

HOUSING AND DINING SYSTEM**Table of Contents**

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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 Housing and Dining System (the System) for the years ended June 30, 2010, 2009 and 2008. 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 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 System's financial statements have been prepared using 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 System at the end of the fiscal years and report all assets and liabilities of the System.

The amounts in these statements represent the physical assets used to provide the housing, meal, and student activity programs, as well as assets available to continue the operations of the System, also identifying commitments to vendors and bond holders. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the System.

Below is a condensed view of the Statements of Net Assets as of June 30, 2010, 2009 and 2008:

(Dollars in Thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current Assets	\$12,231	\$9,589	\$12,939
Noncurrent assets	9,429	17,808	3,995
Capital assets, net	84,070	75,741	72,739
Total assets	<u>105,730</u>	<u>103,138</u>	<u>89,673</u>
Liabilities			
Current liabilities	7,966	6,319	7,708
Noncurrent liabilities	54,474	56,901	44,661
Total liabilities	<u>62,440</u>	<u>63,220</u>	<u>52,369</u>
Net Assets			
Invested in capital assets, net of related debt	33,060	30,928	25,943
Restricted, expendable	3,118	3,033	2,900
Unrestricted	7,111	5,957	8,461
Total net assets	<u>\$43,290</u>	<u>\$39,918</u>	<u>\$37,304</u>

Current assets increased \$2,641,970 (27.6%) in fiscal 2010 from fiscal 2009 primarily influenced by the reallocation of cash and cash equivalents based on the investment mix of Western. Additional funds were held in cash and cash equivalents due to low interest rates. Current assets decreased \$3,349,522 (-25.9%) in fiscal

**HOUSING AND DINING SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS*****June 30, 2010 and 2009***

2009 from fiscal 2008 primarily due to the planned spending of cash on renovations. Total assets increased \$2,591,263 (2.5%) from fiscal 2009 influenced by the expenditure of bond proceeds and the addition of capital assets. In fiscal 2009, total assets increased \$13,465,651 (15.0%) over fiscal 2008 due to the addition of capital assets relating to the Buchanan Towers remodel adding 100 beds and the addition of capital projects as listed in the supplemental section.

Noncurrent assets decreased \$8,379,129 (-47.1%) over fiscal 2009 due to the spending of bond proceeds on the Buchanan Towers remodel and the investing of more funds in cash and cash equivalents. Noncurrent assets increased \$13,812,684 (345.7%) over fiscal 2008 due to the issuance of \$14,280,000 in bonds on June 30, 2009.

Capital assets increased \$8,328,422 (11.0%) between fiscal 2010 and fiscal 2009 and \$3,002,489 (4.1%) between fiscal 2009 and fiscal 2008, primarily due to completed buildings and additional construction in progress in both years.

Major projects completed during fiscal 2010 include fire sprinkler installation (Phase 2) in the Fairhaven residential complex, the commencement of the Buchanan Towers sprinkler addition and the renovation of three retail dining venues. Major projects completed in fiscal 2009 included Gamma Hall sprinkler installation, Phase 1 of the Fairhaven sprinkler installation, and Edens North seismic upgrade. The planning and revenue bond sale for the new residence hall project at Buchanan Towers occurred in fiscal 2009.

Current liabilities increased by \$1,646,462 (26.1%) in fiscal 2010 primarily due to the receipt of contractor invoices for capital projects that was accrued at June 30, 2010. The decrease of \$1,389,292 (-18.0%) between fiscal 2009 and fiscal 2008 was primarily due to a decrease in invoices payable and deferred revenue. Long term liabilities decreased \$2,426,701 (-4.3%) in fiscal 2010 due to scheduled principal payments made on outstanding debt. The increase between fiscal 2009 and fiscal 2008 of \$12,240,289 (27.4%) is due to the June 2009 revenue bond sale offset by scheduled principal payments made on outstanding debt.

Total net assets increased \$3,371,502 (8.4%) when compared to fiscal 2009. This is a direct result of unrestricted net assets increasing \$1,153,863 (19.47%). This increase is largely due to a reduction in operating expenses offset by an increase in nonoperating expenses related to interest payments on the June 2009 bond issue. Invested in capital assets, net of related debt increased by \$2,132,405 (6.9%) due to the capitalization of renovation expenses related to the Buchanan Towers residence facility, reduced by principal payments on outstanding bond issues and the spending of the June 2009 bond proceeds. The increase in net assets of \$2,614,654 (7.0%) between fiscal 2009 and fiscal 2008 was primarily due to the capitalization of in-process and completed projects undertaken by the System.

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 System'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 housing, dining and related services to the customers of the System, the majority of which consists of room and board services to students. Operating expenses are those expenses paid to provide the services and resources to the students in return for the operating revenues.

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 MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2010 and 2009

Nonoperating revenues are monies received for which goods and services are not provided, such as investment income. Non operating expenses include interest expense on outstanding debt and amortization of bond costs. Total operating revenue remained fairly stable overall in spite of an increase to the room and board rate for fiscal 2010. Changes were made in how food service revenues and expenses are recorded, resulting in decreased revenue offset by a decrease in associated expense. This change has Sodexo being paid directly for food and catering services rather than the expenses running through the Housing and Dining System.

