

WADE KING STUDENT RECREATION CENTER**Table of Contents**

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

June 30, 2010 and 2009

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 fiscal 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 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, 2010, 2009 and 2008:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|--------------------|--------------------|--------------------|
| Assets | | | |
| Current assets | \$2,462,325 | \$2,328,127 | \$2,103,695 |
| Noncurrent assets | 1,567,107 | 1,540,587 | 1,341,112 |
| Buildings and equipment, net | <u>23,067,867</u> | <u>23,709,251</u> | <u>24,397,281</u> |
| Total assets | \$27,097,299 | 27,577,965 | 27,842,088 |
| Liabilities | | | |
| Current liabilities | 1,197,142 | 1,144,252 | 1,146,196 |
| Noncurrent liabilities | <u>23,912,277</u> | <u>24,504,476</u> | <u>25,066,445</u> |
| Total liabilities | 25,109,419 | 25,648,728 | 26,212,641 |
| Net Assets | | | |
| Invested in capital assets, net | (1,459,410) | (1,380,225) | (1,234,164) |
| Restricted for system renewal and replacements | 1,225,277 | 1,133,510 | 860,265 |
| Unrestricted | <u>2,222,013</u> | <u>2,175,952</u> | <u>2,003,346</u> |
| Total net assets | <u>\$1,987,880</u> | <u>\$1,929,237</u> | <u>\$1,629,447</u> |

**WADE KING STUDENT RECREATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS*****June 30, 2010 and 2009***

Current and noncurrent assets increased \$160,718 (4.2%) over fiscal 2009 and \$423,907 (12.3%) between fiscal 2009 and fiscal 2008 as cash, cash equivalents and investments increased due to a greater proportion of current assets held in cash and cash equivalents within the university's investment pool at June 30, 2010 as the University has shifted where it invests funds due to the low interest rate environment.

The buildings and equipment, net balance decreased \$641,384 (-2.7%) in fiscal 2010 and \$688,030 (-2.8%) in fiscal 2009 as compared to fiscal 2008 as the Recreation Center building continues to be depreciated with no significant capital additions. The receivable from Western Washington University Foundation decreased in fiscal 2010 from fiscal 2009 by \$106,057 (-50.2%) as funds were used to purchase capital and non capital equipment. This receivable balance increased \$47,747 (29.2%) when comparing fiscal 2009 to fiscal 2008 due to reduced purchases of capital and non capital equipment.

Current liabilities increased \$52,890 (4.6%) in fiscal 2010 related to the maintenance activities scheduled closer to fiscal-year end. The decrease between fiscal 2009 and fiscal 2008 was \$1,944 (-0.2%) due to reduced accounts payable balances and interest due at June 30, 2009. Noncurrent liabilities decreased \$592,199 (-2.4%) in fiscal 2010 and \$561,969 (-2.2%) in fiscal 2009 compared to fiscal 2008 due to debt payments on the outstanding bonds for the Recreation Center building.

Overall net assets increased \$58,643 (3.0%) in fiscal 2010 and \$299,790 (18.4%) in fiscal 2009 compared fiscal 2008. The amount 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 contributions to this fund exceeded expenditures. Funds for renewals and replacements are set aside according to the five-year capital and maintenance 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 income. Nonoperating expenses include interest expense on outstanding debt and amortization of bond costs.

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

**WADE KING STUDENT RECREATION CENTER
 MANAGEMENT'S DISCUSSION AND ANALYSIS**
June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-------------------------------|---------------------|---------------------|---------------------|
| Operating revenues | \$ 4,299,600 | \$ 4,265,131 | \$ 4,109,538 |
| Operating expenses | (3,033,441) | (2,771,341) | (2,746,150) |
| Income from operations | 1,266,159 | 1,493,790 | 1,363,388 |
| Nonoperating revenues | 86,845 | 137,059 | 189,479 |
| Nonoperating expenses | (1,294,361) | (1,331,059) | (1,366,615) |
| Increase in net assets | 58,643 | 299,790 | 186,252 |
| Net assets, beginning of year | 1,929,237 | 1,629,447 | 1,443,195 |
| Net assets, end of year | <u>\$ 1,987,880</u> | <u>\$ 1,929,237</u> | <u>\$ 1,629,447</u> |

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 a membership fee on a voluntary basis to gain access to the facility. The mandatory fee remained unchanged for from fiscal 2009 but increased \$1 per quarter from fiscal 2008. With enrollment just slightly greater than the previous fiscal year, the student fee revenue for fiscal 2010 was \$34,374 (0.9%) higher than fiscal 2009. The increase in student fee revenue in fiscal 2009 was \$87,137 (2.4%) compared to fiscal 2008.

