



*WADE KING STUDENT RECREATION CENTER*

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

*June 30, 2011 and 2010*

**Overview of the Financial Statements and Financial Analysis**

The following discussion and analysis provides an overview of the financial position and activities of the Western Washington University Wade King Student Recreation Center (the Recreation Center) for the fiscal years ended June 30, 2011, 2010 and 2009. 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, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Current assets	\$1,621,525	\$2,462,325	\$2,328,127
Noncurrent assets	2,511,300	1,567,107	1,540,587
Buildings and equipment, net	22,357,204	23,067,867	23,709,251
Total assets	<u>\$26,490,029</u>	<u>27,097,299</u>	<u>27,577,965</u>
<b>Liabilities</b>			
Current liabilities	1,183,182	1,197,142	1,144,252
Noncurrent liabilities	23,294,605	23,912,277	24,504,476
Total liabilities	<u>24,477,787</u>	<u>25,109,419</u>	<u>25,648,728</u>
<b>Net Assets</b>			
Invested in capital assets, net	(1,577,401)	(1,459,410)	(1,380,225)
Restricted for system renewal and replacements	1,485,309	1,225,277	1,133,510
Unrestricted	2,104,334	2,222,013	2,175,952
Total net assets	<u>\$2,012,242</u>	<u>\$1,987,880</u>	<u>\$1,929,237</u>

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

*June 30, 2011 and 2010*

Current and noncurrent assets increased \$103,393 (2.6%) when comparing fiscal 2011 to fiscal 2010 and increased \$160,718 (4.2%) over fiscal 2010. Current assets in cash and cash equivalents decreased in fiscal 2011 from fiscal 2010 while noncurrent investments increased over this same period as the University shifted where it invests funds due to the market conditions.

The receivable from the Western Washington University Foundation decreased in fiscal 2011 from fiscal 2010 by \$57,848 (-55.0%) due to the restructuring of the Wade King Foundation annual donation. The receivable from the 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. The buildings and equipment, net balance decreased \$710,663 (-3.1%) when comparing fiscal 2011 to fiscal 2010 and decreased \$641,384 (-2.7%) in fiscal 2010 when comparing to fiscal 2009 as the Recreation Center building continues to be depreciated with no significant capital additions.

Current liabilities decreased \$13,960 (-1.2%) in fiscal 2011 when compared to fiscal 2010 due to the payment of scheduled maintenance activities from fiscal 2010 combined with an increase to the current portion of bonds payable. Current liabilities increased \$52,890 (4.6%) in fiscal 2010 related to the maintenance activities scheduled closer to fiscal-year end. Noncurrent liabilities decreased \$617,672 (-2.6%) in fiscal 2011 and \$592,199 (-2.4%) in fiscal 2010 due to debt payments on the outstanding bonds for the Recreation Center building.

Overall net assets increased \$24,362 (1.2%) in fiscal 2011 and \$58,643 (3.0%) in fiscal 2010. 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, 2011, 2010 and 2009:

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

*June 30, 2011 and 2010*

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 4,340,989	\$ 4,299,600	\$ 4,265,131
Operating expenses	<u>(3,064,402)</u>	<u>(3,033,441)</u>	<u>(2,771,341)</u>
Income from operations	1,276,587	1,266,159	1,493,790
Nonoperating revenues	16,597	86,845	137,059
Nonoperating expenses	<u>(1,268,822)</u>	<u>(1,294,361)</u>	<u>(1,331,059)</u>
Increase in net assets	24,362	58,643	299,790
Net assets, beginning of year	<u>1,987,880</u>	<u>1,929,237</u>	<u>1,629,447</u>
Net assets, end of year	<u><u>\$ 2,012,242</u></u>	<u><u>\$ 1,987,880</u></u>	<u><u>\$ 1,929,237</u></u>

