



WADE KING STUDENT RECREATION CENTER

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

June 30, 2012 and 2011

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of the Western Washington University Wade King Student Recreation Center (the Recreation Center) for the fiscal years ended June 30, 2012, 2011 and 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

Presentation of the Financial Statements

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

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

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

Statements of Net Position

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

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

Below is a condensed view of the Statements of Net Position as of June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$1,733,021	\$1,621,525	\$2,462,325
Noncurrent assets	3,465,872	2,511,300	1,567,107
Buildings and equipment, net	21,663,209	22,357,204	23,067,867
Total assets	<u>\$26,862,102</u>	<u>26,490,029</u>	<u>\$27,097,299</u>
Liabilities			
Current liabilities	451,455	1,183,182	1,197,142
Noncurrent liabilities	24,276,409	23,294,605	23,912,277
Total liabilities	<u>24,727,864</u>	<u>24,477,787</u>	<u>25,109,419</u>
Net Position			
Net invested in capital assets	(1,523,200)	(1,577,401)	(1,459,410)
Restricted for system renewal and replacements	1,740,551	1,485,309	1,225,277
Unrestricted	1,916,887	2,104,334	2,222,013
Total net position	<u>\$2,134,238</u>	<u>\$2,012,242</u>	<u>\$1,987,880</u>

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

June 30, 2012 and 2011

Total current assets increased \$111,496 (6.9%) when comparing fiscal 2012 to fiscal 2011 primarily due to increases in cash and cash equivalents and short-term investments, offset by decreases in accounts receivable and the receivable from the Western Washington University Foundation (the Foundation). The receivable from the Foundation decreased in fiscal 2012 and fiscal 2011 by \$10,822 (-22.8%) and \$57,848 (-55.0%) respectively due to restructuring the Wade King Foundation annual donation. The total current assets decrease of \$840,801 (-34.1%) during fiscal 2011 also includes a reduction in cash and cash equivalents used to purchase investments.

Total noncurrent assets, excluding buildings and equipment net, increased \$954,572 (38.0%) primarily due to increases in restricted cash and cash equivalents and restricted investments resulting from \$1,090,000 in additional bond proceeds as part of the Series 2012 Revenue and Refunding Bonds. Total noncurrent assets, excluding buildings and equipment net, increased \$944,193 (60.3%) in fiscal 2011 over fiscal 2010 primarily due to an increase in long-term restricted investments resulting from the purchases of U.S. Treasury and Agency Securities.

The buildings and equipment, net balance decreased \$693,995 (-3.1%) during fiscal 2012 and decreased \$710,663 (-3.1%) when comparing fiscal 2011 to fiscal 2010 as the Recreation Center building continues to be depreciated with no significant capital additions.

Current liabilities decreased \$731,727 (-61.8%) when comparing fiscal 2012 to fiscal 2011 due primarily to the defeasance of the series 2002 bond by the issuance of series 2012 revenue and refunding bonds in April 2012. The refunding bond issuance does not have a current portion of long term debt. Current liabilities decreased \$13,960 (-1.2%) in fiscal 2011 when compared to fiscal 2010 due to the payment of scheduled maintenance activities from fiscal 2010 combined with an increase to the current portion of bonds payable.

Non-current liabilities increased \$981,804 (4.2%) between fiscal 2012 and fiscal 2011 due to the issuance of the Series 2012 Revenue and Refunding Bonds. This issuance defeased the Series 2002 Revenue Bonds as well as supplied an additional \$1,090,000 to be used toward funding the Multipurpose Turf Field. When comparing Fiscal 2011 to fiscal 2010, the decrease of \$617,672 (-2.6%) is due to principal payments made on outstanding debt.

Overall, net position increased \$121,996 (6.1%) during fiscal 2012 when compared to fiscal 2011 due to increases in restricted for system renewals and replacements and investment in building and equipment, offset by a decrease in unrestricted. When comparing fiscal 2011 to fiscal 2010, net position increased \$24,362 (1.2%) as the amount of investment in building and equipment continues to decrease with the Recreation Center facility being depreciated at a faster rate than the related debt is repaid. Assets restricted for system renewals and replacements increased over the two prior fiscal years as contributions to this fund exceeded expenditures. Funds for renewals and replacements are set aside according to the five-year capital and maintenance plan required by the debt covenants. These funds are classified as restricted net position on the Statements of Net Position.

