



**FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTAL  
INFORMATION**

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November 8, 2012

Peggy Zoro, Chair  
Board of Trustees  
Western Washington University  
Bellingham, WA 98225

Dear Chair Zoro:

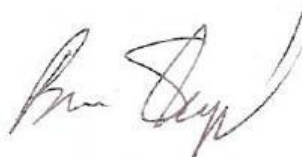
We are pleased to submit the Annual Financial Report of Western Washington University. The accounts of the University are maintained in accordance with policies and regulations established by Washington State and its Office of Financial Management. This report has been prepared in accordance with generally accepted accounting principles and following the guidance of the Governmental Accounting Standards Board.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The Washington State Auditors' Office has issued an unqualified (clean) opinion on the Western Washington University financial statements for the year ended June 30, 2012. This opinion is included in the independent auditor's report.

Management's discussion and analysis, located at the front of the financial section of this report, provides a narrative introduction, overview, and analysis of the basic financial statements. Western Washington University is recognized nationwide as a premier public comprehensive university. Western Washington University is the highest-ranking public, master's-granting university in the Pacific Northwest, according to the 2012 U.S. News & World Report college rankings. Western's national academic reputation, excellent faculty, as well as its prime location, make it an institution "in demand", factors which will continue to help it weather the current economic challenges.

Sincerely,



Bruce Shepard  
President



Richard Van Den Hul  
Vice President for Business and Financial Affairs

***BOARD OF TRUSTEES\****

Peggy Zoro, Chair  
Karen Lee, Vice Chair  
Betti Fujikado, Secretary  
Joseph Meyer, Student Trustee  
Phil Sharpe, Jr.  
Dick Thompson  
Dennis Madsen  
Ralph Munro

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Catherine Riordan, Provost and Vice President for Academic Affairs  
Eileen V. Coughlin, Senior Vice President for Enrollment and Student Services  
Richard Van Den Hul, Vice President for Business and Financial Affairs  
Steve Swan, Vice President for University Relations  
Stephanie Bowers, Vice President for University Advancement  
Brian Sullivan, Assistant Vice President for Business and Financial Affairs  
Teresa Mroczkiewicz, Director, Financial Services  
Michael Ulrich, Accounting Manager, Accounting Services

\*as of Independent Auditors' report date

**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 (the University) for the years ended June 30, 2012 and 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

**Reporting Entity**

The University is a comprehensive, degree granting public university in the State of Washington. It is governed by a Board of eight Trustees appointed by the Governor. One of the members is a full-time student of the University. The University was established in 1893 and currently has approximately 15,000 full-time and part-time students.

Located on the shores of Bellingham Bay with Mount Baker as its backdrop, Bellingham is the last major city before the Washington coastline meets the Canadian border. The City of Bellingham, which serves as the county seat of Whatcom County, is at the center of a uniquely picturesque area offering a rich variety of recreational, cultural, educational and economic activities.

**Using the Financial Statements**

The University's financial reports include the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the Notes to the Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. GASB standards require that financial statements include all funds.

**Statements of Net Position**

The Statements of Net Position present the financial condition of the University at the end of the last three fiscal years and report all assets and liabilities of the University.

A summarized comparison of the University's assets, liabilities and net position as of June 30, 2012, 2011 and 2010, follows:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<i>(Dollars in thousands)</i>		
<b>Assets</b>			
Current assets	\$77,346	\$61,660	\$81,794
Noncurrent assets	46,606	52,958	34,627
Capital assets, net	<u>442,253</u>	<u>435,638</u>	<u>413,200</u>
Total assets	<u>566,205</u>	<u>550,256</u>	<u>529,621</u>
<b>Liabilities</b>			
Current liabilities	30,634	31,323	36,046
Noncurrent liabilities	<u>84,133</u>	<u>82,020</u>	<u>83,786</u>
Total liabilities	<u>114,767</u>	<u>113,343</u>	<u>119,832</u>
<b>Total net position</b>	<u><u>\$451,438</u></u>	<u><u>\$436,913</u></u>	<u><u>\$409,789</u></u>

### Assets

Current assets consist primarily of cash and cash equivalents, short-term investments, funds held with the State Treasurer, and accounts receivable from students. The \$15.7 million (25.4%) increase in total current assets during fiscal 2012 compared to fiscal 2011 is primarily due to an increase of \$7.1 million (20.8%) in current cash and cash equivalents as a result of maturing investments coupled with increases of \$3.9 million (79.4%) in Funds with the State Treasurer and \$4.4 million (27.2%) in short-term investments. The increase in Funds with the State Treasurer is attributable to the remaining unspent \$2.7 million in Certificate of Participation (COP) funding to be used to fund an energy savings capital project during the next fiscal year. The increase in short-term investments is due to the change in maturities. The \$20.1 million (-24.6%) decrease in total current assets during fiscal 2011 compared to fiscal 2010 is primarily due to a reduction in cash and cash equivalents of \$16.2 million (-32.2%), used in fiscal 2011 to purchase investments.

Noncurrent assets (excluding capital assets) decreased \$6.4 million (-12.0%) when comparing fiscal 2012 to fiscal 2011 due to changes in restricted cash and cash equivalents offset by changes in restricted and long-term investments. The decrease of \$1.7 million (-53.7%) in restricted cash and cash equivalents is due to spending down the remaining \$2.1 million 2009 bond funds paired with increases in restricted cash and cash equivalents from the Student Recreation Center's renewal and replacement fund and additional bond proceeds from the Revenue and Refunding Series 2012 issuance. Noncurrent assets (excluding capital assets) increased \$18.3 million (52.9%) in fiscal 2011 over fiscal 2010 primarily due to the increase in long-term restricted and unrestricted investments offset by decreases in cash and cash equivalents and the amount due from State Treasurer. The increase in long-term restricted and unrestricted investments was due to purchases of U.S. Treasury and Agency Securities. The change in the amount due from the State Treasurer is attributable to an increase in capital expenditures that occurred at the end of fiscal 2010 with cash requested in fiscal 2011. Restricted cash and cash equivalents decreased \$3.8 million (-54.6%) in fiscal 2011 primarily due to spending \$4.0 million of the remaining amount of the \$14.3 million in Housing and Dining System 2009 revenue bond proceeds.

Growth in total net position over the last three fiscal years is due to the continuation of the University's capital program and an increase in investments and cash and cash equivalents. Capital assets grew in fiscal 2012 by \$6.6 million (1.5%) as a result of the capitalization of the completion of the Buchanan Towers addition and the Miller Hall renovation along with the beginning of the Carver Gymnasium remodel. Capital assets grew in fiscal 2011 by \$22.4 million (5.4%) when compared to fiscal 2010, primarily due to the capitalization of work performed on the Miller Hall renovation and the Buchanan Towers remodel.

### Liabilities

The excess of current assets over current liabilities of \$41.9 million in fiscal 2012 and \$30.3 million in fiscal 2011 reflects the continuing ability of the University to meet its short-term obligations with liquid or easily liquidated assets. Current liabilities decreased \$689 thousand (-2.2%) when comparing fiscal 2012 to fiscal 2011 primarily due to the decrease in accounts payable and accrued liabilities of \$656 thousand (-6.2%). Current liabilities decreased \$4.7 million (-13.1%) comparing fiscal 2011 to fiscal 2010 due to the payment of capital expenditure invoices recorded at fiscal 2010 year end. Deferred revenues increased in fiscal 2012 by \$308 thousand (4.9%) when compared to fiscal 2011 due to a 16.0% summer session undergraduate tuition increase and the implementation of a specialized grant module in the University's financial system, allowing for more accurate recording of deferred grant revenue. Deferred revenues increased \$826 thousand (15.3%) when comparing fiscal 2011 to fiscal 2010 due to a 14.0% increase in summer session undergraduate tuition and an enrollment increase of over 2.0%. The current portion of bonds and notes payable decreased \$377 thousand (-10.4%) due to the current refunding of the Recreation Center's revenue bonds series 2002 and the addition of a State Certificate of Participation to fund an energy savings capital project. In April 2012, the University issued Revenue and Refunding Bonds Series 2012 to refund the Recreation Center's revenue bonds series 2002. The series 2012 bonds do not have a current portion due during the next fiscal year as part of the debt service savings. The current portion of bonds and notes payable increased slightly by \$150 thousand (4.3%) when comparing fiscal 2011 to fiscal 2010 due to the addition of two State Certificates of Participation to fund equipment purchases in Athletics.

Long-term liabilities increased \$2.1 million (2.6%) when comparing fiscal 2012 to fiscal 2011 due to a net increase in bonds and notes payable and a \$1.3 million (31.5%) increase in unfunded net pension obligation to certain state employees based on the estimated State Actuarial valuation of the plan. The net increase in bonds and notes payable includes the addition of a \$3.0 million State Certificate of Participation to fund an energy savings capital project and net savings of \$1.9 million in refunding outstanding Student Recreation Center bonds offset by \$1.1 million in additional bond funds to be used for development of the Multipurpose Field capital project in fiscal 2013 and 2014. Long-term liabilities decreased \$1.8 million (-2.1%) when comparing fiscal 2011 to fiscal 2010 due to the retirement of \$3.6 million in bonds and notes

payable offset by an increase of \$1.3 million to the unfunded net pension obligation and the addition of \$450 thousand in new notes payable to fund equipment in the Athletic Department.

**Net Position**

The difference between total assets and total liabilities is net position, or equity. The change in net position measures whether the overall financial condition has improved or deteriorated during the year. The net position is reported in the following categories:

*Net Investment in Capital Assets* – The University's total investments in property, plant equipment, and infrastructure, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

*Restricted:*

- Nonexpendable consists of funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditures but for investment purposes only.
- Expendable are resources which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed upon them by donors or other external parties.

*Unrestricted*– All remaining funds available to the institution for any purpose, although these are often internally designated for specific purposes.