**Revenues**

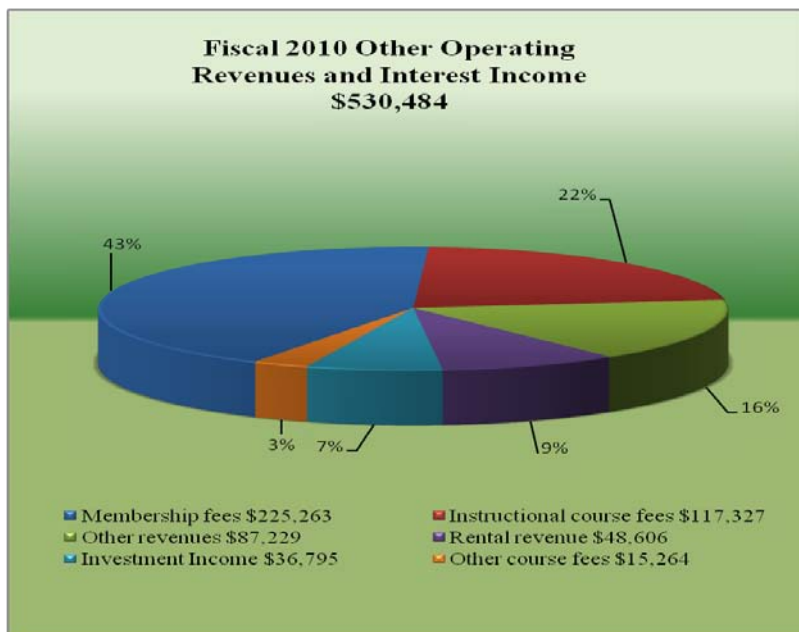
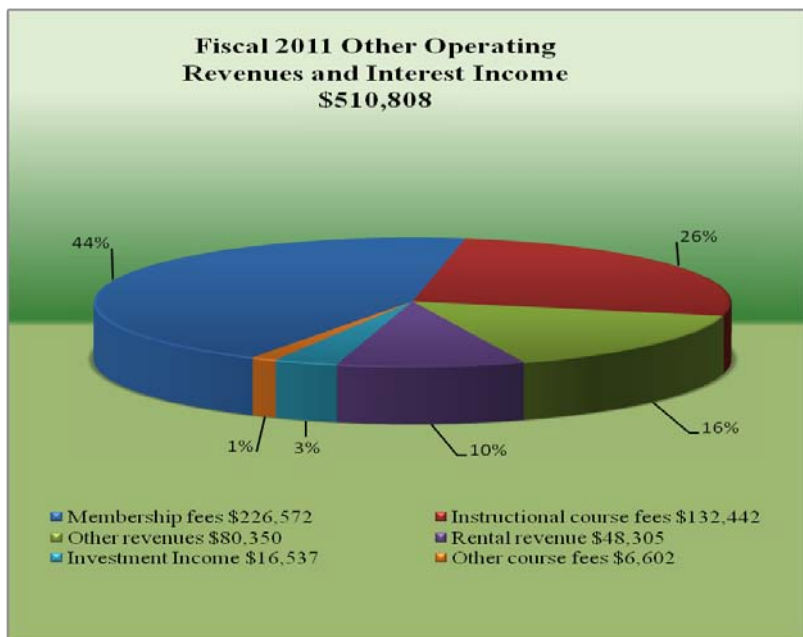
The Recreation Center's largest source of revenue is a \$95 per quarter mandatory student fee for use of the facility for those students taking six or more credits. Other students, faculty, staff and alumni may pay a membership fee on a voluntary basis to gain access to the facility. The mandatory fee remained unchanged from fiscal 2010. With enrollment just slightly greater than the previous fiscal year, the student fee revenue for fiscal 2011 was \$40,807 (1.1%) higher than fiscal 2010. The increase in student fee revenue in fiscal 2010 was \$34,374 (0.9%) compared to fiscal 2009.

Non-mandatory fee operating revenues and non-operating revenues, excluding gift income, decreased \$19,676 (-3.7%) in fiscal 2011 from \$530,484 in fiscal 2010 and decreased \$50,169 (-8.6%) from \$580,653 in fiscal 2009. The decreases in non-mandatory fee operating revenues and non-operating revenues, excluding gift income, in fiscal 2011 and fiscal 2010 were due to the reduction in investment income as a result of the historically low interest rate environment. Investment income decreased \$20,258 (-55.1%) to \$16,537 in fiscal 2011 from \$36,795 in fiscal 2010, which was a \$50,264 (57.7%) decrease from \$87,059 in fiscal 2009.

Rental revenue for fiscal 2011 was nearly on par with fiscal 2010, decreasing by just \$301 (-0.6%). Rental revenue for fiscal 2010 increased \$6,251 (14.8%) to \$48,606 from \$42,355 in fiscal 2009 due to additional marketing to the community regarding the availability of facility rentals.