Statements of Revenues, Expenses, and Changes in Net Position

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

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

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

June 30, 2012 and 2011

Nonoperating revenues are monies received for which goods and services are not provided, such as investment income. Nonoperating expenses include interest expense on outstanding debt and amortization of bond costs. Following is a condensed version of the Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 4,327,272	\$ 4,340,989	\$ 4,299,600
Operating expenses	<u>(2,982,134)</u>	<u>(3,064,402)</u>	<u>(3,033,441)</u>
Income from operations	1,345,138	1,276,587	1,266,159
Nonoperating revenues	15,903	16,597	86,845
Nonoperating expenses	<u>(1,239,045)</u>	<u>(1,268,822)</u>	<u>(1,294,361)</u>
Increase in net assets	121,996	24,362	58,643
Net position, beginning of year	<u>2,012,242</u>	<u>1,987,880</u>	<u>1,929,237</u>
Net position, end of year	<u><u>\$ 2,134,238</u></u>	<u><u>\$ 2,012,242</u></u>	<u><u>\$ 1,987,880</u></u>

Revenues

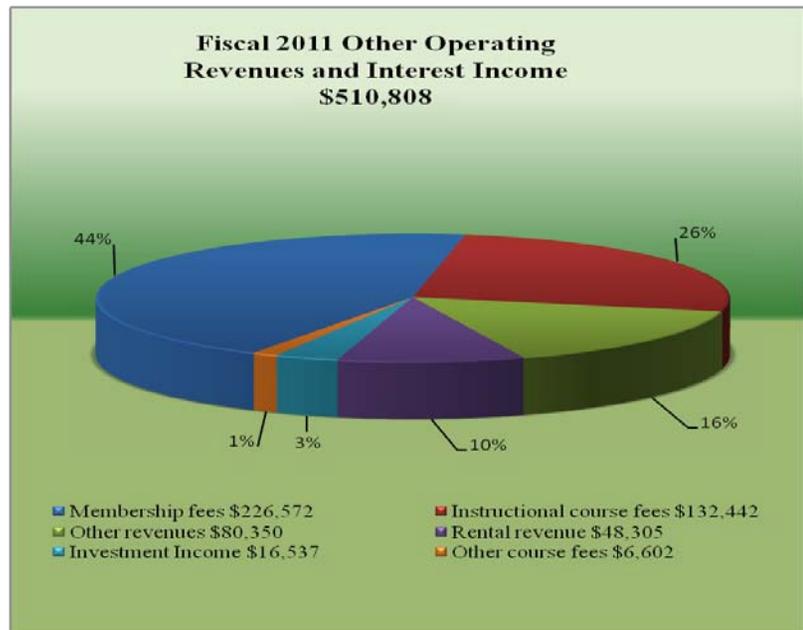
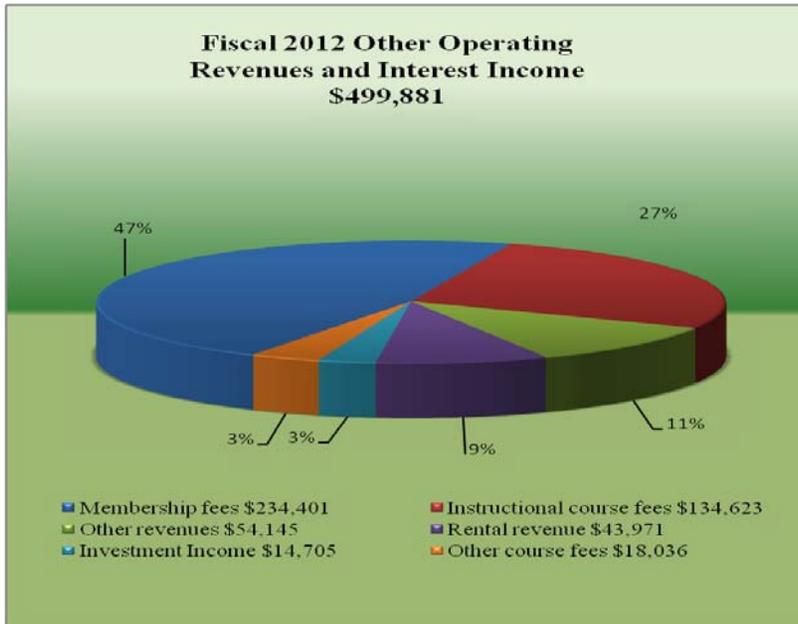
The Recreation Center's largest source of revenue is a \$95 per quarter mandatory service and activity fee for use of the facility for those students taking six or more credits. Other students, faculty, staff and alumni may pay a membership fee on a voluntary basis to gain access to the facility. The mandatory service and activity fee remained unchanged from fiscal 2011 and fiscal 2010.

The other operating and non-operating revenue categories, excluding gift income, decreased \$10,927 (-2.1%) due to a decline in facility rentals and decreased youth summer camp revenue. Non-mandatory fee operating revenues and non-operating revenues, excluding gift income, decreased \$19,676 (-3.7%) in fiscal 2011 from \$530,484 in fiscal 2010. This decrease was due to the reduction in investment income as a result of the historically low interest rate environment. Investment income decreased \$1,832 (-11.1%) to \$14,705 in fiscal 2012 from \$16,537 in fiscal 2011, which was a \$20,258 (-55.1%) decrease from \$36,795 in fiscal 2010.

