008 and 2007. At June 30, 2009, the operating reserve balance was \$1,565,417. These assets are reported as unrestricted on the Statements of Net Assets.
- The King family commitment of \$50,000 per year in memory of their son Wade now totals \$300,000 after six years. This reserve fund is dedicated to maintaining the quality of the facility and its programs and supports students directly as well. A portion of the donations have been used for youth programming scholarships and certain equipment upgrades. The available balance at June 30, 2009 was \$211,315. These assets are reported as unrestricted on the Statements of Net Assets.

**WADE KING STUDENT RECREATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS*****June 30, 2009 and 2008*****Ratio Analysis**

Ratios can be helpful in evaluating the Recreation Center's financial health and performance. The debt coverage ratios for 2009, 2008 and 2007 were 2.35, 2.31 and 2.21, respectively. This ratio is calculated by dividing total operating revenues and investment income by the annual debt service on the outstanding revenue bonds.

Utilization Rates

Student utilization rates are remaining high with 11,997 (90.6%) of 13,240 enrolled students using the facility during the course of the year. Visits by members and non-members totaled 435,987 during fiscal year 2009 with the highest number of visits exceeding 3,400 in a given day.

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Independent Auditors' Report

The Board of Trustees
Western Washington University:

We have audited the accompanying statements of net assets of Western Washington University Wade King Student Recreation Center (the Recreation Center) as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Recreation Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Recreation Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Recreation Center are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the activities of Western Washington University that is attributable to the transactions of the Recreation Center. They do not purport to, and do not, present fairly the financial position of Western Washington University, as of June 30, 2009 and 2008, the changes in its financial position, or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Recreation Center as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

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**WADE KING STUDENT RECREATION CENTER
 STATEMENTS OF NET ASSETS**
June 30, 2009 and 2008

Assets	2009	2008
Current assets		
Cash and cash equivalents (Note 2)	\$976,513	\$655,495
Investments (Note 2)	1,067,854	1,216,266
Accounts receivable, net of allowance of \$4,711 in 2009 and \$4,708 in 2008	74,456	78,693
Receivable from Western Washington University Foundation	211,315	163,568
Inventory	<u>2,704</u>	<u>4,183</u>
Total current assets	<u>2,332,842</u>	<u>2,118,205</u>
Noncurrent assets		
Investments (Note 2)	35,935	74,864
Restricted investments (Note 2)	1,133,510	860,265
Other assets (Note 1)	366,427	391,473
Building and equipment, net (Note 3)	<u>23,709,251</u>	<u>24,397,281</u>
Total noncurrent assets	<u>25,245,123</u>	<u>25,723,883</u>
Total assets	<u>27,577,965</u>	<u>27,842,088</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	15,915	86,558
Accrued wages and benefits	119,953	94,510
Deferred revenue	214,926	187,903
Interest payable	208,458	212,225
Current portion of bonds payable (Note 4)	<u>585,000</u>	<u>565,000</u>
Total current liabilities	<u>1,144,252</u>	<u>1,146,196</u>
Noncurrent liabilities		
Bonds payable, less current portion (Note 4)	<u>24,504,476</u>	<u>25,066,445</u>
Total liabilities	<u>25,648,728</u>	<u>26,212,641</u>
Net Assets		
Invested in building and equipment, net of related debt	(1,013,798)	(842,691)
Restricted for system renewals and replacements	1,133,510	860,265
Unrestricted	<u>1,809,525</u>	<u>1,611,873</u>
Total net assets	<u>\$1,929,237</u>	<u>\$1,629,447</u>