***WADE KING STUDENT RECREATION CENTER  
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*June 30, 2011 and 2010*



**Expenses**

The largest category of expenses for the Recreation Center is student and staff salaries and benefits, with depreciation being the second largest expense. Salaries and benefits comprised 42.3% of the total operating expenses in fiscal 2011 compared to 40.7% and 41.8% in fiscal 2010 and fiscal 2009, respectively. The increase

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*June 30, 2011 and 2010*

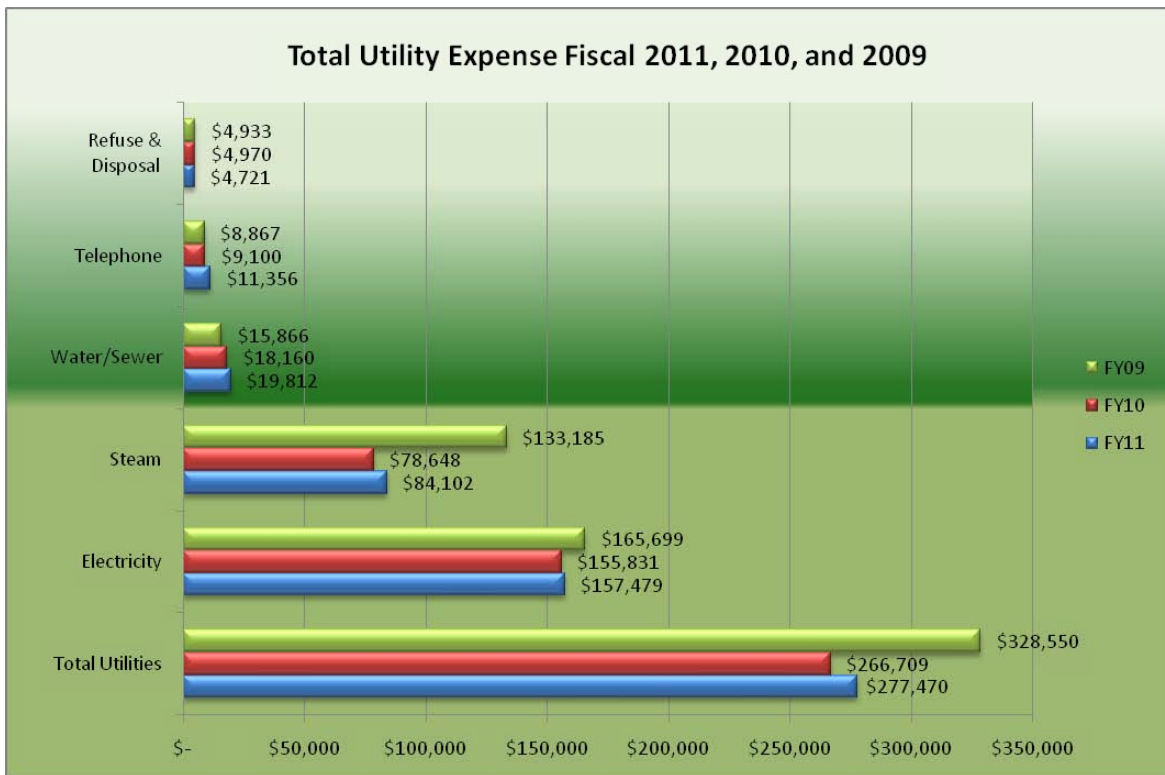
in salaries and benefits expense of \$62,348 in fiscal 2011 over 2010 is attributable to the addition of a maintenance position, increased student paraprofessional employment to assist in the opening and closing of the Recreation Center, and an increase in administrative salary allocations from the Division of Student Affairs..

The University's administrative services assessment fee was raised and increased expenses by \$40,275 (29.0%) to \$178,988 in fiscal 2011 and increased by \$14,922 (12.1%) to \$138,713 in fiscal 2010 from \$123,791 in fiscal 2009.