The University's net position as of June 30, 2012, 2011 and 2010 are summarized as follows:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<i>(Dollars in thousands)</i>		
<b>Net Position</b>			
Net investment in capital assets	\$361,803	\$357,815	\$336,630
Restricted:			
Nonexpendable	4,629	4,629	4,629
Expendable	29,460	24,391	26,321
Unrestricted	<u>55,546</u>	<u>50,078</u>	<u>42,209</u>
Total net position	<u>\$451,438</u>	<u>\$436,913</u>	<u>\$409,789</u>

Net investment in capital assets increased \$4.0 million (1.1%) in fiscal 2012 when compared to fiscal 2011 due to the completions of the Buchanan Towers addition and the Miller Hall renovation and increases to construction in progress for various new capital projects, offset by an increase of \$856 thousand (1.1%) in long-term debt. Net investment in capital assets increased \$21.2 million (6.3%) when comparing fiscal 2011 to fiscal 2010 due to increases in construction in progress for the Miller Hall and Buchanan Towers renovations, along with a reduction in long-term debt from principal payments.

Restricted nonexpendable includes donations and matching State contributions for the purpose of establishing distinguished professorships and graduate fellowships. When comparing fiscal 2012 to fiscal 2011 and fiscal 2011 to fiscal 2010, there were no changes to restricted nonexpendable net position as no new additions to endowments were received.

Restricted expendable increased \$5.1 million (20.8%) in fiscal 2012 compared to fiscal 2011, primarily due to a \$3.8 million (79.4%) increase in Funds with the State Treasurer and a \$1.2 million (9.3%) increase in the institutional financial aid fund, which is collected as a part of tuition. The increase in Funds with the State Treasurer is primarily due to funds held on behalf of the University to fund a capital energy savings project. Restricted expendable decreased \$1.9 million (-7.3%) when comparing fiscal 2011 to fiscal 2010 due to a decrease in funds held by the State Treasurer, offset by increases to student loan funds and grants. The State Permanent Funds represents the University's share of net earnings of the Normal School Permanent Fund and tuition distributions, reduced by expenditures for capital projects.

Unrestricted increased \$5.5 million (10.9%) when comparing fiscal 2012 to fiscal 2011 due to increases in tuition and fees, Housing & Dining capital reserves, and administrative overhead revenue generated by the Carver Gym project. Unrestricted increased \$7.9 million (18.6%) in fiscal 2011 over fiscal 2010 due to increases in tuition, Housing and Dining capital plan reserves, investment gains on endowments and other program fees.

### **Capital Improvements and Related Debt**

During fiscal 2012 and fiscal 2011, \$16.7 million and \$35.8 million (excluding library materials and equipment) respectively, were expended on capital improvements compared to \$40.1 million in fiscal 2010. Of the \$16.7 million in capital improvements, \$3.8 million was expended on the completion of the Miller Hall building remodel, \$2.7 million on the completion of the Buchanan Towers renovations, \$5.6 million on Housing & Dining residence facilities, and \$1.7 million on the Carver Gym renovation. In addition to the \$16.7 million, the dining contract with Aramark provides a financial commitment up to \$7.3 million in dining area improvements. During fiscal 2012, the financial commitment was valued at \$4.3 million in capitalized improvements. Also, the Western Washington University Foundation provided a gift in kind of \$1.1 million with capital improvements to the women's Softball Field. In fiscal 2010, \$40.1 million (excluding library materials and equipment) was expended on capital improvements; \$18.2 million on the Miller hall building remodel, \$9.3 million on the Buchanan Towers renovation, \$3.9 million on the Chemistry Building addition, \$1.2 million on the Fairhaven Fire Sprinkler project, and \$972 thousand on the Haggard Hall/Wilson Library renovation.

Specific projects completed or underway in fiscal 2012 include:

*Buchanan Towers Addition.* A 105-bed, 37,000 square feet addition was constructed on the east side of the Buchanan Towers building. The project was designed with principles of day lighting and natural ventilation to achieve a USGBC LEED Silver and possibly Gold rating.

*Miller Hall Renovation.* Due to the historical significance and its prominent location in the heart of campus, Miller Hall was selected to undergo a major renovation beginning in the 2009-2011 biennium. The project provided general University classrooms, computer labs, instructional space, and support facilities for the Woodring College of Education and the Department of Modern and Classical Languages.

*Carver Gymnasium Renovation* The estimated \$75.6 million addition of 41,977 square feet will provide additional general classroom seats as well as dedicated lab and instructional spaces that will allow the consolidation and growth of Physical Education, Health, & Recreation department. Large general University functions such as commencement, student activities and conferences will also be served in the refurbished 2,600 seat event space.

### **Statement of Revenues, Expenses and Changes in Net Position**

The Statements of Revenues, Expenses and Changes in Net Position present the University's results of operating and nonoperating items that result in the changes in net position for the year. In accordance with GASB reporting principles, revenues and expenses are classified as operating or nonoperating.

A condensed comparison of the University's revenues, expenses and changes in net position for the years ended June 30, 2012, 2011 and 2010 follows:



	2012	2011	2010
	<i>(Dollars in thousands)</i>		
Operating revenues	\$181,778	\$167,904	\$156,162
Operating expenses	<u>235,518</u>	<u>244,230</u>	<u>237,989</u>
Operating loss	(53,740)	(76,326)	(81,827)
State appropriations revenue	43,083	63,761	64,621
Other nonoperating revenues	14,702	16,355	13,180
Nonoperating expenses	<u>(4,189)</u>	<u>(4,061)</u>	<u>(4,156)</u>
(Loss) income before other revenues	(144)	(271)	(8,182)
Other revenues	<u>14,669</u>	<u>27,395</u>	<u>31,674</u>
Increase in net position	14,525	27,124	23,492
Net position, beginning of year	<u>436,913</u>	<u>409,789</u>	<u>386,297</u>
Net position, end of year	<u>\$451,438</u>	<u>\$436,913</u>	<u>\$409,789</u>

### Primary Funding Sources

The University relies primarily on student tuition and fees and state appropriations as revenue sources to support operations. Tuition revenue, net of scholarship allowances, has continued to grow, increasing \$11.5 million (13.0%) and \$8.5 million (10.7%) in fiscal 2012 and fiscal 2011, respectively. During fiscal 2012, the University provided \$20.7 million in financial aid in the form of scholarship allowances that offset tuition and fees, compared to \$18.4 million in fiscal 2011 and \$14.8 million in fiscal 2010.

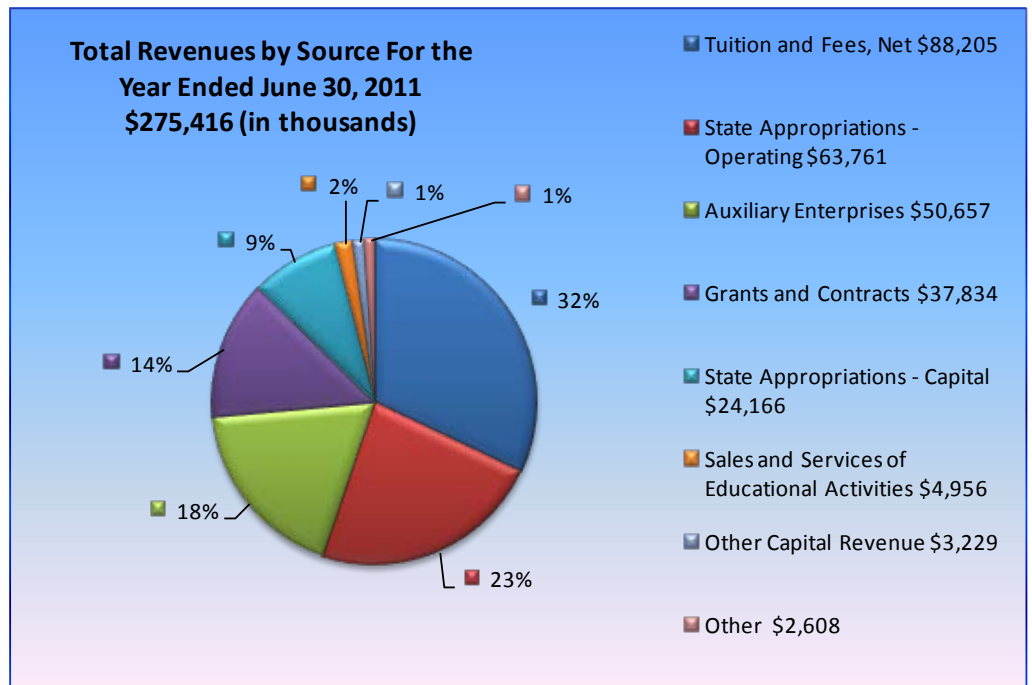
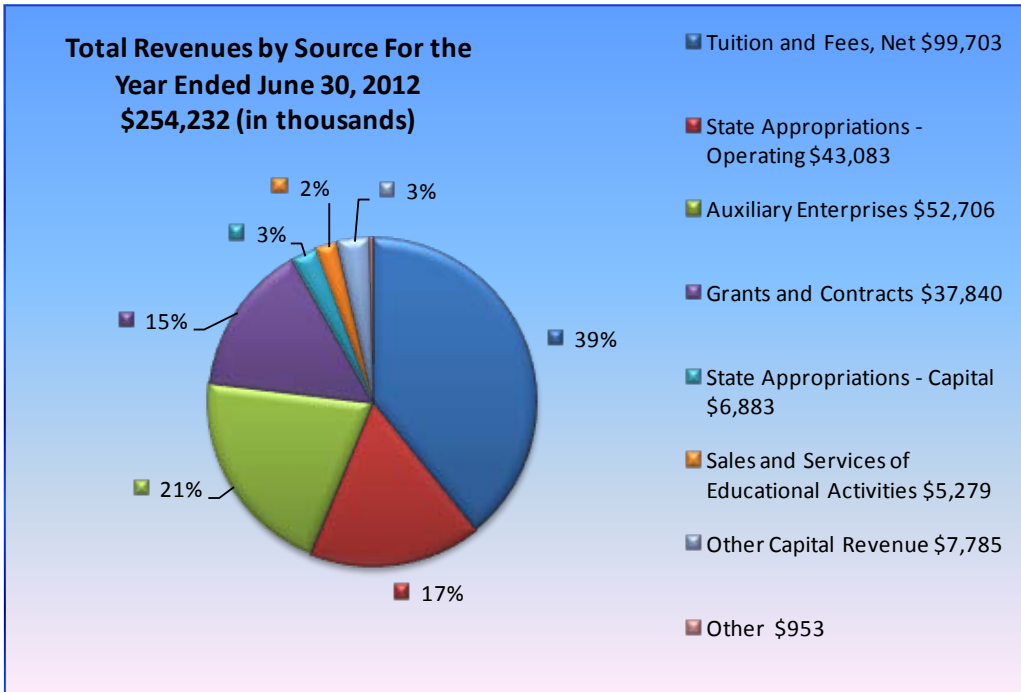
The Washington State Legislature provides the Board of Trustees with tuition setting authority for all student categories at the University: resident undergraduate, non-resident undergraduate, resident graduate, and non-resident graduate. The University is free to set tuition at any level. Tuition increased 16.0% during fiscal 2012 and 14.0% during fiscal 2011 and fiscal 2010 with enrollment decreasing slightly to an average annual headcount of 13,513 in fiscal 2012 compared to 13,521 in fiscal 2011 and 13,300 students in fiscal 2010.