Following is a condensed view of the Statements of Revenues, Expenses and Changes in Net Assets for the fiscal years ended June 30, 2010, 2009 and 2008:

(Dollars in thousands)

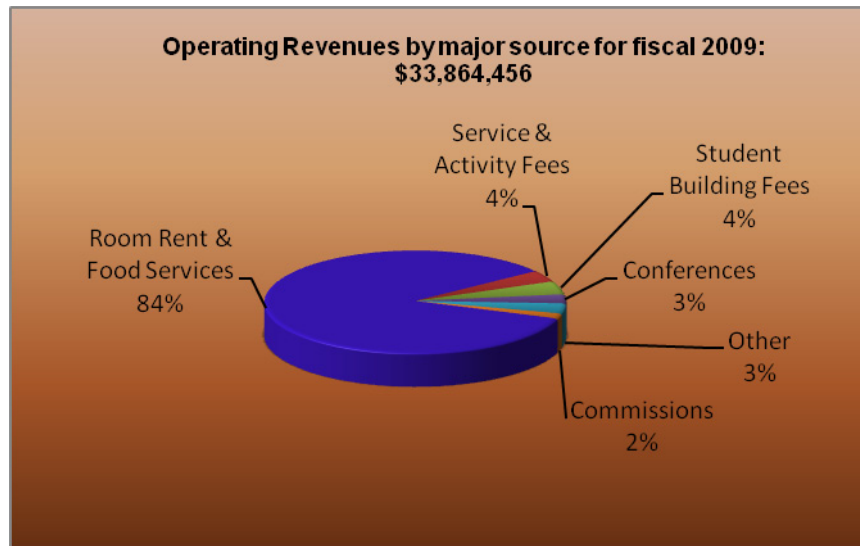
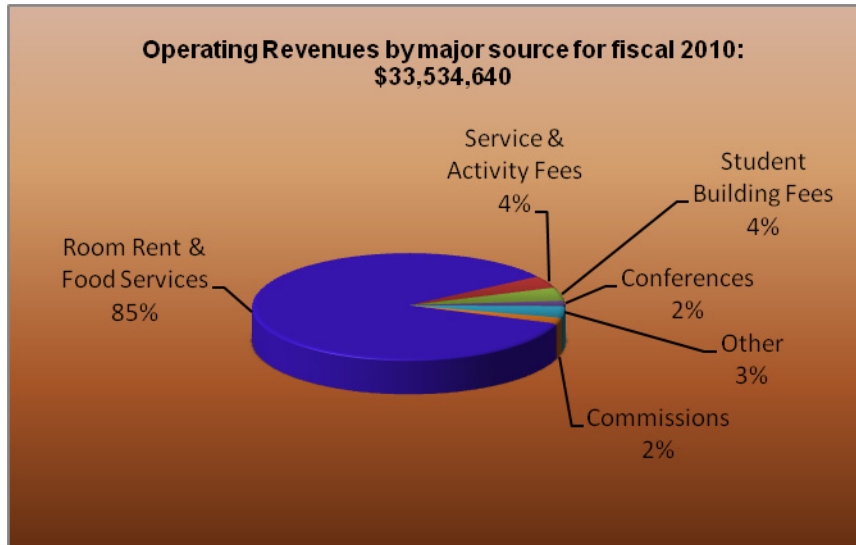
	2010	2009	2008
Operating Revenues	\$33,535	\$33,864	\$30,545
Operating Expenses	<u>(27,630)</u>	<u>(29,356)</u>	<u>(26,760)</u>
Income from operations	5,905	4,508	3,785
Nonoperating Revenues	478	407	774
Nonoperating Expenses	<u>(3,011)</u>	<u>(2,301)</u>	<u>(2,389)</u>
Increase in Net Assets	3,372	2,614	2,170
Net Assets, Beginning of year	<u>39,918</u>	<u>37,304</u>	<u>35,134</u>
Net Assets, End of year	<u><u>\$43,290</u></u>	<u><u>\$39,918</u></u>	<u><u>\$37,304</u></u>

The System's largest revenue source is room rent and food services totaling \$28,573,696 (85.2%) of the System's operating revenue in fiscal 2010, compared to \$28,606,445 (84.5%) in fiscal 2009 and \$25,535,649 (83.6%) in fiscal 2008.

Room and food service revenues decreased \$32,749 (-0.1%) from the prior year and increased \$3,070,796 (12.0%) when comparing fiscal 2009 to fiscal 2008. The decrease between fiscal 2010 and fiscal 2009 is due to the change in the revenue and expense recording for food service provided by Sodexo. The room rental rate increased 4.8% over fiscal 2009 and 4.5% over fiscal 2008, consistent with approved rate increases.

The primary offsets to the room and board rate increase was a decrease in annual average residence hall occupancy of 91 students, and a reduction in food service related revenues, and corresponding expense, from the shifting to the dining contractor of discretionary dining dollar purchases, and the invoicing of conference-related food purchases.

Residence hall occupancy decreased 2.8% from fiscal 2009 and increased 1.3% between fiscal 2009 and fiscal 2008. Birnam Wood and leased apartment occupancy decreased 2.2% from fiscal 2009 and increased 11.6% between fiscal 2009 and fiscal 2008.



Overall operating expenses were down \$1,725,746 (-5.9%) in fiscal 2010 compared with fiscal 2009, due to the change in how food service revenues were recorded by the System and expenses were charged by Sodexo as well as significantly lower expenses in utilities and non-capitalizable renewals and replacements. The increase of \$2,595,631 (9.7%) when comparing fiscal 2009 to fiscal 2008 is largely due to an increase in meal plan expenses from a new meal plan structure and increased occupancy, and increases in depreciation and non-capitalized renewals and replacements.

Cost of food services decreased \$931,610 (-8.4%) from fiscal 2009 and increased \$1,739,168 (18.6%) comparing fiscal 2009 to fiscal 2008. The decrease in fiscal 2010 is primarily due to a change in how discretionary dining dollars purchases and conference food plans were managed. There was an average increase in meal plans sold of 124 or 3.5% over fiscal 2009 primarily due to the creation of a new “commuter” meal plan. Meal plan rates increased an average 2% over fiscal 2009. The increase in cost of food services in fiscal 2009 compared to fiscal 2008 is due to a change in the meal plan structure from “unlimited” plans to “block” plans

***HOUSING AND DINING SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS******June 30, 2010 and 2009***

where students receive a certain number of meals each quarter, coupled with a slight rate increase from University Dining services and increases in residence hall occupancy and voluntary meal plan sales.

Salaries and benefits decreased \$36,371 (-0.6%) from fiscal 2009 due primarily to planned staffing reductions in the custodial and residence life units, and increased \$168,094 (2.8%) in fiscal 2009 over fiscal 2008 primarily due to State of Washington cost of living increases and increased benefit expenses offset by some unfilled vacant positions. There were no state wage increases in fiscal 2010.