Rental revenue for fiscal 2012 decreased \$4,334 (-9.0%) primarily due to a loss of one graduation night rental. This rental alone constitutes a loss of \$3,000 in outside rental revenue. Rental revenue for fiscal 2011 was nearly on par with fiscal 2010, decreasing by just \$301 (-0.6%). Other Revenues for fiscal 2012 decreased \$26,205 (32.6%) from fiscal 2011 due to a loss of revenue from a program change in Extended Education's summer youth activities.

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

June 30, 2012 and 2011



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

June 30, 2012 and 2011

Expenses

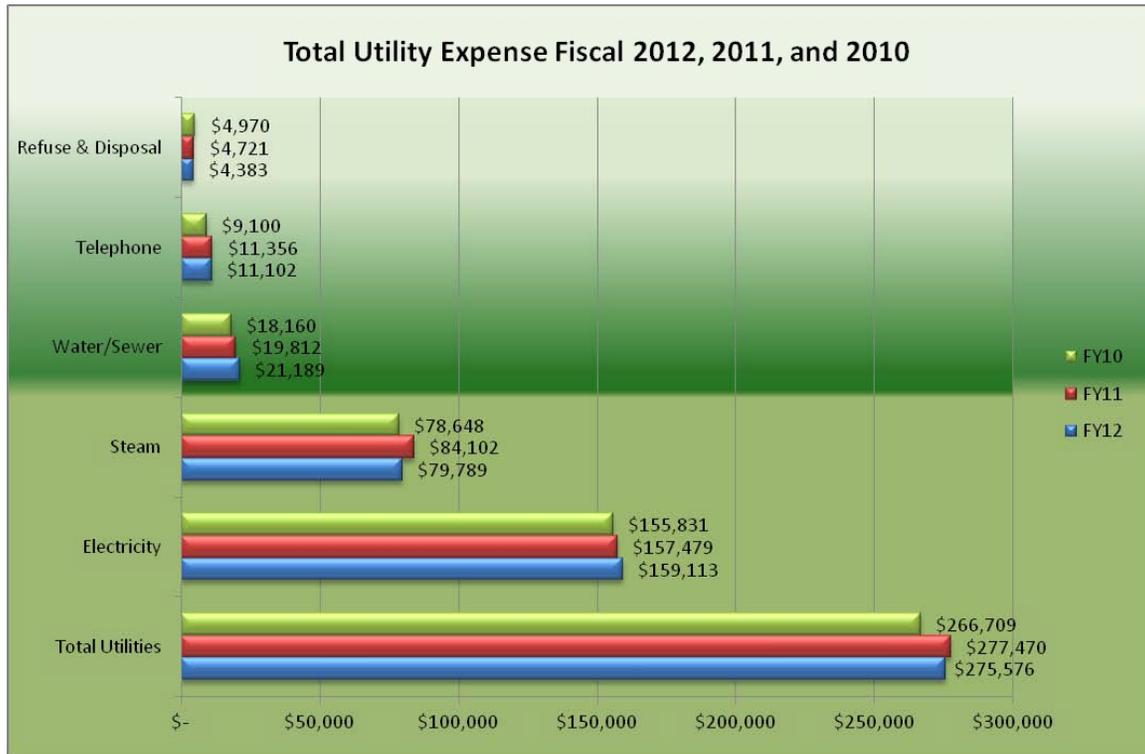
The largest category of expenses for the Recreation Center is student and staff salaries and benefits, with depreciation being the second largest expense. Salaries and benefits comprised 45.3% of the total operating expenses in fiscal 2012 compared to 42.3% and 40.7% in fiscal 2011 and fiscal 2010, respectively. The increase in salaries and benefits expense of \$55,398 (4.3%) in fiscal 2012 is due to an additional exempt position, Injury Rehabilitation Athletic Trainer, as well as additional student positions. The increase in salaries and benefits expense of \$62,348 in fiscal 2011 over 2010 is attributable to the addition of a maintenance position in lieu of institutional charge-backs for this work, increased student paraprofessional employment to assist in the opening and closing of the Recreation Center, and an increase in administrative salary allocations from the Division of Enrollment and Student Services.

The University's administrative services assessment fee, which is charged against revenues, was raised from 4% to 4.5% which increased expenses by \$14,290 (8.0%) to \$193,278 in fiscal 2012 and increased by \$40,275 (29.0%) to \$178,988 in fiscal 2011 from \$138,713 in fiscal 2010.