During fiscal 2012, state appropriations used for operations declined \$20.7 million (32.4%) compared to a decrease of \$861 thousand (-1.3 %) in fiscal 2011. The fiscal 2012 decrease is attributable to ongoing budget challenges at the state level that resulted in a reduction of \$12.4 million in state appropriations to the University, along with an \$8.3 million reduction in capital appropriations used for operations as these capital expenditures are below the University's capitalization threshold. The fiscal 2011 decrease is attributable to budget challenges at the state level that resulted in a reduction of \$5.8 million in state appropriations to the University, offset by \$4.9 million in capital appropriation funds that are used to support operations. The University's state supported budgeted enrollments (FTE) were 11,762 and the actual average FTE was 12647 for fiscals 2012 and 2011. The 885 additional FTE were not supported by State dollars.

Capital appropriations are recognized as revenue when expenditures are incurred on capital projects, and the University is entitled to receive the cash. Capital appropriations decreased \$17.3 million (-71.5%) when comparing fiscal 2012 to fiscal 2011 due to a reduction in capital funds received as the new Carver Gymnasium renovation project has just begun the design stage and previously existing capital projects have been completed. Capital appropriations decreased by \$3.4 million (-12.5%) when comparing fiscal 2011 to fiscal 2010 due to a reduction in capital funds received as some smaller capital projects were completed in fiscal 2010, such as improvements to Wilson Library and Parks Hall.

Other capital revenue is the revenue earned from the State of Washington Normal School Permanent Fund and capital gifts/contributions received. The increase of \$4.6 million (141.1%) in fiscal 2012 is due to a gift from the Western Washington University Foundation of \$1.1 million for capital improvements to the women's softball field along with a capital contribution of \$4.3 million from Aramark, offset with reduced investment earnings on the Permanent Fund. The capital contribution from Aramark is part of the dining services contract. Aramark has agreed to provide up to \$7.3 million in funding for renovations and improvements to several dining areas at the University. The majority of the improvements are reported as capitalized assets on the Statements of Net Position. The decrease of \$785 thousand (-19.6%) when comparing fiscal 2011 to fiscal 2010 is due to reduced investment earnings on the Permanent Fund.

The following graphs illustrate revenues by source for the years ended June 30, 2012 and 2011:



The University's operating expenses decreased \$8.7 million (-3.6%) when comparing fiscal 2012 to fiscal 2011 and increased by \$6.2 million (2.6%) when comparing fiscal 2011 to fiscal 2010. A portion of the fiscal 2012 reduction can be attributed to decreased salary and wages and benefits expense of \$3.5 million (-2.2%) due to the elimination of positions

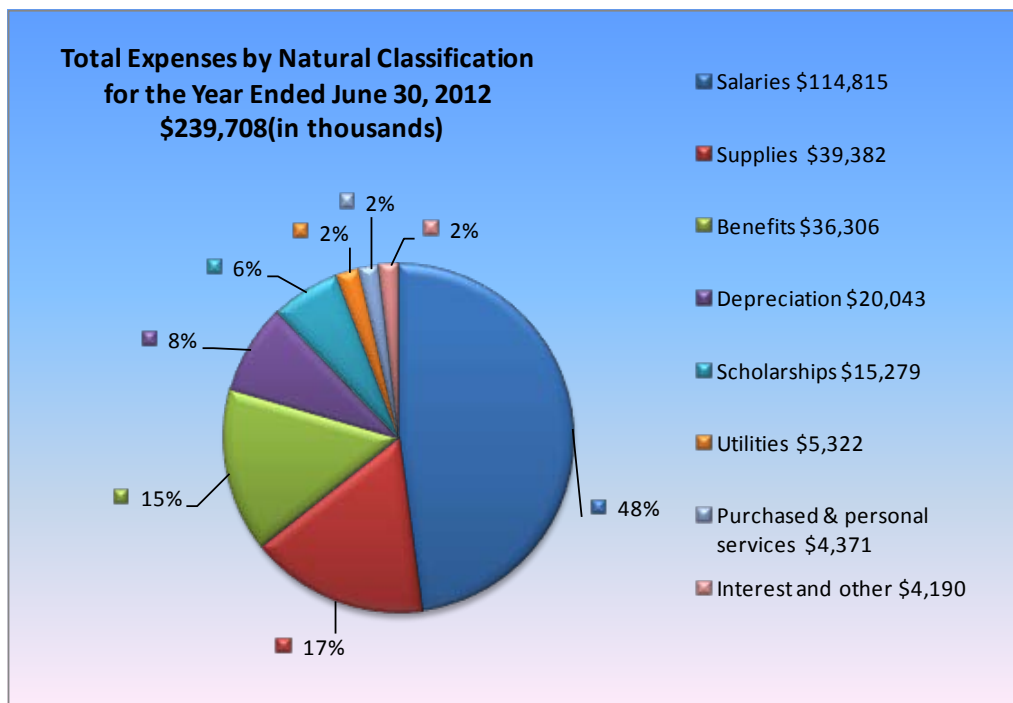
through attrition and layoffs. A large portion of the fiscal 2011 increase relates to benefits expense, which increased \$2.5 million (7.3%) in fiscal 2011 due to a \$105 per month increase in the employer cost for the state benefits package.

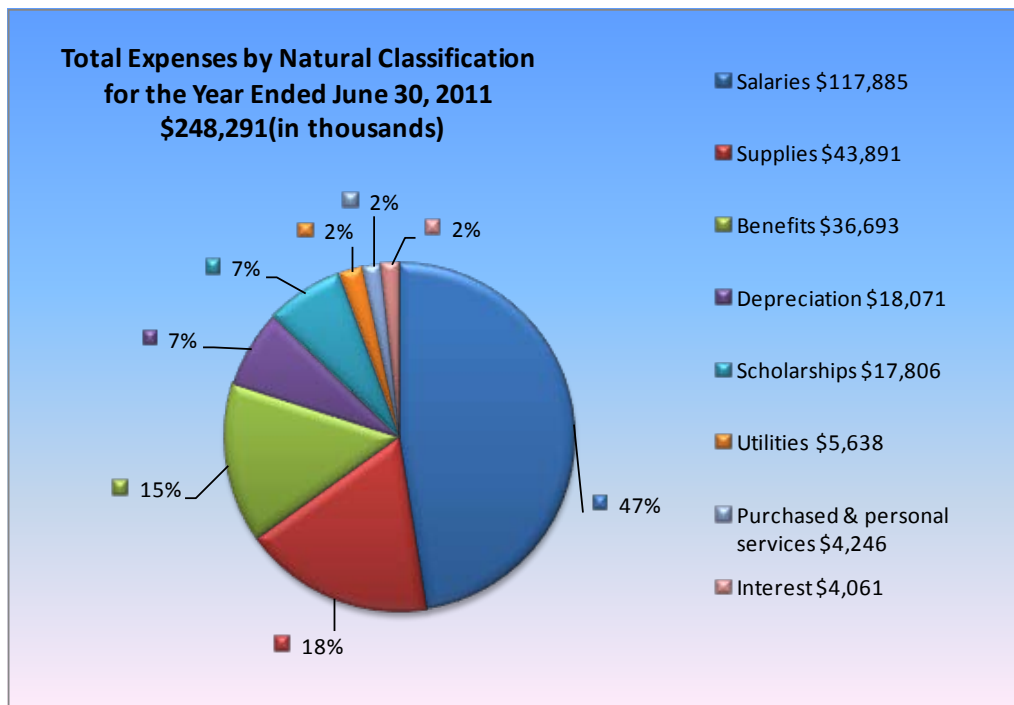
Scholarships and fellowships decreased in fiscal 2012 by \$2.5 million (-14.2%) when compared to fiscal 2011 due to decreases in financial aid payments made directly to students for non-institutional expenses. When comparing fiscal 2011 to fiscal 2010, scholarships and fellowships expenses increased \$172 thousand (1.0%).

Supplies and materials and purchased and personal services decreased \$4.5 million (-9.1%) when comparing fiscal 2012 to fiscal 2011 due to a reduction in non-capitalized office furnishing purchases with the completion of Miller Hall. Supplies and materials and purchased and personal services increased \$2.0 million (4.3%) when comparing fiscal 2011 to fiscal 2010 due to purchasing non-capitalized furnishings and equipment necessary for the Miller Hall and Buchanan Towers buildings.

Depreciation expense increased \$2.0 million (10.9%) over fiscal 2011 and \$1.7 million (10.6%) over fiscal 2010 as additional capital assets were completed and depreciated.

The following graphs illustrate expenses by natural classification for the years ended June 30, 2012 and 2011:





**Operating Loss**

The University's operating losses were \$53.7 million in fiscal 2012, a decrease of \$22.6 million (-29.6%) from fiscal 2011, and \$76.3 million in fiscal 2011, a decrease of \$5.5 million (-6.7%) from fiscal 2010. Overall operating revenues increased \$13.9 million (8.3%) during fiscal 2012 and increased \$11.7 million (7.5%) during fiscal 2011, while operating expenditures decreased in fiscal 2012 by \$8.7 million (-3.6%) and increased in fiscal 2011 by \$6.2 million (2.6%). The increases in operating revenue are largely due to the 16.0% and 14.0% tuition rate increases in fiscal 2012 and fiscal 2011, respectively.