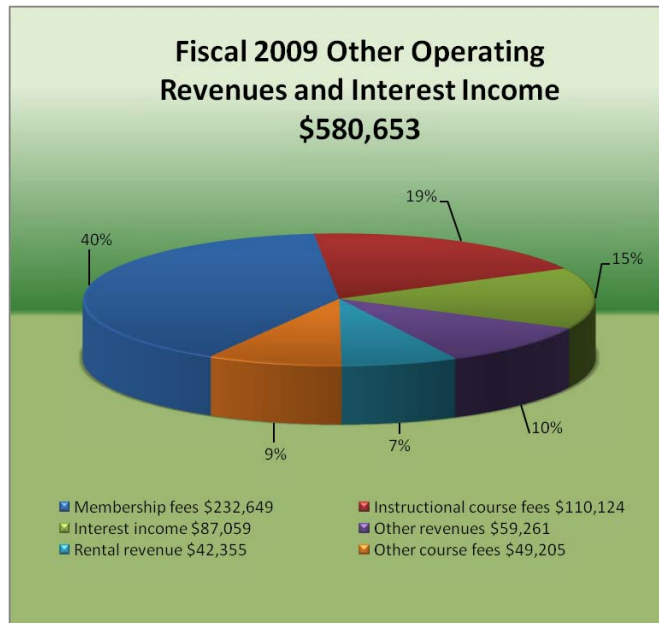
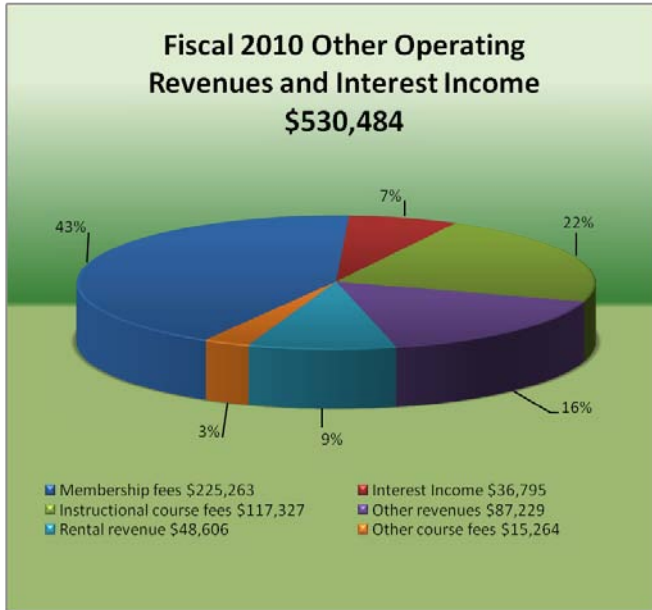
Other operating and non-operating revenues, excluding gift income, decreased \$50,169 (-8.6%) to \$530,484 in fiscal 2010 from \$580,653 in fiscal 2009. The increase in fiscal 2009 was \$16,036 (2.8%) from \$564,617 in fiscal 2008. The decrease in other operating and non-operating revenue was due entirely to the reduction in investment income as a result of the historically low interest rate environment.

Investment income decreased significantly, declining 57.7% to \$36,795 in fiscal 2010 from its three-year high of \$139,479 in fiscal 2008. The decrease when comparing fiscal 2009 to fiscal 2008 was \$52,420 (-37.6%). These decreases are the direct result of the low interest rate environment.