WADE KING STUDENT RECREATION CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS **June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Service and activity fees, net of mandatory transfer	\$3,771,537	\$3,684,400
Staff, faculty and alumni membership fees	232,649	199,324
Instructional course fees	110,124	113,434
Other course fees	49,205	2,069
Rental revenue	42,355	49,318
Other revenues	59,261	60,993
Total operating revenues	<u>4,265,131</u>	<u>4,109,538</u>
Operating Expenses		
Salaries and benefits	1,159,043	1,017,831
Depreciation	717,839	723,096
Utilities	328,550	309,537
Repairs and maintenance	203,874	283,430
Equipment and furnishings	44,187	137,732
Supplies and materials	70,890	77,298
Administrative assessment	123,791	97,948
Insurance	28,626	21,759
Other	94,541	77,519
Total operating expenses	<u>2,771,341</u>	<u>2,746,150</u>
Income from operations	1,493,790	1,363,388
Nonoperating Revenues (Expenses)		
Investment income	87,059	139,479
Gift income	50,000	50,000
Interest expense	(1,269,583)	(1,291,517)
Amortization of bond discounts and costs	(48,684)	(49,514)
Parberry Fitness Center support	(12,792)	(25,584)
Total nonoperating expenses	<u>75,583</u>	<u>(1,177,136)</u>
Increase in net assets	1,569,373	186,252
Net Assets, Beginning of Year	<u>1,629,447</u>	<u>1,443,195</u>
Net Assets, End of Year	<u><u>\$3,198,820</u></u>	<u><u>\$1,629,447</u></u>

**WADE KING STUDENT RECREATION CENTER
 STATEMENTS OF CASH FLOWS**
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Cash received from students and other customers	\$4,296,391	\$4,107,498
Payments to employees	(1,133,600)	(1,001,814)
Payments to suppliers	<u>(963,623)</u>	<u>(931,915)</u>
Net cash flows provided by operating activities	2,199,168	2,173,769
Cash Flows from Noncapital Financing Activities		
Gift income	2,253	68,150
Transfer to Parberry Fitness Center	<u>(12,792)</u>	<u>(25,584)</u>
Net cash flows (used in) provided by noncapital financing activities	(10,539)	42,566
Cash Flows from Investing Activities		
Net purchases of investments in internal pool	(85,904)	(483,663)
Investment income received	<u>87,059</u>	<u>139,479</u>
Net cash flows provided by (used in) investing activities	1,155	(344,184)
Cash Flows from Capital and Related Financing Activities		
Purchases of equipment	(29,809)	(37,053)
Interest paid on capital debt	(1,273,957)	(1,295,757)
Principal paid on capital debt	<u>(565,000)</u>	<u>(545,000)</u>
Net cash used in capital and related financing	<u>(1,868,766)</u>	<u>(1,877,810)</u>
Net increase (decrease) in cash and cash equivalents	321,018	(5,659)
Cash and cash equivalents, beginning of year	<u>655,495</u>	<u>661,154</u>
Cash and cash equivalents, end of year	<u><u>976,513</u></u>	<u><u>655,495</u></u>
Reconciliation of Operating Income to Net Cash Provided to Operating Activities		
Income from operations	1,493,790	1,363,388
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation	717,839	723,096
Change in operating assets and liabilities		
Accounts receivable	4,237	(348)
Accounts payable, accrued expenses, salaries and benefits	(45,200)	89,334
Deferred revenue	27,023	(1,691)
Inventory	1,479	(10)
Net cash flows provided by operating activities	<u><u>\$2,199,168</u></u>	<u><u>\$2,173,769</u></u>

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***WADE KING STUDENT RECREATION CENTER
NOTES TO THE FINANCIAL STATEMENTS******June 30, 2009 and 2008*****NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**Organization

The Western Washington University Wade King Student Recreation Center (the Recreation Center) is a self-supporting, auxiliary enterprise of Western Washington University (WWU). The Recreation Center is an open recreation fitness and wellness facility for the benefit of eligible students and associated members of the University. The facility includes a lap/leisure pool and a whirlpool, a three-court gym with elevated running track, a multi-activity court, a rock climbing wall, weight and cardio areas, two group exercise/aerobic rooms, locker rooms, a wellness resource room, therapeutic massage room, a retail food service and lounge area, a conference room, and administrative offices for the Department of Campus Recreation. The Recreation Center is located on the University campus and is supported by a service and activity fee assessed to students quarterly. In addition, memberships are available for purchase by faculty/staff, alumni, and others closely associated with the University. Faculty and staff members may use the Parberry Fitness Center in addition to the Recreation Center when a membership is purchased.

The Recreation Center supports the facility and equipment upgrades to the Parberry Fitness Center. Other revenues come from operating activities such as course fees and locker and facility rentals.

The facility was named in memory of Wade King, a 10-year old who died in 1999 in a pipeline explosion in Bellingham. His parents, Frank and Mary King, pledged a lifetime gift of \$50,000 per year to the Western Washington University Foundation, a related party, restricted for support to ensure continued quality facilities and programs at the Recreation Center. The Recreation Center draws funds from the Western Washington University Foundation when expenditures are incurred.