Utilities expense decreased \$364,719 (-13.0%) from fiscal 2009 and increased \$25,495 (0.9%) between fiscal 2009 and fiscal 2008. The largest portion of the decrease in fiscal 2010 was due to the strategic purchase of natural gas. The change between fiscal 2009 and fiscal 2008 is attributable to higher rates during fiscal 2009 for electricity and water/sewer service than in fiscal 2008.

Repairs and maintenance expense increased \$22,954 (1.1%) over fiscal 2009 compared to an increase of \$91,089 (4.5%) between fiscal 2009 and fiscal 2008. There were no large unanticipated incidents in fiscal 2010. The increase in fiscal 2009 is attributable to increased labor and materials costs and the unanticipated repair due to the flooding of a residence hall.

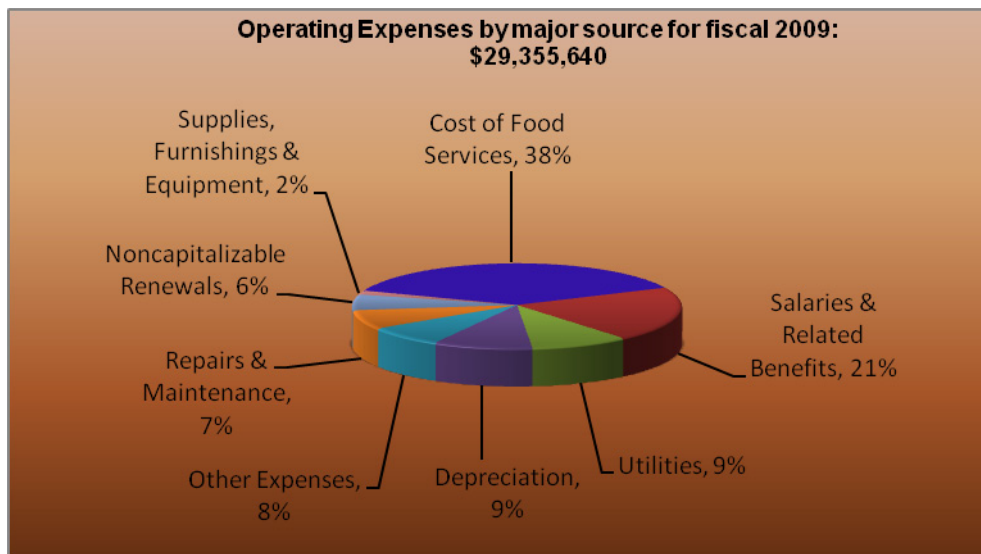
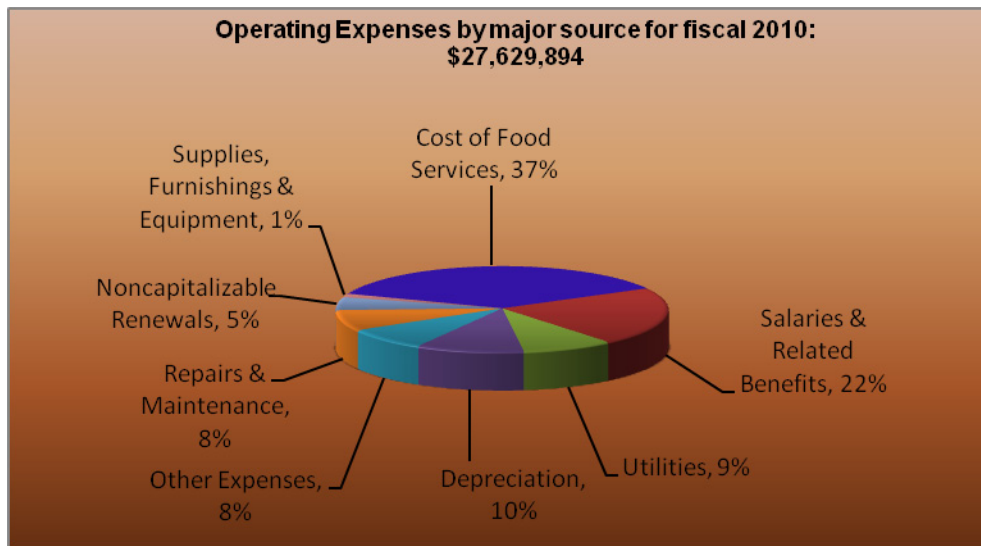
Depreciation expense increased \$41,407 (1.5%) over fiscal 2009 and \$218,644 (8.3%) comparing fiscal 2009 to fiscal 2008 due to the addition of completed buildings and projects.

Nonoperating expenses increased \$709,673 (30.8%) in fiscal 2010 compared to a decrease between fiscal 2009 and fiscal 2008 of \$88,728, (-3.7%) as bond amortization and interest expense increased from the issuance of bonds in late June 2009 for the Buchanan Towers addition. The decrease between fiscal 2009 and fiscal 2008 relates to a decrease in interest expense on outstanding bonds as they are paid down.

Nonoperating revenue increased \$70,591 (17.3%) as the result of interest subsidies of \$239,815 received during fiscal 2010 from the Build America Bonds that were issued in fiscal 2009 combined with a \$169,224 (-41.6%) decrease in investment income. Nonoperating revenues decreased \$367,127 (-47.4%) from fiscal 2008 primarily due to lower investment income.

Other expenses decreased \$111,704 (-13.1%) between fiscal 2010 and fiscal 2009 and increased \$205,031 (31.7%) when comparing fiscal 2009 to fiscal 2008. The decrease in fiscal 2010 can be attributed to the System no longer leasing the Viking Gardens apartments, a decrease in printing with a shift to less expensive formats, a decrease in laundry expense as these services were brought in-house from a 3rd party, and a reduction in travel due to State travel restrictions of. The increase in fiscal 2009 is due to an increase of in building rents for leased housing stock (New York Apartments) offset by a decrease in training and travel and an increase in the support for the University Dietician from Sodexo.