Rental revenue for fiscal 2010 increased 14.8% to \$48,606 from \$42,355 in fiscal 2009 due to additional marketing to the community regarding the availability of facility rentals. The additional marketing also caused other revenue such as locker rentals and retail sales to increase by \$27,968 (47.2%) when comparing fiscal 2010 to fiscal 2009. The change when comparing fiscal 2009 to fiscal 2008 was a decrease of \$1,732 (-2.8%). The decrease in fiscal 2009 can be attributed to the economic downturn resulting in less spending by patrons on services and supplemental items at the Recreation Center as well as a decline in facility rentals by outside groups. These categories are recorded as operating revenues.

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

June 30, 2010 and 2009



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 40.7% of the total operating expenses in fiscal 2010, compared to 41.8% and 37.1% in fiscal 2009 and fiscal 2008, respectively. Additional student paraprofessional positions were hired to assist in the opening and closing of the recreation center in fiscal 2010. This additional expense, along with annual salary step increases for classified employees and an increase in administrative salary allocations from the Division of Student Affairs accounted for the \$75,147 increase in salaries and benefits compared to fiscal 2009. There was a 14% increase in salaries in fiscal 2009 compared to fiscal 2008 due to the addition of the Facilities/Operations Coordinator position. The university's

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

June 30, 2010 and 2009

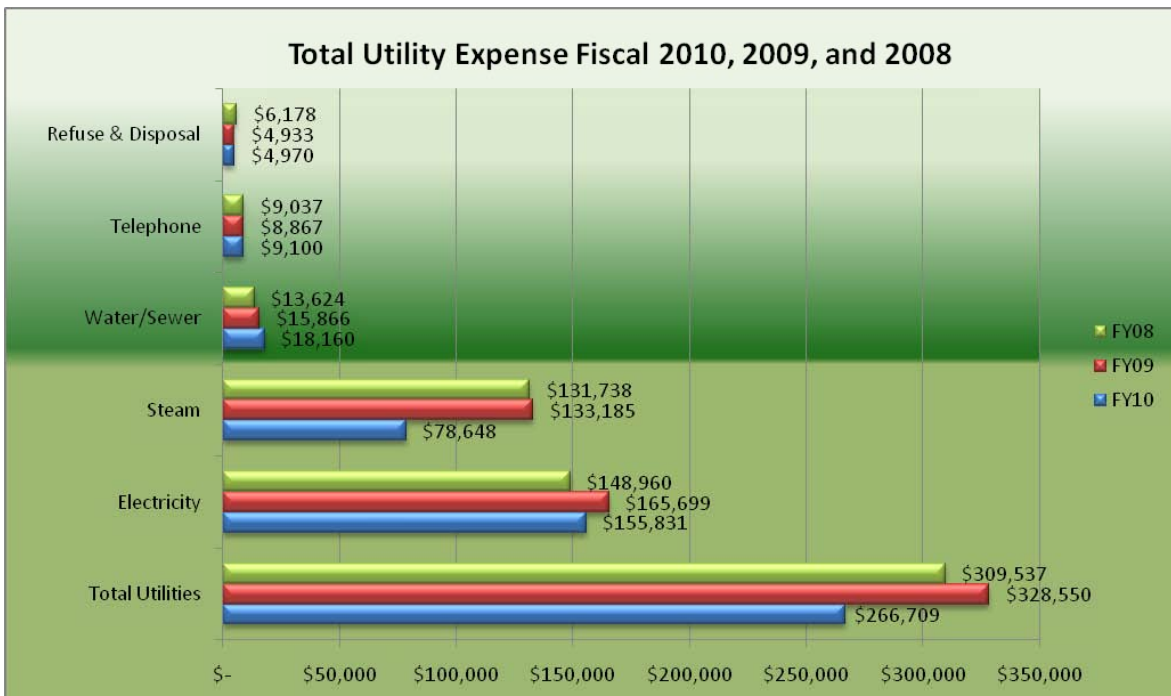
administrative services assessment fee increased 12.1% to \$138,713 in fiscal 2010 from \$123,791 in fiscal 2009, a 26.4% increase from \$97,948 in fiscal 2008. This fee is reported under other expenses.