GASB standards require that State appropriations and Federal Pell grants are classified as nonoperating revenues, thereby creating the significant operating loss. If these revenues were classified as operating, the operating gain would be \$3.0 million in fiscal 2012 and \$1.3 million in fiscal 2011.

**Economic Factors That Will Affect the Future**

During the current biennium (2011-2013), State support for operations will average 22.0% of the University's operating budget, with the balance of the operational requirements relying on tuition increases. Beginning with fiscal 2012, the legislature has provided the Board of Trustees (the Board) with tuition setting authority for all student categories at the University: resident undergraduate, non-resident undergraduate, resident graduate, and non-resident graduate. The legislature defines "tuition" as the tuition operating fee and the capital building fee. The operating fee contributes to the day-to-day operations of the university and supports the University's operating budget plans.

The 2011-2013 operating budget includes resident undergraduate tuition increases of 16.0% per year for the biennium, an increase of \$1,035 between fiscal 2012 and fiscal 2013. The University increased non-resident undergraduate and graduate tuition rates by a similar dollar amount as the resident undergraduate rate. Federal, state, and institutional financial aid and Federal education tax credits remain available to qualified students and can be used to offset the tuition increase. The State has also increased the Washington State Need Grant program to help lower and middle income families. Decreased state revenue projections may result in reduced state support in fiscal 2013.

The University agreed to a collective bargaining agreement with the United Faculty of Western Washington University (UFWW) that includes faculty raises during fiscals 2013 through fiscal 2015 ranging from 4.25% to 5.25%. The University as budgeted for a \$3.2 million increase in salaries during these fiscal years.



## Washington State Auditor Brian Sonntag

### INDEPENDENT AUDITOR'S REPORT

November 9, 2012

Board of Trustees  
Western Washington University  
Bellingham, Washington

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Western Washington University, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Western Washington University Foundation, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in the accompanying financial statements, is based on the reports of the other auditors.

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 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 audits and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of Western Washington University are intended to present the financial position, and the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities and business-type activities of the state of Washington that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2012 and 2011, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the

business-type activities and the discretely presented component unit of Western Washington University as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Also, as described in Note 1, during the year ended June 30, 2012, the University has implemented the Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Current assets:		
Cash and cash equivalents (Note 3)	\$ 41,090,684	\$34,003,071
Restricted cash and cash equivalents (Note 3)	-	-
Investments (Note 4)	20,354,587	16,000,000
Funds with State Treasurer (Note 5)	8,743,359	4,874,701
Interest receivable	565,983	557,219
Accounts receivable, net (Note 6)	4,891,069	4,247,368
Prepaid expenses	413,261	603,223
Inventories (Note 8)	1,286,705	1,374,790
Total current assets	<u>77,345,648</u>	<u>61,660,372</u>
Noncurrent assets:		
Restricted cash and cash equivalents (Note 3)	1,461,832	3,153,996
Restricted investments (Note 4)	9,024,321	7,607,275
Investments (Note 4)	24,396,299	30,227,617
Due from State Treasurer	3,375,099	3,367,960
Student loans receivable, net (Note 7)	7,778,036	7,709,833
Non-depreciable capital assets (Note 9)	24,544,930	75,803,387
Depreciable capital assets, net (Note 9)	417,707,959	359,834,230
Other assets (Note 1)	570,717	890,900
Total noncurrent assets	<u>488,859,193</u>	<u>488,595,198</u>
Total assets	<u>566,204,841</u>	<u>550,255,570</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	10,004,791	10,661,210
Deposits payable	2,513,625	2,375,317
Deferred revenues	6,536,220	6,227,956
Compensated absences (Note 11)	7,788,971	7,924,797
Current portion of bonds and notes payable (Notes 12,13,15)	3,254,025	3,630,585
Current portion of net pension obligations (Note 15,19)	214,000	214,000
Deposits held in custody for others	322,616	288,652
Total current liabilities	<u>30,634,248</u>	<u>31,322,517</u>
Noncurrent liabilities:		
Long-term portion of bonds and notes payable (Note 12, 13,15)	78,884,113	78,028,174
Long-term net pension obligations (Note 15,19)	5,248,938	3,991,455
Total noncurrent liabilities	<u>84,133,051</u>	<u>82,019,629</u>
Total Liabilities	<u>114,767,299</u>	<u>113,342,146</u>
<b>Net Position</b>		
Net investment in capital assets	361,802,573	357,814,998
Restricted for:		
Nonexpendable: scholarships and professorships	4,629,007	4,629,007
Expendable:		
Instruction and research	2,449,905	2,948,566
Loans	14,001,443	12,805,253
Capital Projects	13,008,185	8,637,422
Unrestricted	55,546,428	50,078,178
Total net position	<u>\$451,437,541</u>	<u>\$436,913,424</u>

WESTERN WASHINGTON UNIVERSITY  
 FOUNDATION STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	<u>\$1,750,884</u>	<u>\$1,725,048</u>
Investments:		
Operating investment pool	9,298,513	8,609,833
Endowment investment pool		
Externally managed investments	42,248,335	43,621,454
Real estate held for investment, net	2,659,200	2,531,800
Annuity and life income investments	4,157,673	4,426,814
Other	<u>458,757</u>	<u>458,757</u>
Total investments	<u>58,822,478</u>	<u>59,648,658</u>
Receivables:		
Promises to give, net	4,122,935	2,375,289
Other	<u>13,715</u>	<u>20,198</u>
Total receivables	<u>4,136,650</u>	<u>2,395,487</u>
Other assets	<u>26,113</u>	<u>34,506</u>
Total assets	<u>64,736,125</u>	<u>63,803,699</u>
 <b>Liabilities</b>		
Accounts payable	265,845	140,643
Due to Western Washington University	321,390	277,951
Annuity and life income obligations	1,178,199	1,296,441
Investments held in trust for		
Western Washington University	9,632,996	9,856,624
Contingent obligation to Northwest		
Indian College Foundation	<u>1,020,031</u>	<u>1,058,773</u>
Total liabilities	<u>12,418,461</u>	<u>12,630,432</u>
 <b>Net Assets</b>		
Unrestricted	11,863,437	12,172,122
Temporarily restricted	17,501,142	16,818,546
Permanently restricted	<u>22,953,085</u>	<u>22,182,599</u>
Total net assets	<u>52,317,664</u>	<u>51,173,267</u>
 Total Liabilities and Net Assets	<u>\$64,736,125</u>	<u>\$63,803,699</u>



## WESTERN WASHINGTON UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Student tuition and fees	\$120,437,058	\$106,569,013
Less scholarship allowances	<u>(20,733,825)</u>	<u>(18,363,862)</u>
Net student tuition and fees	99,703,233	88,205,151
Federal grants and contracts	6,940,282	8,268,690
State and local grants and contracts	14,279,909	13,319,279
Nongovernmental grants and contracts	2,720,510	2,357,881
Sales and services of educational activities	5,278,608	4,956,121
Interest earned on loans to students	150,206	140,522
Auxiliary enterprises	57,830,760	55,375,031
Less scholarship allowances	<u>(5,125,147)</u>	<u>(4,718,356)</u>
Net auxiliary enterprises	<u>52,705,613</u>	<u>50,656,675</u>
Total operating revenues	181,778,361	167,904,319
<b>Operating Expenses</b>		
Salaries and wages	114,814,608	117,885,280
Benefits	36,306,406	36,692,598
Scholarships and fellowships	15,278,601	17,805,709
Utilities	5,322,270	5,638,304
Supplies and materials	39,382,286	43,890,835
Purchased and personal services	4,371,367	4,246,383
Depreciation	<u>20,042,554</u>	<u>18,070,850</u>
Total operating expenses	<u>235,518,092</u>	<u>244,229,959</u>
Operating loss	(53,739,731)	(76,325,640)
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	43,083,007	63,760,769
Federal Pell grant revenue	13,899,353	13,887,899
Investment income	802,822	775,087
Interest on indebtedness	(4,041,655)	(4,061,271)
Gain (loss) on endowments	(111,274)	1,684,904
Nonoperating rental property expense/income	<u>(36,817)</u>	<u>7,118</u>
Total nonoperating revenues (expenses)	<u>53,595,436</u>	<u>76,054,506</u>
Income (Loss) before other revenues	(144,295)	(271,134)
<b>Other Revenues</b>		
Capital appropriations	6,883,439	24,166,239
Other capital revenue	7,784,973	3,229,426
Gifts to permanent endowments	-	-
Total other revenues	<u>14,668,412</u>	<u>27,395,665</u>
Increase in net position	14,524,117	27,124,531
Net position, beginning of year	<u>436,913,424</u>	<u>409,788,893</u>
Net position end of year	<u>\$ 451,437,541</u>	<u>\$436,913,424</u>

See Accompanying Notes to the Financial Statements

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2012</b>
<b>Support and Revenue</b>				
Contribution	\$569,784	\$5,006,747	\$769,277	\$6,345,808
Services and facilities provided by Western Washington University	2,197,121	-	-	2,197,121
Interest and dividends	425,529	608,696	-	1,034,225
Net realized gains (losses) on investments	962	(80,398)	-	(79,436)
Net unrealized gains (losses) on investments	(125,799)	(321,478)	-	(447,277)
Change in valuation of annuity obligations	-	(139,741)	-	(139,741)
Fund raising events and other	37,821	437,887	-	475,708
Total support and revenue before net assets released from restrictions	3,105,418	5,511,713	769,277	9,386,408
Net assets released from restrictions	4,865,323	(4,865,323)	-	-
Change in restrictions	(37,415)	36,206	1,209	-
Total support and revenue	<u>7,933,326</u>	<u>682,596</u>	<u>770,486</u>	<u>9,386,408</u>
<b>Expenses</b>				
Program services and grants	5,437,461	-	-	5,437,461
Management and general - WWU in-kind	1,217,709	-	-	1,217,709
Management and general - other	265,799	-	-	265,799
Fund raising - WWU in-kind	979,412	-	-	979,412
Fund raising	341,630	-	-	341,630
Total expenses	<u>8,242,011</u>	<u>-</u>	<u>-</u>	<u>8,242,011</u>
<b>Change in Net Assets</b>	<u>(308,685)</u>	<u>682,596</u>	<u>770,486</u>	<u>1,144,397</u>
<b>Net Assets, beginning of year</b>	<u>12,172,122</u>	<u>16,818,546</u>	<u>22,182,599</u>	<u>51,173,267</u>
<b>Net Assets, end of year</b>	<u>\$11,863,437</u>	<u>\$17,501,142</u>	<u>\$22,953,085</u>	<u>\$52,317,664</u>