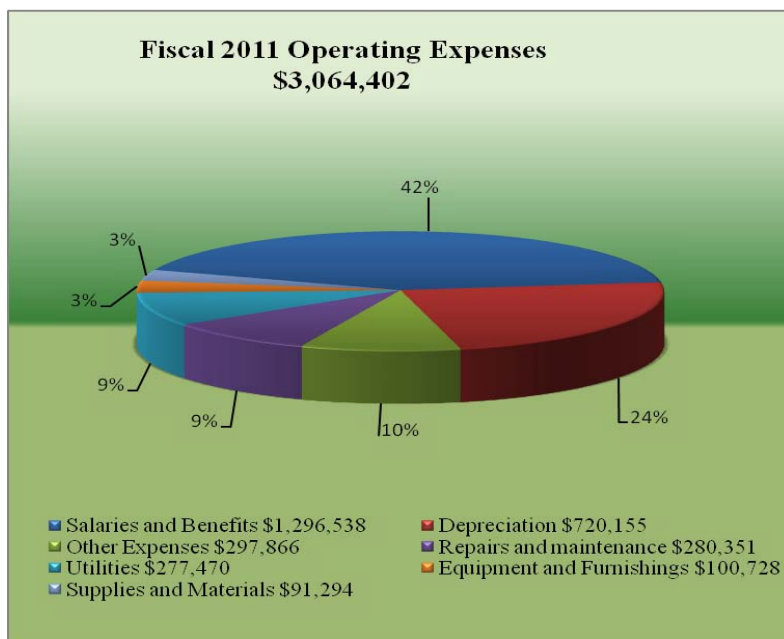
The University imposed an equipment freeze for state and tuition funds in fiscal 2011, fiscal 2010 and fiscal 2009 to achieve savings in anticipation of state-wide budget reductions. Student Affairs auxiliary operations, including the Recreation Center, voluntarily restricted equipment expenditures from operating funds, but utilized \$57,908 from its Wade King Foundation Fund in fiscal 2011 and \$82,278 in fiscal 2010 to purchase equipment and furnishings. This fund was not utilized during fiscal 2009.

Supplies and materials expense increased slightly by \$1,777 (2.0%) to \$91,294 in fiscal 2011 from \$89,517 in fiscal 2010. When comparing fiscal 2010 to fiscal 2009 there was an increase of \$18,627 (26.3%) from \$70,890 in fiscal 2009. The fiscal 2010 increase was due to purchases to equip the new climbing wall floor and rock bouldering areas, including new ropes, carabineers and tie downs in order to meet new industry standards.

Repairs and maintenance expenses decreased by \$94,623 (-25.2%) to \$280,351 in fiscal 2011 due to a shift in the funding for the maintenance position. Previously the Recreation Center paid Facilities Management for this position plus supervision overhead. Repairs and maintenance expenses increased significantly by \$171,100 (83.9%) to \$374,974 in fiscal 2010 compared with fiscal 2009. A major component of the increase can be attributed to roof recoating, tennis court lights, a sound board for the indoor track, 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.



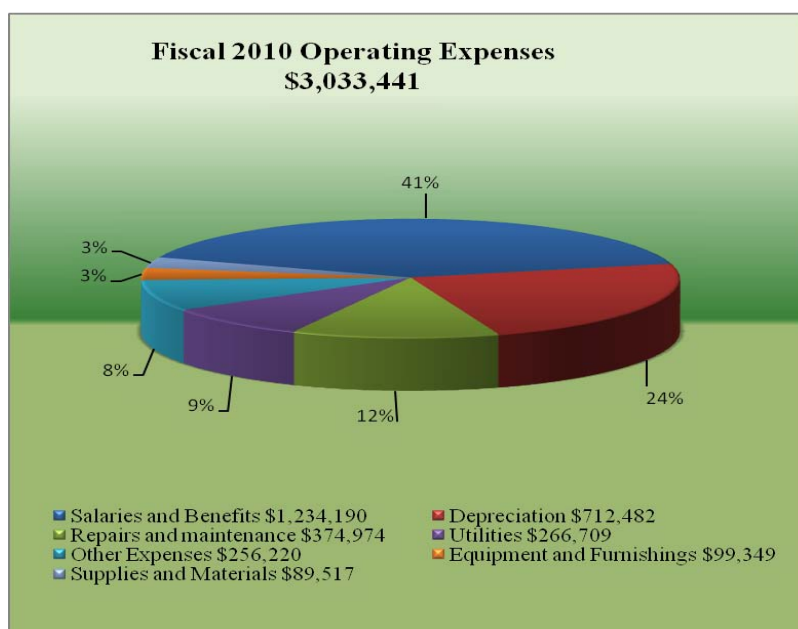
Total utility expense for fiscal 2011 was \$277,470, an increase of \$10,761 (4.0%) from fiscal 2010. This rise in utility expense was primarily due to increased steam costs attributable to a colder and longer than average winter and spring. Telephone and electricity had only minor increases. Total utility expense for fiscal 2010 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.