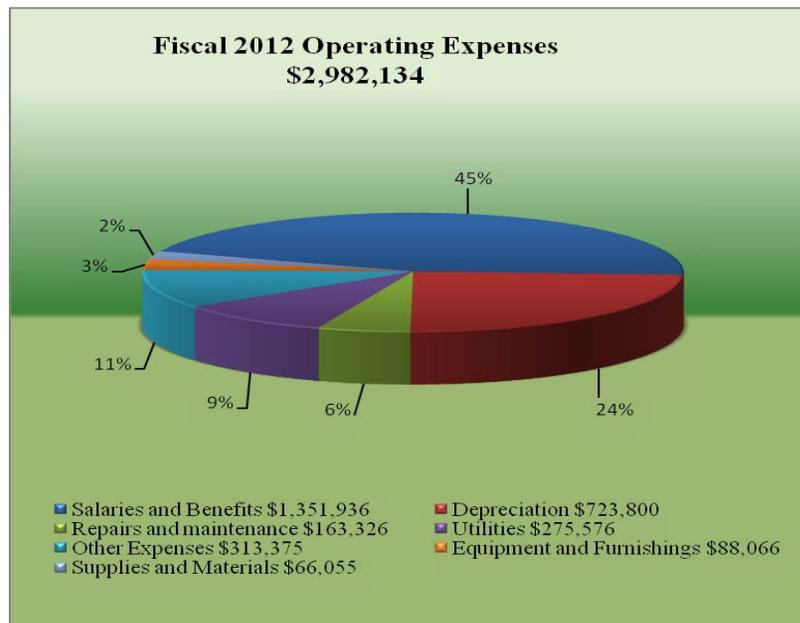
The University imposed an equipment freeze for state and tuition funds in fiscal 2011 and fiscal 2010 to achieve savings in anticipation of state-wide budget reductions. The equipment freeze was lifted in fiscal 2012. Major purchases were made but not received by the end of fiscal 2012, so this expense will be recorded in fiscal 2013. In previous years auxiliary operations, including the Recreation Center, voluntarily restricted equipment expenditures from operating funds, but utilized \$10,842 in fiscal 2012 and \$57,908 in fiscal 2011 from its Wade King Foundation Fund. In fiscal 2010, \$82,278 was spent from this fund to purchase equipment and furnishings.

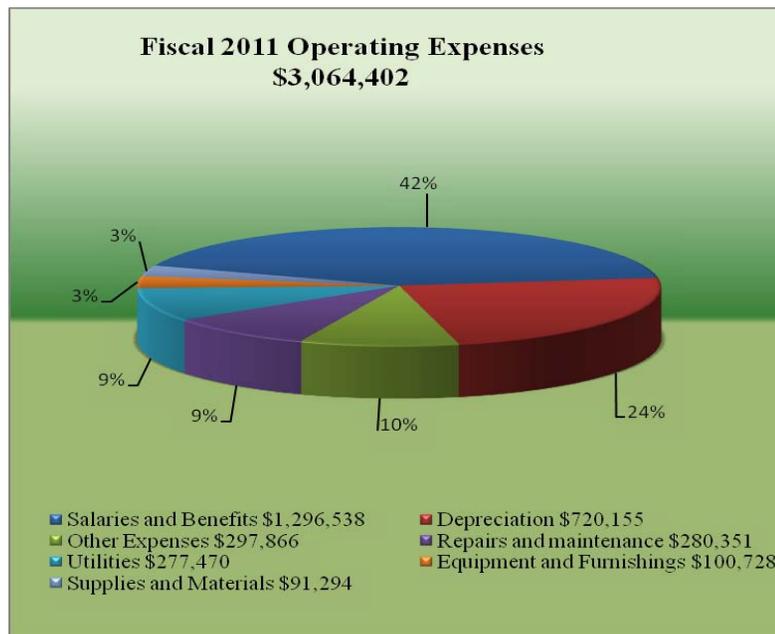
Supplies and materials expense decreased by \$25,239 (-27.6%) to \$66,055 in fiscal 2012 from \$91,294 in fiscal 2011. Fiscal 2012 was light in the expenditures of supplies and materials compared with the previous two years spending with regards to facility improvements, particularly the expense of rock wall products. When comparing fiscal 2011 to fiscal 2010 there was an increase of \$1,777 (2.0%) from \$89,517 in fiscal 2010. The fiscal 2010 increase was due to purchases to equip the new climbing wall floor and rock bouldering areas, including new ropes, carabineers and tie downs in order to meet new industry standards.

Repairs and maintenance expenses decreased \$117,025 (-41.7%) because of a lack of significant facility projects in fiscal 2012. Repairs and maintenance expenses decreased by \$94,623 (-25.2%) to \$280,351 in fiscal 2011 due to a shift in the funding for the maintenance position. Previously the Recreation Center paid Facilities Management for this position plus supervision overhead. This decrease in spending was not as significant as it could have been in fiscal 2011 because of the construction costs of two new offices in the Recreation Center.