WESTERN WASHINGTON UNIVERSITY

FOUNDATION STATEMENTS OF ACTIVITIES & CHANGES IN NET ASSETS

June 30, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011</u>
<b>Support and Revenue</b>				
Contribution	\$496,580	\$3,642,647	\$555,360	\$4,694,587
Services and facilities provided by Western Washington University	2,682,678	-	-	2,682,678
Interest and dividends	452,194	551,594	112	1,003,900
Net realized gains (losses) on investments	132	39,243	-	39,375
Net unrealized gains (losses) on investments	1,972,115	4,606,198	1,000	6,579,313
Change in valuation of annuity obligations	(1,124)	(289,883)	-	(291,007)
Fund raising events and other	35,788	438,835	-	474,623
Total support and revenue before net assets released from restrictions	5,638,363	8,988,634	556,472	15,183,469
Net assets released from restrictions	5,420,237	(5,420,237)	-	-
Change in restrictions	84,383	(142,800)	58,417	-
Total support and revenue	<u>11,142,983</u>	<u>3,425,597</u>	<u>614,889</u>	<u>15,183,469</u>
<b>Expenses</b>				
Program services and grants	5,000,183	-	-	5,000,183
Management and general - WWU in-kind	1,525,786	-	-	1,525,786
Management and general - other	238,931	-	-	238,931
Fund raising - WWU in-kind	1,156,892	-	-	1,156,892
Fund raising	896,035	-	-	896,035
Total expenses	<u>8,817,827</u>	<u>-</u>	<u>-</u>	<u>8,817,827</u>
<b>Change in Net Assets</b>	2,325,156	3,425,597	614,889	6,365,642
<b>Net Assets, beginning of year</b>	<u>9,846,966</u>	<u>13,392,949</u>	<u>21,567,710</u>	<u>44,807,625</u>
<b>Net Assets, end of year</b>	<u>\$12,172,122</u>	<u>\$16,818,546</u>	<u>\$22,182,599</u>	<u>\$51,173,267</u>

	<u>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$100,196,266	\$88,402,182
Grants and contracts	24,390,823	23,527,054
Payments to vendors	(64,908,859)	(68,466,742)
Payments to employees for salaries and benefits	(150,370,134)	(153,646,109)
Loans issued to students	(1,027,167)	(1,325,722)
Collection of loans to students	1,257,169	1,350,172
Sales of auxiliary enterprises	51,619,995	50,680,489
Sales and services of educational activities	5,201,833	4,784,588
Interest received on loans to students	150,206	140,522
Net cash used by operating activities	<u>(33,489,868)</u>	<u>(54,553,566)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	43,447,168	63,760,769
Direct Lending proceeds	69,447,710	66,522,389
Direct Lending disbursements	(69,753,232)	(66,531,195)
Federal Pell grant receipts	13,899,353	13,887,899
Gifts to permanent endowments	-	-
Net cash provided by noncapital financing activities	<u>57,040,999</u>	<u>77,639,862</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(57,706,458)	(52,910,243)
Net proceeds from sales of investments	57,654,869	30,224,758
Interest received on investments	791,897	1,022,582
Net cash provided by investing activities	<u>740,308</u>	<u>(21,662,903)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from capital debt	27,490,000	443,623
Interest earned on bond proceeds	2,161	8,078
Capital appropriations	6,512,139	28,700,658
Other capital (expense)/revenue	(1,376,639)	3,229,426
Contributions and gifts in-kind	5,406,954	-
Proceeds from disposal of capital assets	28,511	28,196
Purchases of capital assets	(26,149,394)	(46,300,988)
Principal paid on capital debt	(26,992,305)	(3,481,908)
Interest paid on capital debt	(3,780,600)	(4,030,322)
Other activities	(36,817)	7,118
Net cash used by capital and related financing activities	<u>(18,895,990)</u>	<u>(21,396,119)</u>
Net increase/(decrease) in cash and cash equivalents	5,395,449	(19,972,726)
Cash and cash equivalents, beginning of year	<u>37,157,067</u>	<u>57,129,793</u>
Cash and cash equivalents, end of year	<u>\$42,552,516</u>	<u>\$37,157,067</u>

**Reconciliation of Operating Loss to Net Cash Used by Operating Activities**

	<u>2012</u>	<u>2011</u>
Operating loss	(\$53,739,731)	(\$76,325,640)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	20,042,554	18,070,850
Amortization of bond issuance cost	81,684	191,238
Gain on disposal of fixed assets	36,609	(23,291)
Changes in assets and liabilities:		
Funds with the State Treasurer	(114,000)	2,841,863
Accounts receivable	(643,701)	(1,266,260)
Student loans receivable	(68,203)	(17,655)
Inventories	88,085	(113,501)
Prepaid expenses	189,962	(90,502)
Accounts payable and accrued expenses	(1,170,842)	(65,993)
Deferred revenue	308,264	825,679
Student and other deposits	138,308	19,406
Deposits held in custody	239,486	117,087
Compensated absences	(135,826)	32,562
Net pension obligation expense	1,257,483	1,250,591
Net cash used by operating activities	<u>(\$33,489,868)</u>	<u>(\$54,553,566)</u>
Supplemental disclosure of cash flow information		
Acquisition of capital assets through accounts payable	<u>\$2,966,198</u>	<u>\$2,399,838</u>

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Reporting Entity

Western Washington University (the University) is a comprehensive, degree granting public university in the State of Washington. It is governed by a Board of eight Trustees appointed by the Governor. These financial statements summarize all the fund types of the University including agency funds.

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component unit, the Western Washington University Foundation (the Foundation).

The Foundation is a legally separate, tax-exempt entity. The Board of Directors is self-perpetuating and consists of 31 members. The University has an agreement with the Foundation to design and implement such programs and procedures so as to persuade continuous and special philanthropic support for the benefit of the University. In exchange, the University provides the Foundation with office facilities, furniture and equipment, and a significant number of full-time employees and support services, including depository, disbursing, and payroll and purchasing functions. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources or income the Foundation holds and invests is restricted for the activities of the University by the donors. The Foundation's activity is reported in separate financial statements because of the difference in its reporting model as described below.

The Foundation reports its financial results under Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 958-605, *Revenue Recognition*, and ASC 958-205, *Presentation of Financial Statements*.

As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation's financial information in the University's financial statements for these differences; however, significant note disclosures (see Note 2) to the Foundation's financial statements have been incorporated into the University's notes to the financial statements.

The Foundation's financial statements can be obtained by contacting the Foundation at (360) 650-3408.

Financial Statement Presentation

The financial statements are presented in accordance with generally accepted accounting principles and following the guidance given by GASB. The University has special purpose reports reflecting the net position, results of operations and cash flows for certain auxiliary units: Housing and Dining System, Wade King Recreational Center, Parking Services and Associated Students Bookstore. These financial statements present only a selected portion of the activities of the University. As such, they are not intended to and do not present the financial position, results of operations, or changes in net position of the University. The auxiliary unit financial statements can be obtained by contacting Western Washington University at (360) 650-3675.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University'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. All intra-agency transactions have been eliminated. The University has elected not to apply any FASB pronouncements issued after November 30, 1989.

New Accounting Pronouncements

On July 1, 2010, the University adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This pronouncement establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported. The reported fund balances of the University did not change based on this pronouncement.

On July 1, 2010, the University adopted GASB Statement No. 59, "Financial Instruments Omnibus". This pronouncement improves the consistency of investment measurements that are reported by pension and other postemployment benefit plans. The University financial statements did not change based on this pronouncement.

On July 1, 2011, the University adopted GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements". This pronouncement provides guidance on the reporting of assets used and provided by a service contractor. The University financial statements did not change based on this pronouncement.

On July 1, 2011, the University adopted GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The primary objective of this pronouncement is to directly incorporate the applicable provisions in FASB and AICPA pronouncements issued on or before November 30, 1989, into the state and local government accounting and financial reporting standards.

On July 1, 2011, the University adopted GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". This pronouncement provides guidance on including deferred outflows of resources and deferred inflows of resources in addition to assets and liabilities, as well as the reporting of Net Position as opposed to Net Assets. The University's financial statements reflect these changes.

On July 1, 2011, the University adopted GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53". This pronouncement provides guidance on specific circumstances where hedge accounting may continue after the termination of the hedging derivative instrument. The University's statements did not change based on this pronouncement.

### **Other Accounting Policies**

#### Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand deposits, and deposits with the Washington State Local Government Investment Pool (LGIP). Cash and cash equivalents that are held with the intent to fund University operations are classified as current assets along with operating funds invested in the LGIP. Cash, cash equivalents, and investments that represent unspent bond proceeds or are held with the intent to fund capital projects are classified as noncurrent assets. Endowment investments are also classified as noncurrent assets. The University records all cash, cash equivalent, and investments at amortized cost, which approximates fair value.

The University combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis. The internal investment pool is comprised of cash, cash equivalents, certificates of deposit, U.S. Treasuries and U.S. Agency securities.

#### Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are shown net of estimated uncollectible amounts.

#### Inventories

Inventories are carried at the lower of cost or market value.

#### Capital Assets

Land, buildings and equipment are recorded at cost or, if acquired by gift, at fair market value on the date of the gift. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Interest expense incurred during capital construction is capitalized as part of the building cost. During fiscal 2012 and fiscal 2011, \$0 and \$142,677 in construction related interest was capitalized, respectively. Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 15 years for library resources, and 5 to 7 years for equipment.

#### 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 Statements of Net Position net of the face amount of bonds payable. Bond issuance costs are shown as other assets on the Statements of Net Position.

#### Revenues

Deferred revenues occur when revenues have been collected for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but relate to services to be provided in the following fiscal year.

#### Net Position

The University's net position is classified as follows:

*Net investment in capital assets*

This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of capital assets but are included as a component of restricted expendable net position described below.