Financial Statement Presentation

The financial statements are presented in accordance with generally accepted accounting principles and follow the guidance given by the Governmental Accounting Standards Board (GASB). These statements are special purpose reports reflecting the net assets, results of operations and cash flows of the Recreation Center. These statements present only a selected portion of the activities of the University. As such, they are not intended to and do not present either the financial position, results of operations, or changes in net assets of WWU.

Basis of Accounting

The Recreational Center's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The Recreation Center has elected not to apply any FASB pronouncements after November 30, 1989.

Cash, Cash Equivalents and Investments

WWU records all cash and cash equivalents at amortized cost, which approximates fair value. Investments held by WWU are recorded at fair value. To maximize investment income, WWU combines funds from all departments into an investment pool. The Recreation Center records their share of cash, cash equivalents and investments in the same relation as the WWU investment pool itself. Investment income is allocated to the Recreation Center in proportion to its average balance in the investment pool.

Inventory

Inventory consists primarily of athletic and other supplies. Inventory is stated at the lower of cost (first-in, first-out method) or market.

WADE KING STUDENT RECREATION CENTER
NOTES TO THE FINANCIAL STATEMENTS**June 30, 2009 and 2008****Accounts Receivable**

Receivables are recorded at their principal balances and are due primarily from the University students. The Recreation Center considers all accounts greater than 30 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is written off against the allowance. Management determined that an allowance of \$4,711 and \$4,708 at June 30, 2009 and 2008 respectively, is adequate.

Building and Equipment, Net

The building used for the Recreation Center's operations is located on the University's property. Building and equipment are stated at cost, net of accumulated depreciation. The Recreation Center capitalizes any expenditure for buildings, improvements, and equipment that have a cost of at least \$5,000 and an estimated useful life of more than one year. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets, forty years for buildings and five to seven years for equipment.

Deferred Revenue

Summer quarter, which is the first quarter of WWU's fiscal year, begins shortly before June 30. The majority of cash received for service and activity fees related to summer session in fiscal year 2009 are deferred until the following fiscal year.

Net Assets

The Recreation Center's net assets are classified as follows:

Invested in building and equipment, net of related debt. This represents the Recreation Center's total investment in capital assets, net of outstanding debt obligations related to those capital assets. The deficit in net assets relates to depreciation expense exceeding the principal reduction on the outstanding bonds.

Restricted for system renewals and replacements. Restricted net assets represent resources restricted in accordance with bond covenants for system renewals and replacements.

Unrestricted net assets. Unrestricted net assets represent resources derived from operations and investing activities along with operating reserves established for future replacement of assets.

Classification of Revenues and Expenses

The Recreation Center has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenue includes activities that have the characteristics of exchange transactions, such as service and activity fees charged to students, staff, faculty, and alumni membership fees, and instructional course fees. Operating expenses are those costs incurred in daily operations, such as salaries, utilities, and depreciation.

Nonoperating revenue includes activities that have the characteristics of non-exchange transactions, such as investment and gift income. Nonoperating expenses include costs related to financing or investing activities such as interest on indebtedness.

Service and Activity Fees, net of mandatory transfer

Per Revised Code of Washington Section 28B.15.820, WWU is required to transfer a minimum of 3.5% of revenues collected from tuition and services and activities fees in an institutional financial aid fund.

This fund is only to be used to fund short or long term loans and grants to students in need. Service and activity fee revenue is reported net of this transfer.

***WADE KING STUDENT RECREATION CENTER
 NOTES TO THE FINANCIAL STATEMENTS***

June 30, 2009 and 2008

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. The remaining balances of bond discounts are presented as a reduction of the face amount of bonds payable. The bond issuance costs are shown as other assets on the Statements of Net Assets.

Administrative Assessment

WWU provides support to the Recreation Center through cash management, accounting, purchasing and disbursing services, risk management, and other support services. The effects of these transactions are included as operating expenditures in these financial statements. The amount paid was \$123,791 and \$97,948 for fiscal years ended June 30, 2009 and 2008, respectively.