Total utility expense for fiscal 2012 was \$275,576, a slight decrease of \$1,894 (-0.7%) due to lower steam consumption. Total utility expense for fiscal 2011 was \$277,470, an increase of \$10,761 (4.0%) from fiscal 2010. This rise in utility expense was primarily due to increased steam costs attributable to a colder and longer than average winter and spring. Telephone and electricity had only minor increases.





Reserve Funds

Bond Covenants require an annual addition to the renewal and replacement (R&R) reserve based on management’s assessment of the funding level necessary to maintain the facility over the long term. The initial five-year requirement was for fund transfers of \$100,000 in 2004, \$150,000 in each of 2005 and 2006, and \$200,000 in 2007 and 2008. All of the transfers were made as planned including an additional \$190,000 (unrestricted) amount in fiscal 2004 as a result of bond defeasance. Management reaffirmed the Facilities Management lifecycle maintenance plan for major maintenance and building repair and increased the annual contribution to \$250,000 for the five-year period beginning in fiscal 2009 to meet anticipated building maintenance and repairs expenses. As planned, \$250,000 was placed into the R&R reserve for fiscal 2012, 2011, and 2010. A roof recoating project scheduled over the summer of 2010 reduced the reserve amount by approximately \$164,000 at June 30, 2010. At June 30, 2012, the R&R balance was \$1,972,547. The funds must be used to improve or maintain the Recreation Center facility.

Management established an Operating Reserve in fiscal 2005 for unforeseen or extraordinary expenses. The reserve acts as an emergency fund for unplanned repairs, insurance deductibles, and as an operating cushion to cover unforeseen decreases in revenue. Reserve funds can also be designated for facility improvements beyond basic maintenance (such as the funding of repairs and additions to the tennis courts for the Recreation Center’s summer camps program, as well as the new sound board installation on the indoor track in fiscal 2010). Contributions to this fund in the past three years include \$50,000 in fiscal 2012, \$100,000 in fiscal 2011 and \$125,000 in fiscal 2010. During fiscal 2012, \$44,178 was spent on strength training equipment and \$250,000 was transferred to the Multipurpose Field Fund to assist with architectural design for the new multipurpose turf field. During fiscal 2011, \$29,917 was spent to create two new offices to accommodate additional staff members housed in the Recreation Center. At June 30, 2012, the operating reserve totaled \$1,402,663. These assets are reported as unrestricted on the Statements of Net Position.

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

June 30, 2012 and 2011

The King family made an annual donation of \$50,000 over the first seven years, totaling \$350,000. As of fiscal 2011, their annual contribution to the Recreation Center has been restructured. This Foundation reserve fund is dedicated to maintaining the quality of the facility and its programs, and supports students directly as well. During fiscal 2012, \$10,842 was spent on non-capital equipment and \$57,908 was spent in fiscal 2011 on similar equipment to improve the weight and fitness areas. During fiscal 2010, \$149,711 was spent on improving and replacing cardiovascular equipment. Of this amount, \$67,433 was used to purchase capital equipment while \$82,278 was used to purchase non-capital equipment. Portions of the donations have been used for youth programming scholarships and certain equipment upgrades. The available balance maintained by the Foundation at June 30, 2012 was \$36,588. These assets are reported as unrestricted on the Statements of Net Position.

Ratio Analysis

Ratios can be helpful in evaluating the Recreation Center's financial health and performance. The debt service coverage ratios for fiscals 2012, 2011, and fiscal 2010 were 3.76, 2.37, and 2.37 respectively. This ratio is calculated by dividing total operating revenues and investment income by the annual debt service on the outstanding revenue bonds.

Utilization Rates

Student utilization rates were very similar to the prior year with 12,106 (89.6%) of the 13,513 enrolled students using the facility during the course of fiscal 2012. This utilization rate is on par with the 12,167 (90.0%) of the 13,521 students who utilized the recreation center in fiscal 2011. This information is recorded in the Recreation Center's system when students present their membership cards upon entry to the facility. Fiscal 2010 had a utilization rate of 12,076 (90.8%) of 13,300 eligible students. Visits by members and non-members totaled 415,637 during fiscal 2012, compared with 427,951 during fiscal 2011 and 426,010 in fiscal 2010. The highest number of visits in a given day exceeded 3,000 in fiscal 2012 and fiscal 2011 compared to 3,400 per day in fiscal 2010.