The University imposed an equipment freeze for state and tuition funds in fiscal 2010 and fiscal 2009 to achieve savings in anticipation of state-wide budget reductions. Student Affairs auxiliary operations, including the Recreation Center, voluntarily restricted equipment expenditures from their operating fund. Due to the equipment freeze in fiscal 2010, the Recreation Center utilized \$82,278 from its Wade King Foundation Fund to purchase equipment and furnishings. This fund was not utilized during fiscal 2009 but had equipment expenditures of \$55,561 during fiscal 2008.

Supplies and materials expenses increased (26.3%) from \$70,890 in fiscal 2009 to \$89,517 in fiscal 2010. This increase is due to the supplies purchased to equip the new climbing wall floor and rock bouldering areas; this included new ropes, carabineers and tie downs in order to meet new industry standards. When comparing fiscal 2009 to fiscal 2008, supplies expense decreased \$6,408 (-8.3%) due to no significant supplies needed for repairs.

Repairs and maintenance expenses increased significantly by \$171,100 to \$374,974 in fiscal 2010, an increase of 83.9% from fiscal 2009. A major component of the increase can be attributed to the recoating of the roof, installation of tennis court lights, a new sound board for the indoor track, along with the replacement of the climbing wall floor, a software upgrade, and higher costs of aquatic maintenance to bring the pool into compliance with the Virginia Graeme Baker Pool Safety Act. The Virginia Graeme Baker Pool Safety Act is a federal law requiring all public swimming pools have anti-entrapment drains and/or devices installed. These expenditures did not meet the University's capitalization policy of extending the useful life of the asset.

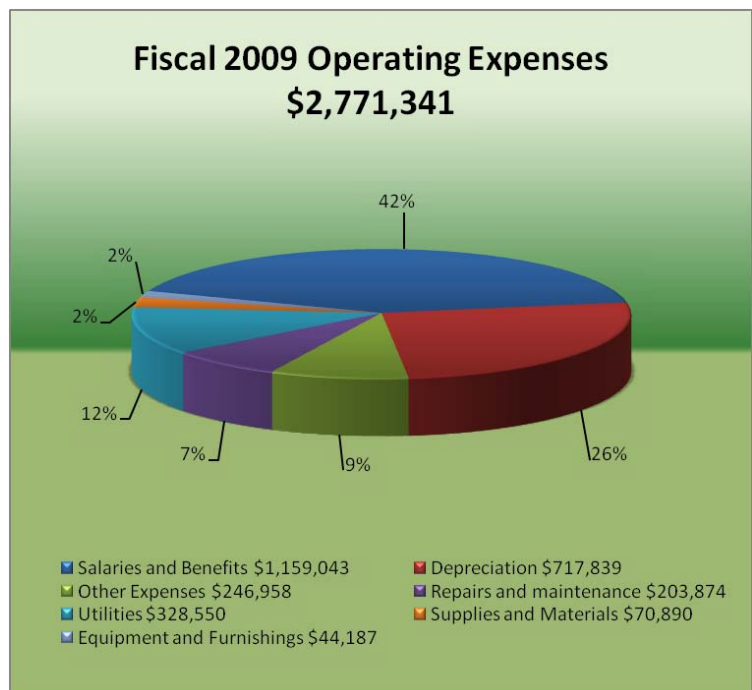
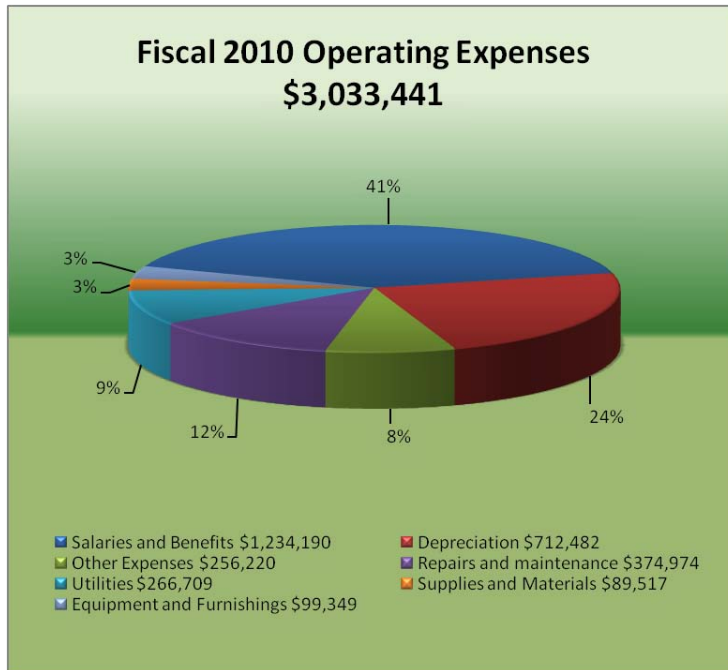
The comparison between fiscal 2009 and fiscal 2008 repairs and maintenance expense was a decrease of \$79,556 (-28.1%) due to fewer major projects being undertaken in fiscal 2008.