Tax Exemptions

WWU, and the Recreation Center as an auxiliary enterprise, is a tax-exempt instrumentality of the State of Washington under Section 115(a) of the Internal Revenue Code and is exempt from federal taxes on related income.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Interest Rate and Credit Risk

The WWU investment pool is invested in demand deposits, time certificates of deposit, and the Washington State Local Government Investment Pool (LGIP). The LGIP is considered a cash equivalent.

	June 30, 2009	Weighted Average Maturity	June 30, 2008	Weighted Average Maturity
Cash and Cash Equivalents				
WWU Investment Pool	\$ 976,513	n/a	\$ 655,495	n/a
Investments				
WWU Investment Pool	<u>2,237,299</u>	6.1 months	<u>2,151,395</u>	5.7 months
	<u>\$ 3,213,812</u>		<u>\$ 2,806,890</u>	

WWU manages exposure to fair value losses by employing a “laddered maturity” strategy, in which investments mature at varying times throughout the year. In accordance with the University’s Investment Policy, no investment maturity exceeds five years.

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WWU's pooled investment with the LGIP is invested in high-quality, short-term investments. Investments in the LGIP are restricted to securities that mature in 397 days or less, and the portfolio maintains a weighted average maturity of 90 days or less. Restricted investments are restricted for renewals and replacements and held in the University's investment pool.

NOTE 3. BUILDING AND EQUIPMENT, NET

The depreciation expense for the fiscal years ended June 30, 2009 and 2008 was \$717,839 and \$723,096, respectively.

Following are the changes in building and equipment for the year ended June 30, 2009 and 2008:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2009</u>
Building	\$ 27,687,761	\$ -	\$ -	\$ 27,687,761
Equipment	<u>183,092</u>	<u>29,809</u>	<u>-</u>	<u>212,901</u>
	27,870,853	29,809	-	27,900,662
Less accumulated depreciation	<u>(3,473,572)</u>	<u>(717,839)</u>	<u>-</u>	<u>(4,191,411)</u>
Building and equipment, net	<u>\$ 24,397,281</u>	<u>\$ (688,030)</u>	<u>\$ -</u>	<u>\$ 23,709,251</u>

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Building	\$ 27,687,761	\$ -	\$ -	\$ 27,687,761
Equipment	<u>146,039</u>	<u>37,053</u>	<u>-</u>	<u>183,092</u>
	27,833,800	37,053	-	27,870,853
Less accumulated depreciation	<u>(2,750,476)</u>	<u>(723,096)</u>	<u>-</u>	<u>(3,473,572)</u>
Building and equipment, net	<u>\$ 25,083,324</u>	<u>\$ (686,043)</u>	<u>\$ -</u>	<u>\$ 24,397,281</u>

NOTE 4. BONDS PAYABLE

The Recreation Center issued the Revenue Bonds Series, 2002, in February 2002. The bonds bear interest at rates of 4% to 5% and mature serially until 2033. The bonds have an aggregate face amount of \$25,435,000 and \$26,000,000 at June 30, 2009 and 2008, which is reported net of the unamortized original issue discount and a loss on defeasance of \$345,524 and \$368,555, respectively.

On May 1, 2004, the Recreation Center defeased \$1,190,000 of the 2002 Revenue Bonds that were uncommitted due to lower than anticipated construction costs. Of these funds, \$191,000 was used toward the May 1, 2004, interest payment with the remaining \$999,000 placed in an escrow account to purchase United States Treasury securities used to defease \$945,000 of the bonds and pay related costs of \$54,000. Management expects the defeasance will provide a savings of approximately \$2.3 million in debt service over the life of the bonds. WWU incurred an accounting loss of \$74,795 as a result of the defeasance. This loss is being amortized over the remaining life of the bonds.