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 basic financial statements of the Western Washington University Wade King Student Recreation Center (the Recreation Center) as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Western Washington University Wade King Student Recreation Center as of June 30, 2012 and 2011, and the changes in financial position and 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 Recreation Center 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 3 through 10 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

WADE KING STUDENT RECREATION CENTER
STATEMENTS OF NET POSITION

June 30, 2012 and 2011

Assets	2012	2011
Current assets		
Cash and cash equivalents (Note 2)	\$1,106,835	\$1,040,566
Investments (Note 2)	535,087	464,800
Accounts receivable, net of allowance of \$6,427 in 2012 and \$4,643 in 2011	50,343	64,808
Receivable from Western Washington University Foundation	36,588	47,410
Prepaid Expenses	251	45
Inventory	3,917	3,896
Total current assets	<u>1,733,021</u>	<u>1,621,525</u>
Noncurrent assets		
Investments (Note 2)	509,914	708,267
Restricted cash and cash equivalents (Note 2)	1,454,620	1,098,089
Restricted investments (Note 2)	1,375,931	387,220
Other assets (Note 1)	125,407	317,724
Capital assets, net (Note 3)	21,663,209	22,357,204
Total noncurrent assets	<u>25,129,081</u>	<u>24,868,504</u>
Total assets	<u>26,862,102</u>	<u>26,490,029</u>
 Liabilities		
Current liabilities		
Accounts payable and accrued expenses	4,156	12,097
Accrued wages and benefits	140,592	125,441
Deferred revenue	151,625	205,686
Interest payable	155,082	199,958
Current portion of bonds payable (Note 4)	-	640,000
Total current liabilities	<u>451,455</u>	<u>1,183,182</u>
Noncurrent liabilities		
Bonds payable, less current portion (Note 4)	<u>24,276,409</u>	<u>23,294,605</u>
Total liabilities	<u>24,727,864</u>	<u>24,477,787</u>
 Net Position		
Net investment in capital assets	(1,523,200)	(1,577,401)
Restricted for system renewals and replacements	1,740,551	1,485,309
Unrestricted	1,916,887	2,104,334
Total net position	<u>\$2,134,238</u>	<u>\$2,012,242</u>

*WADE KING STUDENT RECREATION CENTER
STATEMENTS OF REVENUES, EXPENSES & CHANGES IN NET POSITION June 30, 2012 and 2011*

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Service and activity fees, net of mandatory transfer	\$3,842,096	\$3,846,718
Staff, faculty and alumni membership fees	234,401	226,572
Instructional course fees	134,623	132,442
Other course fees	18,036	6,602
Rental revenue	43,971	48,305
Other revenues	54,145	80,350
Total operating revenues	<u>4,327,272</u>	<u>4,340,989</u>
Operating Expenses		
Salaries and benefits	1,351,936	1,296,538
Depreciation	723,800	720,155
Utilities	275,576	277,470
Repairs and maintenance	163,326	280,351
Equipment and furnishings	88,066	100,728
Supplies and materials	66,055	91,294
Administrative assessment	193,278	178,988
Insurance	28,914	27,204
Other	91,183	91,674
Total operating expenses	<u>2,982,134</u>	<u>3,064,402</u>
Income from operations	1,345,138	1,276,587
Nonoperating Revenues (Expenses)		
Investment income	14,705	16,537
Gift income	1,198	60
Interest expense	(1,154,874)	(1,221,531)
Amortization of bond discounts and costs	(84,171)	(47,291)
Total nonoperating revenues (expenses)	<u>(1,223,142)</u>	<u>(1,252,225)</u>
Increase in net assets	121,996	24,362
Net Position, Beginning of Year	<u>2,012,242</u>	<u>1,987,880</u>
Net Position, End of Year	<u><u>\$2,134,238</u></u>	<u><u>\$2,012,242</u></u>

WADE KING STUDENT RECREATION CENTER
STATEMENTS OF CASH FLOWS

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Cash received from students and other customers	\$4,287,676	\$4,354,963
Payments to employees	(1,336,785)	(1,294,128)
Payments to suppliers	(914,566)	(1,098,880)
Net cash flows provided by operating activities	<u>2,036,325</u>	<u>1,961,955</u>
Cash Flows from Noncapital Financing Activities		
Gift income	12,020	57,908
Net cash flows provided by(used in) noncapital financing activities	<u>12,020</u>	<u>57,908</u>
Cash Flows from Investing Activities		
Net purchases of investments in internal investment pool	(860,645)	(644,323)
Investment income received	14,705	16,537
Net cash flows provided by investing activities	<u>(845,940)</u>	<u>(627,786)</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of equipment	(29,805)	(9,492)
Proceeds from bond issue	24,385,000	-
Interest paid on capital debt	(1,199,800)	(1,226,745)
Principal paid on capital debt	(23,935,000)	(615,000)
Net cash used in capital and related financing	<u>(779,605)</u>	<u>(1,851,237)</u>
Net increase in cash and cash equivalents	422,800	(459,160)
Cash and cash equivalents, beginning of year	<u>2,138,655</u>	<u>2,597,815</u>
Cash and cash equivalents, end of year	<u><u>\$2,561,455</u></u>	<u><u>\$2,138,655</u></u>
Reconciliation of Operating Income to Net Cash Provided to Operating Activities		
Income from operations	\$1,345,138	\$1,276,587
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation	723,800	720,155
Change in operating assets and liabilities		
Accounts receivable	14,465	(96)
Accounts payable, accrued expenses, salaries and benefits	7,210	(48,673)
Prepaid Expense	(206)	205
Deferred revenue	(54,061)	14,070
Inventory	(21)	(293)
Net cash flows provided by operating activities	<u><u>\$2,036,325</u></u>	<u><u>\$1,961,955</u></u>