WWU's administrative services assessment fee (included in Institutional services) increased \$124,484 or 21.5% compared to an increase of \$101,126 or 21.0% between fiscal 2009 and fiscal 2008. The rate charged against System revenues (less food service contract) was 3.25% in fiscal 2010, 2.75% in fiscal 2009 and 2.25% in fiscal 2008.



Economic Factors and Significant Events

WWU's fiscal 2010 enrollment continued a trend of gradual growth, with Fall Quarter headcount enrollment increasing 0.1% over fiscal 2009 and 3.2% for fiscal 2008. After the unexpected peak in on-campus housing demand for fall 2008, demand for occupancy in fiscal 2009 was reduced by a planned 100 occupants. Management plans to address housing demand independent of enrollment through room capacity practices and changes in leased bed volume.

The System is on track with its 10-year capital plan for renovations such as fire sprinkler installation, seismic upgrades, and general upgrades for residential and dining facilities. One new retail dining venue and two renovated venues are scheduled for completion in September 2010.

The Board of Trustees approved a set of housing and dining principles in 1993 (updated in 2005); to guide the System's financial planning. The six principles address (i) Revenue Fund levels, (ii) Renewal and Replacement

***HOUSING AND DINING SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS***

June 30, 2010 and 2009

Fund levels, (iii) Major maintenance expenditures, (iv) Capital planning efforts, (v) Debt Service Coverage Ratio, and (vi) Occupancy. The System exceeded the minimum requirements established within these principles. The Board periodically reviews the principles to ensure ongoing compliance.

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The Board of Trustees
Western Washington University:

We have audited the accompanying statements of net assets of Western Washington University Housing & Dining System (the System) as of June 30, 2010 and 2009, 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 System'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 System'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 System 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 System. They do not purport to, and do not, present fairly the financial position of Western Washington University, as of June 30, 2010 and 2009, 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 System as of June 30, 2010 and 2009, 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 on pages 3 through 10 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 consisted 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 28 through 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

Seattle, Washington
October 12, 2010

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**HOUSING AND DINING SYSTEM
 STATEMENTS OF NET ASSETS**
June 30, 2010 and 2009

Assets	2010	2009
Current assets		
Cash and cash equivalents (Note 2)	\$8,757,646	\$5,035,588
Investments (Note 2)	3,088,835	4,305,824
Accounts receivable, net of allowance of \$27,110 and \$24,778 in 2010 and 2009, respectively	155,006	129,837
Interest receivable	131,333	76,591
Other receivables	95,035	38,539
Inventory	3,365	2,871
Total current assets	<u>12,231,220</u>	<u>9,589,250</u>
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	6,044,593	14,200,292
Restricted investments (Note 2)	2,812,169	2,780,142
Investments (Note 2)	-	185,856
Capital assets, net (Note 3)	84,069,700	75,741,278
Other assets (Note 1)	571,850	641,451
Total noncurrent assets	<u>93,498,312</u>	<u>93,549,019</u>
Total assets	<u>105,729,532</u>	<u>103,138,269</u>
 Liabilities		
Current liabilities		
Accounts payable	2,064,098	756,981
Accrued expenses	562,349	584,604
Residents' housing deposits	1,236,930	1,256,033
Deferred revenue	876,026	1,075,814
Bonds interest payable	646,258	425,767
Current portion of bonds payable (Note 4)	2,580,000	2,220,000
Total current liabilities	<u>7,965,661</u>	<u>6,319,199</u>
Bonds payable, less current portion (Note 4)	<u>54,474,030</u>	<u>56,900,731</u>
Total liabilities	<u>62,439,691</u>	<u>63,219,930</u>
 Net Assets		
Invested in capital assets, net of related debt	33,060,263	30,927,858
Restricted, expendable	3,117,984	3,032,750
Unrestricted	7,111,594	5,957,731
Total net assets	<u>\$43,289,841</u>	<u>\$39,918,339</u>

HOUSING AND DINING SYSTEM
STATEMENTS OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Room rent and food services	\$28,573,696	\$28,606,445
Service and activity fees	1,264,473	1,253,082
Student building fees	1,364,176	1,422,069
Conferences	548,254	965,216
Viking Union income	156,103	171,172
Contribution for dining services	300,000	300,000
Rent	135,166	129,710
Commissions	601,896	538,496
Fees, penalties, and other income	590,876	478,266
Total operating revenue	<u>33,534,640</u>	<u>33,864,456</u>
Operating Expenses		
Cost of food services	10,133,715	11,065,325
Salaries and related benefits	6,036,846	6,073,217
Utilities	2,447,093	2,811,812
Repairs and maintenance	2,131,965	2,109,011
Communications	299,512	327,474
Insurance	437,089	354,572
Supplies	247,745	268,035
Furniture and equipment	133,560	184,568
Institutional services	804,073	718,574
Depreciation	2,879,799	2,838,392
Noncapitalizable renewals and replacements	1,338,921	1,753,380
Other	739,576	851,280
Total operating expenses	<u>27,629,894</u>	<u>29,355,640</u>
Income from operations	5,904,746	4,508,816
Nonoperating Revenues (Expenses)		
Investment income	238,053	407,277
Build America Bonds interest subsidy	239,815	-
Interest expense	(2,788,212)	(2,093,705)
Amortization of bond discounts and costs	(222,900)	(207,734)
Total nonoperating expenses	<u>(2,533,244)</u>	<u>(1,894,162)</u>
Increase in net assets	3,371,502	2,614,654
Net Assets, Beginning of Year	<u>39,918,339</u>	<u>37,303,685</u>
Net Assets, End of Year	<u><u>\$43,289,841</u></u>	<u><u>\$39,918,339</u></u>