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Aggregate maturities or payments required for principal and interest under bond obligations for each of the succeeding five fiscal years and thereafter are as follows:

	Principal	Interest	Payment
2010	\$ 585,000	\$ 1,250,750	\$ 1,835,750
2011	615,000	1,225,888	1,840,888
2012	640,000	1,199,750	1,839,750
2013	670,000	1,172,230	1,842,230
2014	700,000	1,142,750	1,842,750
2015-2019	4,025,000	5,173,750	9,198,750
2020-2024	5,130,000	4,062,000	9,192,000
2025-2029	6,550,000	2,644,250	9,194,250
2030-2033	6,520,000	834,500	7,354,500
	<u>\$ 25,435,000</u>	<u>\$ 18,705,868</u>	<u>\$ 44,140,868</u>
Less unamortized discount	(288,208)		
Less unamortized loss on defeasance	(57,316)		
Total	<u>\$ 25,089,476</u>		

Following are the changes in bonds payable:

	Beginning Balance	Amortization of Bond Discount	Retirements	Ending Balance	Current Portion
As of June 30, 2009					
Series 2002 Revenue Bonds, net of unamortized original issue discount and loss on defeasance of \$345,524 and \$368,555 at June 30, 2009 and 2008, respectively	<u>\$25,631,445</u>	<u>\$23,031</u>	<u>(\$565,000)</u>	<u>\$25,089,476</u>	<u>\$585,000</u>
As of June 30, 2008					
Series 2002 Revenue Bonds, net of unamortized bond costs of \$368,555 and \$391,986 at June 30, 2008 and 2007, respectively	<u>\$26,153,014</u>	<u>\$23,431</u>	<u>(\$545,000)</u>	<u>\$25,631,445</u>	<u>\$565,000</u>

In accordance with resolutions of the Board of Trustees, WWU sold the Recreation Center Bonds to investors who have a first lien on, and are to be paid solely from the gross revenue from the operation of the Recreation Center.

The amounts and limitations of this pledge are set forth in the resolutions of the Board of Trustees. Pursuant to

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the 2002 Series Resolution, the Recreation Center purchased a surety bond as a substitute for the debt service reserve account requirements. The surety bond guarantees payment of the bonds in the event net revenues from operations are not sufficient to meet required payments. The bond covenants also require that the Recreation Center transfer monies each year to an account held as restricted net assets for renewals and replacements of the facilities.

NOTE 5. PENSION PLAN

Recreation Center employees in eligible positions are participants in the State of Washington Public Employees' Retirement System (PERS) and the Western Washington University Retirement Plan (WWURP).

WWU contributes to PERS, a cost sharing multiple-employer defined benefit pension plan administered by the State of Washington Retirement System.

PERS I provides retirement and disability benefits, and minimum benefit increases beginning at age 66 to eligible non-academic plan members hired prior to October 1, 1977. PERS II and III provide retirement and disability benefits, and a cost-of-living allowance to non-academic plan members hired on or after October 1, 1977. In addition, PERS III has a defined contribution component, which is fully funded by employee contributions. PERS defined benefit plan benefits are vested after an employee completes five years of service.

The Washington State Legislature establishes or amends benefit provisions for PERS. Additional information concerning plan descriptions and benefit provisions is included in the Comprehensive Annual Financial Report publicly available from the Washington State Department of Retirement System, P. O. Box 48380, Olympia, WA 98504.

WWURP is a defined contribution pension plan with a supplemental payment, when required. The plan covers faculty, professional staff, and certain other employees. It is administered by WWU. WWU's Board of Trustees is authorized to establish and amend benefit provision.

Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have a 100% vested interest in their contributions at all times. The supplemental payment plan determines a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. WWU makes direct payments to qualified retirees when the retirement benefit provided by the fund sponsor does not meet the benefit goal.

Employee contribution rates, which are based on age, range from 5% to 10% of salary. WWU matches the contributions. All required employer and employee contributions have been made. The Recreation Center contributed approximately \$38,708 and \$23,752 to these plans in 2009 and 2008, respectively. Actuarial valuations of the plans for the Recreation Center as a stand-alone entity are not available.

NOTE 6. OTHER POST EMPLOYMENT BENEFITS

During the 2008 fiscal year, WWU adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expenditures and related liabilities (assets), note disclosures, and required supplementary information in the financial reports of state and local governmental employers. Statement No. 45 requires systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service. The Statement also provides information about actuarial accrued liabilities (AAL)

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associated with OPEB and whether and to what extent progress is being made in funding the plan.

WWU funds OPEB obligations at a University-wide level on a pay-as-you-go basis. Disclosure information, as required under GASB 45, does not exist at department levels, and as a result, the AAL is not available for auxiliary entities. WWU is ultimately responsible for the obligation; therefore the annual required contribution is not recorded on the Recreation Center's financial statements.