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

*June 30, 2011 and 2010*



**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 as a result of bond defeasance. 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 2011, 2010 and 2009. 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, 2011, the R&R balance was \$1,716,429. 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. This 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 \$100,000 in fiscal 2011 and \$125,000 each in fiscal 2010 and fiscal 2009. During fiscal 2011, \$29,917 was spent to create two new offices to accommodate additional staff members housed in the Recreation Center. At June 30, 2011, the operating reserve totaled \$1,646,841. These assets are reported as unrestricted on the Statements of Net Assets.

The King family made an annual donation of \$50,000 over the first seven years, totaling \$350,000. As of fiscal 2011, their annual contribution to the Recreation Center has been restructured. This Foundation reserve fund is dedicated to maintaining the quality of the facility and its programs, and supported students directly as well.

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MANAGEMENT'S DISCUSSION AND ANALYSIS***

*June 30, 2011 and 2010*

During fiscal 2011, \$57,908 was spent on non-capital equipment to improve the weight and fitness areas. 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, 2011 was \$47,410. 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 2011, 2010, and fiscal 2009 were 2.37, 2.37 and 2.35, respectively. The increase in the ratio between fiscal 2009 and fiscal 2010 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 were slightly lower with 12,167 (90.0%) of the 13,521 enrolled students using the facility during the course of fiscal 2011. This information is recorded in the Recreation Center's system when students present their membership cards upon entry to the facility. Fiscal 2010 had a utilization rate of 12,076 (90.8%) of 13,300 eligible students compared to 11,997 (90.6%) of 13,240 eligible students in fiscal 2009. Visits by members and non-members totaled 427,951 during fiscal 2011, compared with 426,010 during fiscal 2010 and 435,987 in fiscal 2009. The highest number of visits in a given day exceeded 3,000 in fiscal 2011 compared to 3,400 per day in fiscal 2010 and fiscal 2009.



**Washington State Auditor  
Brian Sonntag**

November 8, 2011

Board of Trustees  
Western Washington University  
Bellingham, Washington

We have audited the accompanying basic financial statements of the Western Washington University Wade King Student Recreation Center (the Recreation Center) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the Recreation Center as of June 30, 2010, were audited by other auditors whose report dated October 12, 2010, expressed an unqualified opinion on the Recreation Center's basic financial statements.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Western Washington University Wade King Recreation Center are intended to present the financial position, and the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the 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

## INDEPENDENT AUDITOR'S REPORT

of June 30, 2011, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Washington University Wade King Student Recreation Center as of June 30, 2011, and the changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 10, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

**WADE KING STUDENT RECREATION CENTER**  
**STATEMENTS OF NET ASSETS**

*June 30, 2011 and 2010*

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Current assets		
Cash and cash equivalents (Note 2)	\$1,040,566	\$1,691,968
Investments (Note 2)	464,800	596,534
Accounts receivable, net of allowance of \$4,643 in 2011 and \$5,417 in 2010	64,808	64,712
Receivable from Western Washington University Foundation	47,410	105,258
Prepaid Expenses	45	250
Inventory	3,896	3,603
Total current assets	<u>1,621,525</u>	<u>2,462,325</u>
Noncurrent assets		
Investments (Note 2)	708,267	-
Restricted cash and cash equivalents (Note 2)	1,098,089	905,847
Restricted investments (Note 2)	387,220	319,430
Other assets (Note 1)	317,724	341,830
Building and equipment, net (Note 3)	22,357,204	23,067,867
Total noncurrent assets	<u>24,868,504</u>	<u>24,634,974</u>
Total assets	<u>26,490,029</u>	<u>27,097,299</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	12,097	63,180
Accrued wages and benefits	125,441	123,031
Deferred revenue	205,686	191,616
Interest payable	199,958	204,315
Current portion of bonds payable (Note 4)	640,000	615,000
Total current liabilities	<u>1,183,182</u>	<u>1,197,142</u>
Noncurrent liabilities		
Bonds payable, less current portion (Note 4)	23,294,605	23,912,277
Total liabilities	<u>24,477,787</u>	<u>25,109,419</u>
<b>Net Assets</b>		
Invested in building and equipment, net of related debt	(1,577,401)	(1,459,410)
Restricted for system renewals and replacements	1,485,309	1,225,277
Unrestricted	2,104,334	2,222,013
Total net assets	<u>\$2,012,242</u>	<u>\$1,987,880</u>