**HOUSING AND DINING SYSTEM
 STATEMENTS OF CASH FLOWS**
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Cash received from students and other customers	\$33,219,073	\$33,572,371
Cash paid to employees	(6,059,101)	(6,058,458)
Cash paid to suppliers	(18,851,907)	(22,073,910)
Net cash flows provided by operating activities	<u>8,308,065</u>	<u>5,440,003</u>
Cash Flows from Capital and Related Financing Activities		
Payment of long-term debt	(2,220,000)	(2,135,000)
Proceeds from bond issue	-	14,307,311
Interest payments	(2,567,721)	(2,294,757)
Build Amerca Bonds interest subsidy	239,815	-
Purchase of capital assets	(9,762,940)	(5,363,683)
Net cash flows (used in) provided by capital and related financing activities	<u>(14,310,846)</u>	<u>4,513,871</u>
Cash Flows from Investing Activities		
Investment income received	183,311	360,752
Net (loss) proceeds of restricted investments	(32,027)	90,301
Receipt of payment on note receivable	15,011	15,011
Sales of investments in internal pool	1,402,845	3,617,762
Net cash flows provided by investing activities	<u>1,569,140</u>	<u>4,083,826</u>
Net change in cash and cash equivalents	(4,433,641)	14,037,700
Cash and Cash Equivalents, Beginning of Year	<u>19,235,880</u>	<u>5,198,180</u>
Cash and Cash Equivalents, End of Year	<u>\$14,802,239</u>	<u>\$19,235,880</u>
Reconciliation of Operating Income to Net Cash Provided to Operating Activities		
Operating income	5,904,746	4,508,816
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation	2,879,799	2,838,392
Change in operating assets and liabilities		
Accounts receivable	(25,169)	30,966
Other receivables	(71,507)	(2,584)
Inventory	(494)	(1,405)
Accounts payable	(138,164)	(1,628,474)
Accrued salaries and benefits	(22,255)	14,759
Residents' housing deposits	(19,103)	56,033
Deferred revenue	(199,788)	(376,500)
Cash flows from operating activities	<u>\$8,308,065</u>	<u>\$5,440,003</u>
Supplemental Disclosure of Noncash Capital and Related Financing Activities		
Change in capital asset additions included in accounts payable	<u>\$1,445,281</u>	<u>\$477,198</u>

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NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESOrganization

Western Washington University Housing and Dining System (the System) is a self-supporting, auxiliary enterprise of Western Washington University (WWU). The System operates residence halls and dining commons, an apartment complex, the Commissary/Warehouse, the Viking Union Complex and Lakewood Recreational Facility. These operations are located on or near the WWU campus.

Financial Statement Presentation

The financial statements are presented in accordance with generally accepted accounting principles (GAAP) and follow 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 System. The financial statements present only a selected portion of the activities of WWU. 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 System's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The System has elected not to apply any FASB pronouncements issued 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 System 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 System in proportion to its average balance in the investment pool.

Accounts Receivable

Receivables are primarily from students of WWU and are unsecured. The System considers all accounts past due when they remain unpaid after their due dates. An allowance based on historical collection rates is established for recognizing potential bad debts. When an account is deemed uncollectible, it is written off against the allowance.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

The capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. The basis of valuation for assets purchased or constructed is cost. The costs of normal maintenance and repairs that do not increase the value of the assets or materially extend asset lives are charged to operating expense in the year the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets: 40 years for buildings and building improvements, 20 to 25 years for infrastructure and other improvements, and 5 to 7 years for furniture, fixtures, and equipment.

Interest is capitalized on assets acquired or constructed with tax-exempt financing. The amount of interest to be capitalized is calculated by offsetting interest expense incurred while activities necessary to get the asset ready for its intended use are in progress over the same period. Interest of \$176,208 and \$0 was capitalized during fiscal 2010 and 2009, respectively.

Deferred Revenue

Summer quarter, which is the first quarter of Western's fiscal year, begins shortly before June 30. Room and board charges related to fiscal year 2011 are deferred until the following fiscal year. Deferred revenue also includes \$600,000 and \$900,000 for 2010 and 2009, respectively, in funds received from Sodexo that are being amortized on a straight-line basis over ten years.

Net Assets

The System's net assets are classified as follows:

- *Invested in Capital Assets, Net of Related Debt* - Represents the System's total investment in capital assets, net of outstanding debt obligations related to those capital assets.
- *Restricted, Expendable* - Restricted net assets represent resources restricted by bond covenants for system renewals and replacements.
- *Unrestricted Net Assets* - Unrestricted net assets represent resources derived from operations and investing activities. The System has internally designated \$4,934,530 and \$4,173,001 of this balance at June 30, 2010 and 2009, respectively, for funding the acquisition of future capital assets and the renovation of current capital assets.

Classification of Revenues and Expenses

The System has classified its revenue and expenses as either operating or nonoperating according to the following criteria:

Operating revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as sales and services.

Operating expenses. Operating expenses are those incurred in daily operations such as salaries and wages, benefits, utilities and supplies.

Nonoperating revenues. Nonoperating revenues include activities that have the characteristics of non-exchange transactions such as investment income.

Nonoperating expenses. Non operating expenses include costs related to financing or investing activities such as interest on indebtedness and amortization of bond costs.

Bond Premiums/Discounts and Issuance Costs

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

Administrative Assessment

WWU provides support to the System through cash management, accounting, purchasing and Accounts Payable services, risk management, and other support services. The effects of these transactions are included as other expenses in these financial statements. The amount paid was \$702,771 and \$578,287 for the years ending June 30, 2010 and 2009, respectively.

Tax Exemptions

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

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts related to the June 30, 2009 financial statements have been reclassified to conform to the June 30, 2010 financial statement presentation.

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, 2010	Weighted Average Maturity	June 30, 2009	Weighted Average Maturity
Cash and cash equivalents				
WWU Investment Pool	\$8,757,646	n/a	\$5,035,588	n/a
LGIP (unspent bond proceeds)	6,044,593	n/a	14,200,292	n/a
Investments				
WWU Investment Pool	3,088,835	6.8 months	4,491,680	6.1 months
Certificates of Deposit	2,812,169	18.1 months	2,780,142	14.5 months
	<u>\$20,703,243</u>		<u>\$26,507,702</u>	

WWU manages exposure to fair value losses by employing a "laddered maturity" strategy, in which investments mature at varying times throughout the year.

The WWU pooled investments 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.