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

June 30, 2012 and 2011

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The facility was named in memory of Wade King, a 10-year old who died in 1999 in a pipeline explosion in Bellingham. Prior to fiscal 2011, Wade King's parents, Frank and Mary King, pledged a lifetime gift of \$50,000 per year to the Western Washington University Foundation, a related party, restricted for support to ensure continued quality facilities and programs at the Recreation Center. The Recreation Center requests funds from the Western Washington University Foundation when expenditures are incurred. During fiscal 2012 and 2011, the Recreation Center did not receive \$50,000 due a restructure of the pledged gift to an estate gift.

Financial Statement Presentation

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

Basis of Accounting

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

Cash, Cash Equivalents and Investments

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

Inventory

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

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

June 30, 2012 and 2011

Accounts Receivable

Receivables are recorded at their principal balances and are due primarily from the University students. The Recreation Center considers all accounts greater than 30 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is written off against the allowance. Management determined that an allowance of \$6,427 and \$4,643 at June 30, 2012 and 2011 respectively, is adequate.

Building and Equipment, Net

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

Deferred Revenue

Summer quarter, which is the first quarter of the University's fiscal year, begins shortly before June 30. The majority of cash received for service and activity fees related to summer session in fiscal 2012 are deferred until the following fiscal year.

Net Position

The Recreation Center's net position is classified as follows:

Net investment in capital assets. This represents the Recreation Center's total investment in capital assets, net of outstanding debt obligations related to those capital assets as well as unamortized bond issue costs. The deficit in this net position relates to depreciation expense exceeding the principal reduction on the outstanding bonds.

Restricted for system renewals and replacements. Restricted net position represent resources restricted in accordance with bond covenants for system renewals and replacements. Restricted assets are used in accordance with their requirements and where both unrestricted and restricted resources are available for use, unrestricted resources are used first and restricted resources only when the specific use arises.

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

Classification of Revenues and Expenses

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

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

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

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Student Recreation Center Fee, net of mandatory transfer

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

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

Bond Premiums and Issuance Costs

Bond premiums and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. The remaining balances of bond premiums are presented as an increase of the face amount of bonds payable. The unamortized bond issuance costs are shown as other assets on the Statements of Net Position.

Administrative Assessment

The University provides support to the Recreation Center through cash and bond debt management, accounting, purchasing and disbursing services, risk management, human resources and other support services. The effects of these transactions are included as operating expenditures in these financial statements. The amount paid was \$193,278 and \$178,988 for fiscal years ended June 30, 2012 and 2011, respectively, and is based on a percentage of revenues.

Tax Exemptions

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

Estimates

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

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Interest Rate and Credit Risk

The Recreation Center's operating cash is part of the University's internal investment pool. The pool is invested in demand deposits, time certificates of deposit, the Washington State Local Government Investment Pool (LGIP) and U.S. Treasury and Agency securities. The LGIP is 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. Bank balances (including time certificates of deposit) are insured by the Federal Deposit Insurance Corporation (FDIC) or by a collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). U.S. Treasury and Agency securities are rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service.

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.

The Recreation Center's investment in the University's pool includes \$1,740,551 restricted for renewals and

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replacements and \$1,090,000 in unspent bond proceeds to be used to fund the Multipurpose Field capital project.

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.

	June 30, 2012	Weighted Average Maturity (in years)	June 30, 2011	Weighted Average Maturity (in years)
Cash and Cash Equivalents	\$2,561,455	n/a	\$2,138,655	n/a
Investments				
Certificates of deposit	357,087	0.028	228,270	0.046
U.S. Treasury	-		1,141,662	0.006
U.S. Agencies	2,063,845	0.680	190,355	0.722
	<u>\$4,982,387</u>		<u>\$3,698,942</u>	

NOTE 3. CAPITAL ASSETS, NET

The depreciation expense for the fiscal years ended June 30, 2012 and 2011 was \$723,800 and \$720,155, respectively.