*WADE KING STUDENT RECREATION CENTER*  
*STATEMENTS OF REVENUES, EXPENSES & CHANGES IN NET ASSETS June 30, 2011 and 2010*

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Service and activity fees, net of mandatory transfer	\$3,846,718	\$3,805,911
Staff, faculty and alumni membership fees	226,572	225,263
Instructional course fees	132,442	117,327
Other course fees	6,602	15,264
Rental revenue	48,305	48,606
Other revenues	80,350	87,229
Total operating revenues	<u>4,340,989</u>	<u>4,299,600</u>
<b>Operating Expenses</b>		
Salaries and benefits	1,296,538	1,234,190
Depreciation	720,155	712,482
Utilities	277,470	266,709
Repairs and maintenance	280,351	374,974
Equipment and furnishings	100,728	99,349
Supplies and materials	91,294	89,517
Administrative assessment	178,988	138,713
Insurance	27,204	29,953
Other	91,674	87,554
Total operating expenses	<u>3,064,402</u>	<u>3,033,441</u>
Income from operations	1,276,587	1,266,159
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	16,537	36,795
Gift income	60	50,050
Interest expense	(1,221,531)	(1,246,606)
Amortization of bond discounts and costs	(47,291)	(47,755)
Total nonoperating revenues (expenses)	<u>(1,252,225)</u>	<u>(1,207,516)</u>
Increase in net assets	24,362	58,643
<b>Net Assets, Beginning of Year</b>	<u>1,987,880</u>	<u>1,929,237</u>
<b>Net Assets, End of Year</b>	<u><u>\$2,012,242</u></u>	<u><u>\$1,987,880</u></u>

**WADE KING STUDENT RECREATION CENTER**  
**STATEMENTS OF CASH FLOWS**

*June 30, 2011 and 2010*

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from students and other customers	\$4,354,963	\$4,286,034
Payments to employees	(1,294,128)	(1,231,112)
Payments to suppliers	(1,098,880)	(1,040,653)
Net cash flows provided by operating activities	<u>1,961,955</u>	<u>2,014,269</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Gift income	57,908	156,107
Net cash flows provided by(used in) noncapital financing activities	<u>57,908</u>	<u>156,107</u>
<b>Cash Flows from Investing Activities</b>		
Net purchases of investments in internal investment pool	(644,323)	601,764
Investment income received	16,537	36,795
Net cash flows provided by investing activities activities	<u>(627,786)</u>	<u>638,559</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchases of equipment	(9,492)	(71,098)
Interest paid on capital debt	(1,226,745)	(1,251,106)
Principal paid on capital debt	(615,000)	(585,000)
Net cash used in capital and related financing	<u>(1,851,237)</u>	<u>(1,907,204)</u>
Net increase in cash and cash equivalents	(459,160)	901,731
Cash and cash equivalents, beginning of year	<u>2,597,815</u>	<u>1,696,084</u>
Cash and cash equivalents, end of year	<u>\$2,138,655</u>	<u>\$2,597,815</u>
<b>Reconciliation of Operating Income to Net Cash Provided to Operating Activities</b>		
Income from operations	\$1,276,587	\$1,266,159
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation	720,155	712,482
Change in operating assets and liabilities		
Accounts receivable	(96)	9,744
Accounts payable, accrued expenses, salaries and benefits	(48,673)	50,343
Prepaid Expense	205	(250)
Deferred revenue	14,070	(23,310)
Inventory	(293)	(899)
Net cash flows provided by operating activities	<u>\$1,961,955</u>	<u>\$2,014,269</u>

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

*June 30, 2011 and 2010*

**NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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

The facility was named in memory of Wade King, a 10-year old who died in 1999 in a pipeline explosion in Bellingham. Prior to fiscal 2011, Wade King's 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. During fiscal 2011, the Recreation Center did not receive \$50,000 due a restructure of the pledged gift.