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

June 30, 2010 and 2009

Total utility expense for the year was \$266,709, a considerable decrease of \$61,841 (-18.8%) from fiscal 2009. This is a result of a recalculation of the Recreation Center's percentage share of steam to the south end of campus, with the addition of the new Academic Instructional Center building, and an overall decrease in campus utility costs. Fiscal 2009 utility expense was \$19,013 greater (6.1%) than in fiscal 2008 due to additional heating costs.



**WADE KING STUDENT RECREATION CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS*****June 30, 2010 and 2009*****Reserve Funds**

Bond Covenants require an annual addition to the 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 (unrestricted) amount in fiscal 2004. Management reaffirmed the Facilities Management lifecycle maintenance plan for major maintenance and building repair and increased the annual contribution to \$250,000 for the five year period beginning in fiscal 2009 to meet anticipated building maintenance and repairs expenses. As planned, \$250,000 was placed into the R&R reserve for fiscal 2010. A roof recoating project, scheduled over the summer of 2010, reduced the reserve amount by approximately \$164,000 at June 30, 2010. At June 30, 2010, the R&R balance was \$1,455,087 of which \$1,225,277 is restricted. The funds must be used to improve or maintain the Recreation Center facility.

Management established an Operating Reserve in fiscal 2005 for unforeseen or extraordinary expenses. The reserve was used in fiscal 2007 for increased equipment replacement costs resulting from higher student utilization than initially projected. Campus Recreation has since increased equipment replacement in its annual operating budget. The reserve now acts as an emergency fund for unplanned repairs, changes in insurance deductibles, and as an operating cushion to cover unforeseen decreases in revenue. Reserve funds can also be designated for facility improvements beyond basic maintenance (such as the funding of repairs and additions to the tennis courts for the Recreation Center's summer camps program, as well as the new sound board installation on the indoor track). Contributions to this fund in the past three years include \$125,000 each in fiscal 2010 and fiscal 2009 and \$300,000 in fiscal 2008. At June 30, 2010, the operating reserve totaled \$1,576,758. These assets are reported as unrestricted on the Statements of Net Assets.

The King family continued their commitment of \$50,000 per year to the WWU Foundation in memory of their son Wade. These contributions now total \$350,000 after seven years. This reserve fund is dedicated to maintaining the quality of the facility and its programs and supports students directly as well. During fiscal 2010, \$149,711 was spent on improving and replacing cardiovascular equipment. Of this amount, \$67,433 was used to purchase capital equipment while \$82,278 was used to purchase non capital equipment. Portions of the donations have been used for youth programming scholarships and certain equipment upgrades. The available balance maintained by the Foundation at June 30, 2010 was \$105,258. These assets are reported as unrestricted on the Statements of Net Assets.