HOUSING AND DINING SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

Restricted cash, cash equivalents and investments include the following:

	<u>2010</u>	<u>2009</u>
Renewal and replacements	\$2,812,169	\$ 2,780,142
Unspent bond proceeds restricted for capital projects	<u>6,044,593</u>	<u>14,200,292</u>
	<u>\$8,856,762</u>	<u>\$16,980,434</u>

NOTE 3. CAPITAL ASSETS, NET

The depreciation expense for the fiscal years ended June 30, 2010 and 2009 was \$2,879,799 and \$2,838,392, respectively.

Following are the changes in capital assets for the year ended June 30, 2010:

Description	June 30, 2009	Additions	Retirements	Transfers	June 30, 2010
Buildings	\$89,184,792	\$ -	\$ -	\$ -	\$89,184,792
Buildings improvements	14,126,600	1,226,982	-	2,771,126	18,124,708
Furniture, fixtures, and equipment	1,778,593	143,909	(310,566)	-	1,611,936
Infrastructure	4,492,564	-	-	-	4,492,564
Construction in progress	4,812,350	9,837,330	-	(2,771,126)	11,878,554
Total cost	<u>114,394,899</u>	<u>11,208,221</u>	<u>(310,566)</u>	<u>-</u>	<u>125,292,554</u>

Accumulated Depreciation

Buildings	34,266,555	1,925,393	-	-	36,191,948
Buildings improvements	2,120,207	651,122	-	-	2,771,329
Furniture, fixtures, and equipment	1,080,923	175,167	(310,566)	-	945,524
Infrastructure	1,185,936	128,117	-	-	1,314,053
Total accumulated depreciation	<u>38,653,621</u>	<u>2,879,799</u>	<u>(310,566)</u>	<u>-</u>	<u>41,222,854</u>
Capital assets, net	<u>\$75,741,278</u>	<u>\$8,328,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$84,069,700</u>

**HOUSING AND DINING SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS**
June 30, 2010 and 2009

Following are the changes in capital assets for the year ended June 30, 2009:

Description	June 30, 2008	Additions	Retirements	Transfers	June 30, 2009
Buildings	\$89,184,792	\$ -	\$ -	\$ -	\$89,184,792
Buildings improvements	11,064,189	2,359,855	-	702,556	14,126,600
Furniture, fixtures, and equipment	1,585,619	192,974	-	-	1,778,593
Infrastructure	4,492,564	-	-	-	4,492,564
Construction in progress	2,226,854	3,298,298	-	(712,802)	4,812,350
Total cost	108,554,018	5,851,127	-	(10,246)	114,394,899
Accumulated Depreciation					
Buildings	32,340,994	1,925,561	-	-	34,266,555
Buildings improvements	1,492,683	627,524	-	-	2,120,207
Furniture, fixtures, and equipment	923,734	157,189	-	-	1,080,923
Infrastructure	1,057,818	128,118	-	-	1,185,936
Total accumulated depreciation	35,815,229	2,838,392	-	-	38,653,621
Capital assets, net	\$72,738,789	\$3,012,735	\$ -	(\$10,246)	\$75,741,278

NOTE 4. BONDS PAYABLE

In accordance with bond covenants, a Renewal and Replacement (R&R) Fund has been established to pay extraordinary operating and maintenance expenses; to make capital replacements, expansions, additions, repairs and renewals of the System; and to pay bond principal and interest to the extent other funds are not legally available. The balance of the R&R Fund must equal at least 5% of the principal balance of outstanding bonds.

Bond covenants also require that the System pledge net revenue (as defined) in each fiscal year at least equal to the greater of (i) 125% of the amounts required in such fiscal year to be paid as scheduled debt service (principal and interest) on outstanding bonds, or (ii) amounts required to be deposited during such fiscal year from net revenues into debt service and reserve funds established for outstanding bonds and into the R&R Fund, but excluding from each of the foregoing, payments made from refunding debt and capitalized debt service.

On June 12, 2009, the Board of Trustees approved Resolution No. 2009-09, authorizing the issuance of revenue bonds, Series 2009 A&B Housing and Dining Revenue Bonds. On June 27, 2009, the System issued \$14,280,000 in revenue bonds with interest rates ranging from 3.0 to 7.4% to finance the addition to the Buchanan Towers residence facility. Of the \$14,280,000 in revenue bonds issued, \$12,835,000 are Build America Bonds (BABs), offering a taxable, higher rate of return for investors offset by a Federal government subsidy to the issuer.

**HOUSING AND DINING SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS**
June 30, 2010 and 2009

	<u>2010</u>	June 30, <u>2009</u>
Series 2009 A & B Housing and Dining Revenue Bonds with interest rates ranging from 3.0% to 7.4% and principal payments due in annual amounts ranging from \$270,000 to \$1,115,000 through June 30, 2034. The Series 2009 bonds have an aggregate face value of \$14,280,000 at June 30, 2010 which is reported net of the unamortized original issue premium of \$20,417.	\$14,300,417	\$14,307,311
Series 2006 Housing and Dining Revenue Bonds with an interest rate of 4% and principal payments due in annual amounts ranging from \$350,000 to \$700,000 through April 1, 2026. The Series 2006 bonds have an aggregate face value of \$8,280,000 at June 30, 2010 which is reported net of the unamortized original premium of \$40,338.	8,320,338	8,689,901
Series 2005 Housing and Dining Revenue and Refunding Bonds with interest rates range from 3.375% to 4.50%, and principal payments due in annual amounts ranging from \$115,000 to \$1,005,000 through June 1, 2026. The Series 2005 bonds have an aggregate face value of \$12,045,000 at June 30, 2010, which is reported net of the unamortized original discount and loss on defeasance of \$974,725.	11,070,275	11,085,223
Series 2003 Housing and Dining Revenue and Refunding Bonds with interest rates ranging from 3.30% to 4.65%, and principal payments due in annual \$650,000 to \$1,025,000 through October 23, 2023. The Series 2003 bonds have an aggregate face value of \$11,505,000 at June 30, 2010, which is reported net of the unamortized original issue discount and loss on defeasance of \$146,118.	11,358,882	11,988,440
Series 1999 Housing and Dining Junior Lien Revenue Bonds, with interest rates ranging from 5.2% to 6.0%, and principal payments due in annual amounts that range from \$420,000 to \$420,000 through June 1, 2010. The Series 1999 bonds have an aggregate face value of \$0 at June 30, 2010, which is reported net of the unamortized original issue discount of \$0.	-	416,960
Series 1998 Housing and Dining Junior Lien Revenue Refunding Bonds, with interest rates ranging from 4.4% to 5.5%, and principal payments due in annual amounts that range from \$670,000 to \$1,270,000 through October 1, 2022. The Series 1998 bonds have an aggregate face value of \$12,325,000 at June 30, 2010, which is reported net of the unamortized original issue premium and loss on defeasance of \$320,882.	12,004,118	12,632,896
	\$57,054,030	\$59,120,731
Less current portion	<u>(2,580,000)</u>	<u>(2,220,000)</u>
	<u>\$54,474,030</u>	<u>\$56,900,731</u>