**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 the University.

**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**

The University records all cash and cash equivalents at amortized cost, which approximates fair value. Investments held by the University are recorded at fair value. To maximize investment income, the University 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 University 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, 2011 and 2010*

Accounts Receivable

Receivables are recorded at their principal balances and are due primarily from the University students. The Recreation Center considers all accounts greater than 30 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is written off against the allowance. Management determined that an allowance of \$4,643 and \$5,417 at June 30, 2011 and 2010 respectively, is adequate.

Building and Equipment, Net

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

Deferred Revenue

Summer quarter, which is the first quarter of the University's fiscal year, begins shortly before June 30. The majority of cash received for service and activity fees related to summer session in fiscal 2011 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, the University 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

The University 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 \$178,988 and \$138,713 for fiscal years ended June 30, 2011 and 2010, respectively.

Tax Exemptions

the University, 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.

**NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

Interest Rate and Credit Risk

The University investment pool is invested in demand deposits, time certificates of deposit, the Washington State Local Government Investment Pool (LGIP) and U.S. Treasury and Agency securities. The LGIP is considered a cash equivalent. The University'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. The Recreation Center's investment in the University's pool includes \$1,485,309 restricted for renewals and replacements.

The University manages its exposure to fair value losses in the internal investment pool by limiting the duration of its portfolio to a maximum of 1.82 years, with a target of 1.46 years.

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	June 30, 2011	Weighted Average Maturity (in years)	June 30, 2010	Weighted Average Maturity (in years)
Cash and Cash Equivalents	\$ 2,138,655	n/a	\$ 2,597,815	n/a
Investments				
Certificates of deposit	228,270	0.046	915,964	0.003
U.S. Treasury	1,141,662	5.500		
U.S. Agencies	190,355	4.000		
	<u>\$ 3,698,942</u>		<u>\$ 3,513,779</u>	

**NOTE 3. BUILDING AND EQUIPMENT, NET**

The depreciation expense for the fiscal years ended June 30, 2011 and 2010 was \$720,155 and \$712,482, respectively.

Following are the changes in building and equipment for the years ended June 30, 2011 and 2010:

	June 30, 2010	Additions	Retirements	June 30, 2011
Building	\$ 27,687,761	\$ -	\$ -	\$ 27,687,761
Equipment	272,941	6,079	(16,906)	262,114
Construction in Progress	3,665	5,313	(1,900)	7,078
	<u>27,964,367</u>	<u>11,392</u>	<u>(18,806)</u>	<u>27,956,953</u>
Less accumulated depreciation	(4,896,500)	(720,155)	16,906	(5,599,749)
Building and equipment, net	<u>\$ 23,067,867</u>	<u>\$ (708,763)</u>	<u>\$ (1,900)</u>	<u>\$ 22,357,204</u>
	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>

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**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 \$24,235,000 and \$24,850,000 at June 30, 2011 and 2010, which is reported net of the unamortized original issue discount and a loss on defeasance of \$300,395 and \$322,723, 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. The University 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.

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:

	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
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	765,000	1,075,000	1,840,000
2017-2021	4,440,000	4,761,000	9,201,000
2022-2026	5,655,000	3,536,250	9,191,250
2027-2031	7,225,000	1,972,750	9,197,750
2032-2033	3,415,000	258,250	3,673,250
	<u>\$ 24,235,000</u>	<u>\$ 16,229,230</u>	<u>\$ 40,464,230</u>
Less unamortized discount	(249,902)		
Less unamortized loss on defeasance	(50,493)		
Total	<u>\$ 23,934,605</u>		

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Following are the changes in bonds payable:

	Beginning Balance	Amortization of Bond Discount and Loss	Retirements	Ending Balance	Current Portion
As of June 30, 2011					
Series 2002 Revenue Bonds, net of unamortized original issue discount and loss on defeasance of \$302,142 and \$322,723 at June 30, 2011 and 2010, respectively	<u>\$24,527,277</u>	<u>\$22,328</u>	<u>(\$615,000)</u>	<u>\$23,934,605</u>	<u>\$640,000</u>
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>

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

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

The University 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

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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 the University. The University'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. The University 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. The University matches the contributions. All required employer and employee contributions have been made. The Recreation Center contributed \$37,273 and \$35,012 to these plans in fiscal 2011 and fiscal 2010, respectively. Actuarial valuations of the plans for the Recreation Center as a stand-alone entity are not available.

**NOTE 6. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

The University 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. The University is responsible for the annual payment; therefore the annual required contribution is not recorded on the Recreation Center's financial statements.