*Restricted net position, expendable*

Restricted expendable include resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

*Restricted net position, nonexpendable*

Nonexpendable restricted consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Unrestricted net position*

Unrestricted represent resources derived from student tuition and fees, State appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Classification of Revenues and Expenses

The University has classified its revenues 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: (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, State and local grants and contracts, and (4) interest on institutional student loans.

*Operating expenses*

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

*Nonoperating revenues*

Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as State appropriations, Federal Pell grant revenue and investment income. Included in fiscal 2010 are State Appropriations one-time Federal Reinvestment and Recovery Act stimulus funds of \$8.9 million.

*Nonoperating expenses*

Nonoperating expenses include costs related to financing or investing activities such as interest on indebtedness.

*Other Revenues*

Other revenues include activities that have the characteristics of non-exchange transactions, such as state capital appropriations and gifts to endowments.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or nonoperating revenues in the University's financial Statements.

To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Tax Exemption

The University is a tax-exempt instrumentality of the State of Washington organized under the provisions of Section 115(a) of the Internal Revenue Code and is exempt from Federal income taxes on related income.

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.

**2. COMPONENT UNIT**

The Foundation presents information about its financial position and activities according to the



following three classes of net position, depending on the existence and nature of donor restrictions:

*Unrestricted net assets*

Support received that is not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as unrestricted.

*Temporarily restricted net assets*

Support received subject to donor-imposed use restrictions or time restrictions that will be met either through actions of the Foundation or by the passage of time is classified as temporarily restricted. In the period donor restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently restricted net assets*

Support received subject to donor-imposed restrictions stipulating that funds be invested in perpetuity is classified as permanently restricted. In accordance with purposes stipulated by the donors, earnings from such funds may be either unrestricted or temporarily restricted.

### 3. CASH AND CASH EQUIVALENTS

The University combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated to the departments on a proportional basis. The internal investment pool is comprised of cash and cash equivalents and investments.

Cash and cash equivalents include cash on hand, petty cash, change funds, bank balances, and funds held in the Local Government Investment Pool (LGIP).

Bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) or by a collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The LGIP is an unrated investment pool.

At June 30, 2012 and 2011, the carrying amount of cash and cash equivalents is \$42,552,516 and \$37,157,067, respectively. These balances include restricted cash and cash equivalents of \$566,667 in unspent Housing and Dining System and Recreation

Center bond proceeds at June 30, 2012 and \$2,055,907 in unspent Housing and Dining bond proceeds at June 30, 2011. The carrying amount of cash and cash equivalents approximates the market value.

### 4. INVESTMENTS

Investments include internally pooled cash operating funds invested in certificates of deposit (CD's) and U.S. Treasury and Agency securities, renewal and replacement funds, unspent bond proceeds, and University endowment funds.

The certificates of deposit held in the internal investment pool are insured by the Federal Deposit Insurance Corporation (FDIC) or by a collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The University held \$6,064,351 and \$6,000,000 of certificates of deposits in pooled investments at June 30, 2012 and 2011, respectively. U.S. Treasury and Agency securities are rated AAA by Standard & Poor's and Fitch and Aaa by Moody's Investors Service. The University held \$35,057,345 and \$35,000,000 of U.S. Treasury and Agency securities in the investment pool at June 30, 2012 and 2011, respectively. These investments include \$529,413 in unspent bond proceeds as of fiscal 2012.

The University separately invests the Housing and Dining System Renewal and Replacement funds. As of June 30, 2012 and 2011, the Renewal and Replacement funds of \$3,019,505 were separately invested in CDs and U.S. Agencies and \$2,977,258 were separately invested in CD's.

University endowment funds are held and managed by the Western Washington University Foundation (the Foundation). The endowment funds are invested in accordance with the Foundation policy under the direction of the Foundation Finance and Audit Committee (the Committee). The committee is responsible for reviewing and defining investment policy, monitoring investment performances, and recommending managers to oversee the investment of the portfolio. The Committee reviews and updates its investment policy every three years.

As of June 30, 2012, the University's Endowment funds are comprised of \$5,464,938 in donor restricted and unrestricted funds and \$4,168,067 in Quasi-endowments. As of June 30, 2011, the balances were \$5,608,043 and \$4,248,581, respectively.

Interest Rate Risk

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.

Endowment funds are invested under the Foundation Investment Policy guidelines. These guidelines include the primary objective of achieving long-term growth, while using prudent investing practices and do not limit investment maturities as a means to managing interest rate exposure.

Concentration of Credit Risk

Concentration of credit risk for investments is the risk of loss attributable to the magnitude of an investment in a single issuer. The University does not have a formal policy for managing concentration of credit risk in the internal investment pool. The Endowment Investment Policy limits the endowment investments to no more than 5.0% of the portfolio for a single issuer.

At June 30, 2012, the University held the following in cash, cash equivalents and investments:

Description	Fair Value	Weighted Average Maturity (in Years)
WWU Investment Pool:		
Cash & Cash Equivalents	\$42,552,516	0.001
Time Certificates of Deposits (CDs)	6,064,351	0.028
U.S. Treasuries	-	
U.S. Agencies	35,057,345	0.680
WWU Endowment Funds:		
Cash & cash equivalents	137,910	0.003
Fixed income investments:		
U.S. Treasuries	115,480	12.004
U.S. Agencies	555,206	3.893
Other fixed income	1,542,910	n/a
Equity investments	5,940,369	n/a
Real estate	568,593	n/a
Alternative investments	772,537	n/a
Other Investments:		
Renewal and Replacement Time CDs	1,493,498	0.013
Renewal and Replacement U.S. Agencies	1,526,007	0.025
Miscellaneous	1,000	n/a
<b>TOTAL CASH AND INVESTMENTS</b>	<b>\$96,327,722</b>	

At June 30, 2011, the University held the following in cash, cash equivalents and investments:

Description	Fair Value	Weighted Average Maturity (in Years)
WWU Investment Pool:		
Cash & Cash Equivalents	\$37,157,067	0.003
Time Certificates of Deposits (CDs)	6,000,000	0.046
U.S. Treasuries	5,000,000	0.006
U.S. Agencies	30,000,000	0.722
WWU Endowment Funds:		
Cash & cash equivalents	100,050	0.003
Fixed income investments:		
U.S. Treasuries	271,759	5.500
U.S. Agencies	279,228	4.040
Other fixed income	1,336,638	n/a
Equity investments	6,332,456	n/a
Real estate	515,882	n/a
Alternative investments	1,020,611	n/a
Other Investments:		
Renewal and Replacement Time CDs	2,977,258	0.030
Miscellaneous	1,010	n/a
<b>TOTAL CASH AND INVESTMENTS</b>	<b>\$90,991,959</b>	

## 5. FUNDS WITH STATE TREASURER

This account represents the University's share of net earnings of the State of Washington Normal School Permanent Fund and tuition distributions, reduced by expenditures for capital projects and debt service incurred over the years. The Normal School Permanent Fund, established under RCW 43.79.160, is a permanent endowment fund. Earnings from the investment are either reinvested or used for the benefit of Central Washington University, Eastern Washington University, Western Washington University, and The Evergreen State College.

The investing activities are the responsibility of the Washington State Treasurer's Office. The primary sources of new principal for the Normal School Permanent fund are revenues, primarily timber sales,

from certain State lands. The State lands include 100,000 acres granted by the United States government for state normal schools and are managed by the State Department of Natural Resources. In addition to the Permanent Fund, the Office of the State Treasurer held \$2.7 million in Certificate of Participation (COP) funds during fiscal 2012, which will be used for an energy saving capital project.

The University's earnings and distributions on the fund for the years ending June 30, 2012 and 2011 are \$2,378,019 and \$3,229,426, respectively, which are reported as other capital revenue along with any capital gifts or contributions.

**6. ACCOUNTS RECEIVABLE, NET**

At June 30, 2012 and 2011, the major components of accounts receivable are as follows:

	<u>2012</u>	<u>2011</u>
Student tuition and fees	\$1,826,263	\$1,736,767
Federal, State and private grants and contracts	2,418,437	2,316,255
Auxiliary enterprises and other operating activities	1,237,379	697,270
Total accounts receivable	<u>5,482,079</u>	<u>4,750,292</u>
Less allowance for doubtful accounts	<u>(591,010)</u>	<u>(502,924)</u>
Accounts receivable, net	<u>\$4,891,069</u>	<u>\$4,247,368</u>

**7. STUDENT LOANS RECEIVABLE, NET**

At June 30, 2012 and 2011, student loans receivable are as follows:

	<u>2012</u>	<u>2011</u>
Federal Perkins student loans	\$8,648,042	\$8,554,856
Other long-term loans	36,108	37,203
Institutional loans	47,738	50,817
Total student loans	<u>8,731,888</u>	<u>8,642,876</u>
Less allowance for doubtful accounts	<u>(953,852)</u>	<u>(933,043)</u>
Student loans receivable, net	<u>\$7,778,036</u>	<u>\$7,709,833</u>

**8. INVENTORIES**

At June 30, 2012 and 2011, inventories, stated at cost using various methods: retail, first-in, first-out (FIFO), or average cost, consist of the following:

Location	Valuation Method	<u>2012</u>	<u>2011</u>
Bookstore	Retail	\$767,989	\$854,083
Central Stores	Average Cost	86,512	103,773
Facilities Maintenance	FIFO	157,705	161,570
Lock Shop	FIFO	137,446	128,460
Other inventory	FIFO	<u>137,053</u>	<u>126,904</u>
Total inventory		<u>\$1,286,705</u>	<u>\$1,374,790</u>

**9. LAND AND CAPITAL ASSETS, NET**

The depreciation expense for the fiscal years ended June 30, 2012 and 2011 was \$20,042,555 and \$18,070,849, respectively. Following are the changes in land and capital assets for the year ended June 30, 2012:

	6/30/2011	Additions/ Transfers	Retirements	6/30/2012
<b>Non-depreciable Capital Assets</b>				
Land	\$12,772,593	\$ -	\$ -	\$12,772,593
Construction in progress	63,030,794	(51,258,457)		11,772,337
<b>Total non-depreciable capital assets</b>	<b>\$75,803,387</b>	<b>\$ (51,258,457)</b>	<b>\$ -</b>	<b>\$24,544,930</b>
<b>Depreciable Capital Assets</b>				
Infrastructure	\$53,656,654	\$ -		\$53,656,654
Buildings	383,069,453	15,502,961		398,572,414
Furniture, fixtures and equipment	30,215,805	4,092,600	540,800	33,767,605
Library materials, art collection	52,869,763	1,751,516		54,621,279
Improvements	69,965,790	56,634,326		126,600,116
<b>Total depreciable capital assets</b>	<b>589,777,465</b>	<b>77,981,403</b>	<b>540,800</b>	<b>667,218,068</b>
<b>Less Accumulated Depreciation</b>				
Infrastructure	23,457,104	1,382,190		24,839,294
Buildings	127,419,517	8,282,615		135,702,132
Furniture, fixtures and equipment	21,543,637	2,799,725	475,680	23,867,682
Library materials, art collection	38,303,440	1,856,746		40,160,186
Improvements	19,219,537	5,721,278		24,940,815
<b>Total accumulated depreciation</b>	<b>229,943,235</b>	<b>20,042,554</b>	<b>475,680</b>	<b>249,510,109</b>
<b>Capital Assets, Net of depreciation</b>	<b>\$359,834,230</b>	<b>\$ 57,938,849</b>	<b>\$ 65,120</b>	<b>\$417,707,959</b>

Following are the changes in land and capital assets for the year ended June 30, 2011:

	6/30/2010	Additions/ Transfers	Retirements	6/30/2011
<b>Non-depreciable Capital Assets</b>				
Land	\$12,772,593	\$ -	\$ -	\$12,772,593
Construction in progress	42,880,222	20,150,572		63,030,794
Total non-depreciable capital assets	\$55,652,815	\$20,150,572	\$ -	\$75,803,387
<b>Depreciable Capital Assets</b>				
Infrastructure	\$53,656,654	\$ -	\$ -	\$53,656,654
Buildings	377,328,309	5,741,144	-	383,069,453
Furniture, fixtures and equipment	27,364,557	3,174,345	323,097	30,215,805
Library materials, art collection	50,909,835	1,959,928	-	52,869,763
Improvements	60,478,233	9,487,557	-	69,965,790
Total depreciable capital assets	569,737,588	20,362,974	323,097	589,777,465
<b>Less Accumulated Depreciation</b>				
Infrastructure	22,078,690	1,378,414	-	23,457,104
Buildings	119,195,893	8,223,624	-	127,419,517
Furniture, fixtures and equipment	19,306,952	2,554,877	318,192	21,543,637
Library materials, art collection	36,477,412	1,826,028	-	38,303,440
Improvements	15,131,630	4,087,907	-	19,219,537
Total accumulated depreciation	212,190,577	18,070,850	318,192	229,943,235
Capital Assets, Net of depreciation	\$357,547,011	\$2,292,124	\$4,905	\$359,834,230

## 10. ART COLLECTIONS

The University has several collections of art that it does not capitalize. The Outdoor Sculpture Collection is a public art collection displayed throughout the entire campus. There are also collections of 19<sup>th</sup> and 20<sup>th</sup> century prints and drawings, the Whittington Collection of Asian Ceramics, and the Chair Collection. These collections adhere to the University's policy to (a) maintain

them for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. The University's policy is to permit collections maintained in this manner to be charged to operations at the time of purchase rather than capitalized.

## 11. COMPENSATED ABSENCES

The accrued leave balances as of June 30, 2012 and 2011 are \$7,788,971 and \$7,924,797, respectively. This consists of unused vacation leave and compensatory time earned for exempt professionals and classified staff. It also includes a percentage of earned and unused sick leave for exempt professionals and classified staff. For reporting purposes, the entire balance of accrued leave is considered a current liability.

In 2004, the University began participating in the Voluntary Employees' Beneficiary Association Medical Expense Plan (VEBA-MEP). The plan is a post-retirement medical expense reimbursement account available to professional staff employees of the University. The VEBA-MEP enables the University to deposit funds equivalent to the cash-out of compensable unused sick leave at retirement, tax free to a VEBA trust account on the employee's behalf.

Funds deposited into a VEBA-MEP account, as well as the earnings on the accounts, are not subject to federal income or social security taxes. During fiscal 2012 and fiscal 2011, \$92,985 and \$34,133, respectively, were contributed to VEBA accounts by the University on behalf of employees.

**12. NOTES PAYABLE**

The University finances certain land and equipment purchases through certificates of participation issued by the Washington State Treasurer. The University's debt service requirements for these agreements for the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	469,025	203,516
2014	485,376	171,061
2015	449,463	157,919
2016	432,557	145,204
2017	449,767	132,406
2018-2022	2,049,924	470,086
2023-2027	1,440,000	125,994
Total	5,776,112	1,406,186
Plus unamortized premium	2,098	
Total	<u>5,778,210</u>	<u>1,406,186</u>

**13. BONDS PAYABLE**

Bonds payable consist of revenue bonds issued by the University for Housing and Dining System facilities and the Wade King Student Recreation Center. Bonds outstanding are shown on the following page.

Housing and Dining Revenue Bonds

As specified in Master Resolution 97-09, the Housing and Dining System Revenue Fund is used to pay operating expenses, principal and interest, fund debt service reserve accounts required in subsequent series resolutions, pay the renewal and replacement fund and, if desired, retire debt in the open market. Net revenues are pledged to equal at least 125% of debt service. The System has funded a reserve account for debt service, and maintains a renewal and replacement fund equal to at least 5% of outstanding bonds.

The Housing and Dining System has the following outstanding bond issues:

Series 2009 A and B Revenue Bonds with interest rates ranging from 3.0% to 7.4% and an aggregate

face value of \$13,730,000 at June 30, 2012, which is reported net of the original issue premium of \$8,420.

Series 2006 Revenue Bonds with an interest rate of 4% and an aggregate face value of \$7,515,000 at June 30, 2012, which is reported net of the original issue premium of \$31,806.

Series 2005 Revenue and Refunding Bonds with interest rates ranging from 3.375% to 4.0% and an aggregate face value of \$10,905,000 at June 30, 2012, which is reported net of the unamortized original discount and loss on defeasance of \$778,478.

Series 2003 Revenue and Refunding Bonds with interest rates ranging from 3.30% to 4.65% and an aggregate face value of \$10,175,000 at June 30, 2012, which is reported net of the unamortized original issue discount and loss on defeasance of \$108,359.

Series 1998 Junior Lien Revenue and Refunding Bonds with interest rates ranging from 4.4% to 5.5% and an aggregate face value of \$10,850,000 at June

30, 2012, which is reported net of the unamortized original issue premium and loss on defeasance of \$244,871.

Wade King Student Recreation Center Revenue and Refunding Bonds

The Recreation Center issued Revenue and Refunding Bonds Series, 2012, on April 30 2012. The bonds bear interest at rates of 3% to 4% and have an aggregate face value of \$24,385,000 at June 30, 2012, which is reported net of the unamortized original issue discount and loss on defeasance of \$108,591.

Current refunding

On April 30, 2012, the Recreation Center issued at par \$24,385,000 Revenue and Refunding Bonds Series 2012. The purpose of the bonds is the refunding of then-outstanding Revenue Bonds Series 2002 with a principal balance of \$23,595,000. The refunded series 2002 bonds carried an interest rate of 4% to 5%. Unamortized series 2002 bond issuance costs were \$298,030 at the date of the refunding.

Management expects the refunding will provide a net present value savings of approximately \$2,723,000 in debt service over the life of the new bonds and loss on defeasance of \$532,441. The amount required to

refund the 2002 bonds remaining plus a refunding premium and underwriter's discount (total of \$23,721,064) were sent directly to the escrow agent, US Bank, and these funds were disbursed completely on May 1, 2012.

Advance Refunding

The scheduled liabilities as of June 30, 2012 and 2011 do not include \$10,260,000 and 10,725,000 respectively, of Housing and Dining System revenue bonds which were advance refunded in October 1991 and May 2005.

In May 2004, the Wade King Student Recreation Center defeased \$945,000 of revenue bonds. The outstanding balances are \$750,000 and \$770,000 at June 30, 2012 and 2011, respectively. Government obligations in amounts, maturities and bearing interest rates sufficient to fund retirement of these bonds are held in irrevocable trusts. Neither the assets of the trusts, nor their outstanding obligations, are included in the accompanying balance sheets.

The debt service requirements for the revenue/refunding bonds for the next five years and thereafter are as follows:

Fiscal Year	Housing and Dining Revenue and Refunding Bonds		Student Recreation Center Revenue and Refunding Bonds	
	Principal	Interest	Principal	Interest
2013	2,785,000	2,676,712	-	927,920
2014	2,895,000	2,563,847	-	925,350
2015	3,025,000	2,443,432	700,000	925,350
2016	3,145,000	2,311,835	725,000	904,350
2017	3,290,000	2,164,459	750,000	882,600
2018-2022	18,870,000	8,306,254	4,095,000	4,049,925
2023-2027	12,370,000	4,119,426	4,905,000	3,246,200
2028-2032	4,620,000	1,832,580	5,965,000	2,183,400
2033-2037	2,175,000	243,460	7,245,000	892,000
Total	\$53,175,000	\$26,662,005	24,385,000	\$14,937,095
Unamortized premium/(discount)	20,057		423,850	
Less unamortized loss on defeasance	1,111,538		532,441	
Total	<u>\$52,083,519</u>	<u>26,662,005</u>	<u>24,276,409</u>	<u>14,937,095</u>



**14. PLEDGED REVENUES**

The University has pledged certain revenues, net of specified operating expenses, to repay the principal and interest of revenue bonds. The following is a schedule of the pledged revenues and related debt:

Source of Revenue Pledged	Total Future Revenues Pledged *	Description of Debt	Purpose of Debt	Term of Commitment	Proportion of Debt Service to Pledged Revenues (current yr)
Housing and Dining revenues, net of operating expenses	\$ 79,837,005	Housing and Dining bonds issued in 1998, 2003, 2005, 2006, 2009	Construction and renovation of student housing projects	2034	62.8%
Student Recreation Center gross revenues	\$39,322,095	Student Recreation Center bonds issued in 2012	Construction of the Student Recreation Center	2033	26.7%

\* Total future principal and interest payments on debt

**15. LONG-TERM LIABILITIES**

Following are the changes in long-term liabilities for the years ended June 30, 2012 and 2011:

	6/30/2011	Additions/ Amortization	Retirements	6/30/2012	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$78,556,130	\$24,466,684	\$26,662,886	\$76,359,928	\$2,785,000
Notes payable	3,102,629	3,005,000	329,419	5,778,210	469,025
Net pension obligation	4,205,455	1,400,000	142,517	5,462,938	214,000
Total long term liabilities	<u>\$85,864,214</u>	<u>\$28,871,684</u>	<u>\$27,134,822</u>	<u>\$87,601,076</u>	<u>\$3,468,025</u>

	6/30/2010	Additions/ Amortization	Retirements	6/30/2011	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$81,581,307	\$169,823	\$3,195,000	\$78,556,130	\$3,320,000
Notes payable	2,924,499	465,038	286,908	3,102,629	310,585
Net pension obligation	2,954,864	1,400,000	149,409	4,205,455	214,000
Total long term liabilities	<u>\$87,460,670</u>	<u>\$2,034,861</u>	<u>\$3,631,317</u>	<u>\$85,864,214</u>	<u>\$3,844,585</u>

**16. LEASES**

The University leases facilities for off-campus office and educational spaces under a variety of agreements. The University also finances certain equipment through non-cancelable operating leases. At June 30, 2012, future payments under these operating leases are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2013	629,556
2014	484,020
2015	313,719
2016	106,916
2017	53,800
2018-2028	<u>247,762</u>
Total minimum lease payments	<u>\$ 1,835,773</u>

**17. DEFERRED COMPENSATION**

The University, through the State of Washington, offers its employees a Deferred Compensation Plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until

future years. The State of Washington administers the plan on behalf of the University's employees; the University does not have legal access to the funds.

**18. OPERATING EXPENSES BY FUNCTIONAL CATEGORIES**

In the Statement of Revenues, Expenses and Changes in Net Position, operating expenses are displayed by natural classifications which include salaries, employee benefits, goods and services, and other similar categories.

Operating expenses by functional classification for the years ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Instruction	\$87,654,779	\$90,067,491
Research	4,685,940	4,861,733
Academic support	11,224,188	10,925,646
Student services	16,574,245	16,166,086
Institutional support	17,141,831	17,585,199
Operation and maintenance of plant	39,724,503	45,299,944
Scholarships and other student aid	15,278,601	17,805,709
Auxiliary enterprise expenditures	<u>43,234,005</u>	<u>41,518,151</u>
Total operating expenses	<u>\$235,518,092</u>	<u>\$244,229,959</u>

**19. PENSION PLANS**

The University offers four contributory pension plans: the Washington State Public Employees' Retirement System (PERS) plan, the Washington State Teachers Retirement System (TRS), and the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) and the Western Washington University Retirement Plan (WWURP).

The payroll for the University employees covered by PERS for the year ended June 30, 2012 and 2011 is \$32,271,085 and \$33,254,220; the payroll for employees covered by TRS is \$885,844 and \$977,518; the payroll covered by WWURP is \$70,767,054 and \$72,672,927; the payroll for LEOFF is \$781,159 and \$768,010, respectively.

Western Washington University Retirement Plan (WWURP)

*Plan Description*

The Western Washington University Retirement Plan (WWURP) is a defined contribution single

employer 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 provisions.

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 at all times a 100% vested interest in their accumulations.

*Funding Policy*

Employee contribution rates, which are based on age, range from 5% to 10% of salary. The University matches the employee contributions. All required employer and employee contributions have been made.

The WWURP contributions for the years ending June 30, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Employee	\$5,436,281	\$5,612,217	\$5,598,912
University	5,427,185	5,624,889	5,595,963

Supplemental Component

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.

The University received an actuarial evaluation of the supplemental component of the WWURP during fiscal 2012. The previous evaluation was performed in 2009. The Unfunded Actuarial Accrued Liability (UAL) calculated as of June 30, 2011 and 2009 was

\$10,035,000 and \$7,287,000, respectively, and is amortized over a 13 year period.

The Annual Required Contribution (ARC) of \$1,400,000 consists of amortization of the UAL (\$810,000), normal cost (or current cost) (\$561,000) and interest. The UAL and ARC were established using the entry age normal cost method.

The actuarial assumptions included an investment rate of return of 6% to 8% and projected salary increases ranging from 2% to 4%. Approximately \$70,767,054 and \$72,672,927 of the University's payroll were covered under this plan during fiscal 2012 and fiscal 2011, respectively.

The following table reflects the activity in the Net Pension Obligation for the year ended June 30, 2012:

Balance as of June 30, 2010	\$2,954,864
Annual Required Contribution FY11	1,400,000
Payments to Beneficiaries FY11	<u>(149,409)</u>
Balance as of June 30, 2011	4,205,455
Annual Required Contribution FY12	1,400,000
Payments to Beneficiaries FY12	<u>(142,517)</u>
Balance as of June 30, 2012	<u>\$5,462,938</u>

PERS, TRS and LEOFF

*Plan Description*

The University contributes to PERS, TRS and LEOFF cost sharing multiple-employer defined benefit pension plans 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 eligible 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 eligible service.

TRS I provides retirement and disability benefits, a lump sum death benefit, and minimum benefits increases beginning at age 65 to certain eligible faculty hired prior to October 1, 1977. TRS II and III provide retirement benefits, and cost-of-living allowance to certain eligible faculty hired on or after October 1, 1977.

In addition TRS III has a defined contribution component which is fully funded by employee contributions. Defined benefit plan benefits are vested after an employee completes five years of eligible service.

LEOFF II provides retirement benefits and a cost of living allowance for eligible law enforcement officers. LEOFF System benefits are vested after an employee completes five years of eligible service.

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

*Funding Policy*

Each biennium, the Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required employee and/or employer contribution rates for PERS, TRS, and LEOFF plans, except where employee contribution rates are set by statute. All employers are required to contribute at the level established by State law.

The required contribution rates expressed as a percentage of current year covered payroll at June 30, 2012 are as follow:

	<u>Employee</u>	<u>University</u>
PERS		
Plan I	6.00%	7.07% - 7.25%
Plan II	4.59% - 4.64%	7.07% - 7.25%
Plan III	5% - 15%	7.07% - 7.25%
TRS		
Plan I	6.00%	6.14% - 8.04%
Plan II	3.36% - 4.69%	6.14% - 8.04%
Plan III	5% - 15%	6.14% - 8.04%
LEOFF		
Plan II	8.46%	8.62%

The required contributions for the years ending June 30, 2012, 2011 and 2010 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PERS			
Employee	\$1,603,586	\$1,466,592	\$1,518,542
University	2,289,213	1,738,991	1,794,471
TRS			
Employee	29,631	28,122	32,253
University	33,660	26,711	32,890
LEOFF			
Employee	66,086	65,066	55,337
University	67,336	66,202	56,384

All required employer and employee contributions have been made.

**20. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

During the 2008 fiscal year, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. OPEB are those provided to retired employees beyond those provided by their pension plans. Statement No. 45 requires systematic, accrual-basis measurement and recognition of OPEB expense in the year in which such benefits are earned by the member. Disclosure information, as required under GASB 45, does not exist at department levels and, as a result, the net OPEB obligation is recorded in the State of Washington comprehensive annual financial report which is available from the Office of Financial

Management, Insurance Building, PO Box 43113, Olympia, Washington 98504-3113.

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). The HCA calculates the premium amounts each year that are sufficient to fund the State-wide health and life insurance programs on a pay-as-you-go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employees.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during employees'

working careers, subsidize the “underpayments” of the retirees. An additional factor in the OPEB obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an “explicit subsidy”). For fiscal 2012, this amount was \$150 per retiree eligible for parts A and B of Medicare, per month. This is also passed through to State agencies via active employees rates charged to the agency.

There is no formal State or University plan that underlies the subsidy of retiree health and life insurance. An actuarial study performed by the Washington Office of the State Actuary calculated the total OPEB obligation of the State of Washington at July 1, 2011.

**21. RISK MANAGEMENT**

The University participates in a State of Washington risk management self-insurance program. Premiums to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. The University self-insures unemployment compensation for all employees.

In addition, sufficient insurance coverage for property casualty loss on the residence halls and the Wade King Student Recreation Center is maintained in accordance with the Housing and Dining System and Wade King Student Recreation Center Master Bond Resolutions.

**22. COMMITMENTS**

Goods and services for operating and capital projects, contracted for but not yet received, are considered commitments at year end. The amount of these commitments at June 30, 2012 and 2011 are:

	<u>2012</u>	<u>2011</u>
Operating	\$6,661,978	\$4,589,201
Research	677,966	785,125
Capital projects	<u>16,614,668</u>	<u>14,398,499</u>
Total commitments	<u>\$23,954,612</u>	<u>\$19,772,825</u>

The Actuary calculated the OPEB obligation based on individual state employee data, including age, retirement eligibility, and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data. Since sufficient specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been determined nor recorded in the University’s financial statements.

The University was billed and paid approximately \$18.2 million for active and retiree health care expenses during fiscal 2012 and \$18.7 million in fiscal 2011.

The University has been named in several lawsuits. While the final outcome of the lawsuits cannot be predicted with certainty, it is the University’s opinion that the ultimate liability will not materially affect the financial statements.

The University participates in the State insurance program and is indemnified and will be reimbursed by the State for any claims paid related to these lawsuits.

### 23. JOINT VENTURE

In fiscal 2010, the University participated in the formation of a not-for-profit corporation titled Western Crossing Development Corporation (WCDC). WCDC was formally incorporated pursuant to the articles of incorporation dated October 7, 2009 and is a 501(c) (3) corporation under the Internal Revenue code of 1986, amended. The five member Board of Directors includes a member of the University Board of Trustees appointed by the University Board of Trustees, the President of the University, a member of the Commission of the Port of Bellingham appointed by the Commission of the Port, the Executive Director

of the Port of Bellingham, and a fifth board member who was appointed by a majority vote of the other four board members who are not affiliated with either entity. The board of directors may in the future allow other Washington governments or educational institutions to become members under such terms and conditions as they determine. The purpose of this joint venture is to help facilitate the timely development of new facilities on the Bellingham waterfront. This investment is not reflected on the University's Statement of Net Position.