Ratio Analysis

Ratios can be helpful in evaluating the Recreation Center's financial health and performance. The debt service coverage ratios for fiscals 2010, 2009, and fiscal 2008 were 2.37, 2.35, and 2.31, respectively. The increase in the ratio over the three-year period indicates a higher net revenue stream to meet debt obligations in fiscal 2010. 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 remain high with 90.8% of the 13,300 enrolled students using the facility during the course of fiscal 2010. This information is recorded in the Recreation Center's system when students present their membership cards upon entry to the facility. Fiscal 2009 had a utilization rate of 11,997 (90.6%) of 13,240 eligible students compared to 11,867 (91.2%) of 13,006 eligible students in fiscal 2008. Visits by members and non-members totaled 426,010 during fiscal 2010, with the highest number of visits exceeding 3,400 in a given day compared to 435,987 during fiscal 2009. During fiscal 2008, visits by members and no-members totaled 415,239 with the highest number of visits at nearly 3,200 in a given day.

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WADE KING STUDENT RECREATION CENTER
INDEPENDENT AUDITORS' REPORT***June 30, 2010 and 2009***

The Board of Trustees
Western Washington University:

We have audited the accompanying statements of net assets of Western Washington University Wade King Recreation Center (the Recreation Center) 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 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, 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 Recreation Center 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 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 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.

KPMG LLP

Seattle, Washington
October 12, 2010

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**WADE KING STUDENT RECREATION CENTER
 STATEMENTS OF NET ASSETS**
June 30, 2010 and 2009

| Assets | 2010 | 2009 |
|---|--------------------|--------------------|
| Current assets | | |
| Cash and cash equivalents (Note 2) | \$1,691,968 | \$1,097,876 |
| Investments (Note 2) | 596,534 | 941,776 |
| Accounts receivable, net of allowance of \$5,417 in 2010 and \$4,711 in 2009 | 64,712 | 74,456 |
| Receivable from Western Washington University Foundation | 105,258 | 211,315 |
| Prepaid Expenses | 250 | - |
| Inventory | 3,603 | 2,704 |
| Total current assets | <u>2,462,325</u> | <u>2,328,127</u> |
| Noncurrent assets | | |
| Investments (Note 2) | - | 40,650 |
| Restricted cash and cash equivalents (Note 2) | 905,847 | 598,208 |
| Restricted investments (Note 2) | 319,430 | 535,302 |
| Other assets (Note 1) | 341,830 | 366,427 |
| Building and equipment, net (Note 3) | 23,067,867 | 23,709,251 |
| Total noncurrent assets | <u>24,634,974</u> | <u>25,249,838</u> |
| Total assets | <u>27,097,299</u> | <u>27,577,965</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | 63,180 | 15,915 |
| Accrued wages and benefits | 123,031 | 119,953 |
| Deferred revenue | 191,616 | 214,926 |
| Interest payable | 204,315 | 208,458 |
| Current portion of bonds payable (Note 4) | 615,000 | 585,000 |
| Total current liabilities | <u>1,197,142</u> | <u>1,144,252</u> |
| Noncurrent liabilities | | |
| Bonds payable, less current portion (Note 4) | 23,912,277 | 24,504,476 |
| Total liabilities | <u>25,109,419</u> | <u>25,648,728</u> |
| Net Assets | | |
| Invested in building and equipment, net of related debt | (1,459,410) | (1,380,225) |
| Restricted for system renewals and replacements | 1,225,277 | 1,133,510 |
| Unrestricted | 2,222,013 | 2,175,952 |
| Total net assets | <u>\$1,987,880</u> | <u>\$1,929,237</u> |

WADE KING STUDENT RECREATION CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS *June 30, 2010 and 2009*