HOUSING AND DINING SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010 and 2009

Following are the changes in long-term liabilities for the year ended June 30, 2010:

Bonds Payable	June 30, 2009	Additions	Reductions	June 30, 2010	Current Portion
Series 2009 Revenue Bonds	14,280,000	-	-	14,280,000	270,000
Series 2006 Revenue Bonds	8,645,000	-	(365,000)	8,280,000	375,000
Series 2005 Refunding Bonds	12,160,000	-	(115,000)	12,045,000	560,000
Series 2003 Revenue and Refunding Bonds	12,155,000	-	(650,000)	11,505,000	655,000
Series 1999 Junior Lien Revenue Bonds	420,000	-	(420,000)	-	-
Series 1998 Junior Lien Revenue Refunding	12,995,000	-	(670,000)	12,325,000	720,000
	<u>60,655,000</u>	-	<u>(2,220,000)</u>	<u>58,435,000</u>	<u>2,580,000</u>
Plus unamortized premium	289,829	-	(39,480)	250,348	-
Less unamortized discount	(228,377)	-	26,079	(202,298)	-
Less unamortized deferred loss	<u>(1,595,721)</u>	-	<u>166,700</u>	<u>(1,429,021)</u>	-
Total Long-term liabilities	<u>59,120,731</u>	-	<u>(2,066,701)</u>	<u>57,054,030</u>	<u>2,580,000</u>

Following are the changes in long-term liabilities for the year ended June 30, 2009:

Bonds Payable	June 30, 2008	Additions	Reductions	June 30, 2009	Current Portion
Series 2009 Revenue Bonds	-	14,280,000	-	14,280,000	-
Series 2006 Revenue Bonds	8,995,000	-	(350,000)	8,645,000	365,000
Series 2005 Refunding Bonds	12,275,000	-	(115,000)	12,160,000	115,000
Series 2003 Revenue and Refunding Bonds	12,780,000	-	(625,000)	12,155,000	650,000
Series 1999 Junior Lien Revenue Bonds	820,000	-	(400,000)	420,000	420,000
Series 1998 Junior Lien Revenue Refunding	13,640,000	-	(645,000)	12,995,000	670,000
	<u>48,510,000</u>	<u>14,280,000</u>	<u>(2,135,000)</u>	<u>60,655,000</u>	<u>2,220,000</u>
Plus unamortized premium	296,648	27,311	(34,130)	289,829	-
Less unamortized discount	(253,501)	-	25,124	(228,377)	-
Less unamortized deferred loss	<u>(1,757,705)</u>	-	<u>161,984</u>	<u>(1,595,721)</u>	-
Total Long-term liabilities	<u>46,795,442</u>	<u>14,307,311</u>	<u>(1,982,022)</u>	<u>59,120,731</u>	<u>2,220,000</u>

Total interest incurred on bonds payable for the years ended June 30, 2010 and June 30, 2009 was \$2,788,212 and \$2,093,705, respectively.

In prior years, the System defeased certain Revenue Bonds. The assets used to defease these bonds and the liabilities for the defeased bonds are not included in these financial statements. At June 30, 2010 and 2009, respectively, the total outstanding principal balance of defeased bonds was \$11,165,000.

**HOUSING AND DINING SYSTEM
 NOTES TO THE FINANCIAL STATEMENTS**
June 30, 2010 and 2009

The principal and interest maturities of bonds payable for years ending June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	2,580,000	2,885,173	5,465,173
2012	2,680,000	2,783,678	5,463,678
2013	2,785,000	2,676,711	5,461,711
2014	2,895,000	2,563,847	5,458,847
2015	3,025,000	2,443,432	5,468,432
2016-2020	17,225,000	10,004,227	27,229,227
2021-2025	17,180,000	5,643,852	22,823,852
2026-2030	5,910,000	2,542,945	8,452,945
2031-2034	4,155,000	786,990	4,941,990
	<u>\$58,435,000</u>	<u>\$32,330,855</u>	<u>\$90,765,855</u>
Less unamortized (discounts)/premiums	<u>(1,380,970)</u>		
	<u>\$57,054,030</u>		

NOTE 5. COMMITMENTS

The System regularly enters into contracts and purchase orders that commit fund balances for future purchases of goods and services. At June 30, 2010 and 2009, these commitments totaled \$5,385,102 and \$4,669,664 respectively, for all funds.

NOTE 6. CONTRACT WITH SODEXO AMERICA, LLC

Sodexo America, LLC (“Sodexo”) contracted with WWU to manage the dining services provided by the System. As part of this contract, Sodexo agreed to provide a total of \$3,000,000 to the System for the acquisition of capital assets. This amount is being recognized as operating revenue on a straight-line basis over the ten-year life of the contract. The System will terminate the contract one year early (August 31, 2011) and will award a new contract effective September 1, 2011.

As of June 30, 2010, the System had received the entire \$3,000,000 from Sodexo per the agreement.