Following are the changes in capital assets for the years ended June 30, 2012 and 2011:

	June 30, 2011	Additions	Retirements	June 30, 2012
Non-Depreciable				
Construction in Progress	\$7,078	\$12,658	(\$7,078)	\$12,658
Depreciable				
Building	27,687,761	-	-	27,687,761
Equipment	262,114	18,582	(9,769)	270,927
Improvements	-	7,078	-	7,078
	27,956,953	38,318	(16,847)	27,978,424
Less accumulated depreciation	(5,599,749)	(723,800)	8,334	(6,315,215)
Capital assets, net	<u>\$22,357,204</u>	<u>(\$685,482)</u>	<u>(\$8,513)</u>	<u>\$21,663,209</u>
	June 30, 2010	Additions	Retirements	June 30, 2011
Non-Depreciable				
Construction in Progress	\$3,665	\$5,313	(\$1,900)	\$7,078
Depreciable				
Building	27,687,761	-	-	27,687,761
Equipment	272,941	6,079	(16,906)	262,114
	27,964,367	11,392	(18,806)	27,956,953
Less accumulated depreciation	(4,896,500)	(720,155)	16,906	(5,599,749)
Capital assets, net	<u>\$23,067,867</u>	<u>(\$708,763)</u>	<u>(\$1,900)</u>	<u>\$22,357,204</u>

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NOTE 4. BONDS PAYABLE

The Recreation Center issued the Revenue and Refunding Bonds Series 2012 in April 2012. The bonds bear interest at rates of 3.0% to 4.1% and mature annually until 2037. The bonds have an aggregate face amount of \$24,385,000 and \$0 at June 30, 2012 and 2011, which is reported net of the unamortized original issue premium and loss on defeasance of \$108,592 and \$0 respectively.

On February 10, 2012, the Board of Trustees approved Resolution No. 2012-01, authoring the issuance of revenue and refunding bonds, Series 2012. On April 30, 2012, The University issued \$24,385,000 in Revenue and Refunding Bonds, with interest rates of 3% to 4.1% to refund the remaining 2002 Revenue bonds. The bonds have an aggregate face amount of \$24,385,000 at June 30, 2012, which is reported net of the unamortized original issue premium and a loss on defeasance of \$108,592.

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 a 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.

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

	Principal	Interest	Payment
2013	\$ -	\$927,920	\$927,920
2014	-	925,350	925,350
2015	700,000	925,350	1,625,350
2016	725,000	904,350	1,629,350
2017	750,000	882,600	1,632,600
2018-2022	4,095,000	4,049,925	8,144,925
2023-2027	4,905,000	3,246,200	8,151,200
2028-2032	5,965,000	2,183,400	8,148,400
2033-2037	7,245,000	892,000	8,137,000
	<u>24,385,000</u>	<u>14,937,095</u>	<u>39,322,095</u>
Plus unamortized premium	423,849		
Less unamortized loss on defeasance	(532,441)		
Total	<u>\$24,276,409</u>	<u>\$14,937,095</u>	<u>\$39,322,095</u>

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Following are the changes in bonds payable:

	Beginning Balance	Additions and Amortizations of Bond Discount/Premium and Loss	Retirements	Ending Balance	Current Portion
As of June 30, 2012 Series 2012 Revenue Refunding Bonds, net of unamortized original issue premium and loss on defeasance of \$108,591 at June 30, 2012.	<u>\$0</u>	<u>\$24,276,409</u>	<u>\$0</u>	<u>\$24,276,409</u>	<u>\$0</u>
As of June 30, 2012 Series 2002 Revenue Bonds, net of unamortized original issue discount and loss on defeasance of \$0 and \$302,142 at June 30, 2012 and 2011, respectively.	<u>\$23,934,605</u>	<u>\$48,281</u>	<u>(\$23,982,886)</u>	<u>\$0</u>	<u>\$0</u>
As of June 30, 2011 Series 2002 Revenue Bonds, net of unamortized original issue discount and loss on defeasance of \$302,142 and \$322,723 at June 30, 2012 and 2011, respectively.	<u>\$24,527,277</u>	<u>\$22,328</u>	<u>(\$615,000)</u>	<u>\$23,934,605</u>	<u>\$615,000</u>

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

The amounts and limitations of this pledge are set forth in the resolutions of the Board of Trustees. The bond covenants require that the Recreation Center transfer monies each year to an account held as restricted net position for renewals and replacements of the facilities.

NOTE 5. PENSION PLAN

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

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

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

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

WWURP is a defined contribution 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 provision.

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

Employee contribution rates, which are based on age, range from 5% to 10% of salary. The University matches the contributions. All required employer and employee contributions have been made. The Recreation Center contributed \$44,759, \$37,273 and \$35,012 to these plans in fiscal 2012, 2011 and 2010, respectively. Actuarial valuations of the plans for the Recreation Center as a stand-alone entity are not available.

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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