| | <u>2010</u> | <u>2009</u> |
|--|---------------------------|---------------------------|
| Operating Revenues | | |
| Service and activity fees, net of mandatory transfer | \$3,805,911 | \$3,771,537 |
| Staff, faculty and alumni membership fees | 225,263 | 232,649 |
| Instructional course fees | 117,327 | 110,124 |
| Other course fees | 15,264 | 49,205 |
| Rental revenue | 48,606 | 42,355 |
| Other revenues | 87,229 | 59,261 |
| Total operating revenues | <u>4,299,600</u> | <u>4,265,131</u> |
| Operating Expenses | | |
| Salaries and benefits | 1,234,190 | 1,159,043 |
| Depreciation | 712,482 | 717,839 |
| Utilities | 266,709 | 328,550 |
| Repairs and maintenance | 374,974 | 203,874 |
| Equipment and furnishings | 99,349 | 44,187 |
| Supplies and materials | 89,517 | 70,890 |
| Administrative assessment | 138,713 | 123,791 |
| Insurance | 29,953 | 28,626 |
| Other | 87,554 | 94,541 |
| Total operating expenses | <u>3,033,441</u> | <u>2,771,341</u> |
| Income from operations | 1,266,159 | 1,493,790 |
| Nonoperating Revenues (Expenses) | | |
| Investment income | 36,795 | 87,059 |
| Gift income | 50,050 | 50,000 |
| Interest expense | (1,246,606) | (1,269,583) |
| Amortization of bond discounts and costs | (47,755) | (48,684) |
| Parberry Fitness Center support | - | (12,792) |
| Total nonoperating expenses | <u>(1,207,516)</u> | <u>(1,194,000)</u> |
| Increase in net assets | 58,643 | 299,790 |
| Net Assets, Beginning of Year | <u>1,929,237</u> | <u>1,629,447</u> |
| Net Assets, End of Year | <u><u>\$1,987,880</u></u> | <u><u>\$1,929,237</u></u> |

**WADE KING STUDENT RECREATION CENTER
 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 | \$4,286,034 | \$4,296,391 |
| Payments to employees | (1,231,112) | (1,133,600) |
| Payments to suppliers | (1,040,653) | (963,623) |
| Net cash flows provided by operating activities | <u>2,014,269</u> | <u>2,199,168</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Gift income | 156,107 | 2,253 |
| Transfer to Parberry Fitness Center | - | (12,792) |
| Net cash flows provided by(used in) noncapital financing activities | <u>156,107</u> | <u>(10,539)</u> |
| Cash Flows from Investing Activities | | |
| Net purchases of investments in internal investment pool | 601,764 | 194,811 |
| Investment income received | 36,795 | 87,059 |
| Net cash flows provided by investing activities | <u>638,559</u> | <u>281,870</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Purchases of equipment | (71,098) | (29,809) |
| Interest paid on capital debt | (1,251,106) | (1,273,956) |
| Principal paid on capital debt | (585,000) | (565,000) |
| Net cash used in capital and related financing | <u>(1,907,204)</u> | <u>(1,868,765)</u> |
| Net increase in cash and cash equivalents | 901,731 | 601,734 |
| Cash and cash equivalents, beginning of year | <u>1,696,084</u> | <u>1,094,350</u> |
| Cash and cash equivalents, end of year | <u>\$2,597,815</u> | <u>\$1,696,084</u> |
| Reconciliation of Operating Income to Net Cash Provided to Operating Activities | | |
| Income from operations | \$1,266,159 | \$1,493,790 |
| Adjustments to reconcile operating income to net cash flows from operating activities | | |
| Depreciation | 712,482 | 717,839 |
| Change in operating assets and liabilities | | |
| Accounts receivable | 9,744 | 4,237 |
| Accounts payable, accrued expenses, salaries and benefits | 50,343 | (45,200) |
| Prepaid Expense | (250) | - |
| Deferred revenue | (23,310) | 27,023 |
| Inventory | (899) | 1,479 |
| Net cash flows provided by operating activities | <u>\$2,014,269</u> | <u>\$2,199,168</u> |

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NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIESOrganization

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 WWU.

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 requests 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, 2010 and 2009**Accounts Receivable

Receivables are recorded at their principal balances and are due primarily from WWU 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 \$5,417 and \$4,711 at June 30, 2010 and 2009 respectively, is adequate.

Building and Equipment, Net

The building used for the Recreation Center's operations is located on WWU'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 2010 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 as well as unamortized bond issue costs. 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. Restricted assets are used in accordance with their requirements and where both unrestricted and restricted resources are available for use, unrestricted resources are used first and restricted resources only when the specific use arises.

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.

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Student Recreation Center Fee, 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.