NOTE 7. PENSION PLAN

As employees of WWU, the full-time System employees are participants in the State of Washington Public Employees' Retirement System (“PERS”) or the Western Washington University Retirement Plan (“WWURP”). The WWURP plan is a defined contribution plan. PERS is a defined benefit pension plan. 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 provision for PERS. Additional information

concerning plan descriptions and benefit provisions is included in a Comprehensive Annual Financial Report publicly available for the Washington State Department of Retirement System, P.O. Box 48380, Olympia, WA 98504.

Western Washington University Retirement Plan (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 System contributed approximately \$178,000 and \$244,000 to these plans in 2010 and 2009, respectively. An actuarial valuation of the PERS plan for the System as an entity is not available.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

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 actuarial accrued liability (AAL) is not available for auxiliary entities. WWU is responsible for the annual payment therefore, the annual required contribution (ARC) is not recorded on Housing and Dining's financial statements.

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SUPPLEMENTAL INFORMATION

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SCHEDULE OF ROOM AND BOARD RATES
RESIDENCE HALLS

	Meals Per Quarter			
	Unlimited	125	100	75
Room and Board Academic Year Contracts				
Double room/double occupancy	\$8,393	\$8,076	\$7,763	\$7,448
Single room/single occupancy	9,255	8,938	8,625	8,310
Double room/single occupancy (super single)	9,479	9,432	9,119	8,804
Triple room/triple occupancy	7,345	7,028	6,715	6,400

APARTMENTS

	Double (2/Bedroom)	Super Single (1/Bedroom)	Family Rate
	Apartment Only Academic Year Contracts		
Birnam Wood - 2 bedroom	\$2,661	\$5,322	\$10,647
Leased Apartments – New York, 1 bedroom	3,450	6,945	-
Leased Apartments – New York, 3 bedroom on	2,931	4,488	13,464

SCHEDULE OF OCCUPANCY

	OCCUPANCY CAPACITY		ACTUAL OCCUPANCY	ACTUAL OCCUPANCY AS A PERCENT OF	
	Designed ⁽¹⁾	Operating ⁽²⁾		Designed Capacity	Operating Capacity
Fall 2009	4,148	4,040	3,953	95.3%	97.8%
Winter 2010	4,148	4,040	3,791	91.4	93.8
Spring 2010	4,148	4,040	3,576	86.2	88.5
Average	4,148	4,040	3,773	91.0%	93.4%

NOTES:

- 1) Designed capacity is the number of beds for which the System was originally constructed and subsequently remodeled to accommodate.
- 2) Operating capacity is the number of students that can effectively be accommodated in an academic quarter based on housing policies in effect for that quarter.

SCHEDULE OF INSURANCE COVERAGE

WWU purchases buildings, contents, and business interruption insurance for the System through its participation in the State of Washington Property Insurance program. The System is responsible for 100% of its portion of the premium. Business interruption coverage is provided on earnings and rents from insured property and is included in the policy limits with a \$32,500,000 sub-limit. Other highlights of insurance coverage are as follows:

- Replacement cost coverage for all scheduled buildings for all risk of physical loss or damage, including earthquake and flood.
- The limit is \$100,000,000 per occurrence, with an aggregate of \$100,000,000 for earthquake and flood damage. There is a \$250,000 deductible per occurrence that increases to 3% of value of damaged property with a \$250,000 minimum for earthquake and flood damage.
- Boiler and machinery insurance - private insurance program, \$50,000,000 per accident, \$5,000 deductible on all insured objects and \$50,000 deductible for property damage.
- Bodily injury and property damage liability - State funded self-insurance program, \$10,000,000 per occurrence, with a commercial excess liability insurance policy above, and zero deductible.

The System's property insurance in effect at June 30, 2010 is summarized as follows:

	Values Used for Fire and Extended Coverage of Buildings
Ridgeway Residences and Commons	\$76,567,627
Fairhaven Residences and Commons	49,404,782
Buchanan Towers	28,368,584
Edens Hall and Edens Hall North	27,497,768
Viking Union, Addition and Commons	37,431,188
Birnam Wood Residences	33,125,666
Nash Hall	23,335,120
Mathes Hall	22,876,860
Higginson Hall	14,615,231
Commissary	9,870,457
Highland Hall	6,958,517
Lakewood Recreational Facility	1,814,486
	<hr/>
Building Insured Values	331,866,286
Insured Contents	14,462,591
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	\$346,328,877

EXPENDED FOR PLANT FACILITIES

Expenditures by the System to maintain and improve its facilities are listed below. Some of these projects are capitalized and increase the value of the System's buildings. Others are costs to maintain the buildings and infrastructure and are expensed.

	<u>2010</u>	<u>2009</u>
Capitalized Projects		
New Residence Hall	\$7,171,685	\$873,611
Buchanan Towers Fire Sprinklers	2,157,166	-
Fairhaven Fire Sprinklers	1,198,496	1,970,521
Dining Capital Investment Projects	423,415	512,593
Ridgeway Gamma Fire Sprinklers	28,486	1,734,758
Sprinkler Study	11,489	-
Triple Occupancy Beds	1,494	376,461
Ridgeway Beta Renovation	918	-
Edens North Seismic	-	214,230
Other capitalizable	-	168,953
	<u>\$10,993,149</u>	<u>\$5,851,127</u>
Non-Capitalized Projects		
Furniture & Carpet	\$375,239	-
Other	188,044	\$351,342
Equipment	174,557	-
Brick Restoration	117,287	-
Plumbing, heating and electrical	98,995	91,018
Nash Deck Replacement	93,659	5,076
Window Coverings	93,036	750
Bathroom & Shower renovations	69,042	300,738
Gamma Flood Restoration	30,921	677,915
Lighting Retrofits & Changes	27,226	-
Network Infrastructure and Switches	20,782	
Stairwell and Exit Door Replacements	17,976	22,129
Laundry Room Remodel	17,180	28,843
Painting	-	160,846
Elevator Upgrades	-	94,087
Building Controls & Fire Alarm Panels	-	17,943
Asbestos abatement & flooring	-	2,693
	<u>\$1,338,921</u>	<u>\$1,753,380</u>