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 unamortized 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 \$138,713 and \$123,791 for fiscal years ended June 30, 2010 and 2009, 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, 2010 | Weighted Average Maturity | June 30, 2009 | Weighted Average Maturity |
|---------------------------|---------------------|---------------------------------|---------------------|---------------------------------|
| Cash and Cash Equivalents | | | | |
| WWU Investment Pool | \$ 2,597,815 | n/a | \$ 1,696,084 | n/a |
| Investments | | | | |
| WWU Investment Pool | 915,964 | 6.8 months | 1,517,728 | 6.1 months |
| | <u>\$ 3,513,779</u> | | <u>\$ 3,213,812</u> | |

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

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, 2010 and 2009 was \$712,482 and \$717,839, respectively.

Following are the changes in building and equipment for the years ended June 30, 2010 and 2009:

| | June 30, 2009 | Additions | Retirements | June 30, 2010 |
|-------------------------------|----------------------|---------------------|----------------|----------------------|
| Building | \$ 27,687,761 | \$ - | \$ - | \$ 27,687,761 |
| Equipment | 212,901 | 67,433 | (7,393) | 272,941 |
| Construction in Progress | - | 3,665 | - | 3,665 |
| | <u>27,900,662</u> | <u>71,098</u> | <u>(7,393)</u> | <u>27,964,367</u> |
| Less accumulated depreciation | (4,191,411) | (712,482) | 7,393 | (4,896,500) |
| Building and equipment, net | <u>\$ 23,709,251</u> | <u>\$ (641,384)</u> | <u>\$ -</u> | <u>\$ 23,067,867</u> |

| | June 30, 2008 | Additions | Retirements | June 30, 2009 |
|-------------------------------|----------------------|---------------------|-------------|----------------------|
| Building | \$ 27,687,761 | \$ - | \$ - | \$ 27,687,761 |
| Equipment | 183,092 | 29,809 | - | 212,901 |
| | <u>27,870,853</u> | <u>29,809</u> | <u>-</u> | <u>27,900,662</u> |
| Less accumulated depreciation | (3,473,572) | (717,839) | - | (4,191,411) |
| Building and equipment, net | <u>\$ 24,397,281</u> | <u>\$ (688,030)</u> | <u>\$ -</u> | <u>\$ 23,709,251</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 annually until 2033. The bonds have an aggregate face amount of \$24,850,000 and \$25,435,000 at June 30, 2010 and 2009, which is reported net of the unamortized original issue discount and a loss on defeasance of \$322,723 and \$345,524, 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 |
|-------------------------------------|----------------------|----------------------|----------------------|
| 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 | 725,000 | 1,111,250 | 1,836,250 |
| 2016-2020 | 4,230,000 | 4,972,500 | 9,202,500 |
| 2021-2025 | 5,385,000 | 3,805,500 | 9,190,500 |
| 2026-2030 | 6,880,000 | 2,316,750 | 9,196,750 |
| 2031-2033 | 5,005,000 | 508,500 | 5,513,500 |
| | <u>\$ 24,850,000</u> | <u>\$ 17,455,118</u> | <u>\$ 42,305,118</u> |
| Less unamortized discount | (268,861) | | |
| Less unamortized loss on defeasance | (53,862) | | |
| Total | <u>\$ 24,527,277</u> | | |

Following are the changes in bonds payable:

| | Beginning Balance | Amortization of Bond Discount and Loss | Retirements | Ending Balance | Current Portion |
|---|----------------------|--|--------------------|---------------------|--------------------|
| As of June 30, 2010 | | | | | |
| Series 2002 Revenue Bonds, net of unamortized original issue discount and loss on defeasance of \$322,723 and \$345,524 at June 30, 2010 and 2009, respectively | <u>\$25,089,476</u> | <u>\$22,801</u> | <u>(\$585,000)</u> | <u>\$24,527,277</u> | <u>\$615,000</u> |
| 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> |

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.

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The amounts and limitations of this pledge are set forth in the resolutions of the Board of Trustees. Pursuant to 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 \$35,012 and \$38,708 to these plans in fiscal 2010 and fiscal 2009, respectively. Actuarial valuations of the plans for the Recreation Center as a stand-alone entity are not available.

NOTE 6. 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 AAL is not available for auxiliary entities. WWU is responsible for the annual payment; therefore the annual required contribution is not recorded on the Recreation Center's financial statements.